INSPECS
GROUP PLC

LEADER IN EYEWEAR SOLUTIONS

ANNUAL REPORT & ACCOUNTS 2020

INSPECS
GROUP PLC

WELCOME TO OUR 2020 ANNUAL REPORT

INSPECS is a global provider of solutions to the eyewear market from the largest optical chains to individual consumers.

INSPECS has been transformed by two acquisitions. The extended group has a robust and resilient global platform for future growth.

Superdry Optical SS21

www.inspecs.com

FINANCIAL PERFORMANCE

REVENUE
$47.4m

2020 $47.42m
2019 $61.25m

H1 2020 $16.73m
H2 2020 $30.69m

UNDERLYING EBITDA
$4.5m

2020 $4.51m
2019 $12.99m

H1 2020 $0.68m
H2 2020 $3.83m

GROSS MARGIN
$20.5m

2020 $20.52m
2019 $27.54m

H1 2020 $7.44m
H2 2020 $13.08m

PROFIT & LOSS AFTER TAX
$(8.9)m

$(8.91)m 2020
2019 $6.44m

$(7.49)m H1 2020
$(1.42)m H2 2020

DILUTED EPS
$(0.13)c

$(0.13)c 2020
2019 $0.11c

FRAMES MANUFACTURED
2.9m

2020 2.91m
2019 4.55m

H1 2020 1.04m
H2 2020 1.87m

OPERATIONAL HIGHLIGHTS

NORVILLE
Acquisition of Norville giving further vertical integration and access to the lens market.

MANUFACTURING CAPACITY
8.5m+

2020 8.5m+
2019 5.0m

ESCHENBACH
Acquisition of Eschenbach giving a strong platform to the independent retail market in Europe and the USA.

7 NEW HOUSE-BRANDS ADDED
- Titanflex
- Humphrey's
- TURA
- BOTANIQ™
- Jos. Eschenbach
- Freigeist
- Brendel

FIRST SUSTAINABLE EYEWEAR DESIGNED AND PRODUCED BY THE GROUP
- BOTANIQ™
- O'Neill-Wove

12 NEW BRANDED LICENCES ADDED
- Ted Baker
- Marc O'Polo
- Mini
- Geoffrey Beene
- L.A.M.B.
- Buffalo
- GX
- Zuma Rock
- Lulu Guinness
- Talbot Runhof
- Roald Dahl
- Free Country

CONTENTS

BOTANIQ Optical
SS21 Campaign

STRATEGIC REPORT

BUILDING A PLATFORM FOR FUTURE GROWTH

INSPECS is a truly global company. Following our IPO on 27 February 2020, the acquisitions of Norville and Eschenbach Group have created a well-balanced vertically integrated business serving the global retail chains and the independent optical market. The enlarged INSPECS Group now has a worldwide distribution network serving over 70,000 retail outlets giving further growth opportunities.

As a result the enlarged group now has:

- Resilient and diverse channel distribution of eyewear products in over 80 countries, with 14 sales offices and a 270-strong sales team.
- A risk-managed customer base with not more than 7% of group revenue estimated for 2021 attributed to any one customer.
- Industry benchmark manufacturing, from frames to lenses including complete frames and lens packages and low vision optical products.
- Price points and brands for all market opportunities, from private label to premium.
- Award-winning design and marketing team based in the UK, the USA, Portugal, Hong Kong and Germany.

1,800

GLOBAL TEAM

Our balanced customer profile includes many of the largest chain retailers in the world, with whom new long-term strategic partnerships have been formed, including the supply of private label and premium brands.

By integrating the product offer across our companies, INSPECS Group can target new markets and maximise existing ones. With Eschenbach, the group has acquired a global sales force able to deliver to a large network of independent opticians principally in the USA and Europe which was largely untapped prior to acquisition. The acquisition of Norville completes part of the vertical integration and enhances our complete frame and lens offering to the market.

A global team of designers, marketers, sales and in-house manufacturing bring together a powerful mix of capabilities that can help achieve the company's future goals including, vertically integrated and environmentally sensitive production, sales and global distribution. INSPECS Group plc is now well positioned to be a leading name in eyewear solutions to customers globally.

From this robust platform, the group is already realising plans to take market share in the globally expanding eyewear market.

INSPECS GROUP PLC

ESCHENBACH

GLOBAL DISTRIBUTION

RESILIENT AND DIVERSE CHANNEL DISTRIBUTION OF EYEWEAR PRODUCTS IN **OVER**

80

COUNTRIES

14

SALES OFFICES

INSPECS LTD

DESIGN, BRANDS, MARKETING, DISTRIBUTION (UK)

AWARD-WINNING DESIGN AND MARKETING TEAM BASED IN **UK, USA, LISBON, HONG KONG, NEW YORK AND GERMANY.**

PRICE POINTS AND BRANDS FOR ALL MARKET OPPORTUNITIES, FROM PRIVATE LABEL TO PREMIUM.

270

STRONG SALES TEAM

A RISK-MANAGED CUSTOMER BASE WITH NOT MORE THAN

7%

OF EXPECTED GROUP 2021 REVENUE ATTRIBUTED TO ANY ONE CUSTOMER

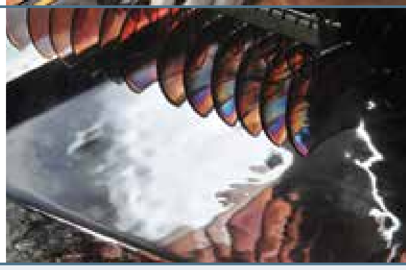
KILLINE

FRAME MANUFACTURE

Norville

LENS MANUFACTURE

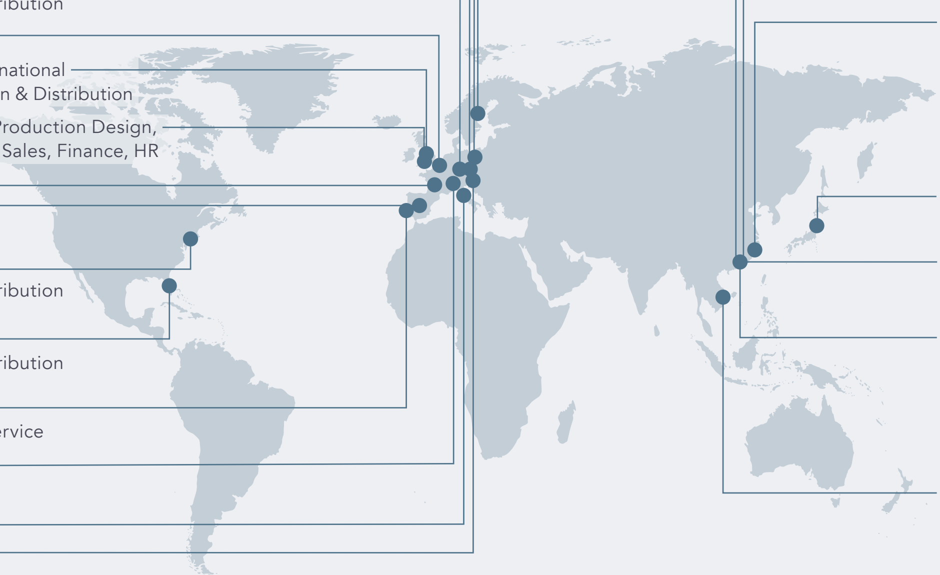
INDUSTRY BENCHMARK MANUFACTURING, FROM FRAMES TO LENSES INCLUDING COMPLETE FRAMES AND LENS PACKAGES.



Above:
Killine factory technician preparing frame hinges.

Below:
Sunglass lenses colouration process.

OUR GEOGRAPHICAL FOOTPRINT



Scandinavia Sales

Poland Sales

Czech Republic Sales

Germany Nuremburg Logistics, Sales & Distribution

Holland Sales

Birmingham, UK International Eyewear – Sales, Design & Distribution

Bath, UK Global HQ Production Design, Operations, Logistics, Sales, Finance, HR

France Sales

Spain Sales

New York USA Logistics, Sales & Distribution

Florida USA Office Logistics, Sales & Distribution

Lisbon, Portugal Design & Customer Service

Switzerland Sales

Cadore, Italy Manufacturing

Austria Sales

Zhongshan Torkai Optical Production & Engineering

Shenzhen China Quality Control

Wenzhou Zouyou, China Production

Japan Sales

Hong Kong Logistics & Design

Macau China Administration & Sales

Vietnam Neo Optical Production, Logistics

LOOKING FORWARD

We are among the top eyewear companies in the world, providing a complete eyewear solution to the market.

This journey began to accelerate in early 2017 with the first part of our vertical integration strategy. Acquiring our own manufacturing base has transformed the group from an intermediary (subcontract) supplier using third party manufacturers of branded eyewear to a self-sufficient supplier of both branded and private label products with a fully transparent supply chain.

Since IPO in February 2020, INSPECS has continued its vertical integration, adding lens manufacturing capability through the acquisition of Norville and widening its sales distribution in Europe and the USA with the acquisition of Eschenbach.

Our management teams are now utilising the complete vertically integrated platform to further develop opportunities for the group in both existing and innovative products to enhance distribution to existing and new customers. In addition the group will also:

- Continue to expand production capacity of our current Vietnam manufacturing sites to over 7m frames per annum.
- Expand manufacturing plant capacity in Europe.
- Grow the B2B website, launched in 2020, where independent opticians can shop online 24/7. As an example, 63% of our independent customers in the UK are already registered, with 43% of UK independent orders now taking place without the need for physical sales visits.
- Develop the direct-to-consumer market opportunity in the premium end of the market, with a convenient frame-plus-lens package utilising the capabilities of the new group.
- Continue to make strategic acquisitions that can be beneficial utilising the enlarged group's distribution and manufacturing capabilities.
- Expand our range of frame and lens packages for our customers.
- Continue the development of our low vision products for the market.

24/7 ONLINE SHOP

63%

INDEPENDENT CUSTOMERS IN THE UK ARE ALREADY REGISTERED

PRESCRIPTION EYEWEAR

Ophthalmic frames produced under world-famous brand names and private labels for some of the biggest optical retailers in the world.

SUNGLASSES

Award-winning eyewear designs for licence and in-house brands, supplying high quality sunglasses from the catwalk to the high street.

SAFETY EYEWEAR

A full PPE eyewear offer under the Caterpillar brand.

AN ENHANCED PRODUCT OFFER

Our expanded INSPECS Group brand portfolio is more desirable than ever. The acquisition of Eschenbach added over 11 brands to our offer. New, relevant products and brands for the future are already in development. The group's design teams in the UK, USA, Germany, Portugal and Hong Kong are working in collaboration, targeting regional and global sales opportunities in both the chain and independent markets.

Creating environmentally sustainable products will form part of our future growth. Highlights include our new brand BOTANIQ™, sustainable eyewear thoughtfully designed and made in-house and our award-winning O'Neill 'Wove' frame made from recycled and recyclable materials.

We are especially proud to have contributed to the national and global COVID effort with our work on special PPE eyewear for the NHS and other health providers around the globe.

Guided by a strong and experienced management team, our global team of 1,800 people gives INSPECS Group a powerful springboard for future growth.

OUTLOOK

Looking forward, the group is well-positioned in the global eyewear marketplace, strengthening its reputation for quality, design and delivery.

The group has had a successful start to 2021, with sales of $67m in the first quarter. The group continues to win new customers and in particular the new Vietnam facility is now completed and operational. Our order books at the time of this report are higher than at the same time in 2020 on a like-for-like basis.

We are pleased to report that Eschenbach has performed well since its acquisition on 16 December 2020 and trading has been positive in the first five months of the year.

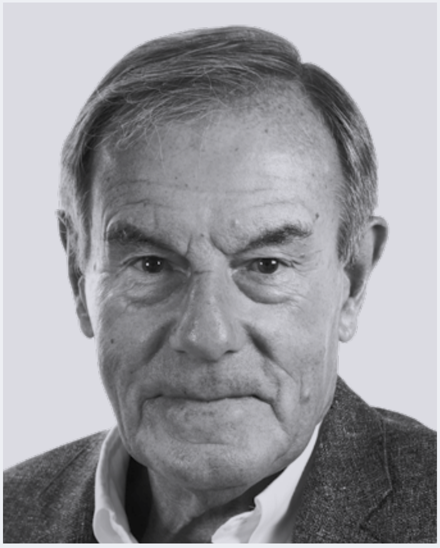
Whilst COVID-19 will continue to cause disruption, all our employees across the world have adapted successfully and performed well in difficult circumstances. From this robust and resilient position the group can continue to deliver in the coming years for all stakeholders.

Robin Totterman
Chief Executive Officer

Christopher Kay
Chief Financial Officer

LORD IAN MACLAURIN

UNPRECEDENTED CHALLENGES



Overview

The group is publishing its Annual Report and accounts for the year ended 31 December 2020 following a time when our people, customers and suppliers faced unprecedented challenges as a result of the COVID-19 pandemic and its effect on our business.

Since the outbreak of the pandemic, our first priority has been the safety and welfare of people both working and connected to the group. In the first quarter of 2020, the pandemic affected our production site in China, steps were taken by management in China to keep production running on a reduced scale and ensure through working with the authorities that the site complied with fast-moving new legislation. Through regular inspection and liaison with the authorities, we were able to continue production in difficult circumstances.

Vietnam was then affected by the border closing with China, and the supply chain of raw materials and parts from China to Vietnam was severely disrupted. On a 12-month basis, shipments from China were only reduced by 26% from 1.87m frames to 1.38m frames and in Vietnam by 40% from 3.39m frames to 2.04m frames.

As the virus spread, we were subsequently affected by the first global lockdown when our customers were forced to close their doors, although our online customers still remained open. This meant that our factories could not deliver pre-ordered stock, as the distribution depots were shut around the world, severely impacting our business. Our executive and senior management team set in motion a cost reduction plan, as well as implementing a programme for people to work from home where practicable.

The net effect was borne out in our interim results, which showed a reduction in turnover to $16.7m and an underlying EBITDA of $0.7m. I am pleased to report that our second half was a significant improvement on our first-half trading, with turnover of $30.7m and an underlying EBITDA of $3.8m.

Design offices at Eschenbach headquarters
Germany

TRANSFORMATION

As outlined in our IPO documentation it was a key part of our growth strategy to use the IPO funds to make strategic acquisitions in keeping with our vertically integrated model. In July 2020, the group purchased the assets of Norville, a well-established lens manufacturer with sites in Gloucester, Livingstone, Bolton and Seaham. I would like to express my gratitude to those employees at Norville who continued to keep the business alive during administration in very uncertain times and then, when INSPECS acquired the assets of the business, continued to work and help grow the business. New senior management was quickly recruited by our executive team.

I am pleased to report that the restructuring of the business has already started, with the company achieving sales of $4.2m since acquisition on the 14 July 2020. A new lease on a modern manufacturing facility has been completed and the factory will move in the autumn of 2021 to a new state-of-the-art facility, allowing increased production efficiencies and also speed up of turnaround time. It is exciting to see how many integration possibilities there are with lens manufacturing and the rest of the group.

Having successfully completed the Norville acquisition, the executive team worked throughout the summer and autumn on the purchase of Eschenbach Holdings Gmbh, which was completed on 16 December 2020. Eschenbach again fits with the group strategy for growth. It has a number of very successful house brands and also some major licensed global brands. The Eschenbach workforce is approximately 580 people and mainly distributes to independent opticians around the globe with its full-time sales workforce of over 250 people. This acquisition now gives the group a strong European presence, and with the addition of its subsidiary Tura Inc in the USA, the group now has direct access to the important independent optical market in those regions. The acquisition also included Eschenbach Optik, a low vision manufacturing, research & development arm, offering further optical expertise in this growing market.

I would like to thank both our CEO Robin Totterman and our CFO Chris Kay, who led both acquisitions, for the work that they did over many months in completing two ground-breaking acquisitions in extremely difficult circumstances.

RESULTS

The group achieved a significant increase in revenue and underlying EBITDA in the second half but overall turnover was down 22.5% to $47.4m from $61.2m and underlying EBITDA was down from $13.0m to $4.5m.

DIVIDENDS

Due to the acquisitions in 2020 and the economic landscape the group will not pay a dividend at present, but this will be reviewed on a regular basis by the Board.

OUTLOOK

The economic landscape has improved since late spring of 2020. However, during 2020 and 2021 there have been continued restrictions around the world as governments endeavour to safeguard communities and ensure that their hospital services are not overwhelmed. This has meant that we are still experiencing continued headwinds in our business around the globe. However, the group remains profitable and cash generative in the first six months of 2021 with continuing debt reduction. I am sure that over the next 12 months the executive team will continue to deliver on its sustainable growth strategy for all our stakeholders. The group has had a successful start to 2021, with sales of $67m in the first quarter. The group continues to win new customers and in particular the Vietnam new facility is now completed and operational. Our order books at the time of this report are higher than at the same time in 2020 on a like for like basis.

Lord MacLaurin
Chairman

June 2021

ROBIN TOTTERMAN

A YEAR TO REMEMBER

2020 has been a year to remember! Within a week of our IPO, the world as we knew it had changed. We are especially proud to have contributed PPE eyewear to NHS trusts without profiting while continuing to develop the business. 2020 was also the year of exceptional recognition for INSPECS, which racked up a slew of prestigious awards for innovation and design.

INSPECS Showroom
UK

It is over a year since the pandemic began to wreak havoc across the globe, and only the countries and communities who have managed to vaccinate a meaningful part of their population are beginning to relax restraints.

I am greatly encouraged by the resilience and results our customers and the group has shown during the past year. As a group, our interaction with COVID-19 started in January 2020 when widespread lockdowns took hold in China and Vietnam. As soon as our factories were able to open the rest of the world, and crucially to us, the warehouse and distribution hubs closed. For a time, our factories were unable to deliver ready goods on order.

The group is performing well, most notably our US colleagues at Tura under the watchful eye of Scott Sennet. Norville under Nevil Trotter is coming on in leaps and bounds. I am confident that once the move to the new location happens and new more scalable manufacturing methods are implemented, we will see a significant increase in the business.

International Eyewear is being integrated into the UK operation of INSPECS and Norville with the aim of selling frame and lens packages.

Germany and much of Europe seem to go from lockdown to lockdown, but despite this, the business is doing well. Tura and Eschenbach Optik are solid businesses run by excellent management who are keen to integrate with the rest of the group. Tura is far advanced on bringing INSPECS brands and our new BOTANIQ™ range to market. They are working with Killine to vertically integrate the business.

NORVILLE BECOMES AN INTEGRATED PART OF THE INSPECS GROUP

I'm delighted to report that INSPECS has won the coveted Queen's Award for International Trade for a second time – the UK's most prestigious business accolade. The group has also won a number of green and design awards – the International Green Award for our recycled and recyclable O'Neill sunglasses 'Wove' and four highly-coveted Red Dot Awards for Eschenbach's designs.

I would like to thank all our employees across the group companies who, regardless of location or seniority, all responded fantastically to the unprecedented events that started to roll out in the early part of 2020. Special thanks go to Michael Zhang in China and Ha Bui in Vietnam and their teams for their efforts in what was unchartered territory.

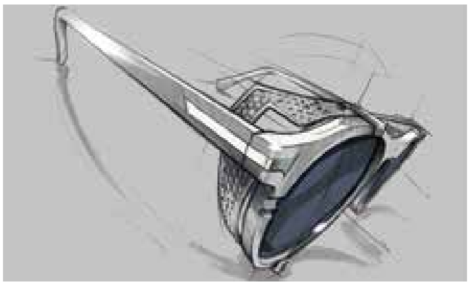
As the first lockdown hit, our management took immediate steps to protect our employees and ensure their health and safety while ensuring that INSPECS could continue to deliver its products to its customer base despite multiple disruptions. Many of our staff took voluntary pay reductions and reduced their hours. Our CFO, Chris Kay, and I took an immediate 60% pay reduction and the Board a 20% pay reduction in line with the rest of the group. Most appreciated, as this was despite the Board meeting more frequently throughout the year to assist with acquisitions.

ACQUISITIONS

The optical market is particularly dominated by a few major players, and the cost of entry into this market is substantial. The administration of Norville gave an opportunity for the group to enter this market at a considerably reduced cost. Once the transaction was complete, the assets were purchased by Norville (20/20) Limited, and the remaining 28 employees were transferred to the new INSPECS subsidiary company. Since that date, we have increased employment to 92 employees at Norville and saw month by month growth from August onwards. The vertical integration allows us to offer both high-quality lenses as well as a frame and lens package to the opticians.

THE ACQUISITION OF ESCHENBACH

GIVES A PLATFORM TO THE INDEPENDENT RETAIL MARKET IN THE USA AND EUROPE



80+

COUNTRIES AROUND THE WORLD BUY OUR EYEWEAR PRODUCTS

Initial design sketches

ESCHENBACH

Eschenbach was founded in 1913 and has an enviable reputation for supplying high-quality eyewear in Germany and across the world, with a significant subsidiary in the United States called Tura Inc, which supplies US independent opticians. Eschenbach principally operates in the independent market, whereas traditionally INSPECS has operated in the chain market. Combining the two business will allow for multiple integration opportunities across the business platform and reduces the group's risk, as we now supply both the high-volume chain and independent optical markets around the globe. Eschenbach's house brands, TitanFlex and Humphrey's, were rated No.1 in the German Market in 2019–20 and continue to show significant growth.

MANAGEMENT

As a direct result of the acquisitions the group has made since 2017, I think it is important to stress that our business now has a wealth of talent across the globe with many capable individuals having both the experience and the capabilities to step into roles across the group and help drive future growth.

MANUFACTURING INVESTMENT

I wrote last year that we were expanding our Vietnam operation from 4,300m^2 to 8,800m^2, and I am pleased to report that this new manufacturing facility was completed in 2020. We suffered delays as a direct result of COVID-19 and the inability of our Chinese technical experts to cross into Vietnam due to border control restrictions. While it is disappointing that COVID-19 has directly delayed the implementation of this plant, I am pleased to report that manufacturing has now started with a large order to the USA. Our new sustainable eco-friendly BOTANIQ™ range is being produced in the new Vietnam facility.

Eschenbach reception area
Germany

COVID-19

COVID-19 undoubtedly disrupted our business during the last part of Q1 2020 and through Q2 and partly into Q3 of 2020.

The optical industry has proven its resilience by continuing to trade, albeit at a reduced level, by adopting strict PPE requirements early. Although footfall is significantly reduced, conversion rates continue to be exceptional. In addition, shrinkage (theft) is practically non-existent due to the need to pre-book optical appointments. Whilst difficulties persist, the group has made significant adjustments to the new environment, and our budgets and forecast for 2021 are based on continued disruption within the market. As a true global distributor, the pandemic will continue to have some effect on our normal business activity for the foreseeable future. The group will continue to ensure the safety of its 1,800 employees across the globe and has new working practices in place that permit the business to continue to operate.

OUTLOOK

2020 was the year of acquisitions. 2021 is the year of integrating the new companies and developing synergies and strategies across the group to generate future growth. I am pleased to report that steady progress has been made, and as a result, I am confident in the group's ability to create and maximise opportunities and to deliver to all stakeholders. Current trading to date remains positive.

Robin Totterman
Chief Executive Officer

June 2021

OUR BUSINESS MODEL

INSPECS continued growth has further established its position as one of the world's leading eyewear companies.

Our model to achieve sustained and balanced growth for the benefit of all stakeholders is based on four main fundamental drivers.

STRATEGY FOR GROUP SUSTAINED GROWTH

GROW OUR IN-HOUSE FRAMES MANUFACTURING CAPACITY

During 2020 the group completed its expansion of Vietnam by the addition of an additional 4,000m^2 of manufacturing base allowing production capacity to rise from 3.5m frames per annum to 7m+ per annum.

EXPAND OUR CHAIN AND INDEPENDENT OPTICAL CUSTOMER BASE AROUND THE GLOBE

INSPECS has continued despite COVID-19 to increase its offering of both branded and private label frames to our global optical chains and continues to grow the number of independent opticians that it supplies.

GROW OUR LENS MANUFACTURING CAPACITY AND EXPAND GLOBALLY OUR HIGH END PRODUCTS

The group has agreed terms for a new manufacturing site in Gloucester, UK raising expected lens manufacturing capacity from 1,200 to 4,000 jobs per day. The new plant is planned to be fully operational by the end of 2021.

MAKE SELECTIVE ACQUISITIONS TO BOOST GROWTH AND PROFITABILITY IN FUTURE YEARS

The group made two major acquisitions in 2020 and is continuing to work on further strategic acquisitions in 2021.

Superdry Optical
SS21 Adalina frame

HOW OUR MODEL WORKS

BRANDS UNDER LICENCE:

Brands are selected with potential to grow market share in a geographical region, or for broader, global distributions. We are specialists in working with brand owners in partnership, to help deliver growth for both companies.

HOUSE BRANDS:

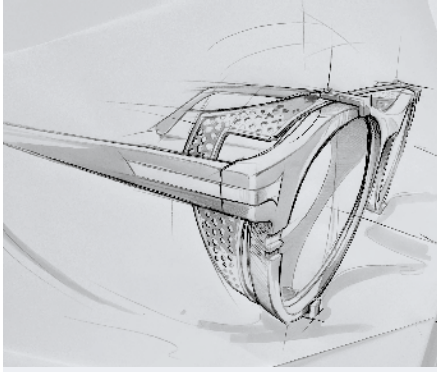
Targeting specific market segments with our in-house brand offer, we elevate group-owned patents and manufacturing techniques by building a brand around them, and successfully taking them to market.

PRIVATE LABEL/OEM:

We're helping some of the biggest retailers in the world to grow, by targeting specific consumer opportunities in store. Our 360 degree service delivers expertly-designed private label eyewear, with the reassurance of traceable industry benchmark in-house manufacture.

WE DESIGN

Our design teams around the world follow the latest trends in the market. Our teams are looking for ideas not only from the eyewear market but also from both the consumer fashion and parallel industries. Our design teams are principally in the UK, USA, Germany, Portugal and Hong Kong.



WE MANUFACTURE

Our production teams work with our in-house CAD design teams in our facility to ensure either home manufacture, if appropriate, or engage with one or our tested subcontracted factories.

WE MARKET

Our marketing teams constantly plan work with the optical market to bring our products to consumer attention and work in partnership with the brand owner.

BRANDS

20+

WE DISTRIBUTE

Through our network of over 70,000 optical and retail outlets across 80 countries our products are sold both in well-known high street chains and to independent opticians globally.

DISTRIBUTED FRAMES

4.9m

WHAT SETS US APART

- Vertically integrated model providing a complete eyewear solution.
- Innovative design and creativity.
- Global experienced manufacturing teams.
- In-house design.
- Acquisition of lens manufacturers allowing combination frame and lens packages to be created.
- Trusted supplier to global retail chains with full traceability.
- We operate as a fair organisation and all our employees are key. We endeavour to give the best industry working environment for all our staff.

Our Business Model
continued

LICENSED BRANDS

Our teams around the globe work with leading brands to create award-winning eyewear collections.

hype.

Hype provides inspiring designs and concepts for the teens with trend setting designs.

MINI

The epitome of individuality and a tempting range of shades with models to suit all ages.

極度乾燥(しなさい) Superdry®

Iconic British designed frames for men and women with the spirit of Japan.

FARAH®

Fashion eyewear creating updated classics and trend-led design.

TED BAKER® LONDON

Eyewear for men and women offering a striking assortment of shades and styles to suit all ages and tastes.

CAT®

Finding solutions to help build a better world. Cat engineering DNA can be found throughout our range of eyewear. Quality products designed and built to last.

LULU GUINNESS LONDON

Crafted in high-quality materials with inspiration from vintage fashion and Lulu's iconic designs.

O'NEILL

The Original California Surf, Snow & Lifestyle Brand, since 1952. The innovator of the wetsuit, and a pioneer of protecting our oceans. Eyewear for O'Neill has a strong sustainable O'Neill Blue ethos.

TALBOT RUNHOF EYEWEAR

A glamorous high fashion collection.

NASCAR™

A refined, classic look with two-tone colours giving an updated and contemporary feel.

RADLEY LONDON

Distinctively British, crafting beautiful eyewear combining iconic style with quality craftsmanship.

Marc O'Polo

Fashion-forward yet timeless eyewear, underlying the wearers natural style.

HOUSE BRANDS

L.A.M.B. gx

Luxury eyewear with attitude, by Gwen Stefani. Her L.A.M.B. fashion and accessories label mixes classic Hollywood glamour with modern streetwear influences.

ROALD DAHL

"Many wonderful surprises await you…" with the splendiferous Roald Dahl Eyewear collection. Designs feature original Quentin Blake illustrations from much loved tales and spectacular hidden quotes for the cheekiest of chiddlers eyes only!

BUFFALO DAVID BITTON

An iconic brand in the denim fashion industry, Buffalo David Bitton is a global lifestyle brand with a long-standing tradition of quality.

FREE COUNTRY

Free Country is one of the outdoor industry's most sought-after brands offering superior style, functionality, performance and value at a fraction of the cost of their competitors.

JOS. ESCHENBACH

Combining old traditions and values to the new, modern brand in subtle Nordic colours and characterised by natural earthy tones.

TITANFLEX

Flexibler. Robuster. Leichter.

Combining wearing comfort with resilience, low weight with modern design with quality.

FREIGEIST

german eyewear

The highest level of quality with commitment to perfect design and inspired by structural clarity and architectural design.

HUMPHREY'S eyewear

The HUMPHREY'S DNA is individual and authentic following the fashion code with trendy and energetic frames.

BRENDEL EYEWEAR

Fashion inspired by the work of renowned fashion designers, stylists and make-up artists.

TURA

Elevating eyeglasses from accessory to a work of art offering both rimless and semi-rimless frames with a contemporary look.

SAVILE ROW®

HANDMADE IN ENGLAND

British tailored eyewear finely crafted from luxury material. Timeless classic pieces made from the name synonymous with heritage, quality and style. Trademarked, designed and made in-house.

OUR PRINCIPAL MANUFACTURING SITES

TORKAI OPTICAL FACTORY

China

Torkai Optical has built an industry reputation as a high-class manufacturer of quality eyewear, in particular titanium frames. With a workforce of around 500 it is also able to support the group as a whole with product design and engineering solutions. It has its own plating and mould production plant.

500
WORKFORCE

50+
ENGINEERS AND TECHNICIANS

FULLY TRACEABLE

IN-HOUSE PLATING AND MOULD SHOP

ADVANCED TOOL MAKING

INNOVATIVE ENGINEER SOLUTIONS

OUR PRINCIPAL MANUFACTURING SITES

NEO OPTICAL

Vietnam

NEO Optical is the largest optical frame manufacturer in Vietnam. With the addition of its new facility the site now has the capacity to produce in excess of 7m frames annually, increasing from 3.5m frames previously.

QUALITY PRODUCTION AT COMPETITIVE PRICES

500+

STAFF

LARGEST LOCAL EMPLOYER

FULLY TRACEABLE

ACETATE AND INJECTED MOULDING PRODUCTION

OUR PRINCIPAL MANUFACTURING SITES

NORVILLE-LENS MANUFACTURERS

90+

STAFF

DELIVERING INDEPENDENT LENS SUPPLY SOLUTIONS TO THE OPHTHALMIC INDUSTRY

70+

YEARS MANUFACTURING HERITAGE

ANCILLARY SITES IN SEAHAM AND LIVINGSTONE

UNIQUE LENS MANUFACTURING

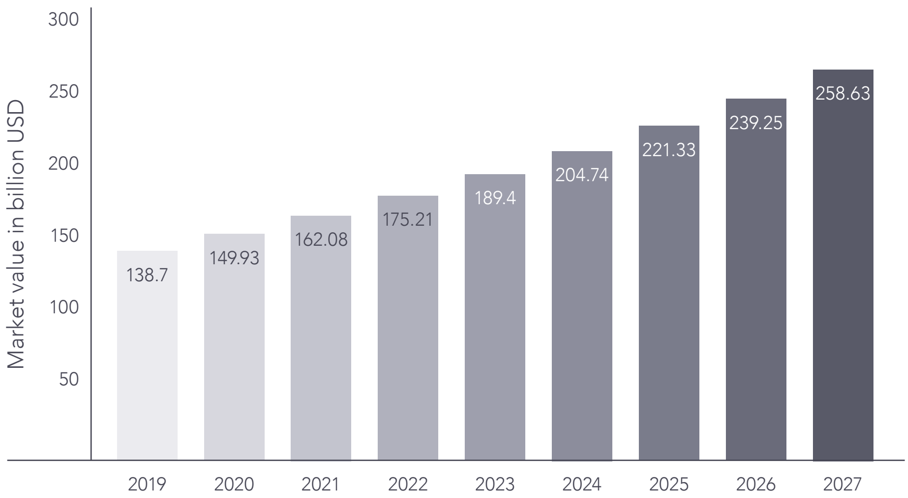
ABILITY TO OFFER FRAME AND LENS PACKAGE

MARKET OVERVIEW

The eyewear market has been affected by COVID-19 during 2020 but has proved to be resilient and, despite lockdowns around the globe, access to ophthalmic eyewear has been deemed to be essential and much of the market has remained open.

The global eyewear market is expected to grow from $139 billion in 2019 to $259 billion in 2027 at a CAGR of 8.1%.

(Source: Statista 2021)



DISTRIBUTION CHANNELS

79%

The brick and mortar segment still dominates the eyewear market in 2020, accounting for 79% of the market, but the e-commerce market continues to grow.

SEGMENTAL ANALYSIS

75%

The ophthalmic spectacle segment accounted for 75% of the total market in 2020 with sunglasses and then contact lenses as the next largest market segments.

DRIVING FORCES

The key factors driving the market growth are the number of ophthalmic disorders, increased awareness of eye examinations and the perceptions of eyewear as a fashion accessory.

INSPECS operates across all the major parts of the market supplying frames and lenses to the ophthalmic eyewear market and sunglasses. INSPECS continues to grow its e-commerce presence.

CHRIS KAY

DESPITE COVID-19 THE GROUP HAS MAINTAINED POSITIVE MOMENTUM IN 2020 CREATING A STRONG PLATFORM FOR GROWTH IN 2021

Our results in H2 showed considerable improvement as the group adjusted to COVID-19 restrictions. Excluding the Eschenbach acquisition our H2 underlying EBITDA increased from $0.7m in H1 to $5.1m in H2. We have also completed two acquisitions in 2020 and production has started in our new Vietnamese factory. The group is now well-positioned for the future as economies around the globe expand as lockdowns start to ease.

	FY20	FY19
Revenue	47,415	61,247
Gross profit	20,522	27,536
Operating expenses	(16,017)	(14,549)
Underlying EBITDA	4,505	12,987
Share-based payments	(1,706)	(1,917)
Depreciation and amortisation	(3,906)	(3,125)
Restructuring costs	(185)	–
Foreign exchange on funding for acquisitions	(1,085)	–
Post acquisition insurance costs	(563)	–
Operating (loss)/profit before non-underlying costs	(2,940)	7,946
(Loss)/profit before tax and non-underlying costs	(5,400)	10,174
Reconciliation to reported results		
Operating (loss)/profit before non-underlying costs	(2,940)	7,946
Non-underlying costs	(5,763)	(2,827)
Negative goodwill on bargain purchase	506	–
Movement in fair value on derivative	(740)	2,865
Exchange adjustment on borrowings	(382)	715
Share of associate profit	–	14
Net finance costs	(1,844)	(1,365)
(Loss)/profit before tax	(11,163)	7,347
Tax credit/(charge)	2,250	(907)
(Loss)/profit after tax	(8,913)	6,440

REVENUE

Revenue for the year ended 31 December 2020 was $47.4m, a decrease of 22.5%. H2 group revenue was $30.7m including $7.1m contribution from acquisitions. Growth in H2 over H1 excluding acquisitions was 41.3%.

OPERATING EXPENSES

Operating expenses increased by $1.5m. Excluding acquisitions, operating expenses decreased $2.4m as the group reduced costs to offset restrictions in trade caused by COVID-19.

GROSS MARGIN

The overall group gross margin decreased from 45.0% to 43.3%. Excluding acquisitions, the gross margin decreased from 45.0% to 43.5%.

CASH POSITION

The group ended the year with cash balances of $30.0m compared to an opening position of $6.5m as a result of share placing and the acquisitions in the period.

FINANCE INCOME AND EXPENSE

The group's net finance costs increased from $1.37m to $1.84m. Excluding loan arrangement fees written off on refinancing ahead of IPO, net finance costs reduced by $0.5m.

DEPRECIATION AND AMORTISATION

Group depreciation and amortisation costs increased from $3.1m to $3.9m, including $0.7m from acquisitions in the year.

UNDERLYING EBITDA

On 16 December 2020, the group acquired Eschenbach which had limited sales from 17 to 31 December 2020. As a result, Eschenbach had a technical accounting underlying EBITDA of $(1.3)m for the year to 31 December 2020. The group targets underlying EBITDA as a primary KPI and during the year, excluding the Eschenbach acquisition, our underlying EBITDA decreased from $13.0m to $5.8m, a decrease of 55%. I am pleased to report that excluding Eschenbach, our H2 underlying EBITDA was $5.1m against H1 of $0.7m.

(LOSS)/PROFIT AFTER TAX

The group loss after tax for the year was $8.9m compared to a profit of $6.4m in 2019. This loss includes $5.8m of non-underlying costs borne by the group as a result of the IPO and acquisitions made during the year as shown on page 24.

COVID-19

As a result of COVID-19, the Board implemented actions to reduce costs whilst continuing to invest and improve both the short and long-term prospects of the group. We continued to invest in our brands and our manufacturing capacity, completing our new Vietnam manufacturing facility.

NET DEBT

The group's opening net debt was $13.7m ($12.5m excluding leases) and the closing net debt following IPO and two acquisitions in the year was $47.2m ($26.9m excluding leases).

EARNINGS PER SHARE

Earnings per share for the year to 31 December 2020 is $(0.13)c (2019: $0.12c) with EPS on a fully diluted basis of $(0.13)c (2019: $0.11c).

LEVERAGE

The group's year-end leverage as a multiple of EBITDA, increased from 0.8 in 2019 to 1.6 in 2020 as a result of funding the acquisitions in the year. The leverage ratio has continued to drop since the year-end against a required covenant level of 2.5 for the 12 months to 31 December 2021.

EQUITY PLACING

On 11 December 2020 the group issued 30.5 million shares at £2.10 in order to fund the Eschenbach acquisition of $115.5m.

GOING CONCERN

Given the significant effects of COVID-19 encountered during 2020 and into 2021, the Directors have undertaken a comprehensive assessment of the group's ability to trade out to December 2022. Details of this review are shown in the Directors' Report on pages 54 to 56. Taking the above into consideration the Directors have a reasonable expectation that the group and the company have adequate resources to continue to trade throughout this review period. Therefore, the Directors continue to adopt the going concern basis of accounting in preparing the consolidated and Parent Company financial statements.

Chris Kay
Chief Financial Officer

June 2021

Design offices at Eschenbach headquarters
Germany

Radley Sunglasses
SS21 Campaign

Key Performance Indicators

Our business focusses on eight key performance indicators that are used by the Board and Senior Management to review future outcomes and the successful delivery of the group's overall strategy.

TURNOVER

-23% ⇩

$47.42m

2019: $61.25m

GROSS PROFIT

-26% ⇩

$20.52m

2019: $27.54m

UNDERLYING EBITDA

-65% ⇩

$4.51m

2019: $12.99m

GROSS PROFIT MARGIN

-1.7PTS ⇩

43.3%

2019: 45.0%

FRAMES MANUFACTURED

-36% ⇩

2.91m

2019: 4.55m

NET CASH FROM OPERATING ACTIVITIES

-107% ⇩

$(0.75)m

2019: $10.59m

NET CURRENT ASSETS

+1,498% ⇧

$59.62m

2019: $3.73m

FULLY DILUTED EPS

-101% ⇩

$(0.13)c

2019: $0.11c

A SUSTAINABILITY ACTION PLAN FOR INSPECS

INSPECS is committed to ensuring that its business activities are conducted with full consideration to their effect on the environment.

We are committed to reducing our impact on the environment and have set out the following key pillars for the group for the future.

We have created a department to assess and monitor operations across the group, building targeted action plans with KPIs to improve INSPECS business operations and make progress towards the UN's sustainable development goals.

Recruitment for this new department is already underway with support from the Board to implement the review during 2021. Whilst we await the outcome we made good progress towards a more sustainable business in 2020.

WORKING WITH OUR EMPLOYEES

As a group we will endeavour to learn from our employees who have demonstrated ideas and plans across the group to reduce waste.

UTILITY CONSUMPTION

As a manufacturing group we have set up a group department that will target continued reduction in our energy and water consumption across the group.

SUPPLY CHAIN

The group will endeavour to work with all our stakeholders to ensure that our distribution around the globe has a long-term goal of reducing its effect on the environment.

RECYCLING

The group will continue to develop its recycling efforts across the globe. This will include lighting, heating, electronics, paper, packaging and supplies.

CHEMICAL WASTE

The group will continue to use environmentally friendly chemical products and where these cannot be used the group will ensure the minimum use and correct disposal of chemical products.

ACCOUNTABILITY AND MEASUREMENT

The group will continue to invest in a sustainability department that will be tasked with not only new ideas but monitoring and tracking our performance and reporting to all our stakeholders.

ACHIEVEMENTS FOR 2020

INSPECS made good progress in 2020 towards its five key sustainability goals. Some of our key achievements are as follows:

CUTTING CARBON FOOTPRINT

Many of the world's volume glazing labs are based in the Far East. We established a smarter and more environmentally responsible logistic solution with one of our major retail customers in the USA.

INSPECS now stores products at the point of manufacture in China, shipping straight to Thailand and on behalf of the customer for glazing. This avoids thousands of air miles per frame. In 2020 we stored and shipped over 37,000 frames in this way.

INSPECS will continue to promote a more environmentally sustainable distribution model to other key chains around the globe.

INNOVATION GREEN PRODUCT AWARD

In 2021, INSPECS was presented this prestigious award for its O'Neill Wove sunglasses. Over 1,400 Companies from 52 countries entered the award. These sunglasses and their packaging are made from recycled and recyclable materials, such as fishing nets, rubber tyres, plastic bottles, stainless steel, mineral glass or water soluble paper.

USING SUSTAINABLE MATERIALS

BOTANIQ™ is a new sustainable eyewear collection offering a truly end-to-end solution for opticians and the consumer. The frames are manufactured from biodegradable and recyclable materials and we ensure that all packaging is fully recyclable. We have a responsible waste solution for the consumer allowing them to recycle their purchase. We also pledge to plant one tree for every frame sold, with the organisation One Tree Planted.

CARBON OFFSET

The group has engaged with Wanderlands to offset its UK business travel and energy consumption, leading to an estimated 2,500 trees being planted in forests in the UK in 2021 and more trees for 2022 to offset our carbon footprint.

REDUCING CO_2 EMISSIONS

In 2020, INSPECS purchased its first electric vehicles as company cars, with three more to be added in 2021. The electric vehicles covered 85,000km and saved 11 tonnes of CO_2 emissions during the year. The impact of this initiative is expected to grow as national lockdown restrictions are eased and normal business operations can resume.

COVID-19 has reduced the amount of air and rail travel in this financial year and carbon emissions have therefore reduced dramatically.

The group has taken the opportunity to hold virtual meetings via Zoom and Teams during the pandemic and this practice will continue to be promoted as a way to reduce travel in the future.

MANAGING OUR ESG RESPONSIBILITIES

PEOPLE

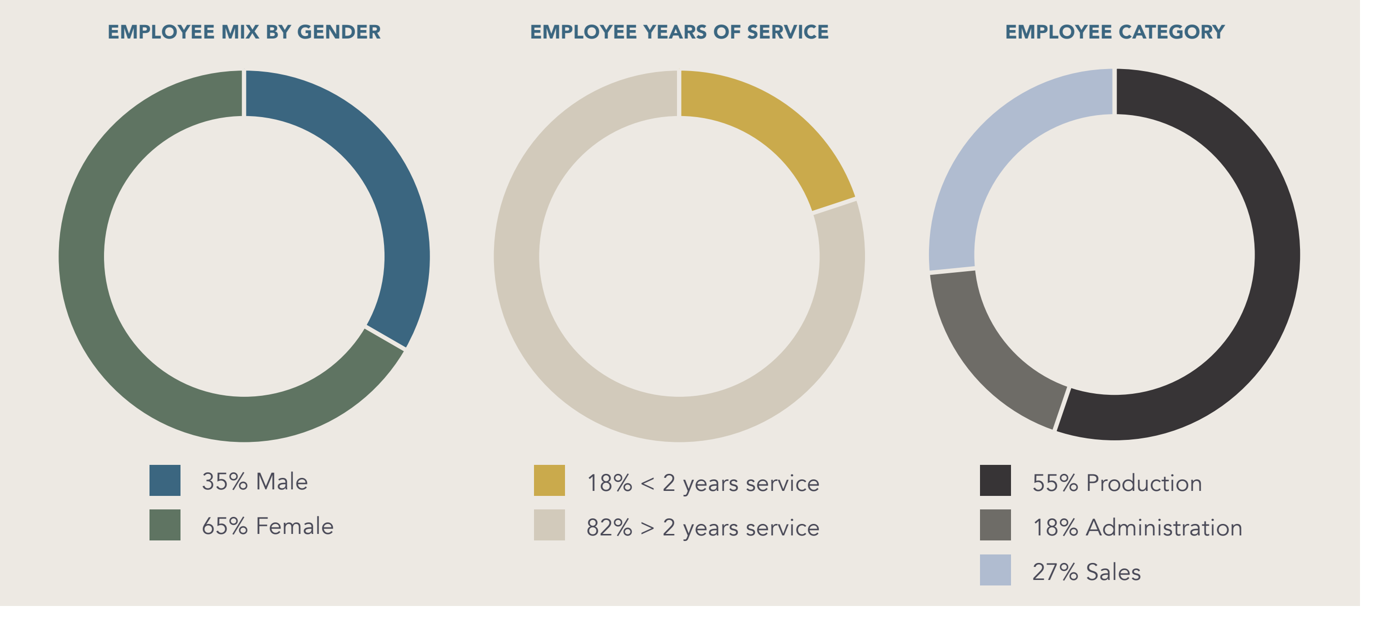
To sustain our long-term future INSPECS recognises that a key risk is the ability of the group to continue to attract, recruit and retain employees across the group. This will ensure going forward our group will be able to achieve its long-term growth and meet our customers' needs. In order to achieve this INSPECS aims to continue to be an 'Employer of Choice' in the communities we operate. Our focus therefore to:

- Ensure we have a great workplace where employees feel safe, supported and highly valued.
- Ensure that remuneration and benefits are attractive.
- Develop a sustained career path for employees.
- Ensure inclusivity and equal opportunity for all.
- Allow open debate and communication at all levels across the group.
- Ensure that the group meets and exceeds all Employee Legislation in whatever jurisdiction it operates.

DIVERSITY AND INCLUSION

INSPECS will not allow any discrimination in any of its business operations nor engage with other organisations where such activity is detected. This culture is paramount to how we operate but INSPECS acknowledges that this is a continuing process in which it will invest and ensure that our ambition is maintained.

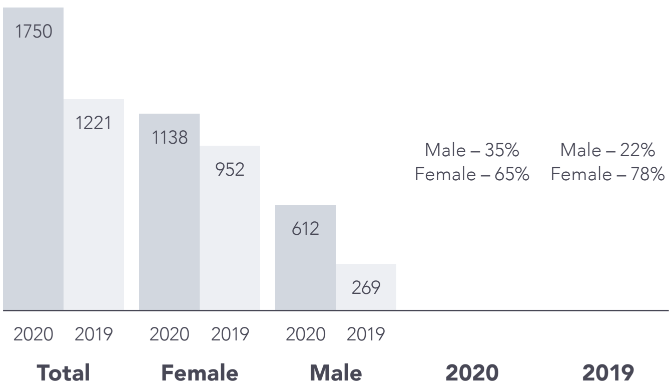
DIVERSITY & INCLUSION



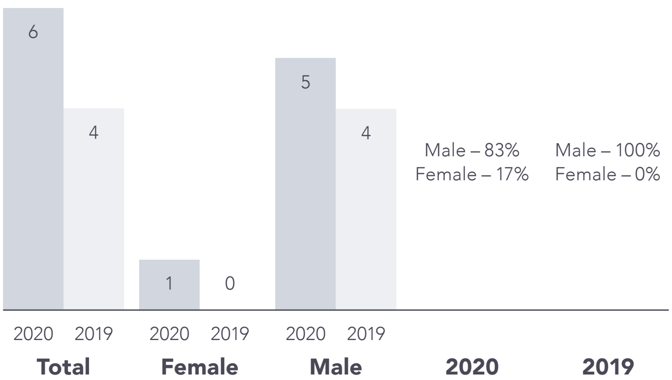
INSPECS GROUP PLC'S EMPLOYEE BASE

AVERAGE NUMBER OF EMPLOYEES AS AT 31 DECEMBER

TOTAL



BOARD



DIVERSITY AND INCLUSION

INSPECS Group is committed to equality of treatment for all employees and for those seeking employment with the group regardless of gender, marital status, race, ethnic origin, disability, sexual orientation or social status. The group is committed to complying with all current legislation pertaining to employment in all areas where it operates. INSPECS Group is committed to ensuring a good work/life balance for all employees and our people are key to our continued sustained growth and their wellbeing is a priority for the group.

HEALTH AND SAFETY

INSPECS as a manufacturer has Health and Safety as a standing part of Board meetings. INSPECS will continue to improve Health and Safety and has regular assessments and external reviews and implements recommendations across the group. At each quarterly Board meeting reports are received from each of our key operations and this is monitored on a monthly basis by senior management to ensure compliance with local legislation.

MODERN SLAVERY STATEMENT

Our Commitment

One of our key principles is 'to treat everyone fairly and with dignity and respect'. This includes those from within our business and those within our supply chain.

Corporate Social Responsibility

Our corporate responsibility is to protect human rights and we seek to ensure that our high-quality products are sourced and manufactured in a fair, ethical, environmentally and socially responsible way.

The business is responsible for the end-to-end processes and procedures which are established to ensure traceable quality control and transparency through the group's operational processes, from design to distribution.

The group's approach to sustainability seeks to address both environmental and social impacts, whilst meeting client demands.

We seek to ensure that our partners and affiliates have similarly high standards, respect local laws and customs along with meeting international laws and regulations, and we will never knowingly deal with any organisation which is connected to slavery or human trafficking.

COVID-19 Awareness

As part of our on-going analysis the senior team will continue to monitor and mitigate actions as required. All key business decisions are based on a risk analysis and we will continue to make decisions by putting employee and supplier safety first. With all our continuing operations this will be conducted in line with local government COVID-19 guidelines.

80+
COUNTRIES OF DISTRIBUTION

4
MANUFACTURING SITES

70k
GLOBAL POINTS OF SALE

1,800
GLOBAL WORKFORCE

Global Distributor

Industry benchmark manufacturing, from frames to lenses to complete frame-and-lens packages. Resilient eyewear products in over 80 countries, with 14 sales offices and a 270-strong sales team. Our balanced customer profile now includes many of the largest chain retailers in the world, and a large global network of independent opticians.

Governance, Operational Policies, Procedures and Recruitment Practices

As part of our commitment to combating modern slavery, and to conduct business in an ethical and transparent manner, along with mitigating risk of non-compliance, we have the following policies within our organisation:

- Anti-Slavery and Human Trafficking.
- Whistleblowing.
- Safeguarding.
- Anti-Harassment and Bullying.
- Equal Opportunities.

Our policies also invite staff to contribute to the development of policies and provide suggestions as to how the group may improve its governance and risk management framework, processes and controls.

Each of our business divisions have access to an externally facilitated whistleblowing hotline that enables all employees to raise any concerns that they might have without fear of reprisals. We are pleased to confirm that no incidents have been raised or reported to date.

Our recruitment practices are compliant with applicable employment and health and safety legislation in the relevant countries.

In order to minimise our exposure to risks that may arise in relation to slavery and human trafficking, we always aim to recruit staff directly and do not make frequent use of temporary workers sourced through an intermediary or employment agency.

Due Diligence

The group strives to maintain the highest standard of ethical integrity and expects the same of its business partners, employees and affiliated parties. As part of our new suppliers and new product process, we assess suppliers to ensure they can support the business and take steps to consider any areas of risk.

Owning our own manufacturing sites ensures the group has high levels of traceability throughout the supply chains and can maintain quality control to high standards. The group's sites are subject to regular independent audits by its global retail customers and licensors. In addition to the company's policies and internal risk management activities, these independent audits evidence that governance and industry standards are being maintained and legal and regulatory requirements are met.

Management and Compliance

The group's risk appetite is determined by the Board. Our enhanced risk management framework provides that we will not tolerate slavery or human trafficking within our supply chains.

While modern slavery can be found among any population, we recognise that certain groups are particularly vulnerable to the risks of modern slavery including:

- Domestic and foreign migrant workers.
- Contract, agency and temporary workers.
- Vulnerable populations (e.g. refugees).
- Young or student workers.

We actively manage our relationships with third-party agents and service suppliers to mitigate any potential risk of modern slavery. The company requires those who are charged with providing services to conduct robust checks on any potential new employee, including eligibility to work in the relevant country, to safeguard against human trafficking or individuals being forced to work against their will.

INSPECS Group is proud of the organisation's culture and corporate ethos, and the collaborative relationships our staff actively maintain with customers and suppliers externally. Our organisation's culture and the approach we take when dealing with clients, partners, advisers and other third parties has been instrumental in ensuring that we have low levels of staff turnover and few changes in the supply chain.

Training

The company's formal training and induction processes for new staff are firmly established across the group. The standard and behaviours expected of our employees are detailed within a number of policies and code of conduct, in addition to those listed above. All new employees have access to the employee policies required as part of an induction and training as required.

Management and support staff remain mindful of their duty and legal obligation to escalate any matters of concern in relation to human rights abuses, in line with company policies. All our employees are encouraged to identify and report any potential breaches of the organisation's policies within the wider understanding of whistleblowing.

Commitment

As a global supplier and brand partner with a world-wide distribution network, we understand that there is a risk of modern slavery taking place in supply chains. Having considered a range of factors, including the nature of our products, the sector in which we operate, the various group policies and procedures in place and independent audits carried out across the globe, we believe that the company is at low risk of exposure to slavery and human trafficking. We are not aware of any areas of our operations and supply chain where there has been a breach of the Modern Slavery Act 2015. Recognising that the human rights risk may change over time as the business enterprise's operations and operating context evolve, we will continue to:

- Re-evaluate the exposure to the risk of modern-slavery occurring in our supply chain.
- Review and enhance our governance and risk management frameworks.
- Monitor external adviser independent assessments, due diligence and assurance work to ensure we comply with legal and regulatory obligations. Apply appropriate risk-based due diligence processes to mitigate risk of non-compliance with the Act.
- Continually review our induction and training programmes to support our zero-tolerance approach to human rights abuses.
- Continue training to our Board, executive leadership team and key members of the global procurement and supply chain teams to build on their understanding.
- Work with stakeholders across the group to develop key performance indicator metrics as a tool to monitor compliance with the group's governance frameworks and policies.

FUTURE GOALS

INSPECS plans are to improve its carbon footprint.
This includes steps to:

- Move our electric power consumption to green power suppliers where possible thus reducing our carbon footprint.
- Continue to encourage our customers to use green routes for shipping and reduce the transport miles of our products.
- Innovate and expand our range of sustainable products.
- Continue to reduce our water usage in production.
- Continue our policy of recycling across the group.
- Set up our internal sustainability department reporting to the Board.
- Continue to use more biodegradable packaging where possible.
- Continue to plant trees in the communities in which we operate to offset carbon usage.

ENERGY AND CARBON REPORTING

Streamlined Energy Carbon reporting (SECR) was introduced by the UK Government on 1 April 2019. The group sets out its main power and water consumptions for 2020 for the UK- based companies. For 2021 onwards we will continue optimising our reduction in emissions and work in line with current and future environmental legislation.

The group has used the following averages to estimate its carbon emission.
Gas: 183 grams per kilowatt hour
Electricity: 233 grams per kilowatt hour

	UK energy usage in kWh	UK GHG Emissions in tCO_2e
Electricity	728,466	169.83
Gas	321,851	59.18
Water	198,921	0.07
Business fuel	44,859 miles	13.02
Total for the period in the UK		**242.10**
Intensity ratio in the UK (per employee)		**1.68**

TARGETED REDUCTION

The group aims to reduce energy consumption on an intensity ratio basis over the next five years and we will continue to review performance against our goals.

The amount of both international and domestic travel across the group was successfully reduced in 2020 due to COVID-19 restrictions. The group has relied increasingly on virtual face to face meetings but we do expect to start to exhibit our products at more international exhibitions in the later half of 2021. The group aims to maintain its business travel below pre-pandemic levels in the future.

SKUNK WORKS

At INSPECS in 2020 we started our own Skunk Works department. This small but growing team has a remit to think outside the box and has a high degree of autonomy, is unhampered by normal constraints and is tasked with dreaming the impossible.

Already, its main focus has been to improve the environment and has at the date of this report filed six patent applications for environmentally sustainable products and devices that we are working to bring to market. This is a committed strategy and we hope to produce a list of its achievements next year. The team reports to the Executive team once a month to test ideas and update on projects.

DREAM THE IMPOSSIBLE

HAVE FUN CRAZY IDEAS, GO FOR IT

APPLY THE RESOURCES OF INSPECS TEAMS AROUND THE GLOBE

'Skunk Works' was the name given to a secret R&D team at Lockheed Aircraft Corp. that was tasked with quickly developing a jet fighter for the United States during World War II.

The name is now used to describe a small department that is allowed to operate outside the normal procedures and systems of a company, so that it has the freedom to develop new ideas and products.

BRING TO MARKET

TEST PROTOTYPES AND TEST MARKET

COLLABORATE WITH WORLD LEADING UNIVERSITIES

UNIVERSITY COLLABORATION

During 2020, INSPECS partnered with a number of companies and universities in the UK and Europe. On 12 May 2021 an agreement was signed with 2-D Tech Limited, a subsidiary of Versarien Plc to develop the first antibacterial frames and lenses impregnated with graphene.

These new patented products will be available to the market in 2021 and other unique products are being worked on.

The Board will consider the creation of a design and innovation scholarship at a leading UK university once income is generated from Skunk Works, with other similar developments planned in Europe and the USA.

The Board of INSPECS Group is proud of the high standards of corporate governance that it has established and continues to monitor and improve.

The Board continues to look at the expectations of all company stakeholders and reflects on the choices the Board makes and their effects on all our stakeholders. The Board considers the long-term effects of key decisions on stakeholders and this helps INSPECS Group to maintain suitable and beneficial relationships for the future. The main considerations likely to promote the success of the company for the benefit of all stakeholders are set out below.

OUR EMPLOYEES	HOW WE ENGAGE
Training, development and career prospects	The employees of the group have annual appraisals and the group operates an Employee Long-Term Incentive plan for the future leadership. The company actively encourages all employees to have access to further training to enhance their skills and develop their careers.
Health and Safety	The group reviews heath and safety on a monthly basis and it is reviewed by the Board on a quarterly basis.
Diversity – fair and equal pay	The group has the highest standards in relation to diversity and fair pay to all employees regardless of age, sex or ethnicity.

OUR INVESTORS	HOW WE ENGAGE
Demonstrate a clear investment case and strategy for continued sustained growth • **Ensure good risk and corporate governance.** • **Demonstrate KPIs.** • **Continue our ethical behaviour in all business matters.**	Individual meetings with institutional shareholders throughout the year including communication during the interim, final and share placing that occurred in 2020. Reports and Accounts available at Companies House and on the new company website. Quarterly turnover numbers now released to the market to continue relevant information flow to all stakeholders including KPIs in the Annual Report. Our website will continue to show how we improve our ethical behaviour.

OUR CUSTOMERS	HOW WE ENGAGE
Continue to create new well-designed products	The group design hubs in the UK, Lisbon, Germany, Hong Kong and the USA regularly engage directly with customers to create new and exciting ranges each year.
Continue to deliver to our customers on time	The group continues to invest in the latest production machinery to ensure efficient supply.
Demonstrate to our customers our fully traceable supply	The group maintains independent audit facilities available to our chains to monitor and audit our factories.
Engage in customer feedback to ensure continual improvement of our supply	The group reviews its six-monthly or annual feedback from our global chains and aims to constantly improve our performance.
Develop more sustainable products for our customer base	The group has developed two new sustainable eyewear ranges in 2020 and won multiple awards.

THE BOARD REVIEWED AND CONSIDERED THE ONGOING EFFECTS OF COVID-19 ON THE BUSINESS DURING 2020 AND CONTINUES TO MONITOR ITS EFFECTS.

In accordance with Section 172 of the Companies Act 2006 the table opposite demonstrates how the Board has fulfilled its duties.

This provides a summary of the Board's strategic aims, decision-making process, and the key stakeholders of the company whom the Board considered and engaged with. Stakeholder benefits arising from the decisions are shown below. Further information that demonstrates how the directors have fulfilled their duties are shown within the Strategic Report and Directors' Report.

The Board of INSPECS believes that it has acted and made decisions in a way considered most likely to promote the success of the company for the benefit of its members. In doing so we gave regard to:

1. The likely long-term consequences of any decision;
2. The interests of the company's employees;
3. The need to foster the company's business relationships with suppliers, customers and others;
4. The impact of the company's operations on the community and the environment;
5. The company's desire to maintain a reputation for business conduct of the highest standard; and
6. The need to act fairly between members of the company.

OUR COMMUNITIES	HOW WE ENGAGE
The group now operates globally and we are expected to operate in a responsible way ensuring consideration to those around us and continuing to minimise our effect on the environment	During 2020 the group has developed and supplied PPE to NHS Trusts and Healthcare Centres in the USA. The group continues to design and develop new PPE products. Our new facility in Vietnam has been built to ensure less water and electricity consumption. We have developed a relationship with tree planting companies so we can offset some of our carbon emissions.

OUR SUPPLIERS	HOW WE ENGAGE
Fair trading and payment terms	The group ensures that all suppliers are paid and treated equally and the Board reviews average supplier days.
Collaboration and long-term partnerships	We engage with our key suppliers for the long term and aim to create a partnership of supply.
Supplier engagement check that they comply with modern slavery laws	We monitor key suppliers to ensure compliance with modern slavery laws.

ENVIRONMENT	HOW WE ENGAGE
Ensuring the group takes into effect climate change on both its business and its supply chain and continues to manage its pollution and waste	The group continues to move to renewable energy where possible and is establishing an annual review of key operations and the effect of climate change on those operations. The group has introduced new efficient supply chain routes and developed a range of new environmentally friendly products.

KEY DECISIONS

1 REDUCTION IN OPERATING EXPENSES OF THE BUSINESS
The group where appropriate moved to a 4-day week and cost reductions were implemented. This allowed the group to reduce cash expenditure and maintain profitability.

2 ENSURING PPE EQUIPMENT IS AVAILABLE TO ALL STAFF
The Board ensured relevant PPE equipment is available to all employees at all company locations.

3 CANCELLATION OF FY 2020 DIVIDENDS
The Board agreed not to pay any dividends to preserve cash.

4 WORK FROM HOME INSTIGATED
The Board agreed working from home for employees and authorised the company to invest where necessary to ensure that employees could work with minimum disruption. This allowed the group to trade effectively despite the COVID-19 disruptions.

5 BOARD SALARY REDUCTIONS
The Board took 20% pay reductions from April 2020 and the Executive team's pay was reduced by 60% from April 2020 to December 2020.

ADDRESSING RISK AT INSPECS

Our risk management framework covers every part of our business.

The Board meets regularly to identify risks in our operations as they arise. Having identified a new risk, the Boards receives an assessment of the risk and then reviews and approves plans to mitigate it.

The final step in the process is the continual management by both the Board and the key employees of the inherent risks in the business.

RISK RESPONSIBILITY

The Board of INSPECS has the overall responsibility for risk management and ensuring mitigation and continual monitoring of risk. Responsibility for reviewing risk is delegated to the Audit Committee and the Executive team and operational heads are responsible for implementing controls and processes across our business.

The Board has a zero tolerance in relation to health and safety issues within our control in all jurisdictions within which we operate.

1 IDENTIFY RISK AS A CONTINUAL ASSESSMENT

2 MITIGATE RISK

3 MANAGE AND MONITOR

RISK MANAGEMENT

The Board is responsible for reviewing risks to ensure that the business is not exposed to unnecessary or poorly managed risks.

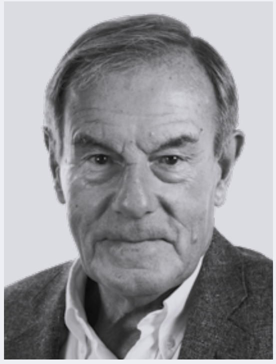
RISK	POTENTIAL IMPACT	MITIGATION
COVID-19 and potential health risk *New risk*	COVID-19 virus and public health issues amongst our staff, our supply chain and our distribution network and their impact on the ability of the company to trade.	• Transition to remote working for many positions completed and operated at short notice. • Management direction and collaboration of all staff. • Continued stress testing of finances to ensure robust stability. • Cost reduction implemented quickly.
Disruption to our supply chain and distribution network *Existing risk*	Disruption to both our factory production and our subcontracted production could limit the ability of the group to supply its customers.	• The group has continued to retain its relationship with key subcontracted manufacturers, which allows a switch in production if necessary from our own factories. • Work undertaken with key customers to transfer supply from air routes to sea when possible. • Increased stock of key production materials.
Quality control of products supplied *Existing risk*	Poor quality or inconsistent quality of the group's products could reduce future demand for the group's products.	• Dedicated in-house Quality Control ('QC') teams embedded in production facilities in Vietnam and China. • Secondary QC teams visits key subcontracted factories to ensure quality control. • Major chain QC teams embedded in factory production facilities in China and Vietnam.
Integrity of cash and material group assets *New risk*	Misappropriation of cash or group assets could impact the group's ability to trade.	• Cash balances monitored daily. • Multi-level authorisation required to transfer cash. • HSBC banking platform in the process of being rolled out across key parts of the group. • Fixed asset register in place and reviewed. • Group Insurance in place covering all major risks and assets.

RISK	POTENTIAL IMPACT	MITIGATION
Data protection and GDPR *New risk*	Loss of data used to conduct our business and information on customers received under GDPR could lead to both reputational and Government penalties.	• GDPR policies constantly updated in group's operating manuals. • Training on GDPR in place across the group. • New Head Office IT department created in 2020.
Economic and political risk *Existing risk*	Recession or downturn in the global economy may reduce consumer demand. Cost may increase due to Government policy and legislation.	• The Board constantly monitors legislation changes that may affect the group. • Diversified regional supply chain established. • Group operates in over 80 countries worldwide. • Multi-channel revenue streams. • Group operates in markets deemed by Governments as essential allowing trade to continue during lockdowns at present.
Brexit *New risk*	The impact of Brexit could interrupt our daily inflow and outflow of goods. Sudden surge in exchange rates and import tariffs could affect our business.	• The Board continues to monitor Brexit issues and the effects on the group's trading. • The group has distribution and operational offices in both Germany, Portugal and the UK, thus allowing the group to operate throughout Europe. • The group has the ability to divert if required products direct to its German distribution hub.
Loss of staff *Existing risk*	Loss of key management and senior employees could impact the group's ability to continue to trade and affect the intended growth of the group.	• Each key trading subsidiary has highly experienced management team in place. • All key senior management are part of the group LTIP Scheme. • Business plans and initiatives are documented and prepared with cross-functional input to reduce reliance on single individuals. • Remuneration Committee seeks to ensure rewards are commensurate with performance and aides the retention of key employees.
Rapid change in size of group and complexity *New risk*	Key management time and resources engaged in integration which may slow the growth of the group.	• Additional accounting and IT Staff have been recruited to ensure smooth integration. • Additional senior management retained with the acquisition.
Treasury and financial control *New risk*	Inefficient use of cash resources with potential increase in interest costs.	• New Chief Treasury Officer positioned to monitor treasury and cash custody.
Product safety *Existing risk*	Risk of adverse reaction to one of our products, constituting a safety risk for our consumers	• Products are tested and certified by independent laboratories as safe for use. • Maintenance of regulatory approval for all our products in the markets we trade in. • Maintenance of public and product liability insurance to give the company appropriate protection.
Credit risk *Reduced risk*	The group has managed its credit risk successfully during 2020 and following a review, the groups exposure to bad debts and other credit risks has not been material. Though considered a low risk in 2019, it has now been removed as a risk but is regularly monitored.	

BOTANIQ Optical
SS21 Campaign

CORPORATE GOVERNANCE

INTRODUCTION FROM THE CHAIRMAN



Lord MacLaurin
Chairman
INSPECS Group plc

THE BOARD IS RESPONSIBLE FOR THE GROUP STRATEGY AND FOR ITS OVERALL MANAGEMENT.

The Strategic Report on pages 4 to 39 summarises the approach by the Board in promoting sustainable long-term growth of our business.

As INSPECS Group plc Chairman I lead the Board with overall responsibility for corporate governance in promoting the values of the group both internally to employees and externally to our stakeholders. The Board recognises and values the importance of good corporate governance and how an appropriate corporate governance framework supports the operational, financial and risk management of the group and this in turn effectively drives performance and enables the achievement of strategic objectives to be reached for the benefit of all stakeholders.

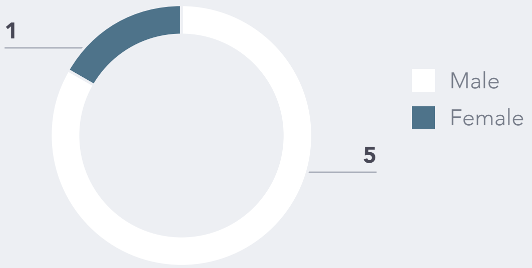
As part of our commitment to a high standard of governance the Board recognises the importance of having suitably qualified Non-Executive Directors who are independent in character and are free from any relationship that could affect their judgement. Our Non-Executive team consists of Richard Peck who has over 20 year's industry experience with eyewear and supports the Executive team together with Angela Farrugia who has a wealth of experience in relation to brands and consumer products, and finally Christopher Hancock who is a Chartered Accountant and has been involved in multiple corporate transactions over the years and is able to support our Executive team on acquisitions.

The Board firmly believes that driving our long-term goals should not be at the expense or detriment to others with whom we engage and also the environment in which we globally operate. We are committed to generating our long-term goals for all our stakeholders with as little impact on the environment as possible.

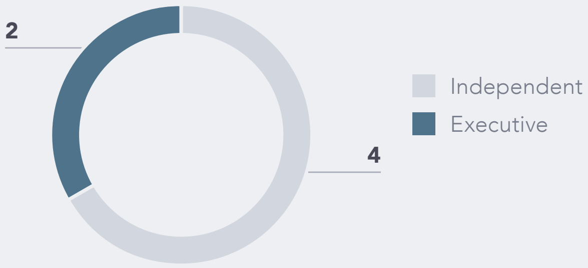
The Board complies with all the principles of the QCA Corporate Governance Code. The Board recognises that it is accountable to a wide variety of stakeholders including employees, shareholders, customers, suppliers and the wider communities in which we operate.

The corporate governance framework which is currently operated is based on practices which the Board believes are proportionate to the size and footprint of the company. This coming year the Board will hold meetings when travel permits at principal overseas subsidiaries allowing the Board to directly meet with senior management and employees in these principal areas.

BOARD DIVERSITY



BOARD COMPOSITION



HOW THE BOARD OPERATES

The Board is responsible for the group's overall strategy and for the overall management of the group. The Strategic Report on pages 4 to 39 outlines the key approach of the Board to ensuring and promoting the long-term sustainable growth of the company for all shareholders.

The main matters for consideration by the Board include:

- Financial reporting and financial controls.
- Monitoring of health and safety across the group.
- Approval of material contracts and group expenditure.
- Communication with stakeholders.
- Financing and capital adequacy of the group.
- Agreeing budgets and forecasts.
- Reviewing acquisitions.
- Oversight of the Executive team.

BOARD MEETINGS

The Board was scheduled in 2020 to hold six meetings to review quarterly updates including the AGM and then two subsequent one-day meetings to agree the interim and year-end financial accounts. However, due to COVID-19 and material acquisitions in the year it was agreed that the whole Board would meet on a regular basis to review and question these material transactions. As such and due to COVID-19 and subsequent acquisitions the Board met more frequently than was originally planned.

Scheduled Meetings	Board	Remuneration Committee	Audit Committee
Lord Ian MacLaurin	20	2	3
Angela Farrugia	14	–	–
Richard Peck	19	2	3
Christopher Hancock	22	2	3
Robin Totterman	22	–	–
Christopher Kay	22	2*	3*

* In attendance.

Directors are expected to attend all meetings of the Board and the Committees on which they sit. In the event of a Board member not being able to attend their respective Committee or the Board their comments are passed to the Chairman.

BOARD COMMITTEES

The Board has delegated some specific responsibilities to the Audit and Risk Committee and Remuneration and Nomination Committee. The respective reports are shown on pages 50 to 53.

BOARD COMPOSITION

The Board consists of five male and one female Director. The Board believes it has the right skill sets and knowledge and up to date experience to discharge its duties responsibly and deliver on the goals of the group's strategy for the long-term growth of the company for the benefit of all stakeholders.

The Board fully supports the Financial Conduct Council's aim of encouraging diversity. A full breakdown of gender representation for directors is shown on page 43 of this report.

BOARD AND BOARD COMMITTEE EFFECTIVENESS REVIEW

The Board is undertaking a review of its effectiveness and this review will include the following but not exclusively:

- Response to new events and unscheduled developments.
- COVID-19.
- Acquisitions.
- Conduct rigorous discussion and debate.
- Setting strategy.
- Composition of the Board and future development.

BOARD MEMBERS' INDEPENDENCE

The Board considers and ensures that each of the Directors is independent of management. The Board is led by the Chairman who ensures fair and constructive debate where appropriate.

The founder and CEO has a substantial shareholding in the group but this does not detract from the Board's ability to exercise independent judgement and enquiry.

CONFLICTS OF INTEREST

The Board ensures that each member of the Board declares any interest in matters to be discussed and regularly reminds Board members of their duty to disclose any potential conflicts of interest.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The group has purchased Directors' and Officers' insurance during the period and holds insurance to the benefit of the Executive team.

SENIOR INDEPENDENT DIRECTOR

Christopher Hancock is the Senior Independent Director and is also Deputy Chair-elect and will act as Lord MacLaurin's alternate when required.

DEVELOPMENT

The company Secretary ensures that all Directors are kept up to date with changes in relevant legislation. This includes liaising with the group's advisers, principally our Nomads, Peel Hunt and our group corporate lawyers, Macfarlanes.

ELECTION OF DIRECTORS

All Directors will offer themselves for re-election at the forthcoming Annual General Meeting.

RELATIONSHIP WITH STAKEHOLDERS

Continuing engagement with shareholders and stakeholders in the group is of prime importance to the Board. This communication is both by the Annual Report and Accounts and its interim accounts and RNS releases when appropriate. The group communicates through its website www.inspecs.com and investor information is available on the website.

The Non-Executive team is available to discuss matters that stakeholders may wish to raise and the Executive team holds meetings with investors on a timely basis. In the period under review feedback from stakeholders did not give rise to a change in the group strategy.

The group has regular reviews from material customers on its performance and these are closely monitored, and the group maintains regular communication with a wide range of stakeholders.

ANNUAL GENERAL MEETING

The Annual General Meeting of the company will take place on 19 July 2021. The Notice of Annual General Meeting and the Ordinary and Special Resolutions to be put before the meeting are contained in the Notice of the Annual General Meeting accompanying this Annual Report.

CORPORATE GOVERNANCE CODE

The Board recognises the corporate responsibility in the way that INSPECS operates around the globe. In January 2020 the Board approved the adoption of the Quoted Companies' Alliance Corporate Governance Code for small and mid-sized quoted companies, known as the QCA Code.

The Board is accountable to a wide range of stakeholders and to ensuring its primary goal of long-term sustained growth whilst acting in a sustainable manner. Examples of our continued work on sustainability are covered in pages 28 to 35 of this report.

The Board has ultimate responsibility for internal control and how we manage this process is shown on pages 38 and 39.

Our gender diversity is shown on pages 30 and 31 of this report. The principal elements of internal control are as follows:

THE QCA CORPORATE GOVERNANCE CODE

	Governance Principles	Compliant	Explanation	Further Reading
DELIVER GROWTH				
1	Establish a strategy and business model which promotes long-term value for shareholders.	✓	The Board is responsible for group strategy and its implementation. This strategy is debated and tracked by the Board who monitor its progress.	See pages 6 to 23 to learn more about our strategy and business model.
2	Seek to understand and meet shareholders' needs and expectations.	✓	Meetings are held with investors and analysts at half-yearly interim and final accounts. The AGM provides a forum for all shareholders to meet and hear from the Directors, and shareholder comments and suggestions are welcomed by the Board.	See page 36 to see how we communicate. Further information is available on our on website www.INSPECS.com.
3	Take into account wider stakeholders and social responsibilities and their implications for long-term success.	✓	The Board has identified the key stakeholders in the business and discusses the impact of the long-term growth strategy and how our business model may affect these stakeholders.	See pages 36 and 37 to see how we communicate and deal with our stakeholders.
4	Embedded effective risk management, considering both opportunities and threats throughout the organisation.	✓	The Audit Committee and the Board review risks to the group, both internal and external. Health and Safety is of paramount importance and a standard Board meeting agenda item.	See pages 38 and 39 for further detailed information on risk management.
MAINTAIN A DYNAMIC MANAGEMENT FRAMEWORK				
5	Maintain the Board as a well-functioning, balanced team led by the Chairman.	✓	The Board consists of three experienced relevant Non-Executive Directors and the CEO and CFO. The Board has a wealth of experience on strategy, operations and financial matters. The Chairman engages in open debate and new goals are challenged.	See Board Director information pages 46 and 47 for further guidance.
6	Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities.	✓	The Board believes that it has the required skills and correct balance of capabilities to manage the group. Members of the Board keep their skill levels up in a variety of ways throughout the year.	See pages 46 and 47 of our Corporate Governance Report.
7	Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.	✓	During 2021 a Board evaluation will take place to ensure the Board have the required necessary collective skills. This review will take place on an annual basis.	The criteria to be used to evaluate the Board is set out on page 52.
8	Promote a corporate culture that is based on ethical values and behaviours.	✓	The Board promotes and encourages, across the group, the core values of the group. The aim is to deliver continual improvement in both the economic performance of the group but also its social responsibility to the wider community.	See pages 42 to 44 of the Corporate Governance Report.
9	Maintain governance structure and processes that are fit for purpose and support good decision-making by the Board.	✓	The Board's governance model is widely known as the unitary system. The Board is aided by two subcommittees to undertake specific work. The Board has regular information flows and has regular meetings to ensure they have the ability to review, debate and make well-informed decisions.	See more information on the Committee Reports on pages 50 to 53.
BUILD TRUST				
10	Communicate how the company is governed and is performing by maintaining dialogue with shareholders and other relevant stakeholders.	✓	INSPECS has open communication with a wide range of stakeholders. This includes regular updates with investors, yearly and half yearly reports and regulatory news service releases on key corporate matters.	See pages 36 and 37 of the Strategic Report.

AN EXPERIENCED AND FOUNDER LED TEAM

Lord MacLaurin
Audit and Risk Committee Member, Remuneration and Nomination Committee Member

Angela Farrugia
Independent Director

Richard Peck
Audit and Risk Committee Member, Remuneration and Nomination Committee Member

TENURE

Lord MacLaurin has served as Board Chairman since 8 March 2017.

Angela was appointed as a member of the Board in 12 May 2020.

Richard has served as a Board member since 10 January 2020.

SKILLS, COMPETENCE AND EXPERIENCE

Lord Ian MacLaurin is a well-known figure in business with a stellar track record of successfully leading plc companies through significant change. Having served as a Chairman of Tesco between 1985 and 1997, which he is credited with building up into the UK's largest retailer, Lord MacLaurin went on to serve as the Chairman of Vodafone between 1999 and 2006. His tenure in the House of Lords lasted over two decades. Lord MacLaurin brings invaluable insights and experience to the group's ambitious and global growth plans.

Founder of one of the most successful brand management companies in the world, Angela formed TLC (The Licensing Company Ltd) in London in 1996. Creating a new breed of agency, the business grew to encompass 24 offices in 16 countries and amassed a roster of leading brand representations in various sectors, generating over $12.4bn in retail sales annually for its clients. In addition to 22 years operating experience gained within a challenging international business environment, Angela's appointment has satisfied one of the Board's objectives, increased Board diversity.

Richard Peck has over 37 years of optical experience. Richard brings a wealth of experience from working in other leading eyewear companies, such as David Clulow and Luxottica, where he held the position of Managing Director Retail Northern Europe between 2010 and 2018. Richard's retail background increases the Board's diversity of skills, knowledge and experience.

COMMITTEE MEMBERSHIP KEY

Audit & Risk Committee | Remuneration & Nomination Committee | Group Projects & Acquisitions Committee | C Chairman

EXECUTIVE TEAM

Christopher Hancock FCA
Audit and Risk Committee Chair
Remuneration and Nomination Committee Chair

C C

Christopher has served as a Board member for INSPECS Holdings Limited since 8 March 2017.

Christopher Hancock FCA has 30 years experience in business development, restructuring and corporate finance. Christopher qualified as a chartered accountant with Arthur Andersen before entering investment banking, where he spent 10 years with JP Morgan. He established his own consultancy practice in 2009 and co founded an FCA regulated corporate finance and investment management firm in 2012. Christopher brings a broad range of experience in business development, M&A and corporate finance across several sectors.

Robin Totterman
Group Chief Executive Officer

Robin has been a Board member since founding INSPECS in 1988.

Robin Totterman is an entrepreneur and forerunner in the branded eyewear industry with over 30 years experience in eyewear licensing, design, manufacture and wholesale. Robin's passion for design and fashion brought the first branded eyewear to the UK optical market (Jean-Paul Gaultier). His ability to recognise value and seize opportunity saw him complete the acquisition of Killine in 2017, creating a vertically integrated group rivalled by only a small number of eyewear firms. Prior to INSPECS, Robin worked at UBS Swiss Bank and Banque Paribas.

Chris Kay
Group Chief Financial Officer

Chris has been involved with INSPECS since it was founded in 1988 and has served as a Board member for INSPECS Holdings Limited since 13 November 2013.

Chris Kay is a qualified chartered accountant and became a partner of Thorne Lancaster Parker, a UK accountancy and taxation firm, in 1992. He became Finance Director of INSPECS in 2013 and works closely with Robin Totterman on strategy for the group. Chris' business development and M&A experience was pivotal to the execution and integration of INSPECS' Killine group acquisition in 2017 and further acquisitions of Norville and Eschenbach in 2020.

Key Management

KILLINE GROUP

Marc Lefebvre

Ha Bui

Michael Zhang

ESCHENBACH GROUP

Jorg Zobel

Holger Mass

Matthias Anke

Scott Sennett

Ken Bradley

Jennifer Coppel

NORVILLE

Nevil Trotter

Sean Donnachie

Paul Jones

INSPECS UK

Steve Tulba

Clare Lovett

Jon Bloom

INSPECS USA

Vance Wright

Monika Hladik

Michael Dorling

COMMITTEE CHAIR

Christopher Hancock FCA
Audit and Risk Committee Chair

COMMITTEE MEMBERS

Lord MacLaurin

Richard Peck

The members of the Audit and Risk Committee are all independent, Non-Executive Directors in compliance with the QCA Code. The Audit and Risk Committee is chaired by Christopher Hancock and is responsible for the following main areas.

- Reviewing and monitoring the financial performance of the group.
- Reviewing the integrity of the financial statements.
- Reviewing the internal control and risk management systems.
- Advising on the suitability and independence of the external auditors.
- Reviewing extent of non-audit services provided to the group.
- Engaging with the external audits and ensuring the scope of the audit is acceptable.
- Monitoring the disclosures in the Annual Reports and Accounts.
- Reviewing changes in accounting policies.

EXTERNAL AUDIT

The external auditors EY were reappointed on 30 June 2020. The fee for the audit to 31 December 2020 is $901,000 (2019: $724,000). The Audit Committee undertakes a review of the effectiveness and independence of the group auditors. The fee increase incurred in 2020 was primarily as a result of the change in complexity of the group following the acquisition that took place in 2020 of the Norville and Eschenbach businesses.

MEETINGS, ATTENDANCE AND TIME COMMITMENT

The Audit and Risk Committee has unrestricted access to the group's auditors and is mandated to meet twice a year. In addition the Committee has meetings with external auditors without management present. The group CFO attends the meetings of the Committee by invitation.

INTERNAL AUDIT

The group does not have an internal audit function. However, due to the enlarged group size it is expected that this will be in place by 2022.

RISK GOVERNANCE

The Committee meets at least twice a year to consider the risks faced by the group and to ensure that policies are in place to mitigate them. The results of this review are set out under Principal Risks and Uncertainties on pages 38 and 39.

INTERNAL CONTROL ENVIRONMENT

The group uses both manual and automated systems to control, monitor and report risk matters. The principal elements of the group's internal control are:

- Close management and monitoring of the group's Executive Directors.
- Monitoring the organisational structure and promoting risk based decision-making.
- A comprehensive annual budgeting process producing detailed profit and loss, balance sheets, and cash flows on a rolling 12-month basis.
- Comprehensive monthly reporting of KPI control of risk areas and capital expenditure and banking facilities.

SIGNIFICANT FINANCIAL JUDGEMENTS

During the year the Audit Committee considered the following significant issues regarding the financial statements and having reviewed were satisfied that they were appropriately stated.

- COVID-19 and the effects on the group at both the performance and also at the going concern level. The Committee continues to monitor the effect of COVID-19 and the impact on any assets as a result of the disruption to trade caused by COVID-19.
- The Committee reviewed the acquisition of the Norville and Eschenbach businesses and the fair value of intangible assets and valuation of goodwill. For the acquisition of Eschenbach, KPMG were appointed to carry out the conversion of the principal statements from German GAAP to IFRS accounting standards, as well as the identification and valuation of intangible assets arising on the acquisition and the allocation of goodwill.
- Goodwill and intangible assets are significant values in the balance sheets and the Committee reviewed any potential impairment that might be required and the cash flows of the CGU (cash-generating units) and the discount rates applicable to the CGU.
- The Committee reviewed revenue recognition and in particular the right of return assessment impacting on new acquisitions in 2020.
- The Committee reviewed the tax provisions recognised relating to transfer pricing and permanent establishment risks.

MEETINGS AND ATTENDANCE

Member	Attendance
Christopher Hancock	3/3
Lord MacLaurin	3/3
Richard Peck	3/3

COMMITTEE CHAIR

Christopher Hancock FCA
Remuneration and Nomination Committee Chair

COMMITTEE MEMBERS

Lord MacLaurin

Richard Peck

The Remuneration and Nomination Committee is chaired by Christopher Hancock and its members Lord MacLaurin and Richard Peck are all independent Directors, in line with the QCA code.

MANDATE

The Committee operates under the Board's agreed terms of reference and is responsible for:

- Considering and monitoring the group's policy in relation to employment terms and packages of the Executive Directors and key employees in the group.
- Evaluating the performance of the Executive Directors and making recommendations to the Board relating to their remuneration and terms of employment.
- Reviewing and approving the LTIP share option plan and proposals for the issue of share options and pension arrangements.

MEETINGS AND ATTENDANCE

Member	Attendance
Christopher Hancock	2/2
Lord MacLaurin	2/2
Richard Peck	2/2

Long-Term Incentive Plan: Following admission to AIM on 27 February 2020, options were granted at the mid-market price to Executive Directors and key senior employees. On 22 December 2020 further options were granted following the successful acquisition of Eschenbach.

Name	Option Granted	Date	Price £
Christopher Kay	549,460	27/02/2020	1.95
	150,000	22/12/2020	2.10
Robin Totterman	150,000	22/12/2020	2.10
Angela Farrugia	50,000	22/12/2020	2.10
Richard Peck	50,000	22/12/2020	2.10
Senior employees	1,373,650	27/02/2020	1.95
Senior employees	1,180,000	22/12/2020	2.10

These options have a three year vesting period from the date of grant. The total options outstanding as at 31 December 2020 were 4,327,307 and this represents 4.3% of the company's issued share capital as at 31 December 2020.

2020 ANNUAL BONUS

As the performance targets of the group were not met in the year to 31 December 2020 no profit-related bonus is payable.

The Committee notes that the CEO, CFO and all the Non-Executive Directors took immediate pay reductions in March 2020 as a result of the COVID-19 restrictions and these reductions remained in place to the end of the financial year.

SERVICE CONTROLS

The Executive Directors signed new service contracts on 27 February 2020. They have no fixed duration. These service contracts are terminable with six months' notice.

The CEO and CFO are invited to attend the Remuneration and Nomination Committee meetings as appropriate but will make themselves absent as and when required.

DIRECTORS' INTEREST IN SHARES

The interests of the Directors as at 31 December 2020, including their family, in the Ordinary Shares of the company were.

	Ordinary Shares of 1p each
Lord MacLaurin	78,346
Robin Totterman	19,381,048
Richard Peck	9,523
Angela Farrugia	11,904
Christopher Hancock	16,440
Christopher Kay	2,191,426

DIRECTORS' EMPLOYMENT AND PENSION CONTRIBUTIONS TO 31 DECEMBER 2020

Remuneration and Pension Contribution of Individual Directors	USD		
	Salary or Fees	Taxable Benefits	Total Remuneration
Lord MacLaurin	34,828	–	34,828
Robin Totterman	185,802	3,384	189,185
Richard Peck	42,102	–	42,102
Angela Farrugia	27,726	–	27,726
Christopher Hancock	42,102	–	42,102
Christopher Kay	137,345	14,838	152,184

DIRECTORS' EMPLOYMENT AND PENSION CONTRIBUTIONS TO 31 DECEMBER 2019

Remuneration and Pension Contribution of Individual Directors	USD		
	Salary or Fees	Taxable Benefits	Total Remuneration
Lord MacLaurin	–	–	–
Robin Totterman	170,106	–	170,106
Richard Peck	–	–	–
Angela Farrugia	–	–	–
Christopher Hancock	–	–	–
Christopher Kay	93,449	14,996	108,445

TRANSACTION WITH DIRECTORS

The only material transaction between the Directors and the company were as follows:

- Rent payable by INSPECS Limited on Kelso Place, the headquarters of the company. This rent is reviewed to ensure it is on a normal commercial basis and amounted to $113,000 in the year to 31 December 2020 (2019: $160,000). The building is owned by Kelso Place LLP of which Robin Totterman is the controlling partner.
- Christopher Hancock is a partner of Farm Street Partners which charged the group fees of $13,000 (2019: $15,000) during the year.
- Angela Farrugia is a Director of BXS Projects Limited which charged the group $10,000 (2019: $nil) during the year.

The price movement of the shares in the company following admission to the London AIM from the lowest to highest is set out below:

27 February 2020	£1.95
Highest market price	£3.30
Lowest market price	£1.40

The Directors present their report together with the audited financial statements for the period ended 31 December 2020. The Corporate Governance Statement on pages 42 to 45 also forms part of this Director's Report.

REVIEW OF BUSINESS

The Chairman's Statement on page 8 and the Strategic Report on pages 4 to 39 provides a review of the business, the group's trading for the year ended 31 December 2020, key performance indicators and an indication of future developments.

RESULT AND DIVIDEND

The group has reported its Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union.

The group results for the year are set out in the Consolidated Statement of Comprehensive Income on page 71. The company financial statements have been prepared under FRS 101 for the year ended 31 December 2020.

The group's revenue of $47.4m (FY19: $61.2m), gross margin of 43% (FY19: 45%) and loss after tax of $8.9m (FY19: profit $6.4m) represent an encouraging year for the business given the challenging circumstances relating to COVID-19.

	Reported IFRS	
Period ended	**31 December 2020**	**31 December 2019**
Revenue ($m)	47.4	61.2
Gross Margin %	43.3	45.0
(Loss)/profit after tax ($m)	(8.9)	6.4

The Board is not recommending a final dividend.

DIRECTORS

The Directors of the group during the period were:

Executive	Non-Executive
Robin Totterman	Lord Ian MacLaurin
Christopher Kay	Angela Farrugia
	Richard Peck
	Christopher Hancock

The names of the Directors, along with their brief biographical details are given on pages 46 and 47.

DIRECTOR'S INTEREST

The Directors' interest in the share capital of the company at 31 December 2020 is shown below:

	2020
Robin Bjorn Christian Totterman	19,381,048
Christopher Kay	2,191,426
Lord Ian MacLaurin	78,346
Christopher Hancock	16,440
Angela Farrugia	11,904
Richard Peck	9,523

POLITICAL DONATIONS

The group made no political donations in the financial period.

DISCLOSURE OF INFORMATION TO AUDITOR

As far as the Directors are aware, there is no relevant audit information (that is, information needed by the group's auditor in connection with preparing their report) of which the group's auditor is unaware, and each Director has taken all reasonable steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the group's auditor is aware of that information.

FINANCIAL RISKS

The financial risk management objectives of the group, including credit risk, interest rate risk and foreign exchange risk, are provided in note 34 to the Consolidated Financial Statements on page 115.

SHARE CAPITAL STRUCTURE

At 31 December 2020, the company's issued share capital was £1,012,909 divided into 101,290,898 Ordinary Shares of 0.01p each. The holders of Ordinary Shares are entitled to one vote per share at the general meetings of the company.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2020, the company had been notified of the following substantial shareholders comprising of 4% or more of the issued Ordinary Share capital:

	% of issued share capital
Robin Bjorn Christian Totterman	19.1%
Canaccord Genuity Group Inc	14.8%
Amati Global Partners	6.1%
Janus Henderson Group Plc	5.6%
Aberdeen Standard Investments	4.8%
Chelverton Asset Management Ltd	4.7%
Royal London Asset Management	4/6%
Tellworth Investments	4.4%
BlackRock	4.0%

SHARE OPTION SCHEMES

Details of employee share scheme are set out in note 33 to the Consolidated Financial Statements.

PURCHASE OF OWN SHARES

There was no purchase of our own shares in the period.

GOING CONCERN

The group continues to respond well to the challenges associated with the COVID-19 pandemic which did cause disruption to the business during 2020. This was predominantly experienced in the first half of the year when major distribution hubs and the optical retail markets were closed except for emergencies as lockdowns were introduced around the globe in response to the pandemic. During subsequent lockdowns later in the year, the optical retail market was deemed essential which resulted in the group gradually returning to normal trading levels. For the rest of the year the group was therefore able to trade profitably and generate cash with the supply chain unaffected.

Looking to the future, the group has performed a going concern review, going out until December 2022, considering both a base case and a downside case (described below). Having reviewed this forecast and having applied a reverse stress test (also described below), the possibility that financial headroom could be exhausted and a covenant could be breached is considered to be remote.

The base case assumes COVID-19 related restrictions consistent with those in place in January 2021 remain for the duration of 2021 with normal trading resuming in 2022, results in a 10% year on year increase to sales. The restrictions in place at this time restricted a return to office working, reduced footfall on the high streets and reductions in non-prescription sales as a result of the continuing closure of airports and non-essential retail. The base case also assumes no cash flow mitigations are actioned during the period covered by the going concern review.

The downside case assumes the same restriction remain as in the base case but with a 10% reduction in sales from April 2021 compared to the base case, and these same restrictions also being in place during 2022. In this scenario we also assumed some cost saving measures being implemented at a conservative level. These measures are consistent with those which were implemented in 2020 and which we therefore know the group can achieve and relate to reductions in factory overheads.

The directors consider the main risks to going concern to be liquidity and compliance with covenants, and so have performed a reverse stress test which incorporates the breach of the covenant. The group would breach a covenant before it runs out of cash in any scenario.

The group's borrowings with HSBC, amounting to $35.0m, contains two covenants being one leverage ratio and one interest cover ratio. Compliance with these covenants is based on 12 month rolling EBITDA results and 12 month rolling interest payments respectively. In addition, the newly acquired Eschenbach Group has covenants relating to equity ration, leverage ratio and EBITDA. These covenants are less sensitive than the HSBC covenants and the group would be able to repay these loans before a covenant breach using available cash. The group has the ability to transfer cash across different group entities as needed. In order for the business to breach one of the HSBC covenants, the reverse stress test requires that, after implementing all available mitigating scenarios, there is a 22% reduction to the sales forecasted in the base case from April 2021 through to December 2022 along with a 4% drop in gross margin. This scenario also factors in full repayment of all borrowings aside from the HSBC facility and settlement of an uncertain tax position at the highest possible range.

This scenario would see the group breach the leverage ratio covenant test resulting in the total borrowed amount becoming payable on demand. In this case, cash flow mitigations would be implemented, mostly reductions in discretionary spending and changes to supplier payment timings which are based on the group's previous ability to implement such steps. The directors believe that this scenario is remote as a result of the historic evidence gained from our performance during 2020, which was a year impacted significantly by COVID-19. Throughout 2020 the group's cash collections have remained strong, with bad debt write off's similar to a usual year. In the current year to date the group is trading ahead of budget and cash collections remain strong.

Therefore, the directors are confident in the ongoing resilience of the group, and its ability to continue in operation and meet its commitments as they fall due over the going concern period. Accordingly, the directors adopt the going concern basis in preparing the financial statements.

POST BALANCE SHEET EVENTS

The Board considers that no other material post balance sheet events occurred between the end of the period and the date of publication of this report.

FUTURE DEVELOPMENTS

The Board intends to continue to pursue the business strategy as outlined in the Strategic Report on pages 6 and 7.

STAKEHOLDER INVOLVEMENT POLICIES

The directors believe that the involvement of employees, customers and suppliers is an important part of the business culture and contributes to the successes achieved to date (see our Sustainability Report on pages 28 to 35).

EQUAL OPPORTUNITIES

The group is committed to eliminating discrimination and encouraging diversity. Its aim is that its people will be truly representative of all sections of society and that each person feels respected and is able to perform to the best of their ability. The group aims for its people to reflect the business diverse customer base.

The group won't make assumptions about a person's ability to carry out their work, for example based on their ethnic origin, gender, sexual orientation, marital status, religion or other philosophical beliefs, age or disability. Likewise, it won't make general assumptions about capabilities, characteristics and interests of particular groups that may influence the treatment of individuals, the assessment of their abilities and their access to opportunities for training, development and promotion.

AUDITOR

Ernst & Young has expressed its willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 19 July 2020. The ordinary business comprises receipt of the Directors' Report and audited financial statements for the year ended 31 December 2020, the re-election of directors, the reappointment of Ernst Young as auditor and authorisation of the directors to determine the auditor's remuneration. Special resolutions are also proposed to authorise the directors, to a limited extent consistent with pre-emption group guidelines, to allot new shares, to disapply statutory pre-emptions rights and to make market purchases of the company's shares. The Notice of Annual General Meeting sets out the ordinary and special resolutions to be put to the meeting.

APPROVAL

This Directors' Report was approved on behalf of the Board on 18 June 2021.

Christopher Kay
Chief Financial Officer
Director

18 June 2021

Statement of Directors' Responsibilities

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, the parent 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, 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 parent company, and of the profit or loss of the group and the parent company for that period.

In preparing these 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 parent 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 the parent company will continue in business.

The directors are also responsible for safeguarding the assets of the group and the parent 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 the parent company's transactions and disclose, with reasonable accuracy at any time, the financial position of the group and the parent company, and enable them to ensure that the financial statements comply with the Companies Act 2006.

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

DIRECTORS' CONFIRMATION

The directors consider that the Annual Report and Accounts, taken as a whole are fair, balanced and understandable. They provide the information necessary for shareholders to assess the group and parent company's position and performance, business model and strategy.

On behalf of the Board

Robin Totterman
Chief Executive Officer

18 June 2021

Mini eyewear –
SS21 Campaign shoot

FINANCIAL STATEMENTS

Independent Auditor's Report

to the Members of INSPECS Group plc

OPINION

In our opinion:

- INSPECS Group plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of INSPECS Group Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2020 which comprise:

Group	Parent company
Consolidated income statement for the year ended 31 December 2020	Company statement of financial position as at 31 December 2020
Consolidated statement of comprehensive income for the year then ended	Company statement of changes in equity for the year then ended
Consolidated statement of financial position as at 31 December 2020	Related notes 1 to 8 to the financial statements including a summary of significant accounting policies
Consolidated statement of changes in equity for the year ended 31 December 2020	
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 35 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards to the parent company financial statements, as applied in accordance with section 408 of the Companies Act 2006. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework.

BASIS FOR OPINION

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining management's assessment and understanding the process undertaken by management to perform the going concern assessment, including the evaluation of any operational and economic impacts of COVID-19 on the group.
- Testing the clerical accuracy of the model used to prepare the group's going concern assessment, including the forecast covenant compliance.
- Confirming the availability of debt facilities and review of underlying terms, including covenants up to December 2022 and confirming that no payments are due within this period.

- Assessing the reliability of the cashflow forecast by analysing management's historical forecasting accuracy. We understood key inputs underpinning the group's forecasts which includes sales receipts and cash payment schedules, and challenged these using supporting evidence including debt agreements, existing facilities, our audited income statement, current period performance and independent industry forecasts.
- Challenging, based on our own independent sensitivity testing, whether the downside case prepared by management could lead to a covenant breach. Our assessment included consideration of the impact and likelihood of:
  - The loss of major customers
  - The loss of significant brand licences
  - Ongoing COVID-19 restrictions
- Evaluating management's key assumptions underpinning the group's forecasts (such as revenue growth), by proposing alternatives such as a lower growth rate reflecting the uncertainties arising from COVID-19, and challenging management's assessment by modelling our own stressed scenarios.
- Considering a "reverse stress test" scenario that would lead to a covenant breach and challenging management's assessment as to whether the scenario is remote by considering current year trading performance and external market data.
- Assessing whether the disclosures in the financial statements relating to going concern and COVID-19 reflected a fair and balanced reflection of the assumptions and sensitivities considered by the directors.

Our key observations:

- We observed that the group experienced a high level of disruption from the impact of the pandemic from a revenue and profitability perspective in the first half of 2020 – due to the closure of manufacturing facilities and retain outlets during this period. Subsequent to this, the group has demonstrated its resilience as customers' optical outlets in most territories were classified as essential and remained open during further lockdowns or customers' sales moved to the online channel.
- Whilst the group revenue for the year ended 31 December 2020 decreased by 23% compared to the prior year to $47.4m, the group's cash balance is $32.6m. The cash balance is driven by the recently acquired Eschenbach Group holding $19.3m at the time of acquisition and the better performance of the group in the second half of the year. Therefore, management's forecasts focused on the compliance with the HSBC banking covenants as other liabilities could be repaid if required.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for the period to December 2022.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

OVERVIEW OF OUR AUDIT APPROACH

Audit scope	• We performed an audit of the complete financial information of 5 components and audit procedures on specific balances for a further 4 components. • The components where we performed full or specific audit procedures accounted for 93% of Profit before tax, 96% of Revenue and 100% of Total assets.
Key audit matters	• Acquisition accounting • Inappropriate revenue recognition • Valuation of goodwill • Valuation of uncertain tax positions • Accounting for IPO
Materiality	• Overall group materiality of $1,059,000 which represents 0.5% of total assets.

AN OVERVIEW OF THE SCOPE OF THE PARENT COMPANY AND GROUP AUDITS

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group wide controls, and changes in the business environment when assessing the level of work to be performed at each company.

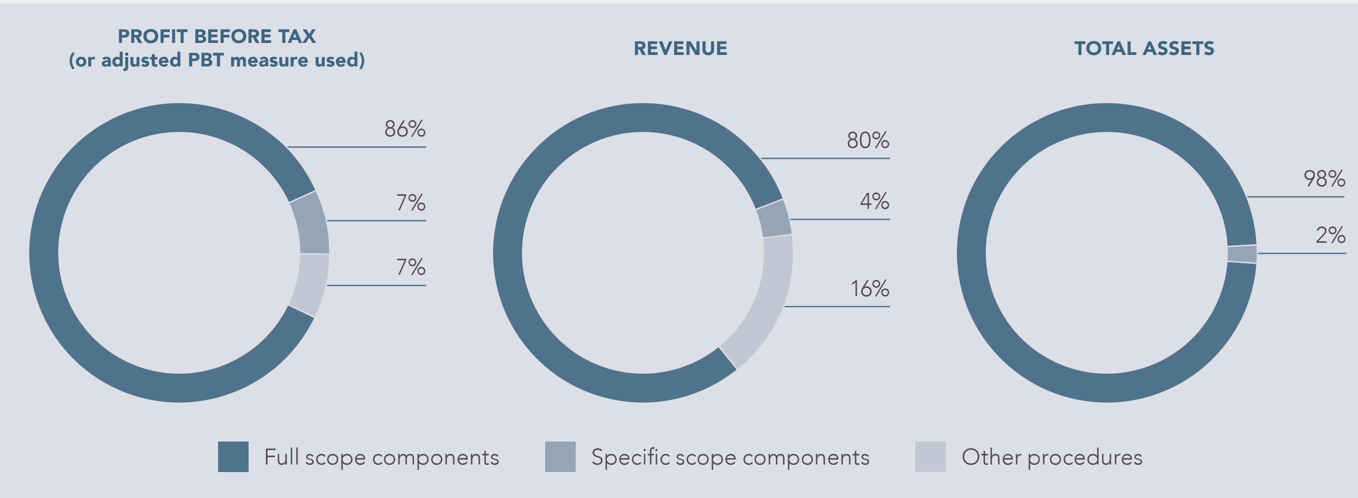
In assessing the risk of material misstatement to the group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 32 reporting components of the group, we selected 11 components covering entities within the UK, Hong Kong, Germany and the USA which represent the principal business units within the group.

Of the 11 components selected, we performed an audit of the complete financial information of 6 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 5 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 93% of the Group's Profit before tax (2019: 100%), 96% of the group's Revenue (2019: 97%) and 100% of the group's Total assets (2019: 98%). For the current year, the full scope components contributed 86% of the group's Profit before tax (2019: 100%), 80% of the group's Revenue (2019: 97%) and 98% of the group's Total assets (2019: 98%). The specific scope components contributed 7% of the group's Profit before tax (2019: 0%), 16% of the group's Revenue (2019: 0%) and 2% of the group's Total assets (2019: 0%). The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the group. We also instructed 4 locations to perform specified procedures over cash which included obtaining bank confirmations.

Of the remaining 21 components that together represent 0% of the Group's total assets. For these components, we performed other procedures, including analytical review and testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams.



CHANGES FROM THE PRIOR YEAR

The acquisitions by the group of Eschenbach and Norville during the year has resulted in a significant change in scope. New components are in scope as a result of the acquisitions and one component that was full scope in the prior year is now specific scope as it is less material to the consolidated group.

IMPACT OF THE COVID 19 PANDEMIC – AUDIT LOGISTICS

The performance of the December 2020 audit has predominately been conducted remotely at both component and group locations. We were able to conduct physical inventory counts at all in scope locations. We engaged with INSPECS throughout the audit, using video calls and share screen functionality. Key meetings, such as closing meetings and Audit and Risk Committees were performed via video conference calls.

INVOLVEMENT WITH COMPONENT TEAMS

In establishing our overall approach to the group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction, or by component auditors from other firms operating under our instruction. Of the 6 full scope components, audit procedures were performed on 3 of these directly by the primary audit team, 1 by an EY component audit team and the remainder by other (non-EY) component auditors. For the 5 specific scope components, audit procedures were performed on 1 of these directly by the primary audit team and the remainder by other (non-EY) component auditors. Where the work was performed by component auditors (EY and non-EY), we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the group as a whole. In the current year this has involved using screen sharing and having remote access to the component teams working papers which we have been able to do for both EY and non EY component teams.

The Primary audit team intended to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor visits all full scope locations every second year. However, during the current year's audit cycle, visits were all replaced by virtual meetings due to the travel restrictions imposed by the COVID-19 outbreak. Consequently, all full scope locations were visited virtually by the Senior Statutory Auditor in the current year. Virtual meetings were held with all in scope components and involved meeting with component teams to discuss and direct their audit approach, reviewing key working papers and understanding the significant audit findings in response to the risk areas including revenue recognition and uncertain tax positions, holding meetings with local management, and obtaining updates on local regulatory matters. The primary audit team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at group level, gave us appropriate evidence for our opinion on the group financial statements.

KEY AUDIT MATTERS

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Acquisition Accounting 2020: $53.6m goodwill (2019: $0m) *Refer to the Audit Committee Report (page 50); Accounting policies (page 76); and Note 2 of the Consolidated Financial Statements (page 76)* The group has undertaken two acquisitions in the year: the trade and assets of Norville Group for £2.4m and the Eschenbach Group for €94m. The Eschenbach acquisition is a significant and material acquisition for the group and contains multiple global subsidiaries. There have been estimates and judgements required to calculate fair values and IFRS conversion adjustments required under IFRS 3 and these estimates as subject to management bias. The following estimates and judgements have been determined to be the most significant: • Calculation of the negative goodwill arising on the Norville acquisition • Judgements relating to the cut off of the opening balance sheet • Calculation of IFRS 16 lease liabilities • Calculation of the IFRS 15 returns provision • Fair value adjustments booked relating to the intangible assets There is also a further risk relating to the accounting for these non-routine transactions as they are booked as manual topside journals. A small error in accounting or booking of these journals could lead to a material misstatement.	We obtained management's calculation of the fair value adjustments booked relating to Norville which give rise to the negative goodwill calculation. We challenged management's calculation by performing independent calculations of the fair value adjustments booked relating to inventory and PPE. We considered contradictory evidence by obtaining market data for key items. We walked through the methodology applied by management to calculate the roll back from the year-end to the opening balance sheet position and understood the key judgements made. We challenged these judgements by comparing them to our understanding of the business. We instructed our component teams to perform substantive testing relating to roll back adjustments booked and reviewed in detail all work performed. For IFRS 16 liabilities we corroborated the calculation inputs to signed lease agreements for a sample of contracts. We involved our valuations specialists to challenge the incremental borrowing rate for the sample selected by calculating an independent range for each lease. For the IFRS 15 returns provision we walked through the methodology applied by management to calculate the adjustment. We critically assessed the judgements applied to the provision and agreed a sample of items to source data. To challenge the fair value adjustments booked relating to inventory we selected a sample of items and compared the fair values used in the calculation to recent market sales data for the inventory item. To challenge the fair value adjustments booked relating to the intangible assets we involved our valuations specialists. They assessed the methodology applied by management to calculate the value of these assets. They challenged the estimates relating to growth rates and discount rates used in the calculation by determining an independent range for these estimates using market data. We examined the journals posted by management to account for the acquisitions under IFRS 3. We obtained supporting evidence for material amounts and critically assessed the accounting for compliance with the accounting standards. We validated that the journals that are booked into the consolidation are in line with the supporting accounting records. We assessed whether the disclosures in the financial statements relating to the acquisitions are complete and meet the disclosure requirements of IFRS 3. We performed full scope audit procedures over this risk area in the UK, which covered 100% of the risk amount. All procedures were performed by the EY primary audit team.	We have involved specialists to challenge the estimates and judgements made by management to calculate purchase price adjustments and IFRS adjustments booked upon acquisition. We have performed substantive testing relating to manual adjustments calculated and assessed the appropriateness of disclosures in the financial statements. We concluded the methodology applied is appropriate but identified some instances where estimates fell outside our acceptable range.

<table>
<tr><th>Risk</th><th>Our response to the risk</th><th>Key observations communicated to the Audit Committee</th></tr>
<tr><td>Inappropriate revenue recognition $47.4m, (2019: $61.2m)

Refer to the Audit Committee Report (page 50); Accounting policies (page 76); and Note 2 of the Consolidated Financial Statements (page 76)

Revenue performance is a focus for stakeholders who expect a year on year growth in revenues. Most of the group's sales arrangements typically require little judgement to be exercised, with revenue being recognised on the delivery of goods. However, there is a risk that management may override controls to intentionally misstate revenue transactions by recording fictitious manual journals to revenue (e.g by inappropriate accounting relating to rebates or returns or manual journals around year-end.)</td><td>We performed walkthroughs of the revenue recognition process for all material revenue streams to assess the design and implementation of key controls.

We used data analytics and correlation techniques to assess whether revenue followed the expected flow of correlation of revenue to debtors to cash for INSPECS UK interrogating 100% of revenue transactions. Any postings falling outside of the expected correlations were tested by the audit team to confirm that the treatment was appropriate.

For other in scope components we performed appropriate alternative procedures. Our procedures applicable to all in scope components included the following:
• Detailed, disaggregated analytical review to identify unusual trends
• Inquiries of management outside of finance, to identify instances of late or unusual requests for shipments or extension of credit terms
• Cut off testing for a sample of revenue transactions near the period end to check that they were recognised in the appropriate period
• Targeted manual journal entry testing in response to the risk of fraud; and
• Review of disclosures against the requirements of IFRS 15

We made enquiries of management as to the existence of rebate or return arrangements with key customers. We obtained the listing of all credit notes raised in the year to assess the completeness of the provision booked.

We selected a sample of rebate and returns provisions. We validated the inputs for these calculations and for returns provisions challenged the assumptions and estimations used by performing hindsight analysis over changes to prior period estimates and assessed the estimates for management bias. For rebate provisions we agreed calculations to customer contracts or agreements.

We performed full and specific scope audit procedures over this risk area in 6 locations, which covered 96% of the risk amount.</td><td>Based upon the procedures performed, including those in respect of manual adjustments to revenue and cut off, we did not identify any evidence of material misstatement in the revenue recognised during the year.</td></tr>
<tr><td>Valuation of Goodwill $68.1m, (2019: $12.8m)

Refer to the Audit Committee Report (page 50); Accounting policies (page 76); and Note 2 of the Consolidated Financial Statements (page 76)

There is a risk that goodwill arising from past and recent acquisitions is impaired. There is goodwill relating to legacy acquisitions (predominately Killine) of $3.3m and the current year acquisition of Eschenbach of $54.8m included in the balance sheet. Management is required to carry out an annual impairment review of goodwill under IFRS, which will involve judgements and estimates regarding the future cashflows and discount rates applied to calculate the value in use.</td><td>We understood the methodology applied in management's impairment testing and walked through the controls over the process.

We validated that the CGUs identified are the lowest level at which management monitors goodwill.

We tested the methodology applied in the VIU models, as compared to the requirements of IAS 36, including the mathematical accuracy of management's models.

We validated that the cash flow forecasts used in the valuation are consistent with information reviewed by the Board. We reviewed the historical accuracy of management's forecasts to evaluate whether forecast cashflows are reliable based on experience.

In conjunction with our valuation specialists, we challenged the discount rate used by benchmarking it against market data and comparable organisations.

For all relevant CGUs, we performed sensitivity analyses by stress testing key assumptions in the model to evaluate the parameters that, should they arise, would cause an impairment of goodwill or indicate additional disclosures were appropriate.

We also assessed the adequacy of disclosures in note 14 of the consolidated financial statements including the disclosure of sensitivity analysis.

We performed full scope audit procedures over this risk area in the UK, which covered 100% of the risk amount. All procedures were performed by the primary team.</td><td>Based on the procedures performed, we are satisfied that the carrying value of goodwill is materially correct. We consider the disclosure in the annual report is appropriate, including the disclosures relating to sensitivity analysis.</td></tr>
</table>

<table>
<tr><th>Risk</th><th>Our response to the risk</th><th>Key observations communicated to the Audit Committee</th></tr>
<tr><td>Valuation of uncertain tax positions 2020: $2.8m (2019: $2.2m)

Refer to the Audit Committee Report (page 50); Accounting policies (page 76); and Note 2 of the Consolidated Financial Statements (page 76)

There are existing transfer pricing and permanent establishment provisions recognised in relation to the Killine Group totalling $2.8m at 31 December 2020. Given the level of judgement and estimation involved, there is a risk that this has been valued inappropriately.

In addition, the material acquisitions in the year mean that there is a risk that management has not identified all uncertain tax positions</td><td>We involved our tax specialists to understand the group's process for determining the completeness and measurement of provisions for tax.

Our tax specialists walked through calculations prepared by management and validated them for clerical accuracy and consistency with the requirements of IFRIC 23.

We challenged the assumptions made to calculate the existing provisions by comparing them to prior year and noting that there have been no changes in the fact pattern or risk profile.

We had discussions with management's specialists to understand their assessment of the tax risks related to the acquisitions.

We considered contradictory evidence by reading reports prepared as part of the acquisition process and formed our own view relating to the transfer pricing risk of the acquired group.

We assessed the disclosures made in note 29 of the financial statements.

We performed full scope audit procedures over this risk area in the UK, which covered 100% of the risk amount. All procedures were performed by the primary team</td><td>Based on the procedures performed, we consider the amounts provided relating to uncertain tax positions are reasonable and complete. We consider the group's disclosures are also appropriate.</td></tr>
<tr><td>Accounting for the IPO 2020: $1.3m share capital raised (2019: $0m)

Refer to the Audit Committee Report (page 50); Accounting policies (page 76); and Note 2 of the Consolidated Financial Statements (page 76)

Upon the IPO taking place in February 2020 the historic C- class shares and related derivative liability were extinguished and a share for share exchange took place between INSPECS Holdings and INSPECS Group plc There were also costs that were associated with the equity listing that were one off in nature. There is a risk that these non-routine transactions are not appropriately accounted for and appropriately disclosed in the financial statements.</td><td>We understood the process undertaken by management to calculate the accounting entries to be booked in relation to:
• The revaluation of the C- class shares
• The extinguishment of the derivative liability
• The share for share exchange between INSPECS Holdings and INSPECS Group plc
• The one off costs relating to the equity listing

We critically assessed the accounting treatment followed by management against the relevant accounting standards and legislation.

We validated the accounting entries booked to source documentation including legal documents and bank statements.

We challenged the disclosures in both the group and company accounts by considering whether they were complete and there was sufficient disaggregation in the equity notes and company accounts regarding the transactions taking place in the period.

We performed full scope audit procedures over this risk area in the UK, which covered 100% of the risk amount. All procedures were performed by the primary team.</td><td>Based on the procedures performed the accounting for the IPO is in line with relevant accounting standards and legislation. We consider the disclosure of these transactions in the group and company accounts are also appropriate.</td></tr>
</table>

In the prior year, our auditor's report included a key audit matter in relation to the valuation of C-class shares. In the current year, these shares have ceased to exist following the IPO and therefore this is no longer a key audit matter.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the group to be $1,059,000 (2019: $509,000), which is 0.3% of total assets (2019: 5% of profit before tax and IPO costs.). We believe that total assets provides us with the most appropriate basis for the current year as the focus of the group has been on using the cash generated from the IPO to fund the acquisitions made in the year. Therefore, the users of the financial statements are more focused on the balance sheet measure at the year-end, especially given the proximity of the Eschenbach acquisition to the year-end date. This is a change from the previous year which was based on profit before tax and we expect to return to a profit based measure for materiality in future years.

We determined materiality for the parent company to be $952,000 (2019: $250,000), which is 0.5% (2019: 1%) of total assets. In the prior year the parent company of the group was INSPECS Holdings Limited and the comparative amounts relate to that entity. In the current year the parent company is INSPECS Group plc.

During the course of our audit, we reassessed initial materiality and no changes were made to the basis of materiality.

For components which had been a part of the INSPECS group before the Eschenbach acquisition we calculated a lower materiality level based upon normalised earnings. This materiality is $509,000 which is based upon the prior year materiality given that 2019 is determined to be an appropriate representation of normalised earnings for this part of the INSPECS group.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the group's overall control environment, our judgement was that performance materiality was 50% (2019: 50%) of our planning materiality, namely $530,000 (2019: $257,000). We have set performance materiality at this percentage due to a high number of corrected and uncorrected misstatements identified in the prior year and the significant change in the business during the year as a result of the acquisitions.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was $64,000 to $397,000 (2019: $102,000 to $229,000).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of $53,000 (2019: $26,000), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

OTHER INFORMATION

The other information comprises the information included in the annual report set out on pages 1 to 57, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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 course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

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

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement set out on page 57, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRSs as adopted by the EU, United Kingdom Generally Accepted Accounting Practice and the Companies Act 2006) and the relevant tax laws and regulations in the jurisdictions in which the group operates.
- We understood how INSPECS Group plc is complying with those frameworks by making enquiries of management, the directors and those responsible for legal and compliance procedures. We corroborated our inquiries through our review of board minutes, papers provided to the Audit Committee and attendance at meetings of the Audit Committee as well as consideration of the results of our audit procedures across the group.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it is considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings of influence the perceptions of investors. We considered the programmes and controls that the group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programs and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved : enquiries of group management and those charged with governance; journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business; and challenging the assumptions and judgements made by management in respect of significant one-off transactions in the financial year and significant accounting estimates as referred to in the key audit matters section above. At a component level, our full and specific scope component audit team's procedures included enquiries of component management; journal entry testing; and focused testing, including in respect of the key audit matter of revenue recognition. We also leveraged our data analytics platform in performing our work on the order to cash process to assist in identifying higher risk transactions for testing.

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

USE OF OUR REPORT

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

Ernst & Young LLP

John Howarth (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol

18 June 2021

Consolidated Income Statement

for the year ended 31 December 2020

	Notes	2020 $'000	2019 $'000
Revenue	4	47,415	61,247
Cost of sales	8,11	(26,893)	(33,711)
Gross profit		20,522	27,536
Other operating income	5	–	133
Distribution costs		(787)	(635)
Administrative expenses	8,11	(22,675)	(19,089)
Operating (loss)/profit		(2,940)	7,945
Non-underlying costs	9	(5,763)	(2,827)
Negative goodwill on bargain purchase	7	506	–
Movement in derivatives	30	(740)	2,865
Exchange adjustment on borrowings		(382)	715
Finance costs	10	(1,880)	(1,380)
Finance income	10	36	15
Share of profit of associate	17	–	14
(Loss)/profit before income tax		(11,163)	7,347
Income tax credit/(charge)	12	2,250	(907)
(Loss)/profit for the year		(8,913)	6,440
Attributable to: Equity holders of the Parent		(8,913)	6,440
Earnings per share			
Basic profit for the year attributable to the equity holders of the Parent	13	$(0.13)	$0.12
Diluted profit for the year attributable to the equity holders of the Parent	13	$(0.13)	$0.11

Consolidated Statement of Other Comprehensive Income

for the year ended 31 December 2020

	2020 $'000	2019 $'000
(Loss)/profit for the year	**(8,913)**	**6,440**
Other comprehensive income		
Exchange differences on translation of foreign operations	(204)	1
Other comprehensive (loss)/income for the year, net of income tax	(204)	1
Total comprehensive (loss)/income for the year	**(9,117)**	**6,441**
Attributable to: Equity holders of the parent	**(9,117)**	**6,441**

The notes on pages 76 to 117 form part of these financial statements.

Consolidated Statement of Financial Position

as at 31 December 2020

	Notes	2020 $'000	2019 $'000
ASSETS			
Non-current assets			
Goodwill	14	69,087	12,798
Intangible assets	15	56,305	17,482
Property, plant and equipment	16	22,460	10,320
Right-of-use-asset	25	20,379	1,317
Investment in associate	17	57	53
Deferred tax	28	12,995	1,221
		181,283	43,191
Current assets			
Inventories	18	59,294	8,715
Trade and other receivables	19	35,648	12,875
Tax receivables		1,556	–
Cash and cash equivalents	20	32,672	6,595
		129,170	28,185
Total assets		**310,453**	**71,376**
EQUITY			
Shareholders' equity			
Called up share capital	21	1,384	62
Share premium	22	121,940	21,628
Foreign currency translation reserve	22	(99)	1,031
Share option reserve	22	867	2,840
Merger reserve	22	7,296	–
Retained earnings		14,429	5,787
Total equity		145,817	31,348

The notes on pages 76 to 117 form part of these financial statements.

	Notes	2020 $'000	2019 $'000
LIABILITIES			
Non-current liabilities			
Financial liabilities – borrowings			
Interest bearing loans and borrowings	24	70,391	12,651
Deferred tax	28	24,694	2,917
		95,085	15,568
Current liabilities			
Trade and other payables	23	42,895	10,192
Right of return liabilities	4	12,824	476
Financial liabilities – borrowings			
Interest bearing loans and borrowings	24	6,830	4,974
Bank overdrafts	24	2,642	93
Invoice discounting	24	–	2,577
Derivatives	30	–	3,536
Tax payable	29	4,360	2,612
		69,551	24,460
Total liabilities		164,636	40,028
Total equity and liabilities		**310,453**	**71,376**

The notes on pages 76 to 117 form part of these financial statements.

The financial statements were approved by the Board of Directors on 18 June 2021 and were signed on its behalf by:

R B C Totterman
Director

C D Kay
Director

Consolidated Statement of Changes in Equity

for the year ended 31 December 2020

	Notes	Called up share capital $'000	Share premium $'000	Foreign currency translation reserve $'000	Share option reserve $'000	Retained earnings $'000	Merger reserve $'000	Total equity $'000
Balance at 1 January 2019	21,22	62	21,628	1,030	647	(653)	–	22,714
Changes in equity								
Profit for the year		–	–	–	–	6,440	–	6,440
Other comprehensive income		–	–	1	–	–	–	1
Total comprehensive income		–	–	1	–	6,440	–	6,441
Share-based payment		–	–	–	2,193	–	–	2,193
Balance at 31 December 2019	21,22	62	21,628	1,031	2,840	5,787	–	31,348
Changes in equity								
Loss for the year		–	–	–	–	(8,913)	–	(8,913)
Other comprehensive loss	22	–	–	(204)	–	–	–	(204)
Total comprehensive loss		–	–	(204)	–	(8,913)	–	(9,117)
Issue of share capital	21,22	603	119,215	–	–	–	(22)	119,796
Exercise of share options	21,22	99	2,725	–	(3,140)	2,973	–	2,657
Share-based payment	22	–	–	–	1,133	–	–	1,133
Share for share exchange and creation of merger reserve	21,22	620	(21,628)	(926)	34	(46,902)	68,802	–
Capital reduction	22	-	-	–	–	61,484	(61,484)	–
Balance at 31 December 2020		1,384	121,940	(99)	867	14,429	7,296	145,817

The notes on pages 76 to 117 form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2020

	Notes	2020 $'000	2019 $'000
Cash flows from operating activities	27	403	12,224
Interest paid		(1,144)	(1,609)
Tax paid		(7)	(22)
Net cash (used in)/from operating activities		(748)	10,593
Cash flows from investing activities			
Purchase of intangible fixed assets	15	(167)	(161)
Purchase of property plant and equipment	16	(2,452)	(2,763)
Acquisition of subsidiaries, net of cash acquired	7	(101,821)	–
Interest received	10	36	15
Net cash used in investing activities		(104,404)	(2,909)
Cash flow from financing activities			
Proceeds from the issue of shares	21	115,761	–
New bank loans in the year	24,26	17,187	628
Bank loan principal repayments in year	26	(39)	(4,733)
Repayment of other loans	26	–	(72)
Transaction costs on debt refinancing		(810)	–
Movement in invoice discounting facility	26	(2,577)	975
Principal payments on leases	26	(810)	(836)
Net cash (used in)/from financing activities		128,712	(4,038)
Increase in cash and cash equivalents		23,560	3,646
Cash and cash equivalents at beginning of the year		6,502	2,834
Effect of foreign exchange rate changes		(32)	22
Cash and cash equivalents at end of year	20	30,030	6,502

The notes on pages 76 to 117 form part of these financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2020

1. GENERAL INFORMATION

INSPECS Group plc is a public company limited by shares and is incorporated in England and Wales (company number 11963910). The address of the company's principal place of business is 7–10 Kelso Place, Upper Bristol Road, Bath BA1 3AU. On 10 January 2020, the reporting company incorporated in 2019 acquired the pre-existing INSPECS Holdings Limited in a 'share for share exchange' with no change in ultimate ownership. This has been accounted for under the basis of merger accounting given that the ultimate ownership before and after the transaction remained the same. Merged subsidiaries undertakings are treated as if they had always been a member of the group. Subsequently, on 27 February 2020 INSPECS Group Limited was re-registered from a private to a public company with its shares admitted to the AIM of the London Stock Exchange.

The principal activity of the group in the year was that of design, production, sale, marketing and distribution of high fashion eyewear, lenses and OEM products worldwide. The principal activity of the company was that of a holding company.

2. ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union, and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared on a historical cost basis, except for share-based payments that have been measured at fair value in accordance with IFRS 2 Share-based payments.

The presentational currency for the consolidated and parent company financial statements is the United States Dollar (US$) rounded to the nearest thousand. The consolidated financial statements provide comparative information in respect of the year ended 31 December 2019.

Going concern

The financial statements have been prepared on the going concern basis as the directors have assessed that there is a reasonable expectation that the group will be able to continue in operation and meet its commitments as they fall due over the going concern period.

The group continues to respond well to the challenges associated with the COVID-19 pandemic which did cause disruption to the business during 2020. This was predominantly experienced in the first half of the year when major distribution hubs and the optical retail markets were closed except for emergencies as lockdowns were introduced around the globe in response to the pandemic. During subsequent lockdowns later in the year, the optical retail market was deemed essential which resulted in the group gradually returning to normal trading levels. For the rest of the year the group was therefore able to trade profitably and generate cash with the supply chain unaffected.

Looking to the future, the group has performed a going concern review, going out until December 2022, considering both a base case and a downside case (described below). Having reviewed this forecast and having applied a reverse stress test (also described below), the possibility that financial headroom could be exhausted, and a covenant could be breached is considered to be remote.

The base case assumes COVID-19 related restrictions consistent with those in place in January 2021 remain for the duration of 2021 with normal trading resuming in 2022, results in a 10% year on year increase to sales. The restrictions in place at this time restricted a return to office working, reduced footfall on the high streets and reductions in non-prescription sales as a result of the continuing closure of airports and non-essential retail. The base case also assumes no cash flow mitigations are actioned during the period covered by the going concern review.

The downside case assumes the same restriction remain as in the base case but with a 10% reduction in sales from April 2021 compared to the base case, and these same restrictions also being in place during 2022. In this scenario we also assumed some cost saving measures being implemented at a conservative level. These measures are consistent with those which were implemented in 2020 and which we therefore know the group can achieve and relate to reductions in factory overheads.

The directors consider the main risks to going concern to be liquidity and compliance with covenants, and so have performed a reverse stress test which incorporates the breach of the covenant. The group would breach a covenant before it runs out of cash in any scenario.

The group's borrowings with HSBC, amounting to $35.0m, contains two covenants being one leverage ratio and one interest cover ratio. Compliance with these covenants is based on 12 month rolling EBITDA results and 12 month rolling interest payments respectively. In addition, the newly acquired Eschenbach group has covenants relating to equity ration, leverage ratio and EBITDA. These covenants are less sensitive than the HSBC covenants and the group would be able to repay these loans before a covenant breach using available cash. The group has the ability to transfer cash across different group entities as needed.

In order for the business to breach one of the HSBC covenants, the reverse stress test requires that, after implementing all available mitigating scenarios, there is a 22% reduction to the sales forecasted in the base case from April 2021 through to December 2022 along with a 4% drop in gross margin. This scenario also factors in full repayment of all borrowings aside from the HSBC facility and settlement of an uncertain tax position at the highest possible range.

This scenario would see the group breach the leverage ratio covenant test resulting in the total borrowed amount becoming payable on demand. In this case, cash flow mitigations would be implemented, mostly reductions in discretionary spending and changes to supplier payment timings which are based on the group's previous ability to implement such steps. The directors believe that this scenario is remote as a result of the historic evidence gained from our performance during 2020, which was a year impacted significantly by COVID-19. Throughout 2020 the group's cash collections have remained strong, with bad debt write offs similar to a usual year. In the current year to date the group is trading ahead of budget and cash collections remain strong.

Therefore, the directors are confident in the ongoing resilience of the group, and its ability to continue in operation and meet its commitments as they fall due over the going concern period. Accordingly, the directors adopt the going concern basis in preparing the financial statements.

Basis of consolidation

The consolidated financial information incorporates the financial statements of the group and all of its subsidiary undertakings. The financial statements of all group companies are adjusted, where necessary, to ensure the use of consistent accounting policies. Acquisitions are accounted for under the acquisition method from the date control passes to the group. On acquisition, the assets and liabilities of a subsidiary are measured at their fair values. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. Acquisition-related costs are expensed as incurred.

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Investment in associated undertaking

An associate is an entity over which the group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not in control or joint control over those policies.

The considerations made in determining significant influence or joint controls are similar to those necessary to determine control over subsidiaries. The group's investment in its associate is accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the group's share of net assets of the associate since the acquisition date.

The income statement reflects the group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the group's OCI.

The aggregate of the group's share of profit or loss of an associate is shown on the face of the income statement outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statement of the associate is prepared for the same reporting period as the group. When necessary, adjustments are made to bring the accounting policies in line with those of the group.

2. ACCOUNTING POLICIES CONTINUED

Investment in associated undertaking continued

After application of the equity method, the group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss within 'Share of profit of an associate' in the income statement.

Upon loss of significant influence over the associate, the group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Current and non-current classifications

The group presents assets and liabilities in the statement of financial position based on current/non-current classification.

An asset is considered current when it is:

- Expected to be realised or intended to be sold or consumed within the usual parameters of trading activity and as a minimum within 12 months after the reporting period;

Or

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

The group classifies all other assets as non-current.

A liability is current when:

- It is expected to be settled in the normal parameters of trading activity and as a minimum is due to be settled within 12 months after the reporting period;

Or

- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Revenue recognition

Revenue from the sales of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Revenue is recognised at the fair value of the consideration received or receivable for sale of goods to external customers in the ordinary nature of the business. The fair value of the consideration takes into account trade discounts, settlement discounts, volume rebates and the right of return.

Rights of return

Under IFRS 15 a sale with right of return is recognised if the customer receives any combination of the following:

- A full or partial refund of any consideration paid;
- A credit that can be applied against amounts owed, or that will be owed, to the entity; and
- Another product in exchange.

The group includes within the liability arrangements where the group has historically accepted a right to return with the combination of a credit being applied against amounts owed or where another product is offered in exchange. This includes returns that are as a result of quality issues, whereby a replacement is provided to the customer free of charge. The group estimates the impact of potential returns from customers based on historical data on returns. A refund liability is recognised for the goods that are expected to be returned (i.e. the amount not included in the transaction price). A right of return asset (and corresponding adjustment to cost of sales) is also recognised for the right to recover the goods from the customer, to the extent that these goods are not considered impaired.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the profit or loss in the expense category that is consistent with the function of the intangible assets.

An intangible asset is derecognised upon disposal (i.e. at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss.

Amortisation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Patents and licences	1–4 years
Computer software	3 years
Trademarks	5 years
Customer relationships	10–20 years
Customer order book	6 months

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is charged to profit or loss in the period in which it is incurred. In situations when it is probable that future economic benefits associated with the item will flow to the group and the cost can be measured reliably then the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Freehold Property	over 33 years
Leasehold Improvements	over the lease term
Fixtures and Fittings	over 5 years
Computer Equipment	over 3–5 years
Plant and Machinery	over 3–7 years

Construction in Progress is not depreciated

The carrying values of property plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year-end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

2. ACCOUNTING POLICIES CONTINUED

Leases

The group applied a single recognition and measurement approach for all leases for which it is the lessee, except for short-term leases and leases of low-value assets. The group recognises right-of-use assets representing the right to use the underlying assets and lease liabilities to make lease payments.

Right-of-use asset

The group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Leasehold Property	over 2–5 years
Plant and Machinery	over 3 years
Motor vehicles	over 3 years

Lease liabilities

At the commencement date of the lease, the group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable. They also include any amounts expected to be paid under residual value guarantees.

In calculating the present value of lease payments, the group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments or a change in the assessment of an option to purchase the underlying asset.

The group's lease liabilities are included in interest-bearing loans and borrowings.

The group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that is considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expenses on a straight-line basis over the lease term.

Inventories

Inventories are stated at the lower of cost and estimated selling price less costs to sell after making due allowance for obsolete and slow-moving items. Inventories are recognised as an expense in the period in which the related revenue is generated.

Cost is determined on an average cost basis. Cost includes the purchase price and other directly attributable costs to bring the inventory to its present location and condition.

At the end of each period, inventories are assessed for impairment. If an item of inventory is impaired, the identified inventory is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the income statement.

Royalties

Royalties payable reflect balances owed to brand owners for the right to use the brand name. The royalty is payable based on a pre-agreed percentage of sales volumes, with some arrangements also having minimum royalty payments for specific periods. Royalties payable are recognised on delivery of the products covered by such arrangements, with an additional accrual made where it is considered that the sales level required to meet the minimum payment will not be met.

Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified at initial recognition and subsequently measured at amortised cost.

Subsequent measurement

For purposes of subsequent measurement, the financial assets of the group are classified as financial assets at amortised cost (debt instruments).

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The group's financial assets at amortised cost includes trade receivables, other receivables and loans to group undertakings.

The group does not have any financial assets at fair value through OCI or financial assets at fair value through profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the group's consolidated statement of financial position) when the rights to receive cash flows from the asset have expired.

When the group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the group has retained.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss.
- Financial liabilities at amortised cost (loans and borrowings).

As at 31 December 2020, the group has not designated any financial liability as at fair value through profit or loss. As at 31 December 2019, options to subscribe for C equity shares were held as derivatives with the movement in fair value passing through profit or loss, with this liability being settled during the current year.

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the income statement. This category generally applies to interest-bearing loans and borrowings.

2. ACCOUNTING POLICIES CONTINUED

Financial instruments – initial recognition and subsequent measurement continued

Financial liabilities continued

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

Refinancing

Where a loan arrangement is replaced with a subsequent facility which is materially different in relation to repayment structure or interest rate, any capitalised loan arrangement fees in respect of the previous loan are expensed, with transaction costs relating to the new loan capitalised and held against the value of the related liability.

Impairment of financial assets

The group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the group expects to receive.

For trade receivables and contract assets, the group applies a simplified approach in calculating ECLs. Therefore, the group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

The group considers a financial asset in default when internal or external information indicates that the group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, that are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Classification of shares as debt or equity instruments

Financial instruments issued by the group are classified as equity only to the extent that they do not meet the definition of a financial liability. An equity instrument is a contract that evidences a residual interest in assets or an entity after deducting all its liabilities. Accordingly, a financial instrument is treated as equity if:

- there is no contractual obligation to delivery cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and
- the instrument is a non-derivative that contains no contractual obligation to deliver a variable number of shares or is a derivative that will be settled only by the company exchanging a fixed amount of cash or other assets for a fixed number of the company's own equity instruments.

Costs associated with the issue or sale of equity instruments are allocated against equity to the extent that the issue is a new issue, or expensed to the profit and loss for existing equity instruments.

Share-based payments

Employees (including senior executives) of the group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in the detailed notes to the accounts. That cost is recognised in employee benefits expense together with a corresponding increase in share option reserve, over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the group's best estimate of the number of equity instruments that will ultimately vest. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because service conditions have not been met. Where awards include a non-vesting condition, the transactions are treated as vested irrespective of whether the non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

If the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award provided the original vesting terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share, to the extent that they are dilutive.

Taxation

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the group operates.

Tax liabilities are recognised when it is considered probable that there will be a future outflow of funds to a taxing authority. Uncertainties regarding availability of tax losses, in respect of enquiries raised and additional tax measurements issued, may be measured using the expected value method or single best estimate approach, depending on the nature of the uncertainty. Tax provisions are based on management's interpretation of country-specific tax law and the likelihood of settlement. Management uses professional firms and previous experience when assessing tax risks.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryover of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

2. ACCOUNTING POLICIES CONTINUED

Taxation continued

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to income taxes levied by the same taxation authority on either the same taxable entity and the same taxation authority or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Foreign currencies

These financial statements are presented in US$, which is the group's presentational currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currency of INSPECS Group plc is GBP. The functional currencies of certain overseas subsidiaries are currencies other than the GBP. At the end of the reporting period, the assets and liabilities of these entities are translated into GBP at the exchange rates prevailing at the end of the reporting period and their income statements are translated into GBP at the average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss. On translation to US$ for presentation, the assets and liabilities of the consolidated entity are translated into US$ at the exchange rates prevailing at the end of the reporting period and the income statement is translated into US$ at the average exchange rates for the year.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate at the period end.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the period are translated at the average exchange rates for the year.

Pensions and other post-employment benefits

The group operates defined contribution pension schemes, where the amounts charged to the statement of comprehensive income are the contributions payable in the year. Differences between contributions payable in the year and the contributions actually paid are shown as either accruals or prepayments.

Non-underlying items

Non-underlying items are those that in the directors' view should be separately disclosed due to their nature to enable a full understanding of the group's financial performance.

New and amended standards and interpretations

Amendments to IFRS 16 COVID-19-Related Rent Concessions

On 28 May 2020, the IASB issued COVID-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the consolidated financial statements of the group.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimates involve the determination of the quantum of accounting balances to be recognised. Judgements typically involve decisions such as whether to recognise an asset or liability.

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

Impairment of goodwill

The group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2020 was $68,088,000 (2019: $12,798,000). No provision for impairment of goodwill was made as at the end of the reporting period. See note 14 for further details.

Impairment of intangible assets

The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable in accordance with the accounting policies as disclosed in the financial statements. The recoverable amount is the higher of its fair value less costs of disposal and its value in use, the calculations of which involve the use of estimates about the future cash flows generated by each asset or the relevant cash-generating units to which the asset belongs. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details in relation to impairment tests completed in the current year are given in note 15.

Uncertain tax positions

Tax authorities could challenge and investigate the group's transfer pricing or tax domicile arrangements. As a growing, international business, there is an inherent risk that local tax authorities around the world could challenge either historical transfer pricing arrangements between other entities within the group and subsidiaries or branches in those local jurisdictions, or the tax domicile of subsidiaries or branches that operate in those local jurisdictions.

As a result, the group has identified that it is exposed to uncertain tax positions, which it has measured using an expected value methodology. Such methodologies require estimates to be made by management including the relative likelihood of each of the possible outcomes occurring, the periods over which the tax authorities may raise a challenge to the group's transfer pricing or tax domicile arrangements; and the quantum of interest and penalties payable in additions to the underlying tax liability. Further details are given in note 29.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY CONTINUED

Judgements made by management which are considered to have a material impact on the financial statements are as follows:

Recognition of intangible assets

In recognising the intangible assets arising on acquisition of subsidiary entities, the intangible assets must first be identified. This requires management judgement as to the value drivers of the acquired business and its interaction with the marketplace and stakeholders. In calculating the fair value of the identified assets, management must use judgement to identify an appropriate calculation technique and use estimates in deriving appropriate forecasts and discount rates as required. Management have used external experts to mitigate the risk of these judgements and estimates on the intangible assets identified and valued.

Deferred tax

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. See note 29 for further details.

4. REVENUE

The revenue of the group is attributable to the one principal activity of the group.

a) Geographical analysis

The group's revenue by destination is split in the following geographic areas:

	2020 $'000	2019 $'000
United Kingdom	14,014	15,242
Europe (excluding UK)	14,097	18,657
North America	12,040	16,038
South America	450	975
Asia	4,032	6,187
Australia	2,782	4,148
	47,415	61,247

In the year ended 31 December 2020, the group had one customer which accounted for more than 10% of the group's revenues. The revenue generated from this customer was $9,483,000 (2019: $11,289,000). The revenue from this customer is generated across all segments as identified in note 6.

b) Right of return assets and liabilities

	2020 $'000	2019 $'000
Right of return asset	1,967	96
Right of return liability	(12,824)	(476)

The right of return asset is presented as a component of inventory (note 18) and the right of return liability is presented separately on the face of the balance sheet.

5. OTHER INCOME

	2020 $'000	2019 $'000
Royalty income	–	62
Sundry income	–	71
	–	133

Royalty income relates to remuneration received from customers for the design of concept frames. Sundry income in 2019 relates to income from an insurance claim.

6. SEGMENT INFORMATION

The group operates in three operating segments, which upon application of the aggregation criteria set out in IFRS 8 Operating Segments results in three reporting segments:

- Frames and Optics (previously Branded) product distribution.
- Wholesale – being OEM and manufacturing distribution.
- Lenses – being manufacturing and distribution of lenses.

The acquisition of Norville (20/20) Limited during 2020 (see note 7) has led to an additional operating and reporting segment of 'Lenses' in 2020. In addition, the acquisition of Eschenbach Holdings GmbH (see note 7) has resulted in a change to the 'Branded' reporting segment, to form the 'Frames and Optics' reporting segment of which Eschenbach is a part during the year to 31 December 2020.

The criteria applied to identify the operating segments are consistent with the way the group is managed. In particular, the disclosures are consistent with the information regularly reviewed by the CEO and the CFO in their role as Chief Operating Decision Makers, to make decisions about resources to be allocated to the segments and to assess their performance.

6. SEGMENT INFORMATION CONTINUED

The reportable segments subject to disclosure are consistent with the organisational model adopted by the group during the financial year ended 31 December 2020 and are as follows:

	Frames and Optics $'000	Wholesale $'000	Lenses $'000	Total before adjustments & eliminations $'000	Adjustments & eliminations $'000	Total $'000
Revenue						
External	21,259	21,979	4,177	47,415	–	47,415
Internal	2,204	2,381	59	4,644	(4,644)	–
	23,463	24,360	4,236	52,059	(4,644)	47,415
Cost of sales	(14,987)	(13,678)	(2,203)	(30,868)	3,975	(26,893)
Gross profit	8,476	10,682	2,033	21,191	(669)	20,522
Expenses	(12,898)	(5,594)	(1,634)	(20,126)	570	(19,556)
Depreciation	(636)	(1,422)	(241)	(2,299)	–	(2,299)
Amortisation	(514)	(1,093)	–	(1,607)	–	(1,607)
Operating (loss)/profit	(5,572)	2,573	158	(2,841)	(99)	(2,940)
Exchange adjustment on borrowings						(382)
Movement in derivatives						(740)
Non-underlying costs						(5,763)
Negative goodwill on bargain purchase						506
Finance costs						(1,880)
Finance income						36
Share of profit of associate						–
Taxation						2,250
Loss for the year						(8,913)
Total assets	401,874	72,021	7,409	481,304	(183,846)	297,458
Total liabilities	(304,479)	(6,809)	(6,185)	(317,473)	259,112	(58,361)
Deferred tax asset						12,995
Current tax liability						(4,360)
Deferred tax liability						(24,694)
Borrowings						(77,221)
Group net assets						145,817
Other disclosures						
Capital additions	203	1,864	736	2,803	–	2,803

The reportable segments subject to disclosure are consistent with the organisational model adopted by the group during the financial year ended 31 December 2019 and are as follows:

	Branded $'000	Wholesale $'000	Total before adjustments & eliminations $'000	Adjustments & eliminations $'000	Total $'000
Revenue					
External	27,729	33,518	61,247	–	61,247
Internal	2,175	3,256	5,431	(5,431)	–
	29,905	36,773	66,678	(5,431)	61,247
Cost of sales	(18,723)	(20,194)	(38,917)	5,206	(33,711)
Gross profit	11,182	16,579	27,761	(225)	27,536
Expenses	(9,772)	(6,743)	(16,515)	(84)	(16,599)
Other income	35	98	133	–	133
Depreciation	(417)	(1,620)	(2,037)	–	(2,037)
Amortisation	(18)	(1,070)	(1,088)	–	(1,088)
Operating profit	1,010	7,244	8,254	(309)	7,945
Exchange adjustment on borrowings					715
Movement in derivatives					2,865
Non-underlying costs – Initial public offering					(2,827)
Finance costs					(1,380)
Finance income					15
Share of profit of associate					14
Taxation					(907)
Profit for the year					6,440
Total assets	56,815	66,018	122,833	(52,678)	70,155
Total liabilities	(42,618)	(4,676)	(47,294)	33,956	(13,338)
	14,197	61,342	75,539	(18,722)	56,817
Deferred tax asset					1,221
Current tax liability					(2,612)
Deferred tax liability					(2,917)
Derivative liability					(3,536)
Borrowings					(17,625)
Group net assets					31,348
Other disclosures					
Capital additions	143	2,782	2,924	–	2,924

Total assets are the group's gross assets excluding deferred tax asset. Total liabilities are the group's gross liabilities excluding loans and borrowings, current and deferred tax liabilities and derivative liabilities.

Non-underlying costs, as well as net finance costs and taxation are not allocated to individual segments as they relate to group-wide activities as opposed to individual reporting segments.

6. SEGMENT INFORMATION CONTINUED

Deferred tax and borrowings are not allocated to individual segments as they are managed on a group basis.

Adjusted items relate to elimination of all intra group items including any profit adjustments on intra-group sales that are eliminated on consolidation, along with the profit and loss items of the parent company.

Adjusted items in relation to segmental assets and liabilities relate to the elimination of all intra group balances and investments in subsidiaries, and assets and liabilities of the parent company.

Non-current operating assets

	2020 $'000	2019 $'000
United Kingdom	3,256	5,410
Europe	112,848	183
North America	10,686	150
Asia	41,441	36,175
	168,231	41,918

Non-current assets for this purpose consist of property, plant and equipment, right-of-use assets, goodwill and intangible assets.

7. BUSINESS COMBINATIONS

Acquisition of Norville (20/20) Limited

Norville (20/20) Limited was incorporated on 10 July 2020 with INSPECS Limited as its immediate parent. On 13 July 2020 this entity acquired assets of The Norville Group Ltd (in administration) for a cash consideration of $3,027,000 from the Administrators. As the total fair value of the net assets acquired of $3,523,000 exceeds the initial consideration of $3,027,000 the gain on the bargain purchase of $506,000 has been recognised in profit and loss at the acquisition date.

Assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of Norville (20/20) Limited as at the date of acquisitions were:

	Fair value recognised on acquisition $000
Assets	
Property, plant and equipment	1,931
Inventories	2,070
Total identifiable assets at fair value	**4,001**
Liabilities	
Deferred tax liability	(478)
Total identifiable liabilities at fair value	**(478)**
Total identifiable net assets at fair value	**3,523**
Negative goodwill arising on acquisition	(506)
Foreign exchange on consolidation	10
Purchase consideration transferred	**3,027**

Under UK tax legislation, a gain on bargain purchase is taxable to the extent that it relates to the bargain purchase of intangible fixed assets. After review there was no fair value assigned to the intangible assets acquired, therefore none of the goodwill arising from the bargain purchase is expected to be taxable for income tax purposes.

From the date of acquisition, Norville (20/20) Limited contributed $4,236,000 of revenue and a profit of $664,000 to the group loss before tax from continuing operations. Norville (20/20) Limited was not trading prior to its acquisition by the group.

Transaction costs of $123,000 were expensed and are included within 'Non-underlying costs – Acquisitions'.

Acquisition of Eschenbach Holdings GmbH

On 16 December 2020, INSPECS Limited acquired the entire share capital of Eschenbach Holdings GmbH and its subsidiaries, for a cash consideration of $115,496,000. Eschenbach held shareholder loans which were purchased at fair value, with the residual consideration for the remaining net assets of Eschenbach.

Assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of Eschenbach Holdings GmbH as at the date of acquisitions were:

	Fair value recognised on acquisition $000
Assets	
Property, plant and equipment	8,466
Intangible assets	39,407
Right-of-use asset	19,552
Cash and cash equivalents	19,322
Trade and other receivables	24,477
Tax receivable	2,452
Inventories	48,343
Deferred tax assets	9,174
Total identifiable assets at fair value	**171,193**
Liabilities	
Trade and other payables	44,623
Interest bearing loans and borrowings	21,462
Overdraft	2,620
Lease liability	19,552
Income tax payable	1,341
Deferred tax liability	21,199
Total identifiable liabilities at fair value	**110,797**
Total identifiable net assets at fair value	**60,396**
Goodwill arising on acquisition	55,100
Purchase consideration transferred	**115,496**

From the date of acquisition, Eschenbach Holdings GmbH contributed $2,881,000 of revenue and $(1,999,000) to loss before tax from continuing operations. If the combination had taken place at the beginning of the year, revenue from continuing operations for the group would have been $186,817,000 and loss before tax from continuing operations for the group would have been $(7,424,000).

Transaction costs of $2,931,000 were expensed and are included within 'Non-underlying costs – Acquisitions'.

7. BUSINESS COMBINATIONS CONTINUED

Analysis of cash flows on acquisitions

The combined impact on cash flow of the two acquisitions made during the year was as follows:

	$'000
Consideration for Norville (20/20) Limited	(3,027)
Consideration for Eschenbach Holdings GmbH	(115,496)
Acquired with Eschenbach Holdings GmbH:	
Cash and cash equivalents	19,322
Overdraft	(2,620)
Net cash flow on acquisition	(101,821)

8. EMPLOYEES AND DIRECTORS

	2020 $'000	2019 $'000
Included in cost of sales		
Wages and salaries	4,899	4,329
Social security costs	102	96
Pension costs	39	8
	5,040	4,434
Included in administration costs		
Wages and salaries	8,238	9,268
Social security costs	955	580
Pension costs	360	162
Share-based payment expense	1,706	1,917
	11,259	11,926
	16,299	16,360

The average number of employees during the year was as follows:

	2020	2019
Administration	153	176
Selling and operations	72	54
Production	873	992
	1,098	1,222

Directors' remuneration during the year was as follows:

	2020 $'000	2019 $'000
Directors' salaries	455	1,148
Directors' pension contributions	33	3
Share options	159	539
	647	1,690

Information regarding the highest paid director is as follows:

	2020 $'000	2019 $'000
Total remuneration	311	792

The number of directors to whom employer pension contributions were made by the group during year is 2 (2019: 2). This was in the form of a defined contribution pension scheme.

Further information about the remuneration of individual directors is provided in the Remuneration and Nomination Committee Report on pages 52 and 53.

9. NON-UNDERLYING COSTS

Non-underlying items are those that in the directors' view should be separately disclosed by virtue of their size, nature or incidence to enable a full understanding of the group's financial performance in the year and business trends over time. Non-underlying costs incurred during the year are as follows:

	2020 $'000	2019 $'000
Initial public offering	2,709	2,827
Acquisitions	3,054	–
	5,763	2,827

On 27 February 2020, INSPECS Group plc was admitted to the AIM of the London Stock Exchange. In relation to this, costs of $2,709,000 (2019: $2,827,000) were incurred through the Income Statement in relation to the listing of existing shares.

Acquisition costs of $123,000 and $2,931,000 were incurred during the period relating to the purchase of Norville (20/20) Limited and Eschenbach Holdings GmbH respectively (see note 7).

10. FINANCE COSTS AND FINANCE INCOME

	2020 $'000	2019 $'000
Finance costs		
Bank loan interest	516	930
Other loan interest	39	92
Invoice discounting interest and charges	50	41
Loan transaction costs	1,249	286
Lease interest	26	31
Total finance costs	1,880	1,380
Finance income		
Interest receivable	36	15

11. PROFIT BEFORE INCOME TAX

The profit before income tax is stated after charging/(crediting):

	2020 $'000	2019 $'000
Cost of inventories recognised as expense	21,045	21,579
Short term leases	83	200
Depreciation own assets (note 16)	1,539	1,301
Depreciation – Right-of-use assets (note 25)	760	736
Amortisation – Intangibles (note 15)	1,607	1,088
Restructuring costs	185	–
Post acquisition insurance costs	563	–
Foreign exchange on funding for acquisitions	1,085	–
Other foreign exchange differences	305	(623)

	2020 $'000	2019 $'000
Fees payable to the company's auditor for audit services:		
Audit of the company and group accounts	26	20
Audit of the subsidiaries	1,213	644
Fees payable to the company's auditor for non-audit services:		
Costs associated with IPO	285	1,229
IFRS conversion costs	–	232
Tax services	–	33

12. INCOME TAX

Analysis of tax expense

	2020 $'000	2019 $'000
Current tax:		
Current tax on profits for the year	24	485
Overseas current tax expense	208	453
Adjustment re prior years	–	12
Total current tax	232	950
Deferred tax: (see note 28)		
Deferred tax income relating to the origination and reversal of timing differences	(2,478)	(43)
Effect of changes in tax rates	(4)	–
Total deferred tax	(2,482)	(43)
Total tax expense reported in the consolidated income statement	(2,250)	907

Factors affecting the tax expense

The tax assessed for the year is (higher)/lower than the standard rate of corporation tax in the UK. The difference is explained below:

	2020 $'000	2019 $'000
(Loss)/profit before income tax	(11,163)	7,347
(Loss)/profit multiplied by standard rate of corporation tax in the UK of 19.00% (2019: 19.00%)	(2,121)	1,396
Effects of:		
Non-deductible expenses – Amortisation of intangible assets	184	183
Non-deductible expenses – Other expenses	1,622	(42)
Increase in provision for uncertain tax liabilities	381	463
Income taxed in nil rate regime	(404)	(1,222)
Share-based payment	(1,924)	42
Different tax rate for overseas subsidiaries	(84)	59
Transfer pricing adjustments	51	6
Tax rate changes	(4)	(54)
Income not taxable	(176)	–
Effects of group relief	70	–
Amounts not recognised on deferred tax	155	–
Adjustments in respect of prior year	–	76
Tax expense	(2,250)	907

Income not taxable for tax purposes relates to income generated in jurisdictions within which there is a nil taxation rate. Movements in other comprehensive relating to foreign exchange on consolidation are not taxable.

13. EARNINGS PER SHARE ("EPS")

Basic EPS is calculated by dividing the profit or loss for the year attributable to ordinary equity holders of the Parent by the weighted average number of Ordinary Shares outstanding during the year.

Diluted EPS is calculated by dividing the profit or loss attributable to ordinary equity holders of the Parent by the weighted average number of Ordinary Shares outstanding during the year plus the weighted average number of Ordinary Shares that would be issued on conversion of all the dilutive potential Ordinary Shares into Ordinary Shares, to the extent that the inclusion of such shares is not anti-dilutive. A loss has been made in the year to 31 December 2020. In accordance with IAS33, potential ordinary shares shall be treated as dilutive when, and only when, their conversion to Ordinary Shares would decrease earnings per share, or increase loss per share from continuing operations. As a loss is made, including the dilution of potential Ordinary Shares reduces the loss per share and therefore the outstanding options should not be treated as dilutive when calculating EPS. The comparative figure has been adjusted for the impact of the subdivision of shares and the share for share exchange as discussed in note 21, as if these shares had always been in issue to allow comparability. Basic earnings per share is therefore $(0.13) loss (2019: $0.12 profit), with diluted earnings per share $(0.13) loss (2019: $0.11 profit).

The following table reflects the income and share data used in the basic and diluted EPS calculations:

ORDINARY SHARES	2020 $'000	2019 $'000
Loss attributable to the ordinary equity holders of the Parent for basic earnings	(8,913)	–
	Number of shares	Number of shares
Weighted average number of Ordinary Shares for basic EPS	69,227,355	31,301,362
Effect of dilution from:		
Share options	–	5,771,538
Weighted average number of Ordinary Shares adjusted for the effect of dilution where appropriate	**69,227,355**	**37,072,900**

B ORDINARY SHARES	2020 $'000	2019 $'000
Profit attributable to the ordinary equity holders of the Parent for basic earnings	–	6,440
	Number of shares	Number of shares
Weighted average number of Ordinary Shares for basic EPS	–	18,597,160
Effect of dilution from:		
Share options	–	–
Weighted average number of Ordinary Shares adjusted for the effect of dilution where appropriate	**–**	**18,597,160**

C ORDINARY SHARES	2020 $'000	2019 $'000
Profit attributable to the ordinary equity holders of the Parent for basic earnings	–	–
	Number of shares	Number of shares
Weighted average number of Ordinary Shares for basic EPS	–	4,120,950
Effect of dilution from:		
Share options	–	–
Weighted average number of Ordinary Shares adjusted for the effect of dilution where appropriate	**–**	**4,120,950**

Refer to note 21 for details in relation to the shares in issue and their rights, and changes in the equity structure during the year.

14. GOODWILL

Group	$'000
COST	
At 1 January 2020	12,798
Additions	55,100
Exchange adjustment	1,189
At 31 December 2020	69,087
NET BOOK VALUE	
At 31 December 2020	69,087
COST	
At 1 January 2019	12,394
Exchange adjustment	404
At 31 December 2019	12,798
NET BOOK VALUE	
At 31 December 2019	12,798

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the Cash-generating Unit of Twenty20 Limited ($13,002,000 as at 31 December 2020), Eschenbach Group GmbH ($55,825,000 as at 31 December 2020) and INSPECS Limited ($237,000 as at 31 December 2020) for impairment testing.

Twenty20 Limited

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management.

The discount rate applied to the cash flow projections was 8.9% plus a 5.0% company specific risk premium and cash flows beyond the five-year period were extrapolated using a growth rate of 2% in perpetuity. Based on management's assessment there is no impairment adjustment required on goodwill.

To recognise an impairment provision, the discount rate would have to exceed 27.0%.

To recognise an impairment provision the cash flow into perpetuity would need to be discounted by 49% with the applicable discount rate for the five-year period to 2025 remaining at 13.9%

INSPECS Limited

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management.

The discount rate applied to the cash flow projections was 7.5% and cash flows beyond the five-year period were extrapolated using a growth rate of 2% in perpetuity. Based on management's assessment there is no impairment adjustment required on goodwill.

To recognise an impairment provision, the company would have cash flows only for a three-year period and have a discount rate at 12.4%.

To recognise an impairment provision the CGU's revenue would have no growth for the five-year period with the applicable discount rate at 73.3%.

To recognise an impairment on discount rate alone, the rate would need to increase to 78.7%.

14. GOODWILL CONTINUED

Impairment testing of goodwill continued

Eschenbach Holdings GmbH

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management.

The discount rate applied to the cash flow projections was 14.7% and cash flows beyond the five-year period were extrapolated using a growth rate of 2% in perpetuity. Based on management's assessment there is no impairment adjustment required on goodwill.

To recognise an impairment provision the CGU's revenue would have no growth for the five-year period with the applicable discount rate at 11.6%.

To recognise an impairment on discount rate alone, the rate would need to increase to 16.9%.

Assumptions were used in the value in use calculation of the cash-generating unit for the year ended 31 December 2020. These are detailed as follows:

Forecasted revenue and results of operations

The forecasts for 2021 have been prepared assuming the COVID-19 restrictions that were in place in January 2021 continue through 2021 with a resumption to normal trading in 2022. The COVID-19 restrictions in place at the time led to a reduced footfall on the high street and non-prescription eyewear sales were reduced by continuing closure of airports and non-essential retail. Financial years 2023 to 2025 were forecasted assuming a 7% increase in turnover based on synergies within the expanding Group of companies. Management have assumed a constant gross profit margin and increased administration expenses by 5% per annum (3% above the expected rate of inflation). From 2025 onwards we have assumed a 2% terminal growth rate.

Discount rate

The discount rate used is before tax and reflects specific risks relating to the cash-generating unit.

Business environment

No major changes have occurred in the existing political, legal and economic conditions in those locations in which the cash-generating unit operates.

15. INTANGIBLE ASSETS

Group

	Patents and licences $'000	Customer relationships $'000	Trademarks $'000	Customer order book $'000	Computer software $'000	Totals $'000
COST						
At 1 January 2020	233	19,909	–	1,582	705	22,429
Acquisition of a subsidiary	11	18,849	18,637	68	1,842	39,407
Additions	92	–	–	–	75	167
Disposals	–	–	–	(1,640)	–	(1,640)
Exchange differences	(14)	2,516	151	58	28	2,739
At 31 December 2020	322	41,274	18,788	68	2,650	63,102
AMORTISATION						
At 1 January 2020	128	2,904	–	1,582	333	4,947
Amortisation for the year	59	1,127	291	5	125	1,607
Disposals	–	–	–	(1,640)	–	(1,640)
Exchange differences	(7)	1,818	19	58	(5)	1,883
At 31 December 2020	180	5,849	310	5	453	6,797
NET BOOK VALUE						
At 31 December 2020	142	35,425	18,478	63	2,197	56,305

	Patents and licences $'000	Customer relationships $'000	Customer order book $'000	Computer software $'000	Total $'000
COST					
At 1 January 2019	163	19,268	1,531	605	21,567
Additions	67	–	–	94	161
Exchange differences	3	641	51	6	701
At 31 December 2019	233	19,909	1,582	705	22,429
AMORTISATION					
At 1 January 2019	78	1,847	1,531	252	3,708
Amortisation for the year	48	964	–	76	1,088
Exchange differences	2	93	51	5	151
At 31 December 2019	128	2,904	1,582	333	4,947
NET BOOK VALUE					
At 31 December 2019	105	17,005	–	372	17,482

The individual intangible assets, excluding goodwill, which are material to the financial statements are:

	2020		2019	
Intangible asset	$'000	Remaining amortisation period (years)	$'000	Remaining amortisation period (years)
Customer relationships	35,425	Between 10 and 16	17,005	17

Impairment review of individual customer relationship

During the period, an indicator of impairment was noted relating to a customer relationship with a carrying value of $3,946,000 as at 31 December 2020. As a result, an impairment review was completed to compare the recoverable amount of the asset against its carrying value. Following this review, the directors consider that no impairment was considered necessary.

The discount rate applied to the cash flow projections was 13.9% and cash flows beyond a three-year period were extrapolated using a growth rate of 2% in perpetuity. Based on management's assessment there is no impairment adjustment required on goodwill.

To recognise an impairment on discount rate alone, the rate would need to increase to 15.4%.

Acquisition of a subsidiary

For each acquisition, an exercise to value the net assets and apportion the consideration paid has taken place, with the determined balances recognised within these financial statements. We engaged external consultants to assist in the valuation of the intangible assets, which have been valued using the income method. Adjustments to provisional fair values are made up to 12 months from the original acquisition date with any revisions asset or liability values being adjusted through goodwill. Goodwill represents the value of the accumulated workforces and synergies expected to be realised following the acquisition.

16. PROPERTY PLANT AND EQUIPMENT

Some of the group's property, plant and equipment are subject to a charge to secure against the group's bank loans.

Group

	Freehold property $'000	Leasehold improvement $'000	Plant & machinery $'000	Fixtures & fittings $'000	Computer equipment $'000	Construction in progress $'000	Total $'000
COST							
At 1 January 2020	6,484	398	6,433	278	745	163	14,501
Acquisition of a subsidiary	3,695	523	3,040	2,989	150	–	10,397
Additions	39	6	1,186	8	182	1,046	2,467
Disposals	–	(82)	(187)	(40)	(14)	–	(323)
Exchange differences	372	17	357	34	39	73	892
At 31 December 2020	10,590	862	10,829	3,269	1,102	1,282	27,934
DEPRECIATION							
At 1 January 2020	348	210	2,870	217	536	–	4,181
Charge for the year	209	68	1,131	32	99	–	1,539
Eliminated on disposals	–	(82)	(187)	(40)	(14)	–	(323)
Exchange differences	12	4	33	10	18	–	77
At 31 December 2020	569	200	3,847	219	639	–	5,474
NET BOOK VALUE							
At 31 December 2020	10,021	662	6,982	3,050	463	1,282	22,460

	Freehold property $'000	Leasehold improvement $'000	Plant & machinery $'000	Fixtures & fittings $'000	Computer equipment $'000	Construction in progress $'000	Total $'000
COST							
At 1 January 2019	5,444	282	5,521	262	645	–	12,154
Additions	1,242	116	1,144	8	90	163	2,763
Disposals	(58)	–	(12)	–	–	–	(70)
Exchange differences	(144)	–	(220)	8	10	–	(346)
At 31 December 2019	6,484	398	6,433	278	745	163	14,501
DEPRECIATION							
At 1 January 2019	304	147	2,122	184	453	–	3,210
Charge for the year	196	63	942	26	74	–	1,301
Eliminated on disposals	–	–	–	–	–	–	–
Exchange differences	(152)	–	(194)	7	9	–	(330)
At 31 December 2019	348	210	2,870	217	536	–	4,181
NET BOOK VALUE							
At 31 December 2019	6,136	188	3,563	61	209	163	10,320

17. INVESTMENTS IN ASSOCIATE

Group

Share of net assets of associate	Interest in associate $'000
COST	
At 1 January 2020	53
Share of profit	–
Exchange difference	4
At 31 December 2020	57
NET BOOK VALUE	
At 31 December 2020	57

	$'000
Revenue	154
Expenses	(154)
Profit before tax	–
Income tax	–
Share of profit of associate for the year ended 31 December 2020	–

The group's associated undertaking is Ruain Zuoyou Glasses Co Ltd, a company registered in China. 25% of the share capital of Ruain Zuoyou is owned by the group, with Zhongshan Torkai Optical Co Limited being the direct owner of these shares.

18. INVENTORIES

	2020 $'000	2019 $'000
Raw materials	5,102	1,409
Work in progress	2,646	2,725
Finished goods	51,546	4,581
	59,294	8,715

The above includes amounts in respect of right of return assets and the amount for each year is as below;

	2020 $'000	2019 $'000
Finished goods – Right of return asset	1,967	96

Inventories are stated after provisions for impairment of $2,249,000 (2019: $1,841,000).

19. TRADE AND OTHER RECEIVABLES

	Group	
	2020 $'000	2019 $'000
Current:		
Trade receivables	25,149	9,815
Amounts owed by related parties	–	34
Prepayments	6,419	2,288
Other receivables	4,080	738
	35,648	12,875

Other receivables includes $1,955,000 (2019: $nil) relating to an invoice factoring receivable.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2020 $'000	2019 $'000
Invoiced in last month	11,787	8,846
1–2 months	6,948	437
2–3 months	4,069	395
Over 3 months	2,345	137
	25,149	9,815

Set out below is the movement in the allowance for expected credit losses of trade receivables.

	2020 $'000	2019 $'000
At 1 January	19	29
Acquired with acquisition of subsidiary	520	–
Movement in the year	20	(10)
Exchange adjustment	(3)	–
At 31 December	556	19

Amounts owed by related undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

The group's trading terms with its customers are mainly on credit. The credit period is generally 30 to 90 days. Each customer has a maximum credit limit. The group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The group's large retail chain customers order on purchase orders which are paid within 30 to 60 days and the remaining customer base is well diversified and hence there is considered to be no significant credit risk. Acquisitions during the year have further diversified the reliance on major customers and therefore have further mitigated credit risk. The group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing and are stated net of loss allowance.

Impairment under IFRS 9

An impairment analysis is performed at each reporting date to measure expected credit losses. The provision rates are based on days past due for groupings of customer segments with similar loss patterns (i.e. by customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

20. CASH AND CASH EQUIVALENTS

	2020 $'000	2019 $'000
Cash at bank and in hand	32,672	6,595
	32,672	6,595

At the end of the reporting period, the cash and cash equivalents of the group denominated in Renminbi ('RMB') amounted to $2,879,000 (2019: $458,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the group is permitted to exchange RMB for other currencies through a bank authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the group and earn interest at the respective short-term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following at 31 December:

	2020 $'000	2019 $'000
Cash at bank and in hand	32,672	6,595
Bank overdrafts	(2,642)	(93)
	30,030	6,502

21. CALLED UP SHARE CAPITAL

Authorised and issued share capital:

Number:	Class:	Nominal value	2020 $'000	2019 $'000
101,290,898 (2019: nil)	Ordinary	£0.01	1,384	–
Nil (2019: 227,870)	Ordinary	£0.10	–	44
Nil (2019: 135,385)	B Ordinary	£0.10	–	18
			1,384	62

Each Ordinary Share carries the right to participate in distributions, as respects dividends and as respects capital on winding up.

On 10 January 2020, all B Ordinary Shares of INSPECS Holdings Limited were converted into Ordinary Shares of INSPECS Group Limited and a subdivision of INSPECS Holdings Limited shares was enacted, with 363,255 shares with a nominal value of £0.10 each converted into 3,632,550 share with a nominal value of £0.01 each. Also on 10 January 2020, a share for share exchange occurred between INSPECS Holdings Limited and INSPECS Group Limited, subsequently INSPECS Group plc. As part of this share for share exchange, all Ordinary Shares in INSPECS Holdings were exchanged for Ordinary Shares of INSPECS Group. Share options in INSPECS Holdings were also exchange for share options in INSPECS Group, including the options over C Ordinary Shares, which were converted to options over Ordinary Shares in INSPECS Group. Lastly, as part of the share for share exchange on 10 January 2020, one share in INSPECS Holdings Limited after the subdivision was exchanged for 13.7 shares in INSPECS Group Limited, leaving 49,898,522 Ordinary Shares as the entire share capital of INSPECS Group Limited.

On 27 February 2020, as part of the initial public offering of shares of INSPECS Group plc, 12,051,282 new shares were issued to the London AIM at £1.95 generating a cash inflow of $30,313,000 (£23,500,000).

On 11 December 2020 a further 30,476,191 shares were issued to the London AIM at a share price of £2.10, generating a cash inflow of $85,448,000 (£64,000,000).

A further 8,864,903 shares have been created during the year as a result of the exercise of share options.

22. RESERVES

Share premium

This reserve records the amount above the nominal value of the sums received for shares issued, less transaction costs.

	2020 $'000	2019 $'000
At 1 January	21,628	21,628
Share for share exchange	(21,628)	–
Issue of shares to third parties on initial public offering	30,659	–
Issue of shares to PE investors on initial public offering (note 30)	4,452	–
Issue of shares on secondary placing	84,104	–
Exercise of share options	2,725	–
At 31 December	121,940	21,628

The share premium reserve was not novated from INSPECS Holdings Limited to INSPECS Group plc as part of the share for share exchange and therefore the share premium reserve as at 31 December 2020 includes only the reserve generated during the year since the share for share exchange.

Foreign currency translation reserve

This reserve records the foreign currency translation adjustment on consolidation.

	2020 $'000	2019 $'000
At 1 January	1,031	1,030
Share for share exchange	(926)	–
Other comprehensive income	(204)	1
At 31 December	(99)	1,031

Share option reserve

The share option reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration.

	2020 $'000	2019 $'000
At 1 January	2,840	647
Share for share exchange	34	–
Share-based payment charge	1,133	2,193
Exercise of share options	(3,140)	–
At 31 December	867	2,840

As part of the share for share exchange with INSPECS Holdings Limited on 10 January 2020, the share option reserve was novated into INSPECS Group plc. The share-based payment charge for the year is recognised against the reserve as per IFRS 2 Share-Based Payments. As options have been exercised during the year, the reserve relating to these options has been released to retained earnings, with a further $167,000 released against the deferred tax asset held in relation to the options exercised (see note 28).

Merger reserve

This reserve arose on the share for share exchange between INSPECS Holdings Limited and INSPECS Group plc.

	2020 $'000	2019 $'000
At 1 January	–	–
Issue of share capital	(22)	–
Share for share exchange and creation of merger reserve	68,802	–
Capital reduction	(61,484)	–
At 31 December	7,296	–

On 27 February 2020 immediately prior to IPO, options over Ordinary Shares held by PE investors were exercised (see note 30), with the nominal value of the share capital issued via a reduction of the merger reserve of $22,000.

As discussed in note 21, in relation to the share for share exchange, INSPECS Group plc issued 49,898,522 shares for an aggregate value of $69,484,000 (£50,856,000). This gives rise to share capital of $682,000 (£499,000) and a merger reserve in accordance with section 612 Companies Act 2006 of $68,802,000 (£50,357,000). The company's merger reserve was subsequently reduced by $61,484,000 (£45,000,000) and the amount so reduced was credited to retained earnings and treated as realised profits.

23. TRADE AND OTHER PAYABLES

Group

	2020 $'000	2019 $'000
Current:		
Trade payables	22,404	5,193
Amounts owed to related parties	169	258
Other payables	1,435	280
Social security and other taxes	5,422	132
Royalties	5,911	852
Accruals	7,554	3,477
	42,895	10,192

The trade payables are non-interest-bearing and are normally settled on cash-on-delivery or 90-day terms.

Amounts owed to related parties are unsecured, interest free, have no fixed date of repayment and are repayable on demand. Accruals include $1,999,000 (2019: $nil) relating to acquisition costs.

24. FINANCIAL LIABILITIES – BORROWINGS

	2020 $'000	2019 $'000
Current:		
Bank overdraft	2,642	93
Invoice discounting	–	2,577
Bank loans	3,855	4,228
Lease liabilities	2,975	746
	6,830	4,974

	2020 $'000	2019 $'000
Non-current:		
Bank loans	53,092	12,168
Lease liabilities	17,299	483
	70,391	12,651

At the balance sheet date, the available invoice discounting facility was $3,000,000 (2019: $3,000,000).

The invoice discounting facility bears interest at 1.85% over base rate throughout 2020 (2019: 1.85%). The invoice discounting facility is secured by way of fixed and floating charges over the trade receivables of INSPECS Limited. The facility has no fixed end date, with a notice period of three months.

On 27 February 2020, the group entered into a new multi-currency RCF facility with HSBC allowing it to draw down up to $25,000,000, an increase of $7,187,000 on the previous facility. This facility was subsequently increased to the current $35,000,000 on 18 November 2020, with this facility being fully drawn down as at 31 December 2020, giving a total cash inflow to the group as a result of this new financing of $17,187,000. An arrangement fee of $810,000 was payable on the new and subsequently amended agreement. Only interest and charges are repayable during the length of this arrangement, with no capital requiring repayment. The loan runs until January 2023. Interest is payable at the applicable Margin Rate plus LIBOR calculated daily on a 360-day year basis. The Margin Rate is 1.90%, 2.15% or 2.40% dependent upon the group's leverage ratio. The loan is stated net of transaction costs amounting to $653,000 (2019: $1,082,000). The loan is US Dollar denominated and sits within the books of INSPECS Limited. It is therefore translated from US Dollars into the functional currency of that entity (being GBP), therefore leading to an exchange adjustment of $382,000 loss (2019: $715,000 gain) for the year to 31 December 2020. See note 34 for further information in relation to foreign currency risk.

A further $12,278,000 of the loans held by the group are held at a fixed interest rate of 2.0%, repayable in June 2026. Remaining loans in the group of $9,669,000 are at LIBOR plus 2.0% and are repayable in between one and five years.

The group's bank loans and overdrafts are secured against the business assets of the group.

The group's lease liabilities are secured against the assets concerned.

25. RIGHT-OF-USE ASSETS AND LEASES

The group has lease contracts for various items of plant, machinery, vehicles and other equipment used in its operations. Leases of plant and machinery, motor vehicles and leasehold properties generally have lease terms between three and five years. The group's obligations under its leases are secured by the lessor's title to the leased assets. The group's right-of-use assets are as follows:

	Leasehold properties $'000	Plant & machinery $'000	Motor vehicles $'000	Total $'000
COST				
At 1 January 2020	2,953	38	222	3,213
Acquisition of a subsidiary	17,550	674	1,328	19,552
Additions	114	–	28	142
End of lease	(1,251)	–	(84)	(1,335)
Exchange differences	190	6	23	219
At 31 December 2020	19,556	718	1,517	21,791
DEPRECIATION				
At 1 January 2020	1,839	25	32	1,896
Charge for the year	664	5	91	760
Eliminated on end of lease	(1,251)	–	(84)	(1,335)
Exchange differences	79	1	11	91
At 31 December 2020	1,331	31	50	1,412
NET BOOK VALUE				
At 31 December 2020	18,225	687	1,467	20,379

25. RIGHT-OF-USE ASSETS AND LEASES CONTINUED

	Leasehold properties $'000	Plant & machinery $'000	Motor vehicles $'000	Total $'000
COST				
At 1 January 2019	2,425	49	199	2,673
Additions	472	–	131	603
End of lease	–	(12)	(112)	(124)
Exchange differences	57	1	4	61
At 31 December 2019	2,953	38	222	3,213
DEPRECIATION				
At 1 January 2019	1,125	26	82	1,233
Charge for the year	667	9	59	736
Eliminated on end of lease	–	(12)	(112)	(124)
Exchange differences	47	1	4	51
At 31 December 2019	1,839	25	32	1,896
NET BOOK VALUE				
At 31 December 2019	1,114	14	189	1,317

Set out below are the carrying amounts of lease liabilities (included under interest bearing loans and borrowings) and the movements during the period:

	2020 $'000	2019 $'000
At 1 January	1,229	1,401
Acquisition of a subsidiary	19,552	–
Additions	142	678
Interest charge	26	31
Payments	(810)	(867)
Reduction in lease terms	(44)	–
Exchange adjustment	179	(14)
As at 31 December	20,274	1,229
Current	2,975	746
Non-current	17,299	483

26. CHANGES IN LIABILITIES FROM FINANCING ACTIVITIES

	1 January 2020 $'000	New loans $'000	Repayments $'000	Reclassification between current and non-current $'000	Transaction costs on debt refinancing $'000	New leases $'000	Acquired on acquisition of subsidiary $'000	Foreign exchange on consolidation $'000	31 December 2020 $'000
Due in one year									
Bank loans	(4,228)	-	39	5,357	(1,249)	–	(3,771)	(3)	(3,855)
Lease liabilities	(746)	–	810	(257)	–	–	(2,714)	(68)	(2,975)
Invoice discounting facility	(2,577)	–	2,577	–	–	–	–	–	–
Due after one year									
Bank loans	(12,168)	(17,187)	-	(5,357)	-	-	(17,691)	(689)	(53,092)
Lease liabilities	(483)	–	–	257	–	(98)	(16,838)	(137)	(17,299)
Total liabilities from financing activities	**(20,202)**	**(17,187)**	**3,426**	**–**	**(1,249)**	**(98)**	**(41,014)**	**(897)**	**(77,221)**

Balances at the end of each reporting period are summarised in note 24, with balances above being shown under interest bearing loans and borrowings on the balance sheet.

	1 January 2019 $'000	New loans $'000	Repayments $'000	Reclassification between current and non-current $'000	Transaction costs on debt refinancing $'000	New leases $'000	Foreign exchange on consolidation $'000	31 December 2019 $'000
Due in one year								
Other loans	(42)	–	72	(29)	–	–	–	–
Bank loans	(4,337)	(33)	4,733	(4,358)	(286)	–	53	(4,228)
Lease liabilities	(685)	–	836	(911)	–	–	13	(746)
Invoice discounting facility	(1,602)	(975)	–	–	–	–	–	(2,577)
Due after one year								
Other loans	(29)	–	–	29	–	–	–	–
Bank loans	(15,932)	(595)	–	4,358	–	–	–	(12,168)
Lease liabilities	(716)	–	–	911	–	(678)	–	(483)
Total liabilities from financing activities	**(23,343)**	**(1,603)**	**5,641**	**–**	**(286)**	**(678)**	**66**	**(20,202)**

Balances at the end of each reporting period are summarised in note 24, with balances above being shown under interest bearing loans and borrowings on the balance sheet.

27. ANALYSIS OF CASH FLOWS GIVEN IN THE STATEMENT OF CASH FLOWS

A reconciliation of profit for the year to cash generated from operations is shown below:

	Notes	2020 $'000	2019 $'000
(Loss)/profit before income tax		(11,163)	7,347
Adjustments for:			
Depreciation charges	16,25	2,299	2,037
Amortisation charges	15	1,607	1,088
Share of profit of associate	17	–	(14)
Gain on bargain purchase	7	(506)	–
Share-based payment	33	1,706	1,917
Movement in fair value of derivatives		740	(2,875)
Exchange adjustment on borrowings	24	382	(715)
Finance costs	10	1,880	1,380
Finance income	10	(36)	(15)
Changes in working capital			
Decrease in inventories	18	648	2,074
Decrease in trade and other receivables	19	3,005	912
Decrease in trade and other payables	23	(159)	(912)
Cash flows from operating activities		403	12,224

28. DEFERRED TAX

	Deferred tax asset $'000	Deferred tax liability $'000	Total $'000
On 1 January 2020	1,221	(2,917)	(1,696)
Acquired on acquisition of subsidiary	9,174	(21,198)	(12,024)
Credit/(charge) for the year:			
Losses in the year	3,043	–	3,043
Temporary timing differences	(551)	–	(551)
Gain on bargain purchase	–	(486)	(486)
Other	(3)	265	262
Deferred tax credit to profit and loss	2,489	(221)	2,268
Deferred tax charge to share option reserve	(167)	–	(167)
Exchange adjustment	278	(358)	(80)
On 31 December 2020	12,995	(24,694)	(11,699)

	Deferred tax asset $'000	Deferred tax liability $'000	Total $'000
On 1 January 2019	1,025	(2,886)	(1,861)
Credit/(charge) for the year:			
Share-based payment	536	–	536
Utilisation of losses	(523)	–	(523)
Other	–	30	30
Deferred tax credit to profit and loss	13	30	43
Deferred tax credit to share option reserve	158	–	158
Exchange adjustment	25	(62)	(37)
On 31 December 2019	1,221	(2,917)	(1,696)

The deferred tax balances consist of the tax effect of timing differences in respect of:

	2020 $'000	2019 $'000
Unused trade losses	3,448	323
Right of return liability	2,254	27
Lease liability	6,349	3
Other short-term differences	944	868
Total deferred tax asset	12,995	1,221

	2020 $'000	2019 $'000
Right of use asset	(6,032)	(21)
Right of return asset	(524)	–
Intangible assets	(12,991)	(1,921)
Inventory	(2,438)	–
Property, plant and equipment	(1,882)	(975)
Other short-term differences	(827)	–
Total deferred tax liability	(24,694)	(2,917)

In addition to the deferred tax assets and liabilities recognised, the group has tax losses that arose in a subsidiary of $1,150,000 (2019: $1,145,000) that are available indefinitely for offsetting against future taxable profits of the company in which the losses arose. A deferred tax asset has not been recognised in respect of these losses as these losses may not be used to offset against taxable profits elsewhere in the group and there is no evidence of these losses being utilised by the subsidiary in the future.

If the group were able to recognise all unrecognised deferred tax assets, the profit would increase by $219,000 (2019: $187,000).

29. TAX PAYABLE

	2020 $'000	2019 $'000
Corporation tax payable	1,521	377
Uncertain tax liabilities	2,839	2,235
	4,360	2,612

The group has identified it is exposed to uncertain tax positions in relation to tax authorities challenging that local subsidiaries are not being remunerated under historical transfer pricing arrangements or that the group has created a taxable presence and asset taxing rights over profits they consider to be allocable in the given territory. The group considers that it is possible that these uncertain tax positions will result in a future outflow of funds to one or more local tax authorities and has recognised current tax liabilities for these uncertainties.

Due to the range of potential outcomes that the directors have identified, these liabilities have been measured using an expected value methodology. Key assumptions underpinning the expected value calculations, in addition to relative probabilities of such tax liabilities crystallising in one or more of the jurisdictions in which the group operates, are (i) the tax periods over which tax authorities would seek to challenge the group's transfer pricing or tax domicile arrangements; and (ii) the quantum of interest and penalties that would be applicable in the event that the group was found to be liable for tax amounts by one or more tax authorities.

It is reasonably possible, on the basis of the directors' existing knowledge, that different outcomes to the assumptions set out above, within the next financial year, could require a material adjustment to the carrying amount of the uncertain tax liabilities.

The group plans to perform a more detailed review of its international tax arrangements, both historically and prospectively, with COVID-19 having impacted on the planned work during 2020. It is expected to conclude in 2021. However, the directors, on the basis of their existing knowledge, do not expect the outcome of this exercise to be materially different to the liability recognised, except for an incremental increase in the uncertain tax liability solely due to the passage of time. In the eventuality that any outcome is concluded at the higher end of the outflow range, then the group would implement mitigating actions.

30. DERIVATIVES

On 9 February 2017, options over C Ordinary Shares in INSPECS Holdings Limited were issued to private equity investors. These options were exercisable upon (i) the completion of a relevant exit event, including an initial public offering; and (ii) cumulative returns to the private equity investors on their B Ordinary Shares being below a minimum return amount prescribed in the option agreement. These options were considered to meet the definition of a derivative over the group's own equity instruments and were recognised as a financial liability measured at fair value through profit or loss due to the variable number of C Ordinary Shares that could be issued.

As part of the share for share exchange on 10 January 2020, these options were exchanged for options over Ordinary Shares in INSPECS Group plc, with the corresponding derivative liability held over these options novated to INSPECS Group plc. On 27 February 2020, these options were exercised with the derivative being revalued at this date to reflect the fair value of options being exercised before the derivative itself was then utilised. This revaluation gave rise to the $740,000 charge recognised through the Income Statement during the year ended 31 December 2020.

Movements in the derivative during the current and comparative year are shown below:

	$'000
Novated to INSPECS Group plc on 10 January 2020	(3,536)
Revaluation of derivative on 27 February 2020	(740)
Foreign exchange movement	(176)
Derivative utilised on exercise of options	4,452
Derivative held as at 31 December 2020	–

31. ULTIMATE CONTROLLING PARTY

On 27 February 2020 INSPECS Group Limited was re-registered to form INSPECS Group plc following admission of its shares on to the London AIM. As a result, the directors believe that there is no ultimate controlling party of the group.

32. RELATED PARTY DISCLOSURES

The group has taken advantage of the exemption, not to disclose related party transactions with wholly owned subsidiaries within the group. Note 18 provides information about the group's structure, including details of the subsidiaries. Below are transactions and balances with related parties that are not owned.

a) Kelso Place LLP

Mr R Totterman is a designated member and controlling owner of Kelso Place LLP. During the year Kelso Place LLP leased the Bath head office building to INSPECS Limited. As at 31 December 2020, a right-of-use asset with net book value of $127,000 (2019: $323,000) and lease liability of $124,000 (2019: $322,000) related to this lease, with depreciation of $152,000 (2019: $152,000) and interest of $6,000 (2019: $6,000) charged to the income statement. At the year-end, the group owed Kelso Place LLP $169,000 (2019: $247,000) in respect of the above.

b) Thorne Lancaster Parker

Mr C D Kay, a director of the company is also a partner in Thorne Lancaster Parker. During the year the partnership charged INSPECS Limited $65,000 (2019: $201,000) in respect of professional services provided. On 31 December 2020, INSPECS Limited owed Thorne Lancaster Parker $nil (2019: $11,000) in respect of the above, with this balance included within trade payables. During the year the partnership charged Norville (20/20) Limited $7,000 (2019: $nil) in respect of professional services provided, with nil being owed at the end of the year (2019: $nil).

c) Farm Street Partners

C M J Hancock is a partner of Farm Street Partners which charged the group monitoring fees of $13,000 (2019: $15,000) during the year. No balance was outstanding at 31 December 2020 (2019:$nil).

d) BXS Projects Limited

A Farrugia is a Director of BXS Projects Limited which charged the group $10,000 (2019: $Nil). No balance was outstanding at 31 December 2020 (2019: $Nil).

e) Key management personnel

The key management personnel of INSPECS Group plc at 31 December 2020 are R B C Totterman, M R A L Lefebvre and C D Kay. The total employee benefits payable in the period were $189,000 (2019: $217,000), $766,000 (2019: $792,000) and $152,000 (2019: $138,000) respectively. In addition, share based payments totalled $508,000 (2019: $539,000) in relation to these individuals.

33. SHARE-BASED PAYMENTS

Certain employees of the group have been granted options over the shares in INSPECS Group plc. The options are granted with a fixed exercise price and are exercisable between one and ten years after the date of grant.

The company recognises a share-based payment expense based on the fair value of the awards granted, and an equivalent credit directly in equity to share option reserve. On exercise of the shares by the employees, the company is charged the intrinsic value of the shares by INSPECS Group plc and this amount is treated as a reduction of the capital contribution, and it is recognised directly in equity. Share options previously held within INSPECS Holdings Limited were converted to share options within INSPECS Group plc as part of the share for share exchange on 10 January 2020 with one option in INSPECS Holdings being exchanged for 137 options in INSPECS Group plc. Share options outstanding at the end of the year have the following expiry date and exercise prices:

Grant date	Expiry date	Exercise price per option $	Number of share options
11 October 2019	Between 1 July 2021 and 1 July 2022	1.27	824,197
27 February 2020	27 February 2025	2.52	1,923,110
22 December 2020	22 December 2025	2.87	1,580,000

The option weighted average exercise price is $2.41 per share. Options were valued at the date of grant.

33. SHARE-BASED PAYMENTS CONTINUED

The expense recognised for employee services received during the year is shown in the following table:

	2020 $'000	2019 $'000
Expense arising from equity-settled share-based payment transactions	1,133	1,917
Taxes charged to the group in respect of options exercised	573	–
Total expenses arising from share-based payment transactions	1,706	1,917

Movements during the year

The following tables illustrates the number and weighted average exercise price ('WAEP') of and movements in share options during the year:

	Number 2020	Number 2019
At 1 January	58,965	36,855
Granted as part of share for share exchange	8,054,558	–
Granted during the year	3,503,110	22,570
Exercised during the year	(7,275,589)	–
Forfeited during the year	(13,737)	(460)
As at 31 December	4,327,307	58,965

WAEP	2020 $	2019 $
At 1 January	67.46	2.94
Share for share exchange	(66.07)	–
Granted during the year	1.44	65.88
Exercised during the year	(0.39)	–
Forfeited during the year	(0.03)	(1.37)
As at 31 December	2.41	67.46

The following table lists the inputs to the models used for the valuation of the options issued during the year.

	Options granted 11 October 2019	Options granted 27 February 2020	Options granted 22 December 2020
Number of options in issue as at 31 December 2020	824,197	1,923,110	1,580,000
Dividend yield (%)	1.0%	1.0%	1.0%
Expected volatility	25.8%-29.8%	28.2%	30.4%
Risk-free interest rate	1.58%-1.66%	0.33%	(0.12)%
Exercise price	$175.00	$2.52	$2.87
Ordinary share price at grant date	$310.00	$2.52	$3.63
Expected life of share options/SARs (years)	1–3 years	5 years	5 years
Model used	Black Scholes option analysis		

The determination of the risk-free interest rate has been based on the UK Sovereign Curve for each grant made during 2020.

34. FINANCIAL RISK MANAGEMENT

The financial assets of the group comprise trade receivables, deposits and other receivables, and cash and cash equivalents which are categorised as financial assets at amortised cost. The carrying amounts of these financial assets are the amounts shown on the consolidated statement of financial position or in the corresponding notes to the financial statements.

The financial liabilities of the group comprise trade payables, bank loans, other loans, financial liabilities included in other payables and accruals, and lease liabilities which are categorised as financial liabilities at amortised cost. The carrying amounts of these financial liabilities are the amounts shown on the consolidated statement of financial position or in the corresponding notes to financial statements.

The fair values of the financial assets and liabilities are included at the amounts at which the instruments could be exchanged in current transactions between willing parties, other than in forced or liquidation sale transactions. At the end of the reporting period, the carrying amounts of the financial assets and financial liabilities of the group approximated to their fair values.

The group's principal financial instruments comprise cash and cash equivalents, bank loans and other loans. The main purpose of these financial instruments is to raise finance for the group's operations. The group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the group's financial instruments are foreign currency risk, credit risk and liquidity risk which arise in the normal course of its business. The Board of Directors reviews and agrees policies to analyse and formulate measures to manage each of these risks which are summarised below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The group's exposure to the risk of changes in market interest rates relate primarily to the group's long-term debt obligations with floating interest rates.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonable possible change in interest rates on that proportion of loans and borrowings affected. With all other variables held constant, the group's loss/profit before tax is affected through the impact on floating rate borrowings as follows, based on the outstanding loan to the bank as at 31 December 2020:

	Loan balance $'000	Increase/decrease in basis points	Effect on profit before tax $'000
2020	56,947	50 BP	285
2019	16,875	50 BP	102

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The group's exposure to the risk of changes in foreign exchange rates relates to both the group's operating activities (when revenue or expense is denominated in a foreign currency) and the group's borrowing when held in a different currency to the functional currency of the company in which they are held.

The group manages its foreign currency risk by selling and buying in the same currencies where possible but does not enter into any material hedging transactions or derivatives. The ability of the group to organise its sales and purchases in similar currencies allows a natural hedge in some circumstances against currency fluctuations.

34. FINANCIAL RISK MANAGEMENT CONTINUED

Foreign currency risk continued

The following table demonstrates the sensitivity at the end of the reporting period to a reasonable possible change in the Pound Sterling (GBP), Chinese Renminbi (RMB) and Macau Pataca (MOP) exchange rates, with all other variables held constant, of the group's profit before tax (due to changes in the fair value of monetary assets and liabilities). These currencies have been selected for sensitivity analysis as they represent the local currencies covering the majority of the trading locations of the group. Moving into 2021, movement in the Euro will have an impact following the acquisition of Eschenbach Holdings GmbH, however due to the acquisition occurring late in the year the impact on 2020 is not considered material. There is no impact on the group's equity except on the retained profits.

2020	Increase/(decrease) in exchange rate %	Increase/(decrease) in profit before tax $
If the US$ weakens against the GBP	5	2,372,000
If the US$ strengthens against the GBP	(5)	(2,372,000)
If the US$ weakens against the RMB	5	–
If the US$ strengthens against the RMB	(5)	–
If the US$ weakens against the MOP	5	(229,000)
If the US$ strengthens against the MOP	(5)	229,000

Credit risk

The group trades only with related companies and third parties who have been assessed via a Dunn and Bradstreet credit check. Receivables balances are monitored on an ongoing basis and the group's history of credit losses of trade receivables is not significant. The credit risk of the group's other financial assets arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial assets.

The group maintains regular control over its trade receivables and normal terms are between 30 and 60 days across the group. The percentage of debtors outside of these terms is shown in the analysis below.

	2020 $'000	2019 $'000	Increase/(decrease) $'000
Trade receivables			
Current	16,584	8,115	8,469
Past due 1–30 days	3,904	1,254	2,650
Past due 31–60 days	3,330	158	3,172
Past due 61+ days	1,331	288	1,043
Total	25,149	9,815	15,334
Percentage over terms	33%	17%	

Raw material costs

The group subcontracts with third party suppliers on fixed terms and thus any immediate commodity risk is mitigated in the short term on these transactions. On the group's own manufactured products, raw materials in 2020 accounted for 32% of cost of sales (2019: 43%). This risk is mitigated by the use of different suppliers and the diversification of production locations across the group. Over the long term, the group can also mitigate the loss of any margins through an increase in its selling price.

Cash deposits

The group invests its excess cash in either weekly or monthly deposits with either HSBC or OCBC. The group considers these deposits to carry a very low risk and typically return an interest rate of around 0.5%.

Liquidity risk

For the management of the liquidity risk, the group monitors and maintains a sufficient level of cash and bank balances deemed adequate by management, along with utilising an invoice discounting facility, to finance the group's operations and mitigate the effects of fluctuation in cash flows. Management reviews and monitors its working capital requirements regularly.

The group reviews on a monthly basis the cash generation and the requirement for capital repayments on the bank loan in its detailed working capital model to ensure sufficient liquidity for operating purposes across the group.

The table below summarises the gross undiscounted cash flows of the group's non-derivative financial liabilities:

	Less than 1 year $'000	1 to 2 years $'000	2 to 5 years $'000	Over 5 years $'000	Total $'000
Bank overdrafts (including invoice discounting facility)	2,642	–	–	–	2,642
Interest bearing loans and borrowings (excluding items below)	4,354	1,011	54,736	138	60,239
Lease liabilities	3,522	2,935	6,345	9,427	22,229
Other financial liabilities – right of return	12,824	–	–	–	12,824
Trade and other payables	42,895	–	–	–	42,895

Capital risk management

The group's capital management objectives are:

- to ensure the group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing products and services commensurate with the level of risk.

To meet these objectives, the group reviews the budgets and forecasts on a regular basis to ensure there is sufficient capital to meet the needs of the group.

The capital structure of the group consists of shareholders' equity as set out in the consolidated statement of changes in equity. All working capital requirements are financed from existing cash resources and borrowing.

The loan covenant ratios achieved by the group, and required by the bank, as at the end of each year were as follows:

	2020		2019	
	Actual	Required	Actual	Required
Leverage	1.6	Below 2.5	0.8	Below 2.0
Debt service cover	N/A	N/A	2.1	Above 1.1
Interest cover	17.1	Above 4.0	12.1	Above 5.0

In February 2020 ahead of the initial public offering, the group entered into a new loan arrangement increasing the available facility. The debt service cover covenant was not included within this new facility. This facility was amended to further increase available funds in November 2020 in advance of the acquisition of Eschenbach Group GmbH. As part of this amendment, the leverage covenant was increased to 2.5 times for the next four quarters, after which it will drop back down to 2.0 times.

35. POST BALANCE SHEET EVENTS

Since the balance sheet date, but before these financial statements were approved, there were no material events that the directors consider material to the users of these financial statements.

Company Statement of Financial Position

as at 31 December 2020

	Notes	2020 $'000	2019 $'000
ASSETS			
Non-current assets			
Investments	3	76,147	–
Current assets			
Loans to group undertakings	4	117,202	–
Total assets		193,349	–
EQUITY			
Shareholders' equity			
Called up share capital	5	1,384	–
Share premium	6	121,940	–
Foreign currency translation reserve	6	(157)	–
Share option reserve	6	867	–
Merger reserve	6	7,296	–
Retained earnings		62,019	–
Total equity		193,349	–
LIABILITIES			
Total liabilities		–	–
Total equity and liabilities		193,349	–

The notes on pages 120 to 126 form part of these financial statements

As permitted by section 408(3) of the Companies Act 2006, a separate Income Statement dealing with the results of the Parent Company, has not been presented. The Parent Company loss for the period ended 31 December 2020 was $2,438,000 (2019: $nil).

The financial statements were approved by the Board of Directors on 18 June 2021 and were signed on its behalf by:

R B C Totterman
Director

C D Kay
Director

Company Statement of Changes in Equity

for the year ended 31 December 2020

	Notes	Called up share capital $'000	Share premium $'000	Foreign currency translation reserve $'000	Share option reserve $'000	Retained earnings $'000	Merger reserve $'000	Total equity $'000
Balance at incorporation		–	–	–	–	–	–	–
Balance at 31 December 2019		–	–	–	–	–	–	–
Changes in equity								
Loss for the year		–	–	–	–	(2,438)	–	(2,438)
Other comprehensive income	6	–	–	(157)	–	–	–	(157)
Total comprehensive income		–	–	(157)	–	(2,438)	–	(2,595)
Issue of share capital	5,6	603	119,215	–	–	–	(22)	119,796
Exercise of share options	5,6	99	2,725	–	(3,140)	2,973	–	2,657
Share-based payments	6	–	–	–	1,133	–	–	1,133
Share for share exchange and creation of merger reserve	5,6	682	–	–	2,874	–	68,802	72,358
Capital reduction	6	–	–	–	–	61,484	(61,484)	–
Balance at 31 December 2020		1,384	121,940	(157)	867	62,019	7,296	193,349

The notes on pages 120 to 126 form part of these financial statements.

1. GENERAL INFORMATION

INSPECS Group plc is a public company limited by shares and is incorporated in England and Wales. The address of the company's principal place of business is 7–10 Kelso Place, Upper Bristol Road, Bath BA1 3AU.

On 10 January 2020 a share for share exchange occurred between INSPECS Group Limited and INSPECS Holdings Limited, resulting in INSPECS Group Limited being the ultimate parent company of the group. Refer to note 22 of the consolidated group accounts for more information. Subsequently, on 27 February 2020 INSPECS Group plc was admitted to the AIM of the London Stock Exchange.

The principal activity of the company was that of a holding company.

2. ACCOUNTING POLICIES

These financial statements were prepared in accordance with the Companies Act 2006 as applicable to Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101), FRS 101 and applicable accounting standards. The financial statements have been prepared on the historical cost basis, and as a going concern. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

As permitted by section 408(3) of the Companies Act 2006, no separate profit and loss account has been presented for the company. As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available in the preparation of the financial statements in relation to the presentation of a statement of cash flows.

Investments

Investments held as fixed assets comprise the company's investment in subsidiaries and are shown at fair value on the date of acquisition, less any provision for impairment. In the case of the share for share exchange which occurred in the period, the number and aggregate value of the shares issued was specified in the share for share exchange agreement.

An annual review of investments is performed for indicators of impairment. If indicators of impairment are identified investments are tested for impairment to ensure that the carrying value of the investment is supported by their recoverable amount.

Current and non-current classifications

The group presents assets and liabilities in the statement of financial position based on current/non-current classification.

An asset is considered current when it is:

- Expected to be realised or intended to be sold or consumed within the usual parameters of trading activity and as a minimum within 12 months after the reporting period;

Or

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

The group classifies all other assets as non-current.

Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and subsequent measurement

Financial assets are classified, at initial recognition and subsequently measured at amortised cost, and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The company's financial assets at amortised cost include loans to group undertakings.

The company does not have any financial assets at fair value through OCI or financial assets at fair value through profit or loss.

Derecognition

A financial asset is primarily derecognised when the rights to receive cash flows from the asset have expired.

Impairment of financial assets

The company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the group expects to receive.

The company considers a financial asset in default when internal or external information indicates that the company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Share based payments

Employees (including senior executives) of the group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in the detailed notes to the consolidated accounts. That cost is recognised in employee benefits expense in the company within which the relevant employee is employed, together with a corresponding increase in share option reserve, over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Details of the group's share option scheme are provided in note 33 of the consolidated financial statements.

Taxation

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the group operates.

Tax liabilities are recognised when it is considered probable that there will be a future outflow of funds to a taxing authority.

Foreign currencies

These financial statements are presented in US$, which is the company's presentational currency. The functional currency of the company is GBP. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimates involve the determination of the quantum of accounting balances to be recognised. Judgements typically involve decisions such as whether to recognise an asset or liability.

2. ACCOUNTING POLICIES CONTINUED

Critical accounting judgements and key sources of estimation uncertainty continued

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

Expected credit loss

In accordance with IFRS 9, the expected credit loss model is used to determine an expectation of an economic loss of an asset. Application of this model to the loans to group undertakings within the company requires estimation by management. No provisions have been recognised in relation to the loans to group undertakings shown in note 4 as they are considered to be fully recoverable.

Carrying value of investments

An annual review of investments is performed to identify any indicators of impairment which, if found, would result in an impairment review being performed. Judgement is required by management in performing this review, including in the identification and interpretation of any indicators.

3. INVESTMENTS

	Shares in subsidiaries $'000
COST AND NET BOOK VALUE	
At 1 January 2020	–
Share for share exchange	69,484
Additions for share based payments in subsidiaries	6,663
At 31 December 2020	76,147

Investments held are shown below. Investments held directly by the company are marked *. The remaining investments are held indirectly by the company.

Subsidiaries	Registered office	Nature of business	Class of shares	% holding
INSPECS Holdings Limited*	7–10 Kelso Place, Bath, Somerset, BA1 3AU, UK	Holding company	Ordinary	100.00
INSPECS Limited[8]	7–10 Kelso Place, Bath, Somerset, BA1 3AU, UK	Eyewear trading	Ordinary	100.00
INSPECS USA LC[8]	18401 US Highway 19N, Clearwater, Florida 33764, USA	Eyewear trading	Ordinary	100.00
Algha Group Limited[8]	7–10 Kelso Place, Bath, Somerset, BA1 3AU, UK	Eyewear manufacturing	Ordinary	100.00
INSPECS Scandinavia AB[8]	184 40 Akersberga, Stockholm, Sweden	Eyewear trading	Ordinary	100.00
Maronglow Limited[1]	7–10 Kelso Place, Bath, Somerset, BA1 3AU, UK	Dormant	Ordinary	100.00
UK Optical Limited[8]	7–10 Kelso Place, Bath, Somerset, BA1 3AU, UK	Dormant	Ordinary	100.00
American Optical UK Limited[8]	7–10 Kelso Place, Bath, Somerset, BA1 3AU, UK	Dormant	Ordinary	100.00
Twenty20 Limited[2]	Elian Fiduciary Services (Cayman) Limited, 89 Nexus Way, Camana Bay, Grand Cayman KY1-9007, Cayman Islands	Holding company	Ordinary	100.00
Bandoma Limited[3]	Suite 6, Watergardens 4, Gibraltar	Holding company	Ordinary	100.00
Ice Foster Limited[3]	Nemours Chambers, Road Town, Tortola, British Virgin Islands	Holding company	Ordinary	100.00
Killine Group Limited[4]	Elian Fiduciary Services (Cayman) Limited, 89 Nexus Way, Camana Bay, Grand Cayman KY1-9007, Cayman Islands	Holding company	Ordinary	100.00

Subsidiaries	Registered office	Nature of business	Class of shares	% holding
Killine Optical Limited[3]	Alameda Dr. Carlos D'Assumpcao, nos 335–341, Edificio Centro Hotline, 21 andar A, em Macau	Eyewear trading	Ordinary	100.00
Neo Optical Company Limited[5]	Neo Town Industrial Zone, Yen Dung District, Bac Giang Province, Vietnam	Eyewear manufacturing	Ordinary	100.00
On Sight Services-Sociedade Unipessoa, Lda[3]	Rua Soares de Passos, 10A/10B	Eyewear design	Ordinary	100.00
O.W. Ventures Limited[3]	Unit 305–7, 3/F, Laford Centre, 838 Lai Chi Kok Road, Cheung Sha Wan, Kowloon, Hong Kong	Corporate management	Ordinary	100.00
Zhongshan Torkai Optical Co Limited[6]	Shagou Industrial Park, Banfu County, Zhongshan, Guangdong, China	Eyewear manufacturing	Ordinary	100.00
Neway (Macao Commercial Offshore) Limited[9]	Alameda Dr. Carlos D'Assumpcao, nos 335–341 Edificio Hot line, 21 andar D, em Macau	Eyewear trading	Ordinary	100.00
Kudos S.R.L.[1]	Via Noai 5, Domeggi Di Cadore, CAP 32040, Italy	Eyewear manufacture	Ordinary	100.00
Primoptic Limited[7]	Alameda Dr. Carlos D'Assumpcao, nos 335–341, Edificio Centro hotline, 21 andar A, em Macau	Eyewear trading	Ordinary	100.00
Yardine Limited[3]	Nemours Chambers Limited, Road Town, Tortola, British Virgin Islands	Holding company	Ordinary	100.00
INSPECS Asia Limited[8]	10F Sing Ho Finance Building, 166–168 Gloucester Road, Hong Kong	Quality Control Services	Ordinary	100.00
Duval Company Group Limited[3]	Nemours Chambers, Road Town, Tortola, British Virgin Islands	Holding company	Ordinary	100.00
Norville (20/20) Limited [2]	7–10 Kelso Place, Bath, Somerset, BA1 3AU, UK	Lens manufacturer	Ordinary	100.00
Eschenbach Holding GmbH [2]	Fürther Straße 252, 90429, Nuremberg, Germany	Holding company	Ordinary	100.00
Eschenbach Beteiligungs GmbH[10]	Fürther Straße 252, 90429, Nuremberg, Germany	Holding company	Ordinary	100.00
Eschenbach Optik GmbH[14]	Althardstraße 70, Regensdorf, Switzerland	Eyeware trading	Ordinary	100.00
Eschenbach Optik B.V.[14]	Osloweg 134, Groningen, Netherlands	Eyeware trading	Ordinary	100.00
Eschenbach Optik spol s. r.o.[14]	K Fialce 35, Prague, Czech Republic	Eyeware trading	Ordinary	100.00
Eschenbach Optik sp. z o.o.[14]	ul. Biedronki 60, Warsaw, Poland	Eyeware trading	Ordinary	100.00
Eschenbach Optik GmbH[14]	Brunnenfeldstraße 14, Linz, Austria	Eyeware trading	Ordinary	100.00
Eschenbach Optik s.a.r.l[14]	64 rue Claude Chappe, Plaisir, France	Eyeware trading	Ordinary	100.00
Eschenbach Optik s.r.l.[14]	Via C.Colombo 10, Torino, Italy	Eyeware trading	Ordinary	100.00
Eschenbach Optik of America, Inc.[14]	22 Shelter Rock Lange, Danbury, USA	Eyeware trading	Ordinary	100.00
Eschenbach Optik of Japan Co.Ltd.[14]	2-15-4 Kanda-Tsukasamachi, Chiyoda-ku, Tokyo, Japan	Eyeware trading	Ordinary	100.00
Eschenbach Optik S.L.[14]	Consell de Cent 106-108, Barcelona, Spain	Eyeware trading	Ordinary	100.00
Eschenbach Optik GmbH[11]	Fürther Straße 252, 90429, Nuremberg, Germany	Eyeware trading	Ordinary	100.00
Eschenbach Optik (Shenzhen)[14]	Block A, Tian An Cyber Times Che Gong Miao, Futian District, Shenzhen, China	Eyeware trading	Ordinary	100.00

3. INVESTMENTS CONTINUED

Subsidiaries	Registered office	Nature of business	Class of shares	% holding
Josef Eschenbach GmbH'+ Co.[14]	Fürther Straße 252, 90429, Nuremberg, Germany	Eyeware trading	Ordinary	100.00
Josef Eschenbach Verwaltung GmbH[15]	Fürther Straße 252, 90429, Nuremberg, Germany	Eyeware trading	Ordinary	100.00
Eschenbach International GmbH[11]	Fürther Straße 252, 90429, Nuremberg, Germany	Holding company	Ordinary	100.00
Eschenbach UK Holdings Ltd[12]	27 Blackberry Lane, Halesowen¸ B63 4NX, UK	Holding company	Ordinary	100.00
International Eyewear Ltd[13]	27 Blackberry Lane, Halesowen¸ B63 4NX, UK	Eyeware trading	Ordinary	100.00
TURA, Inc.[12]	123 Girton Drive, Muncy, USA	Eyeware trading	Ordinary	100.00
Eschenbach Optik A/S[11]	Boskærvej 18, Vejle, Denmark	Eyeware trading	Ordinary	100.00

1 The shares are held by Algha Group Limited
2 The shares are held by INSPECS Limited
3 The shares are held by Killine Group Limited
4 The shares are held by Twenty20 Limited
5 The shares are held by Killine Optical Limited
6 The shares are held by Bandoma Limited
7 The shares are held by Duval Company Group Limited
8 The shares are held by INSPECS Holdings Limited
9 The shares are held by Yardine Limited
10 The shares are held by Eschenbach Holding GmbH
11 The shares are held by Eschenbach Beteiligungs GmbH
12 The shares are held by Eschenbach International GmbH
13 The shares are held by Eschenbach UK Holdings Ltd
14 The shares are held by Eschenbach Optik GmbH
15 The shares are held by Josef Eschenbach GmbH

4. LOANS TO GROUP UNDERTAKINGS

	Loans to Group undertakings $'000
At 31 December 2019	–
Additions during the year	116,303
Interest during the year	845
Foreign exchange	54
At 31 December 2020	117,202

Amounts owed by group undertakings are unsecured, with interest charged at a market rate and have no set repayment date. Due to the amounts having no set repayment date they have been classified as current assets.

5. CALLED UP SHARE CAPITAL

Authorised and issued share capital:

Number:	Class:	Nominal value	2020 $'000	2019 $'000
101,290,898 (2019: 100)	Ordinary	£0.01	1,384	–
			1,384	–

On 10 January 2020, a share for share exchange occurred between INSPECS Holdings Limited and INSPECS Group Limited (subsequently plc). As part of this share for share exchange, all Ordinary Shares in INSPECS Holdings were exchanged for Ordinary Shares of INSPECS Group. Share options in INSPECS Holdings were also exchanged for share options in INSPECS Group, including the options over C Ordinary Shares, which were converted to options over Ordinary Shares in INSPECS Group. On the admission of shares to the AIM of the London Stock Exchange on 27 February 2020, these options previously over C Ordinary Shares were exercised and the related derivative liability was revalued at that date before being extinguished, giving rise to a $740,000 charge to the income statement in the period.

As part of the initial public offering of shares of INSPECS Group plc, 12,051,000 new shares were issued to the market, with a further 8,796,000 shares being created following the exercise of options. On 11 December 2020 a further share placing occurred, creating an additional 30,476,000 shares.

6. RESERVES

Share premium

This reserve records the amount above the nominal value of the sums received for shares issued, less transaction costs.

	2020 $'000	2019 $'000
At 1 January	–	–
Issue of share capital	119,215	–
Exercise of share options	2,725	–
At 31 December	121,940	–

Foreign currency translation reserve

With regards to the foreign currency translation reserve in the company, this is in relation to translating the parent company's accounts into the presentation currency of US$.

	2020 $'000	2019 $'000
At 1 January	–	–
Other comprehensive income	(157)	–
At 31 December	(157)	–

6. RESERVES CONTINUED

Share option reserve

The share option reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration.

	2020 $'000	2019 $'000
At 1 January	–	–
Share for share exchange	2,874	–
Share-based payment charge	1,133	–
Exercise of share options	(3,140)	–
At 31 December	867	–

As part of the share for share exchange with INSPECS Holdings Limited on 10 January 2020, the share option reserve was novated into INSPECS Group plc. The share-based payment charge for the year is recognised against the reserve as per IFRS 2 Share-Based Payments. As options have been exercised during the year, the reserve relating to these options has been released to retained earnings, with a further $167,000 released against the deferred tax asset held in relation to the options exercised.

Merger reserve

This reserve arose on the share for share exchange between INSPECS Holdings Limited and INSPECS Group plc.

	2020 $'000	2019 $'000
At 1 January	–	–
Issue of share capital	(22)	–
Share for share exchange and merger reserve	68,802	–
Capital reduction	(61,484)	–
At 31 December	7,296	–

On 27 February 2020 immediately prior to IPO, options over Ordinary Shares held by PE investors were exercised (see note 30), with the nominal value of the share capital satisfied by capitalisation of the merger reserve of $22,000.

In relation to the share for share exchange, INSPECS Group plc issued 49,898,522 shares for an aggregate value of $69,484,000 (£50,856,000). This gives rise to share capital of $682,000 (£499,000) and a merger reserve in accordance with section 612 of the Companies Act 2006 of $68,802,000 (£50,357,000). The company's merger reserve was subsequently reduced by $61,484,000 (£45,000,000) and the amount so reduced was credited to retained earnings and treated as realised profits.

7. CONTINGENT LIABILITIES

The company's UK subsidiary Algha Group Limited (registered number 03240950) has taken advantage of the audit exemption under Section 479A of the Companies Act 2006 for the year ended 31 December 2020. Consequently, the company has provided the statutory guarantee in relation to the subsidiary's liabilities. The third-party liabilities of the subsidiary at 31 December 2020 amounted to $63,000 (2019: $295,000).

8. POST BALANCE SHEET EVENTS

Since the balance sheet date, but before these financial statements were approved, there were no material events that the directors consider material to the users of these financial statements.

Appendix 1

RECONCILIATION OF UNDERLYING EBITDA (UNAUDITED)

for the year ended 31 December 2020

	2020 $'000	2019 $'000
Revenue	**47,415**	**61,247**
Gross profit	**20,522**	**27,536**
Operating and distribution expenses, net of other operating income	(23,462)	(19,591)
Operating (loss)/profit	(2,940)	7,945
Movement in fair value on derivative	(740)	2,865
Operating (loss)/profit after movement in fair value on derivative	**(3,680)**	**10,810**
Add back: Amortisation	1,607	1,088
Add back: Depreciation	2,299	2,037
EBITDA	**226**	**13,935**
Add back: Share-based payment expense	1,706	1,917
Add back: Restructuring costs	185	–
Add back: Foreign exchange on funding for acquisitions	1,085	–
Add back: Post acquisition insurance costs	563	–
(Less)/add back: Movement in fair value on derivative	740	(2,865)
Underlying EBITDA	**4,505**	**12,987**
Operating (loss)/profit	**(2,940)**	**7,945**
Non-underlying costs	(5,763)	(2,827)
Negative goodwill on bargain purchase	506	–
Movement in fair value on derivative	(740)	2,865
Exchange adjustment on borrowings	(382)	715
Less: Net finance costs	(1,844)	(1,365)
Add: Share of profit of associate	–	14
(Loss)/profit before income tax	**(11,163)**	**7,347**
Tax	2,250	(907)
(Loss)/profit for the year	**(8,913)**	**6,440**

	2020 $'000	2019 $'000
Underlying EBITDA	4,505	12,987
Add back Eschenbach underlying EBITDA loss	1,295	–
Underlying EBITDA excluding Eschenbach	5,800	12,987

Company Information and Advisers

REGISTERED OFFICE

INSPECS Group plc,
7–10 Kelso Place
Upper Bristol Road,
Bath BA1 3AU

NOMINATED ADVISER AND BROKER TO THE COMPANY

Peel Hunt LLP,
120 London Wall,
London EC2Y 5ET

LEGAL ADVISERS TO THE COMPANY

Macfarlanes LLP,
20 Cursitor Street,
London EC4 1LT

AUDITORS

Ernst & Young LLP,
The Paragon Counterslip,
Bristol BS1 6BX

REGISTRARS

Equiniti,
Aspect House,
Spencer Road,
Lancing BN99 6DA

FOR INVESTOR RELATIONS ENQUIRIES PLEASE CONTACT:

investor.relations@inspecs.com

FOR ENQUIRIES PLEASE CONTACT FTI CONSULTING:

Alex Beagley, James Styles, Fern Duncan
on 0203 727 1000 or
inspecs@fticonsulting.com

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REGISTERED OFFICE

INSPECS Group plc
7–10 Kelso Place
Upper Bristol Road,
Bath, BA1 3AU

www.inspecs.com