



COMPANY NUMBER: 03587944.

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2021

Annual Report
and Financial Statements

Contents

Strategic Report

04-39

- 04 Our Business
- 05 Global Market Revenue
- 07 Pandemic Impact
- 08 Market Sectors / Revenue Streams
- 09 Business Model
- 10 Chairman's Report
- 14 SLE Brand
- 16 Our Business Strategy
- 20 Viomedex Brand
- 22 Chief Executive Officer's Review
- 28 Research and Development
- 30 Inspiration Healthcare Brand
- 32 Operating and Financial Review
- 36 Principal Risks and Uncertainties

Governance

40-59

- 40 Statement of Corporate Governance
- 46 Audit Committee Report
- 48 Board of Directors
- 50 Directors' Report
- 54 Directors' Remuneration Report

Financial Statements

60-100

- 60 Independent Auditors' Report
to the Members of Inspiration Healthcare Group plc
- 66 Consolidated Income Statement
- 66 Consolidated Statement of
Comprehensive Income
- 67 Consolidated and Company
Statements of Financial Position
- 68 Consolidated and Company
Statement of Changes in
Shareholders' Equity
- 70 Consolidated Cash Flow Statement
- 71 Notes forming part of the
Financial Statements

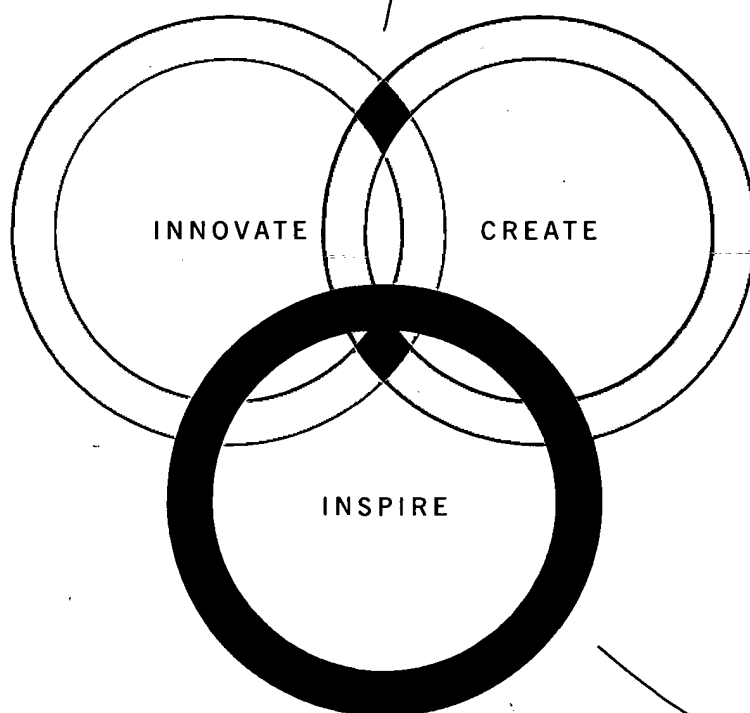
Shareholder Information

101-102

- 101 Shareholder Information
- 102 Advisers

Our mission

Our mission is to provide high quality innovative products to patients and caregivers around the world that help to improve patient outcomes and efficiencies of healthcare organisations with patient focused customer service and technical support.



Financial Highlights

GROSS MARGIN

48.7%

2020 48.2%

NET
CASH
POSITION

£10.7m

2020 £4.5m

ADJUSTED
OPERATING PROFIT²

£4.3m

2020 £1.5m

ADJUSTED
EBITDA¹

£5.6m

2020 £2.3m

GROUP REVENUE

£37.0m

2020 £17.8m

PROPOSED
FINAL
DIVIDEND

0.4p

PER SHARE

Throughout this Strategic Report all figures include the impact of SLE and include 'one time' Covid-19 related orders where relevant unless stated otherwise.

The impact of the SLE acquisition on the results of the Group are set out in more detail in note 27 to the Financial Statements.

¹ Earnings before interest, tax, depreciation, amortisation share based payments and non-trading items, refer to page 34 within the Operating and Financial Review for further information.

² Operating Profit before non-trading items, refer to page 34 within the Operating and Financial Review for further information.

Our Business

ABOUT THE GROUP

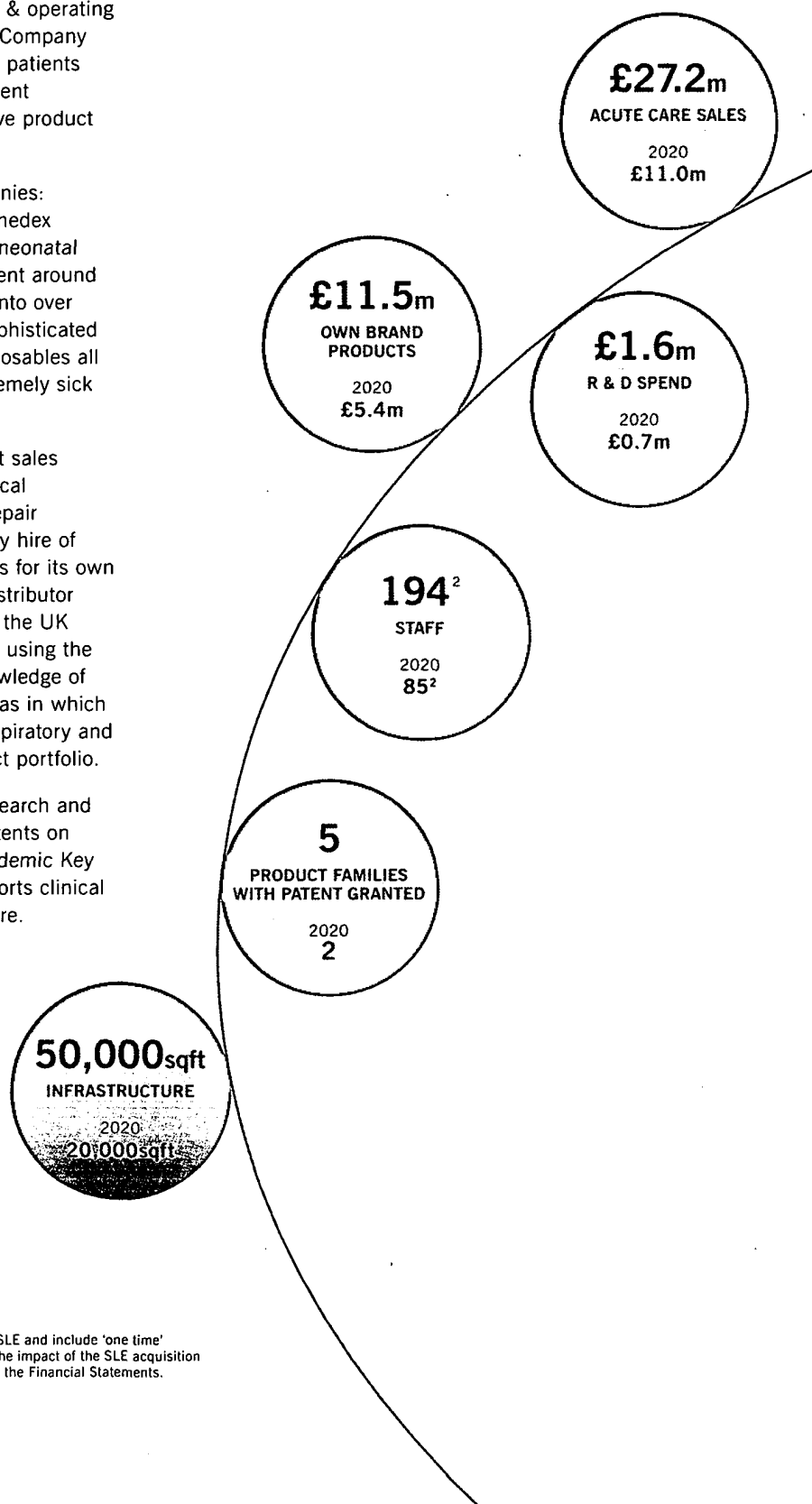
www.inspirationhealthcaregroup.plc.uk

Inspiration Healthcare (AIM: IHC) is a global provider of medical technology for use in critical care & operating theatres with a focus on neonatal care. The Company provides high-quality, innovative products to patients around the world which help to improve patient outcomes, and it actively invests in innovative product opportunities and disruptive technologies.

The Group currently consists of three companies: Inspiration Healthcare Ltd, SLE Ltd and Viomedex Ltd and under these brands the Group sells neonatal intensive care and operating theatre equipment around the world through a network of distributors into over 75 countries. Products range from highly sophisticated capital equipment through to single use disposables all of which can help improve outcomes of extremely sick patients.

In the UK and Ireland the Group offers direct sales for most of its products supported by Technical Service offering on site and return to base repair and maintenance along with 24/7 emergency hire of equipment and long term lease arrangements for its own brand products. The Group also acts as a distributor for 3rd party companies that wish to access the UK and the Republic of Ireland's health systems using the Group's sales and service expertise and knowledge of these healthcare providers. The therapy areas in which we distribute products such as Infusion, Respiratory and Developmental Care add value to our product portfolio.

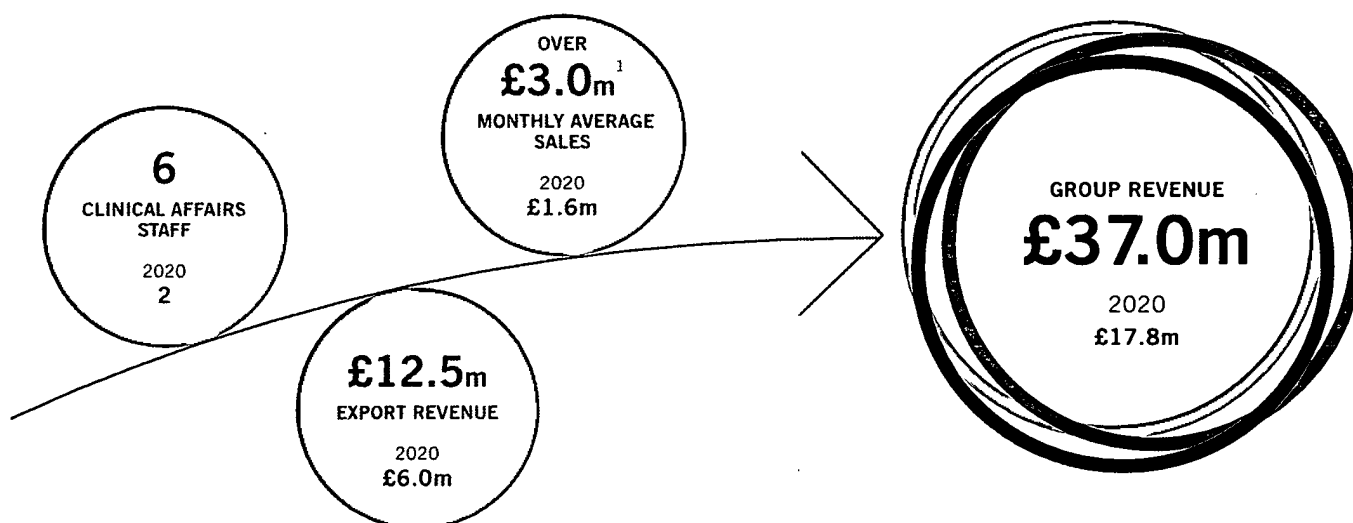
The Group invests in growth through its Research and Development function holding numerous patents on its technology and has strong links with academic Key Opinion Leaders around the world and supports clinical research in the field of neonatal intensive care.



¹ monthly sales average from the total revenue in second half of each year removing 'one off' for Covid-19 revenue

² as at year end 31 January

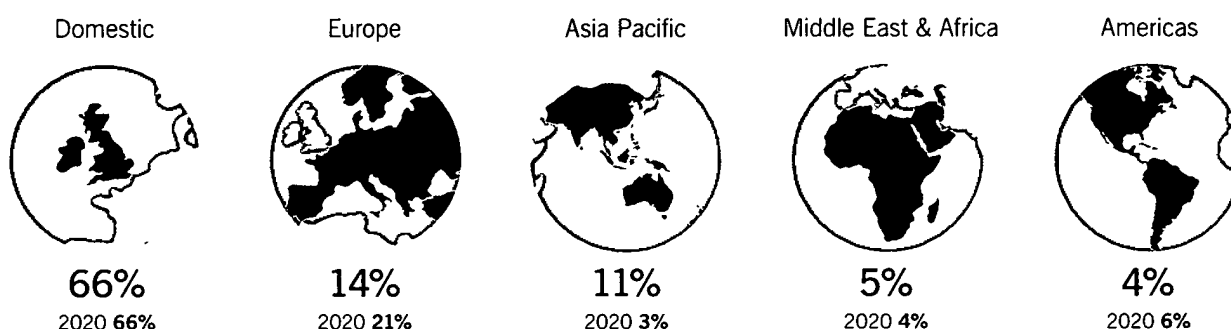
Throughout this Strategic Report all figures include the impact of SLE and include 'one time' Covid-19 related orders where relevant unless stated otherwise. The impact of the SLE acquisition on the results of the Group are set out in more detail in note 27 to the Financial Statements.



GLOBAL MARKET REVENUE

We sell directly into the UK and Ireland "Domestic" and partner with established independent distributors in the rest of the world.

Percentage of Revenue by Market:



2021 OPERATIONAL HIGHLIGHTS

- + Maintained and invested in core skills and staff throughout the pandemic
- + Strengthened management team with appointment of new Chief Operating Officer, Vice President Clinical, Innovation and Compliance, and strengthened second tier management
- + Significant 'one-time' revenues of £7.3m relating to Covid-19 response
- + Agreed to establish a Charity focused on Neonatal Research
- + Brexit import and export issues managed with limited business disruption
- + Increased net cash position enabling further investments to drive growth
- + Patents granted for FirstBreath nCPAP / Project Wave
- + Project Wave trial approved – from first patient end of April 2021

2021 STRATEGIC HIGHLIGHTS

- + Acquisition of leading neonatal ventilator manufacturer, SLE Ltd, transforming scale, profitability and geographic reach of the Group
- + Assisted NHS response to Covid-19 by sourcing ventilators, providing technical advice to the Ventilator UK Challenge consortium and providing a 24/7 support line
- + Integration of Viomedex and SLE acquisitions including plans to relocate manufacturing to modern, purpose-designed factories, offices and R&D facility
- + Strong investor support for share placing to finance acquisition of SLE
- + Projects for investment in software systems to deliver growth across the Group commenced
- + First dividend declared

POST YEAR-END 2021

- + New corporate website
- + Re-branding of Group companies

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everything will

Overall, the impact of the pandemic was beneficial to us, with plans for one off revenues to be re-invested in facilities and infrastructure, along with new products and market development.

PANDEMIC IMPACT

Revenue from ventilator sales:
£7.3 million

Ventilators imported and supplied:
Over 500

Staff:
No staff furloughed or positions lost due to pandemic

VCUK support:
Helped provide over 13,000 ventilators

Ventilator Support:
24/7 telephone support for NHS critical care staff

Covid-19 impacted our business like every other business around the world. Initially, we adjusted to supply ventilators and help support the NHS in the UK during their time of need and subsequently we have spent more time ensuring we can deliver our products whilst keeping our staff safe.

We are pleased that we did not need to take advantage of the UK Government's furlough scheme, keeping all of our staff throughout the pandemic, albeit with shift work and social distancing as appropriate. Overall, the impact of the pandemic was beneficial to us, with plans for one off revenues to be re-invested in facilities and infrastructure, along with new products and market development.

This year we have seen the UK markets start to recover as the vaccination programme gathers pace and the NHS can recommence services that were disrupted by Covid-19. Overall export opportunities remain stronger across the enlarged Group.

However, the speed of recovery is different across the globe and we are mindful the emergence of new variants could force healthcare systems across the world to revert to emergency measures again.

The effect of the pandemic made us review our commitment to medical research and the board felt that it was appropriate to use some of the one off revenues received due to the pandemic for long term good and as such the board took the decision to set up a charitable foundation focused on neonatal research.

be Fine

Market Sectors / Revenue Streams

We have changed the way we look at our Market sectors and Revenue streams since the acquisition of SLE.

Our portfolio consists of 3 product categories*:

Branded

Where we are the legal manufacturer of the product and we control the intellectual property.

Distributed

Where we sell products from a third party predominantly in the UK and Ireland and in some cases worldwide.

Technology Support

That offers usage and ownership options, maintenance programmes and training to allow users to maximise their experience with our Group's products.

Branded £11.5m



2020: £5.4m

Distributed £22.2m



2020: £10.2m

Technology Support £3.0m



2020: £1.9m

We also look at our revenue streams another way*:

Acute Care

The hospital setting mainly neonatal intensive care and also the operating theatre and adult / paediatric Intensive Therapy Units.

Infusion Therapy

We have a growing business around infusion products for various treatments.

Service

Our revenue derived for our service activities.

Acute Care £27.2m



2020: £11.0m

Infusion Therapy £6.0m



2020: £4.6m

Service 3.0m



2020: £1.9m

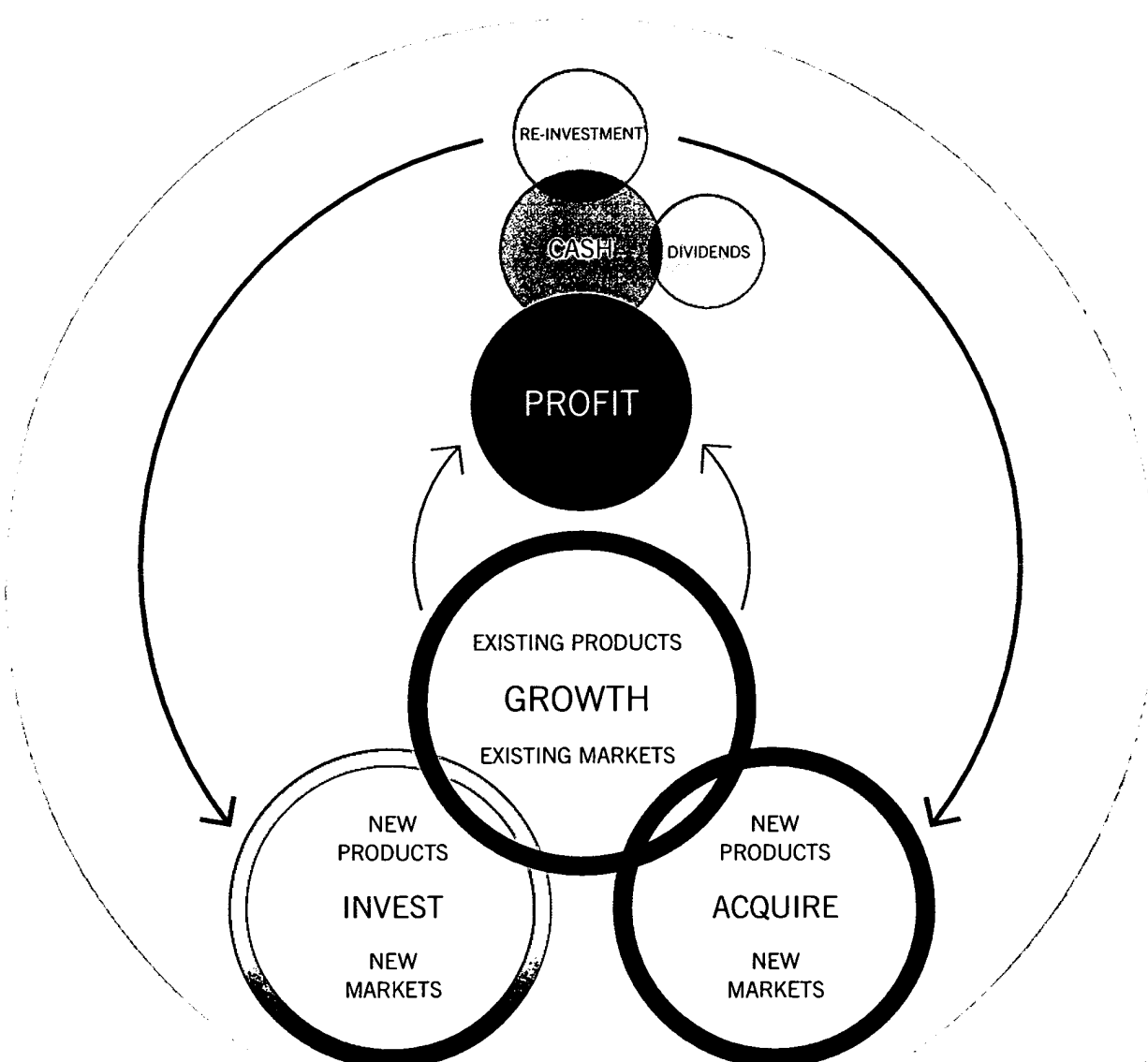
Throughout this Strategic Report all figures include the impact of SLE and include 'one time' Covid-19 related orders where relevant unless stated otherwise. The impact of the SLE acquisition on the results of the Group are set out in more detail in note 27 to the Financial Statements.

*Excludes other revenue £0.3m

Business Model

We are a fully integrated medical technology company covering everything from new product development, manufacturing, sales and marketing along with post-sales support. We invest in our product portfolio to develop new products and technologies and, along with regulatory approvals and investment in sales and marketing activities, we develop new markets. The products move from development and over time help to grow our business organically as they become established products in existing markets.

Our business model has always been to be cash generative from operations as we sell existing products into existing markets. During the product life cycle they generate profits and cash for the Group which in turn we use to re-invest in our business through R&D or by acquisitions for future growth. As we have matured we can afford to pay a dividend to our shareholders.



Chairman's Report

Mark Abrahams
Chairman



As a company
we have always
been at the
forefront of research
and putting the
patient first

Highlights

- + **Acquisition** of leading neonatal ventilator manufacturer, SLE Ltd, transforming scale, profitability and geographic reach of the Group
- + **Assisted** NHS response to Covid-19 by sourcing ventilators, providing technical advice to the Ventilator Challenge UK consortium and providing a 24/7 support line
- + **Integration** of Viomedex and SLE acquisitions including plans to relocate manufacturing to modern, purpose-designed factories, offices and R&D facility
- + **Strong** investor support for share placing to finance acquisition of SLE
- + **First** dividend declared

In a year which saw the world and so many people devastated by Covid-19, I could not be more proud of the role that the organisation and so many of our staff played in supporting our nation's response to this most challenging time. Our team selflessly served our healthcare customers around the world through immense difficulties to deliver much needed equipment and support. This ensured that the babies our innovative products help treat, had the best available care.

In the case of Covid-19, we were honoured to be asked to take a significant role in the Ventilator Challenge UK for the UK Government. There are many of my colleagues to whom I owe a great debt of gratitude for the actions they took to overcome so many challenges.

The financial year ended 31 January 2021 ("FY2021") was a transformational year for the Group with many stand-out moments worthy of note.

The most significant moment for the Group, that will have a long term impact, was the successful acquisition of SLE Ltd, the UK based neonatal ventilator manufacturer.

SLE has an enviable reputation for its technology around the world and its aligned ethos with our vision to become a world leader in neonatology made it the ideal acquisition.

From its long-standing base in Croydon, just South of London, its life support ventilators help keep premature babies alive in over 75 countries around the world and have been leading the way in lung protective ventilation in the newborn for many years.

As a Group, with the acquisition of SLE, we have almost doubled in size by many metrics, with staff numbers rising to around 200 from just under 100, revenue increasing from a run rate of £1.6m per month to over £3m per month in the second half of our financial year compared to the previous year.

The complementary nature of the companies has meant we have already made good progress in extracting operational efficiencies.

The changes in the Group allowed us to review the needs for the business and we were delighted when Brook Nolson moved from a Non-executive position to join the Executive team by taking the position of Chief Operating Officer.

“The financial year ending 31 January 2021 was a transformational year for the Group with many stand-out moments worthy of note”

This allowed us to look for a new Non-executive Director and we were pleased to be able to appoint Liz Shanahan to the Board, bringing new skills to the Board combining healthcare communications, entrepreneurial experience as well as experience in listed companies. She is rapidly becoming a valuable team member.

Toby Foster stepped off the main Board to lead our subsidiary Company, that he co-founded, as Managing Director of Inspiration Healthcare Ltd.

I would like to thank both Brook and Toby for their contribution to the Board and we look forward to them continuing to excel in their new roles within the Group. Finally, Mike Briant retired from the Group leaving his post as Chief Financial Officer.

This gave us the opportunity to promote Jon Ballard from Group Financial Controller to CFO and again I would like to thank Mike for his work and wish Jon continued success in his new role.

Chairman's Report continued

As with every business Covid-19 had an effect on the Group. Along with the challenges, our skills enabled us to contribute in a material way. In March 2020 we were asked whether we could help with the Prime Minister's call to industry to manufacture ventilators. Our team were delighted to help and worked with a group that eventually became the Ventilator Challenge UK ("VCUK") consortium expertly led by Dick Elsy CBE.

It was incredibly humbling to hear of the sacrifice of thousands of people working literally around the clock to deliver over 13,000 ventilators to the NHS and knowing our team played some part in this, made our entire Company proud of what British manufacturing industry can achieve at times of need.

Of course, our efforts for Covid-19 were not just in the VCUK consortium, or indeed supporting the four or five other consortia that sought our help with the verification and validation of potential designs. The Group as a whole imported over 500 state-of-the-art CE marked ventilators for the NHS using our contacts around the world to secure the scarce supply of ventilators and associated accessories.

In addition, we were honoured to receive a contract from the Government to offer 24/7 support to frontline NHS staff on the use of the VCUK challenge ventilators.

Although it was little used due to the way the pandemic evolved in the UK, I was immensely proud that our team stood up and were ready to help the nurses and doctors in the most trying conditions.

As a Company we have always been at the forefront of research and putting the patient first. When we reviewed our year in light of the pandemic and the resultant one off revenue received, we quickly determined that it was the right time to be able to put something back into medical research.

To this end, we decided that an appropriate course of action was to set up a charity that supports smaller scale, but important neonatal research projects. We are pleased to have already made a donation and we look forward to being able to share the full remit of the charity in due course. We believe this funding of research in neonatal intensive care will save lives and improve outcomes.

As to the 'normal' business in was what really an abnormal year, underlying growth in our operations was over 14% and although the product and customer mix were not what we expected at the beginning of the year, it demonstrates the resilience of our product portfolio and that we can meet our customers' needs even in the most difficult of times.

In such an extraordinary year the issues related to Brexit diminished. We did, however, still have a plan to be able to move goods to and from the EU post the transition period. I am delighted to report that through thorough planning and coming together across the operating companies within the Group, we had a robust approach and apart from the inevitable extra paperwork, experienced few, if any, issues.

It has been gratifying to see the results we achieved under such difficult circumstances. Record revenue of £37.0m (FY2020: £17.8 million), with record Adjusted EBITDA¹ of £5.6 million (FY2020: £2.3 million) and record cash at year-end of £10.7 million (FY2020: £4.5 million).

¹ Earnings before interest, tax, depreciation, amortisation share based payments and non-trading items.

With this excellent set of results, we have been able to review the future needs of the business, with relation to the present property and operational infra-structure, and are taking steps to improve this. Our Executive team have found two sites to relocate our main manufacturing businesses to, both within three miles of their current location. At our Hailsham site, we will move production into a new building with a state-of-the-art clean room for our single use medical disposables.

Our facility in Croydon will also move into a purpose designed factory and offices with new technical support facilities and a purpose-built R&D centre for developing new technology. The move to these properties is expected to occur in the current financial year.

This year we have declared a maiden dividend of 0.2p per share at the interim stage. We are proposing a final dividend of 0.4p per share making the total dividend this financial year of 0.6p.

No review of the year should forget our staff and I am not sure there are enough words to say thank you for everything they achieved last year. To keep our factories and warehouses open and supplying equipment around the world, to ensure that our technical support and clinical teams had PPE to be able to visit hospitals to help maintain and train staff on Life Support equipment, through to the unheralded back office staff who kept orders processed, accounts paid, systems and products compliant and new products being developed.

Everyone played a part in a truly transformational year and I think I am right in saying not only on behalf of the Board but also the shareholders and customers, thank you for working so diligently under such difficult circumstances.

OUTLOOK

Our current financial year has started well and in line with our expectations with a strong order book across the Group. However, this year will not be without bumps in the road as we expect there will be issues with Covid-19 in the world economy for a while. We will continue to invest in new product development along with getting further international sales growth through our regulatory clearances and synergies within the enlarged Group.

At this early stage in our financial year, with the vast majority of our products serving a critical area we remain confident that we will continue with our plans for significant future growth and our expectations remain unchanged.

Mark Abrahams

Chairman

14 May 2021

“

Our current financial year has started in line with our expectations with a strong order book across the Group

”

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The SLE6000 with High Frequency Oscillation and the OxyGenie algorithm is truly a world leading neonatal ventilator helping support the breathing of the tiniest babies from the first few minutes of life. Seeing the ventilator being adopted by so many hospitals around the world is a tribute to the years of collective experience in the Company in this specialist field.

Martin Pearcy,
Group Sales Director



SLE

Founded in 1956, SLE is a world leading manufacturer of neonatal intensive care ventilators.

As a fully integrated company, SLE ventilators are designed and manufactured in our facility in Croydon, South London, and sold throughout the world through an expert network of neonatal focused distributors.

Product Focus: SLE6000

Neonatal ventilators have to be able to control the volume and pressure of air and oxygen delivered to the premature baby incredibly accurately. As humans we breathe at around 4-5ml per kilo per breath, meaning a baby weighing 500g would need only 2-2.5ml every time they breathe and at a rate of around 60 breaths per minute premature babies present a unique challenge. Not only does the ventilator have to overcome the technical challenge of delivering air and oxygen into the lungs (oxygenation) and removing the carbon dioxide out of the lungs (ventilation) quickly, the lungs are incredibly fragile and not full developed meaning the ventilator must have accurate control – and to add to the mix, the premature lungs develop very quickly meaning settings one day may need changing the next day.

The SLE6000 has several features over and above conventional ventilation, it has non-invasive modes to help wean the baby away from mechanical ventilation without needing to change machine, and it also has one of the most powerful neonatal High Frequency Oscillatory Ventilation modes on the market, allowing fragile lungs to be ventilated in a protective way. Also, it has the patented OxyGenie algorithm that keeps the baby's oxygen levels automatically within safe limits. This algorithm, developed by the research team at the University of Tasmania, saves valuable nursing time and allows for the baby to spend more time in the targeted range that has been prescribed by the neonatologist.



SLE6000 Infant Ventilator with OxyGenie®

Our Business Strategy

OUR BUSINESS

Inspiration Healthcare Group is an ethical Company with high principles in business. We take our responsibilities towards ESG (Environmental, Social and Governance) seriously and are always looking at ways to improve the way we operate our business, especially around issues that effect society as a whole.

Environmental

We are committed to reducing our impact on the planet wherever possible and undertake regular reviews of our practices to do so. Our aim is to have all operating companies within the Group working towards internationally recognised standards such as ISO14001 with the aim of being accredited to these standards.

We have already initiated some changes to reduce our carbon footprint such as offering electric / hybrid cars as company vehicles to those staff who need company vehicles, we recycle wherever possible and adopt proactive working with suppliers on new materials and production methods to reduce environmental impact. Our operating companies, where applicable, comply to the WEEE (Waste Electric and Electronic Equipment) Regulations in Europe.

We intend to place much greater emphasis on this area of our business over the next few years as we take a more holistic approach to our supply chain and the design of new products. We have an environmental policy which we periodically review to ensure it complies with best practice as well as current legislation.

Social

As a medical technology manufacturer and provider we are deeply embedded in society to improve the outcomes for patients around the world. We are committed to using technology to improving patients lives but will do this in a way that has maximum benefit for society. We have also committed to setting up a charity focused on neonatal research which we hope will have a significant impact on the lives of premature and sick babies in the future.

We are an ethical employer and create a positive working environment for our staff that engages them and develops them. We are an equal opportunities employer and we aim to promote from within the Company wherever possible to give all our staff the chance of improving themselves and support them with relevant training.

We are committed to ethical business practices and ensure all our staff understand their obligations to further ensure that business is conducted in a fair and transparent manner. Our operating companies have codes of conduct for staff for how they should expect to be treated and treat others. As a global supplier we have to respect cultures around the world, recognising that those in different countries have a different way of doing things to us. However, we should never compromise on certain areas of our business and we have policies around issues such as modern slavery, bribery and corruption and money laundering to ensure we are adopting best practice in these areas.

Governance

As a Company listed on the Alternative Investment Market of the London Stock Exchange we follow the Quoted Companies Alliance good practice on Governance. Our Board consists of both Executive and Non-executive Directors. The Non-executive Directors are independent and are there to help guide us where needed along the path of best practice of Corporate Governance and ensure everything we do is of the highest level of governance and transparency.

OUR PRODUCTS

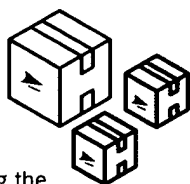
We have a range of leading-edge products manufactured in-house or to our exacting standards to supply around the world. For information on each product please visit our website.

We view our revenue streams in three distinct areas:

Branded Products

Where we are the legal manufacturer of the product and we control the intellectual property.

Our Group companies have a range of products under their own brand where they are the Legal Manufacturer, placing the product on the market around the world.



We invest in R&D activities across our range of products to ensure our products are at the forefront of medical science. Each Company's brand is distinct but follows the same ethos of improving patient outcomes using leading edge technology.

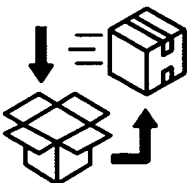
Distributed Products

Where we sell products from a third party predominantly in the UK and Ireland and in some cases worldwide.

These are products for which we have an agreed relationship with the manufacturer to sell their products in certain territories, mainly the UK and Ireland, although in some instances further afield.

Distributed Products complement our own Branded Product portfolio and add value to our customer proposition as we can offer a more comprehensive product range.

We look to find partners who have great technology in niche areas where we can truly add value for the partner and their products truly add value for us. This win-win approach has served us well and helped us offer a wonderful range of technology from around the world to our customers.



“We have a range of leading-edge products manufactured in-house or to our exacting standards to supply around the world”

Technology Support

That offers usage and ownership options, maintenance programmes and training to allow users to maximise their experience with our Group's products.

Not all our customers want the same thing in terms of ownership or maintenance support, some wish to rent / hire equipment, some like to do their own maintenance, others prefer us to do it for them.

Our flexible approach offers short and long-term rental of equipment for a specific patient or period.

We offer planned preventative maintenance directly or through our distribution partners, with genuine spare parts, and technical training.

In our more complex products, we offer different levels of training to ensure that clinicians by the bedside understand the maximum benefits our technology can deliver.



Our Business Strategy continued

“

We sell directly into the UK and Ireland (“Domestic”) and partner with established independent distributors in the rest of the world ”

OUR MARKETS

We are privileged to work in markets that involve trying to save the lives of some of the most fragile patients. Over 15 million babies are born prematurely every year (approx. 1 in 10 live births) and globally this number is rising. Complications from preterm births are the leading cause of deaths in children under 5 and are estimated to cause over 1 million deaths in 2015 (Source: World Health Organisation).

Not all babies who are premature need resuscitation and not all babies who are resuscitated are premature. Our technology is aimed at giving all babies that need it the best possible start in life.

We also sell our own brand of patient warming products that are used within surgery and a range of distributed products for Infusion Therapy for applications such as parenteral feeding, and chemotherapy.

Global Reach

We sell directly into the UK and Ireland (“Domestic”) and partner with established independent distributors in the rest of the world.

This model gives us the best of both worlds, as we can develop and support the direct market, giving access to Key Opinion Leaders (“KOL”) and first-hand product feedback via a team of clinical sales people. We can use the local knowledge and expertise of like-minded distributors, can sell our products alongside others in their portfolio, value to their customers the way we do domestically.

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

OUR VALUES

Outcome changing

We have chosen not to specialise in one therapy area such as thermoregulation or respiratory medicine, but rather to look at how we can develop technologies that will change the outcome of a patient.

Research Driven

Since our inception, our profile within the research community has always been high. We have supported clinical research by offering training, importing goods for trials and general logistics to help researchers solve medical problems through technology.

Pioneering

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

Patient Focused

Ultimately the technology and support we deliver to the healthcare professionals that use it daily is centred around the patient. Through customer service, technical support and clinical applications, we focus on delivering the best product we can to the patient at the right time.

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“

The range of breathing circuits from Viomedex complements the ventilators from SLE and the nCPAP products from Inspiration Healthcare enabling us to offer a better solution for the customer's respiratory needs.

Gordon Machray
National Sales Manager

”

VIOMEDEX

Viomedex has, for many years, been a manufacturer of quality respiratory disposables for premature and sick babies.

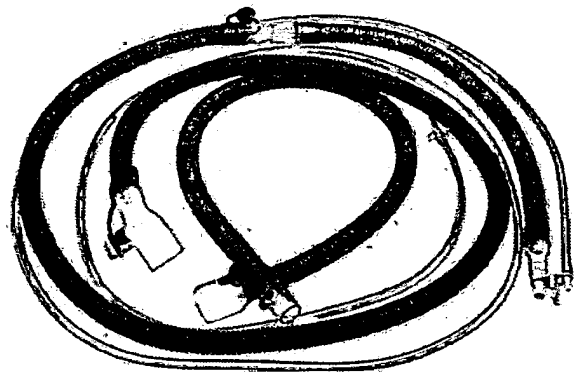
Assembling in a clean room, Viomedex disposables provide the pathway for the air and oxygen between the ventilator and the baby.

Product Focus: BREATHING CIRCUITS

The tubing between the ventilator and the baby is of critical importance and is known as a breathing or ventilator circuit. For babies, the tubing is typically 10mm diameter and corrugated to prevent 'kinking'. Inside the tubing is a heated wire that keeps the gas flowing to the baby at 37°C and prevents 'rainout' (condensation) forming should the gas be humidified.

Breathing circuits are either 'dual' or 'single' limb depending on the type of ventilation being needed by the baby. With a flow and return, a dual limb works on ventilators to give invasive ventilation modes, whereas a single limb breathing circuit is typically used for non-invasive ventilation such as nCPAP (nasal Continuous Positive Airway Pressure) treatment.

The Viomedex Breathing Circuits can work on a variety of ventilators including the SLE ventilators in all modes including High Frequency Oscillation, utilising with other manufacturers' humidifiers systems to deliver gas to the patient interface. Invasive modes would then use an Endo-Tracheal Tube from another manufacturer, or in non-invasive modes on the SLE6000, the Breathing Circuits can join the ventilator to the Inspiration Healthcare non-invasive products such as the Inspire nCPAP, or FirstBreath nCPAP systems.



Single limb non-invasive circuit

Chief Executive Officer's Review

Neil Campbell

Chief Executive



A year of transformation

Our business is now very different to this time last year

Highlights

- + **Strengthened** management team with appointment of new Chief Operating Officer, Vice President Clinical, Innovation and Compliance, and strengthened second tier management
- + **Significant** one-time revenues of £7.3m relating to Covid-19 response
- + **Agreed** to establish a Charity focused on Neonatal Research
- + **Patents** granted for FirstBreath nCPAP / Project Wave
- + **Project Wave** trial approved – anticipated first patient from end of April 2021
- + **Increased** net cash position enabling further investments to drive growth
- + **Maintained** and invested in core skills and staff throughout the pandemic

Firstly, as a supplier of medical technology, we thank the nurses, doctors, biomedical engineers, therapists and support staff in each and every hospital around the world for your dedication to treat patients in such difficult times.

This year was truly exceptional, organically we grew by 14% and benefited from £9.4 million from the acquisition of SLE but we experienced £7.3m of 'one-off' revenue relating to sales of products to the NHS in relation to Covid-19. Our continued cash generative growth has resulted in record net cash and in addition, we have continued to invest for future growth.

Our business is now very different to this time last year, the acquisition of SLE has given the Group a scale and bringing two leading British neonatal focused companies together can only be good for the patients our products treat. Last year we were 'bedding in' the acquisition of Viomedex and now our range is greater still.

Being able to offer a comprehensive range of neonatal respiratory products: from world-leading ventilators, through high quality breathing circuits and onto patented non-invasive interfaces that help the baby breathe easily we really do have a best-in-class offering.

Our other products such as the LifeStart and Unique+ CFM, add diversity to our range whilst adding value to our distributors and ultimately the doctors and nurses by the bedside.

The synergies identified in the acquisition included the ability to leverage the product range around the world through our now enlarged distribution channel. Having brands that are recognised in more countries around the world will allow our partners to accelerate sales once we have the desired regulatory clearances.

Of course, we plan further investment in R&D to enhance our products, get more regulatory clearances around the world, bring our innovative product range to more customers and ultimately help more babies survive and survive well.



Brook Nolson
Chief Operating Officer

Now as a fully integrated medical technology company we have the facilities to allow us to transition from R&D to manufacturing more easily as we can use internal processes in our Business Management System as opposed to trying to integrate into third party management systems.

The acquisition of SLE was mainly funded through a placing during the Summer. Given the difficulties in the wider economy at the time, it was extremely pleasing to see the appetite for new investors to support our business and the placing was oversubscribed. We had also de-risked the transaction by taking out a Revolving Credit Facility, which was duly re-paid within a few weeks of the transaction, leaving the Company debt free but with a facility to draw down £5 million should we need to.

Chief Executive Officer's Review continued

Post-acquisition we started to reorganise the Group and appointed Brook Nolson to the Board as Chief Operating Officer along with Dr Peter Reynolds as our new Vice President – Clinical, Innovation and Compliance and Toby Foster taking responsibility for identifying key growth opportunities for revenue generating areas of our business as Managing Director of Inspiration Healthcare Ltd.



Toby Foster
Managing Director, Inspiration Healthcare Ltd

We have also significantly increased the capability of our senior team, with key roles in areas of Health and Safety, R&D, QARA, Sales management and HR, now working across the Group.

Under Dr Reynolds we have aligned R&D, Clinical Research, Quality Assurance and Regulatory Affairs along with Product Management giving them a focus on delivering new products in a compliant manner that meet the future needs of our customers supported by great clinical research.

With this split in responsibilities, we have a great mix of being able to drive operational efficiencies, revenue and growth, whilst maintaining compliance and developing opportunities through clinical excellence. We have already seen some operational efficiencies from SLE along with increased revenue in the past six months post acquisition and we expect this to continue.

CLINICAL, INNOVATION AND COMPLIANCE

Combining these important areas of our business with strong compliance is exceptionally important as we plan for future innovations. Having insight into first hand trends in treatment, whilst understanding the future regulatory changes, puts us in a strong position to bring new products with outcome improving features to market more quickly.



Dr Peter Reynolds
Vice President Clinical, Innovation and Compliance

Research and Development

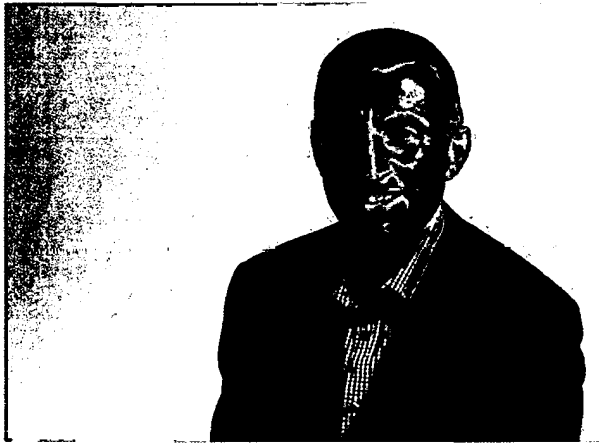
Of note this year, was the developments of Project Wave, where we now have been given clearance by the MHRA to be able to commence trials in the UK. Despite delays due to Covid-19, we continued our work and are ready to commence the trial at the Royal Sussex County Hospital in Brighton as soon as we are allowed. Site initiation was completed in April 2021 and we look forward to reporting progress on the trial in due course.

A new product was also CE marked through our new subsidiary SLE Ltd just after the year-end. In March, we were informed that we had the CE mark for the new SLE1500, a product co-developed with another British medical device company, with SLE Ltd being the manufacturer of the device.

Under a re-organisation of the Group's R&D team, and the retirement of Dr Wei Yu in the Summer of 2020, we were delighted to promote Dr Holly Everitt to Group Head of Research and Development. Our combined team now consists of more than 30 engineers and scientists across various engineering disciplines including Electronics, Software, Mechanical, Validation and Bio-medical based between our sites in the South of England.

Quality Assurance and Regulatory Affairs

The regulatory landscape this year changed again, albeit for 12 months, as the European Commission decided to delay the implementation of the new Medical Device Regulation ("MDR") for 12 months whilst medical device manufacturers battled to produce equipment in the fight against Covid-19. Additionally, the new UKCA mark will come into effect in the UK from 2023.



Simon Travers

Group Head of Quality Assurance and Regulatory Affairs

Last year we reported that our newly acquired subsidiary Viomedex had been 'orphaned' by its Notified Body, LRQA, and was applying to transfer its certificates to an Italian Notified Body, ECM. Despite the complications of Covid-19, the MDR, and Brexit, we were pleased to get all the certificates transferred and we quickly registered the products, alongside all Group products, with our new regulatory partner for the EU, Advena in Malta. This allows all the Group's products to be compliant to the needs of the EU whilst we transition the CE marking under the new regulations during the formal transition period.

We continue to invest in this highly critical area of our business, as we open new markets, and we were delighted when we received confirmation in March 2021 that the Ministry of Health in Japan has authorised the SLE6000 including the OxyGenie algorithm to be placed on the Japanese market. We also continued to work on the Chinese registration for the SLE6000 with OxyGenie and in April 2021 we received confirmation that we have approval to place the product on the market in China. With the growing complexities of regulatory approvals from authorities around the world, the Group has decided to invest in a new electronic Quality Management System which will allow scale beyond our current capabilities.

“

This year was truly exceptional, organically we grew by 14% ”

Clinical Research and Education

This area of our business combines the need for research for compliance (to show our products are safe to be used on patients), along with research for product promotion (to show our products are effective and meet the needs of the patient). Being able to combine this with education allows us to bring together key elements to support the growth of the Company.

We strongly believe that this area of investment will add long term value to our business.

OPERATIONS AND COMMERCIAL ACTIVITIES

Under Chief Operating Officer, Brook Nolson, we have combined all commercial and operational activities of the business. Having sales management, customer service, technical support, along with manufacturing (both in-house and outsourced), logistics and supply chain management, aligned we have improved operational efficiencies as well as meeting our customer's expectations. The Chief Operating Officer also has direct responsibility for Sustainability and Health and Safety across all sites.

Strategic Report

Governance

Financial Statements

Shareholder Information

Chief Executive Officer's Review continued

Sales

Our UK and International sales structure is headed up by our Group Sales Director, who is responsible for maximising the Group's revenue through ensuring its distribution channels are optimised and the products are properly supported in the market. Since the acquisition of SLE Ltd we have re-organised our sales team to allow greater focus on the cross-selling opportunities within the Company.



Martin Pearcy
Group Sales Director

Our international team is a total of five, and our UK and Ireland team is now twelve for critical care as well as our infusion therapy team which has a broader remit from the historic Homecare team, and sells products like pain pumps into hospitals.

The marketing team now has a more defined split between strategic marketing, product management and marketing communications. This division has allowed us to see the opportunities greater for the products and communicate this to our customers and give us a greater corporate presence in our key markets.

We have also strengthened our clinical support areas by investing in a remote learning system and continue to look at ways of getting our training and value proposition out around the world even with the impediment of Covid-19.

TECHNICAL SUPPORT & CUSTOMER SERVICE

We have made strides within our technical support team to integrate the SLE team with the Inspiration Healthcare team. With adequate cross-training, we now have a team of 15 engineers and technicians who, can service equipment in UK hospitals or have equipment shipped back to our laboratories for repair and maintenance. Along with this, we offer training to hospital bio-medical engineers and our world-wide distribution partners either at our premises or on-site.

Our technical support capability for our acute care products will be centred in our Croydon facility where there is greater capacity for training and expansion. This consolidation will allow us to improve our already excellent customer service for Technical Support across all the products sold within the Group.



Melissa Mark-Joyce
Group Health, Safety and Sustainability Manager

HEALTH AND SAFETY AND SUSTAINABILITY

Given the change in the business, now a fully integrated business with our own manufacturing in two sites (Hailsham and Croydon), along with the impact of Covid-19, we have invested more heavily in Health and Safety and were delighted that Melissa Mark-Joyce joined us as Group Health, Safety and Sustainability Manager.

By placing a greater emphasis on these extremely important aspects of our business, we can improve the working environment for our staff along with reducing our impact on the planet.

MANUFACTURING, LOGISTICS AND SUPPLY CHAIN

We have two manufacturing sites within our business as well as using outsourced contract manufacturers for specific products (mainly the historic Inspiration Healthcare Ltd products). We have divided the manufacturing into two distinct areas of expertise: we can assemble our own single use / sterile devices in our own clean room at our facility in Hailsham; and we can manufacture ventilators along with other capital goods at our facility in Croydon.

We have taken a long look at our manufacturing processes and capability, to ensure that we can meet future demands with new products to be made in-house and have initiated exciting new projects to invest in state-of-the-art production facilities in Hailsham and Croydon, both a short journey from where we currently operate.



Tina Maynard
Group Head of Human Resources

These new facilities will allow expansion, a better working environment for our staff but also importantly, we expect to gain large efficiency benefits due to the improved layout and flow of work.

HUMAN RESOURCES

With staff levels now around 200, we have taken the step to promote Tina Maynard to Group Head of Human Resources. This will allow a Group approach to benefits and well-being of our staff across all our sites.

Last but by no means least I want to pay a special thanks to our wonderful staff across the Group who stepped up in this difficult year.

Many worked tirelessly on the need to supply ventilators (and their support) from around the world for Covid-19 under extremely difficult conditions at the start of the pandemic, but perhaps equally importantly, continuing to manufacture and supply the products and services that our customers around the world needed this year.

Neil Campbell

Chief Executive

14 May 2021

KEY PERFORMANCE INDICATORS ("KPI'S")

	2021	2020
Revenue growth ¹	108%	15%
Proportion of revenue from international markets ²	34%	34%
Revenue from Branded products ³	31%	30%
Growth in revenue from Branded products ⁴	113%	23%
Revenue generated from products developed ⁵	3%	15%
Gross margin ⁶	49%	48%
R & D of revenue ⁷	4%	4%
Adjusted EBITDA margin ⁸	15%	13%
Adjusted Operating margin ⁹	12%	9%
Underlying diluted EPS ¹⁰	6.9p	3.6p

FY2021 KPI's include both 'one off' Covid-19 revenue and revenue generated by SLE from date of acquisition

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

² The proportion of total revenue generated from international markets, which excludes Ireland as we class Ireland as a domestic market. Our aim is to increase revenue generated from international markets. This year International revenue benefited from the acquisition of SLE. Excluding SLE international revenue decreased as a result of Covid-19 as reported in the Operational and Financial Review on page 33.

³ The proportion of total revenue generated from Branded products. This includes products where we are the legal manufacturer. Our aim is to increase the proportion of revenue generated from such products.

⁴ Year-on-year growth in Branded products from the date of acquisition in FY2021.

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

⁶ Gross profit expressed as a percentage of total revenue as a result of increasing the revenue measures above.

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

⁸ Adjusted earnings before interest, tax, depreciation, amortisation, share based payments and non-trading items as a percentage of total revenue. Adjusted EBITDA is considered by the Board to be a useful, alternative performance measure, reflecting the operational profitability of the business. For investors it is especially useful for comparing companies with different capital investment, debt and tax profiles. Our aim is to increase Adjusted EBITDA margin over time.

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

¹⁰ Underlying diluted EPS is measured before non-trading items. FY2020 also adds back prior year tax charge on intangible assets acquired from the acquisition of Vio Holdings Limited. See note 8 to the financial statements for more information.



Innovate | Create | Inspire

“

Having such broad skills
in the R&D team means
we can develop a range
of leading edge medical
technology for the most
fragile of patients”

Dr Holly Everitt
Group Head of Research
and Development

Research and Development

As a technology based company it is imperative to stay ahead of our competition by investing in Research and Development. Our R&D Team, headed up by Dr Holly Everitt, has grown to over 30 engineers and scientists covering a broad spectrum of skills to be able to design everything from a simple plastic connector for gases to flow through to a high frequency oscillatory ventilator delivering up to 15 tiny pulses of gas a second to a premature baby.



Dr Holly Everitt
Group Head of Research and Development

We strive to be innovative and partly due to acquisition and partly organic, our IP portfolio has also grown over the past few years.

Although not every feature on each device has a patent, some are just good old-fashioned know-how, being able to protect our investment in R&D through patents is increasingly important.

OUR INTELLECTUAL PROPERTY PORTFOLIO

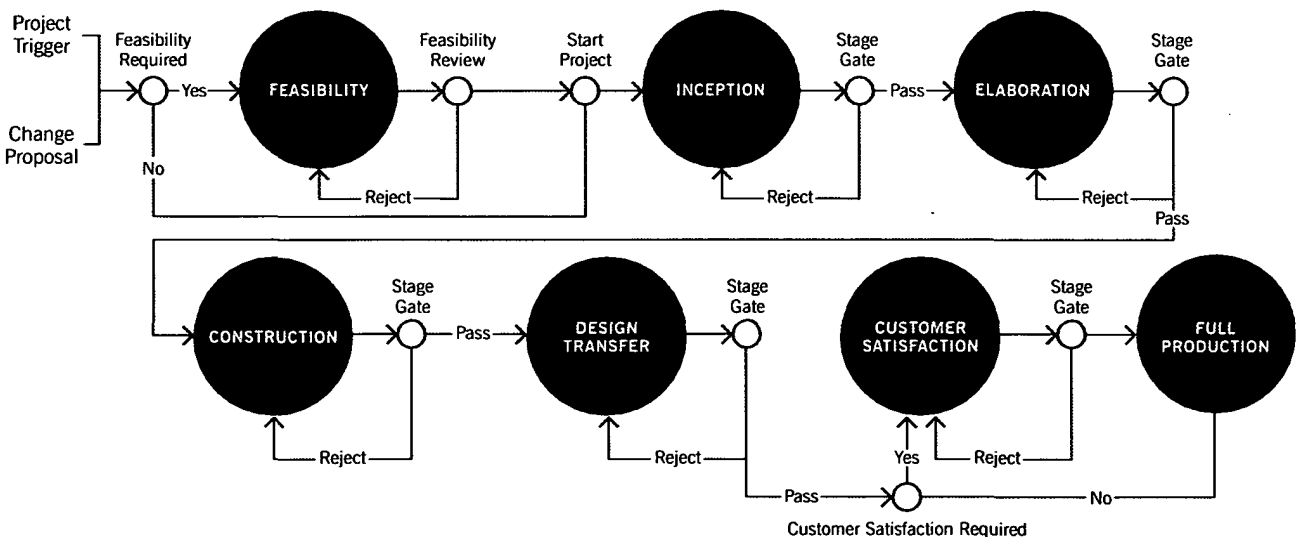
We now have patents on five product groups covering:

- + **Inspire rPAP** – Where we licence the patent exclusively for our neonatal resuscitation disposable that reduces the imposed work of breathing for the baby by over 90%.
- + **FirstBreath nCPAP** – Developed in-house by the team at Viomedex, our new nasal continuous positive airway pressure device with its novel fixation method making it easier for the device to be placed on the fragile baby's head.
- + **OxyGenie**– This exclusively licenced patented algorithm is currently an optional feature of the SLE6000, offering closed loop control to maintain the baby's oxygen levels and thus automatically increases the time that the baby oxygen saturations are at the level the doctors have prescribed.
- + **Inditherm Technology** – Our patient warming system has 'inditherm technology' at its core, a novel way of heating a polymer which the patient can lie on.
- + **Project Wave** – We have taken an exclusive licence for this technology to be able to deliver a new non-invasive respiratory device that stimulates breathing through simulating limb movement which is undergoing clinical trials in the UK.

Medical devices need to be tested incredibly thoroughly, not just to make sure they work, but to make sure they are safe. A lot of time goes into the documentation of hazard identification and the verification and validation to ensure the features designed in the products will be safe when used on a patient.

We use a stage gate process, to ensure we can show our regulators how we have ensured the product is safe with sign off by independent reviewers as we move from inception of the product, through feasibility, design, verification and validation and ultimately through to transfer to manufacture. Of course, the process doesn't stop there with clinical feedback post-market ensuring we constantly check the safety data for all our devices.

R&D STAGE-GATE PROCESS



Innovate | Create | Inspire

“

The LifeStart is the first purpose-built device to facilitate delayed (optimal) cord clamping and stabilisation of the baby at the mother's side. It is exciting to have a product that is being disruptive in the market and allowing doctors, neonatal nurses and midwives to improve patient outcomes at the very start of life.”

Owen Wainwright
Clinical Specialist

INSPIRATION HEALTHCARE

Inspiration Healthcare was founded in 2003 and has become a world leading supplier of neonatal intensive care equipment.

Inspiration Healthcare designs and develops, as well as selling throughout the world, has used contract manufacturers for flexible production, allow management to focus resources on delivering disruptive and novel products with first class customer service.

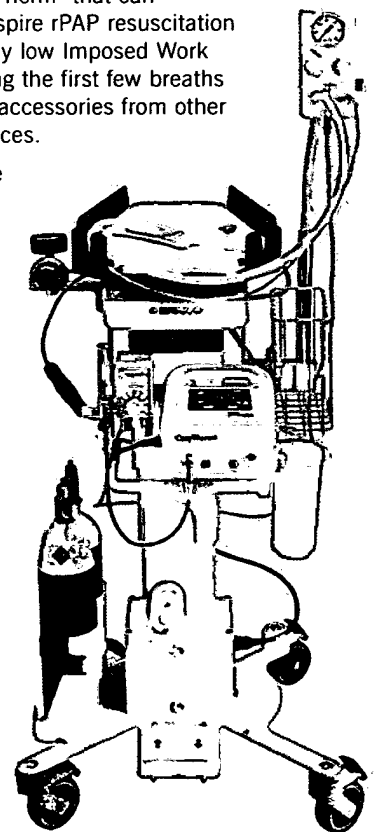
Product Focus: LIFESTART

The LifeStart platform allows resuscitation and stabilisation of the newborn to be carried out at Mum's side and even before the cord is clamped. Current practice is changing with medical research showing the benefits of optimising the time of clamping of the umbilical cord leading doctors to wait a short while after birth to give sick babies a better outcome. Bringing the resuscitation equipment next to mum can offer a holistic approach to childbirth, allowing mum and dad (or a birthing partner) to be more engaged with their baby at such a critical time.

The LifeStart is relatively simple as a product, height adjustable and shaped to be used in both vaginal and caesarean section deliveries. It is designed with a small footprint to allow the medical staff access to the baby however, also allows additional products to be added to it to give the customer flexibility around their own practice.

Accessories such as the CosyTherm² that can keep the patient warm, the Inspire rPAP resuscitation system that offers exceptionally low Imposed Work Of Breathing to the baby during the first few breaths of life can be used as well as accessories from other suppliers such as suction devices.

All-in-all it provides a versatile platform and a family-centred approach to a difficult birth with benefits to the baby and the parents.



LifeStart™

Operating and Financial Review

Jon Ballard

Chief Financial Officer and Company Secretary



Strong cash
generation from
operating activities

Financial Highlights

- + Group Revenue
£37.0 million 2020 £17.8m
- + Adjusted EBITDA¹
£5.6 million 2020 £2.3m
- + Adjusted Operating Profit²
£4.3 million 2020 £1.5m
- + Net Cash Position
£10.7 million 2020 £4.5m
- + Gross Margin
48.7% 2020 48.2%
- + Proposed Final Dividend
0.4p per share

Throughout this Strategic Report all figures include the impact of SLE and include 'one time' Covid-19 related orders where relevant unless stated otherwise. The impact of the SLE acquisition on the results of the Group are set out in more detail in note 27 to the Financial Statements.

¹ Earnings before interest, tax, depreciation, amortisation share based payments and non-trading items.

² Operating Profit before non-trading items.

I am delighted to report that the Group performed ahead of expectations for the financial year ended 31 January 2021 ("FY2021") despite current Covid-19 related challenges.

REVENUE

Group revenue increased by 108% to £37.0 million (FY2020: £17.8 million).

Underlying revenue increased by 14% to £20.3 million (FY2020: £17.8 million) excluding contributions from both SLE Limited ("SLE"), acquired on 7 July 2020, of £9.4 million and 'one off' Covid-19 UK NHS ventilator and ancillary product orders of £7.3 million.

Group domestic revenue (excluding revenue relating to the 'one off' Covid-19 related orders) increased by 46% to £17.1 million resulting from a strong order book coming into the financial year, continued increased demand of our distributed product range of parenteral feeding products from Micrel and a greater installed base of products requiring consumables. The Group also benefited from a full year contribution from Viomedex and 30 weeks from SLE.

Internationally, Group revenue grew by 108% to £12.5 million benefiting primarily from the acquisition of SLE. Excluding SLE, international revenue decreased by 24% to £4.6m due to a change of buying patterns of overseas critical care providers focusing resources on Covid-19 and not changing practice. SLE manufacture ventilators for premature and sick babies and in previous years have derived approximately 90% of revenue from exports. Their export business proved robust during the pandemic.

BRANDED PRODUCTS

Branded Product revenue grew 113% to £11.5 million in the year benefiting from the acquisition of SLE. Excluding SLE, Branded Product revenue decreased by 13% to £4.7 million in the year reflective of both the healthcare sector concentrating on Covid-19 in the short term and the deferral of operating procedures. The novel nature of the Inspiration Healthcare products such as the Inspire rPAP and LifeStart, coupled with limited access to customers as a result of Covid-19 restrictions, resulted in an inability to change customer buying habits. Customers therefore continued to purchase known products rather than looking to adopt new practices.

“

Cash and cash equivalents as at 31 January 2021 amounted to £10.7 million, an increase of £6.2 million”

”

DISTRIBUTED PRODUCTS

Distributed Product revenue grew by 117% to £22.2 million in the year inclusive of the £7.3 million 'one off' UK NHS ventilator and ancillary product orders. Excluding both 'one off' revenue and the contribution from SLE, Distributed Product revenue grew by 31% to £13.4 million as a result of both an unwinding of back orders in relation to products that could not be shipped during the prior year and continued strong performance of the Micrel parenteral feeding products.

TECHNOLOGY SUPPORT

Technology Support revenue including technical support increased by 54% to £3.0 million in the year, again benefiting from the acquisition of SLE. Excluding SLE, Technology Support Revenue remained broadly in line with the prior year decreasing by 3% year-on-year. This is reflective of the increased difficulty in accessing customers during the year as a result of Covid-19.

Operating and Financial Review continued

GROSS PROFIT

Gross Profit of £18.0 million (FY2020: £8.6 million) increased by 110% due to both a year-on-year increase in revenue and an improved gross margin which increased from 48.2% to 48.7%. Gross margins primarily benefited from improved Branded Product margins, contribution from SLE and the consolidation of manufacturer margins on a number of Group products resulting from the acquisition of Viomedex.

OPERATING PROFIT

	2021 £'000	2020 £'000	Change £'000
Adjusted EBITDA	5,611	2,272	3,339
Depreciation	(606)	(322)	(284)
Amortisation of intangible assets	(622)	(295)	(327)
Impairment of intangible assets	(47)	(72)	25
Share Based Payment	(78)	(62)	(16)
Adjusted Operating Profit	4,258	1,521	2,737
Non-trading items:			
Impairment of investments	–	(111)	111
Acquisition related expenses	(579)	(272)	(307)
Final settlement of deferred consideration	(435)	–	(435)
Operating Profit	3,244	1,378	2,106

The Group reported Adjusted Operating profit of £4.3 million, an increase of 180% on prior year (FY2020: £1.5 million). The year-on-year increase is primarily due to the increase in underlying revenue plus contributions from Viomedex, SLE and the 'one off' Covid-19 related revenue; offset in part by increased administrative expenses.

Administrative expenses pre non-trading items increased by 95%. This increase included a full year of overheads associated with Viomedex, 30 weeks of SLE and additional 'one-time' Covid-19 related expenses, along with the Group's planned continued investment in personnel to maintain revenue growth. The Company also donated £250,000 to charity during the year, please see Chairman's report on page 12 for further detail. Investment in R&D amounted to 4.3% (2020: 3.7%) of revenue.

The Group delivered Operating profit of £3.2 million, an increase of 185% on the prior year. The growth was due to the improved Adjusted Operating profit as described above off-set in part by increased non-trading items.

Amortisation of intangible assets was £0.6 million, £0.3 million higher than the prior year. This is due to increased amortisation of acquired intangible assets in relation to both a full year of Viomedex and the acquisition of SLE.

Non-trading items totalled £1.0 million, a 0.6 million increase on prior year, of which £0.4 million related to the issue of 671,296 new ordinary shares in the Company to the vendors of Vio Holdings Limited (the parent Company of Viomedex) in full and final settlement of the contingent consideration arrangements relating to the acquisition. The remaining £0.6 million represents expenses incurred in relation to the acquisition of SLE.

Adjusted EBITDA amounted to £5.6 million, an increase of £3.3 million over the prior year mainly due to increased revenue offset in part by increased administrative expenses as detailed in the table and described above. Adjusted EBITDA margin improved from 12.8% to 15.2% due to the impact of the 'one off' Covid-19 related revenue.

TAXATION

The Group has recorded a tax charge of £318,000 (FY2020: £393,000). The effective tax rate in FY2021 was 10% (FY2020: 35%). For more detail see note 7 of the Consolidated Financial Statements.

EARNINGS PER SHARE

Basic EPS and diluted EPS (allowing for the weighted average of shares issued in relation to the acquisition of SLE and share options outstanding) was 5.1p per share (FY2020: 2.2p).

Underlying diluted EPS¹ was 6.9p per share, up 90% on FY2020 of 3.6p. The year-on-year increase is due mainly to the improved growth in operating profit as set out above.

¹ EPS Reconciliation from Diluted EPS

	2021 pence	2020 pence
Diluted earnings per share	5.07	2.15
Adjusted for:		
Non-trading items	1.82	1.13
Tax charge on intangible assets acquired from the acquisition of investments		0.34
Underlying diluted earnings per share	6.89	3.62

CASH FLOW

Cash and cash equivalents as at 31 January 2021 amounted to £10.7 million, an increase of £6.2 million over the prior financial year-end. Net cash generated from operating activities was £4.7 million, £3.3 million higher than in FY2020. Cash outflow on investing activities totalled £14.1 million (FY2020: £3.4 million), of which £13.2 million related to the acquisition of SLE; £19.5 million cash consideration offset by £6.3 million of cash acquired within the business, see note 27 for further information. The remaining £0.9 million consisted of capitalised development expenditure and the purchase of property, plant and equipment. Investing activities are offset by financing activities of £15.5 million (FY2020: £3.8 million), net of direct share issue costs, relating mainly to the proceeds obtained from the Group's fund raise in relation to the acquisition of SLE. The Group also utilised £1.5m of the £5m Revolving Credit Facility ("RCF") as part of the acquisition of SLE which has been repaid in full during the year. The £5 million RCF remains undrawn and in place and is available for further utilisation should the Group require.

NET ASSETS

The value of non-current assets as at 31 January 2021 totalled £19.2 million (FY2020: £4.7 million). The year-on-year increase of £14.5 million relates mainly to a £11.6 million addition of goodwill and acquired intangible assets plus the addition of a £2.8 million right of use asset on the acquisition of SLE.

Inventory increased to £8.2 million (FY2020: £3.1 million) mainly as a result of the acquisition of SLE.

Trade and other receivables increased by £1.0 million to £5.2 million (FY2020: £4.2 million) primarily due to an increase in trade receivables driven by increased revenue and the acquisition of SLE offset by improved collections. Trade and other payables increased by £2.1 million to £6.8 million (FY2020: £4.7 million) reflecting primarily a £1.0 million increase in accrued expenses as a result of the acquisition of SLE and increased commission and bonus accruals, plus a £0.5 million provision included within the fair value balance sheet of SLE.

Net Assets increased by £21.0 million or 199% to £31.6 million as at 31 January 2021.

DIVIDENDS

The interim dividend of 0.2p per share (FY2020: £nil) was paid on 29 December 2020. The Board is recommending a final dividend of 0.4p per share (FY2020: £nil) to make a total dividend for the year of 0.6p per share (FY2020: £nil). If approved by shareholders, the final dividend will be paid on 30 July 2021 to shareholders on the register on 2 July 2021.

ACQUISITION OF SLE LIMITED

On 7 July 2020 the Group acquired the entire share capital of SLE Limited, a well-known UK based manufacturer and supplier of Neonatal ventilators, for £16.2 million cash and £1.8 million shares. The Group paid £4.5 million to the vendors upon the agreement of the Completion Accounts relating to the acquisition.

The acquisition was funded through an oversubscribed share placement raising £17.0 million, £16.0 million after costs, and a £1.5 million utilisation against the £5 million RCF which has subsequently been repaid.

Further details are disclosed in note 27 of the Consolidated Financial Statements.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

On a Group basis the business review and future prospects are set out in the Chairman's Report on pages 10 to 13 and the Chief Executive Officer's Review on pages 22 to 27. Key performance indicators are discussed on page 27. The Board believes that overall the Annual Report and Consolidated Financial Statements are fair, balanced and understandable.

SHARE PRICE DURING THE YEAR

The range of market prices during the year 1 February 2020 to 31 January 2021 was 58.0p to 89.0p and the mid-market price of the Company's shares at 31 January 2021 was 89.0p.

Jon Ballard
Chief Financial Officer
14 May 2021



Principal Risks and Uncertainties

The Group's principal risks, our actions to mitigate those risks, a directional indication of whether the risks have increased, decreased or remained about the same, together with further commentary are set out in the table on the following pages. This list comprises the material risks post mitigating actions and is drawn from a more complete list of risks which are reviewed quarterly by the Board.

RISK APPETITE

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

Levels of risk were considered against the following categories:

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

Our Strategic risks appetite is assessed as level 4 (Seek) as we aim to be innovative in our specialist areas.

For Operational risks we adopt level 2 (Cautious) as our customer service is integral to our business model.

Our risk appetite for Financial & Compliance is level 1 (Minimal) as we work in a highly regulated industry and have valuable IP to protect.

The acquisition of SLE Ltd in the year has transformed the Group and its risk profile but we remain a medical technology business, supplying lifesaving and essential medical equipment for which there is ongoing strong demand and a high degree of regulation.

The experience of Covid-19 and Brexit demonstrated the resilience of our business model and the agility and commitment of our staff. Our business operations continue in full, albeit via significant remote working.

Covid-19 still remains a risk to our business in the following areas:

- **Production:** We may find difficulties in the supply chain for materials and transport.




We have mitigated this by placing forward orders, working with long standing suppliers and have registered for Government backed schemes for essential suppliers for priority freight.

- **Staff:** Our staff may fall ill or have loved ones who need looking after.





We have a flexible approach to home working in line with UK Government advice. We have provided all staff with PPE (Personal Protective Equipment) and in-house test kits. We have shift work in the factories and social distancing in offices.




- **Customers:** It is difficult to engage with customers as before as hospital staff concentrate on Covid-19 related activities. International travel is heavily affected and has limited face to face interaction with distributors.

We have implemented remote interaction through video conferencing platforms such as Teams and Zoom and have only visited for face-to-face meetings where appropriate.

Principal Risk	Mitigation	Movement in Year	Commentary
STRATEGIC			
Loss of Key Distribution Principal agreements			
<p>The loss of any of the Group's largest distribution agreements to sell medical devices on behalf of third parties may have a material impact on the Group's business, prospects, financial condition or results of operations. Major account reviews take place regularly and plans are mutually agreed. Our strategy is based upon the added value of our supply chain and if necessary alternative product suppliers can be sourced.</p>	<p>It is the Group's intention to increase the proportion of sales from products where we own the intellectual property to minimise this risk. The acquisition of SLE Ltd has led to the planned termination of one of the largest distribution contracts (Vyaire) within the Group which will allow the Group to sell competing products into the UK and Ireland as well as expand sales internationally under its own brand. Long-term contracts are typically signed but if a distributorship be lost, all efforts will be made to replace the revenue with alternative products.</p>		<p>The acquisition of SLE Ltd has led to a significant increase in the proportion of sales manufactured in-house.</p> <p>The Vyaire contract has been ended by mutual agreement (post year-end).</p> <p>The distribution contract with Micrel has been signed for a further three years (post year-end).</p>
New Product Development			
<p>The Group invests in R&D projects in order to develop innovative new products. It works with an advisory panel in order to prioritise opportunity areas. Continued growth within existing customers depends upon the successful introduction of these new products. Concerns arise due to the late delivery of the projects, the changing regulatory landscape and competitive activity in the market-place which may make projects redundant.</p>	<p>Projects are reviewed regularly by the Board and total R&D investment is increasing in the forthcoming year.</p> <p>The appointment of a Group Head of R&D and a Vice President - Clinical, Innovation and Compliance will give greater visibility on project delivery.</p>		<p>With the acquisition of SLE, the R&D team and its capability is greatly increased, but regulatory changes still represent significant challenges.</p>
Acquisitions			
<p>The strategy of the Group is to grow by a mixture of organic sales and acquisitions.</p> <p>The Group may not be able to find acquisition targets at acceptable prices. Capital market appetite for micro-cap businesses to raise funds may change or macro-economic or political issues may impact on stock markets and there is a risk that the Group may not be able to fund some of the acquisitions it wishes to target.</p> <p>There is also a risk that management does not have adequate time and resources to identify, source, negotiate and integrate new acquisitions.</p>	<p>A new common business system and processes are being implemented across recently acquired sites and will comprise the basis for the integration of future acquisitions.</p> <p>The Executive team have developed a robust model to evaluate acquisition prospects and identify synergies.</p> <p>With the appointment of a COO to the Board, greater resources across a broader skill set have been secured.</p>		<p>The SLE integration is proceeding in line with best expectations and gives assurance in the quality of our business model, processes and team.</p>

Principal Risks and Uncertainties continued

Principal Risk	Mitigation	Movement in Year	Commentary
STRATEGIC continued			
International Growth <p>The Group has a wide range of export markets which provide potential for growth.</p> <p>Geopolitical conditions could have an impact on our markets.</p> <p>Meaningful development of the USA market, the largest medical device market in the world, may require significant investment in resources and may not generate the expected returns or take longer to crystallise those returns.</p>	<p>It is impossible to plan for every eventuality however, early visibility, quick action and effective teamwork has been effective in minimising risks.</p> <p>A US market research project has been commenced to determine the appetite for certain products within the Group.</p>		<p>The acquisition of SLE Ltd has significantly expanded the Group's export markets and sales, providing both risk and opportunity.</p> <p>Brexit has been managed well using cross-company skills.</p> <p>The Covid-19 pandemic was managed well within the Group but the full impact on the world economy remains unknown.</p>
OPERATIONAL			
Dependence on 3rd Party suppliers <p>The Group's business depends on products and services provided by third parties. If there is any interruption to the supply of products or services by third parties, or those products or services are not as scalable as anticipated, or at all, or there are problems maintaining quality standards and delivering product to specification, or there are problems in upgrading such products or services, the Group's business will be adversely affected.</p>	<p>The Group maintains appropriate stock levels of the most critical items to maintain customer service levels and mitigate this risk.</p> <p>A COO has been appointed to ensure high quality operational management and planning.</p> <p>Quality Management Systems and processes are embedded in the Group's working practices.</p>		<p>Combined with the improved operational planning processes this risk has reduced during the year.</p> <p>The Group plan to implement its ERP system (Priority) into SLE Ltd to give greater visibility to planning, stock management and forecasting.</p>
Reliance on key individuals <p>The success of the Group depends crucially upon the expertise and relationships of the Directors and certain other senior employees. The loss of any of the key individuals could have an adverse effect on the Group.</p>	<p>The Group has a strong, social purpose to save lives and improve outcomes which is motivating to employees. Rewards are competitive. A Long-Term Incentive Plan ("LTIP") exists for all senior and key management roles.</p> <p>Executive salaries have been enhanced following acquisition of SLE Ltd.</p>		<p>A culture of engagement and recognition exists, and it is the Group's policy to maintain a safe and pleasant work environment.</p> <p>With a strengthened second tier management this risk has reduced.</p>
Changes in legislation & regulation <p>The medical devices industry is highly regulated and each territory, in which the Group operates, is subject to its own stringent legal and regulatory regime. Regulatory approvals are required to market and sell medical devices into both the UK and export markets. The risk is that new, stricter regulations prevent product introductions or delay them due to delays in approval. In the EU the Medical Device Regulation ("MDR"), which all new medical devices must comply to, has been delayed until May 2021.</p>	<p>The Group has stringent internal controls in order to comply with the relevant legal and regulatory conditions in the UK and in its export markets. The Group has a Quality Assurance and Regulatory Affairs department dedicated to liaising with the regulatory authorities to monitor any changes in conditions and ensure continuing compliance with the existing and new conditions. The Group has developed a detailed product-by-product plan for adoption of the MDR.</p>		<p>The Group has strong processes and resources but there is a level of reliance on adequate resources being available within regulatory authorities which is beyond our control.</p>

Principal Risk	Mitigation	Movement in Year	Commentary
OPERATIONAL continued			
Competition The Group operates in a highly competitive market and may face competition from products designed, marketed and supplied by companies with significantly greater resources.	Exceptional customer service and short lead times provide barriers to competition. We have innovative products, that are niche in our field, helping to add value to our sales call and improve engagement with key decision makers. We work closely with key opinion leaders in neonatology. Our 24/7 customer service is a differentiator which is actively promoted.		No competitor provides products across our entire range. There have been no notable new entrants into the neonatal intensive care market during the year.
IP, data integrity and security The Group has intellectual property that it needs to protect. This can be in the form of innovative ideas, marketing specifications, and customer requirements. Our patents and controls may not prevent competitors from independently developing or selling products and services similar to ours, and there can be no assurance that the resources invested by us to protect our Intellectual Property will be effective, particularly in new markets. All companies are increasingly exposed to threats to access and steal data.	The Group maintains a register of Intellectual Property and reviews its patents and controls on a regular basis. Key strategic markets are prioritised for protection. The Group has deployed a number of measures to strengthen its protection against cyber security. These include systems access controls, staff training, passwords, updating policies and procedures.		The Group obtained Cyber Essentials accreditation during April 2021. The continuing development of IT threats against businesses in general leads us to view this risk as having increased for all companies.
Health and Safety The importance of Health & Safety is widely recognised across the Group. Failure to adhere to health and safety regulations within the workplace not only puts our employees at risk but could carry serious financial, reputational and legal risk. We recognise that everyone has a right to work in a safe and pleasant environment free from adverse events.	The Board requires Health and Safety to be discussed at the beginning of every Board meeting based on a report from the Executive Director responsible for Health and Safety (currently the COO). Additionally, and subsequent to the acquisition of SLE Ltd, the Group has appointed a highly qualified Health and Safety Manager reporting directly to the COO. The Group undertakes regular Health and Safety training for all staff.		The acquisition of SLE Ltd's manufacturing facilities have significantly increased this risk. The appointment of a senior Health, Safety and Sustainability Manager has led to improved procedures have been implemented and the capability significantly increased. The Board will monitor the situation closely during the year.


Neil Campbell

Chief Executive
14 May 2021

Statement of Corporate Governance

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

The Board believes that corporate governance is more than just a set of guidelines; rather it is a framework which underpins the core values for running the business in which we all believe, including a commitment to open and transparent communications with stakeholders. We believe that good corporate governance improves performance while reducing or mitigating risks thereby underpinning the Group's long term success.

Our statement of corporate governance can also be found on our website: www.inspirationhealthcaregroup.plc.uk

QCA PRINCIPLES

DELIVER GROWTH

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

The Group's purpose is to improve health outcomes by providing highly advanced medical technology. Our mission is to develop outcome-enhancing products for intensive care patients and to promote these globally. Our strategy is defined clearly in Our Business Strategy (on pages 16 to 19). Our business model is set out clearly on page 9 and on our website. Our strategy and business model are underpinned by a clear set of values: patient focus, outcome changing, pioneering and research driven, which reflect our long-term objective of enhancing patient care and delivering business growth and profitability.

Our Key Performance Indicators ("KPIs"), which are set out in the Chief Executive Officer's Review on page 27 measure growth and profitability reflecting our business model.

2. Seek to understand and meet shareholder needs and expectations

Relationships with our shareholders are important to us and we seek to provide effective communications through our Interim and Annual Reports along with Regulatory News Service announcements, including RNS Reach. We also use the Group's website, www.inspirationhealthcaregroup.plc.uk for both financial and general news relevant to shareholders.

The Executive Directors meet shareholders and other investors/potential investors at regular intervals during the year. The Chief Executive Officer and the Chief Financial Officer make presentations to institutional shareholders and analysts each year immediately following the release of interim and full year results. They also attend retail shareholder events. The slides used for such presentations are made available on the Group's website under the Annual Reports section. The Group's NOMAD and broker, Cenkos Securities plc, is briefed regularly and updates the Board during the year on shareholder expectations. The Group retains a professional investor relations company, Cadogan PR, to be the main contact point for our shareholders and to assist us with communicating with and receiving feedback from shareholders and financial analysts.

The Annual General Meeting ("AGM") is regarded as an opportunity to meet, listen and present to shareholders and their participation is encouraged; all Directors attend the AGM and are available to meet shareholders individually or as a group. For each resolution the number of proxy votes received for, against and withheld is circulated to all attendees. The results for the AGM are subsequently published on the Group's corporate website. All 2020 AGM resolutions were passed comfortably and there have been no significant actions that have been taken as a result of shareholder engagement in the period.

The Non-executive Chair, Mark Abrahams, Remuneration Committee Chair, Liz Shanahan and the Audit Committee Chair, Bob Beveridge, are available to meet major shareholders if required to discuss issues of importance to them.

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

The Board considers that it has operated in full regard of its responsibilities under section 172 of the 2006 Companies Act see section 172 table on page 45 for further detail. The Group's Purpose is widely understood and drives the decision-making which aims to optimise the long-term value of the business.

A. People. Our continued success is built on the talented people who work here, and employee engagement forms a major part of our strategy. Our senior independent Director has the additional responsibility of representing employees' interests at the Board and has hosted two all Company question time meetings. He is also the Board level point of contact for the Group's whistleblowing policy.

Everyone at Inspiration Healthcare Group is a valued member of the team, and our aim is to help every individual achieve their full potential. We offer equal opportunities regardless of race, sex, gender identity or reassignment, age, disability, religion or belief, marital status, pregnancy and maternity or sexual orientation.

We hold regular all-staff gatherings, including an annual conference, to keep employees updated on business progress and we also operate an incentivised Improvement Ideas scheme. Our new cloud based HR system allows greater ease of access for employees to their records as well as reduces our paper-based processes.

- B. Customers.** A key element of our business model is to work closely with key opinion leaders in the healthcare system and to develop, evaluate and enhance our propositions in full co-operation with those partners. Our reputation for innovative, outcome-enhancing products and excellent service is key and we regularly seek feedback on the performance of our products.
- C. Suppliers.** Our key strategic suppliers are long term in nature and work with the Group on product innovations. As a medical device Company, we regularly assess key supplier performance and engage with them to discuss and agree objectives and to enhance product capability and performance.
- 4. Embed effective risk management, considering both opportunities and threats, throughout the organisation**

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

The system of internal control is structured around an assessment of the various risks to the business and is designed to address those risks that the Board considers to be material, to safeguard assets against unauthorised use or disposition and to maintain proper accounting records which produce reliable financial and management information. However, any such system of internal control can provide only reasonable, but not absolute, assurance against material misstatement or loss. The Board considers that the internal controls in place are appropriate for the size, complexity and risk profile of the Group.

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

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

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

- an ongoing process of risk assessment to identify, evaluate and manage business risks
- management structure with clearly defined responsibilities and authority limits
- a comprehensive system of reporting financial results to the Board
- the Group's operating companies all maintain Quality Management Systems certified to ISO 13485:2016 for industry regulatory compliance
- a comprehensive system of reporting health and safety along with other well-being matters to the Board
- appraisal and authorisation of major capital expenditure, research & development projects
- dual signatories on all bank accounts

MAINTAINING A DYNAMIC MANAGEMENT FRAMEWORK

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

The Board is made of up three Executive Directors and two independent Non-executive Directors, chaired by Mark Abrahams. Meetings are open and constructive, with every Director participating fully. Meetings take place at our various sites or through 'virtual' meetings using platforms such as TEAMS or ZOOM. Face to face meetings are preferable as it allows the Board to see different operating facilities and meet other staff.

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

Statement of Corporate Governance continued

The Board meets regularly during the year as planned as well as ad-hoc meetings relating to such matters that arise from time to time; a calendar of meetings and principal matters to be discussed is agreed at the beginning of each year. Board papers are circulated at least one week before meetings, allowing time for full consideration and necessary clarifications before the meetings. Board dinners are held from time to time on the evening before meetings and allow broader discussion and development of effective Board relations.

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

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

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

The Non-executive Directors have both a breadth and depth of skills and experience to fulfil their roles. All have experience of being on other Boards of companies listed on the London Stock Exchange. Details of the Directors' experience and areas of expertise are outlined in the Board of Directors section on pages 48 and 49. They typically meet each year without Executives present and maintain ongoing communications with Executives between formal meetings.

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

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

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

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

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

The Board holds eight meetings per year plus additional ad-hoc meetings related to acquisitions; two meetings per year focus on strategic matters and specific dates for other key areas, e.g. risk management, R&D reviews, financial forecasts, employee engagement, and shareholder feedback. The Board intends to use a 360-degree evaluation process during 2021.

The Board considers succession planning for the Executive Directors on an ad-hoc basis. On 26 February 2020, the Group announced that our Chief Financial Officer, Mike Briant would be retiring and that Jon Ballard, the Group's Financial Controller, who had previously been identified as Mike's successor, would become the Group's Chief Financial Officer from 1 July 2020. Upon the acquisition of SLE Ltd, a transformational transaction, the Group took the opportunity to re-structure the Board by the addition of Brook Nolson as Chief Operating Officer adding expertise into operational delivery to the enlarged Group. Toby Foster, the Commercial Director subsequently took the role of Managing Director of Inspiration Healthcare Ltd.

The Group also added to its senior team's experience by recruiting Dr Peter Reynolds, a consultant neonatologist as Vice President - Clinical, Innovation and Compliance. External recruitment is currently the most likely source of immediate replacements for any of the other Executive Directors.

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

The Group's culture is understood and led by the example set by the behaviours of the three Executive Directors, one of whom was the founder of Inspiration Healthcare Limited. Taking into account that the Group is relatively small with approx. 200 employees, this is considered an effective means of conveying the Group's approach to ethical behaviour. The common culture is based upon four core values:

- Patient focus
- Outcome changing
- Pioneering
- Research driven

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

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

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

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

Matters reserved for Board decision include:

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

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

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

Audit Committee

The Audit Committee has two members, Bob Beveridge (Chair) and Liz Shanahan. The Chief Financial Officer and external auditors attend meetings by invitation. The Audit Committee's responsibilities include the review of the scope, results, and effectiveness of the external audit, the review of half-year and Annual Financial Statements, and the review of the Group's risk management and internal control systems. A separate report of the Audit Committee activities is on pages 46 to 47.

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

Remuneration Committee

The report of the Remuneration Committee is set out on pages 54 to 59. The Remuneration Committee has two members, Liz Shanahan (Chair) and Bob Beveridge. The Committee is responsible for setting the remuneration arrangements, including short-term bonus and long-term incentives, for Executive Directors as well as approving the remuneration principles for senior staff.

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

Nominations Committee

The Nominations Committee has four members, Mark Abrahams (Chair), Bob Beveridge, Liz Shanahan and Neil Campbell. The Nominations Committee considers succession planning, reviews the structure, size and composition of the Board and nominates candidates to fill Board vacancies.

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

Statement of Corporate Governance continued

Membership of the Board committees is as follows:

	M Abrahams	L Shanahan	N Campbell	B Beveridge
Audit Committee (AC)	n/a	Member	n/a	Chair
Remuneration Committee (RC)	n/a	Chair	n/a	Member
Nominations Committee (NC)	Chair	Member	Member	Member

The following table sets out the member attendance at Board and Committee meetings during the year ended 31 January 2021.

Board Members	Number of meetings attended			
	Board	AC	RC	NC
M Abrahams, Chairman	8/8	2/5	n/a	1/1
N Campbell, Chief Executive Officer	8/8	n/a	n/a	1/1
B Beveridge, Senior Independent Non-executive Director	8/8	5/5	3/3	1/1
B Nolson**, Chief Operating Officer	3/8	n/a	n/a	1/1
B Nolson **, Non-executive Director	5/8	2/5	2/3	n/a
L Shanahan*, Non-executive Director	2/8	1/5	1/3	n/a
J Ballard†, Chief Financial Officer	3/8	n/a	n/a	n/a
M Briant†, Chief Financial Officer	5/8	n/a	n/a	n/a
T Foster***, Commercial Director	5/8	n/a	n/a	n/a

* joined the board on 26 October 2020

** a member of the Board until 6 July 2020 as a Non-executive Director and from 7 July 2020 as Chief Operating Officer

*** resigned from the board effective 7 July 2020

† resigned from the board effective 30 June 2020

‡ joined the board on 1 July 2020

Non-members are invited to attend committees as appropriate.

BUILD TRUST

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

The Board has formal responsibilities and agendas and three sub-committees; in addition, strong informal relations are maintained between Executive and Non-executive Directors.

Non-executive Directors meet with other senior managers and give advice and assistance between meetings. Board dinners and informal on-line meetings are held from time to time to provide opportunities for broader discussions. During the Covid-19 pandemic, the focus has been on minimising face-to-face meetings and conducting them virtually.

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

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

The Chief Executive Officer and the Chief Financial Officer make presentations to institutional shareholders and analysts each year immediately following the release

of interim and full-year results. They also attend retail shareholder events. The slides used for such presentations are made available on the Group's website under the Annual Reports section.

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

“
We believe that good corporate governance improves performance”

COMPANIES ACT SECTION 172

Stakeholder	Strategic Report	Governance Report
Our people	Increased investment in Health & Safety Increased training for all our staff All salaries have been reviewed at SLE Improving benefits to staff Acquisition of SLE Ltd (transformational)	QCA 3A – People – p40 QCA 8 – Culture – p42 QCA 3A – People – p40 QCA 3A – People – p40
Our customers	Investing in R&D and Regulatory compliance through the recruitment of a leading neonatologist appointed VP Commitment to new R&D Centre Investment in disruptive technology to improve choices for customers Ability to maintain and deliver technical and clinical support Acquisition of SLE Ltd (transformational)	QCA 3B – Customers – p41 QCA 3B – Customers – p41 QCA 3B – Customers – p41 QCA 3B – Customers – p41
Our investors	Share placing £16.9 million (oversubscribed) Acquisition of SLE Ltd (transformational) Dividend introduced following investor engagement Five product groups protected by patents Increased investment to support future growth	QCA 2 – Investor engagement – p40 QCA 10 – Investor meetings – p45
Our suppliers	Fostering long-term partnerships with suppliers for mutual benefit	QCA 3C – Suppliers – p41

The most significant decisions in the year related to the acquisition of SLE which has had a transformational effect on the business for the people, customers and investors. This has been set out in the CEO Review and Chairman's Report.

Mark Abrahams
Chairman



14 May 2021

Audit Committee Report

The Audit Committee has an important role to play in ensuring the accuracy and rigour of financial reporting and ensuring the quality and effectiveness of the external audit process. The Committee provides this report on its activities during the year.

MEMBERSHIP

The Audit Committee comprises of Bob Beveridge and Liz Shanahan and is chaired by Bob Beveridge, whom the Board considers has both recent and relevant financial experience. During the year Brook Nolson resigned from the Committee as he moved into an executive role and was replaced temporarily on the Committee by Mark Abrahams, until the appointment of Liz Shanahan. Bob is a Chartered Accountant, portfolio Non-executive Director and a former plc Finance Director.

MEETINGS

The Committee held five meetings during the year. The first two were to approve the FY2020 results. A meeting in September was held to consider the audit tender proposals and agree the recommendation to appoint the new auditor. In October and December, the Committee met to consider the interim results, internal controls and other matters relating to the acquisition of SLE Ltd. Further meetings took place post year-end to resolve matters of judgement, review the results of the external audit and approve the Annual Report and Accounts.

The Chief Financial Officer attended all meetings. The Committee met in April with the external auditors without the presence of Executive Directors or management. The Committee also met informally on occasions during the year to discuss and review progress on the acquisition of SLE Ltd., treasury and people matters.

MAIN ACTIVITIES

The Committee supports the Board in carrying out its responsibilities in relation to financial reporting, risk management and assessing internal controls. The Committee also oversees the relationship with the external auditor including the effectiveness of the external audit and the provision of non-audit services by the external auditor. During the year the Committee carried out a process to re-tender the external audit.

FINANCIAL REPORTING

The Committee has recently concluded that the Annual Report and Financial Statements for year ended 31 January 2021, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's business model, strategy and performance. The Committee also reviewed the Strategic Report and concluded that it presents a fair, balanced and understandable element to the Annual Report.

The Committee reviewed the Annual Report, including:

- reviewing the integrity of the financial statements and other information provided to shareholders to ensure they represented a clear and accurate assessment of the Group's financial performance and position.
- reviewing matters of accounting judgement and the underlying rationale in each case including specifically: capitalisation of product development spend, the valuation of intangible assets and goodwill arising on the acquisition of SLE, impairment review of capitalised development as well as the treatment of certain expenses as exceptional.

The Committee reviewed and accepted papers prepared by management relating to significant accounting policies, a going concern assessment, a review of segmental reporting. It also considered a report from the external auditors on the full-year accounts and audit process

EXTERNAL AUDIT

The Committee considered the length of tenure of the PwC as external auditor and decided to proceed with a re-tendering exercise.

Three firms tendered for the audit and their proposals were assessed against eleven criteria covering quality, effectiveness and value for money. BDO LLP ("BDO") were the strongest overall with a strong partner commitment and the clearest plan for a high-quality audit. Accordingly, BDO were appointed to conduct the audit upon the resignation of PwC and the Board is recommending their ongoing appointment at the AGM.

RISK MANAGEMENT AND INTERNAL CONTROL

The Committee reviewed an updated paper from the Chief Financial Officer on the Group's financial controls, incorporating the changes necessary following the acquisition of SLE. The purpose of controls is to safeguard investment and the Group's assets, embracing material controls and key financial risks.

Key control procedures are as follows:

- **Management responsibility and authorisation controls** – an established management structure operates throughout the Group with a monthly finance reporting process, clearly defined levels of responsibility and delegation of authorities which are built into the ERP systems.
- **Corporate planning process** – an annual plan and three-year strategic plan is updated each year and approved by the Board. Following approval of the annual budget by the Board financial performance and variances against budget are analysed and reported monthly and challenged centrally.
- **Key performance indicators ("KPIs")** – a set of operational, financial and non-financial KPIs is reported each month to the Board.
- **Internal audit function** – given the small size of the Group currently, the Committee does not require an internal audit function to carry out its responsibilities. The Committee deemed these controls adequate and will review them annually. It was satisfied with the actions in place to manage financial risks.
- **Strong cash management** – the Group maintains tight cash management controls through, for example, delegated authorities and dual signatories on all bank accounts etc. The Board has approved a treasury policy covering counterparty risk and foreign exchange management.

OVERVIEW

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



Bob Beveridge

Chair – Audit Committee

14 May 2021

Strategic Report

Governance

Financial Statements

Shareholder Information

Board of Directors



Neil Campbell Chief Executive Officer

In 2003, Neil became CEO and founding partner of Inspiration Healthcare Limited, leading them through the reverse acquisition of Inditherm plc and onto AIM in June 2015. Neil has spent 29 years in the Medical Device industry. Neil has had an extensive career in medical devices in international sales and marketing in neonatal intensive care and operating theatre products, as well as having direct sales experience, in the UK and Australia. Neil has previously also been a Director of Neuroprotecion Ltd a drug / device development company and currently is an advisor to the Infant Centre (the Irish perinatal research centre) in Cork. Neil has a degree in Engineering Technology and a Diploma in International Trade.

KEY AREAS OF EXPERTISE

Medical device market, market development, international sales and marketing, product development, regulatory affairs, strategic planning, M&A.



Jonathan Ballard Chief Financial Officer

Jon Ballard FCA joined Inspiration Healthcare as Group Financial Controller in June 2017 and was appointed as Chief Financial Officer in July 2020. A Chartered Accountant, Jon has over 20 years' experience in both practice and industry across a range of businesses from SMEs to Listed Companies, of which the previous seven have been within the Medical Device industry. Jon previously worked for CR Bard within the UK business. Jon has a degree in Physiology from the University of Bristol.

KEY AREAS OF EXPERTISE

Financial planning and analysis, financial control, budgeting, audit.



Brook Nolson Chief Operating Officer

Having supported Inspiration Healthcare as a consultant since 2013, Brook joined the Board as Non-executive Director in June 2015 and Chair of the Remuneration Committee; in 2019 was additionally appointed as Staff Representative to the Board. Following the acquisition of SLE, he became Chief Operating Officer for the Group. Brook has considerable experience in managing manufacturing, in engineering environments developing and implementing strategic development plans, using technology and ERP system-based solutions, and executing business transformation strategies. Brook is a member of The Cambridge Institute for Sustainability Leadership (CISL) having completed his studies in Sustainability Management for the Corporate Environment with Cambridge University. Previous Group Directorships include: Birse Group plc, Willmott Dixon Group and Morgan Sindall plc.

KEY AREAS OF EXPERTISE

Corporate sustainability Leadership, strategic growth, restructuring, business transformation, product development, sales growth, leadership & management development.

“

The Board believes that corporate governance is more than just a set of guidelines; rather it is a framework which underpins the core values for running the business”



Mark Abrahams Non-executive Chairman

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

KEY AREAS OF EXPERTISE

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



Bob Beveridge Non-executive Director

Bob Beveridge FCA, Non-executive Director and Senior Independent Director, joined the Board in August 2015 and is Chair of the Audit Committee. Bob has wide ranging Non-executive Director and public company experience; he is currently Chairman of the Thames Valley Berkshire Local Enterprise Partnership, Audit Committee Chair of Finsbury Food Group plc and member of the audit committee of the Health Foundation. Previously he was Group Finance Director of McBride plc, Marlborough Stirling plc and Cable and Wireless Communications plc. In 2021, Bob became Staff Representative to the Board.

KEY AREAS OF EXPERTISE

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



Liz Shanahan Non-executive Director

Liz Shanahan joined the Board as a Non-executive Director in October 2020. She is Chair of the Remuneration Committee and a member of the Audit Committee. Liz is a life sciences entrepreneur with extensive experience advising leading global pharmaceutical and healthcare organisations on their communications.

Until 2014, she was Global Head of Healthcare & Life sciences at the NYSE-listed management consultancy, FTI Consulting Inc., who had, in 2007, acquired the communications business, Santé Communications, which she had founded in 1995.

Liz is also a Non-executive Director in a number of businesses including the FTSE250 listed UDG Healthcare plc. Liz is also a Director & Trustee of CWPlus, the charitable arm of Chelsea & Westminster Foundation Trust Hospital in London, where she was a Non-executive Director for over five years. She is also a member of the organisation's Innovations Advisory Board.

Liz has a degree in Computer Programming & Maths from University College Cork, and she is an alumnus of the University of Virginia, Darden School of Business.

KEY AREAS OF EXPERTISE

Pharmaceutical & Healthcare Industry expertise; Financial including M&A; Risk management; Public Policy; ESG strategy; International Markets; Communications & investor relations.

Directors' Report

The Directors present their report on the Group and Company, together with the audited Consolidated Financial Statements of the Group and Company for the year ended 31 January 2021 ("FY2021"). Inspiration Healthcare Group plc is incorporated under the laws of England and Wales as a public limited company and its registered office and principal place of business is 2 Satellite Business Village, Crawley, West Sussex RH10 9NE. The Company's Ordinary Shares are admitted to and traded on AIM (Alternative Investment Market), a market operated by the London Stock Exchange.

CAUTIONARY STATEMENT

The review of the business and its future development in the Strategic Report has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for these strategies to succeed. It should not be relied on by any other party for any other purpose. The review contains forward-looking statements which are made by the Directors in good faith based on information available to them up to the time of the approval of the reports and should be treated with caution due to the inherent uncertainties associated with these statements.

RESULTS AND DIVIDENDS

The results of the Group are set out in detail on page 66. An interim dividend of 0.2p per share (FY2020: nil) was paid on 29 December 2020. The board is recommending a final dividend of 0.4p per share (FY2020: nil) to make a total dividend for the year of 0.6p per share (FY2020: nil).

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

Details of the business activities during the year can be found in the Strategic Report on pages 4 to 39.

POLITICAL AND CHARITABLE DONATIONS

The Group made charitable donations of £250,000 during the year (FY2020: £nil). No political donations were made (FY2020: £nil).

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Disclosures regarding financial instruments are provided within the Principal Risks and Uncertainties on pages 36 to 39 and note 19 to the Consolidated Financial Statements.

CAPITAL STRUCTURE

Details of the Company's share capital, together with details of the movements therein, are set out in note 22 to the Consolidated Financial Statements. The Company has one class of Ordinary Shares which carry no right to fixed income.

RESEARCH AND DEVELOPMENT

The Group continues to invest in research and development, in order to extend its product offerings and improve the effectiveness of its technology. During the year, the Group incurred costs totalling £1,591,000 (FY2020: £642,000) including expenditure capitalised in accordance with IAS38.

INVOLVEMENT OF EMPLOYEES

Employees are key to the Group's success and we rely on a committed workforce to help us achieve our business objectives. All employees are valued members of the team and our aim is to help every individual achieve their full potential.

An intranet is in place where Group and subsidiary Company news is shared and the Group also holds regular all-staff gatherings, including an annual conference (subject to Covid-19 restrictions), to keep employees updated on business progress. The Group also operates an incentivised improvement ideas scheme to increase engagement and drive forward idea generation and sharing of good practices.

CUSTOMERS

A key element of the Group's business model is to work closely with Key Opinion Leaders in the healthcare system and to develop, evaluate and enhance our propositions in full co-operation with those partners. The Group plans to continue investment in R&D to enhance its products, get more regulatory clearances around the world and bring its innovative product range to more customers and ultimately help more babies survive.

THE DIRECTORS OF THE COMPANY WHO SERVED DURING THE YEAR AND UP TO THE DATE OF SIGNING THE FINANCIAL STATEMENTS WERE:

Director Position

M S Abrahams	Non-executive Chairman
N J Campbell	Chief Executive Officer
B Nolson	Chief Operating Officer (resigned as Non-executive Director and appointed Chief Commercial Officer on 7 July 2020)
J Ballard	Chief Financial Officer and Company Secretary (appointed 1 July 2020)
M J Briant	Chief Financial Officer and Company Secretary (resigned effective 30 June 2020)
B J Beveridge	Non-executive Director
L A Shanahan	Non-executive Director (appointed 26 October 2020)
T Foster	Commercial Director (resigned effective 7 July 2020)

Further information relating to the Board is detailed on pages 48 and 49.

DIRECTORS' INTERESTS IN SHARES AND CONTRACTS

Directors' interests in shares of the Company at 31 January 2021 and 31 January 2020 and any changes subsequent to 31 January 2021 are disclosed in the Directors' Remuneration Report on page 59.

Directors' interests in contracts of significance to which the Group was a party during the financial year are disclosed in note 28 of the Consolidated Financial Statements.

INDEMNIFICATION OF DIRECTORS

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

Directors' Report continued

SUBSTANTIAL INTERESTS

At 14 May 2021 the Company had been notified of the following interests which amounted to 3% or more of the issued capital of the Company.

Shareholder	Number of shares	Percentage holding
BGF Investment Management Ltd	10,560,000	15.5%
Premier Miton Group plc	8,846,657	13.0%
Berenberg Bank	4,894,756	7.2%
N J Campbell	4,551,646	6.7%
S G Motley	4,110,820	6.0%
T Foster	3,915,283	5.7%
Canaccord Genuity Group Inc	3,020,233	4.4%
Octopus Investments Nominees Limited	3,000,000	4.4%
Liontrust Asset Management	2,179,898	3.2%

ANNUAL GENERAL MEETING

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

RE-APPOINTMENT OF INDEPENDENT AUDITORS

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have prepared the Group Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under Company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group Financial Statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company Financial Statements, subject to any material departures disclosed and explained in the financial statements
- make judgements and accounting estimates that are reasonable and prudent
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business
- prepare the Financial Statements in accordance with the rules for the London Stock Exchange for the companies trading securities on AIM

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of the financial statements, which may vary from legislation in other jurisdictions.

The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

DIRECTORS' CONFIRMATIONS

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

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

By order of the Board

Jon Ballard
Company Secretary
14 May 2021



“
No review of the year
should forget our staff,
there are not enough
words to say thank
you for everything they
achieved last year”

Strategic Report

Governance

Financial Statements

Shareholder Information

Directors' Remuneration Report

I am very pleased to be able to present my first Directors' Remuneration Report as recently appointed Chair of the Remuneration Committee, on behalf of the Board, for the financial year ended 31 January 2021 ("FY2021").

MEMBERSHIP

The Remuneration Committee has two members. Until his appointment as an Executive Director of the business in July 2020, and resignation as a Non-Executive Director, Brook Nolson was Chair. Mark Abrahams acted as interim Chair until my appointment to the Board in October 2020 and my appointment as Chair of the Remuneration Committee. Bob Beveridge remains the other member. The Committee has met formally three times but regularly have informal discussions during the year. The Committee's responsibilities include; setting, reviewing and recommending to the board the remuneration policy for Executive Directors and for certain aspects of other senior executives remuneration overseeing other senior executives; and reviewing and approving the rules of any incentive plans.

EXECUTIVE REMUNERATION POLICY

The Committee has followed the Quoted Companies Alliance ("QCA") guidance and is fully appraised of the FRC UK Corporate Governance Code 2018. Our reporting sits in the enhanced category for most aspects of the QCA guidance. Our aim is to ensure that it continues to be appropriate in supporting IHG's strategy and that it remains aligned with stakeholders' interests, in particular our shareholders and reflects evolving best practice and regulatory developments. The Committee endeavours to offer competitive remuneration packages that align with IHG's strategy and deliver on the short, medium and long-term objectives of the organisation. The Committee wants to ensure is that we have packages that are fair, attract and appropriately incentivise the right calibre senior executives to the organisation and retain those individuals. We also want a remuneration policy that is challenging, appropriate and reflective of the Company's culture.

The remuneration agreements, as part of their contract of employment, for this level of executive are a mix of fixed remuneration and a performance-based remuneration which are designed to incentivise them; but not to detract from the goals of corporate governance.

The remuneration agreements for the Executive Directors were entered into on 24 June 2015; or the date of their appointment if later. The composition of each Director's remuneration is based on a fixed element together with a short and longer term performance related element and are reviewed annually by the Committee. The Executive Directors, including the Chief Executive Officer, each have a rolling 6-month contract. There are no provisions in these contracts for compensation if there is a change of control. The service contracts do not contain any provision for compensation on early termination other than the notice period. In the event of any early termination, the Committee would seek to mitigate cost to the Group whilst dealing fairly with each individual case.

The Non-executive Directors, including the Chairman, each have a letter of appointment for a three-year term. Under the terms of the letters either party can serve 6 months written notice to terminate the arrangement. The maximum compensation payable in the event that appropriate notice is not given will be the equivalent to the notice term of the Director's fees. For the most recently appointed Non-executive Director, the term is 4 months. As of 26 April 2021, the Chair has served on the Board for 5.8 years, Bob Beveridge has served 5.7 years and I have been in place for 6 months.

The Executives fixed packages consist of basic salary, pension contributions of 5% of basic salary on a matched contribution basis, a vehicle allowance, private healthcare insurance and a death in service insurance scheme.

The performance related aspects consist of an annual bonus scheme between 50% and 100% of salary based on agreed performance criteria and a long term incentive plan ("LTIP"). The LTIP award is in the form of a nil cost nominal value share option over ordinary shares. The market value of the options granted to each of the executives, (number of options multiplied by the share price of the date of grant) equated, in the aggregate, to 30% of base salary respectively.

No Director participates in decisions about their own remuneration package.

WORKFORCE ENGAGEMENT

As part of our commitment to our workforce, we launched a SAYE scheme in 20201 to encourage our workforce to engage in the long-term future of the business and to reward them for their commitment. As outlined previously, share options may be granted to officers and employees or members of the Group. To date 71 employees have participated and 310,484 shares have been committed. The scheme continues to be available in 2021/22 and remains well subscribed.

EXECUTIVE PAY RATIO REPORTING

Whilst the Group is not obliged to report on this matter, the Board wishes for the business to be as transparent as possible on public and social issues. Last year we were pleased to report that our gender pay gap showed no anomalies. With the acquisition of SLE, our position has changed somewhat. We are committed to understanding and addressing it and hope to report more positive news in 2022. Executive Pay Ratio Reporting revealed that the highest paid executive receives just over 5 times the average salary within the business and just over 11 times the lowest salary.

OVERVIEW OF YEAR

In the face of Covid-19, the Group delivered a strong financial performance for FY2021. As a result of this performance, a dividend of 0.2p has been declared for the first time by the organisation and we are proposing a final dividend of 0.4p per share making a total dividend this year of 0.6p. Over the 12 months, the organisation has increased in size significantly, resulting in increased complexity and opportunities. The Committee has reviewed the current remuneration policy and has made some modest adjustments to ensure it is operating as intended in terms of Company performance and quantum and that the Executive Directors short and long term remuneration, as detailed below, properly reflects the Group's strong performance during the year.

Given the significant changes to the organisation in 2020, there were also a number of changes to strengthen the executive team and reflect the new opportunities and expanding business needs. To this end, the Board appointed Brook Nolson, who had previously acted as a Non-executive Director and a consultant advisor in a number of areas, as Chief Operating Officer, playing a critical role in the integration of SLE into the business. I replaced him as a Non-executive Director. In addition, as announced last year, Mike Briant retired as Chief Financial Officer, Director and Company Secretary on 30 June 2020 after 4 years with the organisation and Jon Ballard replaced him as planned on 1 July 2020. Jon Ballard has been with the Company since 2017 and previously held the role of Group Financial Controller. Toby Foster is now Managing Director of Inspiration Healthcare Limited having stepped down from the Board on 7 July 2020.

EXECUTIVE REMUNERATION FOR YEAR ENDING 31 JANUARY 2021

Fixed Aspects

The CEOs salary was increased substantially in July 2020. This was to reflect the significantly enlarged role and responsibility he needs to play in the expanding Group. Jon Ballard and Brook Nolson's salaries are pro-rata from their start dates. For clarity, we have divided out Brook Nolson's salary during his time as a Non-executive Director and his time as an executive. In addition, Jon Ballard received a salary increase in December 2020, to reflect his growing expertise as CFO. The Executive Directors continue to receive pension contributions of 5% of basic salary or money purchase scheme on a matched contribution basis. Other benefits, which comprise the provision of a vehicle allowance or company car, private healthcare insurance and a death in service insurance scheme, have remained unchanged.

Performance Related Aspects

Bonus

The maximum annual bonus achievable for the executives varies between 50% and 100% of basic salary. The targets are primarily set by reference to a mixture of challenging financial targets, which the Committee considers to be strategically important for the Group and a Health & Safety target. The financial targets are based on four performance measure which are revenue, operating profit, new product revenues and cash flow. The Health & Safety target is based on having no reportable incidents, see Table 2. For this year, the financial performance of the Group resulted in an actual bonus achievement (as a percentage of their maximum opportunity) of 100%, for the executives, pro rata to tenure for the CFO & COO and salary for all three during the year. Details are set out in Table 1.

During 2020, a discretionary bonus was paid to the CEO and the CFO in relation to the completion of the SLE acquisition. The bonus was agreed by the Remuneration Committee and Board and awarded in July 2020. A second bonus was paid to the CEO, as part of a cross company bonus, to key individuals who went above and beyond the call of duty to support the Covid-19 response by the organisation. In the CEO's case this was in recognition of his role on the Ventilator Challenge UK Consortium. The COO was also paid an additional bonus for his role in the integration of SLE.

Directors' Remuneration Report continued

Table 1: Directors Remuneration (Audited)

	Salary		Benefits		Pensions		Annual Bonus	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Executives								
N Campbell	182,270	152,028	8,234	11,455	9,113	7,601	143,356	76,014
B Nolson ³	93,333	–	1,597	–	1,969	–	93,333	–
J Ballard ⁴	65,417	–	4,107	–	3,270	–	45,428	–
T Foster ⁵	57,448	126,690	4,418	10,180	2,872	6,335	54,146	63,345
M Briant ⁶	54,371	126,690	5,637	12,810	2,719	6,862	12,720	63,345
Non-executive Directors								
M Abrahams ²	29,447	35,000	–	–	–	–	–	–
B Beveridge	26,480	24,000	–	–	–	–	–	–
L Shanahan ⁷	8,077	–	–	–	–	–	–	–
B Nolson ³	37,873	51,000	–	–	–	–	–	–
	554,716	515,408	23,993	34,445	19,943	20,798	348,983	202,704

Long term Incentive Plan ("LTIP")

135,338 options granted to Mike Briant in November 2017, which related to the three-year period ended 31 January 2020, vested on 8 November 2020 and he exercised them on 25 January 2021. The 86,014 options granted to Mike Briant in November 2018 have lapsed.

As outlined last year, the original performance measures used for EMI ("Enterprise Management Incentive") were inconsistent with the Group's strategic objectives and were revised. The measures now used are based 50% on EPS and 50% on revenue growth and these performance measures will be applied retrospectively to the EMI in place from FY2018. The Committee has assessed performance against targets for the 2017 LTIP, which performance period runs from 01 February 2017 to 31 January 2020, resulting in 25% vesting of this element for the three-year period to 8th of November 2020. Jon Ballard who was part of a broader LTIP before joining the Board, received 6,250 options on 19 November 2020. Jon Ballard & Neil Campbell (and Toby Foster) all have options granted in 2018, subject to the agreed parameters, the details of which are set out in Table 4, and which are due to be vested in November 2021, subject to the agreed measures, provided the recipients are still employed by the Company.

No LTIP was awarded in YE 31 January 2020 or YE 31 January 2021. As of 31 January 2021, there are, including Directors, 251,837 share options in existence. For Directors total interest in shares, see Table 5.

Priorities and executive remuneration for year ending 31 January 2022

As the business has grown considerably in 2020/2021 and with the appointment of a new Chair, the Committee has been reviewing the policy. Mindful of the uncertainty brought upon by Covid-19, the Committee considered executive remuneration arrangements to ensure that this continued to be the case and following such review the Committee concluded that on balance the executive remuneration arrangements are mostly appropriate, with some small changes to the LTIP, primarily the performance criteria. The Committee has also agreed that over the next few years we will be making some modest changes to our policy to demonstrate a growing desire to reflect our ESG strategy and elements of our growth strategy.

Salary

We have agreed no further increase in salary for the Executive Directors for 2021, given two have only recently been appointed and the significant salary uplift for the CEO in 2020.

² During the year Mark Abrahams sacrificed three month's salary in favour of a charity for nurses who were impacted by Covid-19.

³ Brook Nolson was a member of the Board until 6 July 2020 as a Non-executive Director and from 7 July 2020 as Chief Operating Officer. The Non-executive Director salary for both years reflects a significantly increased time commitment to support specific projects.

⁴ Jon Ballard joined the board on 1 July 2020.

⁵ Toby Foster resigned from the board effective 7 July 2020.

⁶ Mike Briant resigned from the board effective 30 June 2020.

⁷ Liz Shanahan joined the board on 26 October 2020.

Table 1: Directors Remuneration (Audited) continued

	Total Fixed Remuneration		Total Variable Remuneration		Total Remuneration	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Executives						
N Campbell	199,617	171,084	143,356	76,014	342,973	247,098
B Nolson	96,899	-	93,333	-	190,232	-
J Ballard	72,794	-	45,428	-	118,222	-
T Foster	64,738	143,205	54,146	63,345	118,884	206,708
M Briant	62,727	146,363	12,720	63,345	75,447	209,708
Non-executive Directors						
M Abrahams	29,447	35,000	-	-	29,447	35,000
B Beveridge	26,480	24,000	-	-	26,480	24,000
L Shanahan	8,077	-	-	-	8,077	-
B Nolson	37,873	51,000	-	-	37,873	51,000
	598,653	570,652	348,983	202,704	947,636	773,983

Annual bonus

We intend to retain the same mix of financial and non-financial goals in relation to the bonus arrangements for Executive Directors in FY2021, see Table 2 with some additional operational targets for the COO.

However, we will be looking to change elements of those in financial year 2022, in particular to look at a parameter that addresses ESG.

Table 2: Annual Bonus Performance Criteria
Annual Bonus – 50% of Salary

Shareholder	% of Max Bonus
Profit – EBITDA	55
Budget revenue – sales	20
New market growth	5
Cash	13
Health & Safety	7
Total	100

Directors' Remuneration Report continued

LTIP

We have agreed a revised LTIP for our Executive Directors which will also be reflected in similar awards to a number of senior staff. The scheme has been slightly revised but remains consistent with the Share Scheme as described in the admission document 2015. The rolling programme will run over three-year cycles and in a change of our policy, will now have a 2-year holding period, post vesting with clawback criteria. The scheme consists of nil cost options, which are subject to performance conditions (unless noted).

As a growth business we have reviewed a number of different performance criteria. Our aim has been to achieve a balance between incentive, governance and fairness. We believe our performance criteria, which the Committee have approved, and the Board have endorsed, reflects that. The performance criteria are outlined below in Table 3 and Table 4 outlines all outstanding share awards, with performance conditions, granted to Directors under the LTIP. As this year progresses, we will consider EPS as one of the performance measures. Just as a point of governance, the business is no longer eligible for EMI.

Table 3: LTIP performance criteria

2022 LTIP – measures – over 3 years – evaluated on YE 31 Jan 2024

Measures	Weighting %
Revenue growth	60
Product launches	40
Total	100

There is an underpin of a baseline EBITDA percentage also required.

Table 4: Outlines all outstanding share awards, with performance conditions, granted to Directors under the LTIP

	Number of shares awarded under award								
	On 01 February 2020	Granted during the year	Exercised during the year	Lapsed during the year	At 31 January 2021	Date of Award	Performance Period	Exercising Date	Expiry Date
N Campbell									
	65,385	–	–	–	65,385	08 Nov 18	01 Feb 18 31 Jan 21	07 Nov 21	06 Nov 28
	65,385	–	–	–	65,385				
J Ballard									
	25,000	–	–	(18,750)	6,250	08 Nov 17	01 Feb 17 31 Jan 20	08 Nov 20	07 Nov 27
	23,252	–	–	–	23,252	08 Nov 18	01 Feb 18 31 Jan 20	07 Nov 21	06 Nov 28
	48,252	–	–	(18,750)	29,502				
B Nolson									
	–	–	–	–	–				
	–	–	–	–	–				
T Foster*									
	57,692	–	–	–	57,692	08 Nov 18	01 Feb 18 31 Jan 21	07 Nov 21	06 Nov 28
	57,692	–	–	–	57,692				

*Toby Foster resigned from the Board of Directors effective from 7 July 2020

Table 5: Directors and Company Secretary's interests in share capital (audited)

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

24 April 2021	31 January 2021	31 January 2020
M S Abrahams	256,576	241,201
N J Campbell	4,551,646	4,536,271
J Ballard	15,375	-
B Nolson	34,323	34,323
B Beveridge	-	-
L Shanahan	-	-

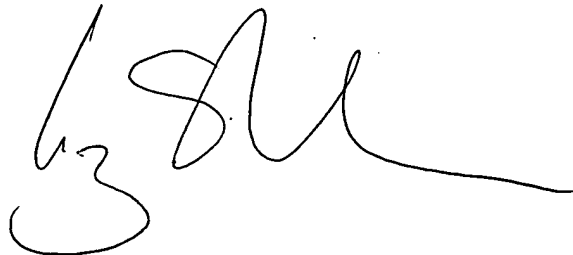
As previously disclosed, Mike Briant retired in June 2020 and Toby Foster stepped down from the Board in June 2020. The only interests of Directors in share options as at all dates are set out in the Share Option Scheme section above. More information can be found in the Directors' Report on pages 51 and 52 setting out substantial interests in the Company.

CONCLUSION

The year ending 31 January 2021 has been an extraordinary year, and it would be remiss to report without acknowledging the global impact of Covid-19, not just on performance, but on our people. As noted, and despite Covid-19, the executive team really stepped up to support the UK response, for which we are immensely proud. Due to this enormous effort plus the integration of Viomedex and the successful acquisition of SLE, the Group delivered a strong operational and financial performance, and this is reflected in the Directors' remuneration.

Liz Shanahan

Chair Remuneration Committee
14 May 2021



¹ Under the rules of the Share Option Scheme, the Company may grant both options that qualify as enterprise management incentives under schedule 5 of the Income Tax (Earnings and Pensions) Act 2003 and unapproved options over Ordinary Shares to any employee of the Group and any of its subsidiaries (including Executive Directors), subject to various scheme and individual limits.

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

After an initial three-year qualification period options are exercisable at any time up to the tenth anniversary of the date of grant subject to a performance criterion (unless otherwise noted). There are also provisions, which may allow exercise of the Options in the event of a change of control, subject to the agreement of the Remuneration Committee.

Independent auditor's report

to the members of Inspiration Healthcare Group Plc

Opinion on the financial statements

In our opinion:

- 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 January 2021 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 Inspiration Healthcare Group Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 January 2021 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and the Company Statement of Financial Position, the Consolidated and Company Statement of Changes in Shareholders' Equity, the Consolidated Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and international accounting standards in conformity with the requirements 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 Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

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

Independence

We remain independent of the Group and the Parent Company 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.

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 the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- We reviewed management's assessment of going concern and considered the key assumptions used in forecasts. We compared the revenue growth forecasts with the revenue growth in the current year (excluding one-off Covid-19 revenue) and the prior year. We considered whether the cost increases forecast are reasonable given the forecast increase in revenue
- We performed sensitivity analysis on key inputs, in particular we modelled a downturn in revenue of 20%, and considered the level of surplus cash and facilities remaining
- We compared budgeted results against post year end management accounts to assess the accuracy of management's forecasts
- We reviewed the adequacy of the disclosures on going concern in the Group financial statements

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 entity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Coverage¹	95% of Group profit before tax 100% of Group revenue 100% of Group total assets
Key audit matters	1. Acquisition accounting of S.L.E. Limited 2. Revenue recognition
Materiality	<i>Group financial statements as a whole:</i> £184,000 based on 5% of Profit before tax

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We have identified four significant components within the group including all three of the Group's main trading businesses. We performed desktop procedures over the remaining component. We addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

All audit work on both significant and non-significant components was performed by the group engagement team. The senior statutory auditor is the same across all significant and non-significant components and has therefore reviewed the risk areas and specific procedures performed for all entities.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

¹These are areas which have been subject to a full scope audit by the group engagement team

Independent auditor's report continued
to the members of Inspiration Healthcare Group Plc

Key audit matter	How the scope of our audit addressed the key audit matter
<p>Acquisition Accounting of S.L.E. Limited (note 27)</p>	<p>The Group has acquired SLE during the year for cash consideration of £20.6m and shares issued of £1.8m.</p> <p>The accounting for the acquisition under IFRS 3 requires significant management judgement in the identification and valuation of separately identifiable intangible assets.</p> <p>Any errors or bias within the fair value assessment could lead to the misstatement of the goodwill balance recorded at 31 January 2021 and/or the misstatement of the post-acquisition performance of S.L.E. Limited.</p> <p>We have reviewed the associated legal documents relating to the acquisition to ascertain if there were any clauses which could impact the recorded assets and liabilities;</p> <p>We have agreed the consideration paid to supporting documentation and bank statements;</p> <p>We have challenged the fair values of the net assets acquired, in particular those relating to inventory and accounts receivable by reference to sales and cash receipts post acquisition. We reconciled the assets and liabilities acquired to the completion statement agreed with the vendor;</p> <p>With support from BDO valuation experts have reviewed the validity of key assumptions and underlying methodology used in the models to value separately identifiable intangibles. In addition we used BDO tax experts to recalculate the deferred tax arising on the separately identifiable intangible assets.</p> <p>We have audited all acquisition accounting entries and the realignment of SLE's accounting policies to Group policies.</p> <p>Key Observations</p> <p>From our work performed, we are satisfied that management's assessment is appropriate and consistent with the requirements of IFRS 3.</p>
<p>Revenue Recognition (note 3)</p>	<p>IFRS 15 focuses on revenue being recognised in conjunction with performance obligations being satisfied.</p> <p>Within Inspiration Healthcare Group sales include the sale of ventilators and technology support.</p> <p>We consider there to be a fraud and judgemental risk in relation to technology support revenue arising from the inappropriate or incorrect calculation of the split between revenue and deferred revenue.</p> <p>In addition, there is a fraud risk connected with recognising revenue in the correct period around year end (cut off).</p> <p>There is also a risk in connection with recognising revenue in the correct period (acquisition date cut off).</p> <p>We obtained an understanding regarding the design and implementation of the controls over revenue invoicing and recognition.</p> <p>We have considered the Group's policy for revenue recognition for all trading entities in line with IFRS 15.</p> <p>We have selected a sample of technology support transactions in the year, agreed these through to contract and recalculated the expected deferred revenue as at year end.</p> <p>We completed cut off testing by tracing a sample of January 2021 and February 2021 invoices through to supporting documentation and by tracing a sample of S.L.E. invoices around the acquisition date to supporting documentation to ensure these items had been appropriately accounted for in the correct period.</p> <p>We reviewed a sample of post year end credit notes raised to ensure any items relating to the financial year under audit had been appropriately provided for.</p> <p>Key observations</p> <p>We did not identify any indicators to suggest that revenue has not been recognised appropriately in accordance with applicable accounting standards.</p>

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

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

	Group financial statements	Parent company financial statements
	2021 £	2021 £
Materiality	184,000	180,000
Basis for determining materiality	5% of Profit before tax excluding non-trading items	1.6% of Gross Assets
Rationale for the benchmark applied	Profit before tax is a key benchmark for the Group. Non-trading items are considered one off in relation to the acquisition of S.L.E. Limited and are highly unlikely to reoccur	Parent company materiality was capped at £180,000 to ensure this did not exceed group materiality.
Performance materiality	119,600	117,000
Basis for determining performance materiality	65% of Group materiality. Performance materiality ranges from 50 – 75%; 65% was chosen as there have been changes in management in the year and significant changes to the Group structure, and as a result process and controls	Linked to Group materiality for Group purposes

Component materiality

We set materiality for each component of the Group based on a percentage of between 97% and 12% of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £180,000 to £23,000. In the audit of each component, we further applied performance materiality levels of 65% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £7,300 (2020: £8,300). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Independent auditor's report continued

to the members of Inspiration Healthcare Group Plc

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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 this gives rise to 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 this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	<p>In our opinion, based on the work undertaken in the course of the audit:</p> <ul style="list-style-type: none"> • 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 the Directors' report have been prepared in accordance with applicable legal requirements. <p>In the light of the knowledge and understanding of the Group and 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.</p>
Matters on which we are required to report by exception	<p>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:</p> <ul style="list-style-type: none"> • 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 Statement of Director's Responsibilities, 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's and the 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.

Extent to which the audit was 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 material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates and considered the risk of non-compliance or fraud by the Group
- We designed audit procedures at both the Group and component levels to detect material misstatement due to fraud and error
- We focused on laws and regulations that could give rise to a material misstatement in the Group and Parent Company financial statements, including, but not limited to, IAS and Companies Act 2006
- Our tests included, but were not limited to, agreement of the financial statement disclosures to underlying supporting documentation, enquiries or management and review of board minutes
- We also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud. To address the risk of fraud relating to revenue recognition as set out in the KAM above, through our journals testing we obtained a list of journal entries to revenue and reviewed manual postings with values greater than predetermined thresholds

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that 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, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available 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 Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Done and signed by:


Nigel Harker (Senior Statutory Auditor)
 For and on behalf of BDO LLP, Statutory Auditor
 Gatwick, UK

14 May 2021

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

Consolidated Income Statement

for the year ended 31 January 2021

	Note	2021 £'000	2020 £'000
Revenue	3	36,980	17,775
Cost of sales		(18,958)	(9,203)
Gross profit		18,022	8,572
Administrative expenses	4	(14,778)	(7,434)
Operating profit		3,244	1,138
Finance income	6	3	9
Finance expense	6	(114)	(21)
Profit before tax		3,133	1,126
Income tax	7(a)	(318)	(393)
Profit for the year attributable to owners of the parent Company		2,815	733
Earnings per share, attributable to owners of the parent Company			
Basic expressed in pence per share	8	5.10p	2.19p
Diluted expressed in pence per share	8	5.07p	2.15p

Consolidated Statement of Comprehensive Income

for the year ended 31 January 2021

	Note	2021 £'000	2020 £'000
Profit for the year		2,815	733
Other comprehensive income/(expense)			
Items that may be reclassified to profit or loss			
Cash flow hedges	19	31	(31)
Total other comprehensive income/(expense) for the year		31	(31)
Total comprehensive income for the year		2,846	702

The notes on pages 71 to 100 are an integral part of these Consolidated Financial Statements.



Neil Campbell
Director



Jon Ballard
Director

Consolidated and Company Statements of Financial Position

for the year ended 31 January 2021

(Registered Number: 03587944)

	Note	Group		Company	
		2021 £'000	2020 £'000	2021 £'000	2020 £'000
Assets					
Non-current assets					
Intangible assets	10	15,206	3,655	-	-
Property, plant and equipment	11	919	496	-	-
Right of use assets	12	3,102	553	3	8
Investments	13	-	-	32,881	10,406
Deferred tax asset	21	-	-	25	31
		19,227	4,704	32,909	10,445
Current assets					
Inventories	14	8,190	3,091	-	-
Trade and other receivables	15	5,163	4,205	1,434	1,339
Cash and cash equivalents	16	10,653	4,480	586	1,775
		24,006	11,776	2,020	3,114
Total assets		43,233	16,480	34,929	13,559
Liabilities					
Current liabilities					
Trade and other payables	18	(6,809)	(3,988)	(5,996)	(1,020)
Lease liabilities	12	(369)	(132)	(3)	(6)
Financial derivative	19	(9)	(40)	-	-
Contract liabilities	20	(533)	(376)	-	-
		(7,720)	(4,536)	(5,999)	(1,026)
Non-current liabilities					
Trade and other payables	18	-	(742)	-	-
Lease liabilities	12	(2,796)	(426)	-	(2)
Deferred tax liability	21	(1,141)	(227)	-	-
		(3,937)	(1,395)	-	(2)
Total liabilities		(11,657)	(5,931)	(5,999)	(1,028)
Net assets		31,576	10,549	28,930	12,531
Shareholders' equity					
Called up share capital	22	6,812	3,838	6,812	3,838
Share premium account	22	18,838	3,475	18,838	3,475
Reverse acquisition reserve	22	(16,164)	(16,164)	-	-
Share based payment reserve	22	139	153	294	308
Other reserves	22	(9)	(34)	-	6
Retained earnings		21,960	19,281	2,986	4,904
Total equity		31,576	10,549	28,930	12,531

The Company has elected to take the exemption under section 408 of the Companies Act 2006 from presenting the Company profit and loss account. The Company's loss for the year ended 31 January 2021 is £1,782,000 (2020: profit £465,000).

The notes on pages 71 to 100 are an integral part of these Consolidated Financial Statements.

The Group Financial Statements on pages 66 to 100 were approved by the Board of Directors on 14 May 2021 and signed on its behalf by:



Neil Campbell

Director



Jon Ballard

Director

Strategic Report

Governance

Financial Statements

Shareholder Information

Consolidated and Company Statements of Changes in Shareholders' Equity

Group	Note	Issued share capital £'000	Share premium account £'000	Reverse acquisition reserve £'000	Share based payment reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 February 2019		3,067	–	(16,164)	91	(9)	18,548	5,533
Profit for the year		–	–	–	–	–	733	733
Cash flow hedges:								
Loss recognised on hedging instruments	22	–	–	–	–	(31)	–	(31)
Total comprehensive income/(expense) for the year		–	–	–	–	(31)	733	702
Transactions with owners in their capacity as owners								
Employee share scheme expense	24	–	–	–	62	–	–	62
Issue of ordinary shares, net of transaction costs and tax		771	3,475	–	–	–	–	4,246
Deferred tax	21	–	–	–	–	6	–	6
Total transactions with owners		771	3,475	–	62	6	–	4,314
At 31 January 2020		3,838	3,475	(16,164)	153	(34)	19,281	10,549
Profit for the year		–	–	–	–	–	2,815	2,815
Cash flow hedges:								
Income recognised on hedging instruments	22	–	–	–	–	31	–	31
Total comprehensive income for the year		–	–	–	–	31	2,815	2,846
Transactions with owners in their capacity as owners								
Dividends		–	–	–	–	–	(136)	(136)
Employee share scheme expense	24	–	–	–	78	–	–	78
Issue of ordinary shares, net of transaction costs and tax	22	2,974	15,363	–	(92)	–	–	18,245
Deferred tax	21	–	–	–	–	(6)	–	(6)
Total transactions with owners		2,974	15,363	–	(14)	(6)	(136)	18,181
At 31 January 2021		6,812	18,838	(16,164)	139	(9)	21,960	31,576

For more information see note 22.

The notes on pages 71 to 100 are an integral part of these Consolidated Financial Statements.

Consolidated and Company Statements of Changes in Shareholders' Equity continued

Company	Note	Issued share capital £'000	Share premium account £'000	Share based payment reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 February 2019		3,067	–	246	–	4,439	7,752
Profit for the year		–	–	–	–	465	465
Total comprehensive income for the year		–	–	–	–	465	465
Transactions with owners in their capacity as owners							
Employee share scheme expense	24	–	–	62	–	–	62
Issue of ordinary shares, net of transaction costs and tax	22	771	3,475	–	–	–	4,246
Deferred tax	21	–	–	–	6	–	6
Total transactions with owners		771	3,475	62	6	–	4,314
At 31 January 2020		3,838	3,475	308	6	4,904	12,531
Loss for the year		–	–	–	–	(1,782)	(1,782)
Total comprehensive expense for the year		–	–	–	–	(1,782)	(1,782)
Transactions with owners in their capacity as owners							
Dividends		–	–	–	–	(136)	(136)
Employee share scheme expense	24	–	–	78	–	–	78
Issue of ordinary shares, net of transaction costs and tax	22	2,974	15,363	(92)	–	–	18,245
Deferred tax	21	–	–	–	(6)	–	(6)
Total transactions with owners		2,974	15,363	(14)	(6)	(136)	18,181
At 31 January 2021		6,812	18,838	294	–	2,986	28,930

For more information see note 22.

The notes on pages 71 to 100 are an integral part of these Consolidated Financial Statements.

Consolidated Cash Flow Statement

for the year ended 31 January 2021

	Note	2021 £'000	2020 £'000
Cash flows from operating activities			
Profit for the year		2,815	733
Adjustments for:			
Depreciation and amortisation		1,228	617
Impairment of investment	13	-	111
Impairment of intangible assets	10	47	72
Employee share scheme expense	24	78	62
Contingent consideration share issue	27	435	-
Loss on disposal of tangible asset		14	3
Loss on disposal of intangible asset		65	-
Finance income	6	(3)	(9)
Finance expense	6	114	21
Income tax expense	7(a)	318	393
		5,111	2,003
Increase in inventories		(573)	(1,696)
Decrease/(increase) in trade and other receivables		4,009	(889)
(Decrease)/increase in trade and other payables		(3,597)	2,141
(Decrease)/increase in contract liabilities		(6)	57
Cash flows generated from operations		4,944	1,616
Taxation received	7(b)	-	104
Taxation paid	7(b)	(209)	(235)
Net cash generated from operating activities		4,735	1,485
Cash flows from investing activities			
Payment for acquisition of subsidiary	27	(19,457)	(3,000)
Cash acquired through business combinations	27	6,314	-
Interest received		3	9
Purchase of property, plant and equipment	11	(257)	(163)
Purchase of intangible assets	10	(49)	(24)
Capitalised development costs	10	(614)	(192)
Net cash used in investing activities		(14,060)	(3,370)
Cash flows from financing activities			
Proceeds from issue of shares	22	16,967	4,246
Share issue costs	22	(957)	(250)
Principal elements of lease payments	12	(262)	(149)
Interest paid on lease liabilities	6	(87)	(21)
Interest paid on loans and borrowings	6	(27)	-
Dividends paid to the holders of the parent	9	(136)	-
Proceeds from loans and borrowings		1,500	-
Repayments from loans and borrowings		(1,500)	-
Net cash generated from financing activities		15,498	3,826
Net increase in cash and cash equivalents		6,173	1,941
Cash and cash equivalents at the beginning of the year		4,480	2,539
Cash and cash equivalents at the end of the year	16	10,653	4,480

Notes forming part of the Financial Statements

for the year ended 31 January 2021

1 ACCOUNTING POLICIES

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

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

Basis of preparation

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

There is no ultimate controlling party.

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

Going concern basis

The Group provides critical care equipment to the NHS, to private healthcare providers and to distributors who provide the equipment to other healthcare systems internationally. With a focus on neonatal intensive care the use of the Group's products is not something that can be reduced by election or choice and consequently demand for the Group's products is likely to continue or increase in a situation like the Covid-19 virus outbreak. The Group benefited from an additional £7,337,000 'one off' revenue in relation to the Covid-19 response.

Although the Group has no information to suggest such a scenario might occur the Group have modelled a significant downside scenario based on the main risks to the Group, as identified in the Risks and Uncertainties on pages 36 to 39 of the Annual Report, including a significant downturn in revenue of 20% which would not result in a requirement to draw on the Revolving Credit Facility in the going concern period.

Based on the above, available funds of £11,100,000 and access to an undrawn £5m Revolving Credit Facility ("RCF") as at 31 March 2021, plus the ability to implement some mitigating actions identified by the Board in response to a significant trading downturn, the Directors believe that the Group has sufficient liquidity to meet obligations as they fall due for at least twelve months from 14 May 2021 and, therefore, consider it appropriate to prepare the financial statements on the going concern basis. Further information on the Group's cash resources as at 31 January 2021 is given in note 16.

Significant changes in the current year

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

- Group revenue includes £7,337,000 'one off' revenue relating to the Covid-19 response.
- the acquisition of SLE Limited on 7 July 2020 (see note 27), which resulted in an increase in property, plant and equipment and the recognition of goodwill, other intangible assets and net working capital.

Group

The Consolidated Financial Statements cover the year ended 31 January 2021.

The Consolidated Financial Statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006. The Consolidated Financial Statements are prepared under the historical cost convention, as modified for any financial assets or liabilities which are stated at fair value through operating profit or loss and for share based payments which are measured at fair value.

Company

The Company Financial Statements cover the year ended 31 January 2021.

The Financial Statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ("FRS 101"). The Financial Statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 as applicable to companies using FRS 101.

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

Notes forming part of the Financial Statements

for the year ended 31 January 2021

1 ACCOUNTING POLICIES continued

The following exemptions from the requirements of IFRS have been applied in the preparation of the Company Financial Statements, in accordance with FRS 101:

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

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

Basis of consolidation

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

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

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

Critical estimates and judgements

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

1 ACCOUNTING POLICIES continued

Judgements

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

○ Taxation Provision

In arriving at the tax provision required at the balance sheet date management make a judgement on the accuracy of preliminary tax computations prior to their submission and acceptance by the tax authorities. As a significant investor in research and development expenditure this includes judgement on the accuracy of the calculation of R&D tax credits included within the preliminary computation. Although all endeavours are made to reflect the correct R&D tax credits in the preliminary tax computation the final tax computation submitted to the relevant tax authorities may differ. See note 7(c) for the impact on the tax provision as at 31 January 2021 of R&D tax credit claims made for the year.

○ Investment In Neuroprotezione Limited ("NPXe")

The Group has previously held its investment in NPXe at cost, which amounted to £111,000. During December 2019, NPXe filed a voluntary petition to reorganize under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware. As a result it is the Board's judgement that the investment should be fully impaired. The impairment of £111,000 was included in administrative expenses in the Consolidated Income Statement for the prior year.

○ Capitalisation of development costs

In order to capitalise product development costs, there is a requirement for detailed analysis of the technical feasibility and judgement on the commercial viability of the project. The Board regularly reviews this judgement in respect of relevant development projects. Commercial viability is based on the future prospects for revenue generated through sales of the products that are being developed and expected costs to complete the development, as well as costs to make the products. These estimates are based on historical experience and other factors, including the achievement and timing of regulatory and registration requirements as well other expectations of future events that are believed to be reasonable under the circumstances. Actual results may not be in line with the estimates made. The value of product development costs capitalised during the year was £614,000 (2020: £192,000) which includes £310,000 (2020: £nil) of employee time spent on development projects. Note 10 provides more information on capitalised development costs.

○ Acquisition-related intangible assets and goodwill arising on acquisition

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

○ Non-trading Items

Non-trading items have been presented separately throughout the financial statements. These are items that management believes require separate disclosure by virtue of their nature in order that users of the financial statements obtain a clear and consistent view of the Group's underlying trading performance. In identifying non-trading items, management have applied judgement including whether i) the item is related to underlying trading of the Group; and/or ii) how often the item is expected to occur.

Accounting Estimates

The Group is required to make judgements based on estimates and assumptions concerning the future in order to fully comply with Adopted IFRSs. These judgements and estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future periods affected. The following are areas that are deemed to require the most complex judgements about matters that have potential material impacts on the amounts recognised in the financial statements.

Notes forming part of the Financial Statements

for the year ended 31 January 2021

1 ACCOUNTING POLICIES continued

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

Deferred taxation

Judgement is required on whether future profitability is likely in making the decision whether or not to recognise a deferred tax asset. The Group has a potential deferred tax asset which has not been recognised due to the uncertainty of the timing of utilising tax losses. Unused trading losses of £7,490,062 arose in SLE Limited prior to the acquisition by Inspiration Healthcare Group plc on 7 July 2020 and £7,596,259 arose in Inditherm plc prior to the reverse acquisition by Inspiration Healthcare Limited and change of name to Inspiration Healthcare Group plc in 2015. Following a hive-down exercise undertaken with effect from 31 January 2017 the losses which arose in Inditherm plc have been transferred to Inspiration Healthcare Ltd. There is no time limit on utilising the brought forward losses, but they can only be set-off against profits generated from the same trading activities they were generated from. Assessment of future taxable profit of relevant trading activities is based on estimates of future revenue streams, costs, investment in research and development together with related assumptions on tax credits receivable on such expenditure, amongst other things. Actual taxable profit and the timing of utilising the brought forward losses may vary from the estimates made. The analysis and assessment of the likelihood of utilising the losses is reviewed on an annual basis. Should all losses be able to be utilised in the future the amount of unrecognised deferred tax as at 31 January 2021 is £2,867,000 (2020: £1,291,000). See also note 21 on Deferred Tax.

Impairment

– Carrying value of capitalised development costs

The fair value of capitalised development costs is determined by discounting estimated future net cash flows generated by the asset where no active market for the asset exists. The net book value of capitalised development costs as at 31 January 2021 is £1,410,000 (2020: £1,094,000). See note 10 for more information on capitalised development costs. Additionally, judgement is required on the appropriate amortisation rates applied to the capitalised product development costs of completed developments, which are based on estimates of useful lives of between 5 to 10 years and residual values of the assets involved. Actual product lives may vary from estimates made. Amortisation of product development costs during the year was £186,000 (2020: £181,000). For each year that the actual product life differs from the estimate made, if applied equally across all such developments, the amortisation charge for the year would vary by £31,000 (2020: £32,000).

– Acquisition related intangible assets and goodwill arising on acquisition

The fair value of acquisition-related intangible assets is determined in accordance with the methods commonly applied under IFRS 3. These methods include discounting estimated future net cash flows generated by the asset, applying estimated commercial royalty rates and estimating cost of replacement. The use of different assumptions for the expectations of future cash flows and discount rates, estimated royalty rates or estimates costs of replacement could change the valuation of the acquisition-related intangible asset. Goodwill arising on acquisition is not subject to amortisation and is tested annually for impairment, please see note 10 for further information. The net book value of acquisition-related intangible assets and goodwill arising on acquisition as at 31 January 2021 are £5,105,000 and £8,567,000 (2020: £449,000 and £2,021,000) respectively.

The use of different assumptions for the expectations of future cash flows and the discount rate could change the valuation of the intangible asset. The discount rate takes account of the current market conditions and this has been applied as a pre-tax discount factor to obtain current value.

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

- the selection of discount rates to reflect the risks involved
- future revenue and costs
- long term growth rates

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

Property, plant and equipment

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

1 ACCOUNTING POLICIES continued

The following rates are applied:

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

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

Leases

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

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

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

Intangible assets

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

Intellectual property

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

Capitalised development costs

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

Development expenditure on an individual project is recognised as an intangible asset when the Group can demonstrate:

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

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit from the asset which varies between 5 and 10 years. Amortisation is recorded in operating expenses. During the period of development, the asset is tested for impairment annually.

Research costs

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

Software costs

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

Notes forming part of the Financial Statements

for the year ended 31 January 2021

1 ACCOUNTING POLICIES continued

Impairment

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

Calculation of recoverable amount

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

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

Business combinations

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

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

Intangible assets acquired consist of customer contracts/relationships, trade name and technology for which the estimated useful life varies between 5 and 10 years.

Acquisition related costs are expenses as incurred.

The excess of the consideration transferred over the fair value of the net identifiable assets and intangible assets acquired is recorded as goodwill. Goodwill is not amortised but is tested annually for impairment, or more frequently when events or changes in circumstances indicate that the carrying amount may be impaired. Goodwill is stated at fair value less any accumulated impairment losses.

Inventories

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

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

Recognition and valuation of financial assets and liabilities

Cash and cash equivalents

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

Investments

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

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

Trade and other receivables

Trade and other receivables are initially measured at the transaction price.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The expected loss rates are based on the payment profile of historic sales and corresponding historical credit losses in addition to considering current and forward macroeconomic factors potentially affecting the customers' ability to settle the amount outstanding.

In measuring the expected credit losses, the trade receivables have been assessed on a collective basis and have been grouped based on days past due.

1 ACCOUNTING POLICIES continued

Trade and other payables

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

Provisions

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

Share capital

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

Foreign currency transactions and balances

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

Derivatives and hedging activities

The Group uses forward currency contracts to hedge its exposure to the financial risks of changes in foreign exchange rates, in relation to Euro inventory purchases during the year. The hedging gains and losses are ultimately recognised in profit or loss through cost of sales during the year. The Group does not use derivative financial instruments for speculative purposes.

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

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

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

Employee benefits

Defined contribution pension plans

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

Share-based incentives

The Group operates an equity settled share scheme for certain employees. The cost of equity settled share based payments is measured at fair value at the date of grant, excluding the effect of non-market based vesting conditions. The cost is recognised in the Consolidated Income Statement on a straight-line basis over the vesting period with the corresponding amount credited to equity, based on an estimate of the number of shares that will eventually vest. The fair values are measured using the Black-Scholes model. Please refer to note 24 for more information.

Grants

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

Notes forming part of the Financial Statements

for the year ended 31 January 2021

1 ACCOUNTING POLICIES continued

Revenue recognition

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

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

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

The Group recognises revenue at a point in time where there is a distinct obligation to transfer goods to the customer, none of the above criteria are met and the transfer to the customer of control of the goods has taken place. The Group exercises judgement on the point at which transfer of control has taken place, which is, dependent upon individual contract shipment terms, typically assessed to be when risk in the goods has been assumed by the customer. This is deemed to be on ex works basis for the majority of shipments. The goods supplied are primarily medical devices or parts used in medical devices.

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

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

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

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

The performance of products is warranted for 12 months against clearly defined performance specifications established by reference to the technical and development testing carried out at the manufacturing facility. The estimated cost of the work to be performed under warranty on items sold by the Group would be provided for if management were aware of any field issues that needed rectification.

At 31 January 2021, the Group held a provision of £468,000 (2020: £nil) in relation to the replacement of boards contained within both the SLE 4000 and SLE 5000 ventilators. The provision was included within the opening fair value balance on the acquisition of SLE. Management are not aware of any other material field issues that would require a provision to be made for products supplied for distribution outside of the manufacturers' warranties.

Dividends

Dividends proposed by the Board are recognised in the financial statements when they have been approved by shareholders at the AGM. Interim dividends are recognised when they are paid.

Segment reporting

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

1 ACCOUNTING POLICIES continued

Taxation

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

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

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

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

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

New standards, amendments and interpretations

The Group has applied the following standards and amendments for the first time for their annual reporting year commencing 1 February 2020

- IFRS 3 Business combinations

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

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 January 2021 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Alternative financial measures

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

The Group refers to the following alternative financial measures, please refer to the Operating and Financial review on page 34 for further information.

- adjusted EBITDA
- adjusted Operating Profit

2 SEGMENTAL ANALYSIS

Inspiration Healthcare Group operates in a single business segment: Critical Care Medical Devices. Within this segment the Group's sales activities are split into three market sectors: Distributed, Branded and Technology Support and these sectors are defined and reported in Our business strategy and the Operating and financial review sections of the strategic report. There is no inter-sector trading. Following the acquisition of SLE Limited this approach is still considered appropriate as SLE Limited operates within the same market sectors as the Group.

The sectors are defined in Market Sectors/Revenue Streams on page 8.

Notes forming part of the Financial Statements

for the year ended 31 January 2021

3 REVENUE

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

	2021 £'000	2020 £'000
Domestic		
– UK	23,446	11,300
– Ireland	1,028	450
International		
– Europe	5,179	3,686
– Asia Pacific	4,128	579
– Middle East & Africa	1,852	648
– Americas	1,347	1,112
Total	36,980	17,775

Significant categories of revenue	2021 £'000	2020 £'000
Revenue recognised at a Point in Time		
– Branded Products	11,465	5,390
– Distributor Products	22,224	10,236
– Other	294	201
Revenue recognised Over Time		
– Technology Support	2,997	1,948
Total	36,980	17,775

Both UK and Distributor Products include £7,337,000 of 'one-off' revenue relating to the Covid-19 response.

NHS Supply Chain accounted for 20% of revenue, inclusive of 'one off' Covid-19 revenue. Excluding 'one off' Covid-19 revenue, no single customer accounted for more than 10% (2020: 10%) of revenue.

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

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

- for revenue recognised at a point in time a receivable is recognised when the goods are delivered, which completes our performance obligation. At this point in time the consideration is unconditional because only the passage of time is required before payment is due. Payment is typically due between 30 and 60 days following delivery of the goods.
- for revenue recognised over time, payment is typically received annually in advance of the service contract commencing. The performance obligations are met over the duration of the contract. A Contract Liability is recognised and adjusted at each reporting period to reflect unsatisfied performance obligations based on a straight-lined apportioned basis over the term of the customer contract. Included in revenue for the year is £376,000 which had been included in Contract Liabilities at 1 February 2020 (2020: £319,000). See note 20 on Contract Liabilities for more information.

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

The Group does not currently have any material value of contracts where the period between the transfer of the goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money. Contract Liabilities are detailed in note 20.

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

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

4 EXPENSES BY NATURE

	Note	2021 £'000	2020 £'000
Inventories recognised as an expense		17,343	8,834
Other cost of sales		1,615	369
Employee benefit expense		8,619	4,621
Depreciation			
– property, plant and equipment	11	286	168
– right of use assets	12	320	154
Amortisation			
– intangible fixed assets	10	242	252
– acquisition related intangible assets	10	380	43
Impairment of intangible fixed assets	10	47	72
Trade receivables loss allowance		70	–
Loss on disposal of intangible and tangible assets		79	–
Foreign exchange losses/(gains)		192	(25)
R&D expenditure		190	48
Other expenses		4,353	2,101
Total cost of sales and operating expenses		33,736	16,637
The numbers above include:			
Auditors' remuneration			
Audit fees payable to the Group's auditor - Group		99	67
Audit fees payable to the Group's auditor - Company		26	26
Total audit fees payable to the Group's auditor		125	93
Non-audit services provided by the Group's auditor		–	8
Total non-audit services provided by the Group's auditor		–	8

No non-audit services provided during the financial year (2020: £8,000 for generic acquisition accounting training).

5 EMPLOYEES

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Aggregate employee costs are as follows:				
Wages and salaries	7,409	3,956	107	105
Social security costs	845	457	8	6
Defined contribution pension scheme cost	287	146	–	–
Share based payment expense	78	62	78	62
Total	8,619	4,621	193	173

Employee costs include the costs of the Executive Directors but not the Non-executive Directors, along with severance payments of £nil (2020: £nil).

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

Notes forming part of the Financial Statements

for the year ended 31 January 2021

5 EMPLOYEES continued

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

	Group	
	2021	2020
Management and Administration	56	32
Sales	40	32
Development and Quality	36	16
Production	17	8
Total	149	88

No employees are directly employed by the Company.

No emoluments were paid by the Company.

The number of Directors for whom retirement benefits are accruing under defined contribution pension schemes during the year were 3 (2020: 3).

No Directors exercised share options during the year (2020: none).

Director's remuneration is disclosed in the Directors' Remuneration Report on pages 54 to 59.

This note should be read in conjunction with the Directors' Remuneration Report on pages 54 to 59.

6 FINANCE INCOME AND EXPENSE

	2021 £'000	2020 £'000
Finance income		
Bank interest receivable	3	9
Finance expense		
Other interest payable – RCF facility	(27)	–
Other interest payable – Leases	(87)	(21)
Total finance expense	(114)	(21)

7 INCOME TAX

(a) Analysis of tax charge for the year

	Note	2021 £'000	2020 £'000
Domestic current year tax *			
UK corporation tax			
Current year		428	275
Prior year adjustment		(61)	–
Total current tax expense		367	275
Deferred tax	21		
Origination and reversal of temporary timing differences		(65)	84
Prior year adjustment		(11)	34
Effect of increased tax rate on opening balance		27	–
Total deferred tax		(49)	118
Tax expense on profit on ordinary activities		318	393

* All tax in both 2021 and 2020 arose in the UK.

7 INCOME TAX continued

(b) Analysis of current corporation tax assets and liabilities

	Note	2021 £'000	2020 £'000
Net (liability)/asset at 1 February 2020	17	(123)	30
Tax payments			
Final payments relating to prior year		115	74
Payments on account relating to current year		94	161
Total tax payments made during the year		209	235
Tax receipts in relation to prior year		–	(104)
Current year UK corporation tax charge		(428)	(275)
Other		–	(9)
Prior year adjustment		61	–
Acquired through business combinations		(32)	–
Net liability at 31 January 2021	17	(313)	(123)

(c) Factors affecting tax charge for the year

The tax assessed for the year is lower (2020: higher) than the standard rate of corporation tax in the UK 19.00% (2020: 19.00%) as explained below:

	2021 £'000	2020 £'000	Effective Tax Rate 2021 %	Effective Tax Rate 2020 %
Profit on ordinary activities before taxation	3,133	1,126		
Tax using the effective UK corporation tax rate of 19.00% (2020: 19.00%)	595	214	19.0	19.0
Effects of:				
Non-deductible expenses	204	86	6.5	7.6
Additional deduction for research and development	(216)	(49)	(6.9)	(4.4)
Intangibles arising on business combinations	–	117	–	10.4
Adjustment in respect of prior periods	(61)	–	(1.9)	–
Amendments to deferred tax and timing	(204)	25	(6.5)	2.3
Total tax expense	318	393		
Effective tax rate			10.2	34.9

The effective tax rate for FY2021 is lower than FY2020. The largest factors impacting the decreased effective tax rate are the amendments of deferred tax, of which £(128,000) relates to the change in tax rate, and the value of R&D tax credits. The value of R&D tax credits depends upon the level of expenditure incurred in research and development on qualifying projects, which may vary from year to year.

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2020 (on 17 March 2020). These include an increase in the rate of corporation tax to 19% from 1 April 2020 (Finance Act 2016, now superseded, planned a reduction in the rate of corporation tax to 17%). Deferred taxes at the balance sheet date have been measured using the enacted tax rates and reflected in these financial statements.

(d) Factors that may affect future tax charges

The Group has gross unused losses estimated at £15,090,850, of which £7,596,259 were transferred to the Group due to the reverse acquisition and £7,490,062 relate to SLE. Brought forward losses transferred to the Group due to the reverse acquisition are potentially available for relief against future trading profits generated from the same trade. Losses relating to SLE are potentially available for relief against future trading profits generated by SLE. See note 21 Deferred Tax, for more information.

Notes forming part of the Financial Statements

for the year ended 31 January 2021

8 EARNINGS PER ORDINARY SHARE

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

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

	2021 £'000	2020 £'000
Profit		
Profit attributable to equity holders of the Company	2,815	733
Add back non-trading items	1,014	383
Add back deferred tax charge on intangible assets acquired from the acquisition of Vio Holdings Limited	–	117
Numerator for underlying earnings per share calculation	3,829	1,233

Non-trading items represent acquisition related expenses of £579,000 (FY2020: £272,000) and final settlement of contingent consideration in relation to the acquisition of Viomedex of £435,000 (FY2020: £nil). FY2020 also included impairment of investments of £111,000.

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

	2021	2020
Shares		
Number of ordinary shares in issue at the beginning of the year	38,380,850	30,667,548
Weighted average number of shares issued during the year	16,855,015	2,747,203
Weighted average number of ordinary shares in issue during the year for the purposes of basic earnings per share	55,235,865	33,414,751
Dilutive effect of potential ordinary shares:		
Weighted average number of share options	309,342	583,941
Diluted weighted average number of shares in issue during the year for the purposes of diluted earnings per share	55,545,207	33,998,692

See note 24 for further information regarding share options.

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

	Basic 2021 pence	Diluted 2021 pence	Basic 2020 pence	Diluted 2020 Pence
Earnings per share	5.10	5.07	2.19	2.15
Adjust for:				
Non-trading items	1.83	1.82	1.14	1.13
Tax charge on intangible assets acquired from the acquisition of investments	–	–	0.36	0.34
Underlying earnings per share	6.93	6.89	3.69	3.62

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

9 DIVIDENDS

The interim dividend for the year ended 31 January 2021 of 0.2p per share (2020: nil per share) was paid on 29 December 2020. The proposed final dividend of 0.4p per share (2020: nil per share) is subject to approval by shareholders at the AGM and has not been recognised as a liability as at 31 January 2021. If approved, the final dividend will be paid on 30 July 2021 to shareholders on the register on 2 July 2021.

10 INTANGIBLE ASSETS

Group	Note	Goodwill £'000	Intangible assets £'000	Development costs £'000	Intellectual property £'000	Software costs £'000	Total £'000
Cost							
At 1 February 2019		–	–	1,294	276	372	1,942
Capitalised in the year		–	–	192	–	24	216
Acquisition of business	27	2,021	492	–	–	–	2,513
At 1 February 2020		2,021	492	1,486	276	396	4,671
Capitalised in the year		–	–	614	–	49	663
Acquisition of business	27	6,546	5,036	–	–	–	11,582
Acquired in business combinations	27	–	–	–	–	40	40
Disposal		–	–	(65)	–	–	(65)
At 31 January 2021		8,567	5,528	2,035	276	485	16,891
Accumulated Amortisation							
At 1 February 2019		–	–	139	276	234	649
Charge in the year		–	43	181	–	71	295
Impairment		–	–	72	–	–	72
At 1 February 2020		–	43	392	276	305	1,016
Charge in the year		–	380	186	–	56	622
Impairment		–	–	47	–	–	47
At 31 January 2021		–	423	625	276	361	1,685
Net book value							
At 31 January 2021		8,567	5,105	1,410	–	124	15,206
At 31 January 2020		2,021	449	1,094	–	91	3,655

Company	Intellectual property £'000	Total £'000
Cost		
At 31 January 2021 & 31 January 2020	136	136
Accumulated Amortisation		
At 31 January 2021 & 31 January 2020	136	136
Net book value		
At 31 January 2021 & 31 January 2020	–	–

All intangible assets have finite useful lives except goodwill.

Intangible assets are amortised on a straight-line basis and the amortisation is included within administrative expenses within the Group's Consolidated Income Statement on page 66.

Software costs relating to the ERP system are held at cost £332,000 (2020: £328,000), net book value £33,000 (2020: £57,000) and have a remaining economic life of 2.3 years.

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

- customer contacts/relationships – cost £2,632,000 (2020: £360,000), net book value £2,480,000 (2020: £324,000) and have a remaining economic life of 9.4 years (2020: 4.6 years)
- trade name – cost £1,294,000 (2020: £58,000), net book value £1,240,000 (2020: £55,000) and have a remaining economic life of 13.4 years (2020: 6.6 years)
- technology – cost £1,110,000 (2020: 74,000), net book value £1,018,000 (2020: £70,000) and have a remaining economic life of 6.4 years (2020: 6.6 years)

Notes forming part of the Financial Statements

for the year ended 31 January 2021

10 INTANGIBLE ASSETS continued

The carrying value of development costs have been reduced to the recoverable amount through recognition of an impairment charge which is included in administrative expenses in the Group's Consolidated Income Statement. The recoverable amount is arrived at by comparing the year end net book value to the expected future discounted cashflows of each development project. The impairment for the year of £47,000 (2020: £72,000) relates to one project for which the year-end net book value exceeded the expected future discounted cashflows.

The Group tests goodwill for impairment on an annual basis, or more frequently if there are indications that the goodwill may be impaired. The recoverable amounts of the cash-generating unit is determined from value in use calculations. The key assumptions for the value in use calculations are the discount and growth rates used for future cash flows and the anticipated future changes in revenue and costs. The assumptions used reflect the past experience of management and future expectations.

The forecasts covering a five-year period are based on the detailed budget for the year ended 31 January 2022 approved by management. The cashflows beyond the budget are extrapolated for a further four-year period based on future expectations. This forecast is then extrapolated to perpetuity using a 0% (2020: nil) growth rate.

Annual growth rates for revenues for the five-year forecast period have been included at 10% year-on-year and costs between 5% and 10% year-on-year. A pre-tax discount rate of 13% (2020: nil) has been used in these calculations. The discount rate uses weighted average cost of capital which is reflective of a medical device Company operating both domestically and internationally. A discount rate of 43% (2021: nil) would need to be applied for there to be zero headroom.

Sensitivity analyses performed on the carrying value of all remaining goodwill using pre-tax discount rates up to 13%. Revenue growth would need to reduce to 1% year-on-year with no change in cost growth assumptions for there to be zero headroom.

11 PLANT AND EQUIPMENT

Group	Note	Leasehold improvements £'000	Fixtures and fittings £'000	Plant, machinery, office equipment £'000	Motor vehicles £'000	Total £'000
Cost						
At 1 February 2019		274	62	913	31	1,280
Additions in the year		–	2	149	12	163
Acquired in business combinations	27	–	–	96	–	96
Disposals in year		–	–	(15)	–	(15)
At 1 February 2020		274	64	1,143	43	1,524
Additions in the year		18	2	187	50	257
Acquired in business combinations	27	180	58	228	–	466
Disposals in year		(5)	(3)	(42)	(35)	(85)
At 31 January 2021		467	121	1,516	58	2,162
Accumulated Depreciation						
At 1 February 2019		63	49	751	9	872
Charge in the year		27	3	130	8	168
Disposals in year		–	–	(12)	–	(12)
At 1 February 2020		90	52	869	17	1,028
Charge in the year		29	12	234	11	286
Disposals in year		(5)	(3)	(42)	(21)	(71)
At 31 January 2021		114	61	1,061	7	1,243
Net book value						
At 31 January 2021		353	60	455	51	919
At 31 January 2020		184	12	274	26	496

Depreciation charged for the financial year is split between cost of sales £22,000 (2020: £15,000) and administrative expense £264,000 (2020: £153,000) in the Consolidated Income Statement.

12 LEASES

Right of use asset

Group	Note	Land and buildings £'000	Plant, machinery and motor vehicles £'000	Total £'000
At 1 February 2019		438	78	516
Acquired in business combinations	27	191	–	191
Amortisation		(96)	(58)	(154)
At 1 February 2020		533	20	553
Additions in the year		–	181	181
Acquired in business combinations	27	2,718	63	2,781
Amortisation		(272)	(48)	(320)
Lease remeasurement		(93)	–	(93)
At 31 January 2021		2,886	216	3,102

Company		Land and buildings £'000	Plant, machinery and motor vehicles £'000	Total £'000
Cost				
At 1 February 2019		–	14	14
Amortisation		–	(7)	(7)
At 1 February 2020		–	8	8
Amortisation		–	(5)	(5)
At 31 January 2021		–	3	3

The total amount included within administrative expenses in relation to short term leases during the year was £6k (2020: £6k).

Lease liability

Group	Note	Land and buildings £'000	Plant, machinery and motor vehicles £'000	Total £'000
At 1 February 2019		438	78	516
Acquired in business combinations	27	191	–	191
Interest expense		18	3	21
Lease payments		(109)	(61)	(170)
At 1 February 2020		538	20	558
Additions in the year		–	181	181
Acquired in business combinations	27	2,718	63	2,781
Interest expense		78	9	87
Lease payments		(276)	(73)	(349)
Lease remeasurement		(93)	–	(93)
At 31 January 2021		2,965	200	3,165

Notes forming part of the Financial Statements

for the year ended 31 January 2021

12 LEASES continued

Company

	Land and buildings £'000	Plant, machinery and motor vehicles £'000	Total £'000
At 1 February 2019	–	14	14
Interest expense	–	1	1
Lease payments	–	(7)	(7)
At 1 February 2020	–	8	8
Interest expense	–	–	–
Lease payments	–	(5)	(5)
At 31 January 2021	–	3	3

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Current	369	132	3	6
Non-current	2,796	426	–	2
Total	3,165	558	3	8

The total cash outflow for leases during the year was £349,000 (2020: 170,000).

13 INVESTMENTS

Group	£'000
Financial asset at fair value through profit or loss	
Cost	
At 31 January 2021 and 2020	111
Impairment	
At 31 January 2021 and 2020	(111)
Net book value	
At 31 January 2021	–
At 31 January 2020	–

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

During December 2019, Neuroprotexon filed a voluntary petition to reorganize under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware. Neuroprotexon has also filed a motion seeking authorisation to pursue an auction and sale process under Section 363 of the U.S. Bankruptcy Code.

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

Company	Note	£'000
Cost		
At 1 February 2020		10,406
Additions in year	27	22,475
At 31 January 2021		32,881
Net book value		
At 31 January 2021		32,881
At 31 January 2020		10,406

Additions in the year relate to the acquisition of SLE Limited, see note 27 for further details.

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

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

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

SLE Limited	Sale and manufacture of medical goods	Direct	100	Ordinary
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The registered office of the above Company is:
Twin Bridges Business Park, 232 Selsdon Road, South Croydon, Surrey, England, CR2 6PL

Anaesthetic Services Systems Limited*	Dormant	Indirect	100	Ordinary
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The registered office of the above Company is:
C10 Strangford Park Ards Business Centre, Jubilee Road, Newtownards, Co Down, BT23 4YH

Inspiration Healthcare Ireland Limited*	Dormant	Indirect	100	Ordinary
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The registered office of the above Company is:
The Black Church, St. Mary's Place, Dublin, D07 P4AX

* Entities exempt from the requirement to have a statutory audit.

14 INVENTORIES

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Raw materials	4,243	574	–	–
Work in progress	1,958	–	–	–
Finished goods	1,989	2,517	–	–
Total	8,190	3,091	–	–

Inventories are presented net of provisions of £1,049,000 (2020: £178,000) to write down the values to management's estimate of net realisable value.

Notes forming part of the Financial Statements

for the year ended 31 January 2021

15 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Trade receivables	5,163	4,028	–	–
Loss allowance	(411)	(19)	–	–
Net trade receivables	4,752	4,009	–	–
Amounts receivable from subsidiary undertakings	–	–	1,281	1,281
Other taxes and social security	61	21	54	22
Other receivables	104	15	14	–
Prepayments and accrued income	246	160	85	36
Total	5,163	4,205	1,434	1,339

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business and are generally due for settlement within 30-45 days. Other receivables are generally due for settlement within three to twelve months. Trade and other receivables are therefore all classified as current. Trade and other receivables are non-interest bearing and receivable under normal commercial terms. The Directors consider that the carrying value of trade and other receivables approximates their fair value. Specific provisions are made against doubtful debts arising from contracts with customers taking the value based on the most likely outcome. Using the simplified approach the historical default rate of 0.04% is also taken into account when assessing expected credit loss.

On that basis, the loss allowance as at 31 January 2021 and 31 January 2020 was determined as follows for trade receivables:

31 January 2021 - GBP 000's					
	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	Additional
Expected loss rate	0.04%	0.09%	0.21%	0.00%	
Gross carrying amount - Trade receivable	2,893	1,312	756	202	
Loss allowance	1	1	2	–	407
Total					
5,163					
31 January 2020 - GBP 000's					
	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	Additional
Expected loss rate	0.05%	0.25%	0.60%	3.29%	
Gross carrying amount - Trade receivable	3,241	455	270	62	
Loss allowance	2	1	2	2	12
Total					
4,028					
19					

Additional loss allowance represents provisions against specific trade receivables.

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

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

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

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Pounds Sterling	4,215	2,809	1,434	1,339
Euro	802	1,023	–	–
US Dollars	146	373	–	–
Total	5,163	4,205	1,434	1,339

16 CASH AND CASH EQUIVALENTS

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

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

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Pounds Sterling	9,754	4,293	583	1,775
Euro	452	128	-	-
US Dollars	424	58	3	-
Japanese Yen	3	1	-	-
Emirati Dirham	1	-	-	-
Swiss Franc	3	-	-	-
Australian Dollar	12	-	-	-
Singapore Dollar	4	-	-	-
Balances per statement of cash flows	10,653	4,480	586	1,775

The Group currently use four banks; Royal Bank of Scotland plc, HSBC Bank plc, Bank of Scotland plc and National Westminster Bank plc. Moody's give long-term ratings of A2 for both Royal Bank of Scotland plc and National Westminster Bank plc and A1 for both HSBC Bank plc and Bank of Scotland plc as at 31 January 2021.

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Royal Bank of Scotland plc	2,508	2,275	-	-
HSBC Bank plc	586	1,775	586	1,775
Bank of Scotland plc	811	430	-	-
National Westminster Bank plc	6,747	-	-	-
Cash	1	-	-	-
Balances per statement of cash flows	10,653	4,480	586	1,775

17 CURRENT TAX

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

	Note	2021 £'000	2020 £'000
UK corporation tax payable	18	313	123

At the year end date the Group has not recognised a separate receivable in respect of potential research and development tax claims (2020: £nil).

Notes forming part of the Financial Statements

for the year ended 31 January 2021

18 TRADE AND OTHER PAYABLES

	Note	Group		Company	
		2021 £'000	2020 £'000	2021 £'000	2020 £'000
Current					
Trade payables	17	3,069	2,299	63	15
UK corporation tax payable		313	123	-	-
Other taxes and social security		880	596	-	-
Amounts payable to subsidiary undertakings		-	-	5,730	896
Other payables		72	-	-	-
Accrued expenses		2,000	970	203	109
Warranty provisions		475	-	-	-
Total		6,809	3,988	5,996	1,020
Non-current					
Trade Payables		-	742	-	-
Total		-	742	-	-

The fair value of trade and other payables approximates to book value at 31 January 2021. Trade payables are non-interest bearing and the average credit period taken for trade purchases is 63 days (2020: 48 days). Accruals are normally settled monthly throughout the financial year.

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

As at 31 January 2021 warranty provisions of £475,000 (2020: £nil) includes £468,000 in relation to the replacement of boards contained within both the SLE 4000 and SLE 5000 ventilators. The provision was included within the opening fair value balance sheet of SLE.

Prior year non-current trade payables relate to a one-time purchase (approximately 24 months supply) of the Groups Tecotherm product delivered just before the prior year end. Payment for the inventory is spread over a period that is equivalent to what would have been a normal buying pattern.

19 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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

The policies to address the risks associated with the Group's financial instruments are reviewed and approved by the Board. The main risks arising from the Group's financial instruments are liquidity risk and credit risk. A summary of the risks is set out below and also referred to in the Principal Risks and Uncertainties report on pages 36 to 39.

The Group holds the following financial instruments:

	Note	2021 £'000	2020 £'000
Financial assets			
Financial assets at amortised cost			
Trade receivables	15	4,752	4,009
Other receivables	15	104	15
Cash and cash equivalents	16	10,653	4,480
Financial Liabilities			
Liabilities at amortised cost			
Trade and other payables	18	5,616	4,011
Derivative financial instruments			
Used for hedging		9	40

As at 31 January 2021 all the above are due or mature in under three months with the exception of derivatives which are due or mature in under twelve months.

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

19 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

19 (a) Derivatives

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

The Group has the following financial instruments:

- forward foreign exchange contracts

Forward foreign exchange contracts are fair value adjusted through other comprehensive income within reserves (note 22 (e)) using the rate which would have been achieved should the contracts have been instructed at the year end. All contracts are Level 2 financial instruments, not traded in an active market and determined using valuation techniques which maximise the use of observable market data. All contracts held will be settled within 12 months after the reporting period.

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

19 (b) Credit risk

Credit risk principally arises on cash deposits and trade receivables.

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

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

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

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

19 (c) Liquidity risk

In the normal course of business the Group is exposed to liquidity risk. The Group's objective is to ensure that sufficient resources are available to fund short term working capital and longer-term strategic requirements.

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

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

The Group has a £5m RCF facility available expiring in 3 years with the option to extend and attracts a 2.5% margin above LIBOR. Banking covenants of EBITDA / finance charges and net debt / EBITDA are in place and are tested quarterly. All covenants have been complied with during the year ended 31 January 2021.

At 31 January 2021 and 31 January 2020, the Group's liabilities had contractual maturities which are summarised as follows:

	Carrying amount £'000	Total £'000	1 year or less £'000	1 to 2 years £'000	2 to 5 years £'000	Over 5 years £'000
2021						
Trade payables	(3,609)	(3,609)	(3,609)	–	–	–
Lease liabilities	(3,165)	(3,165)	(369)	(343)	(1,009)	(1,444)
2020						
Trade payables	(3,041)	(3,041)	(2,229)	(742)	–	–
Lease liabilities	(558)	(558)	(132)	(100)	(141)	(185)

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

At 31 January 2021 the Group did not have any loans or borrowings.

Notes forming part of the Financial Statements

for the year ended 31 January 2021

19 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

19 (d) Interest rate risk

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

At 31 January 2021 the Group did not have any loans or borrowings.

19 (e) Foreign currency risk

The Group has entered into a number of forward foreign exchange contracts to mitigate an element of the Groups exposure to foreign currency risk in relation to purchase of inventory, see note 19a. The Board keeps this risk under regular review. There is a degree of natural hedge due to the balance of imports and exports.

19 (f) Capital risk

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

19 (g) Capital management

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

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

20 CONTRACT LIABILITIES

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

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

	Within 1 year £'000	1 to 2 years £'000	2 to 3 years £'000	3 to 4 years £'000	4 to 5 years £'000	Total £'000
31 January 2021	533	—	—	—	—	533
31 January 2020	376	—	—	—	—	376

21 DEFERRED TAX

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

Note that the effective future tax rate is 19% (2020: 17%).

Note	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Net (liability)/asset at beginning of year	(227)	(105)	31	11
Credit/(charge) to the Income Statement for the year	49	(118)	–	14
Included directly in equity	(6)	6	(6)	6
Included on business combinations	(957)	–	–	–
Other	–	(10)	–	–
Net (liability)/asset at end of year	(1,141)	(227)	25	31

The elements of deferred taxation provided for are as follows:

	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Accelerated capital allowances	(197)	(229)	–	(1)
Intangibles arising on business combinations	(976)	(105)	–	–
Short term timing differences	32	107	25	32
Deferred tax (liability)/asset	(1,141)	(227)	25	31

It is expected that £155,000 of the deferred tax liability as at the year end will be settled within 12 months of the year ended 31 January 2021 and the remaining £986,000 will be settled after 12 months following the year ended 31 January 2022.

At the year end date the Group had gross unused losses of £15,090,850 (2020: £7,596,259) potentially available to offset against future profits. Unused trading losses of £7,490,062 arose in SLE Limited prior to the acquisition by Inspiration Healthcare Group plc on 7 July 2020 and brought forward losses transferred to the Group due to the reverse acquisition of Inditherm plc amount to £7,596,259. The Group has received advice that these losses can be carried forward and utilised against future taxable profits of the same business from which they were generated. A streaming methodology has been devised to estimate profits from the business relating to Inditherm plc. This has been projected forwards and due to anticipated ongoing investment in development of the product range with consequent benefits of R&D tax credits it is estimated that taxable profits will not be generated for a number of years. Given a number of uncertainties inherent in the estimations, including revenue generated from recent product launches and the quantum of R&D tax credits, no deferred tax has been recognised in respect of these losses.

The amounts of deferred tax not recognised are as follows:

	2021 £'000	2020 £'000
Unused tax losses	2,867	1,291

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2020 (on 17 March 2020). These include an increase in the rate of corporation tax to 19% from 1 April 2020 (Finance Act 2016, now superseded, planned a reduction in the rate of corporation tax to 17%). Deferred taxes at the balance sheet date have been measured using the enacted tax rates and reflected in these financial statements.

Notes forming part of the Financial Statements

for the year ended 31 January 2021

22 SHAREHOLDERS' EQUITY

22 (a) Called up share capital

Share Capital	Number of shares (Allotted & Issued)	Share capital £'000
At 1 February 2020	38,380,850	3,838
Issue of shares	29,740,597	2,974
At 31 January 2021	68,121,447	6,812

On 7 July 2020 the Company issued 28,921,463 shares for a cash consideration and share issue of £16,800,000 and £1,800,000 respectively.

The Company also issued a further 671,296 in relation to final consideration for the acquisition of Vio Holdings Limited and subsidiary company and 147,838 on the exercise of share options relating to the employee share option scheme.

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

For the purpose of preparing the Consolidated Financial Statements of the Group, the Share Capital represents the nominal value of the issued share capital of 10p per share.

22 (b) Share premium

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

Share Premium	Note	£'000
As at 1 February 2020		3,475
Acquisition of SLE:		
Proceeds from share placement		16,967
Value of initial consideration paid in shares		1,800
Acquisition of Vio Holdings Limited:		
Contingent Consideration	27	435
Share option exercise		92
		19,294
Less		
Nominal value of shares issued		(2,974)
Share Issue costs		(957)
As at 31 January 2021		18,838

22 (c) Reverse acquisition reserve

The reverse acquisition reserve of £(16,164,000) (2020: £(16,164,000)) arose on the reverse acquisition of Inditherm plc in 2015.

22 (d) Share based payment reserve

The share based payment reserve of £139,000 (2020: 153,000), Company £294,000 (2020: £308,000), represents the expense recognised in the Consolidated Income Statement in relation to the Group Share Option Scheme. See note 24.

22 (e) Other reserves

Other reserves of £(9,000) (2020: £(34,000)) represents other comprehensive expense of £(9,000) (2020: £(40,000)) arising on the gains or losses on derivatives that are designated and qualify as cash flow hedges offset by deferred tax included directly in equity of £nil (2020: £6,000).

23 COMMITMENTS

(a) Capital commitments

At 31 January 2021, the Company had capital expenditure commitments totalling £nil (2020: £nil).

(b) Operating leases

The Group has annual commitments under non-cancellable lease commitments relating primarily to land and buildings, motor vehicles and office equipment. Land and buildings have been considered separately for lease classification. Land and buildings amounts relate to leasehold properties at Earl Shilton, Crawley, Hailsham, Croydon and Newtownards.

24 SHARE BASED PAYMENTS

Share Incentive Plan

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

The amount of options that will vest depends on performance measures based 50% on EPS and 50% on Revenue growth over a performance period of three years or other measures determined by the Remuneration Committee. Once vested, the options remain exercisable for a period of two years.

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

The Black Scholes model is used to determine fair value.

Details of the share options outstanding at 31 January 2021 and movements during the year by exercise price is shown below:

	2021		2020	
	Average exercise price per share option	Number of options	Average exercise price per share option	Number of options
Outstanding as at 1 February	£nil	583,941	£nil	583,941
Exercised during the year	£nil	(147,838)	£nil	–
Forfeited during the year	£nil	(109,266)	£nil	–
Lapsed during the year	£nil	(75,000)	£nil	–
Outstanding as at 31 January	£nil	251,837	£nil	583,941
Exercisable as at 31 January	£nil	12,500	£nil	–

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Grant Date	Expiry date	Exercise price	Share options 31 January 2021	Share options 31 January 2020
8 November 2017	7 November 2027	£nil	12,500	235,338
7 November 2018	6 November 2028	£nil	239,337	348,603
Total			251,837	583,941
Weighted average remaining contractual life of options outstanding at the end of the year			7.7 years	8.4 years

Notes forming part of the Financial Statements

for the year ended 31 January 2021

24 SHARE BASED PAYMENTS continued

The assessed fair value at grant date of options granted during the year ended 31 January 2021 was £nil as no options were granted during the year (2020: £nil). Fair value is determined by the Black-Scholes pricing model.

Sharesave Plan

During the year the Group introduced an employee Sharesave scheme which is available to all employees subject to qualifying conditions. The scheme was introduced to encourage wider employee share ownership of the Company.

The options are exercisable after three years from date of grant. When exercisable, each option is convertible into one ordinary share of 10p each.

Details of the share options outstanding at 31 January 2021 and movements during the year by exercise price is shown below:

	2021		2020	
	Average exercise price per share option	Number of options	Average exercise price per share option	Number of options
Outstanding as at 1 February	–	–	–	–
Granted during the year	£0.55	150,529	–	–
As at 31 January	£0.55	150,529	–	–

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Grant Date	Expiry date	Exercise price	Share options 31 January 2021	Share options 31 January 2020
20 March 2020	6 March 2023	£0.55	150,529	–
Total			150,529	–

An amount of £78,000 (2020: £62,000) has been recognised as a charge within administrative expenses in the Consolidated Income Statement and a credit to retained earnings within equity.

There were no cash settled share-based payment transactions.

25 CONTINGENT LIABILITIES

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

As at 31 January 2021 management are not aware of any material field issues that would require provision to be made for products supplied for distribution outside of manufacturers warranties with the exception to those disclosed within note 18.

26 PENSION SCHEMES

The Group made contributions in respect of defined contribution pension arrangements of Group £287,000 (2020: £146,000) and Company £nil (2020: £nil). At the year end the amount of contributions payable to the schemes were Group £49,000 (2020: £nil) and Company £nil (2020: £nil).

27 BUSINESS COMBINATIONS

On 7 July 2020, the Group acquired 100% of the share capital of SLE Limited for £16,200,000 cash and £1,800,000 shares. The Group paid £4,475,000 to the vendors upon the agreement of the Completion Accounts relating to the acquisition. SLE Limited designs, manufactures and supplies neonatal ventilators in the respiratory care market worldwide.

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

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

Purchase consideration	£'000
Cash consideration	16,200
Acquired cash distribution	4,475
Cash withheld related to asset transferred	(1,218)
Cash consideration	19,457
Ordinary shares issued	1,800
Asset transferred to former owner	1,218
Total purchase consideration	22,475

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

The fair value of the 2,769,231 ordinary shares issued as part of the consideration paid for SLE Limited was based on a share price of 65p per share representing a discount of 1.5% to the closing middle market price of 66p per existing ordinary share on 18 June 2020 being the last practicable date prior to the announcement of the acquisition and fundraising. Issue costs of £957,000 which were directly attributable to the issue of the shares have been netted off against share premium, see note 22.

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

	Note	Fair Value £'000
Intangible assets		40
Property, plant and equipment		466
Right of use asset		2,781
Inventories		4,527
Trade and other receivables		4,967
Intercompany due		1,218
Cash		6,314
Trade and other payables		(5,682)
Lease liabilities		(2,781)
Net identifiable assets acquired		11,850
Add:		
Goodwill	10	6,546
Intangible Assets	10	5,036
Deferred tax on identified intangible assets		(957)
Net assets acquired		22,475

The goodwill is not deductible for tax purposes.

The fair value of trade and other receivables is £4,967,000 and includes trade receivables with a fair value of £3,355,000.

The gross contractual amount for trade receivables due is £3,681,000.

The acquired business contributed revenues of £11,522,000 and profit after tax of £1,726,000 to the Group for the period from 7 July 2020 to 31 January 2021. If the acquisition had occurred on 1 February 2020, consolidated pro-forma revenue and profit for the year ended 31 January 2021 would have been £16,912,000 and £1,739,000 respectively. These amounts have been calculated using the entities' results and adjusting them for:

- differences in the accounting policies between the Group and the subsidiary
- 'one off' Covid-19 related sales and profit

Notes forming part of the Financial Statements

for the year ended 31 January 2021

27 BUSINESS COMBINATIONS continued

Acquisition related costs of £579,000 have been charged to administrative expenses in the Consolidated Income Statement for the year ended 31 January 2021.

Vio Holdings Limited and Viomedex Limited, it's subsidiary undertaking, were acquired in the year ended 31 January 2020 for an initial consideration of £3,250,000. Contingent Consideration Shares amounting to £750,000 were not issued as the conditions to be achieved per the sale and purchase agreement were, in the opinion of the Board having taken legal advice, not met. This was disputed by the previous shareholders and an agreement subsequently reached to issue Contingent Consideration Shares amounting to £435,000. The expense has been recognised within administrative expenses

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

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

The goodwill is not deductible for tax purposes.

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

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

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

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

28 RELATED PARTY TRANSACTIONS

Key management

Key management control 12.9% (2020: 22.8%) of the voting shares of the Company.

Key management comprise the Group's Executive Directors', Non-executive Directors' and the Managing Director of Inspiration Healthcare Limited.

The aggregate compensation for key management personnel is as follows:

	2021 £'000	2020 £'000
Salaries and benefits	1,082,473	752,557
Contributions to defined contribution pension scheme	23,141	20,798
	1,105,614	773,355

Lease of Leicestershire Facility

The Leicestershire facility at Earl Shilton is rented on an arms length basis for £22,000 per annum (2020: £22,000) from a self-invested pension plan controlled by Neil Campbell, Toby Foster, Simon Motley, Malcolm Oxley and Graham Walls. The lease was renewed on an arm's length basis during April 2018.

29 SUBSEQUENT EVENTS

Contract with Vyaire ended by mutual agreement.

Shareholder Information

LINK ASSET SERVICES

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

REGISTRAR'S ON-LINE SERVICE

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

SHARE DEALING SERVICES

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

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

This is not a recommendation to buy and sell shares and this service may not be suitable for all shareholders. The price of shares can go down as well as up and you are not guaranteed to get back the amount you originally invested. Terms, conditions and risks apply. Link 10th Floor, Central Square, 29 Wellington Street, Leeds LS1 4DL. www.linkgroup.eu

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

The registered office of each of these companies is 10th Floor, Central Square, 29 Wellington Street, Leeds LS1 4DL. www.linkgroup.eu

DUPLICATE SHARE REGISTER ACCOUNTS

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

GENERAL SHAREHOLDER ENQUIRIES SHOULD CONTACT:

Link Group, 10th Floor, Central Square, 29 Wellington Street, Leeds LS1 4DL

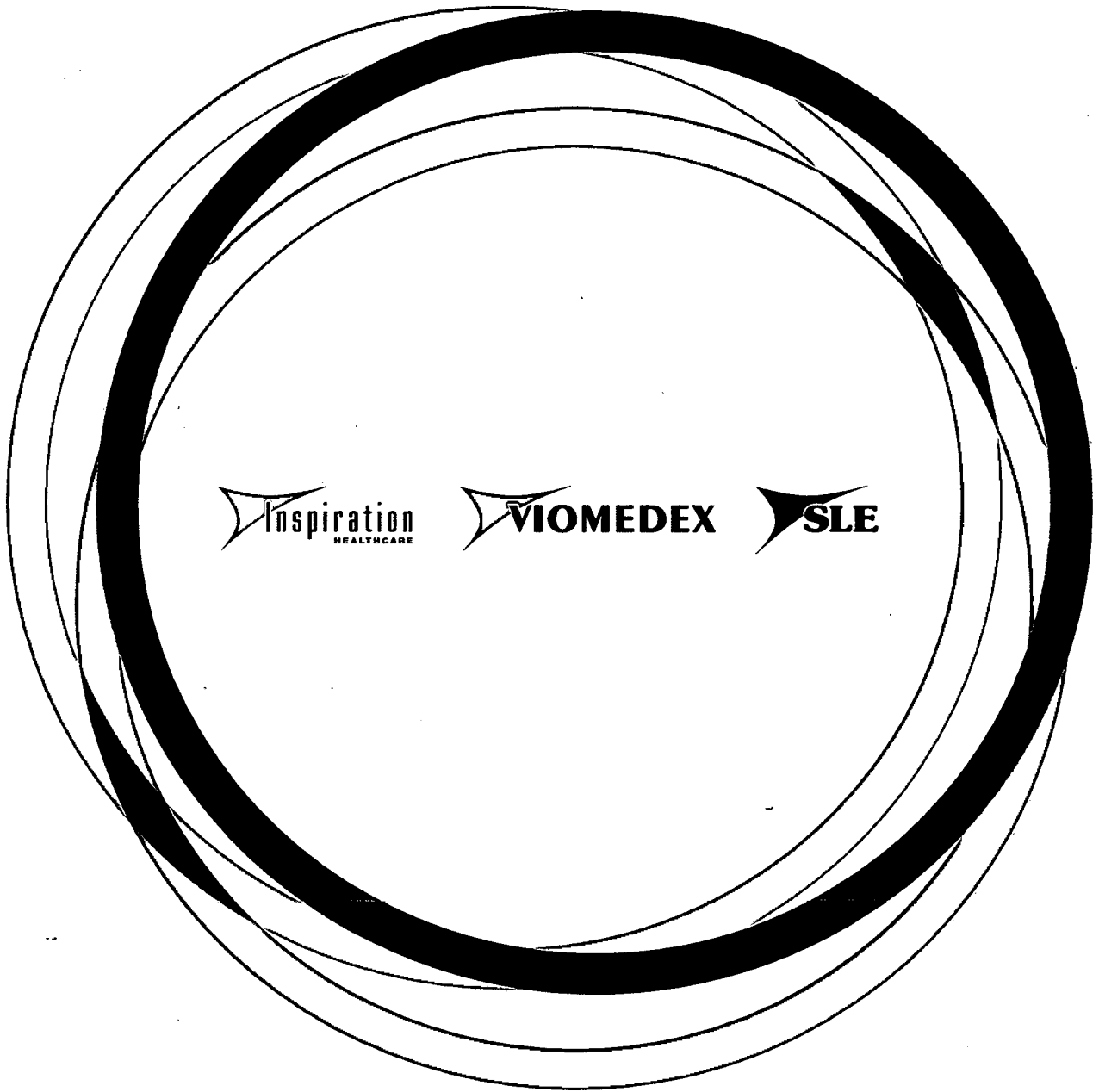
Tel: 0371 664 0300.

Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. We are open between 09:00 - 17:30, Monday to Friday excluding public holidays in England and Wales.

Email: shareholderenquiries@linkgroup.co.uk

Advisors

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Bankers	HSBC Bank plc, 1st Floor, First Point, Buckingham Gate, London Gatwick Airport, West Sussex RH6 0NT
Nominated adviser and broker	Cenkos Securities plc, 6,7,8 Tokenhouse Yard, London EC2R 7AS
Legal advisers	Gordons LLP, Riverside West, Whitehall Road, Leeds LS1 4AW Field Fisher LLP, Riverbank House, 2 Swan Lane, London EC4R 3TT
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