24 September 2019

**FireAngel Safety Technology Group plc**
('FireAngel', the 'Group' or the 'Company')

**Interim results for the six months ended 30 June 2019**

FireAngel (AIM: FA.), one of Europe's leading developers and suppliers of home safety products, announces its unaudited interim results for the six months ended 30 June 2019 and an update on trading for the year ending 31 December 2019.

**Financial headlines**

- Revenue £20.7 million (2018: £17.7 million)
- Underlying operating loss[1] £1.7 million, including £0.5 million impact of change to more prudent amortisation approach (2018: underlying operating loss £1.8 million)
- Adjusted gross profit[2] £4.7 million (2018: £4.1 million)
- Adjusted gross margin[2] 22.5% (2018: 23.2%)
- Exceptional charges of £1.7 million comprising £1.4 million to increase provision for an isolated legacy issue relating to a third-party supplier first identified in April 2016 and £0.3 million of restructuring and fundraising costs (2018: nil)
- Loss before tax £3.6 million (2018: loss before tax £2.0 million)
- Basic and diluted EPS (5.0p) based on the weighted average number of shares outstanding during the period (2018: (3.2p))
- Capitalised product development costs and production set up costs reduced to £1.4 million (2018: £2.2 million)
- Net debt at 30 June 2019 £1.7 million (cash £1.5 million, debt £3.2 million) (30 June 2018: net cash £3.4 million; 31 December 2018: net debt £4.4 million)
- Fundraising of £6.0 million (gross) and the consequential repayment of £7.0 million revolving credit facility with HSBC
- Inventory reduced to £8.5 million (30 June 2018: £11.0 million)
- The Board is cautious regarding the timing of completion of certain strategically significant trials now committed or in progress. These are now expected to generate revenue in 2020 and beyond. As a result, despite sales expected to be ahead of last year, the Board now expects that the underlying operating result for the year ending 31 December 2019, before the increase in amortisation charge described above, to be a loss in the range of £1.0 million to £1.5 million (£1.9 million to £2.4 million including the increase in amortisation)

**Operational headlines**

- UK Trade sales increased by 32% to £7.1 million; total UK sales increased by 17% to £14.5 million
- Underlying performance in the first half, before the increase in amortisation charge, was ahead of the Board's expectations
- The second half of 2019 is expected to deliver a profitable trading result with improved gross margins based on the revenue mix
- John Conoley appointed as Executive Chairman and Graham Whitworth's tenure as an Executive Director extended

[1] Underlying operating loss of £1.7 million is before exceptional charges of £1.7 million (2018: nil) and, for H1 2018, before a share-based payments charge of £0.1 million.

[2] Adjusted gross profit of £4.7 million is stated before the exceptional charge for legacy warranty of £1.4 million. For 2018, adjusted gross profit of £4.1 million is before a legacy warranty charge of £0.6 million included within 'Cost of sales before BRK distribution fee'). Adjusted gross margin is adjusted gross profit as a percentage of revenue.

**Commenting on the results, John Conoley, Executive Chairman of FireAngel, said:**

"We have continued to make progress in repositioning the business during the first half of 2019. The Board's focus over the next 18 months is on leveraging the investment made in differentiating our technology and establishing the processes to deliver the large and more strategic opportunities this investment is opening up. Although the completion of certain significant trials is now likely to take longer than originally expected, thereby negatively impacting the final results for 2019, the trials represent an important commercial validation of the Group's strategy and investment in differentiating technology. The Company will seek actively to execute on the range of opportunities it sees for gross margin progression in the short, medium, and long term."

**For further information, please contact:**


| | |
|---|---|
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**Notes to Editors**

**About FireAngel Safety Technology Group plc**

FireAngel's mission is to protect, save and improve our customers' lives by making innovative, leading-edge technology simple and accessible. FireAngel is one of the market leaders in the European home safety products market.

FireAngel's principal products are smoke alarms, CO alarms, heat alarms and accessories. The Company has an extensive portfolio of patented intellectual property in Europe, the US and other selected territories. Products are sold under FireAngel's leading brands of FireAngel, FireAngel Pro, FireAngel Specification and AngelEye.

For further product information, please visit: www.fireangeltech.com

**Chairman's Statement**

**Overview**

Sales in the first half of 2019 were ahead of both last year and budget. UK Trade revenue was 32% above the same period last year with increases also seen across most of the Group's other business units. This momentum provides evidence of increasing traction being achieved through the Company's market strategies and new product propositions and marks important first steps in the Group's transition from a pure standalone hardware safety products supplier to a provider of connected safety solutions.

Throughout the period, the Board has continued to review the robustness of the Company's processes, procedures and internal control environment. This has included a thorough review of accounting policies and legacy issues impacting the business. As a result, the Company has increased the legacy battery warranty provision and adopted a more prudent approach to amortisation of its connected home capitalised development costs, further details of which are given below.

**Results**

FireAngel's revenue for the first half was £20.7 million, ahead of both the Company's budget and last year's £17.7 million for the same period. The Company recorded a consolidated underlying operating loss[1] of £1.7 million, including £0.5 million reflecting the impact of the change to a more cautious and prudent approach to accounting for the amortisation of product development costs referred to above (2018: underlying operating loss of £1.8 million). The increase in the amortisation charge of £0.5 million follows a review by the Board of the Company's processes, procedures and controls which concluded that the 'straight line' method of amortisation for the Company's connected home capitalised development costs is more appropriate given the difficulty in accurately predicting the timing of the take up of its connected home technology. This reverses the decision taken in 2017 to adopt the 'units of production' method of amortisation which, under accounting rules, is only appropriate where demand can be measured with sufficient reliability. This change to straight line amortisation over seven years has no impact on expected cash flows and gives greater certainty to future income statement charges.

[1] Underlying operating loss of £1.7 million is before exceptional charges of £1.7 million (2018: nil) and, for H1 2018, before a share-based payments charge of £0.1 million.

As part of this review, the Board also concluded that it was appropriate to increase the FireAngel battery warranty provision, an isolated legacy issue relating to a third-party supplier first identified in April 2016. An exceptional charge of £1.4 million was made in the period as lower rework yields and higher product costs compared to those originally anticipated when the provision was estimated three years ago, are leading to increased costs of supplying replacement product. This is expected to impact cash over the next two to three years. Exceptional charges total £1.7 million comprising the £1.4 million legacy warranty charge described here together with £0.3 million of restructuring and certain fundraising costs incurred during the first half of 2019.

These actions represent a significant step forward in improving the robustness of the Group's internal control environment.

After deducting these exceptional costs and finance costs of £0.2 million, the loss before tax was £3.6 million (2018: loss before tax £2.0 million).

The consolidated gross margin, before the increase in legacy warranty provision, was 22.5% (2018: 23.2%). The reduction was largely due to the increased sterling costs of the Group's US-dollar denominated components as the US dollar to sterling exchange rate weakened to an average of 1.29 over the period (2018: 1.38) and higher than usual costs of rework of slow-moving stock lines in order to sell across our business units and markets.

Basic and diluted EPS was a loss per share of 5.0p, based on the weighted average number of shares outstanding during the period of 58.3 million (2018: loss per share of 3.2p, based on 45.9 million shares).

Further commentary around these results is set out in the Business review section below.

At 30 June 2019 the Group had £1.5 million of cash and £3.2 million of debt through its invoice discounting facility (30 June 2018: £3.4 million of cash and nil debt; 31 December 2018: £1.3 million of cash and £5.7 million debt through its revolving credit facility) following the Company's successful fundraising announced on 29 March 2019 of £6.0 million (gross) and the consequential repayment of its £7.0 million revolving credit facility with HSBC.

At £8.5 million at 30 June 2019, the Group's inventory was in line with that at the year end and down significantly from the balance at 30 June 2018 of £11.0 million. This was in part due to the year-end provision of £1.1 million against older stock purchased for the French market, but also due to the implementation of new supply chain processes, more rigorous sales management and enhanced management reporting.

The net book value of 'Other intangible assets' at 30 June 2019 was £13.7 million (30 June 2018: £12.1 million), the majority of which related to capitalised product development costs.

Net cash used by operations in the period was £0.8 million (2018: generated by operations £2.6 million) comprising an operating cash outflow of £0.2 million reduced by a net working capital outflow of £1.1 million (of which £1.3 million represented the cash costs of servicing free of charge replacement product largely in relation to the legacy battery warranty issue) offset by tax received of £0.5 million.

During the period, the Group purchased £0.2 million (2018: £0.4 million) of tooling and capital equipment at the Group's primary smoke alarm and connected devices manufacturer and incurred production set up costs of £0.2 million (2018: £0.8 million). Investment in developing the Group's connected home and new product ranges reduced to £1.2 million (2018: £1.4 million).

On 16 April 2019, the Company raised £6.0 million through the issue of 30,000,000 new ordinary shares at an issue price of 20p per share and incurred fundraising costs of £0.5 million. In conjunction with the fundraising, the Group restructured its borrowing facilities with HSBC and moved from a revolving credit facility to invoice discounting and overdraft facility. As such, in the period, the Group repaid the £7.0 million loan drawn under the revolving credit facility, £1.3 million of which had been drawn since the beginning of the period, and drew down £3.2 million of invoice finance.

In total, the net increase in cash was £0.2 million (2018: increase of £16,000). As described above, net debt at 30 June 2019 amounted to £1.7 million (30 June 2018: net cash £3.4 million; 31 December 2018: net debt £4.4 million).

**Dividend**

The Board does not propose to pay an interim dividend (2018: nil).

**Business review**

Revenue for the Group grew by 17% in the first half of the year, with growth seen in its UK Trade, Retail and International business units, and at Pace Sensors, the Group's manufacturer of CO sensors. Supporting the Group's connected home strategy, sales of interconnected alarms grew over 30% year-on-year and accounted for 15% of total sales.

Revenue split between the Group's business units is as follows:

| Revenue | **Six months ended 30 June 2019 £000** | Six months ended 30 June 2018 £000 | Change £000 | % |
|---|---|---|---|---|
| UK Trade | **7,051** | 5,338 | 1,713 | 32% |
| UK Retail | **4,316** | 3,772 | 544 | 14% |
| UK Fire & Rescue Services | **2,249** | 2,365 | (116) | (5%) |
| UK Utilities | **855** | 939 | (84) | (9%) |
| Total sales in the UK | **14,471** | 12,414 | 2,057 | 17% |
| International | **5,404** | 4,495 | 909 | 20% |
| Pace Sensors | **866** | 780 | 86 | 11% |
| **Total revenue** | **20,741** | 17,689 | 3,052 | 17% |

*UK Trade*

A strong performance in UK Trade in the period saw sales increase by 32% to £7.1 million, representing over a third of the Group's revenues. The growth in sales represents real progress in gaining share of an addressable UK Trade market estimated to be worth in excess of £100 million per annum.

Following a series of new contract and partnership wins announced in 2018, progress continued to be made in the first half of 2019 with announcements of agreements to supply West of Scotland Housing Association, North View Housing Association and Link Group, all linked to the requirement, from 1 February 2019, for greater safety standards in Scotland as part of the Housing (Scotland) Act. In addition to these announcements, since the start of the year the Group has begun supplying products to councils and housing associations with a combined portfolio in excess of 30,000 properties.

Alarms fitted through the UK Trade channel are predominantly mains-powered solutions with multiple devices being required in each property. This significantly increases the value of each sale. FireAngel's new and unique connected technology solutions offer housing associations, landlords and their tenants the highest level of protection and maintenance. As a result, the Group is seeing increased interest in its connected solutions which have been designed to meet heightened duty of care concerns within social housing. The Group is engaged in connected solution trials with social housing providers with a combined portfolio in excess of 150,000 properties.

*UK Retail*

Sales in UK Retail increased by 14% in the period to £4.3 million against a lower comparative period performance which was impacted by customers transitioning to the new FireAngel product range from BRK products. In line with last year, UK Retail represented 21% of the Group's turnover.

Together with strong traditional retailer support, the Group is continuing to see the growth of sales through online platforms, a channel through which the sale of connected products is ideally suited as the benefits and product features of FireAngel's technology can be clearly articulated. During the period, new accounts were secured with annualised revenues in excess of £1.0 million, again demonstrating the Group's strong high street and online presence.

*UK Fire & Rescue Services ('UK F&RS') and UK Utilities*
Together the UK F&RS and UK Utilities sectors accounted for 15% of the Group's revenue in the period. Sales to UK F&RS declined by 5% to £2.2 million due largely to delays in the availability of a higher margin product from our manufacturing partner. This particular product is required almost exclusively by the UK F&RS and will be available in late September 2019. The Group continued to supply over 90% of the UK F&RS.

Sales to UK Utilities in the period at £0.9 million remain in line with the previous year as demand from British Gas for CO alarms continues to be strong as awareness of the dangers of CO poisoning in the UK increases.

*International*
Revenue from the Group's International business continued to represent over a quarter of total turnover in the period. Sales increased by 20% to £5.4 million as overstocking issues at the Group's German distributor were worked through.

Sales in the Benelux region continue to perform well after the transition from BRK and First Alert products to FireAngel's own product range. Sales in France are beginning to show signs of recovery after the record demand driven by legislation in 2015.

*Pace Sensors*
At £0.9 million, revenue at Pace Sensors, the Group's manufacturer of CO sensors, represented 4% of total turnover for the period, in line with the previous year. Although the value of sales is reduced from levels seen prior to 2018, this reflects the transition of demand to the lower cost but higher margin Nano sensor, fitted into some of the Group's CO alarms.

**Manufacturing**

During the period, production at the Group's primary smoke alarm and connected devices manufacturing partner increased to meet the growth in demand. Despite significant efforts on both sides to improve efficiencies in the production process, it is unlikely that any cost reductions will be realised in the short term. Over the medium term, it is expected that rationalisation of the product range, changes in the mix of products and headcount reduction will lead to cost and efficiency improvements.

**Products and brands**

FireAngel will launch its Specification and Pro ranges of smoke, heat and CO alarms in October 2019. These ranges feature Smart RF technology which enables all devices to connect wirelessly, significantly removing the time-consuming requirement for wiring channeling or trunking.

These are the only ranges of alarms with proven carbon footprints producing on average 95% less carbon dioxide compared with other leading mains-powered alarms. The ranges allow their connectivity to be upgraded to communicate information outside the property by installing a FireAngel Connect Gateway. This has obvious advantages to landlords in fulfilling their duty of care in accessing vital information, including alarm status, history, replacement dates and network health. The system features 'FireAngel Predict', patented technology to identify and highlight dangerous patterns of behaviour that increase fire risk. A network including a Gateway can provide real-time fire and CO safety notifications via remote monitoring of the alarms for more accurate risk management.

The Company has invested significantly to offer these unique features and expects to be able to command significantly higher margins given the obvious duty of care and economic benefits.

**Board and senior management changes**

As announced in the Company's AGM statement released on 25 June 2019, after long service to the Company, William Payne will step down as a non-executive director upon the announcement of a replacement non-executive director. As separately announced today, the search for Mr Payne's successor has concluded with the appointment of Simon Herrick who will take on the chairmanship of both the Audit and Remuneration Committees. I would like to welcome Simon to the Board at this exciting time of transition for the Group.

In a further announcement on 30 July 2019 it was reported that Neil Smith, the Group Chief Executive, would be leaving the Company with effect from 31 July 2019 and, with effect from 1 August 2019, that I would assume the role of Executive Chairman following my appointment as Non-Executive Chairman in January 2019. In the same announcement, it was noted that Graham Whitworth, part-time Executive Director of the Company, had agreed to extend his tenure as an Executive Director until January 2021.

Andy Gregg, Operations Director, has decided to leave FireAngel to pursue other opportunities. I would like to thank him for his contribution over the last six months in managing the Company's technical and new product introduction teams and in helping to redefine the requirements of the role to align more closely with the new opportunities the business is presented with. The appointment of an experienced interim senior manager in the new role of Product Delivery Director is expected to be made shortly.

I would also like to announce the recent appointment of Zoe Fox as Company Secretary. Zoe is Finance Director of the Company's principal subsidiary, a role which she has held since 2010. Zoe stepped in to manage the Company's finance function for eight months in 2018 before the Group Finance Director became available to join the Company.

**Outlook**

Before the increase in amortisation charge, underlying performance in the first half of 2019 was ahead of the Board's expectations. The 2019 full year impact of the change to straight line amortisation is expected to be £0.9 million.

The Board expects the second half of 2019 to deliver a profitable trading result with improved gross margins based on the mix of revenue. The rapidly growing pipeline of connected opportunities gives the Board confidence that this improving sales momentum will continue into 2020 and beyond.

The Company's trading update released on 30 July 2019 stated that full-year performance was dependent on securing several exciting pipeline opportunities which were well-advanced in negotiations and trials. While the Board remains confident that the trials will be successful and that commitments will be secured, it is cautious regarding the timing of completion of certain strategically significant trials due to the scale and nature of the buying decision for these more complex solutions, therefore it considers that it is now unlikely that revenue from orders expected to follow the trials will be recognised in this financial year. As a result, the Board now expects the Company's underlying operating result for the year ending 31 December 2019, before the increase in amortisation charge described above, will be a loss in the range of £1.0 million to £1.5 million (£1.9 million to £2.4 million including the increase in amortisation).

The ongoing review of the Company's margins has shown that a larger short and medium-term opportunity exists than previously appreciated for margin progression through better focus on marketing and sales. As such, we are already executing plans to strengthen our focus on the UK Trade market and more assertively to exploit digital channels. We are repositioning existing products, reviewing pricing product by product and, at the same time, continuing to introduce newer product lines.

The margin progression opportunity for the Company through manufacturing and operational improvements remains and is expected to contribute more over the medium and long term. Reorganisation and upskilling in 2020 will focus on other costs of sale, for example items such as warranty and product rework, and also on our speed of reaction. Strategically, the Company will explore more deliberately with its manufacturing partner, the opportunities for Design for Manufacturing and Design for Automation.

What is becoming clear, as the Group's technology opens up new markets and allows further penetration of existing channels, is the changing nature of FireAngel's sales proposition as the Group transitions to become a provider of safety-critical connected home solutions. The size and complexity of these opportunities requires the Company to reassess the way in which it delivers technical solutions. The Board therefore expects to increase spend on processes in 2020 to ensure product quality and effective delivery is guaranteed. This will underpin the future success of FireAngel.

John Conoley
**Executive Chairman**
24 September 2019

**Consolidated Income Statement**
**For the six months ended 30 June 2019**

| | Notes | **(Unaudited) Six months ended 30 June 2019 £000** | (Unaudited) Six months ended 30 June 2018 £000 | (Audited) Year ended 31 Dec 2018 £000 |
|---|---|---|---|---|
| **Revenue** | 3 | **20,741** | 17,689 | 37,587 |
| Cost of sales before BRK distribution fee | | **(16,076)** | (13,228) | (27,922) |
| BRK distribution fee | | **-** | (944) | (944) |
| Exceptional legacy warranty charge | 4 | **(1,400)** | - | - |
| Exceptional charge for stock and disposal costs | 4 | **-** | - | (1,105) |
| **Total cost of sales** | | **(17,476)** | (14,172) | (29,971) |
| **Gross profit** | | **3,265** | 3,517 | 7,616 |
| Distribution costs | | **(448)** | (535) | (992) |
| Administrative expenses before share-based payments charge | | **(5,944)** | (4,831) | (9,720) |
| Share-based payments charge | | **-** | (107) | (107) |
| Exceptional restructuring and fundraising costs | 4 | **(300)** | - | - |
| Exceptional charge for restructure of distribution channel and production ramp-up costs | 4 | **-** | - | (2,568) |
| Administrative expenses | | **(6,244)** | (4,938) | (12,395) |
| **Total operating expenses** | | **(6,692)** | (5,473) | (13,387) |
| **Loss from operations before exceptional and share-based payments charges** | | **(1,727)** | (1,849) | (1,991) |
| **Loss from operations** | | **(3,427)** | (1,956) | (5,771) |
| Finance expense | | **(173)** | - | (114) |
| **Loss before tax** | | **(3,600)** | (1,956) | (5,885) |
| Income tax credit | 5 | **682** | 465 | 1,402 |
| **Loss attributable to equity owners of the parent** | | **(2,918)** | (1,491) | (4,483) |
| **Earnings per share (pence)** | | | | |
| From continuing operations: | | | | |
| Basic | 7 | **(5.0)** | (3.2) | (9.8) |
| Diluted | 7 | **(5.0)** | (3.2) | (9.8) |

**Consolidated Statement of Comprehensive Income**
**For the six months ended 30 June 2019**

| | **(Unaudited) Six months ended 30 June 2019 £000** | (Unaudited) Six months ended 30 June 2018 £000 | (Audited) Year ended 31 Dec 2018 £000 |
|---|---|---|---|
| **Loss for the period** | **(2,918)** | (1,491) | (4,483) |
| Items that may be reclassified subsequently to profit and loss: | | | |
| Exchange differences on translation of foreign operations (net of tax) | **93** | (55) | (67) |
| **Other comprehensive income/(loss) for the period** | **93** | (55) | (67) |
| **Total comprehensive loss for the period** | **(2,825)** | (1,546) | (4,550) |

**Consolidated Statement of Financial Position**
**As at 30 June 2019**

| | Notes | **(Unaudited) 30 June 2019 £000** | (Unaudited) 30 June 2018 £000 | (Audited) 31 Dec 2018 £000 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Goodwill | | **169** | 169 | 169 |
| Purchased software costs | | **2,693** | 2,919 | 2,899 |
| Other intangible assets | | **13,683** | 12,089 | 13,201 |
| Plant and equipment | | **3,781** | 2,337 | 4,006 |
| Right-of-use assets | 2 | **1,650** | - | - |
| Deferred tax assets | | **1,624** | 512 | - |
| | | **23,600** | 18,026 | 20,275 |
| **Current assets** | | | | |
| Inventories | | **8,506** | 10,968 | 8,425 |
| Trade and other receivables | | **9,234** | 9,871 | 10,792 |
| Current tax asset | | **1,084** | 804 | 1,248 |
| Derivative financial assets | | **54** | 300 | 214 |
| Cash and cash equivalents | 9 | **1,522** | 3,418 | 1,251 |
| | | **20,400** | 25,361 | 21,930 |
| **Total assets** | | **44,000** | 43,387 | 42,205 |
| **Current liabilities** | | | | |
| Trade and other payables | | **(10,110)** | (14,125) | (11,465) |
| Lease liabilities | 2 | **(340)** | - | - |
| Current tax liabilities | | **(3)** | (10) | (39) |
| Provisions | 10 | **(1,094)** | (914) | (934) |
| Invoice discounting facilities | 8 | **(3,173)** | - | - |
| Derivative financial liabilities | | **-** | (229) | - |
| | | **(14,720)** | (15,278) | (12,438) |
| **Net current assets** | | **5,680** | 10,083 | 9,492 |
| **Non-current liabilities** | | | | |
| Loans and borrowings | 8 | **-** | - | (5,700) |
| Lease liabilities | 2 | **(1,288)** | - | - |
| Provisions | 10 | **(558)** | (600) | (600) |
| Deferred tax liabilities | | **(2,459)** | (2,104) | (1,156) |
| | | **(4,305)** | (2,704) | (7,456) |
| **Total liabilities** | | **(19,025)** | (17,982) | (19,894) |
| **Net assets** | | **24,975** | 25,405 | 22,311 |
| **Equity** | | | | |
| Called up share capital | 11 | **1,519** | 918 | 918 |
| Share premium account | 11 | **17,617** | 12,729 | 12,729 |
| Currency translation reserve | | **205** | 124 | 112 |
| Retained earnings | | **5,634** | 11,634 | 8,552 |
| **Total equity attributable to equity holders of the Parent Company** | | **24,975** | 25,405 | 22,311 |

## Consolidated Statement of Changes in Equity
## For the six months ended 30 June 2019

| | Called up share capital £000 | Share premium account £000 | Currency translation reserve £000 | Retained earnings £000 | Total £000 |
|---|---|---|---|---|---|
| Balance at 1 January 2018 | 918 | 12,729 | 179 | 13,188 | 27,014 |
| Loss for the six months | - | - | - | (1,491) | (1,491) |
| Foreign exchange losses from overseas subsidiaries | - | - | (55) | - | (55) |
| **Total comprehensive loss for the six months** | - | - | (55) | (1,491) | (1,546) |
| Share-based payments charge | - | - | - | 107 | 107 |
| Deferred tax charge in relation to share-based payments | - | - | - | (170) | (170) |
| **Balance at 30 June 2018** | 918 | 12,729 | 124 | 11,634 | 25,405 |
| Balance at 1 January 2019 | 918 | 12,729 | 112 | 8,552 | 22,311 |
| Loss for the six months | - | - | - | (2,918) | (2,918) |
| Foreign exchange gains from overseas subsidiaries | - | - | 93 | - | 93 |
| **Total comprehensive income/(loss) for the six months** | - | - | 93 | (2,918) | (2,825) |
| Issue of shares | 601 | - | - | - | 601 |
| Premium arising on issue of shares | - | 5,400 | - | - | 5,400 |
| Share issue expenses | - | (512) | - | - | (512) |
| **Balance at 30 June 2019** | **1,519** | **17,617** | **205** | **5,634** | **24,975** |

**Consolidated Cash Flow Statement**
**For the six months ended 30 June 2019**

| | **(Unaudited) Six months ended 30 June 2019 £000** | (Unaudited) Six months ended 30 June 2018 £000 | (Audited) Year ended 31 Dec 2018 £000 |
|---|---|---|---|
| **Loss before tax** | **(3,600)** | (1,956) | (5,885) |
| Finance expense | **173** | - | 114 |
| **Operating loss for the period** | **(3,427)** | (1,956) | (5,771) |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment, and right-of-use assets | **562** | 121 | 385 |
| Amortisation and impairment of intangible assets | **1,146** | 242 | 689 |
| Non-cash exceptional items | **1,400** | - | - |
| Decrease/(increase) in fair value of derivatives | **159** | (437) | (578) |
| Share-based payments charge | **-** | 107 | 107 |
| **Operating cash flow before movements in working capital** | **(160)** | (1,923) | (5,168) |
| Movement in inventories | **(83)** | 232 | 2,777 |
| Movement in receivables | **1,558** | 7,315 | 6,394 |
| Movement in provisions | **(1,283)** | (679) | (660) |
| Movement in payables | **(1,287)** | (2,347) | (4,983) |
| **Cash (used by)/generated by operations** | **(1,255)** | 2,598 | (1,640) |
| Income taxes received | **491** | - | (35) |
| **Net cash (used by)/generated by operating activities** | **(764)** | 2,598 | (1,675) |
| **Investing activities** | | | |
| Capitalised development costs | **(1,422)** | (2,200) | (3,415) |
| Purchased software | **-** | - | (325) |
| Purchase of property, plant and equipment | **(212)** | (382) | (2,342) |
| Interest received | **-** | - | 7 |
| **Net cash used in investing activities** | **(1,634)** | (2,582) | (6,075) |
| **Financing activities** | | | |
| Proceeds from issue of ordinary shares (net of issue expenses) | **5,488** | - | - |
| Drawdown of invoice finance | **3,173** | - | - |
| Drawdown of loan | **1,300** | 3,000 | 5,700 |
| Repayment of loan | **(7,000)** | (3,000) | - |
| Repayment of lease obligations | **(130)** | - | - |
| Interest paid | **(242)** | - | (121) |
| **Net cash generated by financing activities** | **2,589** | - | 5,579 |
| **Net increase/(decrease) in cash and cash equivalents** | **191** | 16 | (2,171) |
| Cash and cash equivalents at beginning of period | **1,251** | 3,273 | 3,273 |
| Non-cash movements | **80** | 129 | 149 |
| **Cash and cash equivalents at end of period** | **1,522** | 3,418 | 1,251 |

**Notes to the financial information**

## 1. General information

These consolidated interim financial statements were approved by the Board of Directors on 23 September 2019.

## 2. Basis of preparation

These consolidated interim financial statements of the Group are for the six months ended 30 June 2019.

The comparative figures for the financial year ended 31 December 2018 are not the Group's statutory accounts for that financial year. Those statutory accounts have been reported on by the Group's auditor and delivered to the Registrar of Companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report and (iii) did not contain a statement under Section 498 of the Companies Act 2006.

The condensed consolidated interim financial statements for the six months to 30 June 2019 do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2018.

The condensed consolidated interim financial statements for the six months to 30 June 2019 have not been audited or reviewed by an auditor pursuant to the Auditing Practices Board guidance on Review of Interim Financial Information.

The condensed consolidated interim financial statements for the six months to 30 June 2019 have been prepared on the basis of the accounting policies expected to be adopted for the year ending 31 December 2019. These are anticipated to be consistent with those set out in the Group's latest annual financial statements for the year ended 31 December 2018 with the exception of the adoption of IFRS 16 'Leases'. These accounting policies are drawn up in accordance with adopted International Accounting Standards ('IAS') and International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board and adopted by the EU.

AIM-quoted companies are not required to comply with IAS 34 Interim Financial Reporting and accordingly the Company has taken advantage of this exemption.

**New and amended standards adopted by the Group**

The Group has adopted IFRS 16 with effect from 1 January 2019. The standard eliminates the classification of leases as either operating or finance leases and introduces a single accounting model requiring lessees to recognise assets and liabilities for all leases unless the underlying asset has a low value or the lease term is twelve months or less. Lessees are required to recognise on the balance sheet right-of-use assets which represent the right to use underlying assets during the lease term and a lease liability representing the minimum lease payment for all leases. Depreciation of right-of-use assets and interest on lease liabilities is charged to the Income Statement, replacing the corresponding operating lease rentals. The Group has applied the modified retrospective approach and therefore at the date of initial application an amount equal to the lease liability, using appropriate incremental borrowing rates, has been recognised as a right-of-use asset. The Group has taken the elections available under IFRS 16 not to apply the lease accounting model to leases which are considered low value or which have a term of less than twelve months. The adoption of IFRS 16 has increased 'Non-current assets' and 'Total liabilities' at the balance sheet date by £1.7 million and £1.6 million respectively, but has not had a material impact on the Income Statement. No adjustment was necessary to equity at the date of transition as the Group chose to measure the right-of-use asset at the same value as the lease liability. A weighted-average incremental borrowing rate of 3.7% has been applied to lease liabilities.

## 3. Operating segments

An analysis of the Group's revenue by business unit is as follows:

| | **(Unaudited) Six months ended 30 June 2019 £000** | (Unaudited) Six months ended 30 June 2018 £000 | (Audited) Year ended 31 Dec 2018 £000 |
|---|---|---|---|
| *Revenue from continuing operations:* | | | |
| UK Trade | **7,051** | 5,338 | 12,433 |
| UK Retail | **4,316** | 3,772 | 8,281 |
| UK Fire & Rescue Services | **2,249** | 2,365 | 4,208 |
| UK Utilities | **855** | 939 | 2,259 |
| Total sales in the UK | **14,471** | 12,414 | 27,181 |
| International | **5,404** | 4,495 | 8,756 |
| Pace Sensors | **866** | 780 | 1,650 |
| Total revenue | **20,741** | 17,689 | 37,587 |

## 4. Exceptional charges

| | **(Unaudited) Six months ended 30 June 2019 £000** | (Unaudited) Six months ended 30 June 2018 £000 | (Audited) Year ended 31 Dec 2018 £000 |
|---|---|---|---|
| *Within cost of sales* | | | |
| Increase in legacy warranty provision | **1,400** | - | - |
| Provision against stock and disposal costs | **-** | - | 1,105 |
| | **1,400** | - | 1,105 |
| *Within administrative expenses* | | | |
| Restructuring costs | **187** | - | - |
| Fundraising costs | **113** | - | - |
| Incremental production ramp up costs | **-** | | 928 |
| Restructure of distribution channels | **-** | - | 1,640 |
| | **300** | - | 2,568 |
| Total exceptional charges | **1,700** | - | 3,673 |

During the period, the Board concluded that it was appropriate to increase the FireAngel battery warranty provision, an isolated legacy issue relating to a third-party supplier first identified in April 2016. An exceptional charge of £1.4 million was made in the period as lower rework yields and higher product costs compared to those originally anticipated when the provision was estimated three years ago, are leading to increased costs of supplying replacement product.

Exceptional charges total £1.7 million comprising the £1.4 million warranty charge described above together with £0.3 million of restructuring and fundraising costs incurred during the first half.

## 5. Income tax

The income tax credit for the period is based on the estimated rate of corporation tax that is likely to be effective for the year to 31 December 2019.

## 6. Dividends

As a result of the loss reported for the period, the Directors do not propose payment of an interim dividend for 2019 (2018: nil pence per share).

The Group's dividend policy will remain under review with the Board's desire to recommence dividend payments when it is prudent to do so.

## 7. Earnings per share

Earnings per share are as follows:

| | **(Unaudited) Six months ended 30 June 2019** | (Unaudited) Six months ended 30 June 2018 | (Audited) Year ended 31 Dec 2018 |
|---|---|---|---|
| **Earnings from continuing operations** | **£000** | £000 | £000 |
| Earnings for the purposes of basic and diluted earnings per share (loss for the period attributable to owners of the parent) | **(2,918)** | (1,491) | (4,483) |
| **Number of shares** | **'000** | '000 | '000 |
| Weighted average number of ordinary shares - basic earnings calculation | **58,336** | 45,905 | 45,905 |
| Dilutive potential ordinary shares from share options | **-** | - | 30 |
| **Weighted average number of ordinary shares - diluted calculation** | **58,336** | 45,905 | 45,935 |

| | **2019 pence** | 2018 pence | 2018 pence |
|---|---|---|---|
| Basic earnings per share | **(5.0)** | (3.2) | (9.8) |
| Diluted earnings per share | **(5.0)** | (3.2) | (9.8) |

Basic EPS is calculated by dividing the earnings attributable to ordinary owners of the parent by the weighted average number of shares outstanding during the period.

Diluted EPS is calculated on the same basis as basic EPS but with a further adjustment to the number of weighted average shares in issue to reflect the effect of all potentially dilutive share options. The number of potentially dilutive share options is derived from the number of share options and awards granted to employees and Directors where the exercise price is less than the average market price of the Company's ordinary shares during the period. Under IFRS no allowance is made for the dilutive impact of share options which reduce a loss per share. The basic and diluted EPS measures are therefore the same for the period ended 30 June 2019.

## 8. Loans and borrowings

| | **(Unaudited) 30 June 2019 £000** | (Unaudited) 30 June 2018 £000 | (Audited) 31 Dec 2018 £000 |
|---|---|---|---|
| Bank term loan | **-** | - | (5,700) |
| Invoice discounting facilities | **(3,173)** | - | - |
| | **(3,173)** | - | (5,700) |

In conjunction with the fundraising during the period, the Group restructured its borrowing facilities with HSBC and moved from a revolving credit facility to invoice discounting and overdraft facility. As such, in the period, the Group repaid the £7.0 million loan drawn under the revolving credit facility, £1.3 million of which had been drawn since the beginning of the period, and drew down £3.2 million of invoice finance.

## 9. Cash and cash equivalents

| | **(Unaudited) 30 June 2019 £000** | (Unaudited) 30 June 2018 £000 | (Audited) 31 Dec 2018 £000 |
|---|---|---|---|
| Cash at bank and in hand | **1,522** | 3,418 | 1,251 |

## 10. Provisions

| | **FireAngel warranty provisions £000** | **BRK Brands warranty provisions £000** | **Total £000** |
|---|---|---|---|
| At 1 January 2018 | 1,917 | 277 | 2,194 |
| Increase in provision | 581 | 30 | 611 |
| Utilisation | (1,202) | (89) | (1,291) |
| **At 30 June 2018** | 1,296 | 218 | 1,514 |
| | | | |
| At 1 January 2019 | 1,400 | 134 | 1,534 |
| Increase in provision | 1,400 | - | 1,400 |
| Utilisation | (1,246) | (36) | (1,282) |
| **At 30 June 2019** | **1,554** | **98** | **1,652** |

The total warranty provision is classified between less than one year and greater than one year as follows:

| | **(Unaudited) 30 June 2019 £000** | (Unaudited) 30 June 2018 £000 | (Audited) 31 Dec 2018 £000 |
|---|---|---|---|
| Current provision | **1,094** | 914 | 934 |
| Non-current provision | **558** | 600 | 600 |
| **Total warranty provision** | **1,652** | 1,514 | 1,534 |

In its report and accounts for the year ended 31 December 2015, the Company increased the FireAngel product warranty provision by £5.5 million as an issue had been identified in certain batteries supplied by a third party that may cause a premature low battery warning chirp in certain smoke alarm models sold in the UK and in Continental Europe.

During the period, the Board concluded that it was appropriate to increase the FireAngel battery warranty provision, an isolated legacy issue relating to a third-party supplier first identified in April 2016. An exceptional charge of £1.4 million was made in the period as lower rework yields and higher product costs compared to those originally anticipated when the provision was estimated three years ago, are leading to increased costs of supplying replacement product.

**11. Share capital and reserves**

On 16 April 2019, the Company raised £6.0 million through the issue of 30,000,000 new ordinary shares of 2p nominal value each at an issue price of 20p per share.

The premium on issue was 18p per share amounting to £5.4 million. This was credited to the share premium account. Share issue expenses amounted to £0.5 million. These were debited to the share premium account.

**12. Availability**

Further copies of this interim announcement are available on the FireAngel Safety Technology Group plc investor relations website, www.fireangeltech.com.