FireAngel®

ANNUAL REPORT AND ACCOUNTS 2019

FireAngel Safety Technology Group plc

FIREANGEL SAFETY TECHNOLOGY GROUP PLC
Annual Report and Accounts 2019

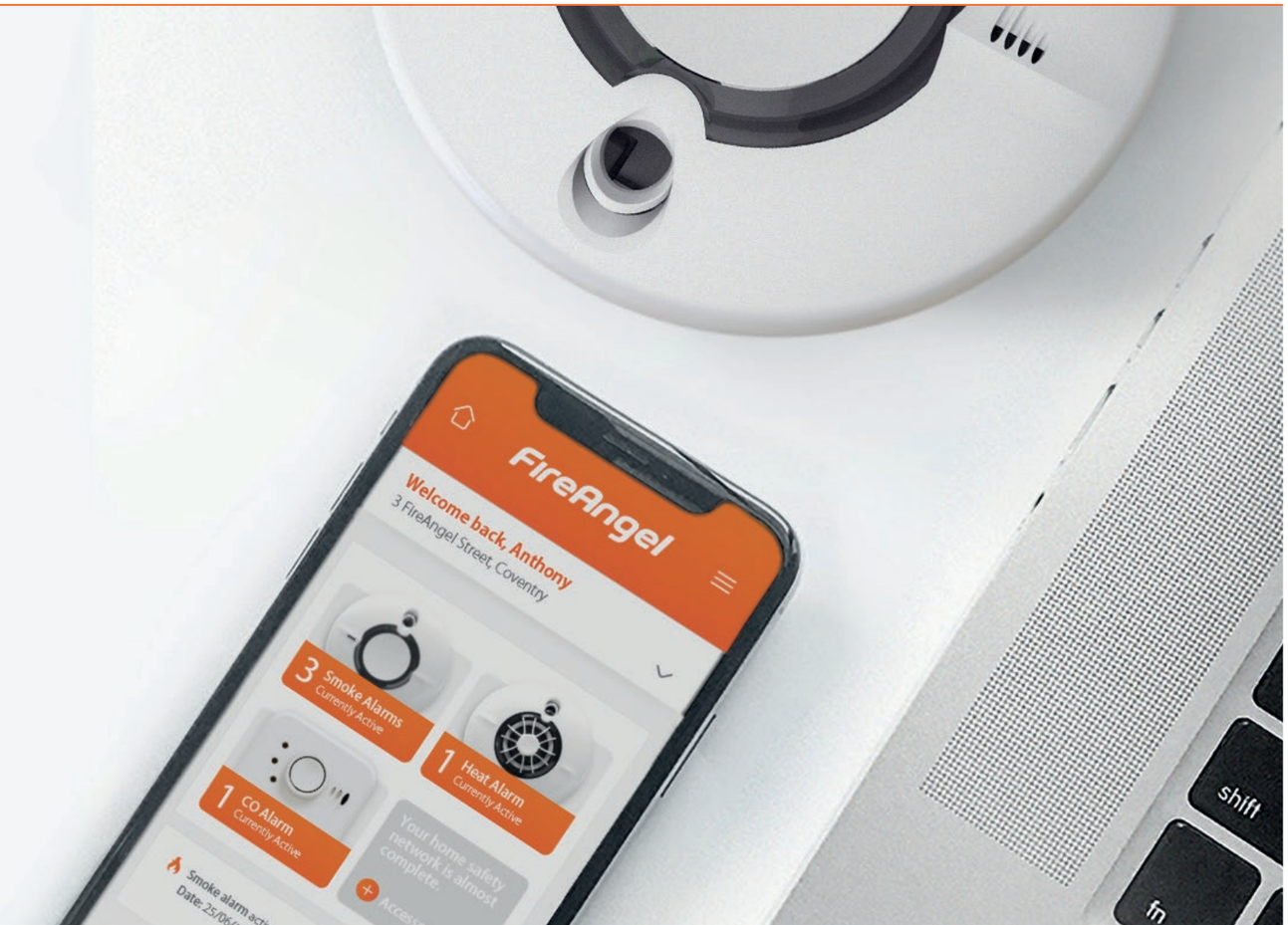
FireAngel's mission is to protect and save lives by making innovative, leading-edge technology home safety products which are simple and accessible.

FireAngel is one of the market leaders in the European home safety products market with its growing proprietary connected home products proposition. Its principal products are smoke alarms, carbon monoxide ('CO') alarms and accessories sold under the principal brand of FireAngel. The Group has an extensive portfolio of patented intellectual property. Barriers to entry are high with considerable costs of product certification and significant know-how required to sell home safety products.

The introduction of new technologically more-advanced products and new safety legislation, together with increasing levels of awareness of the dangers of smoke and CO, continue to drive the Group's sales.

FireAngel manufactures CO sensors at its subsidiary, Pace Sensors, for use in its CO alarms. All other manufacturing and product assembly is outsourced and almost all of the Group's product cost base is sourced in US dollars. FireAngel's smoke, heat and accessory products are manufactured by Flex in Poland. Other ranges of smoke products are sourced from a leading supplier in the Far East. The Group's CO detectors are manufactured at Pace Technologies in China.

FireAngel enjoys the leading sales footprint of any home products supplier across UK Retail and is the largest supplier to the UK's Fire & Rescue Services ('UK F&RS'), both of which are a strong endorsement of the quality and technical capability of our products. The Group also supplies the UK Utilities sector with British Gas as its key customer. FireAngel has a well-established but low market share of the UK Trade sector and is seeking to significantly expand this with its range of trade products. The Group also makes significant sales into Continental Europe, mainly selling in euros through a network of independently-owned, third-party distributors.



Financial headlines

- Revenue £45.5 million (2018: £37.6 million)
- Underlying operating loss[1] £2.9 million, before £0.9 million impact of change to a more appropriate amortisation approach (2018: underlying operating loss[1] £2.0 million)
- Operating loss £10.7 million (2018 restated: operating loss £5.8 million)
- Adjusted gross profit[2] £8.7 million (2018: £8.7 million)
- Adjusted gross margin[2] 19.0% (2018: 23.2%)
- Gross margin 9.6% (2018 restated: 20.1%)
- Non-underlying items totalling £6.9 million before tax (2018 restated: £3.8 million)
- Underlying loss before tax[3] £3.2 million (2018: underlying loss before tax[3] £2.1 million)
- Loss before tax £11.0 million (2018 restated: loss before tax £5.9 million)
- Underlying EBITDA[4] loss £0.4 million (2018: loss £0.9 million)
- Basic and diluted EPS (14.0p) (2018 restated: (9.9p))
- Capitalised product development spend reduced to £2.9 million (2018: £3.4 million)
- Net debt (before lease obligations) at 31 December 2019 £4.9 million (cash £2.1 million, debt £7.0 million) (2018: net debt £4.4 million)
- While COVID-19 has impacted the Company outlook in the short term, revenue for April 2020, at almost 55% of the Company's pre-COVID-19 budget, was, encouragingly, some way ahead of the Board's expectations. Revenue for May 2020 is expected to be at a similar level of budget achievement. Due to uncertainty around the impact of COVID-19 and timing of when restrictions will be lifted, the Board withdrew the Company's market guidance given that it is too early to substantiate or vary it with any certainty
- Announcement post year end of open offer and placing to raise approximately £6.1 million to strengthen the balance sheet and deploy connected homes technology

[1] Underlying operating loss in 2019 of £2.9 million is before the impact of the change to straight line amortisation of £0.9 million and before non-underlying items of £6.9 million (2018: underlying operating loss of £2.0 million before non-underlying items of £3.8 million). A reconciliation of 'alternative performance measures' to measures prescribed in financial standards is given in the Performance Review section.

[2] Adjusted gross profit is stated before non-underlying items of £4.3 million (2018 restated: non-underlying items of £1.2 million). Adjusted gross margin is adjusted gross profit as a percentage of revenue.

[3] Underlying loss before tax in 2019 of £3.2 million is before the impact of the change to straight line amortisation of £0.9 million and before non-underlying items of £6.9 million (2018: underlying loss before tax of £2.1 million before non-underlying items of £3.8 million).

[4] Underlying EBITDA in 2019 of (£0.4) million is loss before tax before depreciation and amortisation of £3.4 million, finance costs of £0.3 million and non-underlying items of £6.9 million (2018: underlying EBITDA of (£0.9) million is loss before tax before depreciation and amortisation of £1.1 million, finance costs of £0.1 million and non-underlying items of £3.8 million).

Operational headlines

- Total revenue growth of 21% to £45.5 million with growth of 36% in UK Retail, 23% in UK Trade and 26% internationally
- UK Retail wins with Aldi, Asda, Morrisons and secured principal supply to Homebase and significant online growth through Amazon
- Good progress in gaining share of core UK Trade market
- Grant of European patent for FireAngel Predict™ post year end
- Solid start to 2020 with sales up 15% and gross profit up 39% on the first two months of 2019; performance in the first quarter of 2020 was close to the Board's expectations, with revenue and gross profit slightly below budget. Gross profit margin remained ahead of Q1 2019 and in line with budget, however, an opportunity to outperform was lost in part due to the impact of COVID-19 as March progressed
- Comprehensive gross margin improvement plan being rolled out
- Board changes to align to future challenges and opportunities
- Trials of FireAngel's connected home products, including FireAngel Predict™, have been well received, and market response is building, which bodes well for 2020 and beyond
- Close to securing our first large connected rollout using FireAngel Pro Connect and FireAngel Predict™ which represents an important endorsement of our strategy and unique offering
- Company is now an independent, technology-led business with the key objectives of monetising the investment made in connected technology and to complete the transition to become a provider of safety-critical connected home solutions

Contents

The Statutory Strategic Report comprises the Executive Chairman's Statement, the Strategic Review, the Performance Review, the Section 172 Companies Act Statement and the Risks and Risk Management sections.

Visit our investor website for the latest news and announcements:
www.fireangeltech.com

FireAngel at a glance

Our business model

The FireAngel story started in 1998 when the business model was conceived by Nick Rutter, one of the two founders, who wanted to design and sell products:

- where existing product solutions did not meet customer needs;
- which had global sales potential;
- manufactured using plastics and electronics (as this was the area most familiar to Nick); and
- which would provide an opportunity to take advantage of economies of scale of manufacture with low cost manufacturers.

After a huge amount of product testing and validation work, the business, with Nick as Managing Director, launched the world's first plug-in smoke alarm. Since that ground-breaking design, the Company has gradually extended its product range and expanded to become the business it is today with a comprehensive range of smoke, CO and wireless products sold under its principal FireAngel brand.

Our customer-centric approach, combined with a comprehensive product range, world-class third-party manufacturing capabilities and high barriers to entry through product certification, makes our business model robust and defensible. In turn, this enables us to build strong, long-lasting partnerships with key customers to maintain and gain market share.

Over time, we want to become *the* European market leader selling FireAngel branded products of choice in each of the markets we serve.

The product and brand advocacy we have from supplying smoke and hearing-impaired alarms to the UK F&RS is illustrated through strong customer loyalty across our business. This philosophy shapes our business model as we continue to listen to our customers' needs to develop the products they want in the future. We have an exciting pipeline of products coming through, including an enhanced range of connected home products that incorporate FireAngel's unique predictive algorithm, FireAngel Predict™, which not just detects fires, but predicts where fires are more likely to occur.

Sourcing of our own smoke, heat and accessory products from Flex in Poland has enabled us to consolidate our product range, reduced lead times and leverage economies of scale from a manufacturing facility just a short flight away. It has also allowed us to bring manufacturing closer to our core markets.

FireAngel's mission is to **protect** and **save** lives by making **innovative**, leading-edge technology home safety products which are simple and accessible.

Think Ahead

Think Customer

Think Team

1998
FireAngel established

2001
First domestic smoke alarm to utilise environmentally friendly PET packaging

First domestic smoke alarm to utilise SMT

2003
First UL Listed rechargeable

2007
SSP launch award-winning range of accessory products

2009
First domestic smoke alarm to incorporate diagnostics

2010
First domestic battery smoke alarm to utilise aerosol calibration in production

First domestic battery smoke alarm to use multi-sensor technology

2012
First domestic alarm to utilise 100% EOL smoke test in production

2014
Launch of lowest power AC alarm in Europe

2015
Biggest wireless footprint in the EU

2016
Launch of Wi-Safe Connect cloud based B2B monitoring system

2017
Launch of NG-9B the first battery powered natural gas alarm in Europe

2018
Launch of Co-Exist product range utilising common smart home protocols

2019

Number 1

Supplying 90% of the UK's Fire & Rescue Services

50+

Registered technology patents & further pending

Unique

In-house CO sensing technology

Three

Supplier / manufacturing partnerships

Four

Brands targeted at different markets

Influential

Member of Industry and Trade Associations

Scalable & Defensive

Business model with high barriers to entry

Leading

Designer & supplier of smoke, heat and CO alarms and wireless connectivity in Europe

Established

Third party distribution across Europe, the Middle East and Asia

Introduction

Executive Chairman's statement

"The Group enters 2020 beginning to realise the promise of its investment in R&D for connected alarms. 2019 was a challenging year with results continuing to be negatively impacted by legacy issues. We have addressed these issues and are taking action to improve gross margins which we expect will increase in 2020 and continue to do so in subsequent years. The opportunity presented by the growing demand for connected home solutions is significant and I look forward to the Group's next phase of growth. FireAngel has finally reached the start line of an exciting future."

John Conoley - Executive Chairman

Overview

In late 2019, the Group finally began field installations of its connected products which was very encouraging, but not sufficiently so to outweigh what proved to be a very challenging year operationally for the Group. Our sales and marketing efforts represented a considerable success with revenue up significantly at 21%, yet we were disappointed to report an underlying loss for 2019 and to record substantial non-underlying charges linked to historical issues. Significant management time has once again been spent on resolving legacy problems, which should have been spent moving forward with the Group's clear strategic aims.

Although revenue saw impressive growth to £45.5 million, the impact on gross margin was held back for four main reasons:

1. **Detrimental impact of the value of sterling against the US dollar**

The prolonged weakening of sterling against the US dollar in 2019 significantly increased the sterling cost of components used in the Group's products.

2. **Higher costs and delayed product availability at the Group's smoke and connected devices manufacturing partner**

During 2018, a new manufacturing partner in Poland commenced production of FireAngel's smoke and connected devices products and a new Far East based supplier commenced supply of alternatives to the BRK/First Alert products.

Delays in reaching production capacity and efficiency at the Polish manufacturer impacted both the availability of products and the product cost in 2018. Although progress was made during 2019 in moving forward with both yield and efficiency, we continue to see higher costs due, in particular, to wage inflation in Poland and delays in the availability of certain higher-margin products.

3. **Change in sales mix towards lower margin UK Retail**

Revenue from the lower-margin UK Retail sector increased by 36% to £11.3 million in 2019 and represented 25% of the Group's turnover compared to 22% in the previous year. This change in margin mix detrimentally impacted the Group's overall gross margin compared with 2018.

4. **Impact of sales growth on the Company's processes**

Sales growth in 2019 of 21% put stress on the Company's processes from production through to customer fulfilment. This had the effect of repeatedly shaving small amounts of both revenue and margin from the year's results. In addition, the Company had to incur more costly air freight charges to meet the growth in demand for certain of its products.

Fuller details of these issues and other factors affecting the year's results are set out in the Strategic Review and Performance Review sections of this Annual Report.

Results

For the year to 31 December 2019, the Group's revenue was £45.5 million (2018: £37.6 million). The Group made an underlying loss before tax[1] of £3.2 million (2018: £2.1 million). After charging £6.9 million for non-underlying costs (2018 restated: £3.8 million) and incurring £0.9 million in changing to straight line amortisation for intangible development assets, the consolidated loss before tax for the year was £11.0 million (2018 restated: £5.9 million). Underlying EBITDA[3] improved from a loss of £0.9 million in 2018 to a reduced loss of £0.4 million in 2019.

The adjusted gross profit[2] was maintained at £8.7 million, but represented a reduced adjusted gross margin[2] of 19.0% (2018: 23.2%).

[1] Underlying loss before tax in 2019 of £3.2 million is before the impact of the change to straight line amortisation of £0.9 million and before non-underlying items of £6.9 million (further details of which are set out below) (2018: underlying loss before tax of £2.1 million before non-underlying items of £3.8 million).

[2] Adjusted gross profit is stated before non-underlying items of £4.3 million (2018 restated: non-underlying items of £1.2 million). Adjusted gross margin is adjusted gross profit as a percentage of revenue.

[3] Underlying EBITDA in 2019 of (£0.4) million is loss before tax before depreciation and amortisation of £3.4 million, finance costs of £0.3 million and non-underlying items of £6.9 million (2018: underlying EBITDA of (£0.9) million is loss before tax before depreciation and amortisation of £1.1 million, finance costs of £0.1 million and non-underlying items of £3.8 million).

FireAngel's results continue to be negatively impacted by legacy issues as a result of certain historically poor internal processes.

Significant non-underlying charges have been incurred during the year to increase the legacy battery warranty provision, for stock provisions and for the impairment of intangible development costs. Details of these non-underlying items are given in the Performance Review section below.

Net debt (before lease obligations) at 31 December 2019 was £4.9 million (2018: £4.4 million). On 23 March 2020 the Company announced details of an open offer and placing to raise approximately £6.1 million to strengthen its balance sheet, execute self-help plans to improve gross margin, deploy and support the connected homes technology and fund part of the additional expected liabilities for the Company's legacy battery warranty issue first identified in 2016, further details of which are set out below. On 8 April 2020, the Company issued 50,623,480 new ordinary shares at 12 pence per share as a result of valid acceptances under the open offer and placing.

Business unit performance

Revenue for the Group grew by 21% in the year, with significant growth seen in all major business units. Gross margin, however, was lower compared to the prior year due to the reasons outlined above.

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

	2019	2018	Inc/(dec)	Inc/(dec)	2019 Proportion	2018 Proportion
	£m	£m	£m	%	%	%
UK Trade	**15.2**	12.4	**2.8**	**23%**	**34%**	33%
UK Retail	**11.3**	8.3	**3.0**	**36%**	**25%**	22%
UK F&RS	**4.7**	4.2	**0.5**	**12%**	**10%**	11%
UK Utilities	**1.5**	2.3	**(0.8)**	**(35%)**	**3%**	6%
Total sales in the UK	**32.7**	27.2	**5.5**	**20%**	**72%**	72%
International	**11.1**	8.8	**2.3**	**26%**	**24%**	24%
Pace Sensors	**1.7**	1.6	**0.1**	**6%**	**4%**	4%
Total revenue	**45.5**	**37.6**	**7.9**	**21%**	**100%**	**100%**

UK Trade

A very strong performance in UK Trade in the year saw sales increase by 23% to £15.2 million, representing around a third of the Group's revenues. The UK Trade sector represented the highest proportion of total revenue in both 2019 and the prior year. The growth in absolute sales of £2.8 million shows the progress made in gaining share of an addressable UK Trade market estimated to be worth in excess of £100 million annually and the recovery of demand throttled back by stock availability issues in the second half of 2018.

Our progress in winning market share through 2019 continued to gain momentum 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. The Group is currently engaged in rollouts with 17 housing associations in Scotland. All properties in Scotland must comply with this legislation by the end of February 2021. In addition to these announcements, since the start of the year, the Group has begun supplying products to local authorities and housing associations with a combined portfolio of approximately 65,000 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 significantly increased interest in its connected solutions which have been designed to meet heightened duty of care concerns within social housing. The Group is currently engaged in connected solution trials with social housing providers with a combined portfolio in excess of 100,000 properties with further trials expected to commence shortly for providers with combined estates in excess of 110,000 properties. In addition, first expressions of interest have been received from a number of other providers with a significantly higher combined portfolio. Progress with current trials is detailed later in this statement.

UK Retail

Revenue from the UK Retail sector increased by 36% to £11.3 million in 2019. In addition to recovering ground lost in 2018 as product availability issues impacted retailers re-stocking FireAngel ranges as they transitioned from BRK/First Alert stock, significant competitive wins in the year included Aldi, Asda, Morrisons and securing principal supply to Homebase. However, the most significant contributor to growth was seen in online sales. Revenue through online platforms increased significantly, particularly through Amazon with which we secured business directly in August 2018. Our connected home proposition is ideally suited to online platforms and digital channels where we can create the content to clearly articulate the product features and user benefits of this new technology.

This online growth and strong traditional retailer support led to UK Retail sales representing 25% of the Group's turnover in 2019 (2018: 22%).

The Retail team worked hard in the year to rollout the Group's latest Pro Connected range of products across all retailers. This culminated with the launch of the FireAngel Pro Connected B2C platform in January 2020 through Amazon, Screwfix and Toolstation. The FireAngel Pro Connected gateway connects directly to the FireAngel Pro Connected range of domestic safety products and utilises the unique features provided by FireAngel Predict™, the Group's AI data analytics technology, which has the potential to avert domestic fires before they start by automatically analysing large amounts of historical data in the Cloud.

Executive Chairman's statement *continued*

UK Fire and Rescue Services ('UK F&RS') and Utilities

Together the UK F&RS and Utilities sectors accounted for 13% of the Group's revenue in the year (2018: 17%). Although revenue from the Utilities sector declined to £1.5 million due to reduced demand for CO alarms from British Gas, the UK F&RS sector saw growth of 12% to £4.7 million reflecting an increase in demand for FireAngel's interconnected range of products and heat alarms. We continue to be very proud that over 90% of the UK F&RS choose to fit FireAngel alarms within properties.

International

Revenue from the Group's International business continued to represent 24% of total turnover in the year. Sales increased by 26% to £11.1 million as overstocking issues at the Group's German distributor were worked through and sales in Belgium grew significantly due to legislative requirements for smoke alarms and the successful transition from BRK and First Alert products to FireAngel's own product range.

Sales in France continued to show significant improvement after record legislative-driven demand in 2015 and we continued to supply to the Singapore market to address the ongoing legislative requirement in that country. Sales also increased in Central and Eastern Europe as a result of appointing a new network of distributors.

The Group continues to build an exciting pipeline of core and connected opportunities internationally for 2020 and beyond.

Pace Sensors

At £1.7 million, revenue at Pace Sensors, the Group's manufacturer of CO sensors, continued to represent 4% of total turnover for the Group. As stated in previous reports, 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 an increasing proportion of the Group's CO alarms.

Dividend

Consistent with the decision not to pay an interim dividend for 2019 in light of the Group's trading performance, the Board is not recommending payment of a final dividend for the year. The total dividend payable for 2019 is therefore nil pence per share (2018: nil pence per share).

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

Board changes

There were a number of significant changes to the Board during the year and subsequently.

In July 2019, the Group announced the resignation of Neil Smith, the Group Chief Executive. Again, I would like to place on record here the Board's thanks to Neil for his hard work and commitment through a period of significant change. With effect from the beginning of August 2019 I was appointed as Executive Chairman.

In September 2019, after long service to the Group, William Payne stepped down as a Non-Executive Director and was replaced by Simon Herrick who took on chairmanship of both the Audit and Remuneration Committees. In the same month, Zoe Fox was appointed as Company Secretary. Zoe is Finance Director of the Company's principal subsidiary, a role which she has held since 2010.

Subsequent to the year end, in February 2020, it was announced that Graham Whitworth, Executive Director, would become a Non-Executive Director with effect from the release of the Company's audited final results for the year ended 31 December 2019. As a Non-Executive Director, Graham will continue to have Business Development responsibilities, in particular working to exploit FireAngel's strong IP portfolio globally, including FireAngel Predict™.

At the same time, it was also announced that Nick Rutter, co-founder and Chief Product Officer, had decided to step down from the Board continuing in his current role to focus on connected home development. The Company's unique technological advantage at this exciting time is due, in particular, to Nick's foresight and vision.

Finally, it was announced that Ashley Silverton had decided to step down as a Non-Executive Director at the Company's forthcoming Annual General Meeting. Ashley, who joined the Board in 2011, has provided wise and experienced counsel through his corporate experience and financial expertise. The search is underway for a Non-Executive Director with business-to-business experience of the technology sector to succeed Ashley.

I would like to place on record my thanks to each of Graham, Nick and Ashley. Their commitment and vision have positioned FireAngel at the start line of an exciting future and I look forward to continuing to work with Graham and Nick to realise the investment made in getting the business to this unique position.

Manufacturing

Following the transition of the majority of the Group's manufacturing from China to Poland during 2018, production at the Group's primary smoke alarm and connected devices manufacturing partner increased in 2019 to meet the growth in demand. However, despite significant efforts on both sides to improve efficiencies in the production process, there will only be incremental improvements in margin from this source in 2020. From 2021, it is expected that rationalisation of the Group's product range, designing for automation for new products, and changes in the mix of products will lead to more significant cost and efficiency improvements.

People

2019 continued to place significant pressures on FireAngel's employees who responded with exceptional commitment to the needs of our customers. I once again thank them sincerely.

Products and brands

The Company's investment in connected technology made over the last few years is now being evidenced by the launch of a range of connected products with unique functionality and efficiency. The Directors estimate that typical connected product spend is approximately £205 per property on initial installation. There are 4.6 million social properties in the UK, giving a market size in the UK Trade business of almost £1 billion product value over five years. The recurring revenue opportunity builds to approximately £55 million per annum if installed in all UK social housing properties. The Directors also believe that the available margins in UK Trade are potentially double those in the 'traditional' market.

In October 2019, FireAngel launched its Specification and Pro ranges of smoke, heat and CO alarms which feature Smart RF technology which enables all devices to connect wirelessly, significantly removing the time-consuming requirement for wiring, channelling or trunking. These are the only alarms with proven low carbon footprints producing on average 95 per cent. less carbon dioxide compared with other leading mains-powered alarms. These ranges allow their connectivity to be upgraded to communicate information outside the property by installing a FireAngel Connect Gateway. This has 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 FireAngel Connect Gateway can provide real-time fire and CO safety notifications via remote monitoring of the alarms for more accurate risk management.

In January 2020, the Group's retail range was completed with the launch of the FireAngel Pro Connected B2C platform, initially through selected retail channels. The FireAngel Pro Connected gateway connects directly to the FireAngel Pro Connected range of domestic safety products and utilises the unique features provided by FireAngel Predict™.

In February 2020, the Group announced that FireAngel Predict™, the Group's predictive algorithm management information platform, had been granted a patent by the European Patent Office following successful patent awards in both the US and Australia. This gives FireAngel the exclusive right to exploit this technology in Europe and protects the key operating system required to deliver the functionality behind FireAngel Predict™. The technology pinpoints properties where there is a higher risk of a fire which provides stakeholders within the housing sector a unique insight into the safety of the occupants and their property portfolio. This is delivered seamlessly through online notifications, thereby protecting lives and homes and providing a compelling proposition to help fulfil the stakeholders' duty of care.

The launch of the connected range, combined with the predictive analytics offered by FireAngel Predict™, will address the increasing demand for connected solutions and allow the Company to access the higher margin product and recurring revenue streams this unique technology will command.

Progress with connected trials

As previously announced, trials of FireAngel's connected home products, including FireAngel Predict™, have been ongoing and have been well received. On 23 March 2020, the Company announced that it was close to signing a contract with a local authority for a large connected rollout using FireAngel Pro Connect and FireAngel Predict™. While commercial discussions have now been concluded and training for installers is planned in June 2020, subject to lockdown restrictions, with product rollout planned later in the same month, the inevitable disruption caused by the COVID-19 lockdown measures has delayed contractual sign off. Further trials have been completed with two other significant connected opportunities which have now entered commercial discussions, albeit, for obvious reasons, at a slower pace. Some further opportunities have in the past few weeks in fact become firmer despite the impact of COVID-19. Further updates will be announced as appropriate. Prior to commencing active marketing, the total identified funnel of opportunities is worth approximately £100 million, of which £34 million is already in the pipeline. The Board expects to have several rollouts commencing in H2 2020, each of which is expected to last for 3 to 5 years, with a significantly increasing recurring revenue element. The business is very scalable against volume longer term, but the late 2020 challenge will be managing growth and customer expectations. It is pleasing to see the Group's connected home products performing well in the field and the first responses to FireAngel Predict™ have been positive and extremely informative for both customers and FireAngel.

Strategy

We have closely considered FireAngel's purpose and strategic direction over the course of 2019. FireAngel's mission is to protect and save lives by making innovative, leading-edge technology home safety products which are simple and accessible.

The Group is now an independent, technology-led business with the key objectives of monetising the investment made in connected technology and to complete the transition of the business to become a provider of safety-critical connected home solutions.

Production yields and capacity at our Polish manufacturing partner have met the significant increase in demand in the year. However, it remains unlikely that any cost reductions will be realised in the short term. We will continue to work together to achieve greater efficiencies, but we are unlikely to see meaningful improvements until product rationalisation plans have been executed and we are able to introduce new products specifically designed for automation. The labour content engineered into our existing product range is not optimal in a higher labour cost environment. I remain confident that Flex is the right partner to support the Group's strategic objective of developing technology which provides customers with innovative and market-leading products and solutions, and that this benefit will be fully realised through product rationalisation and the introduction of new products designed for automation in the medium to longer term.

In the short term, the Group will seek to improve gross margin, which it is hoped will be achieved through reorganisation and upskilling to focus on other costs of sale, for example items such as warranty and product rework, and also in improving its speed of reaction. In addition, a significant short and medium-term opportunity for margin progression is expected to be realised through better focus on marketing and sales in the UK Trade market and more assertively exploiting digital channels. The Group is repositioning existing products, reviewing pricing product by product and, at the same time, continuing to introduce newer product lines.

The strategic decision to invest heavily in connected technology is proving to be correct. The Directors believe that FireAngel is uniquely positioned to satisfy the emerging demand and benefit from the recurring revenue streams associated with services offered by this technology. The benefits are now beginning to come through in successful real-world trials, the financial benefits of which are expected to be realised in the short, medium and long term. The business must reassess its delivery of technical solutions to adequately meet the size and complexity of these new opportunities.

The Board continues to expect connectivity and interoperability between devices with external monitoring and messaging to be at the heart of medium to longer-term growth and profitability.

Outlook

The Group made a solid start to the year with sales up 15 per cent. and gross profit up 39 per cent. respectively on the first two months of 2019. Performance in the first quarter of 2020 was close to the Board's expectations, with revenue and gross profit slightly below budget. Gross profit margin remained ahead of Q1 2019 and in line with budget, however, an opportunity to outperform was lost in part due to the impact of COVID-19 as March progressed. The Directors believe that there is a rapidly increasing market interest in the Group's unique solutions which bodes well for the future.

As announced on 30 April 2020, while COVID-19 has impacted the Company outlook in the short term, revenue for April, at almost 55% of budget, was, encouragingly, some way ahead of the Board's expectations. Revenue for May is expected to be at a similar level of budget achievement. Due to the uncertainty around COVID-19 and timing of when restrictions will be lifted, the Board decided to withdraw the Company's market guidance given that it is too early to substantiate or vary it with any certainty.

The Board continues to believe that the medium and long-term prospects for the Company's unique technology are strong. We are encouraged by online sales resilience and the increasing shift to online fulfilment in our Retail business. In recent days new enquiries have come through our Trade business, adding to our growing funnel of opportunities. The recent re-opening of retail and trade channels, and clear attempts to restart the construction sector, reinforce the expectation of a quick rebound in demand for FireAngel's unique cost-effective connected solutions. It is pleasing that demand, whilst reduced, has continued to recover in our international markets and the emphasis in many UK-customer conversations has moved to preparing to return to normal behaviour after lockdown restrictions have been lifted.

The Group is close to signing a contract for a large connected rollout by a London Borough using FireAngel Pro Connect and FireAngel Predict™. This represents an important endorsement of the Group's strategy and unique offering. The Directors believe that no company in the Group's marketplace is better positioned to support providers of social housing in their pursuit of higher levels of proactive fire risk management. The Group has completed further trials and has entered commercial discussions with certain other larger social housing providers and the Directors are optimistic of further business wins, and of generating recurring revenue streams, from our growing pipeline of large opportunities. The Company has finally reached the start line of an exciting future.

John Conoley - Executive Chairman
26 May 2020

Our proprietary technology

Our range of products is comprehensive, allowing the Group to tailor its smoke and CO alarms and accessories to suit its customers' needs at various price points under the following brands:

FireAngel. A market-leading and innovative battery operated range of smoke and CO alarms principally targeted at UK Retail and UK F&RS.

AngelEye. Launched in 2012, FireAngel sells smoke alarms and CO detectors principally into the French market under the AngelEye brand which has become a leading brand targeted at the DIY channel in France.

FireAngel Specification and FireAngel Pro. Our ranges of smoke, heat and CO alarms which feature Smart RF technology which enables all devices to connect wirelessly, significantly removing the time-consuming requirement for wiring, channelling or trunking. These are the only alarms with proven low carbon footprints producing on average 95 per cent. less carbon dioxide compared with other leading mains-powered alarms. These ranges allow their connectivity to be upgraded to communicate information outside the property by installing a FireAngel Connect Gateway. The system features 'FireAngel Predict™', patented technology to identify and highlight dangerous patterns of behaviour that increase fire risk. A network including a FireAngel Connect Gateway can provide real-time fire and CO safety notifications via remote monitoring of the alarms for more accurate risk management.

Pace Sensors. CO sensors used within FireAngel's CO products are developed by FireAngel and Pace Sensors, FireAngel's wholly-owned subsidiary in Canada. Pace Sensors' CO sensors are used within all FireAngel, AngelEye and Pace Sensors' CO detectors.

FireAngel FireAngel PRO FireAngel SPECIFICATION AngelEye

Enhanced Protection

The Wi-Safe 2 range of products are designed to provide an enhanced level of fire and CO safety for high risk individuals such as the deaf, those with mild to moderate hearing loss, children and people under the influence of alcohol or drugs.

Simple Connection

Wi-Safe 2 products can be linked together in a matter of seconds with a simple two button connection process. Wi-Safe 2 simplifies installation with no need for extra wiring, mess or fuss.

Intelligent Locate

The intelligent locate feature means on activation, pressing the Test / Silence button on any alarm in the network will silence all but the initiating alarm which has sensed smoke, heat or CO.

Corporate social responsibility

Introduction

Corporate social responsibility is integral to our success. We aspire to carry out our business activities to the highest ethical standards, act responsibly and make a positive impact in our interactions with all our stakeholders.

Respect for people and diversity

Employee experience and satisfaction in the workplace are very important to us. Operating our business in a non-discriminatory manner that focusses on the fair treatment and respect for each other is a core value and underpins our interactions with our employees, customers and suppliers.

The Board and the Company's human resources function are responsible for ensuring that our policies and practices reflect best practice for equality of opportunity and long-term professional development for our employees. All senior management are responsible for ensuring that throughout the business our workplace is free from harassment and bullying and we strive to create a positive environment that is supportive, enables employees to fulfil their maximum potential and drives our business performance.

We are committed to ensuring that within the framework of the law, FireAngel is free from discrimination on any grounds. FireAngel is an equal opportunities employer and ensures that all applications for employment are given full and fair consideration. Every effort is made to support employees to be successful in their careers. Our people and development policies are reviewed regularly to ensure that they are non-discriminatory and promote equal opportunity. In particular, recruitment, selection, promotion, and training and development are all monitored to ensure that all employees have the opportunity to progress in line with their abilities.

Supporting our community

We regularly donate to various charities, including a number of CO and fire fighter charities. We have an established charity committee to manage our involvement with, and support of, local and national charities. We also work closely with local universities to give presentations and support students with their career progression including, where appropriate, work experience in the Group.

Health, safety and the environment

Supporting health, safety and the environment are important elements to our success. We view the standards of health and safety required by law as being only the minimum and endeavour to follow best practice at each of our sites. The Group complies with all local legislation relevant to the respective territories in which it operates.

To support the environment, we have a range of initiatives from recycling to encouraging staff to cycle to work through a tax-efficient cycle-to-work scheme. We believe that we were the first company in our industry to have a smoke alarm with its own very low carbon footprint where the product range has been specifically designed to minimise power consumption using approximately 10% of the stand-by power of a conventional alarm.

Wider stakeholder engagement

The Group conducts employee opinion surveys to receive employees' feedback on all aspects of employment with the business. Senior managers meet regularly with employees to update them on the Group's performance and to discuss business-related issues.

The Group also encourages feedback from its customers through its Business Unit Directors supported by product management specialists as required.

The Group's marketing, product management and new product introduction teams regularly engage with customers, industry bodies and trade associations, both directly and through social media. In addition the Group's technical support team liaises with customers through its call centre, social media and its website.

Group financial results

"Although the Group moved forward significantly with revenue, legacy issues continued to be a major distraction at the expense of driving forward strategic goals. The success of recent trials positions us well to move forward into 2020 and beyond."

Mike Stilwell - Group Finance Director

Overview

Despite a significant increase in revenue, 2019 proved once again to be a year of significant disruption and distraction for the Group with results negatively impacted by legacy issues as a result of certain historically poor internal processes. Actions have been taken to address this.

Underlying Group performance

	2019				2018 Restated		
	Before non-underlying items and change to straight line amortisation	Impact of change to straight line amortisation	Non-underlying items	Total	Before non-underlying items	Non-underlying items	Total
	£m	£m	£m	£m	£m	£m	£m
Revenue	**45.5**	**-**	**-**	**45.5**	37.6	-	37.6
Cost of sales	**(36.8)**	**-**	**(4.3)**	**(41.1)**	(28.9)	(1.2)	(30.0)
Gross profit	**8.7**	**-**	**(4.3)**	**4.4**	8.7	(1.2)	7.6
Operating expenses	**(11.6)**	**(0.9)**	**(2.6)**	**(15.1)**	(10.7)	(2.7)	(13.4)
Loss from operations	**(2.9)**	**(0.9)**	**(6.9)**	**(10.7)**	(2.0)	(3.8)	(5.8)

Total revenue for the year increased by 21% from £37.6 million to £45.5 million resulting in an underlying operating loss[1] of £2.9 million compared to £2.0 million in 2018. The adjusted gross profit[2] was maintained at £8.7 million which represented an adjusted gross margin[2] of 19.0% (2018: 23.2%). The underlying loss before tax[3] was £3.2 million (2018: £2.1 million). Underlying EBITDA[4] improved from a loss of £0.9 million in 2018 to a reduced loss of £0.4 million in 2019.

[1] Underlying operating loss in 2019 of £2.9 million is before the impact of the change to straight line amortisation of £0.9 million and before non-underlying items of £6.9 million (further details of which are set out below) (2018: underlying operating loss of £2.0 million before non-underlying items of £3.8 million).

[2] Adjusted gross profit is stated before non-underlying items of £4.3 million (2018 restated: non-underlying items of £1.2 million). Adjusted gross margin is adjusted gross profit as a percentage of revenue.

[3] Underlying loss before tax in 2019 of £3.2 million is before the impact of the change to straight line amortisation of £0.9 million and before non-underlying items of £6.9 million (2018: underlying loss before tax of £2.1 million before non-underlying items of £3.8 million).

[4] Underlying EBITDA in 2019 of (£0.4) million is loss before tax before depreciation and amortisation of £3.4 million, finance costs of £0.3 million and non-underlying items of £6.9 million (2018: underlying EBITDA of (£0.9) million is loss before tax before depreciation and amortisation of £1.1 million, finance costs of £0.1 million and non-underlying items of £3.8 million).

The key drivers for changes in revenue and adjusted gross margin are detailed in the Executive Chairman's statement on pages 6 to 9.

Overall cash inflow in the year was £0.8 million (2018: outflow of £2.0 million) and net debt (before lease obligations) at 31 December 2019 was £4.9 million. This compared with net debt (before lease obligations) of £4.4 million at 31 December 2018. The net movement of £0.5 million comprised an increase in cash and cash equivalents of £0.8 million and a net increase in bank debt of £1.3 million through repayment of £5.7 million under the revolving credit facility and drawdown of £7.0 million under the invoice discounting facility.

Income statement

Revenue by business unit

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

	2019	2018	Inc/(dec)	Inc/(dec)	2019 Proportion	2018 Proportion
	£m	£m	£m	%	%	%
UK Trade	**15.2**	12.4	**2.8**	**23%**	**34%**	33%
UK Retail	**11.3**	8.3	**3.0**	**36%**	**25%**	22%
UK F&RS	**4.7**	4.2	**0.5**	**12%**	**10%**	11%
UK Utilities	**1.5**	2.3	**(0.8)**	**(35%)**	**3%**	6%
Total sales in the UK	**32.7**	27.2	**5.5**	**20%**	**72%**	72%
International	**11.1**	8.8	**2.3**	**26%**	**24%**	24%
Pace Sensors	**1.7**	1.6	**0.1**	**6%**	**4%**	4%
Total revenue	**45.5**	37.6	**7.9**	**21%**	**100%**	100%

Overall, the Group's revenue increased by 21% to £45.5 million. The most significant factors in the £7.9 million increase were the improvement in sales in the UK Retail, UK Trade and International markets which saw revenues increase to £11.3 million, £15.2 million and £11.1 million respectively as a result of growth in core demand, the completion of the transition process to FireAngel products and the resolution of stock availability issues which impacted 2018. Revenue increased in the UK F&RS business unit to £4.7 million as demand increased for FireAngel's interconnected range of products and heat alarms. This was partially offset by a reduction in revenue in the UK Utilities business unit due to reduced demand from British Gas for CO alarms. Revenue at Pace Sensors, the Group's manufacturer of CO sensors, increased slightly to £1.7 million through increased demand of its cheaper, higher-margin, nano sensor technology.

Gross profit and gross margin

Adjusted gross profit[2] remained level at £8.7 million and represented an adjusted gross margin[2] of 19.0% (2018: 23.2%).
The reduction in adjusted gross margin[2] was largely due to the detrimental impact of the value of sterling against the US dollar (due to the prolonged weakening of sterling against the US dollar increasing the sterling cost of components used in the Group's products, and the strengthening of sterling against the US dollar since September 2019 increasing the committed cost of forward contracts at the year end), higher costs and delayed product availability at the Group's smoke and connected devices manufacturing partner, the change in sales mix towards the lower margin UK Retail sector, and the impact of sales growth on the Company's processes.

During the year, overall gross profit was impacted by a number of non-underlying items charged to cost of sales. Firstly, the legacy FireAngel battery warranty provision was increased by £1.4 million due to increased costs of supplying replacement products. The provision was also increased by £2.7 million largely reflecting an increase in the terminal volume of units expected to be impacted, of which £1.2 million was charged through the income statement for 2019 and £1.5 million was accounted for as a prior period adjustment (see note 8 to the financial statements). Secondly, a provision of £1.7 million was made against certain lines of stock and associated disposal costs as a result of a thorough review of product lines and future development plans. Further details are given below.

The overall gross profit decreased from £7.6 million to £4.4 million, largely due to the non-underlying items described above, and represented a gross margin of 9.6% (2018 restated: 20.1%). As a result of the termination of the BRK agreement, the distribution fee paid by the Group to BRK, its former manufacturing and distribution partner, reduced to £nil for the year (2018: £0.9 million).

Exchange rates

Sterling strengthened slightly against the euro by around 1% on average over the year. This was unfavourable to the sterling translation of the Group's euro-denominated income, on significantly higher year-on-year revenue from this sector. Over the same period, sterling weakened against the US dollar by around 4% on average. This was unfavourable to the sterling translation of the Group's US dollar-denominated component purchases.

There was significant variation in the value of sterling against the US dollar over the year, particularly in the second half of 2019. The Group has a forward hedging policy which aims to mitigate the risk of currency fluctuations by locking into current rates for future periods on a set percentage of expected future currency flows. The strengthening of sterling against the US dollar since September 2019 increased the committed sterling cost of forward contracts entered into in accordance with the Group's policy to hedge future US-dollar purchase requirements. This mark-to-market increase in sterling cost is required to be recognised in cost of sales for the year and, to the extent that this was not mitigated by the retranslation of other US-dollar denominated monetary items, had a detrimental impact on the gross margin for the year.

Overheads

The Group's overhead costs comprise the distribution and administrative costs of running the business. Excluding non-underlying items totalling £2.6 million (2018: £2.7 million), further details of which are given below, and the £0.9 million impact of changing to straight line amortisation, overheads of £11.6 million were 8% ahead of the prior year's £10.7 million, approximately £1.2 million of which was due to increased underlying depreciation and amortisation of the Group's tangible and intangible assets as a result of a full year's charge relating to machinery and set up costs at the Group's new manufacturer of products in Poland. Excluding this increase, underlying overheads were lower than the previous year.

As a result of a review during the year of the Group's processes, procedures and controls, it was concluded that the 'straight line' method of amortisation for the Group's connected home capitalised development costs was 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. The impact of the move to straight line amortisation was to increase overheads by £0.9 million in the year. Further details are given in note 17 to the financial statements.

Total overhead costs amounted to £15.1 million (2018: £13.4 million), the adverse movement largely due to the increase in underlying depreciation and amortisation and the move to straight line amortisation described above.

Group financial results *continued*

Non-underlying items in 2019

Non-underlying costs totalling £6.9 million were incurred in the year as follows:

Within cost of sales:

- Provision for warranty costs: during the year, the FireAngel battery warranty provision, an isolated legacy issue relating to a third-party supplier first identified in April 2016, was increased by £1.4 million as lower rework yields and higher product costs compared to those originally anticipated when the provision was estimated three years ago, were leading to increased costs of supplying replacement products. In addition, a charge of £1.2 million was made largely to reflect an increase in the terminal volume of units expected to be impacted by the issue based on the level of returns currently being seen.
- Stock impairment and disposal costs: £1.7 million was provided in the year as a result of a thorough review of product lines and future development plans in line with the Group's evolved strategy to become a more technology-led connected home solutions provider.

Within operating expenses:

- Restructuring and certain fundraising costs of £0.7 million were incurred in the year.
- Intangible capitalised development assets of £1.8 million were impaired during the year as a result of a thorough review of product lines and future development costs.
- Share-based payment charges of £37,000 were incurred during the year.

Non-underlying items in 2018

Non-underlying costs totalling £3.8 million were incurred in 2018 to provide against stock and disposal costs, for incremental production ramp up costs at the Group's smoke alarm and connected devices manufacturing partner, for the costs of restructuring the Group's German distribution channels, and share-based payment charges. Further details are given in note 7 to the financial statements.

Prior period adjustment

In addition to the items above charged through the 2019 income statement in relation to the legacy battery warranty provision, an amount of £1.5 million was recorded to increase the provision through a prior period adjustment. Towards the end of 2019, continuing ongoing monitoring of warranty returns data identified that the number of units expected to be impacted by the third-party supplied battery impedance issue could be higher than originally anticipated. The need for this prior period adjustment was due to an error in the operational assumptions made regarding product manufactured between 2016 and Q1 2018. No further increase in the number of units impacted is expected as the issue relates only to units produced at one of the Company's previous manufacturers in China up to the end of March 2018. Approximately £0.3 million of this additional charge has been utilised at 31 December 2019. Due to the introduction of various product design changes, units produced at the Company's manufacturing partner in Poland since April 2018 should not be affected by these historic issues. Further details are given in note 8 to the financial statements.

Result for the year

The underlying operating loss[1] for the year amounted to £2.9 million compared to an underlying operating loss[1] of £2.0 million in 2018. After taking account of the impact of the change to straight line amortisation of £0.9 million, the non-underlying items of £6.9 million and finance charges of £0.3 million as a result of interest on borrowings in the year, the Group reported a loss before tax of £11.0 million (2018 restated: £5.9 million).

The Group booked a tax credit of £1.6 million (2018 restated: tax credit of £1.4 million) due largely to the recognition of tax losses and the surrender of taxable losses for a research and development tax credit.

Basic and diluted EPS for the year was a loss of 14.0 pence per share (2018 restated: loss of 9.9 pence per share).

Statement of financial position

The net assets of the Group amounted to £17.2 million at 31 December 2019 (2018 restated: £21.0 million) and can be summarised as follows:

	2019 £m	2018 Restated £m
Goodwill	**0.2**	0.2
Plant and equipment	**3.8**	4.0
Right-of-use-assets	**1.5**	-
Capitalised development costs	**12.6**	13.2
Purchased software costs	**2.5**	2.9
Non-current assets	**20.6**	20.3
Net cash balances	**2.1**	1.3
Loans and borrowings	**(7.0)**	(5.7)
Net debt	**(4.9)**	(4.4)
Lease liabilities	**(1.5)**	-
Net working capital	**6.2**	7.8
Net tax asset (including deferred tax)	**0.7**	0.3
Net derivative financial (liabilities)/assets	**(0.4)**	0.1
Warranty provision	**(3.5)**	(3.1)
Net assets	**17.2**	21.0

Non-current assets at 31 December 2019 amounted to £20.6 million compared with £20.3 million at 31 December 2018. The most significant components of this were capitalised development costs, with a net book value of £12.6 million, plant and equipment (£3.8 million) and purchased software costs (£2.5 million). Capitalised development assets of £1.8 million were impaired during the year as a result of a thorough review of product lines and future development costs.

Total capital expenditure in the year decreased to £3.7 million compared to £6.1 million in 2018 reflecting completion in the prior year of significant investment in tooling at the Group's primary smoke alarm and connected devices manufacturer. Of this total, £2.9 million represented capitalised development expenditure to further enhance the Group's connected home and wider technology portfolio as described in note 17 to the financial statements.

Total capital expenditure of £3.7 million (2018: £6.1 million) compares with depreciation, amortisation and impairment charges totalling £5.2 million in the year (2018: £1.1 million).

The Group adopted IFRS 16 'Leases' 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 adoption of IFRS 16 has increased both 'Non-current assets' and 'Total liabilities' at 31 December 2019 by £1.5 million, but has not had a material impact on the overall result for the year in the income statement. Further details are given in notes 1 and 18 to the financial statements.

Working capital reduced significantly by £1.6 million to £6.2 million at 31 December 2019. Stock reduced by £2.1 million to £6.3 million (2018: £8.4 million) a large part of which was due to the non-underlying charge of £1.7 million to provide for the cost of older stock and its disposal as a result of a thorough review of product lines and future development plans in line with the Group's evolved strategy to become a more technology-led connected home solutions provider.

Trade and other receivables increased by £1.3 million to £12.1 million (2018: £10.8 million) as a result of increased revenue in the year with average debtor days reducing from 89 to 59 due to the favourable mix of customers across the year.

Trade and other payables increased by £0.7 million to £12.2 million (2018: £11.5 million). Average creditor days returned to a more normal 76 days (2018: 137 days), the prior year inflated due to the delayed payment terms negotiated as part of the BRK Settlement Agreement.

Net tax assets at 31 December 2019 amounted to £0.7 million (2018 restated: £0.3 million) and comprised a current tax asset of £0.7 million (2018: £1.2 million), deferred tax assets of £2.4 million (2018 restated: £1.5 million) and deferred tax liabilities of £2.4 million (2018: £2.4 million). Deferred tax assets reflect temporary timing differences in the treatment for tax and accounting of the Group's trading losses and share-based payments charge. Deferred tax liabilities largely reflect timing differences in the treatment of accelerated research and development tax credits on product development costs.

The Group's warranty provision at 31 December 2019 amounted to £3.5 million (2018 restated: £3.1 million) of which £1.5 million is expected to be utilised within twelve months of the balance sheet date. This provision predominantly covers the expected costs of replacing smoke alarm products over the next three to four years where an issue in certain batteries provided by a third-party supplier, announced in April 2016, may cause a premature low battery warning chirp and increased during the year as explained above.

Cash

The Group ended the year with net debt (before lease obligations) of £4.9 million at 31 December 2019 (2018: net debt £4.4 million).

The movement in net debt (before lease obligations) during the year is reflected in the statement of financial position as follows:

	£m
Increase in cash balances and net cash inflow	(0.8)
Drawdown of invoice discounting facility	7.0
Repayment of revolving credit facility	(5.7)
Increase in net debt (before lease obligations)	0.5

The net cash inflow of £0.8 million in the year is summarised in the table below. The most significant non-operating cash flow items include the costs of the warranty provision and other non-underlying items totalling £2.4 million, capital expenditure of £3.7 million as described above, and the cash flows in relation to the fundraising and restructure of bank facilities described below.

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 an invoice discounting and overdraft facility. As such, in the year 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 £7.0 million of invoice discounting facility.

Group financial results *continued*

	2019 £m	2018 £m
Underlying operating loss[1]	**(2.9)**	(2.0)
Depreciation and amortisation charges	**2.5**	1.1
(Increase)/decrease in working capital	**(0.4)**	2.1
Decrease/(increase) in fair value of derivatives	**0.6**	(0.6)
Cash (used by)/from operations before non-underlying payments	**(0.2)**	0.6
Cash cost of warranty provision and other non-underlying items	**(2.4)**	(2.2)
Cash used by operations	**(2.6)**	(1.6)
Interest paid (net)	**(0.4)**	(0.1)
Taxation received	**1.2**	-
Capital expenditure	**(3.7)**	(6.0)
Proceeds from share issue (net)	**5.5**	-
Drawdown of invoice finance	**7.0**	-
Drawdown of loan	**1.3**	5.7
Repayment of loan	**(7.0)**	-
Loan restructuring costs	**(0.2)**	-
Lease payments	**(0.3)**	-
Net cash flow	**0.8**	(2.0)

[1] Underlying operating loss in 2019 of £2.9 million is before the impact of the change to straight line amortisation of £0.9 million and before non-underlying items of £6.9 million (2018: underlying operating loss of £2.0 million before non-underlying items of £3.8 million).

Use of non-GAAP financial performance measures

Certain disclosures and analyses set out in this Annual Report and Accounts include measures which are not defined by generally accepted accounting principles ('GAAP') under EU-adopted IFRS. We believe this information, along with comparable GAAP measurements, is useful to investors. Management uses these financial measures, along with the most directly comparable GAAP financial measures, in evaluating our operating performance. Non-GAAP measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP.

In the following table we provide a reconciliation of this and other non-GAAP measures, as defined in the Performance Review on pages 12 to 17, to relevant GAAP measures:

Underlying profit measures

	2019 £m	2018 Restated £m
Adjusted gross profit		
Reported gross profit	**4.4**	7.6
Non-underlying items:		
- Provision for warranty costs	**2.6**	-
- Provision against stock and disposal costs	**1.7**	1.1
Adjusted gross profit	**8.7**	8.7

Adjusted gross margin percentage

Adjusted gross margin percentage is the adjusted gross profit (as defined above) as a proportion of revenue.

	2019 £m	2018 Restated £m
Underlying operating loss		
Reported operating loss	**(10.7)**	(5.8)
Impact of change to straight line amortisation	**0.9**	-
Non-underlying items:		
- Provision for warranty costs	**2.6**	-
- Provision against stock and disposal costs	**1.7**	1.1
- Restructuring and fundraising costs	**0.7**	-
- Impairment of intangible assets	**1.8**	-
- Incremental production ramp up costs	**-**	0.9
- Restructure of distribution channels	**-**	1.7
- Share-based payments charge	**0.1**	0.1
Underlying operating loss	**(2.9)**	(2.0)

	2019 £m	2018 Restated £m
Underlying loss before tax		
Reported loss before tax	**(11.0)**	(5.9)
Impact of change to straight line amortisation	**0.9**	-
Non-underlying items:		
- Provision for warranty costs	**2.6**	-
- Provision against stock and disposal costs	**1.7**	1.1
- Restructuring and fundraising costs	**0.7**	-
- Impairment of intangible assets	**1.8**	-
- Incremental production ramp up costs	**-**	0.9
- Restructure of distribution channels	**-**	1.7
- Share-based payments charge	**0.1**	0.1
Underlying loss before tax	**(3.2)**	(2.1)

	2019 £m	2018 Restated £m
Underlying EBITDA		
Reported loss before tax	**(11.0)**	(5.9)
Finance costs	**0.3**	0.1
Depreciation and amortisation	**3.4**	1.1
Non-underlying items:		
- Provision for warranty costs	**2.6**	-
- Provision against stock and disposal costs	**1.7**	1.1
- Restructuring and fundraising costs	**0.7**	-
- Impairment of intangible assets	**1.8**	-
- Incremental production ramp up costs	**-**	0.9
- Restructure of distribution channels	**-**	1.7
- Share-based payments charge	**0.1**	0.1
Underlying EBITDA	**(0.4)**	(0.9)

Net cash

Net cash is considered to be a non-GAAP measure as it is not defined in IFRS. The most directly comparable IFRS measure is the aggregate of loans and other borrowings (current and non-current) and cash and cash equivalents. This is the calculation used by the Group to measure net cash.

Post balance sheet events

On 23 March 2020, the Company announced details of an open offer and placing to raise approximately £6.1 million to strengthen its balance sheet, execute self-help plans to improve gross margin, deploy and support the connected homes technology and fund part of the additional expected liabilities for the Company's legacy battery warranty issue first identified in 2016. On 8 April 2020, the Company issued 50,623,480 new ordinary shares at 12 pence per share as a result of valid acceptances under the open offer and placing. The Company's share capital consequently increased to 126,558,845 ordinary shares.

The impact of COVID-19 is described in detail in the Executive Chairman's statement on page 9 and within the Going Concern accounting policy.

Mike Stilwell - Group Finance Director
26 May 2020

Board of Directors and Company Secretary

At the date of this report, FireAngel's Board of Directors comprises four Non-Executive Directors and two Executive Directors, including the Executive Chairman. Membership of the Audit Committee is made up solely of certain of the Independent Non-Executive Directors. Membership of the Remuneration Committee includes the Executive Chairman.

The Board has the breadth and depth of skills necessary to guide the Group as it seeks to take full advantage of new opportunities and contend with new challenges. A brief biography of each of the current Directors is set out below:

Executive Directors

John Conoley
Executive Chairman
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John was appointed as Non-Executive Chairman of the Board on 22 January 2019. With effect from 1 August 2019, following the resignation of Neil Smith as Group Chief Executive, John was appointed Executive Chairman. He brings significant executive and non-executive Board-level experience of both fully-listed and AIM-quoted businesses. John began his career in the IT industry with IBM in 1983, and worked in a range of industries in technical, sales, and marketing roles. Since then, John has held general management and director-level roles in small and medium-sized private and public companies. Recent public company roles include Chief Executive Officer of Psion PLC,
the fully-listed international mobile device company, from April 2008 to October 2012 when it was sold to Motorola; and Non-Executive Director of NetDimensions (Holdings) Limited, the AIM-quoted human capital management software company, from October 2016 to April 2017 when it was sold to Learning Technologies plc. Current roles comprise Non-Executive Chairman of Wameja Limited, the AIM and ASX quoted innovative mobile financial services company, and related to that role John serves as a Non-Executive Director of HomeSend SCRL,
the company jointly owned by Wameja Limited and Mastercard; and Non-Executive Chairman of Parity Group plc, the AIM-quoted professional recruitment and IT services company to which he was appointed in April 2017.

Mike Stilwell
Group Finance Director
AGED 44

Mike joined FireAngel in December 2018 as Group Finance Director, after previously spending six years with AIM-listed Synectics plc, the last four of which as Group Finance Director. Prior to this, he held senior finance roles with the Saint-Gobain Group, Coventry Building Society and the Caparo Group. Mike qualified as a Chartered Accountant with KPMG and has a first-class degree in Accounting and Financial Analysis from the University of Warwick.

Company Secretary

Zoe Fox
Company Secretary
AGED 47

Zoe was appointed as Company Secretary to the Board during 2019. She is Finance Director of the Group's principal subsidiary, a role which she has held since 2010. Prior to this she held the Finance Director position in BRK Brands Europe Limited, part of the Jarden Corporation. Zoe qualified as an Accountant in 2004 and has a degree from the University of South Bank, London.

Non-Executive Directors

John Shepherd
Senior Independent Non-Executive Director
AGED 66

John began his career at British Aerospace where he held various systems and software engineering management positions. In 1990 he joined Smiths Industries where, as Managing Director of the Smiths Detection division, he was responsible for building a world-leading transport, security and military detection systems business. Subsequently, he was appointed as Chief Executive of First Technology Group plc where he built up a substantial gas sensor and detection systems business prior to the company being acquired by Honeywell. From 2008 until 2014, John served as Chief Executive of Synectics plc, an AIM-listed leader in the design, integration, control and management of advanced surveillance technology and networked security systems. John succeeded William Payne as the Company's Senior Independent Non-Executive Director on 24 September 2019.

Simon Herrick
Non-Executive Director
AGED 56

Simon joined the FireAngel Board on 24 September 2019. He has significant experience in senior finance and operational roles including as Chief Financial Officer of Debenhams plc, Chief Executive Officer and Chief Financial Officer of Northern Foods plc, Chief Financial Officer of Darty plc and Chief Financial Officer at PA Consulting Limited. Simon has most recently pursued a plural career and is a Non-Executive Director of Ramsdens plc and has undertaken a number of consultancy projects in a broad range of companies and sectors, most recently as Interim Chief Executive Officer of Blancco Technology Group PLC. Simon is a Fellow of The Institute of Chartered Accountants in England and Wales having qualified at Price Waterhouse in London and holds an MBA from Durham University.

Ashley Silverton
Non-Executive Director
AGED 60

Ashley was appointed to the Board in February 2011. He has worked for Brewin Dolphin and its predecessor firms for more than 30 years and has represented Brewin Dolphin at the National Association of Pension Funds. Having joined a City-based stockbroking partnership after graduation, he was elected to Membership of the Stock Exchange in 1985 and is a Fellow of the Chartered Institute for Securities & Investment. Throughout his career, Ashley has specialised in investment management for private clients and charities. He has served as a committee member of the FTSE/WMA Private Investor Indices and was previously Head of the Brewin Dolphin London office and a member of the Advisory Board. Subsequent to the year end, on 5 February 2020, it was announced that Ashley would step down from the Board at the Company's forthcoming Annual General Meeting.

Graham Whitworth
Non-Executive Director
AGED 65

Prior to investing as a seed investor in the business, Graham developed a diverse set of international business skills from the corporate boardroom to his own start up. Graham has worked in a number of technology businesses, initially in engineering and then IT-based design technology roles, where he led a number of strategic initiatives and directed many multi-million dollar contracts with leading blue chip companies across a diverse set of industries with ComputerVision Corporation, a leading US CAD/CAM provider. From the late 1980s Graham was Sales Director, Managing Director and then Executive Vice-President, before leaving in 1997. In 1998, Graham started his own company which he later merged with Division Plc. He became Managing Director before disposing of the enlarged business to Parametric Technology in 2000. Graham led the original Sprue Aegis (now FireAngel) IPO and until February 2016 was the Group Chief Executive and Chairman. He subsequently undertook the role of Executive Chairman until 22 January 2019, on which date he transitioned to the role of Executive Director. Subsequent to the year end, on 5 February 2020, it was announced that Graham would become a Non-Executive Director on the release of the Company's audited financial results for the year ended 31 December 2019. He will continue to have Business Development responsibilities, in particular working to exploit FireAngel's strong IP portfolio globally.

Corporate governance report

"The Board is committed to ensuring the highest standards of corporate governance are maintained. During 2019 the Board reviewed the extent of compliance with the Quoted Companies Alliance Corporate Governance Code for small and mid-size quoted companies with the aim to move to full compliance in due course."

John Conoley - Executive Chairman

Introduction

The Board of FireAngel places great importance on effective corporate governance. This is reflected in our governance principles, policies and practices. We believe that effective governance, not only in the boardroom but right across the business, ultimately supports an organisation in improving long-term financial performance. Central to this is the Group's culture. We work hard across the organisation to ensure that we operate with high standards of moral and ethical behaviour and that this expectation is clear at all levels, in the way we work, in the way we reward, and in everything we do.

We are rightly proud of our culture and the high standards with which our employees and the business acts. We also recognise that culture does not stand still. It must evolve as the business grows and as the environment changes to ensure our behaviours remain aligned with our size, structure and interests of our stakeholders. Culture is a continuous journey and we must invest in our people and structures to ensure this remains central to driving behaviours as the business grows.

During 2018 the Board conducted its first review of the Company's corporate governance policies and procedures to ensure it was compliant with the reporting changes that came into effect in September 2018. The Board has fully adopted, and is working towards full compliance with, the Quoted Companies Alliance Corporate Governance Code ('the Code') for small and mid-size quoted companies.

The extent of compliance with the ten principles that comprise the Code was most recently reviewed by the Board on 16 December 2019. The results of this review, together with an explanation of any areas of non-compliance, and any steps taken or intended to be taken to move towards full compliance, are set out below:

Principle		Current compliance	Comment and disclosures
Deliver growth			
1	Establish a strategy and business model which promote long-term value for shareholders	Full	The Group's business model and strategy, together with the key risks to achieving these goals, and mitigating actions taken, are documented in the Introduction, Strategic review and Risks and risk management sections of this Annual Report. These disclosures are supplemented by information in the About Us section of our website www.fireangeltech.com.
2	Seek to understand and meet shareholder needs and expectations	Full	The Group's approach to engagement with shareholders is documented in the Investor relations section of this Corporate governance report of this Annual Report. The success of this engagement is measured through approval of shareholder resolutions recommended by the Board. This is communicated in the Regulatory announcements section of the Investors area of the Group's website www.fireangeltech.com.
3	Take into account wider stakeholder and social responsibilities and their implications for long-term success	Full	The Group's approach and actions in relation to wider stakeholder involvement and social responsibilities are detailed in the Corporate social responsibility section and Statutory Directors' report of this Annual Report.
4	Embed effective risk management, considering both opportunities and threats, throughout the organisation	Full	The Group's internal control environment and system of risk management, including the key risks to which the Group is exposed, are documented in this Corporate governance report and the Risks and risk management section of this Annual Report.
Maintain a dynamic management framework			
5	Maintain the Board as a well-functioning, balanced team led by the chair	Partial	The role, composition and independence of the Board are documented in this Corporate governance report of this Annual Report and supplemented by information in the Directors section of the Investors area of our website www.fireangeltech.com. Since the publication of the Annual Report and Accounts 2018, it was announced on 30 July 2019 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, John Conoley, the Company's Chairman, would be appointed as Executive Chairman. Graham Whitworth, part-time Executive Director of the Company, had agreed to extend his tenure as an Executive Director until January 2021. Zoe Fox was appointed Company Secretary on 17 September 2019. In addition, on 24 September 2019, it was announced that Simon Herrick had joined the Company as a Non-Executive Director replacing William Payne who resigned with immediate effect. Simon succeeded William in chairing the Company's Audit and Remuneration Committees and John Shepherd succeeded William as Senior Independent Non-Executive Director. Subsequent to the year end, on 5 February 2020, it was announced that Graham Whitworth would become a Non-Executive Director on the release of the Company's audited financial results for the year ended 31 December 2019. The Board recognises that the primary responsibility of the chair is to lead the Board effectively and to oversee the adoption, delivery and communication of the Company's corporate governance model. There should be adequate separation from the day-to-day business to be able to make independent decisions. The chair should not normally also fulfil the role of chief executive. This separation of roles existed in the Company from John Conoley's appointment as Non-Executive Chairman on 22 January 2019 until his appointment as Executive Chairman on 1 August 2019 after the departure of the Chief Executive, Neil Smith. The Nominations Committee considered carefully the appropriateness of the joint role and concluded that John's skillset and experience were well matched to the current requirements of the Company as it transitioned to become a provider of safety-critical connected home solutions. The joint role, discussed beforehand with major shareholders, is expected to be short to medium term in tenure until the Company has moved further in its transition described above, at which point it is the intention to appoint a Chief Executive with skills appropriate for the challenges of the transitioned business. In addition, Board independence and structure, particularly with more recent changes in composition, are considered to be sufficiently robust to ensure that independent decisions can be made despite increased day-to-day involvement by the chair.
6	Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities	Full	The experience and skills of each Director are described in the Board of Directors section of the Governance section of this Annual Report and supplemented by information in the Directors section of the Investors area of our website www.fireangeltech.com. The roles of the Senior Independent Non-Executive Director and the Company Secretary, together with a description of the ongoing education of the Directors, are detailed in this Corporate governance report of this Annual Report.
7	Evaluate board performance based on clear and relevant objectives, seeking continuous improvement	Partial	Given the changes in Board composition during 2019, it was concluded that a formal process for evaluating the Board would be undertaken by the Nominations Committee during 2020 when new structures and relationships had been established. However, the understanding, effectiveness and contribution of each Director is kept under constant review by the Chairman with each Director's performance being reviewed before any proposal for re-election at the Annual General Meeting.
8	Promote a corporate culture that is based on ethical values and behaviours	Full	The promotion of the Group's corporate culture is evident in everything the Group does. This can be seen in our Business Model in the Introduction section of this Annual Report, in the Corporate and social responsibility section and addressed specifically in the Chairman's Introduction to this Corporate governance report.
9	Maintain governance structures and processes that are fit for purpose and support good decision-making by the board	Full	The Board structure, its committees, their roles and members, and the roles of Directors with specific remits, are described in this Corporate governance report and in the individual committee reports of this Annual Report. The terms of reference of the committees are detailed in the Resources section of our website www.fireangeltech.com.
Build trust			
10	Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	Full	The Group's approach and actions in relation to wider stakeholder engagement are detailed in the Statutory Directors' report of this Annual Report. Details of all shareholder communications are provided on the Group's website, including historical annual reports, general meetings and the outcome of all general meeting votes. The Group's regulatory RNS and RNS Reach announcements are also listed in the Regulatory announcements section of the Investors area of our website www.fireangeltech.com.

The Group's corporate governance disclosures include the Corporate Governance Report, the Audit Committee Report and the Remuneration Committee Report.

Leadership and operation of the Board

The Board has ten full meetings scheduled in a year, with attendance in person expected where possible. Occasionally, Board members may join by telephone if other commitments prevent attendance in person. In addition, ad hoc board meetings are called to address exceptional or administrative matters.

All Directors are expected to devote such time as is necessary for the proper performance of their duties. After taking into consideration the availability and time commitment demanded of individual members, the Chairman was satisfied that the members of the Board were able to devote sufficient time and resource to perform their roles for the Group.

The 'chief operating decision making' authority is the Board which delegates day-to-day responsibility for managing the Group to the Executive Management Team ('EMT') led by the Executive Chairman. The Executive Chairman leads the weekly trading review meetings of the Group to ensure operational targets are met or exceeded. Details of the EMT and trading review meetings are set out below.

The EMT is responsible for developing and implementing the strategy approved by the Board and led by the Executive Chairman. In particular, it is responsible for ensuring that the Group's budget and forecasts are properly prepared, that targets are met, and for generally managing and developing the business within the overall budget. Any changes in strategy or significant deviation from budget require explanation to, and approval of, the Board.

The EMT typically meets weekly and comprises the two Executive Directors, with other senior managers attending as appropriate.

Corporate governance report *continued*

Three business unit directors collectively manage the Group's five business units. They report into, and meet with, the Executive Chairman. Trading review meetings are also held weekly and include key managers from each of the departments across the business. Business unit reviews are typically held once per quarter and together with the trading review meetings, this provides the forum for the Executive Chairman to ensure a consistent implementation of FireAngel's business agenda across the organisation. Business unit meetings are also attended by other senior departmental managers as required.

On 17 September 2019, Zoe Fox was appointed Company Secretary of the Group. All Directors have access to the advice and services of the Company Secretary. Both the appointment and removal of the Company Secretary are matters reserved for the Board. All Directors have the benefit of directors' and officers' liability insurance and are entitled to take independent professional advice at the Group's expense. The Directors keep their skills up-to-date through regular updates from the Group's advisory team, review of relevant publications, and attendance at appropriate seminars and market updates.

On 24 September 2019, John Shepherd succeeded William Payne as Senior Independent Non-Executive Director of the Group following William's resignation from the Board. John provides a communication channel between the Chairman and the Non-Executive Directors and is available to discuss matters with shareholders when required.

The Board agenda

The Board's responsibilities include:

- setting and monitoring the strategic objectives of the Group and reviewing individual management performance;
- monitoring the risks to achieving the strategic objectives;
- providing entrepreneurial leadership within a framework of prudent and effective controls for risk assessment and management;
- ensuring that appropriate resources are in place and being managed effectively for the Group to create long-term shareholder value; and
- approving annual budgets and investments in the Group's technology roadmap.

The agenda for each Board meeting is reviewed by the Chairman to ensure that sufficient time is given to consideration of the most significant issues.

The Board receives the minutes of all Board Committee meetings at the next Board meeting following the Board Committee meeting. The culture of the Board is such that Non-Executive Directors are encouraged to constructively challenge the performance of management through rigorous discussion and debate in meeting the goals and objectives agreed to achieve the Group's strategy.

Board meetings

During 2019 matters dealt with by the Board included:

- review and monitoring of Group strategy and progress against business objectives;
- operational and financial performance of the Group;
- approval of the Group's budget;
- approval of financial statements and dividend policy;
- risk management oversight;
- Board and senior management succession planning;
- approval of large contracts and bids;
- consideration of Audit and Remuneration Committee reports and recommendations;
- review of corporate governance matters and reporting including a review of compliance with the Quoted Companies Alliance Corporate Governance Code for small and mid-size quoted companies, first adopted during 2018;
- review of the Group's plans in relation to Brexit;
- the re-appointment of RSM UK Audit LLP as external auditor, upon the recommendation of the Audit Committee; and
- reviewing the Group's product development roadmap and technological developments in the industry.

Excluding ad hoc Board meetings for general administrative matters, the number of Board and Board Committee meetings attended in person or by telephone is set out as follows:

	Total number of meetings		
	Board	Audit Committee	Remuneration Committee
JR Conoley - Executive Chairman	10	-	5
SE Herrick[1] - Chairman of Audit and Remuneration Committees	2	-	1
WJB Payne[2]	8	1	4
NA Rutter	10	-	-
J Shepherd	10	2	5
AV Silverton	9	2	4
NC Smith[3]	6	-	-
MJ Stilwell	10	-	-
GRA Whitworth	10	-	-

1. Number of meetings eligible to attend after appointment, Board: two; Audit Committee: nil; Remuneration Committee: one
2. Number of meetings eligible to attend before resignation, Board: eight; Audit Committee: two; Remuneration Committee: four
3. Number of meetings eligible to attend before resignation, Board: six

Board Committees

The Group has two standing Board Committees: an Audit Committee and a Remuneration Committee. The roles and activities of those Committees are included in the respective Committee reports on pages 25 to 30.

The functions of a nominations committee are generally undertaken by the Group Board as a whole. Given the size of the Group and the size and composition of its Board, the Directors believe it is both practical and beneficial for matters of Board composition and recruitment, Board performance evaluation, Executive and Non-Executive succession planning, and training and development, to be undertaken by the Board as a whole unless it is necessary and appropriate for a separate nominations committee to be established for the most senior appointments. All such matters are regularly scheduled on the Board's agenda and are discussed thoroughly and robustly, incorporating the detailed perspectives and experience of all Directors.

Directors' conflicts of interest

Training on the Companies Act 2006 has been given to all Directors on the provisions within, and Directors are reminded of their duties at each Board meeting. All Directors maintain conflicts of interest declarations and any planned changes in their interests, including directorships outside the Group, are notified to the Board. None of the relationships declared are considered to be of a detrimental nature to FireAngel's business and as such none are deemed to impact on the independence of the Directors. Any conflicts are declared at the first Board meeting at which the Director becomes aware of a potential conflict.

The beneficial interests of all Directors in the share capital of the Company are set out on page 32 of the Annual Report.

Effectiveness and ensuring the Board is effective

The Board has considered the overall balance between Executive and Non-Executive Directors and believes that the structure of the Board, with two Executive and four Non-Executive Directors, ensures that there is no one individual or interest group dominating the decision-making process.

The independence of all Non-Executive Directors is reviewed and evaluated annually as part of the appraisal of each Director. Ashley Silverton, John Shepherd and Simon Herrick have served on the Board for eight years, four years and less than one year respectively. The Board considers each of the Non-Executive Directors to be independent. This is because each has different and complementary skills and experiences which allow each issue facing the Board to be viewed and addressed from a variety of perspectives. The lengths of service of Ashley Silverton and John Shepherd have positively impacted the effectiveness of the Board through their knowledge of the Group, and of the home safety products industry, their tenure has afforded. Subsequent to the year end, on 5 February 2020, it was announced that Graham Whitworth would become a Non-Executive Director on the release of this Annual Report and that Ashley Silverton would step down from the Board at the Company's forthcoming Annual General Meeting.

The Board considers that its size and composition are appropriate and that the balance of qualifications and experience appropriately reflects the financial, sector specific, technology and general international business skills required for it to discharge its duties and responsibilities effectively.

In advance of each meeting, Board members are provided with accurate, timely and clear information including operational updates and details of the financial performance and position of the Group. In this way, informed decisions and discussions can take place which enable the Board to properly discharge its duties.

Should they wish to, Non-Executive Directors are able to influence agendas for Board discussions and to ensure the amount of time spent reviewing strategic and operational issues is appropriately balanced. From time to time, the Board meets off site to review and discuss specific business issues.

In the event that Directors are unable to attend a meeting or a conference call, they receive and read the papers for consideration and have the opportunity to relay their comments to the Chairman.

All new Directors undertake a formal and comprehensive induction to the Group which is designed to develop their knowledge and understanding of the Group's culture and operations. Non-Executive Directors have regular opportunities to meet with senior managers to ensure they have a thorough understanding of the Group, its operations and markets.

All Directors are expected to devote such time as is necessary for the proper performance of their duties. With the exception of Graham Whitworth whose time commitment is longer, the Non-Executive Directors' commitment approximates to two days per month. Executive Directors are expected to work full time.

Performance evaluation

The Remuneration Committee regularly reviews and evaluates the performance of Directors and senior managers. The most recent review concluded that the Board and its individual members continue to operate effectively with robust constructive challenge from the Non-Executive Directors.

Subjects covered during the most recent review included a general overview as to the operation of the Board, opinions on shareholder relationships, views on the Board's input into strategy discussions, governance and compliance, risk management and succession planning. The Board culture and relationships with senior management were also considered.

Where required, the Executive Chairman holds meetings with the Non-Executive Directors without the other Executive Directors present. The Non-Executive Directors, led by the Senior Non-Executive Director, meet without the Chairman present at least once annually to appraise the Chairman's performance.

Internal control

The Board acknowledges its responsibility for safeguarding the investment of shareholders and the Group's assets. It has established processes for identifying, evaluating and managing the significant risks facing the Group.

The Board has overall responsibility for ensuring the Group maintains an adequate system of internal control and risk management, whilst the Audit Committee reviews its effectiveness on behalf of the Board. The implementation of internal control systems is the responsibility of management.

The Group's system of internal control is designed to help ensure:

- the effective and efficient operation of the Group by enabling management to respond appropriately to significant risks to achieving the Group's business objectives;
- the safeguarding of assets from inappropriate use or from loss or fraud and ensuring that liabilities are identified and managed;
- there is high quality of internal and external financial reporting;
- compliance with applicable laws and regulations and with internal policies on the conduct of the Group's business; and
- the ability to recover in a timely manner from the effects of disasters or major accidents which originate from outside the Group's direct control.

The Directors believe the internal control environment is generally adequate and appropriate given the size and complexity of the Group. However, subsequent to the year end it became clear that there had been failures within certain of the Group's historical manufacturing quality review processes leading to an increase in the legacy battery warranty provision (see note 8 to the financial statements). The Directors do not anticipate that there will be any further increase in the number of units impacted as the issue relates only to units produced at one of the Company's previous manufacturers in China up to the end of March 2018.

The principal risks and uncertainties facing the Group, together with mitigating actions taken to address those risks, are set out on pages 37 to 39. These reflect the risks of most concern to the Group, as considered at recent Board and Audit Committee meetings.

Given the Group's size and complexity, it does not have a separate internal audit function. The external auditor reports to the Audit Committee (and to the Board) on any controls which, during the course of its audit work, it has identified as requiring improvement. The Group then takes prompt action to address any control deficiencies. The Audit Committee reviews the need for a separate internal audit function on an annual basis. Its most recent review concluded that the reporting lines within the Group, and the level of control exercised by the management team, are both sufficiently robust to make an internal audit function neither necessary nor cost effective at this time. The Directors have taken steps to ensure that the Group has an appropriate control environment for its size and complexity. The management team will ensure that the internal control environment develops appropriately with the size of the Group, with respect to the identification, evaluation and monitoring of risk.

Corporate governance report *continued*

Investor relations

The Board believes it is important to have open communications with shareholders and seeks to ensure that these are informative and transparent. The Executive Directors make themselves available to, and expect to meet with, major institutional shareholders at least twice per year to discuss the published financial results. The Executive Directors also attend private investor seminars and events. From time to time, where appropriate, the Group may consult with major shareholders on any significant issues.

Members of the Board develop an understanding of the views of major shareholders through direct contact that may be initiated by the Group's broker or through shareholder feedback following investor roadshows, and through analysts' and brokers' briefings. The Group also regularly hosts investor days at its Coventry head office and seeks investor feedback on its performance. Where voting decisions are not in line with the Group's expectations, the Board will engage with any dissenting major shareholders to understand and address any issues. The Company Secretary is the main point of contact for such matters.

Whistleblowing procedures

The Board has adopted a whistleblowing policy which provides a mechanism for all employees to raise concerns to the Non-Executive Directors, in strict confidence and without recrimination, regarding any unethical business practices, fraud, misconduct or wrongdoing. Any such incident would be addressed confidentially by the Audit Committee. There were no whistleblowing reports during 2019 nor to the date of this report.

Anti-bribery and anti-corruption policy

The Board is committed to the fundamental values of integrity, transparency and accountability. As such it seeks to prohibit bribery and corruption in any form, whether direct or indirect. The Group aims to create and maintain a trust-based and inclusive internal culture in which bribery and corruption is not tolerated.

The Group would cease to trade with any third party it had reasonable grounds to suspect was involved in bribery or corruption. It would not hesitate to take legal and/or disciplinary action against employees or third parties who breach the Group's bribery and corruption policy.

By Order of the Board

John Conoley - Executive Chairman
26 May 2020

Audit Committee report

On behalf of the Board, I am pleased to present the Audit Committee report for the year ended 31 December 2019, which provides information about the Audit Committee, its principal duties, and the specific matters it has considered during the year.

The Group's Audit Committee comprises:

- From 24 September 2019, Simon Herrick, Chairman of the Committee, Independent Non-Executive Director, succeeding William Payne, Independent Non-Executive Director;
- John Shepherd, Senior Independent Non-Executive Director; and
- Ashley Silverton, Independent Non-Executive Director.

All the Committee members are Independent Non-Executive Directors and have no personal or financial interests, other than as shareholders, in the matters considered by the Committee.

The Audit Committee operates within the remit delegated by the Board, which is set out in formal terms of reference. A copy of the terms of reference can be obtained from the Corporate Governance section within the Investors area of the Group's website (www.fireangeltech.com).

Neither the Chairman nor any other Executive Director attend meetings other than by invitation of the Committee members. The Committee invites the auditor to attend certain meetings.

In accordance with best practice, the Audit Committee is required to comprise at least one financially qualified member (as recognised by the Consultative Committee of Accountancy Bodies). I am deemed by the Board to have recent and relevant financial experience as a qualified chartered accountant with extensive experience in the financing and management of businesses generally.

The Committee's key objective is the provision of effective financial governance and assistance to the Board in ensuring the integrity of the Group's financial reporting. The Committee oversees the external audit process and reviews the Group's risk management framework, the effectiveness of its risk management processes and the system of internal control. Its principal duties are to:

- monitor the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance and review significant financial reporting judgements contained therein;
- consider whether in its view the Annual Report taken as a whole is fair, balanced and understandable and provides the information necessary to assess the Group's performance, business model and strategy, the ultimate approval of which is decided by the Board;
- review the effectiveness of the Group's financial reporting and the internal control and risk management policies and systems;
- review annually, the need for an internal audit function;
- make recommendations to the Board for a resolution to be put to shareholders for their approval in general meeting, on the appointment of the external auditor and approval of its remuneration and terms of engagement;
- review the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- review the appropriateness of accounting policies;
- develop and implement a policy on the engagement of the external auditor to supply non-audit services, taking into account relevant guidance regarding the provision of non-audit services by the external audit firm; and
- review the arrangements by which staff may in confidence raise concerns about possible improprieties.

Key considerations in 2019

During the year the Committee met twice and considered the following matters:

- the suitability of the Group's accounting policies and practices;
- the half-year and full-year financial results;
- the scope and cost of the external audit;
- the auditor's report for 2018;
- the evaluation of the performance and independence of RSM UK Audit LLP as the Group's external auditor;
- the review and approval of the external auditor's plan for 2019, which detailed the proposed audit scope and risk and governance assessment;
- the review and approval of the external auditor's fees for 2019; and
- the internal control environment across the Group.

Significant financial statement reporting issues

The Audit Committee looks carefully at those aspects of the financial statements which require significant accounting judgements or where there is estimation uncertainty. The Audit Committee also reviews the draft of the external Auditor's Report on the financial statements, with particular reference to those matters reported as carrying risks of material misstatement. The Audit Committee discusses the range of possible treatments both with management and with the external auditor and satisfies itself that the judgements made by management are robust and should be supported.

Audit Committee report *continued*

Internal controls

The Board of Directors, advised by the Audit Committee, has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. Details of the system of internal control, the principal risks facing the Group, and the strategies put in place to mitigate them, are set out in the Risk and Risk Management section on pages 37 to 39.

Audit independence

The Audit Committee and the Board place great emphasis on the objectivity of the external auditor in its reporting to shareholders.

The Audit Partner is present at Audit Committee meetings as required to ensure full communication of matters relating to the audit. The overall performance of the auditor is reviewed annually by the Audit Committee, taking into account the views of Committee members and senior finance personnel covering overall quality, independence and objectivity, business understanding, technical knowledge, quality and continuity of personnel, responsiveness and cost effectiveness. The Audit Committee also has discussions with the auditor, without management being present, on the adequacy of controls and on any judgemental areas. The scope of the forthcoming year's audit is discussed in advance by the Audit Committee. Audit fees are approved by the Audit Committee.

RSM UK Audit LLP was appointed as auditor in 2001. This appointment has not been subject to a tender process since that date although, from time to time, the Board has benchmarked the audit cost with third parties. The Committee has concluded that RSM UK Audit LLP continues to provide an effective audit and the Committee and Board will recommend their reappointment at the 2020 Annual General Meeting.

Other than the audit, the Audit Committee is required to give prior approval of all work carried out by the auditor and its associates. Part of this review is to determine that other potential providers of the services have been adequately considered. These controls provide the Audit Committee with confidence in the independence of the auditor in its reporting on the audit of the Group.

Non-audit services

RSM UK Audit LLP provides non-audit services to the Group, which are governed, so as to safeguard its independence and objectivity, by the Group's non-audit services policy. Compliance with the policy is actively managed and an analysis of non-audit services is reviewed throughout the year. During the year ended 31 December 2019 28% of services provided to the Group were non-audit services and related predominantly to corporate tax advice and the preparation of claims for research and development tax credits (see note 9 to the financial statements).

By Order of the Board

Simon Herrick - Chairman of the Audit Committee
26 May 2020

Remuneration Committee report

Introduction

On behalf of the Board, I am pleased to present the Remuneration Committee report for the year ended 31 December 2019, which provides information about the Remuneration Committee, the remuneration policies approved and applied by the Board, and the actual remuneration of Directors earned during the year. The report is divided into two sections: a policy report, which sets out the approach to remuneration, and a remuneration report, which details amounts paid to the Directors during 2019.

Basis of preparation

This report follows the principles of the Companies Act 2006. The Directors have chosen to apply these principles as best practice and in order to provide greater transparency to shareholders. This includes details of the Committee's policy on Directors' remuneration, which will be put to an advisory vote at the 2020 Annual General Meeting.

Remuneration Committee

The Group's Remuneration Committee comprises:

- From 24 September 2019, Simon Herrick, Chairman of the Committee, Independent Non-Executive Director, succeeding William Payne, Independent Non-Executive Director;
- John Conoley, Executive Chairman of FireAngel Safety Technology Group plc;
- John Shepherd, Senior Independent Non-Executive Director; and
- Ashley Silverton, Independent Non-Executive Director.

With the exception of John Conoley, Executive Chairman of FireAngel Safety Technology Group plc, at the date of this report the Committee members are Independent Non-Executive Directors and have no personal or financial interests, other than as shareholders, in the matters considered by the Committee.

The Remuneration Committee operates within the remit delegated by the Board, which is set out in formal terms of reference. The remuneration of Non-Executive Directors is a matter for the Chairman and the other Executive members of the Board. No Director or manager is involved in any decision regarding their own remuneration. A copy of the terms of reference can be obtained from the Corporate Governance section within the Investors area of the Group's website (www.fireangeltech.com).

Other than John Conoley's membership of the Committee described above, the Executive Directors do not attend meetings other than by invitation of the Committee members and are not present at any discussion of their own remuneration.

Remuneration philosophy

The Remuneration Committee's policy is to attract and retain individuals of the highest calibre by offering remuneration competitive with comparable publicly quoted companies, and to drive the Group's financial performance by providing arrangements which fairly and responsibly reward individuals for their contribution to the success of the Group. Performance-related bonuses and long-term equity-based remuneration linked to a demanding profit target represent a significant proportion of Executive Directors' potential remuneration, which aligns the interests of the individuals with those of the shareholders.

The Committee continues to seek to ensure that the remuneration of Executive Directors, as well as the wider senior management team, is sufficient to attract, retain and motivate quality individuals. The principal duties of the Remuneration Committee are to:

- consider and make recommendations to the Board on the policy for the remuneration package of the Executive Directors;
- determine the whole remuneration package for Senior Executives;
- recommend to the Board the remuneration package for the Chairman;
- determine the terms and conditions of service contracts for Senior Executives;
- determine the design, conditions and coverage of the annual long-term incentive schemes for Senior Executives and to approve total and individual payments under these schemes;
- determine targets for any annual and long-term incentive schemes;
- determine the issue and terms of all share-based plans available to all employees; and
- determine compensation in the event of termination of service contracts of any Senior Executive.

Remuneration policy framework

The Group is committed to achieving sustained improvements in performance. This depends crucially on the individual contributions made by the executive team and by employees at all levels. The Board believes that an effective remuneration strategy plays an essential part in the future success of the Group. Accordingly, the remuneration policy reflects the following broad principles:

- the remuneration of Executive Directors and senior managers reflects their responsibilities and contains incentives to deliver the Group's performance objectives without encouraging excessive risk taking;
- remuneration must be capable of attracting and retaining the individuals necessary for business success;
- remuneration should be based on both individual and Group performance, both in the short and long term;
- the system of remuneration should establish a close alignment of interest between senior executives and shareholders by ensuring a significant proportion of senior executive remuneration is generated from equity-based incentives; and
- when determining remuneration, the Committee will take into account pay and employment conditions in the market.

Remuneration Committee report *continued*

The Group has a clearly defined strategy to drive the business forward by understanding the product needs of our customers, focussing on product innovation and working to develop market-leading positions in each of the markets we serve. Our remuneration policy supports the delivery of this strategy and aligns the interests of Directors and shareholders. This is achieved by short-term profit-based bonus incentives and longer-term share-based incentive plans which focus on delivering key business objectives, profitable growth and strong shareholder returns.

The Committee monitors the market competitiveness of the overall remuneration package for each member of the Group's senior management team in order to ensure the Group is able to retain and attract new talent as required.

Group employee considerations

The Group employs people across five countries with the majority of staff based in the UK. Inevitably remuneration arrangements differ to reflect local markets, but a common theme applied to employees at all levels is the Group's aim to offer competitive levels of remuneration, benefits and incentives to attract and retain employees. At more senior levels, remuneration has a larger variable proportion dependent on the Group's financial performance.

Shareholder views

The Committee has considered the guidance provided by shareholder advisory groups in preparing this policy and has followed this insofar as it is appropriate in the context of the Group's business. The Committee continues to welcome an open dialogue and input from shareholders on the remuneration policies of the Group.

Key considerations in 2019

During the year the Committee met five times and considered the following matters:

- approval of 2019 salary increases for the Executive Directors and certain senior managers;
- approval of the 2019 discretionary bonus scheme for certain senior managers and Executive Directors;
- consideration of the terms and conditions for Executive Director and Non-Executive Director appointments; and
- approval of the performance criteria and share option awards under the FireAngel Safety Technology Group 2015 Long-Term Incentive Plan.

The following tables set out the key elements of the Group's remuneration policy for Directors.

Remuneration policy for Non-Executive Directors

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Fees	To reward individuals for fulfilling the relevant role and to attract individuals with the skills and calibre required	The Committee makes recommendations to the Board on the remuneration of the Non-Executive Directors. The level of remuneration is set within a limit approved from time to time by shareholders. Non-Executive Directors are paid a base fee covering Board and committee membership	Fees are set at a level appropriate for the role and are reviewed regularly, taking into account fees payable to Non-Executive Directors of companies of a similar size and complexity	Evaluation of overall contribution to the Board

Remuneration policy for Executive Directors

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Salary	It is essential that the Group pays competitive salaries to attract and retain individuals of the right calibre to develop and execute the business strategy	Salary levels are set using careful judgement, taking into account the scope of the role and responsibilities, performance, experience, potential, retention issues and salaries elsewhere in the Group and in the market place. Judgement will be informed, but not led, by reference to companies of similar size and complexity. Salaries are reviewed annually either in March or October taking into account the financial performance of the Group. Salary increases are not automatic. In exceptional circumstances, salaries may be increased on other dates in the year	Annual salary increases will not normally exceed average increases for employees in other appropriate parts of the Group. On occasion, increases may be larger where the Committee considers this to be necessary to align with market rate or exceptional performance. Circumstances where this may apply include: growth into a role to reflect a change in scope of role and responsibilities or where market conditions indicate lack of competitiveness and the Committee judges that there is a risk in relation to attracting or retaining Executives. Where the Committee exercises its discretion to award increases above the average for other employees, the resulting salary will not exceed the competitive market range	Overall contribution to the Group. Individual performance is the primary consideration in setting salary alongside overall affordability and market competitiveness
Benefits	To provide market competitive benefits sufficient to recruit and retain	Benefits include life assurance and medical insurance	Benefits will be market competitive taking into account the role and the local market	None
Pension	To provide market competitive pension arrangements sufficient to recruit and retain	New Executive Directors to the Company are offered membership of the Group's defined contribution pension plan. Pension contributions are based only on an individual's salary	The maximum employer contribution to the Group's defined contribution pension arrangements is 10% of gross salary	None
Annual performance related bonus	To incentivise and reward execution of the business strategy, delivery of financial performance targets and the Group's strategic plan	In line with the scheme covering other senior members of staff, performance-related bonuses for the Executive Directors are based on the achievement of specific financial targets for the Group and agreed personal objectives	Bonus potential is capped at an appropriate level to encourage outperformance of budgeted targets	Bonus payments are at the discretion of the Remuneration Committee and take into account the overall financial performance of the Group

Details of the Directors' emoluments are given below.

a) Remuneration

	Salary, fees and car allowances £000	Benefits £000	Bonuses[1] £000	Pension allowance[2] £000	**2019 Total £000**	2018 Total £000
Executive Directors						
JR Conoley[3] (appointed 22 January 2019)	140	-	-	-	**140**	-
JR Gahan (resigned 5 March 2018)	-	-	-	-	**-**	34
NA Rutter (resigned 5 February 2020)	187	5	-	18	**210**	206
NC Smith (resigned 31 July 2019)	138	3	-	12	**153**	292
MJ Stilwell (appointed 3 December 2018)	179	3	-	17	**199**	16
GRA Whitworth[4]	219	8	-	-	**227**	224
Non-Executive Directors						
SE Herrick (appointed 24 September 2019)	10	-	-	-	**10**	-
WJB Payne (resigned 24 September 2019)	31	-	-	-	**31**	42
J Shepherd	36	-	-	-	**36**	39
AV Silverton	36	-	-	-	**36**	36
Total	976	19	-	47	**1,042**	889

1. Bonuses are paid or accrued based on the achievement of agreed personal objectives and corporate performance metrics.
2. Pension allowance includes both contributions to the Group's defined contribution pension scheme and cash payments in lieu of contributions.
3. John Conoley was appointed as Non-Executive Chairman of the Board on 22 January 2019. With effect from 1 August 2019, following the resignation of Neil Smith as Group Chief Executive, John was appointed Executive Chairman.
4. On the appointment of John Conoley on 22 January 2019, Graham Whitworth's role changed from Executive Chairman to Executive Director.

b) Share schemes

Directors' interests in unvested and vested share option awards are as follows:

	Number of awards over shares at 1 January 2019	Awards granted in the year	Awards lapsed in the year	Awards exercised in the year	Number of awards over shares at 31 December 2019	Expiry date	Exercise price (pence)
2014 EMI							
NA Rutter	125,000	-	-	-	125,000	28/4/2024	200
GRA Whitworth	125,000	-	-	-	125,000	28/4/2024	200
2015 LTIP							
JR Conoley	-	1,500,000	-	-	1,500,000	2/8/2029	2
NA Rutter	-	250,000	-	-	250,000	2/8/2029	2
MJ Stilwell	-	750,000	-	-	750,000	2/8/2029	2

Further information on the Group's share schemes are given in note 31 of the financial statements.

c) Service contracts

There are no service contracts for Directors with notice periods in excess of twelve months. The notice periods under the service agreements for Executive Directors and letters of appointment for Non-Executive Directors are as follows:

	Notice period
JR Conoley	6 months
SE Herrick	3 months
NA Rutter	12 months
J Shepherd	3 months
AV Silverton	3 months
MJ Stilwell	6 months
GRA Whitworth	12 months

Remuneration Committee report *continued*

Policy on exit payments

The notice periods the Group is required to give to Executive Directors under their contracts of employment is as set out above. Payment in lieu of notice includes the value of salary in the notice period, bonus, benefits, car allowance and pension contributions. Both mitigation and the staggering of payments through the notice period will be considered by the Committee where appropriate, as will the funding of professional fees. Should additional compensation matters arise, such as a settlement or compromise agreement, the Committee would exercise judgement and take into account the specific commercial circumstances.

The Committee has the discretion to preserve incentive awards pro-rated to service. In exercising its discretion on incentive awards, the Committee will have regard to performance, the circumstances of the Director leaving the Group and the terms of the relevant service agreement.

For share options, the rules state that unvested awards may be preserved at the Committee's discretion according to the circumstances. In such cases, vesting will be at the normal date, subject to the established performance conditions, and pro-rata to the duration of employment in the performance period. In cases such as death and terminal illness, the Committee also has the discretion to vest the awards immediately.

In the event of a change of control of the Group, all share option awards may be permitted to vest in full at the discretion of the Remuneration Committee.

Policy on new appointments

Newly appointed Executive Directors will be awarded a remuneration package which is consistent with the policy and principles as set out in this report. Base salary may be set at a level higher or lower than previous incumbents and in certain circumstances, to facilitate the recruitment of individuals of the required calibre, the Committee may use its discretion to make individual additional incentive awards. This level of discretion is considered appropriate given the Group's growth strategy.

By Order of the Board

Simon Herrick - Chairman of the Remuneration Committee
26 May 2020

Statutory Directors' report

The following matters are reported by the Directors in accordance with the Companies Act 2006 requirements in force at the date of this Annual Report.

Principal activities

The principal activities of FireAngel Safety Technology Group plc (the 'Company') and its subsidiary companies (the 'Group') are set out within the Statutory Strategic Report, which comprises the Executive Chairman's Statement, the Strategic Review, the Performance Review, the Section 172 Companies Act Statement and the Risks and Risk Management section, on pages 6 to 17, and pages 35 to 39.

Review of business and future developments

The consolidated income statement for the year ended 31 December 2019 is set out on page 44.

A review of the Group's business activities during the year and its prospects for the future can be found in the Executive Chairman's Statement, the Strategic Review and the Performance Review on pages 6 to 17. These reports, together with the Chairman's Introduction, the Corporate Governance Report, the Audit Committee Report and the Remuneration Committee Report, are incorporated into this report and should be read as part of this report.

Key performance indicators

The Board's principal objective is to increase shareholder value. The Directors measure the Group's progress in achieving this objective principally using the following indicators (as reflected in this Annual Report):

- Sales performance. Sales are reviewed each week to assess individual business unit performance against budget and to ensure all sales opportunities are being appropriately pursued. The Group seeks to build long-term customer relationships and maximise the sales mix of its higher margin products.
- Gross margin percentage. Gross margins are reviewed each week to assess individual business unit performance and to identify areas to improve the profitability of the Group. Different market segments have varying gross margin opportunities, depending on the level of competition in that market and the positioning of the Group's products and brands.
- Adjusted gross margin percentage. The adjusted gross margin of the Group is measured to understand underlying business performance before the impact of one-off non-recurring items.
- Operating result. The fixed costs of the business are carefully managed to ensure that, in conjunction with the gross profit generated, the Group can return an acceptable operating result.
- Underlying operating result. The operating performance of the Group before the impact of one-off non-recurring items is monitored to better understand the underlying trends in operating results.
- Underlying EBITDA. The underlying cash generation of the business is measured through operational cash flows represented by underlying EBITDA.
- Basic EPS. The Group seeks to reward its shareholders with an annual dividend where possible.
- Net working capital. The Group seeks to proactively manage its working capital to ensure that it minimises its asset base to maximise cash flow from which to pay dividends.
- Investment in research and development. The Group's principal source of product differentiation is through investment in its technology base, rather than simply price. The Board regularly reviews the Group's product roadmap to ensure its internal investment is focussed on the right areas and that products come to market on time.

Commentary on the key performance indicators above is set out in the Performance Review on pages 12 to 17.

Principal risks and uncertainties

Details of the principal risks and uncertainties considered by the Board to affect the Group, and the related risk mitigation actions, are given on pages 37 to 39.

Group results and dividends

The financial results for the year and financial position of the Group and the Company are as shown on pages 44 and 45. The consolidated loss after tax for the year was £9.4 million (2018 restated: loss after tax of £4.5 million).

As a result of the loss reported for the year, and consistent with the decision not to pay an interim dividend (2018: nil pence per share), the Directors do not recommend payment of a final dividend for the year (2018: nil pence per share). The total dividend payable for 2019 was therefore nil pence per share (2018: nil pence per share).

Financial instruments

The Group's financial risk management objectives and policies, including the policy for hedging future foreign exchange rate risk, are outlined in note 4 to the financial statements. The Group does not adopt hedge accounting and all future contracts beyond the balance sheet date are marked-to-market at the balance sheet date with the net gain or loss on those contracts taken through the income statement in the period.

Research and development expenditure

The Group has continued to invest in research and development of both software and hardware products during the year. The people and non-people costs of product development on specific identifiable projects are capitalised in accordance with the accounting policy set out on pages 50 and 51. General research costs undertaken in respect of the Group's principal activities are charged through the income statement as incurred.

Statutory Directors' report *continued*

Share capital and voting rights

The Company's issued share capital comprises a single class of ordinary shares of 2p each, with 75,935,365 shares in issue and listed on AIM of the London Stock Exchange as at 31 December 2019. No shares were held in treasury. Details of movements in the issued share capital can be found in note 29 to the financial statements. On 8 April 2020, the Company issued 50,623,480 new ordinary shares at 12 pence per share as a result of valid acceptances under the open offer and placing announced on 23 March 2020. The Company's share capital consequently increased to 126,558,845 ordinary shares.

Each share carries the right to one vote at general meetings of the Company. Holders of the shares are entitled to receive the Company's annual report. They are also entitled to attend and speak at general meetings of the Company, to appoint one or more proxies or, if they are corporations, corporate representatives, and to exercise voting rights. They have the right to ask questions at the Annual General Meeting relating to the business of the meeting and for these to be answered, unless such answer would interfere unduly with the business of the meeting, involve the disclosure of confidential information, if the answer has already been published on the Group's website or if it is not in the interests of the Group or the good order of the meeting that the question be answered.

All issued shares are fully paid up and carry no additional obligations or special rights. The full rights are set out in the Company's Articles of Association (the 'Articles'), the latest copy of which can be found in the Incorporation section of the Investors area of the Group's website at www.fireangeltech.com. There are no restrictions on transfers of shares in the Company, or on the exercise of voting rights attached to them, other than those which may from time to time be applicable under existing laws and regulations.

Control and share structure

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in note 29 to the financial statements. The Company has one class of ordinary share which carries no right to fixed income.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles and prevailing legislation. The Directors are not aware of any agreements between shareholders of the Company's shares that may result in restrictions on the transfer of securities or voting rights.

Details of employee share schemes are set out in note 31 to the financial statements. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Directors' interests in shares

Interests of the Directors and their connected persons in the issued share capital of the Company as at 31 December 2019 were as follows:

	2019 Number of shares held	2019 Interests in share schemes	2019 Total interests in shares	2018 Total interests in shares
JR Conoley	**68,181**	**1,500,000**	**1,568,181**	-
SE Herrick	-	-	-	-
NA Rutter	**3,800,000**	**375,000**	**4,175,000**	3,125,000
J Shepherd	**237,497**	-	**237,497**	23,063
AV Silverton	**100,000**	-	**100,000**	35,000
MJ Stilwell	**55,538**	**750,000**	**805,538**	-
GRA Whitworth	**3,560,938**	**125,000**	**3,685,938**	3,646,937
	7,822,154	**2,750,000**	**10,572,154**	6,830,000

There has been no change in the interests of the Directors and their connected persons in the issued share capital of the Company from those set out in the table above to 26 May 2020.

Significant shareholdings

As at the close of the market on 19 May 2020, the Company was aware of the following holdings, excluding Directors' holdings, of 3% or more of the Company's total issued share capital:

	Number of shares	% of total voting rights	Nature of interest
Newell Rubbermaid UK Services Limited	29,582,205	23.4	Direct
Downing LLP	26,718,571	21.1	Indirect
BGF Investment Management Limited	14,638,098	11.6	Indirect
Canaccord Genuity Group Inc	12,561,851	9.9	Indirect

Agreements affected by change of control

Other than some customer and supplier contracts that have an option to be terminated, the Company is not a party to any agreements which take effect, alter or terminate upon a change of control of the Company following a takeover bid. There are no agreements between the Company and its Directors or employees providing compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

Board of Directors

All Directors were in office throughout the year ended 31 December 2019 with the exception of the following appointments and resignations during the year:

- John Conoley (appointed as Non-Executive Chairman on 22 January 2019, then Executive Chairman on 1 August 2019)
- Simon Herrick (appointed 24 September 2019)
- William Payne (resigned 24 September 2019)
- Neil Smith (resigned 31 July 2019)

Subsequent to the year end, on 5 February 2020, Nick Rutter stepped down from the Board with immediate effect and it was announced that Graham Whitworth would become a Non-Executive Director on the release of the Company's audited financial results for the year ended 31 December 2019. It was also announced that Ashley Silverton would step down from the Board at the Company's forthcoming Annual General Meeting.

Details and biographies of the current Directors and Company Secretary are shown on pages 18 and 19.

The powers of the Company's Directors and rules that apply to changes in the Directors are set out in the Company's Articles. Any changes to the Articles would require the consent of the Company's shareholders.

The Board may delegate to a Director holding any executive office any of the powers, authorities and discretions exercisable by the Board for such time and on such terms and conditions as it thinks fit. The Board may revoke or alter the terms and conditions of the delegation and may retain or exclude the right of the Board to exercise the delegated powers, authorities or discretions collaterally with the Executive Director.

The Company's Articles require that a minimum of one-third of the Directors must retire by rotation at each Annual General Meeting, or if their number is not three or a multiple of three, then the number nearest to but not exceeding one-third shall retire from office, excluding Directors who are retiring and standing for election at the first Annual General Meeting following their appointment to the Board. If the number of Directors subject to retirement by rotation is fewer than three, one of such Directors shall retire. At the forthcoming Annual General Meeting, John Shepherd and Mike Stilwell will retire and stand for re-election. As a newly appointed Director, Simon Herrick will be subject to election being the first Annual General Meeting since he was appointed.

The Company's shareholders may by ordinary resolution appoint any person to be a Director. The Company must not have less than three and no more than twelve directors holding office at any time. The Company may by ordinary resolution from time to time vary the minimum and/or the maximum number of directors.

Conflicts of interest

The Group has procedures in place for managing conflicts of interests. If a Director becomes aware that they, or a connected party have an interest in an existing or proposed transaction with the Group, they should notify the Company Secretary as soon as possible. Directors have a continuing obligation to update any changes to conflicts and the Board formally reviews any such conflicts periodically.

Directors' and officers' liability insurance

The Group maintains a management protection policy including directors' and officers' liability insurance which is reviewed annually. The insurance covers the Directors and officers of the ultimate holding company of the Group, FireAngel Safety Technology Group plc, and its subsidiaries, against the costs of defending themselves in civil proceedings taken against them in their capacity as a director or officer of a Group company and in respect of damages or civil fines or penalties resulting from the unsuccessful defence of any proceedings. The indemnity was in force throughout the financial year and is currently in force.

No indemnity is provided for the Group's auditor.

Employment policies

Details of the Group's policy in respect of employment and training are given in the Corporate social responsibility section on page 11.

The Group employed an average of 149 people in 2019 (2018: 154).

The Group has established employment policies that comply with current legislation and codes of practice, including in the areas of health and safety and equal opportunities. The Group consults employees on developments and changes to take account of their views when making decisions that may impact their interests.

The Group has in place a Diversity and Equality Policy which sets out the Group's approach to equal opportunities and avoidance of discrimination at work. This policy confirms the Group's commitment to treating employees fairly and inclusively, ensuring that all decisions on recruitment, selection, training, promotion, career opportunities, pay and other terms and conditions are based solely on objective and job-related criteria. The Group is committed to offering employment to suitably qualified people with disabilities and making reasonable adjustments to the working environment to accommodate their needs.

Policy on payment of suppliers

The Group's policy during the year was to pay suppliers in accordance with agreed terms. At 31 December 2019, the Group had 76 days' purchases outstanding in trade payables (2018: 137 days').

Charitable contributions

The Group made charitable contributions amounting to £420 (2018: £622) during the year. The Group has a charity committee that organises regular events and donates money to specific charities.

Statutory Directors' report *continued*

Going concern

In determining whether the Group and Parent Company's financial statements can be prepared on a going concern basis, the Directors considered the Group's business activities, together with the factors likely to affect its future development, performance and position. The review also included the financial position of the Group, its cash flows, and borrowing facilities.

The Board regularly reviews revenue, profitability and cash flow forecasts across the short, medium and longer term. A number of downside sensitised scenarios are modelled and considered to create a wide range of possible outcomes, the assumptions behind which are robustly challenged. The Board compares actual performance against budgets and forecasts and reviews variances to continually refine and improve forecasting ability from which to make effective decisions.

However, the uncertain impact of COVID-19 makes such an assessment more challenging than usual. In order to understand the potential impact of the risks associated with this uncertainty, a number of highly sensitised illustrative scenarios have been modelled. Although the Board expects the most significant effects of COVID-19 on revenue and profitability still to be in Q2 2020, it considers a scenario based on the following assumptions to be prudent given the nature of the Company's customers, products and distribution channels:

- Revenue in May 2020 to be at a similar level of budget achievement to that seen in April 2020 with some recovery in June 2020, although still significantly below budgeted levels, due to the impact of restrictions being lifted and some normality returning to retailer and customer behaviour
- Revenue to be stronger in H2 2020 and improving continually across the half as:
  - There will be an element of pent up demand which has been deferred, not lost, due in part to a drive in the self-employed trade sector which we would expect to be highly motivated to recover earnings lost during the lockdown period
  - The opportunity for cost savings afforded by the Company's connected solution will become more attractive as non-safety critical budgets tighten as evidenced by recent UK customer enquiries
  - Many social housing authorities will have ring-fenced fire safety budgets for the fiscal year to utilise over a now reduced period of time
  - There has been no change in the underlying demand for the Company's unique technology and there is unlikely to be any change in the necessity and desire to meet increased duty of care requirements post Grenfell
  - Existing smoke and CO alarms installed by all manufacturers will continue to reach end of life and require replacement
  - Recent conversations with the UK Fire & Rescue Service have highlighted an increased awareness of the importance of protecting vulnerable people in their homes, particularly in the current climate
- Some strengthening in the value of sterling against the US dollar in H2 2020, recovering to levels near those seen immediately before the impact of COVID-19
- Expected full year cost savings of £0.5 million from actions already taken to reduce staff costs through furlough and redundancy, Board and senior manager salary savings, deferred recruitment, marketing savings and other overhead reductions

The sensitised cash flow forecast based on these assumptions demonstrates that the Group will be able to pay its debts as they fall due for a period of at least twelve months from the date of these financial statements. The Directors are, therefore, satisfied that the financial statements should be prepared on the going concern basis.

However, in the event that the COVID-19 impact is worse than modelled regarding sales demand (including the speed of demand recovery and further possible lockdown restrictions) then further measures would be required to relieve any short-term cash pressures which may arise. The Company has applied for a Coronavirus Large Business Interruption Loan as a further measure of prudence. Further measures required could include increasing the number of staff furloughed, deeper cost savings and tougher working capital management through negotiation of payment terms with key suppliers. Given the uncertainty that COVID-19 has created for the Group's operations, markets, partners and distribution channels there is a risk that, in the event of a significant and ongoing fall in sales demand, the measures described above may not be sufficient to allow the group to operate within current banking facilities and these conditions therefore indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern.

The financial statements do not include any adjustments that would result in the basis of preparation as a going concern being inappropriate.

Annual General Meeting

The notice convening the Annual General Meeting is distributed separately to shareholders at least 20 working days before the meeting. Separate Resolutions are proposed on each substantially separate issue. Details of the resolutions passed at the 2020 Annual General Meeting will be made available on the Company's website after the meeting.

Post balance sheet events

Information on any events occurring after the balance sheet year end is described in note 34 to the financial statements.

Auditor

RSM UK Audit LLP has indicated its willingness to continue in office and a resolution that it be reappointed as auditor will be proposed at the forthcoming Annual General Meeting.

Statement as to disclosure of information to the auditor

The Directors who were in office on the date of approval of these financial statements have confirmed, that as far as they are aware, there is no relevant audit information of which the Company's auditor is unaware.

Each Director has confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the Company's auditor.

Forward-looking statements

This report may contain certain statements about the future outlook for FireAngel Safety Technology Group plc. Although the Directors believe their expectations are based on reasonable assumptions, any statements about future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

Statutory Strategic Report

The Statutory Strategic Report comprises the Executive Chairman's Statement, the Strategic Review, the Performance Review, the Section 172 Companies Act Statement and the Risks and Risk Management section, on pages 6 to 17 and pages 35 to 39.

The Statutory Strategic Report and the Directors' Report have been approved by the Board.

By Order of the Board

Zoe Fox - Company Secretary
26 May 2020

Section 172 Companies Act statement

The following disclosure describes how the Directors have had regard to the matters set out in section 172(1)(a) to (f) and forms the Directors' statement required under section 414CZA of The Companies Act 2006.

Who was engaged? Stakeholder group	**Why were they engaged?** Why it is important to engage	**How were they engaged?** How management and/or Directors engaged	**What was discussed and what were the outcomes and actions?** What were the key topics of engagement, what feedback and input did the Board/management obtain, and what were the outcomes and actions?
Investors The Company's major shareholders are set out on page 32 of the Statutory Directors' Report.	The Board believes it is important to have open communications with shareholders to continue to access capital to ensure the long-term success of the business. Through its engagement activities the Board seeks to: • broaden the investor base to encourage long-term support and increased liquidity in the market for the Company's shares • obtain investor buy-in into the Group's strategic objectives and how they are executed	The Board's approach to investor engagement is detailed in the Corporate Governance Report on page 24. Key interactions included through: • The Annual General Meeting • Meetings with major institutional investors • Private investor seminars • One-to-one investor meetings with the Executive Chairman and Chair of the Audit and Remuneration Committees	The Directors regularly engage with investors through the cycle of presentations linked to results announcements during which the topics of strategy, governance and performance are discussed. In addition to this, specific matters on which the Board engaged and the outcomes and actions that followed, included: • Long-Term Incentive Plan considerations: feedback and input around the structure and performance criteria of the scheme was provided by certain major shareholders and incorporated within the scheme rules and awards • Board succession planning: feedback and input was provided around certain Board changes and in succession around the Chair of the Audit and Remuneration Committees which informed the Board changes detailed in the Statutory Directors' Report • Fundraising in April 2019: certain major new and existing shareholders were consulted as to their appetite for participating in a fundraising in April 2019, the outcome of which was a full placing of the fundraising amount subject to clawback under the open offer
Suppliers The Group has a limited number of international suppliers who manufacture products designed by the Group.	With all its production outsourced, the performance of the Group's suppliers is crucial to the continued success of the business. In some cases production of the Group's products represents a significant proportion of the supplier's total output. It is therefore vital that the Group engages with these suppliers to ensure the continuity of supply in the longer term.	Key interactions included through: • Regular operational workshops between key staff at the Group's Coventry facilities and the suppliers' manufacturing facilities • Presentation of strategic and product roadmaps • Regular ongoing internal and external quality audits at suppliers' production facilities	• Improvements to production yields, forecast and capacity planning, and ways of working were identified and implemented through the operational workshops held during the year • Sharing strategic plans and product roadmaps during the year has enabled suppliers to build future capacity requirements into their longer-term decision-making, ensuring that the Group's future plans can be accommodated by the current supplier relationships • Audits of supplier facilities and processes during the year ensured that the Group met its ongoing requirements to demonstrate compliance with external quality standards and led to a number of operational improvement targets being put in place around staff training and product handling
Workforce The Group employs staff with key managerial, engineering and technical skills.	The contribution of the Group's dedicated staff and management team is critical to the Group's success. Should the Group be unable to attract new employees, or retain existing staff, this could have a material adverse effect on the Group's ability to grow or maintain its business.	The Group's approach to workforce engagement is detailed in the Corporate social responsibility section of the Strategic Review report on page 11. Key interactions included through: • A Group-wide colleague engagement survey in July 2019 • Regular Company Briefing Updates, including question and answer sessions, delivered throughout the year • Offsite presentation of the Group's strategic objectives to the senior management team in September 2019	• Feedback in the colleague engagement survey resulted in action plans being put in place to address Company-wide improvements to working life and communications, individual departmental plans to improve working practices, and the identification of training requirements and plans for individual members of staff • Employee responses to the Company Briefing Updates helped focus future briefings on specific areas of current product development and feature sets, future strategy and remuneration policies

Section 172 Companies Act statement *continued*

Who was engaged? Stakeholder group	Why were they engaged? Why it is important to engage	How were they engaged? How management and/or Directors engaged	What was discussed and what were the outcomes and actions? What were the key topics of engagement, what feedback and input did the Board/management obtain, and what were the outcomes and actions?
Customers The Group has customers of varying size across its divisions both in the UK and internationally.	The Group is dependent upon its customers and distribution channels to sell and promote the Group's products in its chosen markets. The Group's products form part of range strategies and long-term rollout plans for many of its customers. Customer feedback and communication is therefore vital to ensure that the Group's products evolve as part of a planned, thought-through strategy such that supply meets future demand.	Key interactions included through: • Regular account management meetings with key customers during 2019 • Attendance at fire and CO safety seminars and industry groups presenting the Group's future product roadmap and evolving connected technology including FireAngel Predict™	• Key customers and industry groups provided feedback on proposed future range strategies and evolving feature sets which impacted the Group's connected homes technology product design and market positioning plans • Customer feedback on future demand also informed the Group's decision to halt the development of certain technology projects leading to the impairment of certain intangible assets and stock during the year as detailed in note 7 to the financial statements
Lenders The Group has access to debt finance through its banking relationships.	In addition to equity funding, the Group uses debt finance to provide short-term funds. The Group must demonstrate the future viability of the business in order to ensure that debt finance continues to be available at acceptable rates of interest.	Key interactions included through: • Input into the Group's fundraising plans in March 2019 • Regular performance review meetings throughout the year including presentation of the Group's budget for the year ahead • Independent audit of the Group's compliance with the terms of the invoice discounting facility	• The Group discussed with its primary lender the intention to raise £6.0 million of funds through a placing and open offer • The feedback received led to the restructuring of the Group's facilities with its primary lender from a revolving credit facility to an invoice discounting facility

Principal decisions

Principal decisions are defined as those material to both the Group and any of its key stakeholder groups. In making the following principal decisions the Board considered the outcome from its stakeholder engagement as well as the need to maintain a reputation for high standards of business conduct and the need to act fairly between the members of the Company:

Principal decision 1: Fundraising in April 2019

In April 2019, the Board concluded that it was in the best interests of the Company, and was most likely to promote its success, for it to enter into a fundraising process to raise £6.0 million. In particular, the Board considered its engagement with major shareholders and its lender in assessing the quantum and method of fundraising. Further details of the fundraising are given in note 29 to the financial statements.

Principal decision 2: Review of product lines and future development plans

During the year, the Board conducted a thorough review of product lines and future development plans in line with the Group's evolved strategy to become a more technology-led connected home solutions provider. The Board considered the Company's engagement with its customers and shareholders in relation to future strategy and product offering and concluded that given the progress made with the Company's connected home safety system strategy, it was appropriate to narrow its focus to developing and promoting those products and services which give the highest and quickest returns. As a result, it was appropriate to make non-underlying charges in relation to stock provisions and the impairment of intangible development costs, further details of which are given in note 7 to the financial statements.

Zoe Fox - Company Secretary
26 May 2020

Risks and risk management

Like every business, the Group faces risks undertaking its day-to-day operations and in pursuit of its longer-term objectives.

Further information on those risks and how they are managed by the Group is set out in the following pages. It is recognised that the Group is exposed to a number of risks wider than those identified here. However, we have chosen to disclose those risks of most concern to the Board and those that have been the subject of debate at recent Board or Audit Committee meetings. It is recognised, however, that no risk management strategy can provide absolute assurance against loss.

Through the management of our business units, the Group has an established risk management process for identifying, assessing, evaluating and managing significant risks whereby the Executive Directors, in conjunction with the Board and Audit Committee, seek to identify, assess and manage risk.

The Chairman of the Board has overall responsibility for the establishment and oversight of the Group's risk management framework. His role is to set the tone and influence the culture of risk management within the Group, determine the Group's risk prioritisation and monitor and manage the fundamental risks which the business faces through clear delegation of responsibility to each member of the Executive team.

All the Executive Directors are responsible for identifying, evaluating and mitigating risk in a timely manner, ensuring that there is an open and receptive approach to solving risk problems in the Group, embedding risk management as part of the system of internal controls within the Group and regularly updating the Board on the status of risks and controls where significant issues are identified.

Significant risks, which are defined with reference to magnitude of impact and likelihood of occurrence, are escalated to the Executive Chairman and Group Finance Director and, if appropriate, formally reviewed by the Board to assess the potential financial impact on the Group and to determine the optimum course of action to address these risks. Read more about how the Group manages risk in the Corporate Goverance Report from page 20.

The Audit Committee advises the Board of Directors on matters of risk management. It has its own report, which can be read on pages 25 and 26.

The principal risks facing the Group, and the strategies put in place to mitigate them, are described in the following table.

	Risk Factors that may impact the business	Mitigation What we are doing to minimise the risk
The impact of COVID-19	COVID-19 has impacted the Company outlook in the short term, although revenue for April 2020, at almost 55% of budget, was, encouragingly, some way ahead of expectation. Revenue for May is expected to be at a similar level of budget achievement. The Board continues to believe that the medium and long-term prospects for the Company's unique technology are strong. We are encouraged by online sales resilience and the increasing shift to online fulfilment in our Retail business. In recent days new enquiries have come through our Trade business, adding to our growing funnel of opportunities. In addition, pre-existing commercial opportunities for our connected technology continue to move forward. The recent re-opening of retail and trade channels, and clear attempts to restart the construction sector, reinforce the expectation of a quick rebound in demand for FireAngel's unique cost-effective connected solutions. It is pleasing that demand, whilst reduced, has continued to recover in our international markets and the emphasis in many UK-customer conversations has moved to preparing to return to normal behaviour after lockdown restrictions have been lifted. Due to uncertainty around COVID-19 and timing of when restrictions will be lifted, the Board has withdrawn the Company's market guidance given that it is too early to substantiate or vary it with any certainty.	The Board continues to take mitigating actions to conserve cash and protect profit, whilst maintaining capability in these times of exceptional uncertainty. In addition to the initial range of measures, which included placing a number of employees on furlough and further headcount savings through a reassessment of R&D project deliverables, the Board has reinforced the actions taken in response to the impact of COVID-19 by extending the furlough period for some employees and placing additional employees on furlough. Consistent with this, the Executive Directors have agreed to extend their reductions of 10% of salary for a further two months and senior managers have volunteered to reductions for two months. All measures remain subject to review as the macro and trading picture become clearer. To conserve cash, the Company has taken advantage of the Government's tax payment deferral arrangements and is in the process of applying for a Coronavirus Large Business Interruption Loan as a further measure of prudence. Together with our recent equity fundraising, this will strengthen the Company's ability to navigate through these unprecedented times.
Product prices from the Group's primary smoke alarm and connected products manufacturer cannot be reduced	The relationship with the Group's primary smoke alarm and connected products manufacturer is relatively new. Whilst satisfactory progress has been made in increasing production yield and volumes, there remain challenges in levels of utilisation and efficiency in the manufacturing process which is impacting product costing in the short term.	Whilst the Group's supply chain and technical teams are working with its primary manufacturing partner to ensure that efficiency is improved to reduce the future costs of production, and whilst all new products are designed to be manufactured in the most efficient way, if such challenges remain in the longer term, this may have a material adverse effect on the operating results, business, financial condition and prospects of the Group. In addition, the impact of the coronavirus outbreak may lead to increases in the costs of the electronic components used in the Group's products, which may detrimentally impact operating results.
Inability to multi-source production	Due to the high complexity and certification requirements of the Group's products, it is not practical to multi-source production across a number of suppliers. This weakens the Group's negotiating position with its existing suppliers and increases the concentration risk associated with a sole source of supply.	Although the Group is addressing this in the future through modularity of product design, there is a heightened risk in the short term of supply disruption and higher prices with single-source supplier relationships.
Product warranty risk	Each year, the number of the Group's smoke and CO products in the market increases and it is inevitable, given the technology-content of the Group's products, that despite best efforts to produce a product with zero defects, from time to time the Group will experience product warranty issues. Products are designed to 'fail safe' so that if it is not working, it is designed to alert the user that it requires attention. Many products have a ten-year life and if product issues do emerge, it is not unusual to experience the same product issues over a number of years. If a product fails, the Group's liability is governed by the contractual agreement with its immediate customer which may include the provision of a replacement product. If the defect relates to the design of the product, the Group has insurance in place against potential claims but not the cost of replacing products in the market. A manufacturing defect may not be covered by the Group's suppliers' insurance in all circumstances. The cost to the Group of any product issued with a design defect would extend beyond the cost of any specific claims brought against it, including potentially swapping products out in the market or in the worst case, a product recall. The cost of potentially replacing defective units already distributed and the reputational impact that could occur at product, brand and Group level would be significant. As at 31 December 2019, a provision of £3.5 million is recognised against the FireAngel battery warranty provision, an isolated legacy issue relating to a third-party supplier.	The Group seeks to ensure that products manufactured by its suppliers comply with the relevant product specifications which are approved by various test houses and regulatory bodies. If a product is not compliant, the Group would potentially have a warranty claim on its supplier. Where it becomes clear there are issues with batches of a certain product, the Group makes specific provision to cover 100% of the estimated warranty costs of providing free of charge replacements with a 'no quibble' warranty policy. Product returns in each market are managed by the Group's in-house Technical Support team which records all product warranty by date of manufacture.

Risks and risk management *continued*

	Risk Factors that may impact the business	**Mitigation** What we are doing to minimise the risk
Exchange rate risk	The Group operates internationally giving rise to exposure from changes in foreign currency exchange rates. The majority of the components used in the manufacture of the Group's products are priced in US dollars. The Group also receives a significant proportion of its revenues in euros from sales into Europe. Unprecedented levels of uncertainty in global economic markets, and in particular around the UK's future trading relationship with the rest of the world, has led to a prolonged weakening in the value of sterling against both currencies.	The Group manages this risk through the matching of foreign currency receipts and payments, where possible, and also through a policy of hedging using forward exchange contracts to guarantee the future exchange rate at which chosen volumes of currency are exchanged, however, if such levels of uncertainty continue and the value of sterling against the US dollar remains depressed, this may have a material adverse effect on the operating results, business, financial condition and prospects of the Group.
Working capital and liquidity risk	Recent poor financial results may lead to reduced credit terms being offered by suppliers. The requirement to pay suppliers earlier than anticipated could put short term pressure on the Group's cash flows, lead to the deferral of investment decisions and in the worst case have a material adverse effect on its financial condition.	The Group maintains regular communications with its suppliers around the size and timing of payment runs and routinely updates on the Group's performance as part of scheduled account management meetings. The recently announced fundraising will strengthen the balance sheet and reassure all stakeholders as to the financial stability of the Group.
Changing trends in the market place	The introduction of connected home products and solutions with companies seeking to connect and monitor products in the home via the internet could potentially reduce the popularity of the Group's standalone safety product range. It is possible that new products and technologies may emerge in the future as more viable alternatives to the Group's products.	The Group is selling its own connected home solutions products and is increasing its investment in technology and products which connect to the internet. The Group continues to invest in product technology to reduce the cost of connected home solutions and to ensure that they are the products of choice for the Group's customers. The Group dedicates significant resources to product research and development to keep the business and its products at the forefront of technology. The Group seeks to stay abreast of emerging market trends to position the Group to exploit and commercialise such technologies as they appear. The Group regularly reviews other technologies to ensure that it has the right technology and engineering capability in-house. However, there can be no guarantees that new products, modifications or services will be successfully developed or, if developed, successfully sold to customers. This could affect the Group's future revenues and profits.
Competition risk	Several home safety product companies are considered to be direct competitors of the Group. These companies vary in the relative strength of their product offering. As competitors launch new products, the Group's prospects may be impacted which could either reduce or enhance the Group's product sales.	The Group monitors competitors' offerings and regularly reviews competitor products. The Group's continued investment in new products and technology provides a barrier to new entrants in the market. Certification costs per product are high at approximately £100,000 per new product. This also acts as a significant barrier to entry. The Group, in part to mitigate against this competitive threat, continues to commit significant resources to research and development, as it has done since foundation. It cannot, however, be guaranteed that the Group will be able to succeed in developing new products that can compete head-on with competitors' products.
Intellectual property risk	Many of the Group's products are protected by intellectual property rights and the market can be characterised as having relatively high barriers to entry in this regard. Before introducing new products, the Group carefully checks that it is not infringing the patented technology of third parties. Potentially, third parties could seek to copy or find a workaround to the Group's registered technology.	The Group's principal protection in the market lies in its business model and patented intellectual property rights. The breadth of the Group's product range and its ability to add new products and leverage its brands across the markets it serves represents a significant barrier to entry to competitors. The Group is not dependent on any one single patent for sales. The Group's products are protected by over 50 granted patents in its major markets and the Group continues to register new patents to protect its intellectual property where the Group believes it is appropriate to do so. Notwithstanding this, any failure to protect or successfully defend the Group's intellectual property may result in another party copying or otherwise obtaining and using its proprietary technology or other intellectual property without authorisation. There may not be adequate protection for the intellectual property in every country in which the Group's products are sold and policing unauthorised use of proprietary information is difficult and expensive. The Group cannot guarantee that it will be able to detect and prevent infringement of its intellectual property but would vigorously defend its intellectual property if it believed it was being infringed. Any misappropriation of the Group's intellectual property could have a material adverse impact on the Group's business and its operating results. Furthermore, the Group may need to take legal action to enforce its intellectual property, to protect trade secrets or to determine the validity or scope of the proprietary rights of others which may result in substantial costs and the diversion of resources and management attention and there can be no guarantee as to the outcome of any such litigation. The Group is not aware of any third party that has any claim over the intellectual property of the Group, however, if it was proven that part of the Group's intellectual property was in fact owned by a third party, this could lead to the removal of certain functionality from the Group's products or for certain products to be removed from the market altogether. Any legal action resulting from such claims would likely be time-consuming and expensive. In either case the business, financial condition and results of operations may be materially and adversely affected.
Distributor relationships	The Group works with third party distributors of its products in Continental Europe who own the key customer relationships and undertake marketing support activities to drive revenue in the markets they serve. The Group is dependent upon these distributors to fulfil these roles in an effective and efficient manner to continue to grow sales in these jurisdictions. Given the significant concentration of sales through a small number of distributors, the Group closely monitors sales by the third-party distributors. From time to time, the Group has financially supported its distributors with extensions to payment terms.	The Group has contracts with most of its major distributors. Many of these relationships are well established and, in some cases, the distributor only or mainly sells the Group's products. The Group ensures that the contractual relationships with its customers are fair and commercially beneficial for both parties and monitors outstanding credit balances owed by distributors to minimise potential bad debt risk for the Group. From time to time, overstocking in the distribution channel may cause financial pressures on the Group and its third-party distributors depending on the sales conditions in the relevant market. The Group keeps in close contact with each of its distributors to monitor their sales and market conditions to maximise the sales potential of the distributor and the Group.
Product certification compliance	Products are required to comply with the appropriate certification standards. If products do not comply, certification bodies could insist on quarantining product for further testing, rework, or, in extreme situations, a recall. This could affect the Group's future revenues and profits.	In conjunction with suppliers, the Group seeks to ensure that all products are manufactured in accordance with the relevant product certification standards. Detailed compliance records are maintained for each product which is approved for sale. In addition, detailed testing is performed on each product with traceability of key components a contractual commitment by each of the Group's suppliers. The Group works closely with the standard review bodies to ensure that its products remain of the highest quality. Suppliers are also audited by independent third parties to ensure that they maintain the highest quality standards. Ensuring product certification is obtained in a timely manner helps ensure that the Group's sales are not impacted by issues with certification.
Risks following the UK's exit from the European Union	In October 2019, a withdrawal agreement (the 'Withdrawal Agreement') setting out the terms of the UK's exit from the EU was agreed between the UK and EU governments. The Withdrawal Agreement, which became effective on 31 January 2020, includes the terms of a transition or 'standstill' period until 31 December 2020. During the transition period, the UK has formally withdrawn from the EU but is still treated for most purposes as an EU member state. The UK and EU have been negotiating the terms of a trading arrangement which will apply following the end of the transition period.	The Board has taken steps to prepare for the end of the transition period. These actions include setting up a dedicated cross-functional project team; reviewing all imports and exports by country with visibility maps of supply routes; considering the impact of potential changes on the Group's strategic objectives; reviewing warehouse locations and logistics procedures; registering for appropriate VAT and customs procedures; and assessing the potential cash impact of tariffs and new arrangements. The extent of the impact would depend in part on the nature of the arrangements that are put in place between the UK and the EU following the end of the transition period and the extent to which the UK continues to apply laws that are based on EU legislation. However, the Group's primary manufacturing partner for smoke, heat and accessory products is based in Poland, and Poland has not adopted the euro (notwithstanding it has been a full member of the EU since 2004). Should the import duty regime change following the end of the transition period, the Group would review the import duty arrangements and adjust its product pricing accordingly. The general speculation and concern surrounding the nature of the trading arrangement which will apply following the end of the transition period has also caused uncertainty in the market which may damage confidence. Due to this, the macroeconomic effect of this on the Group's business is unknown. As such, it is not possible to state the impact that any such trading arrangement would have either on the Group and whether such impact would positively or adversely affect the business. Any of these risks could have a material adverse effect on the operating results, business, financial condition and prospects of the Group.
Staff recruitment and retention risk	As with most businesses, particularly those operating in a technical field, the Group is dependent on engaging employees with key managerial, engineering and technical skills. The contribution of the Group's dedicated staff and management team has been, and continues to be, critical to the Group's success. Should the Group be unable to attract new employees, or retain existing employees, this could have a material adverse effect on the Group's ability to grow or maintain its business. The Group's development and prospects are somewhat dependent upon the continued services and performance of its Directors, senior management and other key personnel. The loss of the services of any of the Directors, senior management or key personnel or a substantial number of talented employees, could cause disruption which could have a material adverse effect on the Group's business, financial condition and results of operations until suitable replacements are found.	The Group places great importance on open communication with its employees, including regular staff updates and, where results permit, an annual staff away day. The Group aims to offer appropriate remuneration packages and incentive arrangements in order to mitigate this risk and seeks to create a supportive working environment where employees are encouraged to learn and develop in their roles through personal development plans.
International trade regulations	The Group's activities involve the import and export of products. Any changes in the regulations covering such movements might impact the Group's trading activities. Increasing geographical reach and continual expansion of the Group's customer base, particularly into Continental Europe, exposes the Group to a potentially wider set of regulatory restrictions. Risks associated with Brexit are described as a separate risk within this table. If the Group is unable to comply with, or react quickly enough to, any new regulation introduced, or changes made to existing regulations, it may lose customers, find it more difficult to win new customers or, in the worst case, lose the ability to distribute products into certain jurisdictions resulting in lost sales and profits.	The Group closely monitors international import and export regulations and adapts its procedures to minimise duty costs while remaining compliant.
Health and safety risk	As the Group's product range expands, the risk of non-compliance with health and safety regulations increases. The Group handles products with low levels of radioactive particles in the 'foils' contained within ionisation alarms which were historically sold in the UK. Changes to product design mean that products incorporating radioactive particles are no longer sold.	The Group places the greatest importance on maintaining the highest standards of health and safety compliance. The Group's procedures comply with the requirements of ISO audits and detailed records are maintained to ensure that products are correctly stored and disposed.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Statutory Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. The Directors are required by the AIM rules of the London Stock Exchange to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') and have elected under company law to prepare the Company financial statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the Group and the Company and the financial performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 the Company and of the profit or loss of the Group for that period.

In preparing the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the FireAngel Safety Technology Group plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

Zoe Fox - Company Secretary
26 May 2020

Independent auditor's report

TO THE MEMBERS OF FIREANGEL SAFETY TECHNOLOGY GROUP PLC

Opinion

We have audited the financial statements of FireAngel Safety Technology Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2019 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company statements of financial position, the consolidated and company cash flow statement, the consolidated statement of changes in equity, the company statement of changes in equity and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 December 2019 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and 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 SME listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 2 in the financial statements, which indicates that the group may be adversely affected by the COVID-19 (coronavirus) outbreak and in particular the potential impact of a significant and ongoing fall in sales demand on the group's cash flow. As stated in note 2, these events or conditions, along with the other matters as set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Summary of our audit approach

Key audit matters	Group • FireAngel warranty provisioning • Impairment of product development costs Parent Company • Impairment of intercompany receivables
Materiality	Group • Overall materiality: £461,000 • Performance materiality: £346,000 Parent Company • Overall materiality: £225,000 • Performance materiality: £168,000
Scope	Our audit procedures covered 96% of revenue, 94% of total assets and 99% of loss before tax

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group and parent company financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) 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 group and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report *continued*

In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

FireAngel warranty provisioning	
Key audit matter description	The group reported a significant battery warranty issue in the financial statements for the year ended 31 December 2015 which included an exceptional warranty cost charge of £5.5 million. The warranty provision at 31 December 2019 of £3.5 million is stated after recording an additional exceptional warranty charge in the income statement of £2.6 million, and an additional amount of £1.5 million in respect of prior periods. The recorded provision is one of the most significant risks of material misstatement due to the high degree of estimation uncertainty contained within management's calculations of the required provision. Management have explained in detail in note 3 and note 25 the estimation uncertainties relevant to the calculation of the warranty provision. Management have explained the additional exceptional warranty charge of £2.6 million and the restatement of the provision in relation to prior periods in notes 7 and 8, respectively. The most significant estimates include the terminal rate of product return, and the cost of servicing each returned unit, having regard to current inventory, purchase price and returns reworking.
How the matter was addressed in the audit	Management provided us with a calculation of the warranty provision. Our audit work included, but was not restricted to: • Obtaining an understanding of the calculation methodology used by management to calculate the warranty provision in light of our understanding of the specific warranty issue, the wider business, and the significant charge recorded during the year. • Challenging the appropriateness of key assumptions used in the calculations, and any changes made compared to prior periods, by comparing them to other internal information held by management. • Comparing the actual rates of return to those anticipated when the issue was initially identified to assess the adequacy of projected terminal rates of return and challenging management as to the reasons for any changes made to assumptions in this regard. • Considering the circumstances relating to the restatement of the prior periods and the extent to which this treatment was appropriate. • Considering the adequacy of disclosures and whether they were in accordance with the applicable financial reporting framework.

Impairment of product development costs	
Key audit matter description	The group continues to develop new products and has unamortised capitalised product development costs of £13.1 million at the reporting date, of which £5.1 million relates to projects where amortisation has not yet commenced. In accordance with their stated accounting policy, management should only capitalise these costs on the basis that it is probable that the asset created will generate future economic benefits and management are required to consider whether or not there are any indicators of impairment for each asset at each reporting date. As a result of these considerations, the group has recorded an impairment charge of £1.8 million as disclosed in note 7. The recovery of these assets in future periods is dependent upon the successful completion and / or sale of each project. The potential for impairment is one of the most significant risks of material misstatement due to the quantum of costs capitalised in respect of certain individual projects and also due to the exercise of management judgement regarding inherently uncertain future outcomes relating to the adoption of new technologies and sales performance. Management have explained in detail in note 3 the estimation uncertainties relevant to their impairment considerations, and detailed analysis of the amounts capitalised are set out in note 17.
How the matter was addressed in the audit	Our audit work included, but was not restricted to: • Obtaining and reviewing management's assessment of all projects within capitalised product development costs. • Reviewing the impairment charge recorded by management and considering the appropriateness of the impairment in the context of the wider business. • For projects where amortisation has not yet commenced, we challenged management's assessment, corroborated explanations to supporting evidence where available and considered whether there was any contradictory evidence gathered during our audit. • For projects where amortisation has commenced, we reviewed the sales and gross margin achieved on products using this technology and comparing the gross margin achieved with unamortised capitalised costs at the reporting date to assess the period over which the capitalised costs will be recovered. • Considered the adequacy of disclosures and whether they were in accordance with the applicable financial reporting framework.

Impairment of intercompany receivables (parent company only)	
Key audit matter description	At 31 December 2019 the parent company balance sheet includes amounts owed by subsidiary undertakings of £25.9 million. The loan is interest free and repayable on demand. The subsidiary undertaking does not have sufficient liquid assets to make repayment should the parent company demand repayment. The key audit matter is that an Expected Credit Loss ('ECL') provision is required in accordance with IFRS 9, Financial Instruments and the measurement of the ECL involves a significant degree of judgement. At 31 December 2019, the gross amount owed by subsidiary undertakings was £27.8 million and the ECL recorded was £1.9 million as detailed in notes 3 and 21.
How the matter was addressed in the audit	We obtained management's calculation of the ECL and the underlying calculations prepared to support the carrying value of the balance and performed work as follows: • Assessed the reasonableness of the recovery scenarios considered by management and the probabilities assigned thereon. • Reviewed and challenged the assumptions and estimates utilised in the model. • Recalculated the computation of the ECL. • Considered the sensitivity of key assumptions and estimates. • Considered the adequacy of disclosures and whether they were in accordance with the applicable financial reporting framework.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. Based on our professional judgement, we determined materiality as follows:

	Group	Parent company
Overall materiality	£461,000	£225,000
Basis for determining overall materiality	4.9% of Loss before tax	0.9% of Net assets
Rationale for benchmark applied	Result before tax chosen as the group is profit oriented.	Net assets chosen as parent company is purely a holding company.
Performance materiality	£346,000	£168,000
Basis for determining performance materiality	75% of overall materiality	75% of overall materiality
Reporting of misstatements to the Audit Committee	Misstatements in excess of £23,000 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £11,000 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The group consists of three components, located in the United Kingdom and Canada. The coverage achieved by our audit procedures was:

	Number of components	Revenue	Total assets	Profit before tax
Full scope audit	2	96%	94%	99%
Total	**2**	**96%**	**94%**	**99%**

Analytical procedures at group level were performed for the remaining component.

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.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

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

Responsibilities of directors

As explained more fully in the Statement of directors' 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.

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

Use of our report

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

Michael Thornton (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP,
Statutory Auditor
Chartered Accountants
St Philips Point
Temple Row
Birmingham
B2 5AF

26 May 2020

Consolidated income statement

For the year ended 31 December 2019

		2019			2018 Restated		
		Before non-underlying items	Non-underlying items (note 7)	Total	Before non-underlying items	Non-underlying items (note 7)	Total
	Note	£000	£000	£000	£000	£000	£000
Revenue	6	**45,486**	**-**	**45,486**	37,587	-	37,587
Cost of sales	9	**(36,821)**	**(4,308)**	**(41,129)**	(28,866)	(1,158)	(30,024)
Gross profit		**8,665**	**(4,308)**	**4,357**	8,721	(1,158)	7,563
Operating expenses		**(12,461)**	**(2,608)**	**(15,069)**	(10,712)	(2,675)	(13,387)
Loss from operations	9	**(3,796)**	**(6,916)**	**(10,712)**	(1,991)	(3,833)	(5,824)
Finance costs	11	**(312)**	**-**	**(312)**	(114)	-	(114)
Loss before tax		**(4,108)**	**(6,916)**	**(11,024)**	(2,105)	(3,833)	(5,938)
Income tax credit	12	**548**	**1,056**	**1,604**	508	904	1,412
Loss attributable to equity owners of the Parent		**(3,560)**	**(5,860)**	**(9,420)**	(1,597)	(2,929)	(4,526)
Basic earnings per share	14			**(14.0)**			(9.9)
Diluted earnings per share	14			**(14.0)**			(9.9)

All amounts stated relate to continuing activities.

Consolidated statement of comprehensive income

For the year ended 31 December 2019

	2019	2018 Restated
	£000	£000
Loss for the year	**(9,420)**	(4,526)
Items that may be reclassified subsequently to profit and loss: Exchange differences on translation of foreign operations (net of tax)	**31**	(67)
Total comprehensive loss for the year	**(9,389)**	(4,593)

Consolidated and Company statement of financial position

As at 31 December 2019

		Consolidated			Company	
		2019	2018 Restated	2017 Restated	2019	2018
Non-current assets	Note	£000	£000	£000	£000	£000
Goodwill	16	**169**	169	169	-	-
Other intangible assets	17	**12,560**	13,201	10,475	-	-
Purchased software costs	17	**2,492**	2,899	2,574	-	-
Property, plant and equipment	18	**5,323**	4,006	2,077	-	-
Shares in subsidiaries	19	**-**	-	-	**149**	149
Deferred tax assets	27	**-**	-	523	-	-
		20,544	20,275	15,818	**149**	149
Current assets						
Inventories	20	**6,304**	8,425	11,201	-	-
Trade and other receivables	21	**12,073**	10,792	17,366	**25,947**	27,343
Current tax asset		**729**	1,248	625	-	-
Derivative financial assets	22	**-**	214	-	-	-
Cash and cash equivalents		**2,062**	1,251	3,273	**4**	1
		21,168	21,930	32,465	**25,951**	27,344
Total assets		**41,712**	42,205	48,283	**26,100**	27,493
Current liabilities						
Trade and other payables	26	**(12,150)**	(11,465)	(16,472)	-	-
Lease liabilities	23	**(348)**	-	-	-	-
Current tax liabilities		**-**	(39)	(15)	-	-
Provisions	25	**(1,496)**	(1,195)	(1,507)	-	-
Invoice discounting facilities	23	**(6,985)**	-	-	-	-
Derivative financial liabilities	22	**(429)**	-	(364)	-	-
		(21,408)	(12,699)	(18,358)	-	-
Net current (liabilities)/assets		**(240)**	9,231	14,107	**25,951**	27,344
Non-current liabilities						
Loans and borrowings	23	**-**	(5,700)	-	-	(5,700)
Lease liabilities	23	**(1,131)**	-	-	-	-
Provisions	25	**(1,997)**	(1,871)	(2,166)	-	-
Deferred tax liabilities	27	**-**	(896)	(1,974)	-	-
		(3,128)	(8,467)	(4,140)	-	(5,700)
Total liabilities		**(24,536)**	(21,166)	(22,498)	-	(5,700)
Net assets		**17,176**	21,039	25,785	**26,100**	21,793
Equity						
Called up share capital	29	**1,519**	918	918	**1,519**	918
Share premium account		**17,617**	12,729	12,729	**17,617**	12,729
Currency translation reserve		**143**	112	179	-	-
Retained earnings		**(2,103)**	7,280	11,959	**6,964**	8,146
Total equity attributable to equity holders of the Parent Company		**17,176**	21,039	25,785	**26,100**	21,793

The Company has taken advantage of the exemption contained within section 408 of the Companies Act 2006 not to present its own statement of comprehensive income. The result for the year dealt with in the financial statements of the Company was a loss of £1,182,000 (2018: loss of £848,000).

The financial statements on pages 44 to 73 were approved and authorised for issue by the Board of Directors on 26 May 2020 and were signed on its behalf by:

John Conoley - Executive Chairman **Mike Stilwell** - Group Finance Director

Company registered number: 3991353

Consolidated and Company cash flow statement

For the year ended 31 December 2019

		Consolidated		Company	
		2019	2018 Restated	2019	2018
	Note	£000	£000	£000	£000
Loss before tax		**(11,024)**	(5,938)	**(1,182)**	(848)
Finance expense		**312**	114	**18**	121
Operating loss for the year		**(10,712)**	(5,824)	**(1,164)**	(727)
Adjustments for:					
Depreciation of property, plant and equipment, and right-of-use assets		**1,267**	385	**-**	-
Amortisation of intangible assets		**2,105**	689	**-**	-
Loss on disposal of non-current assets		**16**	-	**-**	-
Non-underlying items		**6,916**	3,833	**-**	-
Cash flow relating to non-underlying items		**(2,346)**	(2,199)	**-**	-
Decrease/(increase) in fair value of derivatives		**643**	(578)	**-**	-
Provision against intercompany receivables		**-**	-	**1,155**	725
Operating cash flow before movements in working capital		**(2,111)**	(3,694)	**(9)**	(2)
Movement in inventories		**418**	1,672	**-**	-
Movement in receivables		**(1,281)**	4,754	**242**	(5,640)
Movement in provisions		**(106)**	611	**-**	-
Movement in payables		**520**	(4,983)	**-**	-
Cash (used in)/generated by operations		**(2,560)**	(1,640)	**233**	(5,642)
Income taxes received/(paid)		**1,191**	(35)	**-**	-
Net cash (used in)/generated by operating activities		**(1,369)**	(1,675)	**233**	(5,642)
Investing activities					
Capitalised development costs		**(2,882)**	(3,415)	**-**	-
Purchased software		**-**	(325)	**-**	-
Purchase of property, plant and equipment		**(841)**	(2,342)	**-**	-
Interest received		**1**	7	**-**	-
Net cash used in investing activities		**(3,722)**	(6,075)	**-**	-
Financing activities					
Repayment of loan		**(7,000)**	-	**(7,000)**	-
Drawdown of loan	23	**1,300**	5,700	**1,300**	5,700
Drawdown of invoice finance	23	**6,985**	-	**-**	-
Loan restructuring costs		**(209)**	-	**-**	-
Proceeds from issue of ordinary shares (net of expenses)		**5,488**	-	**5,488**	-
Repayment of lease obligations		**(307)**	-	**-**	-
Interest paid		**(382)**	(121)	**(18)**	(121)
Net cash generated by/(used in) financing activities		**5,875**	5,579	**(230)**	5,579
Net increase/(decrease) in cash and cash equivalents		**784**	(2,171)	**3**	(63)
Cash and cash equivalents at beginning of year		**1,251**	3,273	**1**	64
Non-cash movements – foreign exchange		**27**	149	**-**	-
Cash and cash equivalents at end of year		**2,062**	1,251	**4**	1

Consolidated statement of changes in equity

For the year ended 31 December 2019

	Share capital	Share premium account	Currency translation reserve	Retained earnings	Total
	£000	£000	£000	£000	£000
Balance at 1 January 2018 as originally presented	918	12,729	179	13,188	27,014
Correction of error (net of tax) (note 8)	-	-	-	(1,229)	(1,229)
Restated total equity at 1 January 2018	**918**	**12,729**	**179**	**11,959**	**25,785**
Loss for the year - restated	-	-	-	(4,526)	(4,526)
Net foreign exchange losses from overseas subsidiaries	-	-	(67)	-	(67)
Total comprehensive loss for the year	**-**	**-**	**(67)**	**(4,526)**	**(4,593)**
Credit in relation to share-based payments	-	-	-	107	107
Deferred tax charge in relation to share-based payments	-	-	-	(260)	(260)
Balance at 31 December 2018	**918**	**12,729**	**112**	**7,280**	**21,039**
Loss for the year	-	-	-	(9,420)	(9,420)
Net foreign exchange gains from overseas subsidiaries	-	-	31	-	31
Total comprehensive loss for the year	**-**	**-**	**31**	**(9,420)**	**(9,389)**
Transactions with owners in their capacity as owners:					
Issue of equity shares	601	-	-	-	601
Premium arising on issue of equity shares	-	5,400	-	-	5,400
Share issue expenses	-	(512)	-	-	(512)
Total transactions with owners in their capacity as owners	**601**	**4,888**	**-**	**-**	**5,489**
Credit in relation to share-based payments	-	-	-	37	37
Balance at 31 December 2019	**1,519**	**17,617**	**143**	**(2,103)**	**17,176**

Company statement of changes in equity

For the year ended 31 December 2019

	Share capital	Share premium account	Retained earnings	Total
	£000	£000	£000	£000
Balance at 1 January 2018	**918**	**12,729**	**8,994**	**22,641**
Loss for the year	-	-	(848)	(848)
Total comprehensive loss for the year	**-**	**-**	**(848)**	**(848)**
Balance at 31 December 2018	**918**	**12,729**	**8,146**	**21,793**
Loss for the year	-	-	(1,182)	(1,182)
Total comprehensive loss for the year	**-**	**-**	**(1,182)**	**(1,182)**
Transactions with owners in their capacity as owners:				
Issue of equity shares	601	-	-	601
Premium arising on issue of equity shares	-	5,400	-	5,400
Share issue expenses	-	(512)	-	(512)
Total transactions with owners in their capacity as owners	**601**	**4,888**	**-**	**5,489**
Balance at 31 December 2019	**1,519**	**17,617**	**6,964**	**26,100**

Notes to the financial statements

For the year ended 31 December 2019

1. Principal activities

FireAngel Safety Technology Group plc (the 'Company') is registered and domiciled in England and Wales, having been incorporated under the Companies Act, company registration number 3991353. The Company is listed on AIM. The Company's registered office and the address of its principal place of business is The Vanguard Centre, Sir William Lyons Road, Coventry, West Midlands, CV4 7EZ.

The Company and its subsidiary undertakings (the 'Group') are in the business of the design, sale and marketing of smoke and CO alarms and accessories sold under the brands of FireAngel, FireAngel Pro and Specification, AngelEye and Pace Sensors. The Group also operates its own CO sensor manufacturing facility in Canada.

2. Summary of significant accounting policies

The Group has adopted the accounting policies set out below in preparation of the consolidated financial statements. All of these policies have been applied consistently throughout the periods presented, with the exception of the adoption of IFRS 16 'Leases' and the change to a straight-line basis of amortisation for product development costs. Both of these changes are described further below.

Basis of preparation

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS').

The preparation of financial statements requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where the Group's assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

Basis of consolidation

The consolidated financial statements of the Group incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year.

Subsidiaries

Subsidiaries are entities over which the Group has power to govern the financial and operating policies so as to obtain economic benefits from their activities. Subsidiaries are consolidated from the date on which control is obtained (the acquisition date) up until the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued, contingent consideration and liabilities incurred or assumed at the date of exchange. Costs directly attributable to the acquisition are expensed as incurred. Identifiable assets acquired and liabilities assumed in a business combination are initially measured at fair value at the acquisition date.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

Intra-group transactions, balances, and unrealised gains and losses on transactions between Group companies are eliminated on consolidation.

Going concern

In determining whether the Group and Parent Company's financial statements can be prepared on a going concern basis, the Directors considered the Group's business activities, together with the factors likely to affect its future development, performance and position. The review also included the financial position of the Group, its cash flows, and borrowing facilities.

The Board regularly reviews revenue, profitability and cash flow forecasts across the short, medium and longer term. A number of downside sensitised scenarios are modelled and considered to create a wide range of possible outcomes, the assumptions behind which are robustly challenged. The Board compares actual performance against budgets and forecasts and reviews variances to continually refine and improve forecasting ability from which to make effective decisions.

However, the uncertain impact of COVID-19 makes such an assessment more challenging than usual. In order to understand the potential impact of the risks associated with this uncertainty, a number of highly sensitised illustrative scenarios have been modelled. Although the Board expects the most significant effects of COVID-19 on revenue and profitability still to be in Q2 2020, it considers a scenario based on the following assumptions to be prudent given the nature of the Company's customers, products and distribution channels:

- Revenue in May 2020 to be at a similar level of budget achievement to that seen in April 2020 with some recovery in June 2020, although still significantly below budgeted levels, due to the impact of restrictions being lifted and some normality returning to retailer and customer behaviour
- Revenue to be stronger in H2 2020 and improving continually across the half as:
  - There will be an element of pent up demand which has been deferred, not lost, due in part to a drive in the self-employed trade sector which we would expect to be highly motivated to recover earnings lost during the lockdown period
  - The opportunity for cost savings afforded by the Company's connected solution will become more attractive as non-safety critical budgets tighten as evidenced by recent UK customer enquiries
  - Many social housing authorities will have ring-fenced fire safety budgets for the fiscal year to utilise over a now reduced period of time
  - There has been no change in the underlying demand for the Company's unique technology and there is unlikely to be any change in the necessity and desire to meet increased duty of care requirements post Grenfell
  - Existing smoke and CO alarms installed by all manufacturers will continue to reach end of life and require replacement
  - Recent conversations with the UK Fire & Rescue Service have highlighted an increased awareness of the importance of protecting vulnerable people in their homes, particularly in the current climate
- Some strengthening in the value of sterling against the US dollar in H2 2020, recovering to levels near those seen immediately before the impact of COVID-19
- Expected full year cost savings of £0.5 million from actions already taken to reduce staff costs through furlough and redundancy, Board and senior manager salary savings, deferred recruitment, marketing savings and other overhead reductions

The sensitised cash flow forecast based on these assumptions demonstrates that the Group will be able to pay its debts as they fall due for a period of at least twelve months from the date of these financial statements. The Directors are, therefore, satisfied that the financial statements should be prepared on the going concern basis.

However, in the event that the COVID-19 impact is worse than modelled regarding sales demand (including the speed of demand recovery and further possible lockdown restrictions) then further measures would be required to relieve any short-term cash pressures which may arise. The Company has applied for a Coronavirus Large Business Interruption Loan as a further measure of prudence. Further measures required could include increasing the number of staff furloughed, deeper cost savings and tougher working capital management through negotiation of payment terms with key suppliers. Given the uncertainty that COVID-19 has created for the Group's operations, markets, partners and distribution channels there is a risk that, in the event of a significant and ongoing fall in sales demand, the measures described above may not be sufficient to allow the group to operate within current banking facilities and these conditions therefore indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern.

The financial statements do not include any adjustments that would result in the basis of preparation as a going concern being inappropriate.

Changes in accounting policies and disclosures

New standards, amendments and interpretations adopted by the Group

The Group adopted IFRS 16 'Leases' 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 adoption of IFRS 16 has increased both 'Non-current assets' and 'Total liabilities' at 31 December 2019 by £1.5 million, but has not had a material impact on the overall result for the year in the income statement.

The following other new standards and amended standards, none of which have had a material impact on these financial statements, are mandatory and relevant to the Group for the first time for the financial period commencing 1 January 2019:

- IFRIC 23: Uncertainty over Income Tax Treatments
- Annual Improvements to IFRS Standards 2015-2017 Cycle

Accounting standards in issue but not yet effective

At the date of authorisation of these financial statements the following standards and interpretations, which have not been applied in these financial statements and which are considered potentially relevant, were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to IAS 1: Presentation of Financial Statements: Classification of Liabilities as Current or Non-current

The Directors anticipate that the adoption of the amendments to standards in future periods will have no material impact on the recognition and measurement of assets, liabilities and the associated performance of the Group or the Company when the relevant standards and interpretations come into effect.

Revenue recognition

Revenue is recognised when revenue and associated costs can be measured reliably and future economic benefits are probable. Revenue is measured at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, net of rebates and settlement discounts, VAT and other sales related taxes.

Sales of goods are recognised when the risks and rewards of ownership have been transferred to the customer. For the majority of customers this is when goods are delivered and title has passed. For others it is when goods are delivered for shipment by our contract manufacturers, depending upon the terms and conditions of the sales contract as to when the risks and rewards of ownership are transferred.

Revenue recognition – warranty obligations

IFRS 15 'Revenue from customer contracts' provides guidance on the treatment of warranties provided on the sale of goods. The Group sells products with warranties ranging from one to ten years.

The longer-term warranties are usually applicable to products with either long-term sealed batteries or sealed CO sensors that degrade over time. The performance of either the battery or the sensor for the warranted period of time is integral to the overall performance of the product and is a key feature of the product at the point of sale.

The Directors have considered the guidance within IFRS 15 as to whether these warranties are assurance type or service type. Assurance warranties solely warrant that the product will function as sold, whilst service warranties provide a higher level of assurance. Assurance warranties are not separate performance obligations, whilst service warranties are considered separate performance obligations and revenue attributes to the service element should be spread over the service period.

On the basis that the majority of warranties provided by the Group solely warrant that the product will operate as sold, the Directors have concluded that these warranties are assurance type warranties and do not represent a separate performance obligation.

Interest income

Interest income is accrued on a time-apportioned basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Accounting for discretionary payments made to customers

The Group made discretionary payments in total amounting to £0.4 million (2018: £0.6 million) to certain UK retailers in respect of maintaining the ongoing relationship with these customers and to secure promotional activities during the year. Such costs are taken to the income statement in the year to which they relate and are recorded in operating expenses.

Goodwill

Goodwill arising on consolidation represents the excess of the consideration transferred and the fair value of any previous interest in the acquired entity over the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is separately disclosed.

Goodwill is recognised as an asset and reviewed for impairment at least annually. It is allocated to cash-generating units which represent the Group's investment in each country of operation. Impairment losses are recognised immediately in profit or loss and are not subsequently reversed.

Other intangibles assets – internally-generated intangible assets

Expenditure on research activities is recognised through the income statement as incurred.

Expenditure arising from the Group's development of future products is capitalised only if all the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably;
- the Group has the intention to complete the asset and the ability and intention to use or sell it;
- the product or process is technically and commercially feasible; and
- sufficient resources are available to complete the development and to either sell or use the asset.

Where these criteria have not been achieved, development expenditure is recognised through the income statement in the period in which it is incurred.

Development expenditure is written off, except where the Directors are satisfied as to the innovative nature and technical, commercial and financial viability of clearly defined projects whose outcome can be assessed with reasonable certainty. In such cases, identifiable people and non-people costs by product/technology are capitalised and carried forward to be amortised over the expected life of the product over which the Group is expected to benefit from sales of such products.

From 2017, the Group used the 'units of production' method of amortisation for all product development costs (excluding the costs of readying Flex and the Far East based supplier for full manufacturing). However, as a result of a review during the year of the Group's processes, procedures and controls it was concluded that the 'straight line' method of amortisation was 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. The impact of the move to straight line amortisation was to increase overheads by £0.9 million in the year.

The Directors estimate that the useful economic lives of these various intangible assets is between seven and 15 years. Amortisation commences from the date of first sale of the related product. Intangible assets are described in note 17 to the financial statements.

Directly attributable costs in bringing the Group's manufacturing assets in to use at Flex and our Far East based supplier have been amortised using a straight-line method as the Board believes this is most appropriate given forecast production volumes. These assets are being amortised over five years.

Other intangible assets - computer software

Software capitalised is amortised at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its estimated useful life of four years.

Plant, equipment and tooling

All plant, equipment, tooling, fixtures and fittings, motor vehicles, office equipment and right-of-use assets are stated at cost less accumulated depreciation and any recognised impairment loss. A right-of-use asset is recognised at commencement of the lease and initially measured at the amount of the lease liability, plus any incremental costs of obtaining the lease and any lease payments made at or before the leased asset is available for use by the Group. The right-of-use asset is subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. Right-of-use assets are depreciated on a straight-line basis over the lease term.

Subsequent costs, including replacement parts and major inspections, are capitalised only when it is probable that such costs will generate future economic benefits. Any replaced parts are derecognised. All other costs of repairs and maintenance are charged to through the income statement as incurred.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following bases:

Manufacturing tooling	5 years
Fixtures and fittings	4 years
Motor vehicles	4 years
Office equipment	3 years
Right-of-use assets	over the period of the lease

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Investment made in manufacturing tooling at Flex, the Group's primary manufacturing partner for smoke alarms and connected products, is depreciated over five years. Regular reviews are conducted to ensure that any obsolete assets are appropriately recognised in the financial statements.

Impairment of plant and equipment and intangible assets

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Intangible assets with an indefinite useful life and other intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing 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 (or cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Leases

On commencement of a contract which gives the Group the right to use assets for a period of time in exchange for consideration, the Group recognises a right-of-use asset and a lease liability unless the lease qualifies as a 'short-term' lease (where the term is twelve months or less with no option to purchase the lease asset) or a 'low-value' lease (where the underlying asset is £4,000 or less when new).

The lease liability is initially measured at the present value of the lease payments during the lease term discounted using the interest rate implicit in the lease, or the incremental borrowing rate if the interest rate implicit in the lease cannot be readily determined. The lease term is the non-cancellable period of the lease plus extension periods that the Group is reasonably certain to exercise and termination periods that the Group is reasonably certain not to exercise. Lease payments include fixed payments, less any lease incentives receivable, variable lease payments dependent on an index or a rate and any residual value guarantees.

The lease liability is subsequently increased for a constant periodic rate of interest on the remaining balance of the lease liability and reduced for lease payments. Interest on the lease liability is recognised in profit or loss. Variable lease payments not included in the measurement of the lease liability as they are not dependent on an index or rate, are recognised in profit or loss in the period in which the event or condition that triggers those payments occurs.

For the 2018 comparatives only, rentals payable under operating leases were expensed on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease were also spread on a straight-line basis over the lease term.

Functional and presentation currency

Items included in the financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in sterling, which is the functional currency of the Group and the Group's presentational currency.

Foreign currency transaction and balances

Foreign currency transactions are translated at the exchange rate prevailing on the date of the transaction. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the exchange rate prevailing at the reporting date. Non-monetary assets and liabilities carried at values that are denominated in foreign currencies are translated at the rates prevailing at the date when the values were determined. Gains and losses arising on retranslation are included in the income statement for the period, except for exchange differences on non-monetary assets and liabilities, which are recognised directly in other comprehensive income when the changes in fair value are recognised directly in other comprehensive income.

On consolidation, the assets and liabilities of the Group's overseas operations are translated into the Group's presentational currency at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period. All resulting exchange differences are recognised in other comprehensive income. All exchange differences arising, if any, are transferred to the Group's foreign exchange reserve and are recognised as income or as expenses in the period in which the operation is disposed of, or when control, significant influence or joint control is lost.

The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRS as sterling denominated assets and liabilities.

Retirement benefit costs

For defined contribution schemes the amount charged through the income statement in respect of pension costs and other post retirement contributions is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the statement of financial position.

Taxation

The tax expense represents the sum of the current tax expense and deferred tax expense.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from accounting profit as reported through the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability or asset for current tax is measured using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon tax rates that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited through the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity, or items charged or credited directly to other comprehensive income, in which case the deferred tax is also recognised in other comprehensive income.

Financial instruments

Financial assets and financial liabilities are recognised when the Group has become a party to the contractual provisions of the instrument.

a) Financial assets

The Group categorises its financial assets as: fair value through profit and loss or at amortised cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets include 'trade receivables' and 'cash and cash equivalents'.

b) Trade receivables

Trade receivables are initially measured at their transaction value and are subsequently measured at amortised cost. Under IFRS 9 the expected credit loss model requires the Group to consider expectations of future events when determining its expectations of impairment.

c) Borrowings

Group borrowings, namely bank loans, are initially recognised at fair value and are subsequently carried at amortised cost. Fees paid on the arrangement of the loan facility are recognised as transaction costs and spread over the life of the arrangement.

d) Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss are financial assets held for trading. Assets in this category are classified as current assets if expected to be settled within twelve months, otherwise they are classified as non-current. The only assets/liabilities currently held in this category are forward currency derivatives (described further below) and cash and cash equivalents.

e) Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

An equity instrument is any contract that gives a residual interest in the assets of the Group after deducting all its liabilities.

Derivative financial liabilities are measured at fair value through profit and loss; all other financial liabilities are measured at amortised cost.

f) Recognition and measurement

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit and loss' category are presented in the income statement within 'Cost of sales' in the period in which they arise as these assets relate to the purchase of goods.

g) Impairment of financial assets

The Group and Company recognise an impairment loss on financial assets using the expected credit loss model by assessing the probability that the counterparty will be unable to settle their contractual cash flow at the contractual due dates.

The likelihood of default and expected recoverable amounts are assessed using reasonable and supportive past and forward-looking information that is available without undue cost. The output of the expected credit loss model is a probability-weighted amount determined from a range of outcomes.

Inventories

Inventories are stated at the lower of historical cost and net realisable value. Cost comprises direct material cost and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs to completion and selling costs to be incurred. The Group's approach to inventory provisioning is described in note 3.

Forward currency derivatives

The Group enters into derivative foreign currency forward contracts which are classified as financial instruments at fair value through profit and loss. They are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Fair value gains and losses are recognised in profit and loss.

The Group does not have the right of offset between such derivatives, and so all derivatives that are financial assets are shown separately from all derivatives that are financial liabilities, at each period end.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and other short-term deposits held by the Group with maturities of less than three months.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year.

Provisions

Provisions for product warranty claims are recognised when the Group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reliably estimated.

Where the effect of the time value of money is material, the provision is based on the present value of future outflows, discounted at the pre-tax discount rate that reflects the risks specific to the liability. The increase in the provision due to passage of time is recognised as an interest expense.

Equity instruments

Equity instruments issued by the Company are recorded at fair value on initial recognition net of transaction costs.

Share-based payment transactions

The Group issues equity-settled share options to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant by reference to the fair value of the equity instruments granted. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of instruments that will eventually vest with a corresponding adjustment to equity. Fair value is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions, and behavioural considerations.

Non-vesting and market vesting conditions are taken into account when estimating the fair value of the option at grant date. Service and non-market vesting conditions are taken into account by adjusting the number of options expected to vest at each reporting date.

Options over the Company's shares granted to employees of subsidiaries are recognised as a capital contribution by the Company to the subsidiaries.

Operating segments

IFRS 8 requires the presentation of segmental information in relation to the Group in the Annual Report on the same basis as information reported to the Board. The Board is considered to be the chief operating decision maker for the purposes of resource allocation. Assessment of performance is based wholly on the overall activities of the Group. The Board considers that there are no separately identifiable business segments that are engaged in providing individual products or services, or a group of related products and services, that are subject to risks and returns that are different to the core business.

Non-underlying items

The Group discloses certain financial information both including and excluding non-underlying items. The presentation of information excluding non-underlying items allows a better understanding of the underlying trading performance of the Group and provides consistency with the Group's internal management reporting. Non-underlying items are identified by virtue of their size, nature or incidence and the Directors consider that these items should be separately identified so as to facilitate comparison with prior periods and to assess the underlying trends in the financial performance of the Group.

3. Critical accounting estimates and areas of judgement

Impacting the Group

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The estimates and assumptions at the end of the accounting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Warranty provision for FireAngel products

In April 2016, the Group identified a non-safety critical issue in relation to certain batteries supplied by a third-party supplier that may cause a premature low battery warning chirp in certain of its smoke alarm models sold in the UK and in Continental Europe. As a result, to support the Group's customer service obligations, the Board increased the Group's total warranty provisions as at 31 December 2015 to £6.8 million and has continued to provide replacement products in line with the Group's contractual obligations. The Group's total warranty provision as at 31 December 2019 increased to £3.5 million as explained below.

With specific reference to FireAngel products, the determination of the amount of the provision, which reflects the Board's best estimate of resolving these issues, requires the exercise of significant judgement. It is necessary, therefore, to form a view on matters which are inherently uncertain, such as the returns profile over time, the final return rate, whether the return rate of each year of production will be similar, whether the return rates from different sales channels will vary and the average cost of redress. There is a greater degree of uncertainty in assessing these factors when an issue is first identified. Consequently, the continued appropriateness of the underlying assumptions will be reviewed on an ongoing basis against actual experience and other relevant evidence, and adjustment made to the provision over time as required.

The provision relates mainly to the high impedance battery issue and is most sensitive to the assumption regarding the final return percentage rate. The expected terminal rate of return percentage for each year of production for each market was estimated by FireAngel's Technical team. For reference, a 10% increase in the estimated final return rate, with no further improvement for each subsequent year of affected production, would result in an increase in the provision of approximately £0.5 million. The Board is not aware of any other major warranty issues but has continued to expense FireAngel warranty at approximately 2% of sales in the year.

During the year, the FireAngel battery warranty provision was increased by £1.4 million as lower rework yields and higher product costs compared to those originally anticipated when the provision was estimated three years ago, were leading to increased costs of supplying replacement products. In addition, a charge of £1.2 million was made largely to reflect an increase in the terminal volume of units expected to be impacted by the issue based on the level of returns currently being seen. Further to this, an amount of £1.5 million was recorded to increase the provision through a prior period adjustment. Towards the end of 2019, continuing ongoing monitoring of warranty returns data identified that the number of units expected to be impacted by the third-party supplied battery impedance issue could be higher than originally anticipated. The need for this prior period adjustment was due to an error in the operational assumptions made regarding product manufactured between 2016 and Q1 2018. No further increase in the number of units impacted is expected as the issue relates only to units produced at one of the Company's previous manufacturers in China up to the end of March 2018. Approximately £0.3 million of this additional charge has been utilised at 31 December 2019. Due to the introduction of various product design changes, units produced at the Company's manufacturing partner in Poland since April 2018 should not be affected by these historic issues.

To prevent the issue happening again, various product design changes were implemented at both the supplier of the batteries and to the firmware used in finished products when manufactured at the Group's primary smoke alarm and connected devices manufacturing partner. The group has also reviewed its returns processes to reduce the cost of servicing product returns and has identified a number of significant improvements that will reduce the cost of servicing the warranty in the field going forwards.

Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets (including goodwill) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and other intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately through the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

During 2019, the Group recognised a £1.8 million impairment charge against its capitalised intangible product development costs after a thorough review of product lines and future development costs (see note 17).

The Board notes that the Group has a significant value of intangible assets on the balance sheet at the year end. Connected home intangible assets with a net book value of £1.5 million are not yet being amortised as they are currently being developed for sale. Connected home intangible assets with a net book value of £3.9 million are being amortised. The Board expects that in future, the vast majority of products sold will in some way be connected (through Wi-safe 2, Z-wave or Zigbee technology) and given that the Group already has a connected homes technology product offering which is working, the Board believes that the carrying value of connected homes technology intangibles is not impaired. In reaching this conclusion, the Board also acknowledges the losses incurred by the Group over the past two years and the heightened risk of impairment that this leads to.

At times during the year, and at 31 December 2019, the market capitalisation of the Group was lower than Group net assets. IAS 36, Impairment of Assets, states that this circumstance may be an indicator of impairment and accordingly the Directors have performed an impairment test on the primary cash-generating unit of the Group (being FireAngel Safety Technology Limited). The test, details of which are given in note 16, did not indicate any such impairment.

Inventory provision

The Group reviews each stock keeping unit ('SKU') on a line-by-line basis taking into account sales and gross margins achieved on every SKU over the past 24 months and the expected sales of each SKU over the next twelve months (and beyond) and the likely gross margin thereon.

Discontinued SKUs are fully provided against (at 100% of the cost) as future sales are very unlikely. In addition, where stock is identified as being slow-moving, a 10% provision is typically booked against the cost of the stock. The Group's stock provisioning policy reviews unit sales and margins on each line of stock and considers the level of sales likely to be achieved in the future, and at what margin, before determining if a stock provision is required.

Historically, on eventual sale of slow-moving SKUs, the Group has not experienced any material issues where the net realisable value of stock ultimately transpires to be less than the book value of the stock (plus associated rework costs). Moreover, where stock has been identified as slow-moving, ten-year life products are typically reworked into seven-year or five-year product packaging and sold as such still at a positive net margin. Even after rework costs, the net realisable value of slow-moving SKUs typically exceeds the combined product and rework costs. The Group is fortunate that products are certified to common European standards (and certain country standards) and many products are saleable in markets other than the original market destination.

The inventory provision at 31 December 2019 amounted £2.4 million (2018: £2.4 million). An amount of £1.7 million was provided in the year as a result of a thorough review of product lines and future development plans in line with the Group's evolved strategy to become a more technology-led connected home solutions provider.

Impacting the Company only

Recoverability of intercompany receivables

Amounts owed by subsidiary undertakings represent interest-free loans made to the Company's main subsidiary undertaking. The gross loan advanced by the Company is £27.8 million.

In accordance with IFRS 9 'Financial Instruments', as the subsidiary undertaking cannot repay the loan at the reporting date, the Company has made an assessment of expected credit losses. Having considered multiple scenarios on the manner, timing, quantum and probability of recovery of the receivables, a lifetime expected credit loss ('ECL') of £1.9 million has been provided.

The calculation of the allowance for lifetime expected credit losses requires a significant degree of estimation and judgment, in particular determining the probability-weighted likely outcome for each scenario considered. The Directors assessment of ECL included repayment through future cash flows over time (which are inherently difficult to forecast for the Company given the timing of take up of its connected homes technology) and also the amount that could be realised through an immediate sale of the subsidiary undertaking. The Directors' assessment of repayment through future cash flows included a scenario where the loan was not recovered in full. The provision is sensitive to the key assumptions inherent in the calculation.

The carrying value of amounts owed by subsidiary undertakings at 31 December 2019, net of provisions, was £25.9 million (2018: £27.3 million) and is disclosed in note 21 to the financial statements.

4. Financial risk management

The Group's operations expose it to a variety of financial risks that include the effects of changes in market prices including foreign exchange rate risk, credit risk and liquidity risk. The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group by monitoring these risks and taking appropriate action where necessary.

Liquidity risk

Management's objective is to meet its liabilities as they fall due whilst maintaining sufficient headroom to enable the Board to react to unexpected changes in market conditions. Management monitors its cash flows through the preparation of forecasts on a monthly basis. Cash forecasts are based on historic trading levels, expected settlement of supplier balances and collection of trade receivables as they fall due. Subject to unforeseen adverse trading conditions, the cash flows from operations are not expected to change significantly from the level of underlying business performance.

Maturity analysis

The table below analyses the Group's financial liabilities on a contractual gross undiscounted cash flow basis into maturity groupings based on amounts outstanding at the reporting date up to the contractual maturity date.

2019	Within 6 months £000	6 months to 1 year £000	1 to 5 years £000	Over 5 years £000	Total £000
Trade payables	7,355	-	-	-	7,355
Loans and borrowings	6,985	-	-	-	6,985
Other payables	3,282	-	-	-	3,282
Lease liabilities	174	174	1,131	-	1,479
Derivative financial liabilities	401	28	-	-	429
Financial liabilities	**18,197**	**202**	**1,131**	**-**	**19,530**

2018	£000	£000	£000	£000	£000
Trade payables	8,220	-	-	-	8,220
Other payables	1,868	-	-	-	1,868
Loans and borrowings	-	-	5,700	-	5,700
Financial liabilities	**10,088**	**-**	**5,700**	**-**	**15,788**

The table below analyses the Group's financial assets held for managing liquidity risk which are considered to be readily saleable or are expected to generate cash inflows to meet cash outflows on financial liabilities.

2019	Within 6 months £000	6 months to 1 year £000	1 to 5 years £000	Over 5 years £000	Total £000
Trade receivables and other debtors	11,270	-	-	-	11,270
Cash and cash equivalents	2,062	-	-	-	2,062
Financial assets	**13,332**	**-**	**-**	**-**	**13,332**

2018	£000	£000	£000	£000	£000
Trade receivables and other debtors	10,269	-	-	-	10,269
Cash and cash equivalents	1,251	-	-	-	1,251
Derivative financial assets	214	-	-	-	214
Financial assets	**11,734**	**-**	**-**	**-**	**11,734**

The Group would normally expect that sufficient cash is generated in the operating cycle to meet the contractual cash flows as disclosed above through effective cash management. In addition, the Group maintained a £7.5 million invoice discounting facility with HSBC UK Bank plc secured on UK and international trade debtors which can be accessed as required.

On 23 March 2020, the Group announced details of an open offer and placing to raise approximately £6.1 million to strengthen its balance sheet, execute self-help plans to improve gross margin, deploy and support the connected homes technology and fund part of the additional expected liabilities for the Company's legacy battery warranty issue first identified in 2016. On 8 April 2020, the Company issued 50,623,480 new ordinary shares at 12 pence per share as a result of valid acceptances under the open offer and placing.

Foreign currency risk

The Group operates in a number of markets across the world and is exposed to foreign exchange risk arising from various currency exposures in particular, with respect to the US dollar and euro. The Group is exposed to foreign currency risk arising from recognised assets and liabilities as well as commitments arising from future trading transactions. Management has a policy to manage foreign exchange risk by entering into forward exchange contracts.

Sensitivity analysis

The Group derived the following sensitivities based on the forward rates readily available for the US dollar and euro. Management believe that these most closely reflect the probable performance of the various economies in which the Group's financial assets and liabilities are located.

The approximate impact on the Group's operating result in 2020 from a one cent change in the value of the US dollar and euro against sterling on a full year basis is approximately £0.2 million and £0.1 million respectively.

Interest rate risk

The Group regularly reviews its exposure to fluctuations in underlying interest rates and will take appropriate action if required to minimise the impact on the performance and financial position of the Group.

Credit risk

Group credit risk predominantly arises from trade receivables and cash and cash equivalents. The Company's credit risk arises solely from amounts receivable from subsidiary undertakings.

Credit exposure is managed on a Group basis. External credit ratings are obtained for new customers and the Group's policy is to assess the credit quality of each customer internally before accepting any terms of trade. Internal procedures take into account the customer's financial position as well as their reputation within the industry and past payment experience where relevant.

Cash and cash equivalents and derivative financial instruments are all held with an AA- rated bank, HSBC UK Bank plc.

The Group's maximum exposure to credit risk relating to its financial assets is equivalent to their carrying value as disclosed below. All financial assets have a fair value which is equal to their carrying value.

Maximum exposure to credit risk	2019 £000	2018 £000
Trade receivables and other debtors	**11,270**	10,269
Cash and cash equivalents	**2,062**	1,251
Derivative financial assets	**-**	214
	13,332	11,734

The Group did not have any financial instruments that would mitigate the credit exposure arising from the financial assets designated at fair value through profit or loss in either the current or the preceding financial year.

The Company's credit risk arises exclusively through its intercompany balances which stand at £25.9 million (2018: £27.3 million). For the Company, impairment losses on financial assets measured at amortised cost relate solely to amounts due from fellow group companies and total £1.9 million at 31 December 2019 (2018: £725,000). The impairment loss recorded against amounts due from fellow group companies is calculated based on lifetime expected credit losses.

5. Capital management

The Group's main objective when managing capital is to protect returns to shareholders by ensuring the Group will continue to trade profitably in the foreseeable future and cash is managed on a conservative basis.

The Group manages its capital with regard to the risks inherent in the business and the sector within which it operates by monitoring its cash balances on a daily basis.

The Group considers its capital to include called up share capital, share premium account, currency translation reserve and retained earnings.

6. Revenue and segmental reporting

The Group sells and distributes home safety products and accessories in the UK, Continental Europe and certain other countries and undertakes manufacturing activities in Canada. Its major customers are based throughout the UK, Continental Europe and in a number of other countries outside Continental Europe. Financial information is reported to the Board on a consolidated basis with revenue and operating profit stated for the Group.

The Board considers that there are no identifiable business segments that are engaged in providing individual products or services or a group of related products and services that are subject to risks and returns that are different to the core business of the home safety products market in Europe.

Revenue and gross profit for each of the Group's business units are reviewed by the Board and rolled up into consolidated financial information with non-business unit costs included to arrive at the results that investors see. Business unit reporting to the Board generally excludes information on overheads by business and other income statement information, which is all reported on a consolidated basis. Assets and liabilities are also generally reported to the Board on a consolidated basis.

Revenue from continuing operations	2019 £000	2018 £000
Business Units:		
UK Trade	**15,221**	12,433
UK Retail	**11,266**	8,281
UK Fire & Rescue Services	**4,718**	4,208
UK Utilities	**1,455**	2,259
International	**11,140**	8,756
Pace Sensors	**1,686**	1,650
Total revenue from external customers	**45,486**	37,587

All business units earn revenue from the sale of smoke alarms and CO alarms and accessories to end customers. Pace Sensors earns revenue from the manufacture and sale of CO sensors to a third-party CO detector assembler based in China.

For 2019, revenues of approximately £5.5 million were derived from one external customer (2018: £4.5 million from one external customer), which individually contributed over 10% of total revenue of the Group. These revenues are attributable to the UK Trade business unit in both the current and preceding year. An analysis of the Group's revenue is as follows:

Continuing operations:	2019 £000	2018 £000
UK	**32,660**	27,181
Continental Europe	**10,677**	8,456
Rest of World	**2,149**	1,950
	45,486	37,587

Non-current assets, excluding deferred tax assets, for UK and overseas territories are as follows:

Continuing operations:	2019 £000	2018 £000
UK	**20,362**	20,159
Canada	**182**	116
Non-current assets	**20,544**	20,275

7. Non-underlying items

Within cost of sales	2019 £000	2018 Restated £000
Provision for warranty costs (note a)	**2,605**	53
Provision against stock and disposal costs (note b)	**1,703**	1,105
	4,308	1,158
Within operating expenses		
Restructuring and fundraising costs (note c)	**746**	-
Impairment of intangible assets (note d)	**1,825**	-
Incremental production ramp up costs (note e)	**-**	928
Restructuring of distribution channels (note f)	**-**	1,640
Share-based payment charges	**37**	107
	2,608	2,675
Total non-underlying items	**6,916**	3,833

Notes to the financial statements *continued*

For the year ended 31 December 2019

a. During the year, the FireAngel battery warranty provision, an isolated legacy issue relating to a third-party supplier first identified in April 2016, was increased by £1.4 million as lower rework yields and higher product costs compared to those originally anticipated when the provision was estimated three years ago, were leading to increased costs of supplying replacement product. In addition, a charge of £1.2 million was made to reflect an increase in the terminal volume of units expected to be impacted by the issue based on the level of returns currently being seen. 2018 results have been restated by £53,000 to correct an error in the amount previously reported (see note 8).

b. Stock impairment and disposal costs of £1.7 million were provided in the year as a result of a thorough review of product lines and future development plans in line with the Group's evolved strategy to become a more technology-led connected home solutions provider. In the prior year, £1.1 million was provided against stock originally purchased for the French market to address demand driven by local legislative change.

c. Restructuring and certain fundraising costs of £0.7 million were incurred in the year.

d. Intangible capitalised development assets of £1.8 million were impaired during the year as a result of a thorough review of product lines and future development costs.

e. In the prior year, one-off non-underlying costs of £0.9 million were incurred due to delays in reaching full production capacity and pricing expectations at the Group's primary smoke alarm and connected devices manufacturing partner.

f. In the prior year, non-underlying costs of £1.6 million were incurred in executing the Group's previously announced strategy to transition from a hardware safety products provider to a more integrated safety solutions provider. The Group took action to move from a traditional distributor model to more value-added reseller partnerships in its German distribution channel for both its core and connected product ranges.

8. Restatement of primary statements for the year ended 31 December 2018

In addition to the items charged through the 2019 income statement in relation to the legacy battery warranty provision, an amount of £1.5 million was recorded to increase the provision through a prior period adjustment.

Towards the end of 2019, continuing ongoing monitoring of warranty returns data identified that the number of units expected to be impacted by the third-party supplied battery impedance issue could be higher than originally anticipated. The need for this prior period adjustment was due to an error in the operational assumptions made regarding product manufactured between 2016 and Q1 2018. No further increase in the number of units impacted is expected as the issue relates only to units produced at one of the Company's previous manufacturers in China up to the end of March 2018. Approximately £0.3 million of this additional charge has been utilised at 31 December 2019. Due to the introduction of various product design changes, units produced at the Company's manufacturing partner in Poland since April 2018 should not be affected by these historic issues.

It was determined by the Board that the results for the year ended 31 December 2018 should be restated to reflect the actual position and performance of the Group for that year.

The adjustments to the financial statements for the year ended 31 December 2018 are as follows:

1. Non-underlying provision for legacy battery warranty costs of £53,000.
2. Non-underlying tax credit in relation to the provision for legacy battery warranty costs of £10,000.

The adjustments to the financial statements for the years ended on or before 31 December 2017 are as follows:

1. Non-underlying provision for legacy battery warranty costs of £1,479,000.
2. Non-underlying tax credit in relation to the provision for legacy battery warranty costs of £250,000.

Extract from restated consolidated income statement for the year ended 31 December 2018:

	As previously stated		Adjustment	Restated
	Before non-underlying items £000	Non-underlying items (note 7) £000	Non-underlying items (note 7) £000	Total £000
Revenue	37,587	-	-	**37,587**
Gross profit	8,721	(1,105)	(53)	**7,563**
Loss from operations	(1,991)	(3,780)	(53)	**(5,824)**
Loss before tax	(2,105)	(3,780)	(53)	**(5,938)**
Income tax credit	508	894	10	**1,412**
Loss attributable to equity owners of the Parent	(1,597)	(2,886)	(43)	**(4,526)**

Extract from restated consolidated statement of financial position as at 31 December 2018:

	As previously stated £000	2017 Adjustment £000	2017 Adjustment £000	2018 Adjustment £000	2018 Adjustment £000	Restated £000
Current liabilities						
Provisions	(934)	(261)	-	-	-	**(1,195)**
Net current assets	9,492	(261)	-	-	-	**9,231**
Non-current liabilities						
Provisions	(600)	(1,218)	-	(53)	-	**(1,871)**
Deferred tax liabilities	(1,156)	-	250	-	10	**(896)**
Total liabilities	(19,894)	(1,479)	250	(53)	10	**(21,166)**
Net assets	22,311	(1,479)	250	(53)	10	**21,039**
Total equity	22,311	(1,479)	250	(53)	10	**21,039**

9. Loss from operations

The following table analyses the nature of expenses:

	2019 £000	2018 Restated £000
Staff costs (note 10)	**5,465**	5,677
Depreciation, amortisation and impairment (notes 17 and 18)		
- Owned assets	**3,065**	1,074
- Right-of-use assets	**307**	-
Premises costs	**879**	1,206
Cost of inventories recognised as an expense	**33,190**	25,692
Inventory provision recorded in year, excluding non-underlying charges	**33**	(40)
BRK distribution fee	**-**	944
Distribution costs	**920**	992
Marketing and trade contributions	**728**	965
Professional fees excluding Non-Executive Directors	**540**	718
Research and development costs	**270**	260
Non-underlying items excluding staff costs (note 7)	**6,916**	3,833
Foreign exchange revaluations and mark-to-mark movements	**405**	(504)
Other net expenses/costs	**3,480**	2,594
Total cost of sales and operating expenses	**56,198**	43,411

Loss from operations has been arrived at after charging:

	2019 £000	2018 £000
Net foreign exchange (gains)/losses excluding foreign currency forward transactions	**(210)**	21
Research and development costs	**270**	260
Amortisation and impairment of intangible assets	**3,730**	689
Depreciation of owned assets	**958**	385
Depreciation and interest on right-of-use assets	**354**	-
Rentals under operating leases	**-**	386

Amounts payable to RSM UK Audit LLP and its associates in respect of both audit and non-audit services are set out below:

	2019 £000	2018 £000
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	**32**	30
Fees payable to the Company's auditor and their associates for other services to the Group;		
The audit of the Company's subsidiaries	**66**	61
Other audit related services	**-**	37
Total audit fees	**98**	128
Taxation services	**32**	23
Accounting services	**7**	13
Total non-audit fees	**39**	36

Notes to the financial statements *continued*

For the year ended 31 December 2019

10. Staff costs

The average monthly number of employees (including Executive Directors) within the Group was as follows:

	2019 Number	2018 Number
Manufacturing (Pace Sensors)	**23**	27
Technology	**40**	42
Administration	**48**	49
Sales and marketing	**27**	27
Executive and Non-Executive Directors	**7**	6
Warehousing	**4**	3
	149	154

The aggregate remuneration for the above persons (excluding Non-Executive Directors) comprised:

	2019 £000	2018 £000
Wages and salaries	**6,341**	6,338
Social security costs	**598**	614
Other pension costs	**214**	213
Share-based payment expense	**37**	107
Total remuneration	**7,190**	7,272
Less: Capitalised product development costs	**(1,635)**	(1,595)
Staff costs in prepayments	**(90)**	-
Total remuneration charged to the income statement	**5,465**	5,677

11. Finance costs

	2019 £000	2018 £000
Interest expense on bank balance	**(265)**	(114)
Lease liability interest expense	**(47)**	-
Total finance costs	**(312)**	(114)

12. Income tax

	2019 £000	2018 Restated £000
Current tax		
UK corporation tax credit	**(707)**	(686)
UK – adjustments in respect of prior periods (credit)/charge	**(47)**	61
Foreign tax charge	**46**	27
	(708)	(598)
Deferred tax (note 27)		
Origination and reversal of temporary differences	**(1,024)**	(814)
Adjustments in respect of prior periods	**128**	-
Income tax credit	**(1,604)**	(1,412)

Domestic income tax is calculated at 19.00% (2018: 19.00%) of the estimated assessable profit or loss for the year.

The tax credit for the year can be reconciled to the profit per the consolidated income statement as follows:

	2019 £000	%	2018 Restated £000	%
Loss before tax	**(11,024)**		(5,938)	
Tax at the domestic income tax rate of 19.00% (2018: 19.00%)	**(2,095)**		(1,128)	
Tax effect of expenses that are not deductible in determining taxable profit	**60**		13	
Effect of allowance for capitalised development expenditure	**(305)**		(295)	
Adjustments in respect of prior periods	**81**		(69)	
Deferred tax not recognised	**437**		-	
Impact of foreign tax rates	**23**		1	
Difference in current and deferred tax rates	**168**		96	
Other adjustments	**27**		(30)	
Tax credit and effective tax rate for the year	**(1,604)**	**15%**	(1,412)	24%

The weighted average applicable tax rate was 15% (2018: 24%). The tax credit for 2019 is largely due to enhanced research and development tax relief at a rate of 230% and operating losses in the year of £11.0 million.

Tax losses are, where possible, realised during the year through surrender for research and development tax credits.

At 31 December 2019 there is a deferred tax asset of £437,000 which has not been recognised as the timing of utilisation is uncertain. Deferred tax assets should only be recognised where they are more likely than not to be realised. Whilst the Group expects a return to profitability in the future, the generous deduction available for research and development expenditure means that it is likely to be several years before these losses will need to be accessed.

The income tax charged to equity during the year was as follows:

	2019 £000	2018 £000
Deferred tax Share-based payments	-	(260)
Income tax charge	-	(260)

13. Dividends

As a result of the loss reported for the year, and consistent with the decision not to pay an interim dividend (2018: nil pence per share), the Directors do not recommend payment of a final dividend for the year (2018: nil pence per share). The total dividend payable for 2019 is therefore nil pence per share (2018: nil pence per share).

14. Earnings per share

Earnings from continuing operations	2019 £000	2018 Restated £000
Earnings for the purposes of basic and diluted earnings per share (loss for the year attributable to owners of the Parent)	**(9,420)**	(4,526)
Number of shares	'000	'000
Weighted average number of ordinary shares – basic calculation	**67,219**	45,905
Dilutive potential ordinary shares from share options	-	30
Weighted average number of ordinary shares – diluted calculation	**67,219**	45,935

	2019 pence	2018 Restated pence
Basic earnings per share	**(14.0)**	(9.9)
Diluted earnings per share	**(14.0)**	(9.9)

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 year ended 31 December 2019.

15. Financial instruments

2019 Financial assets	Assets at fair value through profit and loss £000	Financial assets at amortised cost £000	Total £000
Trade receivables and other debtors	-	11,270	11,270
Cash and cash equivalents	2,062	-	2,062
Total	**2,062**	**11,270**	**13,332**

2018 Financial assets	Assets at fair value through profit and loss £000	Financial assets at amortised cost £000	Total £000
Trade receivables and other debtors	-	10,269	10,269
Cash and cash equivalents	1,251	-	1,251
Derivative financial assets	214	-	214
Total	1,465	10,269	11,734

2019 Financial liabilities	Liabilities at fair value through profit and loss £000	Financial liabilities held at amortised cost £000	Total £000
Trade payables	-	7,355	7,355
Loans and borrowings	-	6,985	6,985
Other payables	-	3,282	3,282
Lease liabilities	-	1,479	1,479
Derivative financial liabilities	429	-	429
Total	**429**	**19,101**	**19,530**

2018 Financial liabilities	Liabilities at fair value through profit and loss £000	Financial liabilities held at amortised cost £000	Total £000
Trade payables	-	8,220	8,220
Other payables	-	1,868	1,868
Loans and borrowings	-	5,700	5,700
Total	-	15,788	15,788

At 31 December 2019 the Company held financial assets held at amortised cost in the form of intercompany balances to the value of £25.9 million (2018: £27.3 million). At the same date the Company had a financial liability held at amortised cost in the form of borrowings to the value of £nil (2018: £5.7 million).

Credit risk management

The Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, which are set out below.

	2019 £000	2018 £000
Trade and other receivables	**11,270**	10,269
	11,270	10,269

The Group has applied the IFRS 9 simplified approach in measuring the lifetime expected credit losses for trade receivables. The credit loss provision has been calculated using a provision matrix based on the Group's historic default rates over the expected life of the asset and is adjusted where needed for forward looking estimates. The expected losses are based on the experience over the past twelve months with trade receivables grouped together on similar credit risk and aging.

As at 31 December 2019 a credit loss provision of £7,000 (2018: £10,000) was held against the exposure of potential bad debts.

16. Goodwill

	£000
Cost and carrying value	
Cost and carrying value of goodwill at 31 December 2019 and 2018	**169**

The goodwill above relates solely to Pace Sensors.

Group impairment test

At times during the year, and at 31 December 2019, the market capitalisation of the Group was lower than Group net assets. IAS 36, Impairment of Assets, states that this circumstance may be an indicator of impairment and accordingly the Directors have performed an impairment test on the primary cash-generating unit of the Group (being FireAngel Safety Technology Limited). The test did not indicate any such impairment and the key disclosures relating to the test are set out below.

The carrying amount of the cash-generating unit assets and liabilities at 31 December 2019 amounted to £22.1 million. The recoverable amount of the cash-generating unit is determined based on a value-in-use calculation which uses cash flow projections based on financial budgets and business plans approved by the Directors covering a two-year period. Cash flows beyond that period have been extrapolated using a steady 2.0% per annum growth rate, which the Directors consider to be specific to the business and does not exceed the UK long-term average growth rate.

The key inputs to the cash flow forecasts are:

- forecasted changes in revenue taking into account future expectations of revenue streams and sales mix linked to the Board's strategic plans;
- forecasted changes in gross margin taking into account expected improvements in production efficiencies at the Group's outsourced manufacturers, simplification afforded by modular product design, foreign exchange trends and sales mix;
- future anticipated capital expenditure; and
- requirements for working capital based on revenue growth.

The key assumptions used in the cash flow projections are a terminal value applied after five years assuming a 7.5 times multiple and pre-tax weighted average cost of capital of 15.3% cross-referenced to comparable companies operating within the sector. The other key assumptions have been assigned values by the Directors using estimates based on past experience and expectations of future performance.

Based on these assumptions, the value-in-use calculation amounted to £56.8 million compared with the carrying amount of £22.1 million. The Directors believe that, based on the sensitivity analysis performed and described below, any reasonably possible change in the key assumptions on which the recoverable amounts are based would not cause the Group's net asset value to exceed the recoverable amount. As a result, there is no impairment in the period (2018: no impairment).

In assessing the impact on the value-in-use calculation of changes in the assumptions used, the Directors considered the following sensitivities:

- a restriction in the gross margin in 2021 and thereafter to that expected to be achieved in 2020;
- an increase in overheads in 2021 and in each year thereafter;
- an increase in capital expenditure in 2021 and in each year thereafter; and
- an increase in working capital required as a percentage of revenue in 2020 and maintained thereafter.

In performing this sensitivity analysis, the Directors noted the significant headroom of the value-in-use calculation compared with the carrying value in each of the scenarios above.

17. Other intangible assets

	Product development costs £000	Purchased software costs £000	Computer software costs £000	Total £000
Cost				
At 1 January 2018	12,874	2,574	387	15,835
Additions	3,387	325	28	3,740
Disposals	(280)	-	-	(280)
At 31 December 2018	15,981	2,899	415	19,295
Additions	2,867	-	15	2,882
At 31 December 2019	**18,848**	**2,899**	**430**	**22,177**
Amortisation				
At 1 January 2018	2,492	-	294	2,786
Amortisation for the year	617	-	42	659
Impairment for the year	30	-	-	30
Disposals	(280)	-	-	(280)
At 31 December 2018	2,859	-	336	3,195
Amortisation for the year	1,660	407	38	2,105
Impairment for the year	1,825	-	-	1,825
At 31 December 2019	**6,344**	**407**	**374**	**7,125**
Carrying amount				
At 31 December 2018	13,122	2,899	79	16,100
At 31 December 2019	**12,504**	**2,492**	**56**	**15,052**

The amortisation charge of £2,105,000 (2018: £659,000) and impairment charge of £1,825,000 (2018: £30,000) have been recognised within operating expenses.

A summary of intangible costs as at 31 December 2019 is shown in the table which follows.

Except as outlined below, intangible assets are typically amortised over seven to 12 years depending on the Group's assessment of the likely period of time over which the benefit from the technology is expected to be realised.

Notes to the financial statements *continued*

For the year ended 31 December 2019

Impairment review

During 2019, the Group recorded a £1.8 million impairment charge (2018: £30,000) against projects which were no longer considered to be commercially viable after a thorough review of product lines and future development costs.

As part of the impairment review, the Group compares the net book value of each intangible asset with the gross profit which is expected to be derived from the sale of products over the next one to five years that use the relevant intangible asset. The purpose of this review is to ensure that the value of the intangible asset is likely to be recovered within the foreseeable future. In many cases, the expected gross profit over the next two to three years from the sale of products that use the intangible asset is materially greater than the net book value of the individual intangible asset on the balance sheet. This provides significant comfort that the carrying value of the intangible is supportable and, therefore, is not impaired.

Assessing the potential sales of products such as the Group's connected homes technology is inherently more difficult than products where the run rate of sales is already well known and the pattern of sales is established. The Board expects that the take up of connected homes technology products will increase over time as the technology gradually becomes mainstream, and is pleased with the good progress made in trials currently underway.

Change in method of amortisation

From 2017, the Group used the 'units of production' method of amortisation for all product development costs (excluding the costs of readying Flex and the Far East based supplier for full manufacturing). However, as a result of a review during the year of the Group's processes, procedures and controls it was concluded that the 'straight line' method of amortisation was 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. The impact of the move to straight line amortisation was to increase operating expenses by £0.9 million in the year.

	Projects being amortised								Projects not currently being amortised			
	Connected homes £000	Wi-safe 2 £000	Nano £000	Mains-powered £000	Smoke-sensing products £000	Manu-facturing setup costs £000	Other £000	Total £000	Future projects £000	Connected homes £000	Total £000	Grand Total £000
Cost												
At 1 January 2019	4,909	2,353	1,567	1,280	1,803	1,688	1,764	**15,364**	2,928	588	**3,516**	**18,880**
Projects amortised in 2019	18	(430)	32	-	203	-	234	**57**	(346)	289	**(57)**	**-**
Technical costs capitalised	46	-	-	-	25	336	-	**407**	210	615	**825**	**1,232**
Employment costs capitalised	40	-	-	-	33	-	-	**73**	970	592	**1,562**	**1,635**
Total additions	86	-	-	-	58	336	-	**480**	1,180	1,207	**2,387**	**2,867**
At 31 December 2019	**5,013**	**1,923**	**1,599**	**1,280**	**2,064**	**2,024**	**1,998**	**15,901**	**3,762**	**2,084**	**5,846**	**21,747**
Amortisation												
At 1 January 2019	38	548	147	192	700	90	1,144	**2,859**	-	-	**-**	**2,859**
Charge	805	220	153	135	202	418	134	**2,067**	-	-	**-**	**2,067**
Impairment	255	68	-	-	424	-	284	**1,031**	249	545	**794**	**1,825**
At 31 December 2019	**1,098**	**836**	**300**	**327**	**1,326**	**508**	**1,562**	**5,957**	**249**	**545**	**794**	**6,751**
Carrying amount												
At 1 January 2019	4,871	1,805	1,420	1,088	1,103	1,598	620	**12,505**	*2,928	588	**3,516**	**16,021**
At 31 December 2019	**3,915**	**1,087**	**1,299**	**953**	**738**	**1,516**	**436**	**9,944**	***3,513**	**1,539**	**5,052**	**14,996**
% of total	**26%**	**7%**	**9%**	**6%**	**5%**	**10%**	**3%**	**66%**	**24%**	**10%**	**34%**	**100%**

*Analysed in more detail on the following pages.

Projects being amortised

The following is a high-level summary of the projects being amortised which are set out in the table above.

Connected homes technology

Connected homes technology products connect a range of FireAngel's own products, through its interface gateway technology, to the internet. This technology is key to the Group's growth in sales in the year, particularly in UK Trade and UK Retail, and is the cornerstone of the ongoing trials with a number of UK Housing Associations.

During 2019, the Group redeveloped its FireAngel Connect B2B offering to incorporate a new range of Amazon Web Services ('AWS') technologies which make the system more scalable. In addition, significant development was undertaken to develop a B2C offering, which includes new gateway products, end mobile user apps and web interfaces.

The total net book value at 31 December 2019 of projects being amortised with connected homes technology amounted to £3.9 million (2018: £4.9 million) which includes £2.5 million incurred to purchase core software modules from Intamac.

Wi-safe 2

Wi-safe 2 (including products using Wi-safe 2 capabilities) are an enhancement and development of the Group's Wi-safe I technology with a combined net book value of £1.1 million at 31 December 2019 (2018: £1.8 million). Wi-safe 2 is core technology which underpins a number of key products and accessories, including the Group's connected homes technology.

Nano

Nano is the Group's miniaturised CO sensor developed by FireAngel's wholly-owned subsidiary in Canada, Pace Sensors. The Nano went into production into finished CO detectors in November 2016. The net book value of Nano technology was £1.3 million at 31 December 2019 (2018: £1.4 million) and represents the costs incurred in the development of the CO sensor and the final development of finished CO products which incorporate the sensor.

Mains-powered products

Mains-powered products include FireAngel Specification and FireAngel Pro ranges which at 31 December 2019 had a net book value of £1.0 million (2018: £ 1.1 million).

Smoke-sensing products

The net book value of non mains-powered smoke-sensing products (being heat and optical products) at 31 December 2019 was £0.7 million (2018: £1.1 million). This category includes all FireAngel's own-brand developed products.

Manufacturing setup costs

The net book value of manufacturing setup costs at 31 December 2019 was £1.5 million (2018: £1.6 million), and includes costs incurred by the Group's Technical and Project Management teams in preparing its Polish manufacturing partner to produce FireAngel products and in preparing the Group's Far East based supplier to produce replacements to the BRK range. Such costs have been included within intangible assets and are being amortised over five years.

Other projects

The net book value of other projects at 31 December 2019 amounted to £0.4 million (2018: £0.6 million). This includes FireAngel's 10-year life CO alarm and the CO alarm developed for British Gas.

Projects not currently being amortised

Product development costs and other intangible assets not yet available for use are regularly tested for impairment. This assessment includes consideration of the likely costs of completing the project, the time to market and an assessment of the potential sales and gross profit opportunity using the relevant technology.

Future projects

Future projects have a combined net book value of £3.5 million at 31 December 2019 (2018: £2.9 million). This includes the major project development activities of the Group, including 'Gen 5' costs of £2.5 million. Gen 5 is the next generation of smoke, heat, CO and combined alarms. Gen 5 will be a common platform across all product types and will allow the Group to develop new products using 'bookshelf' technologies developed as part of this project. As well as standalone smoke, heat and CO alarms, combination alarms utilise all three of these sensing methods in a single product that can use CO and heat to augment smoke measurements to improve the rapid detection of fires, while further reducing the incidence of false alarms. Gen 5 also provides enhanced data logging of events and the ability for wireless diagnostic downloads to a smartphone, enabling service technicians to easily access diagnostic data on the alarm without the need to remove it from the base. The Group has also invested £0.7 million in developing its mains-powered Wi-safe 2 CO alarm which is expected to be rolled out shortly. In addition, a total of £0.3 million has been capitalised in relation to a number of smaller product developments.

Connected homes technology

Connected homes technology which is not currently in use includes approximately £1.5 million at 31 December 2019 (2018: £0.6 million) in total of specific product development costs. The Group continues to invest in its FireAngel Connected B2B and B2C offerings which include new gateway products, end mobile user apps and web interfaces.

18. Property, plant and equipment

	Tooling £000	Office equipment £000	Motor vehicles £000	Fixtures & fittings £000	Right-of-use assets £000	Total £000
Cost						
At 1 January 2018	1,382	1,400	12	432	-	3,226
Additions	2,288	51	-	3	-	2,342
Disposals	-	(38)	(5)	-	-	(43)
At 31 December 2018	3,670	1,413	7	435	-	5,525
Recognition of right-of-use assets on initial application of IFRS 16	-	-	-	-	768	768
Restated opening book cost 1 January 2019	3,670	1,413	7	435	768	6,293
Additions	724	89	-	28	1,022	1,863
Disposals	(15)	(5)	-	(55)	-	(75)
At 31 December 2019	**4,379**	**1,497**	**7**	**408**	**1,790**	**8,081**
Accumulated depreciation						
At 1 January 2018	-	950	7	192	-	1,149
Depreciation charge for the year	156	179	2	48	-	385
Effect of exchange rates	-	(10)	(5)	-	-	(15)
At 31 December 2018	156	1,119	4	240	-	1,519
Depreciation charge for the year	789	122	2	47	307	1,267
Disposals	-	(2)	-	(22)	-	(24)
Effect of exchange rates	-	-	-	(4)	-	(4)
At 31 December 2019	**945**	**1,239**	**6**	**261**	**307**	**2,758**
Net book value						
At 31 December 2018	3,514	294	3	195	-	4,006
At 31 December 2019	**3,434**	**258**	**1**	**147**	**1,483**	**5,323**

The total depreciation expense of £1,267,000 (2018: £385,000) has been charged to operating expenses.

There are no material capital commitments at the balance sheet date.

Leases under IFRS 16

The Group leases a variety of offices, warehouses, equipment and vehicles. Rental contracts are typically made for fixed periods of three to five years. IFRS 16 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. At 1 January 2019 the Group did not recognise a number of its office leases under IFRS 16 as the remaining lease term was less than twelve months. These leases were renewed in 2019 and at this point were accounted for under IFRS 16.

Until 1 January 2019, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as right-of-use assets with corresponding liabilities at the date at which the leased assets are available for use by the Group.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received; and
- any initial direct costs.

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Lease liabilities are calculated based on the net present value of the fixed lease payments. The lease payments are discounted using the interest rate implicit in the lease. Where there is no implicit rate, the Group's incremental borrowing rate is used, being the rate that the Group 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.

Differences between the operating lease commitments disclosed at 31 December 2018 under IAS 17 discounted at the incremental borrowing rate at 1 January 2019 and lease liabilities recognised at 1 January 2019 are explained below:

	£000
Minimum operating lease commitments disclosed as at 31 December 2018	628
Include break clauses included under IFRS 16	338
Exclude operating leases not treated under IFRS 16	(132)
Discounted using the lessee's incremental borrowing rate at the date of initial application	(66)
Lease liability recognised as at 1 January 2019	**768**

The following table breaks down the net book value of right-of-use assets by category:

Carrying amount of right-of-use assets by category:	2019 £000	1 January 2019 £000
Land and buildings	1,464	725
Plant and machinery	11	19
Vehicles	8	24
Total carrying amount presented within property, plant and equipment	1,483	768

The following depreciation and interest have been charged to profit and lost in the period:

Depreciation charge for the year included in operating expenses	2019 £000
Land and buildings	284
Plant and machinery	8
Vehicles	15
Total depreciation charge on leased assets	307

Interest expense for the year recognised in finance costs	2019 £000
Land and buildings	45
Plant and machinery	1
Vehicles	1
Total interest expense on lease liabilities	47

19. Shares in subsidiaries

Company	Shares £000	Total £000
Cost At 1 January 2019 and 31 December 2019	149	149
Accumulated impairment At 1 January 2019 and 31 December 2019	-	-
Net book value **At 1 January 2019 and 31 December 2019**	**149**	**149**

The Group has two non-trading subsidiary companies, AngelEye Corporation and AngelEye Incorporated, both, registered in North America.
The Company's subsidiaries as at 31 December 2019 are as follows:

Name of subsidiary	Registered office (see footnote)	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
FireAngel Safety Technology Limited	1	UK	100	100	Distribution of smoke and CO alarms
Pace Sensors Limited	2	Canada	100	100	Manufacture of CO sensors
AngelEye Corporation	3	Canada	100	100	Non-trading
AngelEye Incorporated	4	USA	100	100	Non-trading

1. Vanguard Centre, Sir William Lyons Road, Coventry, CV4 7EZ, UK
2. 3-3165 Unity Dr., Mississauga, ON, L5L 4L4, Canada
3. 82 Bilbermar Drive, Richmond Hill, ON, L4S 1C1, Canada
4. The Corporation Trust Company, 1209 Orange Street, Wilmington, DE, 19801, USA

The results of all subsidiary undertakings are included in the consolidated accounts.

FireAngel Safety Technology Group plc has direct holdings in FireAngel Safety Technology Limited, AngelEye Corporation and AngelEye Incorporated. It has an indirect holding in Pace Sensors Limited, via AngelEye Incorporated.

Company impairment test

As part of the Group impairment test detailed in note 16, the Directors considered the need to impair the carrying value of the Company's shares in its subsidiaries. In common with the conclusion reached in the Group impairment test, no impairment was considered necessary in the period (2018: no impairment).

20. Inventories

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Raw materials	**126**	131	-	-
Work-in-progress	**265**	562	-	-
Finished goods	**8,310**	10,102	-	-
Total gross inventories	**8,701**	10,795	-	-
Inventory provisions	**(2,397)**	(2,370)	-	-
Total net inventories	**6,304**	8,425	-	-

Pace Sensors Limited, the Group's wholly-owned subsidiary in Canada, manufactures CO sensors for use in the Group's CO alarms. The CO sensors are shipped to Pace Technologies, an independent third-party supplier based in China, for assembly into finished CO alarms, which are then purchased by the Group in the UK. The Group does not maintain a provision for unrealised profit in CO sensors within finished CO alarm stock, as CO sensors are sold to an independent third party, Pace Technologies, before being acquired as finished CO alarm products and put into stock by the Group.

Stock impairment and disposal costs of £1.7 million were provided in the year as a result of a thorough review of product lines and future development plans in line with the Group's evolved strategy to become a more technology-led connected home solutions provider. In the prior year, £1.1 million was provided against stock originally purchased for the French market to address demand driven by local legislative change.

21. Financial assets

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Trade receivables and other debtors	**11,270**	10,269	**25,947**	27,343
Cash and cash equivalents	**2,062**	1,251	**4**	1
Derivative financial assets	**-**	214	**-**	-
Maximum exposure to credit risk	**13,332**	11,734	**25,951**	27,344

The Directors are of the opinion that whilst there are significant concentrations of credit risk, customer payments are closely scrutinised to ensure debts are paid on time and credit limits are reasonably adhered to.

The fair value of the financial assets is not considered to be materially different from their carrying value.

Trade and other receivables for the Company represents balances owed to it by fellow Group undertakings.

Trade and other receivables comprise:

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Trade receivables	**10,316**	9,589	**-**	-
Amounts due from fellow group companies	**-**	-	**25,947**	27,343
Other debtors	**1,307**	680	**-**	-
Prepayments	**450**	523	**-**	-
Trade and other receivables	**12,073**	10,792	**25,947**	27,343

The primary credit risk relates to customers which potentially may be unable to settle their debts with the Group. The average credit period taken on sale of goods is 59 days (2018: 89 days). There are no provisions for impairment losses in respect of trade and other receivables.

The Directors believe that the carrying value of trade and other receivables represents their fair value. In determining the recoverability of trade receivables the Group considers any change in the credit quality of the receivable from the date credit was granted up to the reporting date. Factors considered include a review of past payment history and the current financial status of customers and the ongoing relationship with the Group. Credit limits are kept under review to ensure customers are not exceeding agreed terms.

Domestic trade debtors are pledged as security to the Group's bankers as part of the Group's banking facilities. The domestic trade debtor balance at 31 December 2019 was £7.9 million (31 December 2018: £7.8 million). At 31 December 2019 £8.0 million (2018: £7.8 million) of trade receivables were denominated in sterling, £0.5 million (2018: £0.8 million) in US dollars and £1.8 million (2018: £1.0 million) in euros.

At 31 December 2019, cash of £1.6 million (2018: overdrawn balance of £1.1 million) was denominated in sterling, an overdrawn balance of £0.8 million (2018: cash of £2.3 million) in US dollars, cash of £0.1 million (2018: cash of £0.2 million) in Canadian dollars and a cash balance of £1.2 million (2018: overdrawn balance of £0.1 million) in euros. At the year end, all other financial assets held were denominated in sterling.

Amounts owed by fellow group companies represent interest-free loans made to the Company's main subsidiary undertaking. The gross loan advanced by the Company is £27.8 million. Whilst the loan is legally repayable on demand, the Company has confirmed to the subsidiary undertaking that it does not intend to demand repayment within at least one year.

In accordance with IFRS 9 'Financial Instruments', as the subsidiary undertaking cannot repay the loan at the reporting date, the Company has made an assessment of expected credit losses. Having considered multiple scenarios on the manner, timing, quantum and probability of recovery on the receivables, a lifetime expected credit loss of £1.9 million has been provided. Further details are given in note 3.

The carrying value of amounts owned by subsidiary undertakings at 31 December 2019, net of provisions, was £25.9 million (2018: £27.3 million).

22. Derivative financial instruments

	2019 £000	2018 £000
Assets Foreign currency forward contracts	**-**	214
Liabilities Foreign currency forward contracts	**429**	-

Derivative financial instruments are classified between current and non-current based on the date of their maturity. They are measured at their fair value. The maturity of all forward contracts at each year end was less than twelve months, and therefore all contracts are classified as current.

The notional principal amounts of the outstanding foreign currency forward contracts at 31 December 2019 were US $14.7 million (2018: US $8.1 million), sterling of £3.6 million (2018: £nil) and euro of €nil (2018: €nil).

Gains and losses on foreign currency forward contracts are recognised within cost of sales each month, as the forward contracts are utilised to mitigate foreign currency risk associated with product sales and purchases in currencies other than the Group's sterling functional currency.

23. Loans and borrowings

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Bank term loan	**-**	5,700	**-**	5,700
Invoice discounting facilities	**6,985**	-	**-**	-
	6,985	5,700	**-**	5,700

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 an invoice discounting facility. As such, in the year the Group repaid the £7.0 million loan drawn under the previous revolving credit facility, £1.3 million of which had been drawn since the beginning of the period, and drew down £7.0 million from the invoice discounting facility.

At 31 December 2019 the Group had lease liabilities totalling £1.5 million detailed below:

Maturity analysis of lease liabilities:	Within 6 months £000	6 months to 1 year £000	1 to 5 years £000	Over 5 years £000	Total at 31 December 2019 £000
Land and buildings	166	170	1,123	-	1,459
Plant and machinery	2	1	8	-	11
Vehicles	6	3	-	-	9
Total lease liabilities	**174**	**174**	**1,131**	**-**	**1,479**

24. Fair value disclosures

The total net loss on forward contracts recognised in the income statement for the year ended 31 December 2019 was £0.6 million (2018: gain of £0.6 million) and is included within cost of sales.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3)

The following table presents the Group's financial assets and liabilities that are measured at fair value at the last two year ends. All assets and liabilities measured are valued at level 2.

Level 2	2019 £000	2018 £000
Assets Foreign currency forward contracts	**-**	214
Liabilities Foreign currency forward contracts	**429**	-

25. Provisions

	FireAngel warranty provisions £000	BRK Brands warranty provisions £000	Total £000
At 1 January 2017	5,317	260	5,577
Credit/(charge) in year (Restated)	(86)	245	159
Utilisation in year	(1,835)	(228)	(2,063)
At 1 January 2018 (Restated)	3,396	277	3,673
Charge in year (Restated)	634	30	664
Utilisation in year	(1,098)	(173)	(1,271)
At 31 December 2018 (Restated)	2,932	134	3,066
Charge in year	2,605	-	2,605
Utilisation in year	(2,072)	(106)	(2,178)
At 31 December 2019	**3,465**	**28**	**3,493**

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

	2019 £000	2018 Restated £000
Current provision	**1,496**	1,195
Non-current provision	**1,997**	1,871
Total warranty provisions	**3,493**	3,066

Review of warranty provision

In assessing the adequacy of the warranty provision, it is necessary to form a view on matters which are inherently uncertain, such as the returns profile over time, the final return rate, whether the product return rates of each year of production will be similar, whether the return rates from different sales channels will vary and the average cost of redress.

There is a greater degree of uncertainty in assessing these factors when an issue is first identified although with the known battery warranty issue (which represents the majority of the provision) the Board has considerably more experience of the returns rates having monitored product returns by year of manufacture by market for several years. Consequently, the continued appropriateness of the underlying assumptions is reviewed on an ongoing basis against actual experience and other relevant evidence and adjustment made to the provision over time as required.

During the year, the FireAngel battery warranty provision was increased by £1.4 million as lower rework yields and higher product costs compared to those originally anticipated when the provision was estimated three years ago, were leading to increased costs of supplying replacement product. In addition, a charge of £1.2 million was made to reflect an increase in the terminal volume of units expected to be impacted by the issue based on the level of returns currently being seen.

Provisions as at 1 January 2018 have been restated by £1.5 million reflecting the prior period adjustment additional warranty provision charge for 2016 and 2017. The charge for 2018 has been restated by £53,000 reflecting the additional warranty provision charge for 2018 (see notes 7 and 8).

26. Trade and other payables

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Trade payables	**7,355**	8,220	-	-
Accruals and deferred income	**3,282**	1,868	-	-
Other tax and social security	**1,513**	1,377	-	-
	12,150	11,465	-	-

At 31 December 2019, £0.5 million (2018: £1.2 million) of payables were denominated in sterling, £0.2 million (2018: £0.2 million) in euros and £6.6 million (2018: £6.8 million) in US dollars. Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 76 days (2018: 137 days). Creditor days in 2018 were unusually high due to the delayed payment terms negotiated as part of the BRK Settlement Agreement.

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

27. Deferred tax

	2019 £000	2018 Restated £000	2017 Restated £000
Deferred tax liabilities	**(2,364)**	(2,404)	(1,974)
Deferred tax assets	**2,364**	1,508	523
Net position at 31 December	**-**	(896)	(1,451)

The movement in the year in the Group's net deferred tax position was as follows:

	2019 £000	2018 Restated £000	2017 Restated £000
At 1 January	**(896)**	(1,450)	(777)
Credit/(charge) to income for the year	**896**	814	(613)
Charge to equity for the year	**-**	(260)	(61)
At 31 December	**-**	(896)	(1,451)

The following are the major deferred tax liabilities and assets recognised by the Group and the movements thereon during the period:

Deferred tax liabilities	Derivative financial instruments £000	Non-current asset timing differences £000	Total £000
At 1 January 2019	38	2,366	2,404
Credit to income for the year	(6)	(34)	(40)
At 31 December 2019	**32**	**2,332**	**2,364**

Deferred tax assets	Deferred tax losses £000	Derivative financial instruments £000	Share-based payments £000	Total £000
At 1 January 2019 (Restated)	1,501	(6)	13	1,508
Credit/(charge) to income for the year	853	7	(4)	856
At 31 December 2019	**2,354**	**1**	**9**	**2,364**

As at 31 December 2019 there is an unrecognised net deferred tax asset of £437,000. This has not been recognised due to uncertainty as to when the asset will be utilised by the Group. Whilst the Group expects a return to profitability in the future, the generous deduction available for research and development expenditure means that it is likely to be several years before these losses will need to be accessed.

28. Retirement benefits - defined contribution plan

The Group operates a defined contribution retirement benefit plan. The assets of the scheme are held separately from those of the Group in an independently-administered fund. The pension cost charge of £0.2 million (2018: £0.2 million) represents contributions payable by the Group to the fund for the year. Contributions amounting to £nil (2018: £24,000) were payable at the year end.

29. Called up share capital

Authorised:	Company 2019 Number '000	Company 2018 Number '000
100,000,000 ordinary shares of 2p each		
Ordinary shares in issue:		
As at 1 January	**45,905**	45,905
Issue of shares in respect of capital raise	**30,000**	-
Issue of shares in respect of share options exercised	**30**	-
As at 31 December	**75,935**	45,905

Issued and fully paid ordinary shares of 2p each:	£000	£000
As at 1 January	**918**	918
Issue of shares in respect of capital raise	**600**	-
Issue of shares in respect of share options exercised	**1**	-
As at 31 December	**1,519**	918

The Company has one class of ordinary share which carries no right to fixed income.

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.

On 23 March 2020, the Group announced details of an open offer and placing to raise approximately £6.1 million to strengthen its balance sheet, execute self-help plans to improve gross margin, deploy and support the connected homes technology and fund part of the additional expected liabilities for the Company's legacy battery warranty issue first identified in 2016. On 8 April 2020, the Company issued 50,623,480 new ordinary shares at 12 pence per share as a result of valid acceptances under the open offer and placing. The Company's share capital consequently increased to 126,558,845 ordinary shares.

30. Reserves

Share premium account

The share premium account represents the excess of consideration received for shares issued above their nominal value net of transaction costs.

Currency translation reserve

The currency translation reserve represents the exchange gains and losses that have arisen on the retranslation of overseas operations.

Retained earnings

Retained earnings represents the cumulative profit and loss net of distributions to owners.

The loss for the financial year dealt with in the Company was £1,182,000 (2018: loss of £848,000). As permitted under Section 408 of the Companies Act 2006, a separate profit and loss account has not been presented for the Company.

31. Share-based payments

The share-based payments charge of £37,000 (2018: £107,000), included in the consolidated income statement within operating expenses, relates to the 2015 Long-Term Incentive Plan nominal cost options awarded on 2 August 2019.

	2019		2018	
	Options '000	Weighted average exercise price	Options '000	Weighted average exercise price
Outstanding at 1 January	**684**	**99p**	1,902	99p
Exercised during the year	**(30)**	**2p**	-	-
Granted during the year	**3,400**	**2p**	-	-
Expired or lapsed during the year	**(86)**	**200p**	(1,218)	46p
Outstanding at 31 December	**3,968**	**30p**	684	191p

Notes to the financial statements *continued*

For the year ended 31 December 2019

Details of the share options outstanding at the end of the year are as follows:

Grant date	Outstanding at start of the year	Exercised during the year	Lapsed during the year	Granted during the year	Outstanding at end of the year	Expiry date	Exercise price
Directors' share options							
25/04/2014	250,000	-	-	-	**250,000**	28/04/2024	200p
02/08/2019	-	-	-	2,500,000	**2,500,000**	02/08/2029	2p
Employee share options							
25/04/2014	403,723	-	(86,111)	-	**317,612**	28/04/2024	200p
03/06/2015	30,000	(30,000)	-	-	**-**	03/06/2020	2p
02/08/2019	-	-	-	900,000	**900,000**	02/08/2029	2p
	683,723	(30,000)	(86,111)	3,400,000	**3,967,612**		

As at 31 December 2019, a total of 3,967,612 options were outstanding which had an average exercise price of 30p, and a weighted average remaining contractual life of 5.6 years.

2014 EMI share options award

The Company has an approved EMI scheme for qualifying UK-based employees which provided for an award of share options based on seniority. Share options vest over three years. If options remain unexercised after a period of ten years from the date of grant, the options usually expire except in exceptional circumstances at the discretion of the Board.

On 30 April 2014, the Company granted awards over 1.46 million shares under the EMI scheme at an exercise price of £2.00 per share. The share options vested evenly over three years and are exercisable for ten years from the date of grant.

2019 share options award

On 2 August 2019, the Company granted awards over a total of 3.4 million shares under its 2015 Long-Term Incentive Plan ('LTIP'). Under the LTIP, selected employees are entitled to exercise an option to receive a certain number of shares at any time after a three-year vesting period, at a cost to the employee of the nominal value of the shares. The number of shares that are awarded at the end of the three-year period is dependent on the achievement of certain performance criteria.

Vesting of the LTIP awards is dependent on achievement of total shareholder return ('TSR'). If TSR on Shares is 200% or more at the end of three years following the award, all of the shares awarded will vest. If TSR is 100%, then 25% of the awarded shares will vest. Between these points the number of shares that vest will be pro-rata. If TSR is less than 100% then no shares will vest. The limit on the number of shares over which interests may be awarded remains unchanged.

32. Operating lease arrangements

The minimum lease payments under non-cancellable operating lease rentals are in aggregate as follows:

	2019 £000	2018 £000
Amounts due:		
Within one year	-	325
Between one and five years	-	303
More than five years	-	-
Total lease payments	-	628

Operating lease payments represent rentals payable by the Group principally for its offices and warehouse. The operating lease expenditure charged to the income statement during the year is disclosed in note 9 of the financial statements.

33. Related party transactions

Balances and transactions between the Company and its subsidiaries were as follows:

	2019 £000
Drawdown of loans and borrowings (principal amount)	1,300
Repayment of loans and borrowings (principal amount)	(7,000)
Impairment of intercompany loan (IFRS 9)	(1,155)
Cash transfer	5,459
Total transactions between Company and subsidiaries	**(1,396)**

Newell Brands, through its subsidiary Newell Rubbermaid UK Services Limited (formerly BRK Brands Europe Limited), holds a significant proportion of the Company's ordinary shares (23.4% as at 31 December 2019). Up to 31 March 2018, Newell represented the single largest supplier to the Group supplying all the Group's smoke alarms, heat alarms and accessories from DTL. Since 31 March 2018, products which were being acquired from DTL are now sourced directly from Flex in Poland and a Far East Asia based supplier. Purchases between related parties are made under contractual arrangements negotiated on an arm's length basis.

During the year, Group companies entered into the following transactions with Newell Brands which is not a member of the Group:

	Newell Brands	
	2019 £000	2018 £000
Net purchases of goods in year including engineering fees	-	4,540
Distribution agreement fee	-	944

Remuneration of key management personnel

The remuneration of the key management personnel of the Group, together with the Non-Executive Directors, is set out below.

Details of individual Directors' remuneration are given in the remuneration section of the Remuneration Committee report.

Remuneration of key management personnel	2019 £000	2018 £000
Aggregate emoluments	**1,319**	1,400
Company pension contributions	**74**	74
Sums paid for Non-Executive Directors' services	**113**	117
Share-based payments	**37**	107
Total remuneration	**1,543**	1,698

The remuneration in respect of the highest paid Director was:

	2019 £000	2018 £000
Emoluments	**227**	270
Defined pension contributions	**-**	22
	227	292

Share-based payments

During 2019, the Company granted awards over 2.5 million shares in total to three Executive Directors under its 2015 LTIP. These options have an exercise price of the nominal cost of the shares of 2 pence per share and have an expected life of ten years. The share options vest following a performance period of three years and are subject to the achievement of total shareholder return targets. The element of the share-based payment charge relating to the Directors is £27,206.

Wilkins Kennedy

William Payne, a Non-Executive Director of the Company for part of 2019, is a partner of Wilkins Kennedy, which is the firm through which his services are provided. During the year, Wilkins Kennedy were paid £31,500 (2018: £42,000) for the provision of William Payne's services as a Non-Executive Director and £11,937 (2018: £9,775) for accounting and management services. At the year end the Company owed Wilkins Kennedy £nil (2018: £nil).

34. Post balance sheet events

On 23 March 2020, the Group announced details of an open offer and placing to raise approximately £6.1 million to strengthen its balance sheet, execute self-help plans to improve gross margin, deploy and support the connected homes technology and fund part of the additional expected liabilities for the Company's legacy battery warranty issue first identified in 2016.

On 8 April 2020, the Company issued 50,623,480 new ordinary shares at 12 pence per share as a result of valid acceptances under the open offer and placing. The Company's share capital consequently increased to 126,558,845 ordinary shares.

The impact of COVID-19 is described in detail in the Executive Chairman's statement on page 9 and within the Going Concern accounting policy.

Corporate directory

REGISTERED NUMBER

3991353

COMPANY SECRETARY

Mrs ZA Fox

REGISTERED OFFICE

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Sir William Lyons Road
Coventry
CV4 7EZ

AUDITOR

RSM UK AUDIT LLP
Chartered Accountants
St Philips Point
Temple Row
Birmingham
B2 5AF

SOLICITORS

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30 Crown Place
London
EC2A 4ES

NOMINATED ADVISOR AND BROKER

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Cassini House
57-58 St James's Street
London
SW1A 1LD

REGISTRAR

Neville Registrars Limited
Neville House
Steelpark Road
Halesowen
B62 8HD

BANKER

HSBC UK Bank plc
3 Rivergate
Temple Quay
Bristol
BS1 6ER

Shareholder information

SHAREHOLDER ENQUIRIES

Any shareholder with enquiries should, in the first instance, contact the Company's registrar, Neville Registrar, using the address provided in the Corporate directory.

SHARE PRICE INFORMATION

London Stock Exchange AIM symbol: FA.

Information on the Company's major shareholders is available in the Share Details section of the Investors area of the FireAngel Safety Technology Group plc website at www.fireangeltech.com.

INVESTOR RELATIONS

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