FireAngel Safety Technology Group plc

('FireAngel', the 'Group' or the 'Company')

Final Results

FireAngel (AIM: FA.), a leading developer and supplier of home safety products, announces its audited final results for the year ended 31 December 2021.

Operational headlines

- Demand, especially for connected products, was much higher than the Company's ability to supply, which has continued in the first few months of 2022
- The Company was pleased with its revenue growth through 2021 (2021: £43.5 million, 2020: £39.9 million)
- Severe supply chain disruption and inflation in H2, especially in Q4, of 2021 prevented an even better outcome for the year
- 2021 started to benefit from the delivery of the gross margin improvement plan with gross margin of 23.2% (2020: 19.8%)
- Valuable agreement announced on 28 March 2022 with Techem Energy Services GmbH ("Techem") to develop a new generation smoke alarm primarily for the German market. Completion of phase 1 of this project, which has been paid for by Techem, has enabled the transition to a second development phase under an extended agreement with Techem

Financial headlines

- Revenue £43.5 million (2020: £39.9 million)
- Underlying LBITDA[1] £0.1 million (2020: LBITDA[1] £1.5 million)
- Underlying operating loss[2] £3.4 million (2020: underlying operating loss[2] £5.4 million)
- Gross profit[3] £10.1 million (2020: £6.2 million); adjusted gross profit[3] £10.1 million (2020: £7.9 million)
- Gross margin 23.2% (2020: 15.9%) on track with gross margin improvement plan; adjusted gross margin[3] 23.2% (2020: 19.8%)
- Non-underlying items totalling £0.3 million before tax (2020: £3.6 million)
- Underlying loss before tax[4] £3.4 million (2020: underlying loss before tax[4] £5.7 million)
- Loss before tax £3.7 million (2020: loss before tax £9.3 million)
- Basic and diluted EPS (2.0p) (2020: (7.7p))
- Net cash (before lease obligations) at 31 December 2021 £0.1 million (cash £3.3 million, invoice discounting drawdowns £nil, Coronavirus Business Interruption Loan Scheme ("CBILS") loan £3.2 million) (2020: net debt (before lease obligations) £3.7 million)
- Equity fundraising of £9.0 million (net of expenses) and refinancing of Coronavirus Large Business Interruption Loan Scheme ("CLBILS") into CBILS to generate an additional £1.7 million of cash strengthened the balance sheet in support of the Company's aim to improve margins substantially
- Financial performance improved compared with 2020 and in line with market expectations

[1] Underlying LBITDA of £0.1 million is loss before tax, depreciation and amortisation, finance costs and non-underlying items (2020: underlying LBITDA of £1.5 million).

[2] Underlying operating loss of £3.4 million is before non-underlying items (2020: underlying operating loss of £5.4 million before non-underlying items). A reconciliation of 'alternative performance measures' to measures prescribed in financial standards is given in the Performance Review section below.

[3] Adjusted gross profit of £10.1 million is stated before non-underlying items (2020: adjusted gross profit £7.9 million). Adjusted gross margin 23.2% is adjusted gross profit as a percentage of revenue, (2020: adjusted gross margin 19.8%).

[4] Underlying loss before tax of £3.4 million is before non-underlying items (2020: underlying loss before tax of £5.7 million before non-underlying items)

Post-balance sheet events and outlook

- The Company announced on 28 March 2022 the formal conclusion of the agreement with Techem for development phase 2, with a detailed specification to develop a new generation alarm ("NGSA") primarily for the German market
- Delivering a step change in gross margin enhancement from Q2 2022 onwards as planned
- A materially positive EBITDA forecast for 2022

John Conoley, Executive Chairman of FireAngel, commented:
"We have made excellent progress in 2021 against our primary goal, to drive margin expansion and, in doing so, return to profitability, with the aim of becoming cash generative at the end of 2022. Despite seeing further impact from the pandemic and its strong knock-on effects to global supply chains, I am pleased with how the Group has performed."

"Our team has done an excellent job of navigating a difficult year. Our steadfast focus on our strategic initiatives, the significant deals signed and our successful fundraising of £9.8m, (before expenses), in April have provided us with a strong platform for further improvement. Meanwhile, the investments we have made to improve efficiencies and counter supply chain issues going forward leave us well positioned for growth, and importantly for further margin expansion in the immediate, medium and long term."

Investor webinar
The management team will be hosting a live presentation with Q&A for retail investors at 16:15 BST today. The presentation can be accessed via the Investor Meet Company platform. Interested investors can sign up to Investor Meet Company for free and add to meet **FIREANGEL**

SAFETY TECHNOLOGY GROUP PLC via the link: https://www.investormeetcompany.com/fireangel-safety-technology-group-plc/register-investor

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Notes to Editors

About FireAngel Safety Technology Group plc
FireAngel's mission is to protect and save lives by making innovative home safety products which are simple and accessible. FireAngel is one of the market leaders in the European home safety products market.

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

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

Strategic review
Executive Chairman's statement

Overview
We entered 2021 with strong momentum and, despite it being another unprecedented year shaped by the COVID-19 pandemic and its knock-on effects to global supply chains, the Board is pleased with how FireAngel has navigated these. The Company delivered improved financial performance through ongoing careful management of costs and changes to pricing. We are grateful for the support received from shareholders both old and new in the equity fundraising undertaken in April 2021, which raised £9.8 million (before expenses) and I am pleased that we have been able to deliver against our commitments made at that time.

Our primary goal at the start of 2021 was to drive margin expansion and, in doing so, return to profitability and become cash generative by the end of 2022. This goal remains unchanged. We have made excellent progress through the improvement of underlying gross margin from 19.8% to 23.2%, delivering next generation products and connected homes technology, whilst maintaining our leading position in each of our UK Retail, UK Trade and International business units. It has been encouraging to see the excellent progress, providing a strong platform for further improvement.

In April 2021, we were delighted to sign a strategically important partnership agreement with Techem Energy Services GmbH ("Techem"), a leading service provider for green and smart buildings and a major supplier of technical solutions to the European rental market. Under the agreement, FireAngel is developing a new generation smoke alarm initially for the German rental market. This agreement is expected to be transformational for the Group and financial contributions are expected from 2021 and to be significant from 2024, especially, from FY 2025 onwards.

We saw further relevant legislation announced in 2021 that is expected to take effect in 2022. Crucially, the Department for Levelling Up, Housing and Communities announced in November 2021 changes that would require carbon monoxide alarms to be fitted in all UK rental properties with gas boilers or fires, as part of social housing reforms intended to improve standards. Precise details of timing and commitments are still under consideration, but we would expect to step up to meet any additional opportunity for the Company during the remainder of 2022 and 2023.

During the lockdowns of each of the last two years, as an essential business, we successfully maintained a balance between colleagues working from home and attending our sites in Coventry and Gloucester in person. There were no days in any lockdown where at least some of FireAngel' s staff did not attend the Company's UK locations in person to maintain the Company's mission to protect and save lives. However, we did not fully overcome the effects of product shortages which impacted customer satisfaction during the fourth quarter of 2021, and in the earlier part of this year. We experienced daily and unpredictable changes in expected supply, which stretched our teams and processes, and caused frustration to some customers for which I am truly sorry. The overall ledger is much to the credit of our colleagues

and the Company, whose goodwill and commitment in the face of so many headwinds enabled us to still ship products to hundreds of thousands (if not millions) of customers last year.

I remain proud of the Company and of its staff for their achievements last year, and I thank my colleagues sincerely for their commitment.

Financial performance

The revenue outturn for 2021 was £43.5 million, an increase from £39.9 million in the prior year, which, whilst in line with our expectations, was restricted due to the effects of COVID-19 on the global supply chain. The gross margin for the year at 23.2% (2020: 15.9%) benefitted from planned internal improvements, but there were some additional product costs caused by the shortage of components.

The Group's balance sheet was further strengthened in the year through the refinancing of the Coronavirus Large Business Interruption Loan Scheme ("CLBILS") loan and replacing it with a Coronavirus Business Interruption Loan Scheme ("CBILS") introducing a further £1.7 million of cash in the year and, as set out above, raising £9.0 million (net of expenses) through an issue of new equity.

With gross margin and underlying operating profit above both the 2019 and 2020 comparables, several strategically important deals signed over the year, and the successful fundraising referred to above strengthening the Group's balance sheet and providing working capital for the next phase of our development, we are extremely pleased with our performance over the year. We believe that FireAngel is in an excellent position to capitalise on growth opportunities going forward.

Strategy

Our medium-term objectives remain unchanged from last year and, as has been previously outlined, the core target for the business is to continue improving gross margin year-on-year, by focusing on three key strands:

- Migrating to higher value activities and cut out lower value, lower impact activities;
- Commercialising our investment in Connected technology; and
- Streamlining our value chain of end-to-end administrative and production activities.

We are pleased with the progress made against each of these objectives.

The funds raised from the equity fundraising in April 2021 have been deployed to improve efficiencies and capabilities across the business, reducing costs, and further expanding our gross margin as part of the above strategic objectives. The funds have also been particularly helpful as we seek to mitigate the current global supply chain challenges and allowed us to forward procure more components.

Strategic progress

Moving to Higher Value Activities

As we confirmed in 31 January 2022's trading update, the Group's project to source entry level products, which are uneconomic to design and produce in Europe, from an existing Chinese partner, has been successful. Deliveries of these products to customers started this month and are expected to be margin enhancing from Q2 2022. This newer product set has, to date, not been materially affected by component issues.

In April 2021, we announced our agreement with Techem, as outlined above. Following a £1.4 million fee for use of our IP payable over the development period, a royalty fee per product will be payable to FireAngel, with 7 million devices forecast to be produced once manufacturing of the new alarms begins in 2024.

We are scaling up our activities to deliver on this agreement, with the second phase (Development Phase 2) having commenced in late 2021. Billing originally commenced in Q2 2021 with approximately £1.0 million having been invoiced by the Company in the year for development work and for use of existing Company IP in the project.

Commercialising connected technology

In February 2021, we announced an agreement with a social housing customer in Scotland to provide approximately 4,000 properties with connected smoke, heat, and carbon monoxide alarms. This contract was of strategic importance as we believe we can be a key supplier of safety equipment for new homes and see excellent potential in supplying the social housing market, particularly given the UK Government's target of building 300,000 new homes each year.

Our expertise in connected technology was also a material factor in securing our partnership with Techem. The world of green and smart buildings is a connected world and we have long been pioneers in connected alarms for safety.

Overall, during the year, and, in particular, the latter part, we could not meet demand for connected products in all sectors due to the supply chain issues and component shortages referred to above. In addition, in 2021, we absorbed inflation which, despite the improving gross margin overall, restricted our gross margin performance. Good performances in many areas were in spite of the issues faced.

We were pleased to announce that we had been re-selected as one of the official suppliers of smoke alarms and associated products to the UK Fire and Rescue Service ("UK F&RS") for four years. This contract was awarded in March 2021 and, with a greater focus on connected products, was testament to the quality and reliability of FireAngel's products as the selection process was concluded following rigorous price, quality, and social impact evaluations.

In 2020, we sold approximately 500,000 connected alarms. Despite our supply problems in 2021, we still managed to sell 665,000 connected alarms, a 33% increase on the preceding year. I am pleased with that of course, but we had unsatisfied demand for far more, especially in UK Retail and UK Trade.

In 2021, we unveiled our new Connected Homes technology, the "New Generation Cellular Gateway", which will enable predictive safety data to be passed onto social housing landlords, meaning that they are better able to offer protective and preventative measures for their tenants. We expect to produce this in volume in Q3 of this year.

Our initial trials with such initiatives have either been delayed or knocked off course by the immediate imperatives of our own business these past two years, and by the COVID-19 related priorities and/or concerns in turn of our customers. However, we expect to be able to regain momentum this year, and we remain confident that safety and care data will be an important contributor to our success in the medium to long term.

At the end of 2021, there were 32,000 devices registered on our mobile app, showing continued strong growth in the uptake of these products and it is pleasing to see that our customers are using them to their full potential.

Value Chain Improvements
We continued to make improvements to the Group's value chain over the course of the year, particularly against our strategy to review the economic potential of our Stock Keeping Units ("SKUs"). This review highlighted that several of our lower value alarms were uneconomic and led us to reduce our SKUs by a third. The aim has been to reduce complexity and increase efficiency, while lowering risks on stock obsolescence.

Efficiencies across the business have been improved from increasing our electronic data interchange ("EDI") capabilities to development of our IT and software systems to provide automated improved processes and communications and reducing the need to increase headcount in line with the increased volumes of the business. The move over to cardboard packaging for our products has not only removed 10 tons of plastics waste from the supply chain in 2021, but also added 1% to our gross margin for 2021 and in future years.

Environmental, Social & Governance ("ESG")
As a fire safety focused technology company, Environmental, Social and Governance ("ESG") issues are already at the heart of our business. In order to put a more deliberate focus on the Company's ESG activities, we have established an ESG Committee. The committee, which is chaired by me, has been put in place to provide oversight and measurement of our ESG related activities across the business.

The committee is comprised of employees at various levels from across the business. Whilst we will develop a longer-term journey, we have decided on some clear initial goals for this year which include carbon footprint measurement and commencing implementation of the environmental standard ISO 140001. We will update on progress in future results announcements.

Management team
The Group was delighted to promote Zoe Fox in April 2021 to the Board as Chief Finance Officer having been Company Secretary since 2019 and Finance Director of the Group's principal subsidiary since 2010. Prior to this, she was Finance Director of BRK Brands Europe Limited, part of the Jarden Corporation. Jon Kempster who was the Company's interim CFO from December 2020 until April 2021 remains on the Board as a Non-Executive Director. Jon is a chartered accountant whose career has included various CFO plc Board positions. Jon's broad financial knowledge and experience bring additional support and input to the Board.

Outlook
We are confident that the middle part of this year will see a step change in gross margin performance, as planned. We have recently begun to ship our new entry level products, a project we initiated in 2020, which will add to the gross margin performance of the overall business beginning Q2 2022. We have reviewed our pricing arrangements, particularly to offset the strong inflationary pressures, and our actions here will begin to have an impact as Q2 2022 progresses.

With the return of an adequate supply of components and products, we expect to see a continuation of the shift of our product mix towards higher margin connected products. We will also continue to put measures in place to safeguard our growth and meet the strong demand we are seeing for our connected products, while developing initiatives focused on growing the core business.

We are excited to have begun the second and major phase of our partnership with Techem. This is a transformational opportunity, from which I expect the Company and its shareholders will derive significant value. We will continue to update investors on this project's progress as we cross key milestones.

We are in an improved financial position and are well capitalised following our April 2021 fundraising and remain comfortable with market expectations for FireAngel to be materially EBITDA positive in 2022. We will continue to support our near-term financial performance with cost mitigations and price adjustments where necessary or prudent to position ourselves to take full advantage of future growth opportunities.

Whilst we do not underestimate the current challenges and uncertainties facing us, we believe that our business model, the strong demand for our products, our ability to adapt to changing circumstances and the increasing regulation around safety standards, leaves us in a good position to continue to grow and prosper.

Underpinning our excellent progress is our proposition to protect and save lives with innovative, cutting-edge home safety technology. We are excited about the potential in our business pipeline and believe that we are well placed to deliver attractive growth and shareholder returns.

John Conoley
Executive Chairman
28 March 2022

Performance review

Group financial results

Overview

2021 started with strong momentum in sales which continued through the year, but the impact of COVID-19 on the global supply chain reduced the ability to achieve all of the Group's full sales potential, especially in H2. Excellent progress was made within the year in the Company's gross margin improvement plan with improved margins starting to be achieved across all business units.

Underlying Group performance

	2021			2020		
	Before non-underlying items	**Non-underlying items**	**Total**	Before non-underlying items	Non-underlying items	Total
	£m	**£m**	**£m**	£m	£m	£m
Revenue	**43.5**	**-**	**43.5**	39.9	-	39.9
Cost of sales	**(33.4)**	**-**	**(33.4)**	(32.0)	(1.7)	(33.7)
Gross profit	**10.1**	**-**	**10.1**	7.9	(1.7)	6.2
Operating expenses	**(13.6)**	**(0.3)**	**(13.9)**	(13.6)	(1.9)	(15.5)
Other operating income	**0.1**	**-**	**0.1**	0.3	-	0.3
Operating loss	**(3.4)**	**(0.3)**	**(3.7)**	(5.4)	(3.6)	(9.0)
Add back:						
Depreciation and amortisation	**3.3**			3.9		
Underlying LBITDA	**(0.1)**			(1.5)		

Total revenue increased by 9.0% to £43.5 million (2020: £39.9 million) resulting in an underlying LBITDA[1] of £0.1 million (2020: £1.5 million). The adjusted gross profit[2] was £10.1 million (2020: £7.9 million), which represented an adjusted gross margin[2] of 23.2% (2020: 19.8%). The underlying operating loss[3] was £3.4 million (2020: underlying operating loss of £5.4 million). The underlying loss before tax[4] was £3.4 million (2020: underlying loss before tax £5.7 million).

[1] Underlying LBITDA of £0.1 million is loss before tax, depreciation and amortisation, finance costs and non-underlying items (2020: underlying LBITDA of £1.5 million).
[2] Adjusted gross profit is stated before non-underlying items. Adjusted gross margin is adjusted gross profit as a percentage of revenue.
[3] Underlying operating loss of £3.4 million is before non-underlying items (2020: underlying operating loss of £5.4 million before non-underlying items)
[4] Underlying loss before tax of £3.4 million is before non-underlying items (2020: underlying loss before tax of £5.7 million before non-underlying items)

The key drivers for changes in revenue and adjusted gross margin are detailed above in the Executive Chairman's statement.

Overall cash inflow in the year was £1.8 million (2020: outflow of £0.6 million) and net cash (before lease obligations) at 31 December 2021 was £0.1 million. This compared with net debt (before lease obligations) of £3.7 million at 31 December 2020. The net movement of £3.8 million comprised an increase in cash and cash equivalents of £1.8 million. There was a net decrease in bank debt of £1.9 million through an equity fundraise of £9.0 million (net of fees), the repayment of £2.5 million under the Company's invoice discounting facility, a repayment of £2.6 million of loans under the Coronavirus Large Business Interruption Loan Scheme ('CLBILS') and a drawdown of £3.2 million of loans under the Coronavirus Business Interruption Loan Scheme ('CBILS').

Income statement

Revenue by business unit
Revenue split between each of the Group's business units and Pace Sensors was as follows:

	2021	**2020**	**Inc/(dec)**	**Inc/(dec)**	**2021 Proportion**	**2020 Proportion**
	£m	**£m**	**£m**	**%**	**%**	**%**
UK Trade	**11.1**	8.0	**3.1**	**39%**	**26%**	19%
UK Retail	**15.6**	16.6	**(1.0)**	**(6%)**	**36%**	42%
UK F&RS	**2.4**	2.9	**(0.5)**	**(17%)**	**5%**	7%
UK Utilities & Leisure	**0.8**	0.9	**(0.1)**	**(11%)**	**2%**	3%

Total sales in the UK	**29.9**	28.4	**1.5**	**5%**	**69%**	71%
International	**10.9**	9.2	**1.7**	**18%**	**25%**	23%
European Partner	**1.0**	-	**1.0**	**N/A**	**2%**	-
Pace Sensors	**1.7**	2.3	**(0.6)**	**(26%)**	**4%**	6%
Total revenue	**43.5**	39.9	**3.6**	**9.0%**	**100%**	100%

As of 1 January 2021, the Company reassigned a number of customers to different business units. Four customers with a combined revenue of £0.4 million in 2020 which were previously reported within the Utilities business unit are now reporting through the Trade business unit. The 2020 sales comparatives have been adjusted accordingly.

Overall, the Group's revenue increased by 9.0% to £43.5 million (2020: £39.9 million). The £3.6 million increase in sales was largely due to stronger international sales, legislation, increased connected sales and relaxing of COVID-19 lockdown restrictions.

UK Trade sales, one the higher margin business units, had a 39% increase on prior year, H1 2021 saw strong performance across UK Trade as lockdown restrictions were lifted and the market fully reopened, demand continued into H2, but due to supply chain constraints could not be completely fulfilled. New business was won and an uplift in sales was seen as a result of Scottish legislation.

UK Retail was another business unit which had a strong start to the year and continued with strong demand into H2 which was not all fulfilled. Margins increased with the improved mix of Connected sales. Sales in the full year retracted slightly by 6% but would have outperformed 2020 sales had it not been for the supply chain challenges in H2.

International sales were up 18% over the prior year. The impact of the COVID-19 lockdown restrictions continued to significantly hamper international retail sales in the earlier part of the year but recovered in H2 with sales growing in Amazon in multiple countries and, in particular, Benelux Trade which grew, with sales up 47% on 2020 and 65% up on 2019 driven by Dutch legislation.

UK F&RS and UK Utilities & Leisure business units continued to be impacted by COVID-19 with restricted access to properties and COVID-19 priorities for the customers. The Group was also pleased to announce in March 2021 that it had been re-selected as one of the official suppliers of smoke alarms and associated products to the UK F&RS, which continues FireAngel's long standing relationship with UK F&RS and is the second time the Group has been included in such a framework agreement.

As set out in the Chairman's statement above, the increase in demand for our products was not met in full during H2 2021 as the global supply chain challenges impacted our ability to supply. However, the Group was able to sell more Connected alarms in 2021 than in the previous two years for UK Trade, UK Retail, International, UK F&RS, and Utilities & Leisure, which improve the Group's margins.

The revenue of £1.0 million from our European partner, Techem, is recognised under IFRS15 accounting standards, adopting the input methodology approach to phase revenue recognition as this is based upon direct efforts to satisfy the dominant component of the performance obligation which is the product design. The total revenue associated with this contract amalgamates the background IP, minimum royalty amounts and the charges for the product development phases. To determine the correct accounting treatment the Group has looked at the individual elements of the contract and has concluded that there is one central non-distinct performance obligation. See note 5 for further details.

Revenue at Pace Sensors, the Group's manufacturer of CO sensors, decreased to £1.7 million (2020: £2.3 million), reflecting the higher stock levels in the supply chain.

Gross profit and gross margin

Adjusted gross profit increased to £10.1 million (2020: £7.9 million) and represented an improved adjusted gross margin of 23.2% (2020: 19.8%).

During the year, overall gross profit was impacted by additional purchase price variances caused from the global supply chain challenges, predominantly increasing costs due to securing components on the open market. This added an additional £0.8 million to the cost of sales. The non-underlying costs for the year within gross margin was a small net credit of £22,000. Non-underlying items impacting gross profit in the prior year amounted to £1.7 million.

The overall gross profit increased from £6.2 million to £10.1 million, representing a gross margin of 23.2% (2020: 15.9%). The increase in gross profit was largely due to the reduction in non-underlying items to a credit of £22,000 (2020: charge of £1.7 million), described below, the increase in revenue and the progress made in improving the Group's gross profit by delivering connected technology and moving to higher value activities as part of the Company's gross margin improvement plan.

Exchange rates

During the year, on average the value of sterling against the US dollar remained largely the same with the peak in May and June 2021 where sterling strengthened against the US Dollar by 3% from the average rate for the year. Sterling strengthened against the Euro with a 6% increase over the course of the year. 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 weakening or strengthening of sterling against the US dollar or Euro during the year increases or decreases the committed sterling cost of forward contracts entered into in accordance with the Group's policy to hedge future US dollar purchase and Euro sale requirements. This mark-to-market decrease or

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 or Euro denominated monetary items. The Group had a £1.0 million positive impact on the gross margin for the year, in 2020 there was a £0.3 million increase in the sterling cost which was detrimental to the gross profit.

Overheads
The Group's overhead costs comprise of the distribution and administrative costs of running the business. Excluding non-underlying items totalling £0.3 million (2020: £1.9 million), further details of which are given below, and depreciation and amortisation of £3.3 million (2020: £3.9 million), overheads of £10.3 million were 6.1% higher than the prior year's £9.7 million, due largely to the increased distribution costs impacted by global supply chain challenges and the continued investment in people to improve processes across the organisation and to deliver the Company strategic objectives.

Total overhead costs amounted to £13.9 million (2020: £15.5 million).

Non-underlying items in 2021
Non-underlying costs totalling £0.3 million were incurred in the year as follows:

Within cost of sales:

Included a credit of £22,000 which included as follows:

- An amount of £66,000 was expensed in relation to the settlement of warranty issues with certain distributors (2020: £0.3 million)
- The Group was able to sell stock lines that had previously been impaired which resulted in a non-underlying credit of £88,000

Within operating expenses:

- Share-based payment charges of £0.3 million were incurred during the year (2020: £0.2 million)

Non-underlying items in 2020
Non-underlying costs totalling £3.6 million were incurred in the year as follows:

Within cost of sales:

- Provision for warranty costs: the FireAngel battery warranty provision, an isolated historical issue relating to a third-party supplier first identified in April 2016, was increased by £1.2 million 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; in addition, an amount of £0.3 million was expensed in relation to the settlement of warranty issues with certain distributors.
- Stock impairment and disposal costs: £0.2 million net was provided in the year as a result of a further review of product lines and future development plans in line with the Group's strategy to become a more technology-led connected home solutions provider. This comprised gross impairment charges of £0.4 million offset by proceeds of £0.2 million from stock previously impaired.

Within operating expenses:

- Intangible capitalised development assets of £1.4 million were impaired during the year as a result of a thorough review of product lines and future development costs.
- Tangible assets of £0.2 million were impaired during the year as a result of a thorough review of tooling required for ongoing product lines.
- Restructuring costs of £0.1 million were incurred in the year.
- Share-based payment charges of £0.2 million were incurred during the year.

Result for the year
The Group's underlying LBITDA for the year amounted to £0.1 million compared with underlying LBITDA of £1.5 million in 2020.

The underlying operating loss for the year amounted to £3.4 million compared to an underlying operating loss of £5.4 million in 2020. After taking account of non-underlying items of £0.3 million (2020: £3.6 million) and finance charges of £nil (2020: £0.3 million) as a result of interest on borrowings in the year, the Group reported a loss before tax of £3.7 million (2020: loss before tax £9.3 million).

The Group booked a tax credit of £0.4 million (2020: tax credit of £0.6 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 2.0 pence per share (2020: loss of 7.7 pence per share).

Statement of financial position

The net assets of the Group amounted to £20.2 million at 31 December 2021 (2020: £14.2 million) and can be summarised as follows:

	2021	2020

	£m	£m
Goodwill	**0.2**	0.2
Plant and equipment	**3.3**	4.3
Capitalised development costs	**11.8**	11.7
Purchased software costs	**1.6**	2.0
Non-current assets	**16.9**	18.2
Net cash balances	**3.3**	1.5
Loans and borrowings	**(3.2)**	(5.2)
Net cash / (debt)	**0.1**	(3.7)
Lease liabilities	**(1.0)**	(1.4)
Net working capital	**5.0**	3.8
Net tax asset (including deferred tax)	**0.5**	0.7
Net derivative financial assets/ (liabilities)	**0.3**	(0.7)
Warranty provision	**(1.6)**	(2.7)
Net assets	**20.2**	14.2

Non-current assets at 31 December 2021 amounted to £16.9 million compared with £18.2 million at 31 December 2020. The most significant components of this were capitalised development costs, with a net book value of £11.8 million, plant and equipment of £3.3 million and purchased software costs of £1.6 million. Capitalised development assets of £0.1 million were impaired during the year as a result of a review of product lines and future development costs.

Total capital expenditure (excluding right of use assets) decreased to £2.0 million compared to £2.8 million in 2020. Of this total, £1.5 million represented capitalised development expenditure to further enhance the Group's connected homes and wider technology (2020: £2.6 million). All research and development costs associated with the development of the new generation smoke alarm for Techem was charged to the customer.

Total capital expenditure of £2.0 million (2020: £2.8 million) compares with depreciation, amortisation and impairment charges totalling £3.3 million (2020: £5.4 million).

Working capital increased by £1.2 million to £5.0 million at 31 December 2021. While stock decreased by £2.9 million to £3.7 million (2020: £6.6 million) at 31 December 2021, the build-up of stock was hindered due to the ongoing effect of COVID-19 impacting the global supply chain thereby reducing our supply of stock from some suppliers and the Company also saw the benefits on the stock of the value chain improvements of reducing the SKU numbers. Trade and other receivables decreased by £0.7 million to £9.4 million (2020: £10.1 million) as a result of reduced revenue in the final quarter of the year due to supply chain challenges resulting in lower stock being available for sale in the last few months of the year. In the year, average debtor days decreased from 62 to 53 due to a change in the mix of sales and lower UK Retail sales as a proportion of the total revenue in Q4 2021.

Trade and other payables decreased by £4.7 million to £8.1 million (2020: £12.8 million). Average creditor days reduced significantly to 21 days (2020: 72 days) due to the increased pressure to support our manufacturing partners with extended working capital exposure from longer component lead times resulting in increased credit exposure in addition to purchasing components on the open market with minimal credit terms.

Net tax assets at 31 December 2021 amounted to £0.4 million (2020: £0.7 million) and comprised a current tax asset of £0.4 million (2020: £0.7 million), deferred tax assets of £3.1 million (2020: £2.4 million) and deferred tax liabilities of £3.1 million (2020: £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 2021 amounted to £1.6 million (2020: £2.7 million) of which £1.0 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 two to three 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. While the utilisation of the provision has broadly tracked to the revised 31 December 2020 estimates, the amounts provided are the Board's best estimate of the ongoing liability.

Cash

The Group had net cash (before lease obligations)[1] of £0.1 million at 31 December 2021 (2020: net debt (before lease obligations)[1] £3.7 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	(1.8)
Reduction of invoice discounting drawdown	(2.5)

Repayment of CLBILs	(2.6)
Drawdown of CBILS loan	3.2
Reduction in net debt (before lease obligations)	(3.7)

The net cash inflow of £1.8 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 £1.3 million, capital expenditure of £2.0 million (as described above), the draw down on the Coronavirus Business Interruption Loan Scheme ("CBILS") loan of £3.2 million and the repayment of the Coronavirus Large Business Interruption Loan Scheme ("CLBILS") of £2.6 million and the cash flows in relation to the equity fundraising described below.

In March 2021, the Group refinanced its existing CLBILS. As the Group's revenue dropped below £45.0 million, the CLBILS (which had reduced to £2.0 million at the end of March 2021) was refinanced under the CBILS with HSBC UK. The new loan of, in aggregate, £3.7 million ("New Loan") comprises a CBILS loan of £3.2 million and an additional Receivables Finance CBILS of £0.5 million. The New Loan, which was used to partially to pay off the balance of the CLBILS, has a term of 6 years with the first year being free of interest and capital repayments and an interest rate thereafter of 3.99 per cent. over the Bank of England's base rate. While the full £3.2 million CBILS loan was drawn down in full in March 2021, the £0.5 million additional Receivables Finance CBILS as at the date of this announcement has not been drawn on. The Group maintains its existing Invoice Discounting Facility of £7.5 million, which at 31 December had not been drawn on.

In April 2021, the Group raised £9.8 million (gross) through the issue of 54,444,444 new ordinary shares of 2p nominal value at an issue price of 18p per share. Share issue expenses amounted to £0.8 million. The net proceeds of £9.0 million were to provide the Group with the resources to deliver the strategy and return to profitability.

	2021	2020
	£m	£m
Underlying operating loss[2]	**(3.4)**	(5.4)
Depreciation and amortisation charges	**3.3**	3.9
(Increase)/ decrease in working capital	**(1.0)**	2.1
Decrease in fair value of derivatives	**(1.0)**	0.3
(Used by)/from operations before non-underlying payments	**(2.1)**	0.9
Cash cost of warranty provision and other non-underlying items	**(1.3)**	(2.3)
Cash used by operations	**(3.4)**	(1.4)
Interest paid (net)	**(0.1)**	(0.3)
Taxation received	**0.6**	0.7
Capital expenditure	**(2.0)**	(2.8)
Proceeds from share issue (net)	**9.0**	5.5
(Repayment) of invoice finance	**(2.5)**	(4.4)
Drawdown of loan	**3.2**	3.2
Repayment of loan	**(2.6)**	(0.6)
Loan restructuring costs	**-**	-
Lease payments	**(0.4)**	(0.5)
Net cash flow	**1.8**	(0.6)

[1] Net cash (before lease obligations) in 2021 of £0.1 million is calculated as cash and cash equivalents, loans and borrowings and invoice discounting facilities (2020: net debt (before lease obligations): £3.7 million)
[2] Underlying operating loss in 2021 of £3.4 million is before non-underlying items (2020: underlying operating loss of £5.4 million before non-underlying items).

Use of non-GAAP financial performance measures

Certain disclosures and analyses set out in this announcement include measures, which are not defined by generally accepted accounting principles ('GAAP') under international accounting standards in conformity with the Companies Act 2006. 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 this Performance Review, relevant GAAP measures:

Underlying profit measures

	2021	2020
	£m	£m
Adjusted gross profit		
Reported gross profit	**10.1**	6.2
Non-underlying items:	**-**	
- Provision for warranty costs	**0.1**	1.5
- Provision against stock and disposal costs (net)	**(0.1)**	0.2
Adjusted gross profit	**10.1**	7.9

Adjusted gross margin percentage

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

	2021	2020
	£m	£m
Underlying operating loss		
Reported operating loss	**(3.7)**	(9.0)
Non-underlying items:		
- Provision for warranty costs	**0.1**	1.5
- Provision against stock and disposal costs (net)	**(0.1)**	0.2
- Restructuring costs	**-**	0.1
- Impairment of intangible assets	**-**	1.4
- Impairment of tangible assets	**-**	0.2
- Share-based payments charge	**0.3**	0.2
Underlying operating loss	**(3.4)**	(5.4)

	2021	2020
	£m	£m
Underlying loss before tax		
Reported loss before tax	**(3.7)**	(9.3)
Non-underlying items:		
- Provision for warranty costs	**0.1**	1.5
- Provision against stock and disposal costs (net)	**(0.1)**	0.2
- Restructuring costs	**-**	0.1
- Impairment of intangible assets	**-**	1.4
- Impairment of tangible assets	**-**	0.2
- Share-based payments charge	**0.3**	0.2
Underlying loss before tax	**(3.4)**	(5.7)

	2021	2020
	£m	£m
Underlying LBITDA		
Reported loss before tax	**(3.7)**	**(9.3)**

Finance costs	**-**	**0.3**
Depreciation and amortisation	**3.3**	**3.9**
Non-underlying items:		
- Provision for warranty costs	**0.1**	**1.5**
- Provision against stock and disposal costs (net)	**(0.1)**	**0.2**
- Restructuring costs	**-**	**0.1**
- Impairment of intangible assets	**-**	**1.4**
- Impairment of tangible assets	**-**	**0.2**
- Share-based payments charge	**0.3**	**0.2**
Underlying LBITDA	**(0.1)**	**(1.5)**

Net cash before lease obligations
Net cash before lease obligations 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 and is calculated as the net of cash and cash equivalents, loans and borrowings and invoice discounting facilities.

Dividend
As a result of the loss reported for the year, and consistent with the decision not to declare an interim dividend (2020: nil pence per share), the Directors do not recommend the payment of a final dividend (2020: nil pence per share). The total dividend payable for 2021 is therefore nil pence per share (2020: nil pence per share).

Post balance sheet events
As announced on 28 March 2022 the Group successfully completed the fully funded Development Phase 1 (DP1) of its partnership with Techem and has now formally concluded the agreement with Techem for Development Phase 2 (DP2), with a detailed specification. It is expected that the development period will last until the end of 2024 and the new generation smoke alarm will be available for sale in H2 2024. Techem has also selected the FireAngel CO sensor, manufactured by FireAngel's CO sensor factory in Canada, to be incorporated exclusively into the new alarm, which is expected to significantly increase the medium-term financial opportunity for the Group.

Zoe Fox
Chief Finance Officer
28 March 2022

Consolidated income statement
For the year ended 31 December 2021

		2021			2020		
	Note	**Before non-underlying items**	**Non-underlying items (note 6)**	**Total**	Before non-underlying items	Non-underlying items (note 6)	Total
		£000	**£000**	**£000**	£000	£000	£000
Revenue	4	**43,472**	**-**	**43,472**	39,928	-	39,928
Cost of sales		**(33,393)**	**22**	**(33,371)**	(32,032)	(1,717)	(33,749)
Gross profit		**10,079**	**22**	**10,101**	7,896	(1,717)	6,179
Operating expenses		**(13,580)**	**(280)**	**(13,860)**	(13,606)	(1,924)	(15,530)
Other operating income		**82**	**-**	**82**	291	-	291
Loss from operations		**(3,419)**	**(258)**	**(3,677)**	(5,419)	(3,641)	(9,060)
Finance costs	8	**(33)**	**-**	**(33)**	(278)	-	(278)
Loss before tax		**(3,452)**	**(258)**	**(3,710)**	(5,697)	(3,641)	(9,338)
Income tax credit	9	**430**	**-**	**430**	630	-	630

Loss attributable to equity owners of the Parent		**(3,022)**	**(258)**	**(3,280)**	(5,067)	(3,641)	(8,708)
Basic earnings per share	11			**(2.0)**			(7.7)
Diluted earnings per share	11			**(2.0)**			(7.7)

All amounts stated relate to continuing activities.

Consolidated statement of comprehensive income

For the year ended 31 December 2021

	2021	2020
	£000	£000
Loss for the year	**(3,280)**	(8,708)
Items that may be reclassified subsequently to profit and loss:		
Exchange differences on translation of foreign operations (net of tax)	**32**	(22)
Total comprehensive loss for the year	**(3,248)**	(8,730)

Consolidated and Company statement of financial position

As at 31 December 2021

		Consolidated	
	Note	**2021**	2020
		£000	£000
Non-current assets			
Goodwill		**169**	169
Other intangible assets		**11,825**	11,738
Purchased software costs		**1,625**	2,059
Property, plant and equipment		**3,242**	4,263
Shares in subsidiaries		**-**	-
		16,861	18,229
Current assets			
Inventories	12	**3,737**	6,558
Trade and other receivables		**9,430**	10,071
Current tax asset		**464**	711
Derivative financial assets		**291**	-
Cash and cash equivalents		**3,294**	1,466
		17,216	18,806
Total assets		**34,077**	37,035
Current liabilities			
Trade and other payables		**(8,135)**	(12,834)
Lease liabilities	13	**(456)**	(440)
Current tax liabilities		**-**	(32)
Provisions	14	**(1,012)**	(1,491)
Invoice discounting facilities		**-**	(2,539)
Loans and borrowings	13	**(480)**	(2,600)
Derivative financial liabilities		**-**	(693)
		(10,083)	(20,629)

Net current assets /(liabilities)		**7,133**	(1,823)
Non-current liabilities			
Loans and borrowings	13	**(2,743)**	(23)
Lease liabilities	13	**(492)**	(941)
Provisions	14	**(541)**	(1,254)
		(3,776)	(2,218)
Total liabilities		**(13,859)**	(22,847)
Net assets		**20,218**	14,188
Equity			
Called up share capital		**3,621**	2,531
Share premium account		**30,009**	22,104
Currency translation reserve		**153**	121
Retained earnings		**(13,565)**	(10,568)
Total equity attributable to equity holders of the Parent Company		**20,218**	14,188

Consolidated and Company cash flow statement

For the year ended 31 December 2021

	Note	Consolidated	
		2021	2020
		£000	£000
Loss before tax		**(3,710)**	(9,338)
Finance expense		**33**	278
Operating loss for the year		**(3,677)**	(9,060)
Adjustments for:			
Depreciation of property, plant and equipment, and right-of-use assets		**1,420**	1,429
Amortisation of intangible assets		**1,876**	2,482
Loss on disposal of non-current assets		**47**	-
Non-underlying items	6	**258**	3,641
Cash flow relating to non-underlying items		**(1,242)**	(2,287)
Decrease in fair value of derivatives		**(984)**	264
Operating cash flow before movements in working capital		**(2,302)**	(3,531)
Movement in inventories		**2,909**	(479)
Movement in receivables		**732**	1,911
Movement in provisions		**-**	(28)
Movement in payables		**(4,714)**	683
Cash used in by operations		**(3,375)**	(1,444)
Income taxes received		**645**	680
Net cash used in by operating activities		**(2,730)**	(764)
Investing activities			
Capitalised development costs		**(1,529)**	(2,554)
Purchase of property, plant and equipment		**(434)**	(277)
Net cash used in investing activities		**(1,963)**	(2,831)

Financing activities		
Repayment of loan	**(2,600)**	(600)
Drawdown of loan	**3,200**	3,223
Repayment of invoice finance	**(2,539)**	(4,445)
Proceeds from issue of ordinary shares (net of expenses)	**8,995**	5,499
Repayment of lease obligations	**(441)**	(381)
Interest paid	**(124)**	(278)
Net cash generated by financing activities	**6,491**	3,018
Net increase/ (decrease) in cash and cash equivalents	**1,798**	(577)
Cash and cash equivalents at beginning of year	**1,466**	2,062
Non-cash movements - foreign exchange	**30**	(19)
Cash and cash equivalents at end of year	**3,294**	1,466

Consolidated statement of changes in equity

For the year ended 31 December 2021

	Share capital £000	Share premium account £000	Currency translation reserve £000	Retained earnings £000	Total £000
Balance at 1 January 2020	**1,519**	**17,617**	**143**	**(2,103)**	**17,176**
Loss for the year	-	-	-	(8,708)	(8,708)
Net foreign exchange gains from overseas subsidiaries	-	-	(22)	-	(22)
Total comprehensive loss for the year	**-**	**-**	**(22)**	**(8,708)**	**(8,730)**
Transactions with owners in their capacity as owners:					
Issue of equity shares	1,012	-	-	-	1,012
Premium arising on issue of equity shares	-	5,062	-	-	5,062
Share issue expenses	-	(575)	-	-	(575)
Credit in relation to share-based payments	-	-	-	243	243
Total transactions with owners in their capacity as owners	1,012	4,487	-	243	5,742
Balance at 31 December 2020	**2,531**	**22,104**	**121**	**(10,568)**	**14,188**
Loss for the year	-	-	-	(3,280)	(3,280)
Net foreign exchange gains from overseas subsidiaries	-	-	32	-	32
Total comprehensive loss for the year	**-**	**-**	**32**	**(3,280)**	**(3,248)**
Transactions with owners in their capacity as owners:					
Issue of equity shares	1,090	-	-	-	1,090
Premium arising on issue of equity shares	-	8,711	-	-	8,711
Share issue expenses	-	(806)	-	-	(806)
Credit in relation to share-based payments	-	-	-	283	283
Total transactions with owners in their capacity as owners	**1,090**	**7,905**	**-**	**283**	**9,278**
Balance at 31 December 2021	**3,621**	**30,009**	**153**	**(13,565)**	**20,218**

Notes to the financial information

For the year ended 31 December 2021

1. General information

FireAngel Safety Technology Group plc is registered and domiciled in England and Wales, having been incorporated under the Companies Act, company registration number 3991353. The Company is a public company limited by shares and is listed on the Alternative Investment Market ('AIM') of the London Stock Exchanges. 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 (together the "Group") are in the business of the design, sale and marketing of smoke, heat 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.

The Board of Directors approved this announcement on 28 March 2022

The preliminary financial information does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 for the financial year ended 31 December 2021 but has been extracted from those accounts. The annual accounts for the year ended 31 December 2021 have been prepared in accordance with UK adopted International Accounting Standards. They have been prepared using the historical cost convention except where the measurement of balances at fair value is required. The financial information included in this preliminary announcement does not include all the disclosures required in accounts prepared in accordance with UK adopted International Accounting Standards and accordingly it does not itself comply with UK adopted International Accounting Standards.

The financial information for the period ended 31 December 2020 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The statutory accounts for the year ended 31 December 2021 will be delivered to the Registrar of Companies following the Company's annual general meeting. The auditors have reported on the accounts for the years ended 31 December 2020 and 2021; their reports were unqualified, did not include any matters to which the auditor drew attention by way of emphasis and did not contain a statement under s498(2) or s498(3) of the Companies Act 2006.

2. Summary of significant accounting policies

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.

Revenue recognition
Revenue represents income derived from contracts for the provision of goods and services, over time or at a point in time, by the Group, to customers in exchange for consideration in the ordinary course of the Group's activities

Contracts with customers are assessed to identify performance obligations for both the transfer of goods or for the provision of services. Goods and services are distinct and accounted for as separate performance obligations if the customer can benefit from them either on their own or together with other resources that are readily available to the customer and they are separately identifiable in the contract. The Group has determined that all of these contracts include a single performance obligation as the promises within the contracts are not separately identifiable.

Revenue is recognised as performance obligations are satisfied as control of the goods and services is transferred to the customer. For each performance obligation within a contract, the Group determines whether it is satisfied over time or at a point in time.

Performance obligations are satisfied over time if one of the following criteria is satisfied:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date.

For each performance method to be recognised over time, the Group recognises revenue using an input method, based on costs incurred or as a proportion of estimated total contract costs or physical proportion of contract work completed in relation to the total. Revenue and attributable margin are calculated by reference to reliable estimates of transaction price and total expected costs and are therefore recognised progressively as costs are incurred or work is completed.

When it is considered probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Group has determined that most of its contracts satisfy the point in time criteria as the 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 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.

Going concern
The Group has been loss making in recent years and absorbed cash at an operational level. The Group has raised fresh equity and support from its bank through the government backed loan schemes. The impact of COVID-19 has been material to the Group due to the knock-on effect of COVID-19 on global supply chains. The Company has navigated these well, but shortage of inventory and components has prevented the growth originally planned. In H1 2021 the business saw good expansion and improvements in its underlying trading, this was curtailed in H2 by the supply chain restrictions experienced, but the Group started to deliver on the gross margin improvement plan improving

adjusted margins from 19.8% in 2020 to 23.2% in 2021 which, along with new pricing strategies has provided a strong platform to protect and improve margins in 2022.

The Group is anticipated to absorb cash in FY 2022 but will start to generate cash from H2 2022 and continue in full year 2023. The forecasts show the Group has sufficient cash to deliver the strategy and return the Group to profitability and cash generative activity levels.

The Directors have reviewed the forecast sales growth, budgets and cash projections for the period to June 2023 including sensitivity analysis on the key assumptions such as the potential impact of reduced sales for the next twelve months and beyond. The base case scenario reflects the remaining uncertainty regarding the timing of the return to normal trading circumstances. Various plausible but severe downside scenarios were then applied to the base case linked to the trading conditions seen in the 2021 financial year, assuming revenues would not see the expected growth and that margins may deteriorate. The results showed sufficient cash headroom throughout the outlook period. The base case was then reverse stress tested and the level of deterioration required for the Group to exceed the banking headroom was deemed to be highly unlikely.

The Directors have assessed both the discretionary and the non-discretionary cash requirements of the Group during this period. 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 Group has continued to benefit from a supportive relationship with its bank and reviewed the financial position of the Group, its cash flows, borrowing facilities and banking covenants. The key factors considered by the Directors were:

- the implications of the current economic environment and future uncertainties around the Group's revenues and profits by undertaking forecasts and projections on a regular basis;
- the impact of the competitive environment within which the Group operates;
- the impact of COVID-19 and related global supply chain issues;
- the potential actions that could be taken in the event that revenues or gross profits are worse than expected, to ensure that operating profit and cash flows are protected.

The Directors have reasonable expectations that the Group and the Company have adequate resources to continue operations for the period of at least one year from the date of approval of these financial statements. The Directors have not identified any material uncertainties that may cast doubt over the ability of the Group and Company to continue as a going concern and the Directors continue to adopt the going concern basis in preparing these financial statements.

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 12.

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

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.

European Partner Revenue recognition
In April 2021 the Group signed a long-term partnership agreement with, Techem, to provide a fully funded research and development programme for a new generation smoke alarm.

Consideration has been given as to whether to adopt IFSR15 revenue recognition accounting principles or IFRS 11 joint venture accounting treatment. The Group has concluded that Techem are in control of the design phase and thus do not require a unanimous consent of both parties which is required to adopt IFRS 11 treatment.

The assessment of the dominant factor in the contract requires significant judgement. The Group have looked at the promises within the contract (product design phases, licences and warranties) on their own merit to analyse if they are distinct or whether they need to be treated as one combined performance obligation. The Group has concluded that as the product design, development, prototypes and licences are not distinct in the context of the contract, there is a single combined performance obligation.

The assessment of the dominant factor also requires significant judgement and on the balance of evidence the Group has taken the view that the development services are dominant looking at both the contractual prices and level of effort required to deliver the development services to the customer. The Group has considered how the performance obligation is satisfied by analysing the transfer of control of the

intellectual property to the customer. The asset created has no alternative use for FireAngel, that is only Techem can use the product prototype and designs and FireAngel has an enforceable right to payment for performance completed. As such the Group has concluded that the Group's performance creates an asset that Techem controls as it is created. Therefore, the licences (Background IP and Foreground IP) should be evaluated under paragraphs 31-38 of IFRS 15, rather than the licence guidance in paragraphs B58- B61. The Group has decided that the most appropriate methodology to recognise revenue over time is the input methodology which is based upon the Group's efforts to satisfy the performance obligation.

Using the input methodology, the Group have needed to consider the accuracy of forecasted development costs. These forecasts are built from the ground up and are the Group's best estimate of costs to complete the development phase. Any changes in the total design phase costs will have an impact of the timing of revenue recognition.

The Group has also had to consider the value prescribed to the royalty fees earned during the contract. The contract between the two parties guarantees a minimum royalty fee of €3 million. The minimum royalty fee of €3m has been included in the initial contract consideration which is being recognised as described above. This amount will be payable as products are sold and therefore the contract includes a significant financing element. Once the minimum royalty fee has been received the intellectual property transfers to the German service provider and FireAngel is granted a licence to use this IP for the development, manufacture and sale of FireAngel's own products. No value has been attributed to the non-cash consideration represented by the Group's future rights over this IP as until development is completed no reliable assessment of fair value can be made and therefore it is not yet probable that there will not be a significant reversal of any amount recognised.

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 2021, the Group recognised an impairment charge of £0.1 million against its capitalised intangible product development costs after a thorough review of product lines and future development costs.

The Board notes that the Group has a significant value of intangible assets on the balance sheet at the year end. Connected homes intangible assets with a net book value of £2.1 million are not yet being amortised as they are currently being developed for sale. Connected home intangible assets with a net book value of £3.4 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 three years and the heightened risk of impairment that this leads to.

Deferred tax recognition
At 31 December 2021 there is a deferred tax asset of £1,500,811 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.

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 2021 amounted to £0.5 million (2020: £0.6 million).

4. 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.

IFRS 8 requires operating segments to be determined based on the Group's internal reporting to the Chief Operating Decision Maker ('CODM'). The CODM has been determined to be the Executive Chairman as he is primarily responsible for the allocation of resources and the assessment of the performance.

Based on the information on which strategic and operating decisions are made, the CODM 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	**2021 £000**	2020 £000
Business Units:		
UK Trade	**11,054**	8,000
UK Retail	**15,614**	16,603
UK Fire & Rescue Services	**2,367**	2,875
UK Utilities	**826**	923
International	**10,891**	9,198
European Partner	**1,043**	-
Pace Sensors	**1,677**	2,329
Total revenue from external customers	**43,472**	39,928

All business units, excluding Pace Sensors and our European Partner, earn revenue from the sale of smoke, heat 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. Revenue from our European Partner is derived from a research and development programme for a new generation smoke alarm, for further details see note 5.

As of 1 January 2021, the Company reassigned a number of customers to different business units. Four customers with a combined revenue of £0.4 million in 2020 which were previously reported within the Utilities business unit are now reporting through the Trade business unit. The 2020 sales comparatives have been adjusted accordingly.

For 2021, revenues of approximately £4.7 million were derived from one external customer (2020: £9.4 million from two external customers), which individually contributed over 10% of the Group's total revenue. These revenues are attributable to the UK Retail business unit. An analysis of the Group's revenue is as follows:

	2021 £000	2020 £000
Continuing operations:		
UK	**29,861**	28,400
Continental Europe	**11,839**	8,961
Rest of World	**1,772**	2,567
	43,472	39,928

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

	2021 £000	2020 £000
Continuing operations:		
UK	**16,671**	18,050
Canada	**190**	179
Non-current assets	**16,861**	18,229

5. Revenue recognition - European Partner

In April 2021 the Group signed a long-term partnership agreement with a Techem to provide a research and development programme for a new generation smoke alarm. The Group has looked at the individual element of the contract and has concluded that there are not separate performance obligations and as such the contract forms one central non-distinct performance obligation.

In order to determine the total revenue associated with this contract the Group has amalgamated the already agreed background IP and minimum royalty amounts with the forecasted fees for the product development phases. The payment structure agreed in the contract dictates that consideration will be received at contract milestones during the development phase and once product starts to be delivered. As a result of the payment schedule within the contract it has been determined the contract includes a significant financing element. Therefore, the expected cash flows have been discounted using the Group's own borrowing rate. These discounted amounts will be recognised as interest earned using the same phasing methodology as revenue .

To determine the phasing of the revenue recognition the Group has chosen to adopt the input methodology approach as this is based upon direct efforts to satisfy the dominant component of the performance obligation which is the product design element. This methodology dictates that progress be measured by viewing current spend against total projected development spend. At the end of 2021 the Group has calculated it is 17% of the way through its development process based on this methodology.

The contract between the two parties guarantees a minimum royalty fee of €3 million. The minimum royalty fee of €3m has been included in the initial contract consideration which is being recognised as described above. This amount will be payable as products are sold and therefore the contract includes a significant financing element. The Group currently values the consideration of the design and development phase of the contract at £6.7 million (£6.2 million in revenue and £0.5 million as interest receivable). The Group has recorded a net contract asset of £0.1m as the contract billing arrangements at specific milestones does not mirror the accounting treatment of performance obligation satisfaction.

Once the minimum royalty fee has been fully paid the intellectual property transfers to the German service provider and FireAngel will be granted a licence to use this IP for the development, manufacture and sale of FireAngel's own products. No value has been attributed to the non-cash consideration represented by the Group's future rights over this IP as until development is completed no reliable assessment of fair value can be made and therefore it is not yet probable that there will not be a significant reversal of any amount recognised.

	2021 £000
Revenue recognised	1,043
Costs recognised	(437)
Gross profit attributable to contract	**606**
Revenue recognised	1,043
Interest income recognised	91
Total consideration	**1,134**
Billing to date	(1,060)
Accrued income	**74**

6. Non-underlying items

	2021 £000	2020 £000
Within cost of sales		
Provision for warranty costs (note a)	**-**	1,168
Commercial distributer settlements (note b)	**66**	324
Provision against stock and disposal costs (note c)	**(88)**	225
	(22)	1,717
Within operating expenses		
Restructuring and fundraising costs (note d)	**-**	77
Impairment of intangible assets (note e)	**-**	1,416
Impairment of tangible assets (note f)	**(3)**	188
Share-based payment charges	**283**	243
	280	1,924
Total non-underlying items	**258**	3,641

a. In 2020, the FireAngel battery warranty provision, an isolated legacy issue relating to a third-party supplier first identified in April 2016, was increased by £1.2 million. The additional provision 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 being seen. The cash impact of the warranty provision in 2021 was £1.2 million.

b. Customer settlements relating to the battery impedance totalled £0.1 million for the year (2020: £0.3 million). There was no cash impact in 2021 relating to these settlements.

c. During 2021 the Group was able to sell stock lines that had previously been impaired which resulted in a non-underlying credit of £0.1 million (2020: £0.2 million charge). The cash impact in 2021 for disposing of stock previously provided for was £50,000.

d. Restructuring and certain fundraising costs of £0.1 million were incurred and paid in 2020.

e. No non-underlying intangible impairment charge was recorded in 2021 following a review of product lines and future development costs. The prior year charge was £1.4 million.

f. Tangible assets of £0.2 million were impaired during 2020 as a result of a thorough review of tooling required for ongoing product lines.

7. Other operating income

Furlough payments of £nil were received under the UK Government's Coronavirus Job Retention Scheme and £0.1 million under the Canadian Emergency Wage Subsidy. The scheme enabled employers to retain staff despite the economic impact of COVID-19 through government grants relating to wage subsidies. As per the accounting policies adopted, the grant received was recognised in the profit and loss in 'other income' as the related salaries for the furloughed employees were recognised.

8. Finance costs

	2021 £000	2020 £000
Interest expense on bank balance	**(84)**	(227)
Lease liability interest expense	**(40)**	(51)
Interest received on discounted cash flows	**91**	-
Total finance costs	**(33)**	(278)

9. Income tax

	2021 £000	2020 £000
Current tax		
UK corporation tax credit	**(434)**	(711)
UK - adjustments in respect of prior periods charge/(credit)	**16**	(49)
Foreign tax charge	**(12)**	130
	(430)	(630)
Deferred tax		
Origination and reversal of temporary differences	**-**	-
Adjustments in respect of prior periods	**-**	-
Income tax credit	**(430)**	(630)

Domestic income tax is calculated at 19% (2020: 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:

	2021 £000	**%**	2020 £000	%
Loss before tax	**(3,710)**		(9,338)	
Tax at the domestic income tax rate of 19.00% (2020: 19.00%)	**(705)**		(1,774)	
Tax effect of expenses that are not deductible in determining taxable profit	**60**		52	
Effect of allowance for capitalised development expenditure	**(187)**		(306)	
Adjustments in respect of prior periods	**16**		(49)	
Deferred tax not recognised	**544**		1,428	
Impact of foreign tax rates	**(30)**		59	
Difference in current and deferred tax rates	**(351)**		-	
Effect of tax rate change on opening patent box set-off	**279**		-	
Other adjustments	**(56)**		(40)	
Tax credit and effective tax rate for the year	**(430)**	**12%**	(630)	7%

The weighted average applicable tax rate was 12% (2020: 7%). The tax credit for 2021 is largely due to enhanced research and development tax relief at a rate of 230% and operating losses in the year of £3.7 million.

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

At 31 December 2021 there is a deferred tax asset of £1,500,811 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 2021 was nil (2020: nil)

10. Dividends

As a result of the loss reported for the year, and consistent with the decision not to pay an interim dividend (2020: nil pence per share), the Directors do not recommend payment of a final dividend for the year (2020: nil pence per share). The total dividend payable for 2021 is therefore nil pence per share (2020: nil pence per share).

11. Earnings per share

Earnings from continuing operations	**2021 £000**	2020 £000
Earnings for the purposes of basic and diluted earnings per share (loss for the year attributable to owners of the Parent)	**(3,280)**	(8,708)

Number of shares	**'000**	'000
Weighted average number of ordinary shares - basic calculation	**160,308**	112,865
Dilutive potential ordinary shares from share options	**-**	-
Weighted average number of ordinary shares - diluted calculation	**160,308**	112,865

	2021 Pence	2020 Pence
Basic earnings per share	**(2.0)**	(7.7)
Diluted earnings per share	**(2.0)**	(7.7)

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 weighted average number of 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 2021.

12. Inventories

	2021 £000	2020 £000
Raw materials	**161**	133
Work-in-progress	**98**	267
Finished goods	**4,026**	6,790
Total gross inventories	**4,285**	7,190
Inventory provisions	**(548)**	(632)
Total net inventories	**3,737**	6,558

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 costs of £0.1 million were provided in the year (2020: £1.7 million).

13. Loans and borrowings

	2021 £000	2020 £000
Bank term loan	**3,223**	2,623
Invoice discounting facilities	**-**	2,539

During the year the Group refinanced its existing Coronavirus Large Business Interruption Loan Scheme ("CLBILS") with HSBC UK. The new loan of, in aggregate, £3.7 million comprises a Coronavirus Business Interruption Loan Scheme ("CBILS") loan of £3.2 million and an additional Receivables Finance CBILS of £0.5 million which has yet to be drawn down. The CBILS loan, which was used to pay off the balance of the CLBILS, has a term of 6 years with the first year being free of interest and capital repayments and an interest rate thereafter of 3.99 per cent. over the Bank of England's base rate. The Group maintains its existing Invoice Discounting Facility of £7.5 million, which at 31 December had not been drawn on.

At 31 December 2021, the Group had the following lease liabilities totalling £0.9 million:

	Within 6 months £000	6 months to 1 year £000	1 to 5 years £000	Over 5 years £000	Total at 31 December 2021 £000
Maturity analysis of lease liabilities:					
Land and buildings	217	218	468	-	903
Plant and machinery	1	8	17	-	26
Vehicles	7	5	7	-	19
Total lease liabilities	**225**	**231**	**492**	**-**	**948**

14. Provisions

	FireAngel warranty provisions £000	BRK Brands warranty provisions £000	Total £000
At 1 January 2020	3,465	28	3,493
Charge in year	1,167	-	1,167
Utilisation in year	(1,887)	(28)	(1,915)
At 31 December 2020	2,745	-	2,745
Charge in year	-	-	-
Utilisation in year	(1,192)	-	(1,192)
At 31 December 2021	**1,553**	**-**	**1,553**

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

	2021 £000	2020 £000
Current provision	**1,012**	1,491
Non-current provision	**541**	1,254
Total warranty provisions	**1,553**	2,745

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.

15. Share capital and reserves

On 8 May 2021, the Company raised £9.8 million (gross) through the issue of 54,444,444 new ordinary shares of 2p nominal value each at an issue price of 18p per share. The premium on issue was 16p per share amounting to £8.7 million. This was credited to the share premium account. Share issue expenses amounted to £0.8 million. These were debited to the share premium account.

16. Changes in liabilities arising from financing activities

	Bank Loans £000	Invoice discounting facility £000	Lease liabilities £000	Total £000
Balance at 1 January 2020	**-**	**6,985**	**1,479**	**8,464**
Net cash generated/ (used in) financing activities	2,623	(4,446)	(381)	(2,204)
Acquisition of leases	-		283	283
Balance at 31 December 2020	**2,623**	**2,539**	**1,381**	**6,543**
Net cash generated/ (used in) financing activities	600	(2,539)	(441)	(2,380)
Acquisition of leases	-	-	8	8
Balance at 31 December 2021	**3,223**	**-**	**948**	**4,171**

17. Post balance sheet event

As announced on 28 March 2022 the Group successfully completed the fully funded Development phase 1 (DP1) of its partnership with Techem, to develop a new generation alarm primarily for the German market and has now formally concluded the agreement with Techem for Development Phase 2 (DP2), with a detailed specification. It is expected that the development period will last until the end of 2024 and the new generation smoke alarm will be available for sale in H2 2024. Techem has also selected the FireAngel CO sensor, manufactured by FireAngel's CO sensor factory in Canada, to be incorporated exclusively into the new alarm, which is expected to significantly increase the medium-term financial opportunity for the Group.

18. Availability of announcement

A copy of this announcement is available on the Company's website at www.fireangeltech.com and at its registered office: FireAngel Safety Technology Group plc, Vanguard Centre, Sir William Lyons Road, Coventry, CV4 7EZ.