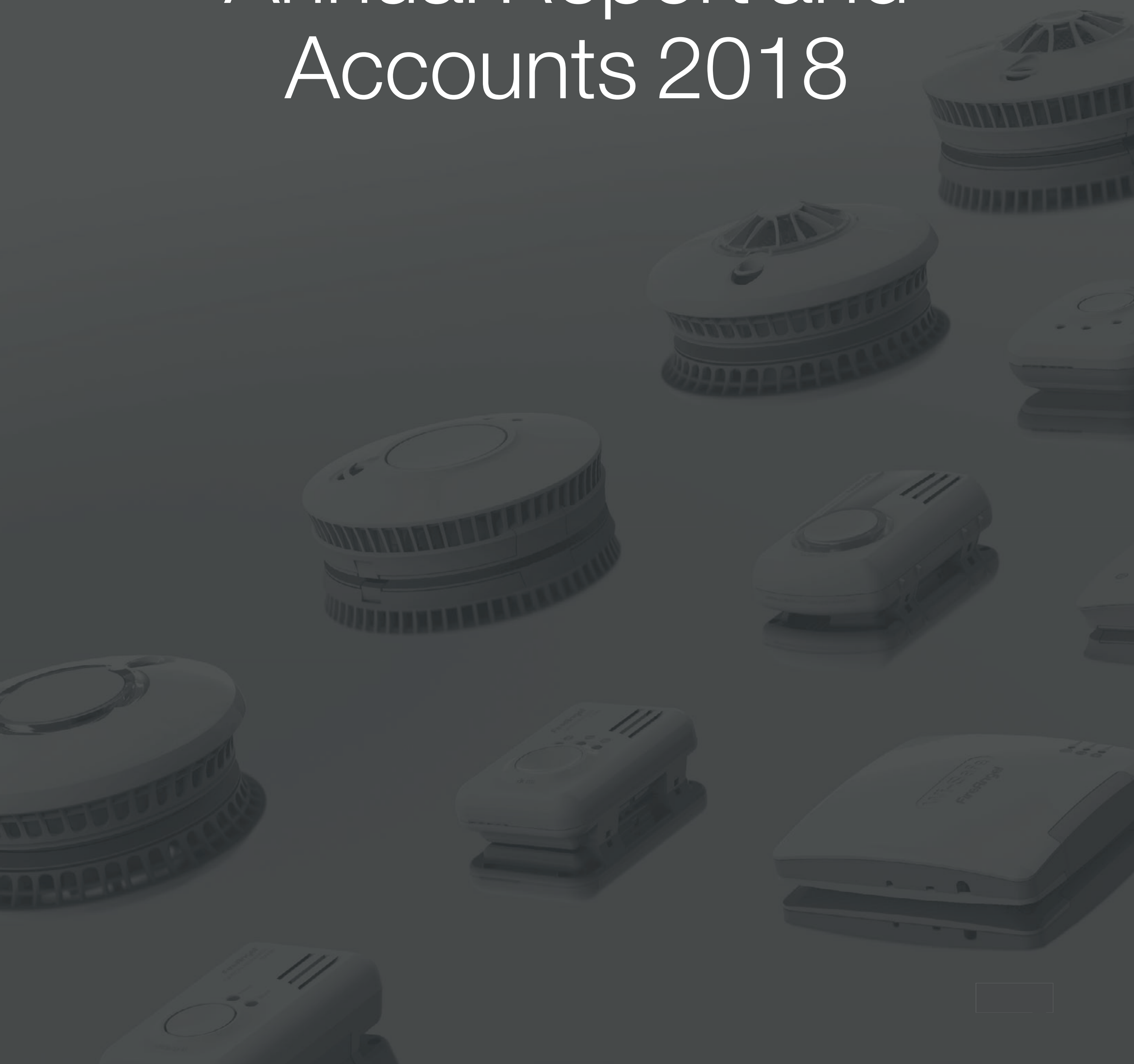
FireAngel Safety Technology Group plc

Annual Report and Accounts 2018



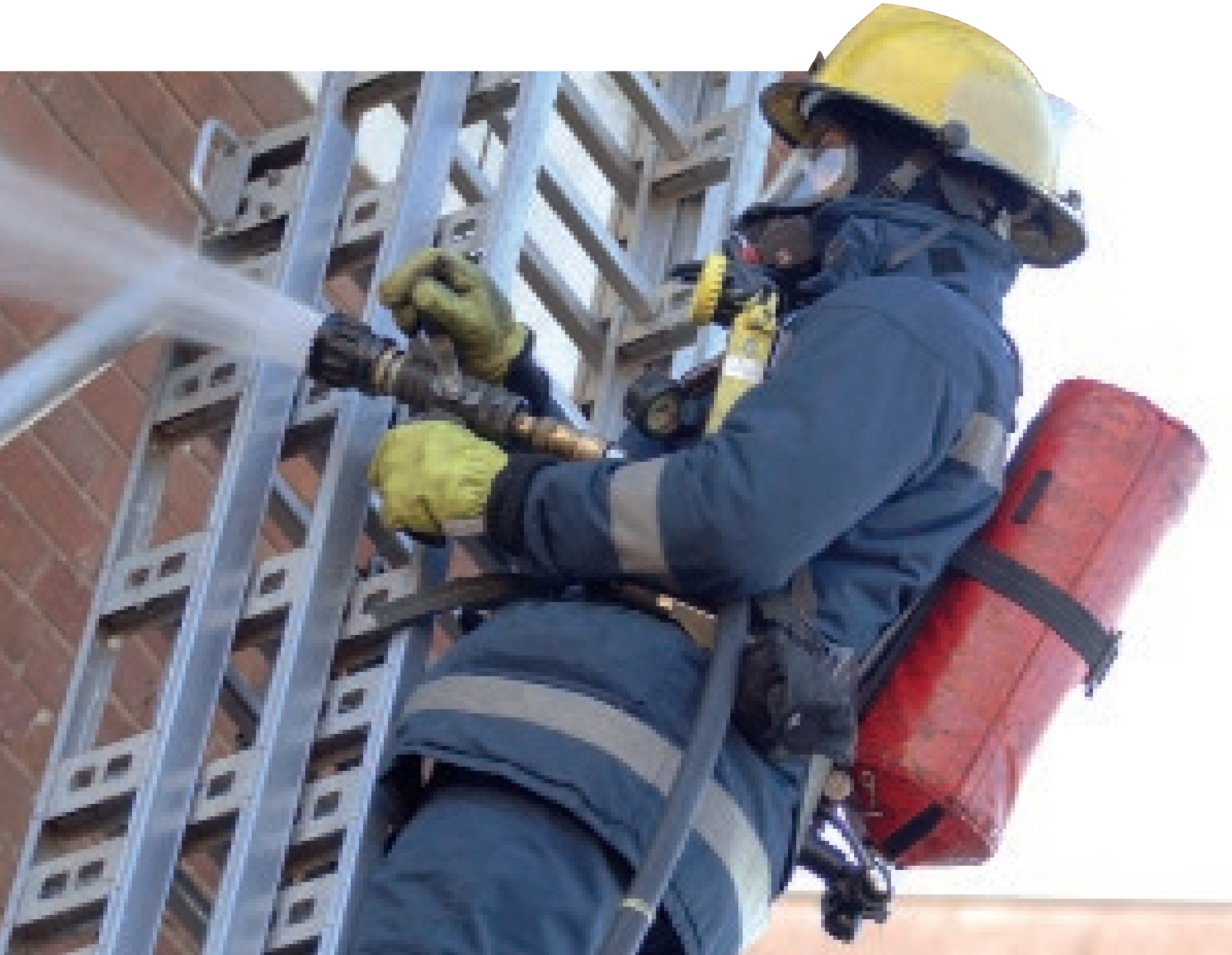
FireAngel's mission is to protect, save and improve our customers' lives by making innovative, leading edge technology home safety products simple and accessible.

FireAngel is one of the market leaders in the European home safety products market with its own and growing 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 own smoke, heat and accessory products are manufactured by Flex in Poland. The Group's own 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 and Scottish Gas as its key customers. FireAngel has a well-established but low market share of the UK Trade sector and is seeking to significantly expand this with its trade range of 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 £37.6 million (2017: £54.3 million)
- Underlying operating loss[1] £2.0 million (2017: underlying operating profit[1] £4.7 million)
- Operating loss £5.8 million (2017: operating profit £0.5 million)
- Adjusted gross profit[2] £9.7 million (2017: £18.0 million)
- Adjusted gross margin[2] 25.7% (2017: 33.1%)
- Exceptional costs totalling £3.7 million and a share-based payments charge of £0.1 million (2017: exceptional costs of £3.8 million; share-based payments charge of £0.4 million)
- Underlying loss before tax[3] £2.1 million (2017: underlying profit before tax[3] £4.7 million)
- Loss before tax £5.9 million (2017: profit before tax £0.5 million)
- Basic and diluted EPS (9.8p) (2017: 1.1p)
- Maintained capitalised development costs and software investment at £3.7 million (2017: £3.6 million)
- Net debt at 31 December 2018 £4.4 million (2017: net cash £3.3 million). Since the year end, the Group and HSBC have agreed to move from a revolving credit facility to a more efficient invoice discounting and overdraft facility
- Announcement post year end of placing and open offer to raise £6.0 million to accelerate growth
- Since the year end, the Group implemented a reorganisation and restructuring programme which will yield annualised savings of approximately £0.4 million, as well as further ongoing cost-saving initiatives to ensure a more efficient and effective use of resources

[1] Underlying operating loss in 2018 of £2.0 million is before exceptional charges of £3.7 million and a share-based payments charge of £0.1 million (2017: underlying operating profit of £4.7 million before an exceptional charge for the BRK settlement of £3.8 million and a share-based payments charge of £0.4 million). A reconciliation of 'alternative performance measures' to measures prescribed in financial standards is given on page 6.

[2] Adjusted gross profit is stated before the BRK distribution fee of £0.9 million (2017: £2.9 million) and before the exceptional charge for the stock and disposal provision of £1.1 million (2017: exceptional charge for the BRK settlement of £3.8 million). Adjusted gross margin is adjusted gross profit as a percentage of revenue.

[3] Underlying loss before tax in 2018 of £2.1 million is before exceptional charges of £3.7 million and a share-based payments charge of £0.1 million (2017: underlying profit before tax of £4.7 million before an exceptional charge for the BRK settlement of £3.8 million and a share-based payments charge of £0.4 million).

Operational headlines

- On track to be an independent technology-led business with connected propositions that complement and drive core product sales, including change of name to FireAngel Safety Technology Group plc to more closely align the corporate and brand structures
- End of operational relationship with the Group's previous manufacturing and distribution partner removes the historic obligation to pay an annual distribution fee of £2.9 million (£0.9 million in 2018)
- Action taken in the Group's distribution channels to move from a traditional distributor model to more value-added reseller partnerships
- New FireAngel ranges, manufactured through our two new manufacturing partners, have been well-received by both new and existing customers
- Signed strategically significant partner agreement with Mears to supply the Group's integrated connected home management system to Mears' clients, and becoming Mears' preferred fire safety product provider
- Appointed as exclusive supplier of smoke and heat alarms to St Leger Homes
- Scottish legislation which came into effect since the year end demanding greater safety standards has led to significant and ongoing contract wins in the supply of FireAngel interconnected smoke, heat and CO alarms to a number of Scottish housing associations

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Other information

The Strategic Report comprises the Chairman's Statement, the Strategic Review, the Performance Review and the Risks and Risk Management sections.

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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 have 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 groundbreaking 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 to not just detect fires but to predict where fires are more likely to occur.

Sourcing of our own smoke, heat and accessory products from Flex in Poland will enable us to concentrate our product range, reduce lead times and leverage economies of scale from a manufacturing facility just a short flight away. It also allows us to bring manufacturing closer to our core markets with Flex's experience helping us improve our design for manufacture.

FireAngel's Purpose is to **protect, save & improve** our customers' lives by making innovative, leading edge technology simple & 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

100+
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

Chairman's statement

> "I am pleased to have joined FireAngel at this time. The Group had a challenging year in 2018 and has been very active in addressing the issues it has faced. The opportunity presented by growing demand for connected home solutions is significant and I look forward to contributing to the Group during this next phase of growth."
>
> **John Conoley** - Chairman

Overview

Since its admission to AIM in 2014 the Group has delivered significant profits and made good progress in meeting the objectives set by the Board. The business has consistently generated a profitable result despite the emergence in 2016 of the third-party supplied battery impedance issue for which the Company had to provide for significant warranty costs, and the settlement in May 2018 with the Group's former manufacturing and distribution partner as part of which the Company agreed to write off unsold stock previously contracted to be purchased back by the other party.

Against that background of profitability and resilience, the Board acknowledges the regrettably poor results for 2018 with the Group recording an underlying loss on its operations and incurring substantial further one-off costs.

There are three main reasons for this sharp decline:

1. Lower than anticipated sales into Europe

Revenue was severely impacted by overstocking in the German trade sector. Significant purchases were made by the Group's distributor at the end of 2017 which meant that although it continued to sell throughout 2018, this demand was fulfilled from 2017 stock, rather than from new stock purchased from the Group. In addition, the change in mix with reduced German trade sales as a proportion of total revenue led to a decline in the overall gross margin achieved.

2. BRK Settlement Agreement

As announced on 10 May 2018 and detailed in the Group's Annual Report for 2017, FireAngel signed a settlement agreement (the 'Settlement Agreement') with BRK Brands Inc, BRK Brands Europe Limited, Jarden LLC and Detector Technology Limited (together 'BRK') in full and final settlement of all matters between the parties. As a result, the Group booked a £3.8 million exceptional charge in its final results for the year ended 31 December 2017.

Although the charge relating to this was accounted for in the financial results for 2017, the investigations into the circumstances which led to the settlement, its negotiation and final resolution absorbed significant amounts of management time over a number of months. This proved to be a huge distraction away from execution of the Group's strategy.

Termination of the distribution agreement reduced the Group's £2.9 million annual distribution fee commitment to BRK to £0.9 million in 2018 (which will be saved completely thereafter). However, this benefit was eroded by the sale of BRK products at reduced selling prices to clear the stock which the Company held prior to the end of the agreement. This detrimentally impacted margin and served to cannibalise sales of the Group's own FireAngel products.

3. New sourcing arrangements in the supply chain

In 2017's Annual Report, the Company confirmed that Flex in Poland had commenced manufacture of FireAngel's products and that a new Far East based supplier had commenced supply of alternatives to the BRK/First Alert products.

Significant time and resource was invested in planning to ensure the business was ready for this transition. However, despite a thorough migration process, short-term delays in reaching production capacity and efficiency impacted both the availability of product and the product cost in the second half of the year.

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 2018, the Group's revenue was £37.6 million (2017: £54.3 million). The Group made an underlying loss before tax[1] of £2.1 million (2017: profit of £4.7 million). After charging £3.8 million for exceptional costs and share-based payment charges (2017: £4.1 million), the consolidated loss before tax for the year was £5.9 million (2017: profit of £0.5 million).

The adjusted gross profit[2] decreased from £18.0 million to £9.7 million and represented an adjusted gross margin[2] of 25.7% (2017: 33.1%).

[1] Underlying loss before tax in 2018 of £2.1 million is before exceptional charges of £3.7 million and a share-based payments charge of £0.1 million (2017: underlying profit before tax of £4.7 million before an exceptional charge for the BRK settlement of £3.8 million and a share-based payments charge of £0.4 million).

[2] Adjusted gross profit is stated before the BRK distribution fee of £0.9 million (2017: £2.9 million) and before the exceptional charge for the stock and disposal provision of £1.1 million (2017: exceptional charge for the BRK settlement of £3.8 million). Adjusted gross margin is adjusted gross profit as a percentage of revenue.

Net debt at 31 December 2018 was £4.4 million (2017: net cash £3.3 million). The Company has separately announced today details of a placing and open offer to raise £6.0 million to accelerate recovery and specifically to reduce indebtedness, invest in the Connected Homes proposition and for working capital purposes.

Dividend

Consistent with the decision not to pay an interim dividend for 2018 in light of the costs of the BRK settlement and the Group's trading performance, the Board is not recommending payment of a final dividend for the year. The total dividend payable for 2018 is therefore nil pence per share (2017: 2.5 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 two significant changes to the Board during the year and subsequently. In March 2018 the Group announced the resignation of John Gahan, the Group Finance Director. Zoe Fox, Finance Director of the Group's principal subsidiary, ran the business's finance function until Mike Stilwell joined as Group Finance Director in December 2018. I would like to thank Zoe for her hard work and effort in performing these dual roles for most of the year.

In June 2018 Graham Whitworth, the Group's Executive Chairman, indicated his intention to step down as Executive Chairman once a replacement Non-Executive Chairman had been appointed. The Nominations Committee conducted a thorough search resulting in my appointment as Non-Executive Chairman in January 2019. Following my appointment, Graham has been appointed part time Executive Director of the Group for twelve months with a view to becoming a Non-Executive Director on the expiry of the twelve months. I wish to place on record the Board's thanks to Graham for his outstanding contribution to the Group on many fronts over nearly twenty years. I am delighted he is continuing in an executive capacity to ensure that his wealth of knowledge and experience is not lost to the Group. Graham's immediate priority will be in leading the sales team to focus, in particular, on connected home opportunities.

People

2018 was a very difficult year for FireAngel. Internal and external disruptions placed significant pressures on employees who responded with exceptional commitment to the needs of our customers and I thank them sincerely.

Brexit readiness

The Group has carefully considered the impact of Brexit on its operations and in preparation for this has signed an agreement to utilise warehousing facilities in Rotterdam. This will minimise the cost and disruption of any likely changes to duty regimes or operational processes.

Strategy

The ending of the relationship with BRK, and the transition of manufacturing to Flex and our Far East partner, has successfully reset the direction of the Group in line with the Board's objectives.

Whilst acceptable production yields and capacity have been achieved, the focus in the short term is to continue to improve process efficiency to reduce the costs of production. I am confident that Flex remains the right partner to support the Group's strategic objective of developing technology which provides customers with innovative and market-leading products and solutions.

The current pipeline for new connected product launches planned for this year has given the Board confidence to expect a significant contribution to revenue from connected solutions in 2019 and beyond. To support this, steps have been taken to align the Group's focus and resources to best achieve this ambition. The role of Nick Rutter, the Group's Chief Product Officer and a founder of the business, has been redefined to now directly focus on connected home sales and pipeline development. To take advantage of the technology deliverables, the Group has also commenced a review of the structure, processes and skills within the business to ensure that these are appropriate and optimally aligned to deliver its core smoke and CO products, together with connected propositions.

Together with its focussed investment in product development, these changes are expected to position the Group to meet the growing demand for its core product and connected solutions through its unique, patented technologies, expertise and strong brand. The Board fully expects connectivity and interoperability between devices with external monitoring and messaging to be at the heart of medium to longer-term growth and profitability.

Outlook

Sales in the first three months of 2019 are ahead of the Group's budget. Sales to the Group's distributor to the German market are benefitting from the move away from bonded sales at the end of 2018. The Group has also announced a number of contract wins either side of the year end linked to the requirement for greater safety standards introduced in the Housing (Scotland) Act, which came into force on 1 February 2019.

The Board has already taken steps to reduce the cost base and has identified a range of opportunities to improve performance, including reducing stock levels, improving gross margin, rationalisation of sales propositions and better operational organisation.

Whilst the Board is disappointed with 2018's financial performance, it remains confident that the Group's transition from a pure standalone hardware safety products supplier to a provider of connected safety solutions will underpin strong medium to longer-term growth and profitability.

John Conoley - Chairman
29 March 2019

Group Chief Executive's statement

"Whilst 2018 was a very challenging year for the Group, we have made good progress in delivering our strategy to become an independent, technology-led business with connected propositions that complement and drive core product sales. Recent announcements detailing a number of contract wins demonstrate the growing strength of our connected proposition and the progress being made within key markets. Legislative change, the heightened awareness of connected products and our new ranges, combined with a series of self-help initiatives, mean we are now very well placed to return the business to strong medium to longer-term growth and profitability. To accelerate this recovery, we have taken steps to restructure our banking facilities to better meet our needs and announced today a placing and open offer to raise £6.0 million."

Neil Smith - Group Chief Executive

Introduction

2018 was a very challenging year for the Group. What was planned to be a period of operational transition included a major unforeseen corporate issue in the form of the BRK legal challenge. This had a material impact on many areas of the business.

Revenue was down significantly and we were disappointed to report an underlying loss for 2018. Significant management time was spent on resolving the BRK issue and in working with our new manufacturing partner to address production ramp up yields and capacity. This time should have been spent moving forward with the clear strategic aims I set out in last year's Annual Report and which I will repeat again here.

Our strategy

FireAngel's purpose is clear: to protect, save and improve our customers' lives by making innovative, leading-edge technology simple and accessible. Our focus on customers and technology are the key attributes of our DNA and underpin our strategy for long-term growth opportunities in existing and new markets as an independent, technology-led business with connected propositions that complement and drive core product sales. This focus, combined with an increasing level of operational effectiveness, will deliver earnings growth. In June 2018 the Company changed its name to FireAngel Safety Technology Group plc demonstrating our commitment to greater simplicity and clarity to all our communications.

We have moved further forward in 2018 in transforming our business through increased operational scale and geographic footprint. The move to source alternative BRK/First Alert products from a leading supplier in the Far East has gone to plan and has been well received by our customers. The commencement of manufacture of FireAngel products at our new production partner has not been without issue and consequent short-term increased costs. We remain convinced that working with this world-class manufacturer will achieve the control and certainty in support of the Group's product roadmap which is a key part of our transition to an independent company.

Our new manufacturing relationships are a key enabler in achieving the Board's wider strategic objectives. These remain:

- to build on the Group's existing market presence by growing and extending its own FireAngel standalone and connected products;
- to increase sales through new channels, markets and complementary partnerships;
- to fully utilise the Group's core proprietary technology and in-house product development capabilities in delivering market-leading innovative solutions;
- to maximise the efficiencies and opportunities within a world-class manufacturing supply chain; and
- to take full advantage of the growth potential of the Group's connected homes proposition.

Business unit performance

Revenue within the UK was down 7% year-on-year and International sales fell significantly by 60% predominantly due to lower sales within the German Trade market. Gross margin was also lower compared to the prior year due largely to the change in mix of sales away from the International market, and the short-term increase in product prices as a result of delays in reaching full production efficiency at the Group's smoke and connected devices manufacturer.

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

	2018 £m	2017 £m	Inc/(dec) £m	Inc/(dec) %	2018 Proportion %	2017 Proportion %
Trade[1]	12.4	13.7	(1.3)	-9%	33%	25%
Retail[1]	8.3	9.3	(1.0)	-11%	22%	17%
UK F&RS	4.2	4.5	(0.3)	-7%	11%	8%
Utilities	2.3	1.9	0.4	21%	6%	4%
Total sales in the UK	27.2	29.4	(2.2)	-7%	72%	54%
International	8.8	21.9	(13.1)	-60%	24%	40%
Pace Sensors	1.6	3.0	(1.4)	-47%	4%	6%
Total	**37.6**	**54.3**	**(16.7)**	**-31%**	**100%**	**100%**

[1] From 1 January 2018, certain customers previously reported within the Retail business unit, such as Screwfix and Toolstation, are now reported through the Trade business unit. The 2017 comparatives have been adjusted accordingly.

International

The most notable decline in revenue was in International due to overstocking at our German Trade distributor at the end of 2017. Whilst they were continuing to sell through 2018 they were not buying to the expected levels which led to a marked reduction in the Group's sales in the year. I am pleased to report that sales into German trade have returned to more normal levels in the first months of this year with the Panasonic battery equipped 'P Line' range continuing to build brand recognition within that sector. In addition, the Company has moved to a non-exclusive distribution agreement in Germany which will allow the Group to take advantage of wider distribution networks.

Sales of CO alarms in Germany were over 200% higher than the prior year as consumers become more aware of the dangers of CO poisoning and the impact of the continued marketing focus of our strong CO proposition. This growth has been evident through our established German Trade channel and through German Retail, a new market for FireAngel, where we now supply leading DIY retailers such as Bauhaus and OBI.

Good progress continues to be made with sales into Nordic and Southern European countries, and Poland.

Reflective of the burgeoning legislative drivers, in 2018 we won new business in the Far East as Singapore introduced new smoke alarm legislation requiring the fitment of 10-year sealed-for-life smoke alarms in all new-build properties.

The Group continues to build an exciting pipeline of core and connected opportunities internationally for 2019 and beyond.

UK Trade

At around a third of the Group's revenue, the UK Trade sector represented the highest proportion of total sales in 2018 with income of £12.4 million. This was down 9% on the previous year as trade customers were transitioned away from BRK products to new FireAngel products. In addition, short-term delays in the ramp up of production caused some stock availability issues in the second half of the year which led to demand from some customers not being met.

We estimate the annual addressable UK trade market is worth in excess of £100 million. We continued to make good progress in gaining market share in 2018 with our own FireAngel products as evidenced by a number of significant wins:

- Mears – in September we signed a strategically significant exclusive partnering agreement with Mears Limited ('Mears'), the provider of support services to over 700,000 properties in the Housing and Care sectors in the UK. Under the agreement, we will supply the Group's integrated connected home management system to Mears' clients, and become their preferred fire safety product provider. This partnership is a significant commercial endorsement of the Group's connected home proposition which provides a solution to both heightened duty of care concerns within social housing and economic operational pressures. The subsequent announcement by Mears in November 2018 of the acquisition of Mitie's social housing repairs and maintenance business adds further pipeline opportunities to the already very significant number of properties managed by Mears.
- St Leger Homes – also, in September we were appointed as exclusive supplier of smoke and heat alarms to St Leger Homes which acts as housing services provider to over 22,000 properties in partnership with Doncaster Council.
- Scottish legislation – previously anticipated new legislation in Scotland came into force on 1 February 2019. This demands greater safety standards by requiring all homes to be fitted with interlinked smoke alarms in the living room or lounge and in circulation spaces such as hallways and landings, along with an interconnected heat alarm in the kitchen. Homes are also required to have a carbon monoxide alarm fitted wherever there are fossil fuel burning appliances, such as a gas boiler or wood burning stove. All properties must comply with this legislation by the end of February 2021. Our Trade team has worked closely with stakeholders well in advance of the legislation coming into force which has resulted in a number of contract wins both before and after 1 February 2019. Recently announced wins include Queens Cross Housing Association, River Clyde Homes, Caledonia Housing Association, West of Scotland Housing Association, North View Housing Association and Link Group, with a number of other housing association opportunities in the pipeline.

UK Retail

Revenue from the UK Retail sector declined by 11% to £8.3 million in 2018, primarily due to retailers running down BRK/First Alert stock with the re-stocking of the equivalent new FireAngel ranges in the second half of the year impacted by the short-term delays in the ramp up of production which were resolved by the year end.

The UK Retail team secured a number of notable store and digital channel extensions during 2018, including Tesco, Wickes, and Robert Dyas. Sales through online platforms continue to increase significantly and we were delighted to secure business directly with Amazon in August 2018. Our connected home proposition is ideally suited to digital channels where we can create the content in-house that explains the product features and user benefits of this new technology.

I am pleased to report that UK Retail sales are in line with expected levels in the first months of this year.

Group Chief Executive's statement *continued*

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

Together the UK F&RS and Utilities sectors accounted for 17% of the Group's revenue in the year. The strong performance in Utilities was due to the growth in sales to British Gas of CO alarms in the year. This reflects the continued growth in demand in the wider CO market. We are very proud that over 90% of the UK F&RS choose to fit FireAngel alarms within properties with notable new customers won in the year including Tyne & Wear, Avon and Devon & Somerset.

Pace Sensors

Revenue at Pace Sensors, the Group's manufacturer of CO sensors, represented 4% of total turnover. As anticipated, revenue reduced in 2018 to £1.6 million as the inventory levels were managed down to a more appropriate level and the transition of demand to its lower cost, NANO sensor fitted to some of the Company's CO alarms.

New technology and partnerships

We continued to invest in new technology throughout 2018, capitalising £3.4 million of development expenditure to further enhance the Group's connected home and wider technology portfolio. In addition, we made the final payment of £0.3 million to complete the purchase of core software modules from Intamac which will allow us to introduce a low-cost gateway and increase our market penetration into the B2C market.

A further £2.3 million was incurred in line with the planned investment in tooling at the Group's new smoke alarm and connected devices manufacturer.

Total capital expenditure in the year increased to £6.0 million compared to £5.0 million in 2017. The capital investments in technology and manufacturing capability have been significant, but are essential to ensure we are well set for future growth as an independent business.

New product launches

Standalone products

73 core products and accessories were introduced in the year from both Flex and our manufacturing partner in the Far East with a continued focus on added value user benefits to which a price premium can be attached. Over a period of time we fully expect the demand for connected alarms to increase and at some point sales values to be higher than standalone, however, it is essential we maintain our leadership positions within standalone products through the continued evolution of our ranges.

Connected products

The strategic partnership with Mears announced during 2018 demonstrated not only the market movement towards connected solutions, but also the transition within our business from a supplier of standalone hardware products to a broader safety solutions and services provider.

Under the terms of the agreement, the Group will supply Mears with an integrated connected home management system (the 'System'). FireAngel and Mears are jointly developing the bespoke interface required to integrate the System with Mears' management control system. FireAngel will charge Mears a monthly subscription fee *per connection*, giving the Group a recurring revenue stream and increased visibility of its future revenues with Mears committing to deliver a minimum number of connections during the term of the minimum three-year agreement.

The System is accessed via a wall-mounted touchscreen tablet and will allow the tenants of Mears' clients' properties to review safety information, report service issues to, and schedule maintenance appointments with, Mears. The System will enable Mears' clients to streamline maintenance management processes by facilitating direct interaction with tenants when seeking to arrange repairs and maintenance visits. Alongside FireAngel's Wi-Safe 2 network, the System utilises Z-Wave wireless communication technology, providing the potential in future to connect with other devices and offer additional functionality.

The System will also include FireAngel Predict™, our unique, patented, predictive algorithm technology. Using a combination of the Group's cloud-based technology alongside its predictive algorithm, data from properties will be gathered in real time over the internet allowing FireAngel Predict™ to identify those properties with an increased risk of fire. Once these properties have been identified, appropriate action can be taken ahead of a potential event occurring.

This unique technology has been developed using data from smoke alarms from past fires in conjunction with self-learning AI technology which will constantly refine and improve the system in the future. It represents significant progress in the protection of people and properties from the risk of fire by identifying properties with an increased risk of fire so appropriate action can be taken *before* a potential incident occurs.

The product roadmap is the strongest FireAngel has ever had with a mix of value-added enhancements to our current range as well as step change innovation, such as the new unique FireAngel Predict™. Our focus now is to ensure the investments made in research and development are reflected in increased revenues. In March 2019, we appointed Andy Gregg as Operations Director primarily responsible for driving the Group's agenda with our manufacturing partners as well as the technical and new product introduction teams. Andy joins us with a track record of delivering results having previously held senior positions within Bentley and Aston Martin. This appointment now enables Nick Rutter, Chief Product Officer, to focus on the deployment and sales of our connected home solutions.

The future

The global market for interoperable smoke and CO detection continues to grow, with demand in Europe forecast to be particularly strong. Increasing government support and initiatives over recent years have increased levels of awareness of the dangers of both fire and CO poisoning, and have helped focus the thinking of those responsible for the safety of others. At the same time the pace of technological advancement has increased the scope and potential for integration into related products and solutions.

The Group's investment in connected home technology has positioned it uniquely to satisfy this emerging demand and benefit from the recurring revenue streams associated with the provision of such services. Its patented proprietary solutions are built on a solid foundation of core smoke and CO products which incorporate years of industry knowledge combined with the trust of a strong brand.

I would like to thank everyone who works so hard for FireAngel with a passion, commitment and determination to succeed. I would also like to thank shareholders for their continued support as FireAngel continues to develop and grow.

Neil Smith - Group Chief Executive
29 March 2019

Developing technology through innovation

Our range of products is comprehensive, allowing the Group to tailor its smoke alarms, CO alarms and accessories to suit its customer 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 Pro. Mains-powered smoke and heat alarms with a 10 year, sealed for life lithium battery back-up. Modern design, quick fitting, tamper-proof mounting plate which locks the alarm head securely in place.

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 Connect. A B2B solution that provides 'whole population' monitoring. Real time notifications for real life situations directly into F&RS control centres. Patent pending algorithms enable predictive learning to protect the most vulnerable and facilitates a proactive approach to customer support.

FireAngel | FireAngel Pro | FireAngel Specification | AngelEye

FireAngel CONNECT

This intelligent technology enables wireless communication with any other Wi-Safe 2 product. When one alarm sounds they all sound and up to 50 devices can be interlinked together. Each alarm communicates with others by continuously sending and receiving wireless signals, to constantly monitor and communicate with the network. When any alarm detects smoke, heat, or CO, a wireless module sends a signal to all the connected alarms ensuring a fast reaction across the network.

Enhanced Protection

The Wi-Safe 2 range of products are designed to provide an enhanced level of fire and carbon monoxide 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 carbon monoxide.

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 work place 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 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 work place 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 various 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. In addition, a number of employees mentor MBA students at local universities.

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

"Financial performance in the year was disappointing but actions have been taken to address this. 2018 was a year of significant disruption and distraction for the Group."

Mike Stilwell - Group Finance Director

Overview

Financial performance in the year was disappointing but actions have been taken to address this. 2018 was a year of significant disruption and distraction for the Group.

Total revenue for the year fell by 31% from £54.3 million to £37.6 million resulting in an underlying operating loss[1] of £2.0 million compared to an underlying operating profit[1] of £4.7 million in 2017. The adjusted gross profit[2] reduced from £18.0 million to £9.7 million which represented an adjusted gross margin[2] of 25.7% (2017: 33.1%). The underlying loss before tax[3] was £2.1 million (2017: underlying profit before tax[3] of £4.7 million).

[1] Underlying operating loss in 2018 of £2.0 million is before exceptional charges of £3.7 million (further details of which are set out below) and a share-based payments charge of £0.1 million (2017: underlying operating profit of £4.7 million before an exceptional charge for the BRK settlement of £3.8 million and a share-based payments charge of £0.4 million).

[2] Adjusted gross profit is stated before the BRK distribution fee of £0.9 million (2017: £2.9 million) and before the exceptional charge for the stock and disposal provision of £1.1 million (2017: exceptional charge for the BRK settlement of £3.8 million). Adjusted gross margin is adjusted gross profit as a percentage of revenue.

[3] Underlying loss before tax in 2018 of £2.1 million is before exceptional charges of £3.7 million (further details of which are set out below) and a share-based payments charge of £0.1 million (2017: underlying profit before tax of £4.7 million before an exceptional charge for the BRK settlement of £3.8 million and a share-based payments charge of £0.4 million).

The key reasons for the fall in revenue, adjusted gross margin and underlying operating profit were as follows:

- Overstocking in the German market at the end of 2017. Revenue in the first half of the year was impacted by overstocking in the German trade sector. Significant purchases were made by the Group's distributor at the end of 2017 which meant that although the distributor continued to sell throughout 2018, this demand was fulfilled from 2017 stock, rather than the distributor buying from the Group.
- Adverse mix of sales. The reduction in higher-margin German trade sales as a proportion of total revenue led to a decline in the overall gross margin achieved. In addition the sale of BRK products at reduced selling prices to clear stock (described below) both detrimentally impacted margin and acted to cannibalise the sale of the Group's own FireAngel products.
- Short-term delays in reaching production capacity and efficiency at the Group's new smoke and connected devices manufacturer impacted both the availability of product and the product cost in the second half of the year.
- Additional provision against warranty costs. During the first half of the year a charge of £0.6 million was made to increase the FireAngel battery warranty provision, an isolated issue relating to a third-party supplier first identified in April 2016. This charge reversed a provision release in 2017 as the costs of rework at our new manufacturer are now expected to be in line with the original provision. As such, the total cost of the battery impedance issue is still forecast to be in line with the original expected value of £6.2 million.
- During the year the Group booked a net gain of £0.6 million (2017: net loss of £0.3 million) within gross margin from the mark-to-market of forward contracts maturing beyond the balance sheet date which largely offset the higher sterling cost of the Group's US dollar denominated products.

Overall cash outflow in the year was £2.0 million and net debt at 31 December 2018 was £4.4 million. This compared with net cash of £3.3 million at 31 December 2017. The net movement of £7.7 million comprised a decrease in cash and cash equivalents of £2.0 million and an increase in bank debt of £5.7 million.

Group financial results *continued*

Revenue by business unit

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

	2018	2017	Inc/(dec)	Inc/(dec)	2018 Proportion	2017 Proportion
	£m	£m	£m	%	%	%
Trade[4]	12.4	13.7	(1.3)	-9%	33%	25%
Retail[4]	8.3	9.3	(1.0)	-11%	22%	17%
UK F&RS	4.2	4.5	(0.3)	-7%	11%	8%
Utilities	2.3	1.9	0.4	21%	6%	4%
Total sales in the UK	27.2	29.4	(2.2)	-7%	72%	54%
International	8.8	21.9	(13.1)	-60%	24%	40%
Pace Sensors	1.6	3.0	(1.4)	-47%	4%	6%
Total	**37.6**	**54.3**	**(16.7)**	**-31%**	**100%**	**100%**

[4] From 1 January 2018, certain customers previously reported within the Retail business unit, such as Screwfix and Toolstation, are now reported through the Trade business unit. The 2017 comparatives have been adjusted accordingly.

The most significant factor in the £16.7 million decrease in revenue was the £13.1 million deterioration in sales into the International market. Overstocking of smoke alarms in the German trade sector in particular led to a significant reduction in the Group's sales into this market in the year.

The Trade and Retail business units saw revenue decrease to £12.4 million and £8.3 million respectively due to an anticipated slowdown in UK sales as customers managed discontinued inventory and the transition to new FireAngel products. Further to this, short-term delays in the ramp up of production caused stock availability issues in the second half of the year which led to demand from some customers not being met.

Revenue at Pace Sensors, the Group's manufacturer of CO sensors, decreased by 47% to £1.6 million due to destocking in its supply chain and the transition of demand to its cheaper, higher-margin, nano sensor technology.

Gross profit and gross margin

The adjusted gross profit[2] decreased from £18.0 million to £9.7 million and represented an adjusted gross margin[2] of 25.7% (2017: 33.1%). The reduction was largely due to the change in mix of sales away from the International market, and the short-term increase in product prices as a result of delays in reaching full production efficiency.

During the first half of the year a charge of £0.6 million was made to increase the FireAngel battery warranty provision, an isolated issue relating to a third-party supplier first identified in April 2016. This charge reversed a provision release in 2017 as the costs of rework at our new manufacturer are now expected to be in line with the original provision. As such, the total cost of the battery impedance issue is still forecast to be in line with the original expected value of £6.2 million.

The overall gross profit decreased from £11.3 million to £7.6 million and represented a gross margin of 20.3% (2017: 20.8%). As a result of the termination of the BRK agreement, the distribution fee paid by the Group to BRK reduced to £0.9 million for the year (2017: £2.9 million). Exceptional charges of £1.1 million were charged within cost of sales during the year (2017: £3.8 million) as explained on the following page.

Exchange rates

Sterling weakened against the euro by around 1% on average over the year. This was favourable to the sterling translation of the Group's euro-denominated income, albeit on significantly reduced revenue from this sector. Over the same period, sterling strengthened against the US dollar by around 2% on average. This was favourable to the sterling translation of the Group's US dollar-denominated component purchases, albeit on reduced volumes due to lower sales in the year.

There was significant variation in the value of sterling against the US dollar over 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. Where possible, the Group seeks to increase selling prices to offset the risk of product cost inflation as a result of unhedged fluctuations on the sterling value of its US dollar-denominated component costs.

Overheads

The Group's overhead costs comprise the distribution and administrative costs of running the business. Excluding the accounting charge for share-based payments of £0.1 million (2017: £0.4 million), and the exceptional administrative costs of £2.6 million (2017: £nil) (explained on the following page), overheads of £9.7 million were 3.5% ahead of the prior year's £9.4 million reflecting inflationary costs in the overhead cost base. Total overhead costs amounted to £13.4 million (2017: £10.8 million), the majority of the increase accounted for by the exceptional charge of £2.6 million.

Subsequent to the year end, the Group announced and implemented a reorganisation and restructuring programme which will yield annualised savings of around £0.4 million, as well as further cost-saving initiatives to align its cost base to the current reduced revenue levels. The reorganisation programme has better aligned the Group with the challenges it faces in transitioning to an independent, technology-led provider of connected safety solutions.

Exceptional charges in 2017

As announced on 10 May 2018 and detailed in the 2017 Annual Report and Accounts, the Group entered into a Settlement Agreement with BRK. The Group recorded a £3.8 million exceptional charge in the results for the year ended 31 December 2017 as part of cost of sales. This comprised £3.4 million to write down the value of the remaining BRK inventory to nil, provisions of £0.2 million to cover the disposal costs of certain BRK inventory, and £0.2 million to cover the legal and professional fees incurred in respect of the dispute.

Exceptional charges in 2018

Exceptional charges totalling £3.7 million have been made in the year as follows:

- Provision against stock and disposal costs: £1.1 million has been provided against stock originally purchased for the French market to address demand driven by local legislative change. There may be some future upside to the Group's performance if this stock is sold into alternative markets.
- Incremental production ramp up costs: one-off exceptional costs of £0.9 million have been incurred due to delays in reaching full production capacity and pricing expectations at the Group's smoke alarm and connected devices manufacturing partner.
- Restructure of distribution channels: exceptional costs of £1.7 million have been 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 has taken 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.

Result for the year

The underlying operating loss[1] for the year amounted to £2.0 million compared to an underlying operating profit[1] of £4.7 million in 2017. After taking account of the exceptional charges of £3.7 million, a share-based payments charge of £0.1 million and finance charges of £0.1 million (2017: finance income of £24,000) as a result of interest on borrowings in the year, the Group reported a loss before tax of £5.9 million (2017: profit before tax of £0.5 million).

The Group booked a tax credit of £1.4 million (2017: tax charge of £0.1 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 9.8 pence per share (2017: earnings of 1.1 pence per share).

Statement of financial position

The net assets of the Group amounted to £22.3 million at 31 December 2018 (2017: £27.0 million) and can be summarised as follows:

	2018	2017
	£m	£m
Goodwill	0.2	0.2
Plant and equipment	4.0	2.1
Capitalised development costs	13.2	10.5
Purchased software costs	2.9	2.6
Non-current assets (excluding deferred tax assets)	20.3	15.4
Net cash balances	1.3	3.3
Loans and borrowings	(5.7)	-
Net (debt)/cash	(4.4)	3.3
Other net current assets	7.8	12.0
Net tax liabilities (including deferred tax)	-	(1.1)
Net derivative financial assets/(liabilities)	0.1	(0.4)
Warranty provision	(1.5)	(2.2)
Net assets	**22.3**	27.0

Non-current assets at 31 December 2018 amounted to £20.3 million compared with £15.4 million at 31 December 2017. The most significant components of this were capitalised development costs, with a net book value of £13.2 million, plant and equipment (£4.0 million) and purchased software costs (£2.9 million).

Total capital expenditure in the year increased to £6.0 million compared to £5.0 million in 2017. Of this total, £3.4 million represented capitalised development expenditure to further enhance the Group's connected home and wider technology portfolio as described in note 16 to the financial statements, £2.3 million for the continued planned investment in tooling at the Group's new smoke alarm and connected devices manufacturer, and £0.3 million being the final payment completing the purchase of core software modules from Intamac which will allow the Group to introduce a low-cost gateway and increase its market penetration in the B2C market.

Total capital expenditure of £6.0 million (2017: £5.0 million) compares with depreciation and amortisation charges of £1.1 million in the year (2017: £0.7 million).

Working capital reduced significantly by £4.3 million to £7.7 million at 31 December 2018. Stock reduced by £2.8 million to £8.4 million (2017: £11.2 million) mainly due to the buyback of approximately £1.0 million of 2017 manufactured stock by BRK as part of the Settlement Agreement, and the £1.1 million exceptional provision in the year to provide for the costs of older French stock and stock disposal.

Trade and other receivables reduced by £6.6 million to £10.8 million (2017: £17.4 million). The most significant reduction was a £7.0 million fall in trade debtors to £9.6 million. Although much of this reduction was due to the significant decrease in sales between years, the prior year-end balance was inflated by an overdue debt from one customer of £1.7 million. The overdue debt at the end of 2017 is no longer outstanding. Average debtor days for the year increased from 72 to 89 reflecting the change in sales mix away from customers on the shortest credit terms of 14 days to customers paying on 60 and 90-day payment terms.

Trade and other payables reduced by £5.0 million to £11.5 million (2017: £16.5 million). The most significant reductions were a £2.4 million fall in trade payables to £8.2 million reflecting the reduced activity in the year, and a decrease of £3.1 million in accruals and deferred income to £1.9 million due to the falling away of a rebate agreement on transition to the Group's new manufacturing partners, together with change in rebate pricing arrangements with a number of large customers. Average creditor days increased significantly to 137 days (2017: 80 days) due to the delayed payment terms negotiated as part of the BRK Settlement Agreement.

Group financial results *continued*

Net tax liabilities at 31 December 2018 amounted to £nil (2017: £1.1 million) and comprised a current tax asset of £1.2 million (2017: £0.6 million), a current tax liability of £39,000 (2017: £15,000), deferred tax assets of £1.2 million (2017: £0.3 million) and deferred tax liabilities of £2.4 million (2017: £2.0 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 2018 amounted to £1.5 million (2017: £2.2 million) of which £0.9 million is expected to be utilised within twelve months of the balance sheet date. This comprised £1.4 million for 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. The remaining £0.1 million relates to the Group's warranty obligations in relation to previously supplied BRK products. During the year £0.6 million was charged to cost of sales within the Income Statement reversing a provision release in 2017 as the costs of rework at our new manufacturer are now expected to be in line with the original provision.

Cash

The Group ended the year with net debt of £4.4 million at 31 December 2018 (2017: net cash £3.3 million).

The movement in net cash during the year is reflected in the Statement of Financial Position as follows:

	£m
Decrease in cash balances and net cash outflow	2.0
Drawdown of revolving credit facility	5.7
Increase in net debt	7.7

The net cash outflow of £2.0 million in the year is summarised in the table below. The most significant non-operating cash flow items include exceptional cash costs of the incremental production ramp up (described in the section 'Exceptional charges in 2018') and warranty costs totalling £1.6 million, capital expenditure of £6.0 million as described above, offset by the drawdown of £5.7 million of the Group's £7.0 million revolving credit facility provided by HSBC UK Bank plc.

Free cash flow, defined as cash from operations after capital expenditure but before any payments in respect of non-underlying items, was an outflow of £6.0 million (2017: £4.9 million).

	2018 £m	2017 £m
Underlying operating (loss)/profit[1]	**(2.0)**	4.7
Depreciation and amortisation charges	**1.1**	0.7
Decrease/(increase) in working capital	**1.5**	(5.6)
(Increase)/decrease in fair value of derivatives	**(0.6)**	0.3
Cash from operations before non-underlying payments	**-**	0.1
Exceptional cash costs of incremental production ramp up and warranty (2017: BRK settlement and warranty)	**(1.6)**	(2.8)
Cash used by operations	**(1.6)**	(2.7)
Interest paid (net)	**(0.1)**	-
Taxation received	**-**	0.4
Capital expenditure	**(6.0)**	(5.0)
Loan drawdown	**5.7**	-
Dividends paid	**-**	(3.8)
Net cash flow	**(2.0)**	(11.1)

[1] Underlying operating loss in 2018 of £2.0 million is before exceptional charges of £3.7 million and a share-based payments charge of £0.1 million (2017: underlying operating profit of £4.7 million before an exceptional charge for the BRK settlement of £3.8 million and a share-based payments charge of £0.4 million).

In order to fund the Group's working capital requirement, in January 2018 it secured a £7 million committed three-year revolving credit facility with HSBC UK Bank plc. The costs of arranging the facility amounted to £0.1 million and are being amortised on a straight-line basis over the life of the agreement.

In line with the Board's expectation, due to the impact of the BRK settlement and the expected reduction in sales into the prompt-paying European market, the facility was drawn down by £5.7 million at 31 December 2018.

Since the year end, the Group's borrowing facilities were restructured to move from a revolving credit facility to a more efficient invoice discounting and overdraft facility.

The Company has separately announced today details of a placing and open offer to raise £6.0 million to accelerate recovery and specifically to reduce indebtedness, invest in the Connected Homes proposition and for working capital purposes.

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') such as 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. The primary non-GAAP financial measure used by the Group is underlying operating profit.

In the following table we provide a reconciliation of this and other non-GAAP measures, as defined in the Performance Review on pages 13 to 18, to relevant GAAP measures:

Underlying profit measures

	2018 £m	2017 £m
Adjusted gross profit		
Reported gross profit	**7.6**	11.3
BRK distribution fee	**1.0**	2.9
Exceptional charge for Settlement Agreement with BRK	**-**	3.8
Exceptional stock and disposal provision	**1.1**	-
Adjusted gross profit	**9.7**	18.0

Adjusted gross margin

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

	2018 £m	2017 £m
Underlying operating (loss)/profit		
Reported operating (loss)/profit	**(5.8)**	0.5
Share-based payments charge	**0.1**	0.4
Exceptional charge for Settlement Agreement with BRK	**-**	3.8
Exceptional stock and disposal provision	**1.1**	-
Exceptional incremental production ramp up costs	**0.9**	-
Exceptional restructure of distribution channels	**1.7**	-
Underlying operating (loss)/profit	**(2.0)**	4.7

	2018 £m	2017 £m
Underlying (loss)/profit before tax		
Reported (loss)/profit before tax	**(5.9)**	0.5
Share-based payments charge	**0.1**	0.4
Exceptional charge for Settlement Agreement with BRK	**-**	3.8
Exceptional stock and disposal provision	**1.1**	-
Exceptional incremental production ramp up costs	**0.9**	-
Exceptional restructure of distribution channels	**1.7**	-
Underlying (loss)/profit before tax	**(2.1)**	4.7

Free cash flow

The Group measures free cash flow in considering the underlying cash generated from its operations. A reconciliation of reported cash used by operations to free cash flow is as follows:

	2018 £m	2017 £m
Free cash flow		
Reported cash used by operations	**(1.6)**	(2.7)
Capital expenditure	**(6.0)**	(5.0)
Payments in respect of exceptional items	**1.6**	2.8
Free cash flow	**(6.0)**	(4.9)

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.

Mike Stilwell - Group Finance Director
29 March 2019

Board of Directors

Subsequent to the year end, on 22 January 2019, John Conoley was appointed as Non-Executive Chairman of the Group. Until this date Graham Whitworth performed the role of Executive Chairman, moving subsequently to the role of Executive Director on John Conoley's appointment. At the date of this report, therefore, FireAngel's Board of Directors comprises, in addition to the Chairman, three Independent Non-Executive Directors and four Executive Directors. Membership of the Audit Committee, and any temporarily appointed Nominations Committee, is made up solely of certain of the Independent Non-Executive Directors. Membership of the Remuneration Committee includes the Non-Executive Directors and, until his change in role to Executive Director on 22 January 2019, Graham Whitworth.

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 Directors is set out below:

Executive Directors

Nick Rutter
Chief Product Officer
AGED 47

Nick is one of the co-founders of the business. He began his career as Technology Director before being appointed Managing Director in 2008 and, subsequently, Chief Product Officer in 2017. Nick's design skills and product vision have fundamentally shaped FireAngel's product offering and brand strategy. Prior to co-founding the business, Nick achieved a BA in Industrial Design from Coventry University and worked as a product designer based in Hong Kong, designing portable audio products for Philips. Subsequent to the year end, Nick's role was broadened to directly focus on connected home sales and pipeline development.

Neil Smith
Group Chief Executive
AGED 47

Neil has a background as a successful senior leader with strategic retail and brand experience gained at market-leading blue chip, multi-channel businesses spanning Kingfisher plc (B&Q), Halfords Group plc, Home Retail Group plc and Boots Retail Group. In addition, Neil has extensive knowledge and success of Far East sourcing, brand development and international retailing. He holds a degree in Business Studies and a Diploma in Marketing.

Mike Stilwell
Group Finance Director
AGED 43

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.

Graham Whitworth
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.

Non-Executive Directors

John Conoley
Chairman
AGED 58

John was appointed as Non-Executive Chairman of the Board on 22 January 2019. 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 Executive Chairman of eServGlobal Limited ('eServGlobal'), the AIM and ASX quoted innovative mobile financial services company, since April 2015 (part time since 1 January 2019) having initially joined the board as a Non-Executive Director in May 2013; Non-Executive Director of HomeSend SCRL, the company jointly owned by eServGlobal 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.

William Payne
Senior Independent Non-Executive Director
AGED 53

William joined the FireAngel Board in 2000 and acted as its finance director until January 2010. He is Senior Partner at Wilkins Kennedy, a firm of accountants. William qualified as a chartered accountant with what is now part of KPMG in London. He was made a partner at WH Payne & Co in 1991, prior to its merger with Wilkins Kennedy LLP in 2003, and which became part of the Cogital Group in 2018. William is also a director of a number of companies, including Ariana Resources plc, which is quoted on AIM.

John Shepherd
Non-Executive Director
AGED 65

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.

Ashley Silverton
Non-Executive Director
AGED 59

Ashley was appointed to the Board in February 2011. He has worked for Brewin Dolphin and its predecessor firms for more than 25 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.

Governance

Corporate governance report

"The Board is committed to ensuring the highest standards of corporate governance are maintained. During 2018 FireAngel adopted the latest Quoted Companies Alliance Corporate Governance Code for small and mid-size quoted companies."

John Conoley - 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 the course of 2018 the business conducted a review of its 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, together with an explanation of any areas of non-compliance, and any steps taken or intended 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	Full	The role, composition and independence of the Board are documented in this Corporate governance report of the Annual Report and supplemented by information in the Directors section of the Investors area of our website www.fireangeltech.com.
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	No formal process for evaluating the Board has been undertaken during the year. 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. The Board will consider whether a more structured approach is required in future with any review undertaken by the Nominations Committee.
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 seven to nine 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 Group Chief Executive. The Group Chief Executive 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 Group Chief Executive. 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 four Executive Directors, with other senior managers attending as appropriate.

Three business unit directors collectively manage the Group's five business units. They report into, and meet with, the Group Chief Executive. 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 Group Chief Executive 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.

Subsequent to the year end, on 22 January 2019, John Conoley was appointed as Non-Executive Chairman of the Group. Until this date, Graham Whitworth performed the role of Executive Chairman, moving subsequently to the role of Executive Director on John Conoley's appointment.

The main responsibilities of the Chairman include:

- ensuring that the Board as a whole plays a full and constructive part in the development of strategy and overall commercial objectives;
- leadership of the Board and creating the conditions for overall Board and individual Director effectiveness;
- promoting the highest standards of integrity, behaviour, probity and corporate governance throughout the Group, particularly at Board level;
- ensuring that the performance of the Board as a whole, its Committees and individual Directors is rigorously evaluated at least once a year; and
- ensuring that there is effective and open communication with shareholders.

The main responsibilities of the Group Chief Executive include:

- day-to-day leadership and management of the business;
- chairing the trading review meetings each week;
- managing the five business units and support functions (Technical, Finance, Quality, Sales and Marketing, Human Resources, Technical Support and Creative) to achieve as a minimum the annual trading budget approved by the Board;
- ensuring initiatives for long-term growth are championed and appropriately resourced within the Group; and
- fostering good relationships with key stakeholders.

Corporate governance report *continued*

William Payne fulfils the roles of Senior Independent Non-Executive Director and Company Secretary of the Group. He provides a communication channel between the Chairman and the Non-Executive Directors and is available to discuss matters with shareholders when required.

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.

During 2018 the Board received external advice from its legal advisors around the defence of the patent infringement claim and eventual Settlement Agreement with BRK.

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 2018 matters dealt with by the Board included:

- consideration of response to the BRK patent infringement claim and conclusion of the associated Settlement Agreement;
- 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;
- Audit and Remuneration Committee reports and recommendations;
- review of corporate governance matters and reporting including adoption of the new Quoted Companies Alliance Corporate Governance Code for small and mid-size quoted companies;
- 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[1] - Chairman	-	-	-
JR Gahan	2[2]	-	-
WJB Payne - Chairman of Audit and Remuneration Committees	18	2	3
NA Rutter	18	-	-
J Shepherd	18	2	3
AV Silverton	17	2	3
NC Smith	18	-	-
MJ Stilwell	1[3]	-	-
GRA Whitworth[4]	18	-	2

1. John Conoley was appointed to the Board on 22 January 2019 and was therefore ineligible to attend any meetings during 2018
2. Number of meetings eligible to attend before resignation from the Board: two
3. Number of meetings eligible to attend after appointment to the Board: one
4. Graham Whitworth was Executive Chairman throughout 2018 and changed role to Executive Director on 22 January 2019

There were around twice the usual number of Board meetings in 2018 in order to address matters which led to the BRK Settlement Agreement detailed in the Chairman's Statement on page 6.

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 26 to 31.

The functions of a nominations committee are generally undertaken by the Group Board as a whole. It was necessary and appropriate to temporarily appoint a nominations sub-committee during 2018 to oversee the specific task of recruiting a Non-Executive Chairman. For less senior appointments, 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. 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 33 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 despite the significant shareholdings in the Company of Graham Whitworth and Nick Rutter, the structure of the Board (from 22 January 2019), with four 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. William Payne, Ashley Silverton and John Shepherd have served on the Board for 18, seven and three years 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. Their lengths of service have positively impacted the effectiveness of the Board through the knowledge of the Group, and of the home safety products industry, their tenure has afforded.

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. The Non-Executive Chairman's responsibilities approximate to one day per week whilst the other 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.

On my appointment, the Non-Executive Chairman will hold meetings with the Non-Executive Directors without the 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.

Corporate governance report *continued*

During the course of its reviews of the system of internal control during the year, the Board has not identified nor been advised of any significant failings, weaknesses or evidence of management override of controls.

The principal risks and uncertainties facing the Group, together with mitigating actions taken to address those risks, are set out on pages 36 to 38. 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.

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 a 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 2018 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 - Chairman
29 March 2019

Audit Committee report

On behalf of the Board, I am pleased to present the Audit Committee report for the year ended 31 December 2018, 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:

- William Payne, Chairman of the Committee, Senior Independent Non-Executive Director;
- John Shepherd, 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 Executive Directors nor the Chairman 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 more than 30 years' 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 2018

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 full-year report for 2017;
- the auditor's report on the interim results 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 2018, which detailed the proposed audit scope and risk and governance assessment;
- the review and approval of the external auditor's fees for 2018; 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 36 and 38.

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 2019 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 2018 11% 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 8 to the financial statements).

By Order of the Board

William Payne - Chairman of the Audit Committee
29 March 2019

Remuneration Committee report

Introduction

On behalf of the Board, I am pleased to present the Remuneration Committee report for the year ended 31 December 2018, 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 2018.

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 2019 Annual General Meeting.

Remuneration Committee

The Group's Remuneration Committee comprises:

- William Payne, Chairman of the Committee, Senior Independent Non-Executive Director;
- John Conoley, Chairman of FireAngel Safety Technology Group plc;
- John Shepherd, Independent Non-Executive Director; and
- Ashley Silverton, Independent Non-Executive Director.

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.

Graham Whitworth was a member of the Committee throughout 2018 until his change of role to Executive Director on 22 January 2019. On the same date John Conoley was appointed to 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 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 Graham Whitworth's membership of the Committee during 2018 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 2018

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

- approval of the 2017 bonus awards and salary increases for the Executive Directors and certain senior managers;
- approval of the 2018 discretionary bonus scheme for certain senior managers and Executive Directors; and
- review of the outturn of the 2015 LTIP awards and the determination that no proportion of the awards had vested and therefore that the awards had lapsed.

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 Group 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[2] £000	**2018 Total £000**	2017 Total £000
Executive Directors						
JR Gahan (resigned 5 March 2018)	31	-	-	3	**34**	202
NA Rutter	185	3	-	18	**206**	202
NC Smith	236	4	30	22	**292**	245
MJ Stilwell (appointed 3 December 2018)	15	-	-	1	**16**	-
GRA Whitworth[3]	218	6	-	-	**224**	232
Non-Executive Directors						
JR Conoley (appointed 22 January 2019)	-	-	-	-	**-**	-
WJB Payne	42	-	-	-	**42**	42
T Russo[4] (resigned 31 March 2017)	-	-	-	-	**-**	-
J Shepherd	39	-	-	-	**39**	33
AV Silverton	36	-	-	-	**36**	36
Total	802	13	30	44	**889**	992

1. Bonuses are paid or accrued based on the achievement of agreed personal objectives and corporate performance metrics.
2. Pension contributions reflect pension payments into money purchase arrangements. There were no other pension payments or accrued pension benefits arising under money purchase schemes in respect of the Directors.
3. Subsequent to the year end, on the appointment of John Conoley on 22 January 2019, Graham Whitworth's role changed from Executive Chairman to Executive Director.
4. Tom Russo waived his non-executive director fees in the preceding year.

b) Share schemes

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

	Number of awards over shares at 1 January 2018	Awards granted in the year	Awards lapsed in the year	Awards exercised in the year	Number of awards over shares at 31 December 2018	Expiry date	Exercise price (pence)
2014 EMI							
JR Gahan	69,445	-	(69,445)	-	-	28/4/2024	200
NA Rutter	125,000	-	-	-	125,000	28/4/2024	200
GRA Whitworth	125,000	-	-	-	125,000	28/4/2024	200
2015 LTIP							
JR Gahan	200,000	-	(200,000)	-	-	3/6/2025	2
NA Rutter	200,000	-	(200,000)	-	-	3/6/2025	2
NC Smith	300,000	-	(300,000)	-	-	3/6/2025	2
GRA Whitworth	200,000	-	(200,000)	-	-	3/6/2025	2

The Group has an approved Enterprise Management Incentive ('EMI') scheme for qualifying UK-based employees which provided for an award of share options based on seniority. Share options vested 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 Remuneration Committee. Furthermore, options are typically forfeited if an employee leaves the Group before options have vested.

The awards issued under the 2015 LTIP failed to meet the performance criteria over the three-year vesting period and therefore lapsed during the year.

The UK scheme rules are approved by HMRC.

Remuneration Committee report *continued*

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
WJB Payne	3 months
NA Rutter	12 months
J Shepherd	3 months
AV Silverton	3 months
NC Smith	12 months
MJ Stilwell	6 months
GRA Whitworth	12 months

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

William Payne - Chairman of the Remuneration Committee
29 March 2019

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 Strategic Report, which comprises the Chairman's Statement, the Strategic Review, the Performance Review and the Risks and Risk Management section, on pages 6 to 18, and pages 36 to 38.

Review of business and future developments

The Consolidated Income Statement for the year ended 31 December 2018 is set out on page 43.

A review of the Group's business activities during the year and its prospects for the future can be found in the Chairman's Statement, the Strategic Review and the Performance Review on pages 6 to 18. 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 % (excluding the BRK distribution fee). 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.
- Operating margin %. 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 level of operating margin.
- Basic EPS. The Group seeks to reward its shareholders with an annual dividend.
- 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.
- Free cash flow. Free cash flow is cash flow from operations after the capital costs of investment in product development, to pay as dividends or retain in the business.
- Net 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.
- Product warranty returns. In addition to the financial KPIs set out above, the Group records and monitors all free-of-charge replacement products issued to customers under the Group's warranty procedures. Warranty returns by market and by year of manufacture are reviewed and monitored to ensure that the pattern of warranty returns is in line with expectation.

Appropriate commentary on the key performance indicators above is set out in the Performance Review on pages 13 to 18.

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 36 to 38.

Group results and dividends

The financial results for the year and financial position of the Group and the Company are as shown on pages 43 to 44 inclusive. The consolidated loss after tax for the year was £4.5 million (2017: profit after tax of £0.5 million).

As a result of the loss reported for the year, and consistent with the decision not to pay an interim dividend (2017: 2.5 pence per share), the Directors do not recommend payment of a final dividend for the year (2017: nil pence per share). The total dividend payable for 2018 was therefore nil pence per share (2017: 2.5 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. 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. The net gain on foreign exchange contracts taken to the income statement in the year amounted to £0.6 million (2017: loss of £0.3 million).

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 to 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 45,905,422 shares in issue and listed on AIM of the London Stock Exchange as at 31 December 2018. No shares were held in treasury. Details of movements in the issued share capital can be found in note 28 to the financial statements. No securities were issued in connection with a rights issue during the year.

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 28 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 30 to the financial statements. No person has any special rights of control over the Company's shares 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 2018 were as follows:

	2018 Number of shares held	2018 Interests in share schemes	2018 Total interests in shares	2017 Total interests in shares
JR Conoley	-	-	-	-
WJB Payne	100,000	-	100,000	100,000
NA Rutter	3,000,000	125,000	3,125,000	3,325,000
AV Silverton	35,000	-	35,000	15,000
J Shepherd	23,063	-	23,063	23,063
NC Smith	10,000	-	10,000	300,000
MJ Stilwell	-	-	-	-
GRA Whitworth	3,521,937	125,000	3,646,937	3,846,937
	6,690,000	250,000	6,940,000	7,610,000

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 29 March 2019.

Significant shareholdings

As at the close of the market on 13 March 2019, 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
BRK Brands Europe Limited	10,732,149	23.4	Direct
Downing LLP	4,595,892	10.0	Indirect
Euro Credit Investments Limited	3,000,000	6.5	Indirect
Close Asset Management Limited	2,895,234	6.3	Indirect
Canaccord Genuity Group Inc	1,892,747	4.1	Indirect
Jolyon William Money Esq	1,518,361	3.3	Direct

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 2018 with the exception of the following appointments and resignations:

- John Conoley (appointed 22 January 2019)
- John Gahan (resigned 5 March 2018)
- Mike Stilwell (appointed 3 December 2018)

Following John Conoley's appointment as Non-Executive Chairman on 22 January 2019, Graham Whitworth, the Executive Chairman throughout 2018 to that date, was appointed part-time Executive Director for twelve months with a view to becoming a Non-Executive Director of the Company on the expiry of the twelve months.

Details and biographies of the current Directors are shown on pages 19 and 20.

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 Annual General Meeting to be held on 25 June 2019, Graham Whitworth and Nick Rutter will retire and stand for re-election. As newly appointed Directors, John Conoley and Mike Stilwell will be subject to election being the first Annual General Meeting since they were both 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 12.

The Group employed an average of 154 people in 2018 (2017: 147).

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 2018 the Group had 103 days' purchases outstanding in trade payables (2017: 101 days').

Charitable contributions

The Group made charitable contributions amounting to £622 (2017: £522) 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

The Group's forecasts and projections, taking account of reasonably predictable changes in trading performance (even after applying downside sensitivities), support the conclusion that there is a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, a period of not less than twelve months from the date of this report. Even after applying downside sensitivities, the Group is forecast to remain within its banking facilities. Accordingly, the going concern basis has been adopted in preparing the financial information.

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 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 Brexit;
- the restructuring of the Group's borrowing facilities since the year end, to move from a revolving credit facility to a more efficient invoice discounting and overdraft facility;
- the announcement post year end of a placing and open offer to raise £6.0 million; and
- 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.

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. The poll results from the 2019 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 33 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.

Strategic Report

The Strategic Report comprises the Chairman's Statement, the Strategic Review, the Performance Review and the Risks and Risk Management section, on pages 6 to 18 and pages 36 to 38.

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

By Order of the Board

Mike Stilwell - Group Finance Director
29 March 2019

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 Group Chief Executive 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 Governance report from page 21.

The Audit Committee advises the Board of Directors on matters of risk management. It has its own report, which can be read on pages 26 to 27.

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
Product prices from the Group's smoke alarm and connected products manufacturer cannot be reduced	The relationship with the Group's smoke alarm and connected products manufacturer is relatively new. Whilst progress has been made in increasing production yield and volumes, such that output is now expected to meet forecast demand for 2019, there remain challenges in levels of utilisation and efficiency in the manufacturing process which is impacting product costing in the short term.	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.
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. It 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.
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. FireAngel is dependent upon these distributors to fulfill 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, FireAngel closely monitors sales by the third-party distributors. From time to time, the Group has financially supported its distributors with extensions to payment terms.	FireAngel 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 FireAngel's products. FireAngel ensures that the contractual relationships with its customers are fair and commercially beneficial for both parties. FireAngel 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 FireAngel 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 FireAngel.
Product warranty risk	Each year, the number of the Group's smoke and carbon monoxide products in the market place increases and it is inevitable, given the technology-content of FireAngel'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, FireAngel's liability is governed by the contractual agreement with its immediate customer which may include the provision of a replacement product.	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, FireAngel 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 FireAngel's in-house Technical Support team which records all product warranty by date of manufacture. The Group also maintains product recall insurance to mitigate the potential cost of a product recall should one of its approved and fully certified designs be found to be at fault. The Group had warranty provisions of £1.5 million at at 31 December 2018 (2017: £2.2 million).

Risks and risk management *continued*

	Risk Factors that may impact the business	Mitigation What we are doing to minimise the risk
Risks following Britain's exit from the EU, 'Brexit'	The UK Parliament voted in favour of triggering Article 50, and on 29 March 2017, the UK Government duly gave the requisite notice, initiating a two-year process for Britain to leave the EU with the deadline for concluding an agreement of 29 March 2019.	The Board has taken steps to prepare for Britain leaving the EU on 29 March 2019. 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 Board remains vigilant and will continue to monitor the situation and take appropriate steps to manage the potential impact of further movements in relevant currencies and potential changes in import duty arrangements. The Group's primary manufacturing partner for smoke, heat and accessory products is based in Poland. Poland has not adopted the euro but has been a full member of the EU since 2004. Should the import duty regime change following the UK's exit from the EU, the Group would review the import duty arrangements and adjust its product pricing accordingly.
Competition risk	Several home safety product companies are considered to be direct competitors of FireAngel. These companies vary in the relative strength of their product offering. As competitors launch new products, our prospects may be impacted which could either reduce or enhance FireAngel product sales.	FireAngel monitors competitors' offerings and regularly reviews competitor products. Our continued investment in new products and technology provides a barrier to new entrants in the market. Certification costs per product are high, estimated at approximately £100,000 per new product. This also acts as a significant barrier to entry.
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 FireAngel's standalone safety product range.	The Group is selling its own connected home solution products and is increasing its investment in technology and products which connect to the internet. FireAngel continues to invest in product technology to reduce the cost of connected home solutions and to ensure that ours are the products of choice for our customers.
Product defensibility	It is possible that new products and technologies may emerge in the future as more viable alternatives to FireAngel's products.	The Group dedicates significant resources to product research and development to keep the business and its products at the forefront of technology. FireAngel 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. FireAngel's established technical team and its know-how are a significant source of competitive advantage for the Group.
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, FireAngel 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 FireAngel's registered technology.	FireAngel's principal protection in the market lies in its business model rather than through any specific intellectual property rights. The breadth of FireAngel'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. FireAngel is not dependent on any one single patent for sales. FireAngel's products are protected by over 50 granted patents in our major markets and we continue to register new patents to protect our IP where the Group believes it is appropriate to do so.
Staff recruitment and retention risk	As with most businesses, particularly those operating in a technical field, we are dependent on our employees with key managerial, engineering and technical skills. The contribution of FireAngel's dedicated staff and management team has been, and continues to be, critical to the Group's success.	FireAngel 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. We seek to create a supportive working environment and 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 our 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.	FireAngel 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. FireAngel's procedures comply with the requirements of ISO audits and detailed records are maintained to ensure that products are correctly stored and disposed.
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.	In conjunction with suppliers, FireAngel 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. FireAngel 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.

Statement of Directors' responsibilities

The Directors are responsible for preparing the 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

William Payne - Company Secretary
29 March 2019

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 2018 which comprise the consolidated income statement, the consolidated and company statement 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 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 2018 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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.

FireAngel warranty provisioning

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 has been subsequently utilised, and was £1.4 million at 31 December 2018. 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 24 the estimation uncertainties relevant to the calculation of the warranty provision. 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.

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 remaining warranty provision in light of our understanding of the specific warranty issue and the wider business;
- 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;
- assessing the calculations prepared by management in light of latest available returns information; and
- assessing the adequacy of disclosures set out in the financial statements, particularly detailing critical accounting estimates and areas of judgement.

Impairment of product development costs

The group continues to develop new products and has unamortised capitalised product development costs of £13.1 million at the reporting date, of which £3.5 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.

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.

Our audit work included, but was not restricted to:

- obtaining and reviewing management's assessment of all projects within capitalised product development costs;
- 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; and
- for projects where amortisation has not yet commenced, we challenged management's assessment and corroborated explanations to supporting evidence where available.

Provisions for slow moving inventory

The group had inventory of £8.4 million at 31 December 2018. As disclosed in the accounting policies, inventories are held at the lower of cost and net realisable value. As disclosed in note 3 and note 19, management estimate the extent to which provisions are required to cover stock obsolescence. Given the quantum of inventory held at the balance sheet date, and the significant estimation required, the adequacy of the recorded provision is one of the most significant risks of material misstatement.

Our audit work included, but was not restricted to:

- obtaining and reviewing management's provision calculation and considering the appropriateness of any judgements made thereon;
- identifying potentially obsolete or slow moving inventory with reference to historic and expected sales; and
- challenging management to demonstrate their plan to recover value from slow moving, unprovided items.

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. During planning materiality for the group financial statements as a whole was calculated as £483,000 which was not significantly changed during the course of our audit. Materiality for the parent company financial statements as a whole was calculated as £151,000 which was not significantly changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £15,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our audit scope comprised full scope audits of FireAngel Safety Technology Group plc and its UK trading subsidiary undertaking, FireAngel Safety Technology Limited. We performed review procedures on the other trading component of the Group, Pace Sensors Limited. Our full scope audit work covered 96% of group revenue, 98% of group loss before taxation, and 95% of group gross assets.

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 Phillips Point
Temple Row
Birmingham
B2 5AF
29 March 2019

Consolidated income statement

For the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Revenue	6	**37,587**	54,277
Cost of sales excluding BRK distribution fee and exceptional charges		**(27,922)**	(36,309)
BRK distribution fee		**(944)**	(2,915)
Exceptional charge for Settlement Agreement with BRK	7	**-**	(3,777)
Exceptional charge for stock and disposal costs	7	**(1,105)**	-
Total cost of sales		**(29,971)**	(43,001)
Gross profit		**7,616**	11,276
Gross margin % before BRK distribution fee and exceptional charges		**25.7%**	33.1%
Distribution costs		**(992)**	(1,007)
Administrative expenses before share-based payments charge		**(9,720)**	(9,390)
Share-based payments charge	30	**(107)**	(358)
Exceptional charge for restructure of distribution channel and production ramp-up costs	7	**(2,568)**	-
Administrative expenses		**(12,395)**	(9,748)
Total operating expenses		**(13,387)**	(10,755)
(Loss)/profit from operations before exceptional charges and share-based payments charge		**(1,991)**	4,656
(Loss)/profit from operations	8	**(5,771)**	521
Finance (expense)/income	10	**(114)**	24
(Loss)/profit before tax		**(5,885)**	545
Income tax credit/(charge)	11	**1,402**	(57)
(Loss)/profit attributable to equity owners of the parent		**(4,483)**	488
Earnings per share (pence)	13		
From continuing operations:			
Basic		**(9.8)**	1.1
Diluted		**(9.8)**	1.1

All amounts stated relate to continuing activities.

Consolidated statement of comprehensive income

For the year ended 31 December 2018

	2018 £000	2017 £000
(Loss)/profit for the year	**(4,483)**	488
Items that may be reclassified subsequently to profit and loss:		
Exchange differences on translation of foreign operations (net of tax)	**(67)**	(85)
Total comprehensive (loss)/income for the year	**(4,550)**	403

Consolidated and company statement of financial position

As at 31 December 2018

	Notes	Consolidated 2018 £000	Consolidated 2017 £000	Company 2018 £000	Company 2017 £000
Non-current assets					
Goodwill	15	**169**	169	**-**	-
Other intangible assets	16	**13,201**	10,475	**-**	-
Purchased software costs	16	**2,899**	2,574	**-**	-
Plant and equipment	17	**4,006**	2,077	**-**	-
Shares in subsidiaries	18	**-**	-	**149**	149
Deferred tax assets	26	**-**	273	**-**	-
		20,275	15,568	**149**	149
Current assets					
Inventories	19	**8,425**	11,201	**-**	-
Trade and other receivables	20	**10,792**	17,366	**27,343**	22,428
Current tax asset		**1,248**	625	**-**	-
Derivative financial assets	21	**214**	-	**-**	-
Cash and cash equivalents		**1,251**	3,273	**1**	64
		21,930	32,465	**27,344**	22,492
Total assets		**42,205**	48,033	**27,493**	22,641
Current liabilities					
Trade and other payables	25	**(11,465)**	(16,472)	**-**	-
Current tax liabilities		**(39)**	(15)	**-**	-
Provisions	24	**(934)**	(1,507)	**-**	-
Derivative financial liabilities	21	**-**	(364)	**-**	-
		(12,438)	(18,358)	**-**	-
Net current assets		**9,492**	14,107	**27,344**	22,492
Non-current liabilities					
Loans and borrowings	22	**(5,700)**	-	**(5,700)**	-
Provisions	24	**(600)**	(687)	**-**	-
Deferred tax liabilities	26	**(1,156)**	(1,974)	**-**	-
		(7,456)	(2,661)	**(5,700)**	-
Total liabilities		**(19,894)**	(21,019)	**(5,700)**	-
Net assets		**22,311**	27,014	**21,793**	22,641
Equity					
Called up share capital	28	**918**	918	**918**	918
Share premium account		**12,729**	12,729	**12,729**	12,729
Currency translation reserve		**112**	179	**-**	-
Retained earnings		**8,552**	13,188	**8,146**	8,994
Total equity attributable to equity holders of the Parent Company		**22,311**	27,014	**21,793**	22,641

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 £848,000 (2017: £nil).

The financial statements on pages 43 to 76 were approved and authorised for issue by the Board of Directors on 29 March 2019 and were signed on its behalf by:

Neil Smith - Group Chief Executive
29 March 2019

Mike Stilwell - Group Finance Director
29 March 2019

Company registered number: 3991353

Consolidated and company cash flow statement

For the year ended 31 December 2018

	Notes	Consolidated 2018 £000	Consolidated 2017 £000	Company 2018 £000	Company 2017 £000
(Loss)/profit before tax		**(5,885)**	545	**(848)**	-
Finance expense/(income)		**114**	(24)	**121**	-
Operating (loss)/profit for the year		**(5,771)**	521	**(727)**	-
Adjustments for:					
Depreciation of property, plant and equipment		**385**	271	**-**	-
Amortisation and impairment of intangible assets		**689**	465	**-**	-
(Increase)/decrease in fair value of derivatives		**(578)**	277	**-**	-
Share-based payments charge		**107**	358	**-**	-
Provision against intercompany receivables		**-**	-	**725**	-
Operating cash flow before movements in working capital		**(5,168)**	1,892	**(2)**	-
Movement in inventories		**2,777**	2,116	**-**	-
Movement in receivables		**6,394**	(4,188)	**(5,640)**	2,921
Movement in provisions		**(660)**	(2,405)	**-**	-
Movement in payables		**(4,983)**	(236)	**-**	-
Cash (used by)/generated by operations		**(1,640)**	(2,821)	**(5,642)**	2,921
Income taxes (paid)/received		**(35)**	376	**-**	-
Net cash (used by)/generated by operating activities		**(1,675)**	(2,445)	**(5,642)**	2,921
Investing activities					
Capitalised development costs		**(3,415)**	(2,670)	**-**	-
Purchased software		**(325)**	(925)	**-**	-
Purchase of property, plant and equipment		**(2,342)**	(1,432)	**-**	-
Interest received		**7**	24	**-**	-
Net cash used in investing activities		**(6,075)**	(5,003)	**-**	-
Financing activities					
Proceeds from issue of ordinary shares		**-**	17	**-**	17
Drawdown of loan	22	**5,700**	-	**5,700**	-
Dividends paid	12	**-**	(3,670)	**-**	(3,670)
Interest paid		**(121)**	-	**(121)**	-
Net cash generated by/(used in) financing activities		**5,579**	(3,653)	**5,579**	(3,653)
Net decrease in cash and cash equivalents		**(2,171)**	(11,101)	**(63)**	(732)
Cash and cash equivalents at beginning of year		**3,273**	14,333	**64**	796
Non-cash movements		**149**	41	**-**	-
Cash and cash equivalents at end of year		**1,251**	3,273	**1**	64

Consolidated statement of changes in equity

For the year ended 31 December 2018

	Share capital £000	Share premium account £000	Currency translation reserve £000	Retained earnings £000	Total £000
Balance at 1 January 2017	917	12,713	264	16,090	29,984
Profit for the year	-	-	-	488	488
Net foreign exchange losses from overseas subsidiaries	-	-	(85)	-	(85)
Total comprehensive (loss)/income for the year	-	-	(85)	488	403
Transactions with owners in their capacity as owners:					
Dividends	-	-	-	(3,670)	(3,670)
Issue of shares	1	-	-	-	1
Premium arising on issue of equity shares	-	16	-	-	16
Total transactions with owners in their capacity as owners	1	16	-	(3,670)	(3,653)
Credit in relation to share-based payments	-	-	-	358	358
Deferred tax charge in relation to share-based payments	-	-	-	(61)	(61)
Current tax charge in relation to share-based payments	-	-	-	(17)	(17)
Balance at 31 December 2017	**918**	**12,729**	**179**	**13,188**	**27,014**
Loss for the year	-	-	-	(4,483)	(4,483)
Net foreign exchange losses from overseas subsidiaries	-	-	(67)	-	(67)
Total comprehensive loss for the year	-	-	(67)	(4,483)	(4,550)
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**	**8,552**	**22,311**

Company statement of changes in equity

For the year ended 31 December 2018

	Share capital £000	Share premium account £000	Retained earnings £000	Total £000
Balance at 1 January 2017	917	12,713	12,663	26,293
Profit for the year	-	-	-	-
Total comprehensive income for the year	-	-	-	-
Transactions with owners in their capacity as owners:				
Dividends	-	-	(3,669)	(3,669)
Issue of shares	1	-	-	1
Premium arising on issue of equity shares	-	16	-	16
Total transactions with owners in their capacity as owners	1	16	(3,669)	(3,652)
Balance at 31 December 2017	**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**

Notes to the financial statements

For the year ended 31 December 2018

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 detectors and accessories sold under the brands of FireAngel, 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, unless otherwise stated.

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 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 Brexit;
- the restructuring of the Group's borrowing facilities since the year end, to move from a revolving credit facility to more efficient invoice discounting and overdraft facility;
- the announcement post year end of a placing and open offer to raise £6.0 million; and
- 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 Group's review of forecasts and projections in trading performance (even after applying downside sensitivities), support the conclusion that there is a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, a period of not less than twelve months from the date of this report. Even after applying downside sensitivities, the Company is forecast to remain within its banking facilities.

Consequently, at the date of this report, the Directors have a reasonable expectation that the Group and Parent Company have adequate resources to continue in business for the foreseeable future. Accordingly, the financial statements have been prepared on the going concern basis.

Notes to the financial statements *continued*

For the year ended 31 December 2018

Changes in accounting policies and disclosures

New standards, amendments and interpretations adopted by the Group

The following 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 2018:

- IFRS 15: Revenue from contracts with customers
- IFRS 9: Financial Instruments
- Amendments to IFRS 2: Classification and measurement of share-based payment transactions
- IFRIC 22: Foreign currency transactions and advance consideration
- Annual improvements 2014-2016 (effective 1 January 2019)

IFRS 15 supersedes IAS 18, and is effective for periods beginning on or after 1 January 2018. IFRS 15 has been adopted by the Group and introduces a five-step model for determining if and when revenue should be recognised based on the performance obligations of customer contracts. The Group has completed a review of its principle customer contracts and concluded that the recognition of revenue is not affected by the adoption of IFRS 15 for the vast majority of sales and has not had a material impact on the financial statements.

The Group has also carefully investigated the treatment of warranties provided to consumers under the new IFRS 15 by reviewing all variations of products sold since 2010 and the respective warranty spans and warranty type (service or assurance). The Directors have concluded that all warranties are assurance type and therefore there is no separate warranty performance obligation and therefore there is no change to recorded revenue.

IFRS 9 replaces IAS39 and is effective for periods beginning on or after 1 January 2018. IFRS 9 specifies how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items. It introduces an expected credit loss model on impairment that replaces the incurred loss impairment model used in IAS 39. The expected credit loss model is forward-looking and eliminates the requirement for objective evidence of impairment before credit losses are recognised.

The Group has adopted the simplified approach to recognise any possible impairment in respect of trade receivables. The Group has considered a range of information, including historic trade receivable losses and current market conditions and has determined that it is not materially impacted by its adoption. The Group regularly reviews the credit limits it offers existing customers and conducts further credit checks where it deems necessary.

The Company's group receivables represent trading balances and interest free amounts advanced to other group companies with no fixed repayment dates. The Company determines that credit risk has increased significantly when:

- there are significant actual or expected changes in the operating results of the group entity, including declining revenues profitability or liquidity management problems; or
- there are existing or forecast adverse changes to the business, financial or economic conditions that may impact the group entity's ability to meet its debt obligations; and
- the group entity is unable to rely on the support of other group entities to meet its debt obligations.

The Directors have concluded there is an impairment to the Company's group balance as there is considered a 5% chance of not recovering this through future cash flows.

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):

- IFRS 16: Leases (effective 1 January 2019)
- IFRIC 23: Uncertainty over income tax treatments (effective 1 January 2019)
- Annual improvements 2015-2017 (effective 1 January 2019)

IFRS 16 'Leases' will impact the financial statements and the relevant disclosures as the Group has operating leases that are to be recorded and identified separately on the face of the Consolidated Statement of Financial Position. The Group is still in the process of quantifying the impact and deciding on which transitional exemptions it will take. Given the relatively low level of operating lease commitments of the Group, the adoption of IFRS 16 in 2019 is expected to slightly increase the Group's reported operating profit (compared to current reporting requirements) whilst the implicit interest cost of the leases will go 'below the line' as part of 'interest'. The balance sheet will also reflect increased right of use assets, broadly offset by leasing liabilities. The Directors will provide further guidance on the adoption of this standard in due course.

The Directors anticipate that the adoption of the other remaining standards and interpretations 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

The Group has adopted IFRS 15 in these financial statements. IFRS 15 provides guidance on the treatment of warranties provided on the sale of goods. The Group sells products with warranties ranging from one year 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 carefully 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 or 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.

In light of the IFRS 15 guidance, and 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 £0.6 million to certain UK retailers in respect of maintaining the ongoing relationship with these customers and to secure promotional activities during the year (2017: £0.4 million). Such costs are taken to the income statement in the year to which they relate and are recorded in administrative 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. The Group adopts the units of production method for all product development costs (excluding readying Flex and the Far East based supplier) which the Board believes can be forecast reliably.

The Directors estimate that the useful economic life of these various intangible assets is between seven and fifteen years. Further details of each product/technology are outlined in note 16 to the financial statements.

Directly attributable costs in bringing our 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 the most appropriate given the forecasted production. These assets are being amortised over five years.

Provision is made immediately for any impairment in the carrying value of the intangible asset.

Other intangible assets - Intamac development software

During 2018, the Group paid Intamac £0.3 million as the final instalment for the source code and development rights to software developed by Intamac to enable its customers to connect and monitor FireAngel's whole range of wireless products over the internet. This brought the total consideration paid to £2.9 million.

Using its patent pending technology, FireAngel has the ability to use the data it collects from Connected Homes products to not only detect fires, but using an advanced algorithm, to identify properties at elevated risk of experiencing a fire in the future.

Other intangibles - 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.

Notes to the financial statements

For the year ended 31 December 2018

Plant, equipment and tooling

All plant, equipment, tooling, fixtures and fittings, motor vehicles and office equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

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

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.

Significant investment has been made in manufacturing tooling at Flex, the Group's manufacturing partner for smoke alarms and connected products, throughout 2018. The Group considered it appropriate to depreciate these assets over five years. Regular reviews will be 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.

Operating leases

Rentals payable under operating leases are 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 are 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 balance sheet.

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 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 previously categorised its financial assets in the following categories: at fair value through profit and loss, loans and receivables, and available for sale. With the adoption of IFRS 9 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
- Cash and cash equivalents

b) Trade receivables

Trade receivables are initially measured at their transaction value and are subsequently measured at amortised cost. IFRS 9 introduces a new expected credit loss model which increases the information that the Group has to consider when determining its expectations of impairment. Under this new model any expectations of future events must be considered which will result in the earlier recognition of larger impairments. Under the old standard (IAS39), an entity only considered impairments that arose as a result of incurred loss events. The effects of any possible future loss events cannot be considered, even if they are expected.

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.

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 are in relation 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.

Previously the Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets is impaired and made a provision when a loss event had occurred.

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.

Full recoverability of overdue debts

IFRS 9 introduces an expected credit loss model on impairment that replaces the incurred loss impairment model used in IAS 39. The credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

The Group has considered a range of information, including historic trade receivable losses and current market conditions and has determined that it is not materially affected by its adoption. The Group regularly reviews the credit limits it offers existing customers and conducts further credit checks where it deems appropriate.

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 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 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.

Cancelled or settled options are accounted for as an acceleration of vesting. The unrecognised grant date fair value is recognised through the income statement in the year that the options are cancelled or settled.

Where the terms of the options are modified and the modification increases the fair value or number of equity instruments granted measured immediately before and after the modification, the incremental fair value is spread over the remaining vesting period.

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. The adoption of IFRS 8 has not had any impact on the financial performance or financial position of the Group.

3. Critical accounting estimates and areas of judgement

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 an 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. The Board is keen to stress that this is not a safety critical issue.

As a result of the battery issue, 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 2018 reduced to £1.5 million as a result of utilisation during the year.

The expected terminal rate of return percentage for each year of production for each market was estimated by FireAngel's Technical team and remains within our original expectations.

To prevent the issue happening again, FireAngel's supplier has introduced additional screening processes on the production line prior to the battery being fitted into finished smoke alarms.

The Group has also reviewed its returns processes to reduce the cost of servicing product returns and have identified a number of significant improvements that will reduce the cost of servicing the warranty in the field going forwards.

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. 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.

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 2018, the Group recognised a £30,000 impairment charge upon review of its capitalised intangible product development costs.

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 £0.6 million are not being depreciated as they are currently being developed for sale. Connected home intangible assets with a net book value of £4.9 million are being depreciated. 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 home solutions product offering which is working, the Board believes that the carrying value of connected homes solutions intangibles is not impaired. This assumption will be reviewed over time.

Amortisation of intangible assets

The Group amortises its intangible product development costs using the 'units of production' method. This methodology is intended to ensure that the amortisation charge of product development costs more closely correlates to the gross profit generated on the sale of products which incorporate the Group's technology. Essentially, the units of production methodology more closely matches the consumption of the economic benefit of the Group's technology. Determining the units of production amortisation requires estimates relating to the future sales of products which may or may not be borne out in the future. Judgement is required in determining when amortisation should begin for certain assets.

Notes to the financial statements *continued*

For the year ended 31 December 2018

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 for (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 what sales are 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 2018 amounted £2.3 million (2017: £3.7 million) and comprised £1.4 million provided against the value of remaining BRK stock pending its disposal in 2019, and £0.9 million against the value of older stock manufactured for the French market.

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.

	Within 6 months	6 months - 1 year	1 to 5 years	Over 5 years	Total
2018	**£000**	**£000**	**£000**	**£000**	**£000**
Trade payables	8,220	-	-	-	8,220
Other payables	1,869	-	-	-	1,869
Loans and borrowings	-	-	5,700	-	5,700
Financial liabilities	**10,089**	**-**	**5,700**	**-**	**15,789**

2017	**£000**	**£000**	**£000**	**£000**	**£000**
Trade payables	10,583	-	-	-	10,583
Other payables	4,968	-	-	-	4,968
Derivative financial liabilities	364	-	-	-	364
Financial liabilities	**15,915**	**-**	**-**	**-**	**15,915**

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.

	Within 6 months	6 months - 1 year	1 to 5 years	Over 5 years	Total
2018	**£000**	**£000**	**£000**	**£000**	**£000**
Cash at bank and on hand	1,251	-	-	-	1,251
Trade receivables and other debtors	10,269	-	-	-	10,269
Derivative financial assets	214	-	-	-	214
Financial assets	**11,734**	**-**	**-**	**-**	**11,734**

2017	**£000**	**£000**	**£000**	**£000**	**£000**
Cash at bank and on hand	3,273	-	-	-	3,273
Trade receivables and other debtors	16,927	-	-	-	16,927
Financial assets	**20,200**	**-**	**-**	**-**	**20,200**

The Group would normally expect that sufficient cash is generated in the operating cycle to meet the contractual cash flows as disclosed on the previous page through effective cash management. In addition, in January 2018, the Group entered into a committed £7 million revolving credit facility with HSBC UK Bank plc and maintained a £1 million committed invoice discounting facility secured on UK trade debtors which can be accessed as required.

Since the year end, the Group's borrowing facilities were restructured to move from a revolving credit facility to a more efficient invoice discounting and overdraft facility.

On the same date as the approval of this Annual Report and financial statements, the Group announced details of a placing and open offer to raise £6.0 million to accelerate recovery and specifically to reduce indebtedness, invest in the Connected Homes proposition and for working capital purposes.

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 set up 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 2019 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 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.

	2018	2017
Maximum exposure to credit risk	**£000**	£000
Trade receivables and other debtors	**10,269**	16,927
Cash and cash equivalents	**1,251**	3,273
	11,520	**20,200**

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 £27.3 million (2017: £22.4 million). For the Company, impairment losses on financial assets measured at amortised cost relate solely to amounts due from fellow group companies and total £725,000 at 31 December 2018 (2017: £nil). 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, currency translation reserve and retained earnings.

6. Revenue and segmental reporting

FireAngel 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.

All assets are consolidated on a Group basis and reported as such to the Board.

	2018 Revenue	2017 Revenue
Revenue from continuing operations	**£000**	£000
Business Units:		
International	**8,756**	21,907
Trade	**12,433**	13,688
Retail	**8,281**	9,290
Fire & Rescue Services	**4,208**	4,506
Utilities	**2,259**	1,850
Pace Sensors	**1,650**	3,036
Total revenue from external customers	**37,587**	54,277

All business units earn revenue from the sale of smoke alarms and CO detectors 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.

As set out in the Group's Annual Report and Accounts for the year ended 31 December 2017, from 1 January 2018, certain customers previously reported within the Retail business unit, such as Screwfix and Toolstation, are now reported through the Trade business unit. The 2017 sales comparatives have been adjusted accordingly.

For 2018, revenues of approximately £4.5 million were derived from one external customer (2017: £10.0 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 2018 (2017: International). An analysis of the Group's revenue is as follows:

	2018 £000	2017 £000
Continuing operations:		
United Kingdom	**27,181**	29,362
Continental Europe	**8,456**	20,474
Rest of World	**1,950**	4,441
	37,587	54,277

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

	2018 £000	2017 £000
Continuing operations:		
UK	**20,159**	15,108
Canada	**116**	187
Non-current assets	**20,275**	15,295

7. Exceptional charges

	2018 £000	2017 £000
Within cost of sales		
Exceptional charge for BRK Settlement Agreement (note a)	-	3,777
Provision against stock and disposal costs (note b)	**1,105**	-
	1,105	3,777
Within administrative expenses		
Incremental production ramp up costs (note c)	**928**	-
Restructure of distribution channels (note d)	**1,640**	-
	2,568	-
Total exceptional charges	**3,673**	3,777

a. As announced on 10 May 2018 and detailed in the Group's Annual Report for 2017, FireAngel signed a Settlement Agreement with BRK Brands Inc, BRK Brands Europe Limited, Jarden LLC and Detector Technology Limited (together 'BRK') in full and final settlement of all matters between the parties. As a result, the Group recorded a £3.8 million exceptional charge in the results for the year ended 31 December 2017.

b. £1.1 million has been provided against stock originally purchased for the French market to address demand driven by local legislative change.

c. One-off exceptional costs of £0.9 million have been incurred due to delays in reaching full production capacity and pricing expectations at the Group's smoke alarm and connected devices manufacturing partner.

d. Exceptional costs of £1.7 million have been 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 has taken 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. Profit from operations

The following table analyses the nature of expenses:

	2018 £000	2017 £000
Staff costs (see note 9)	**5,677**	5,306
Depreciation, amortisation and impairment (see notes 16 and 17)	**1,074**	736
Premises costs	**1,206**	1,127
Cost of inventories recognised as an expense	**25,692**	34,316
Inventory provision booked in year	**(40)**	(261)
BRK distribution fee	**944**	2,915
Distribution costs	**992**	1,007
Marketing and trade contributions	**965**	1,028
Professional fees excluding Non-Executive Directors	**718**	701
Research and development costs	**260**	306
Exceptional items excluding staff costs (see note 7)	**3,350**	3,777
Other net expenses/costs	**2,520**	2,798
Total cost of sales, distribution costs and administrative expenses	**43,358**	53,756

Profit from operations has been arrived at after charging:

	2018 £000	2017 £000
Net foreign exchange losses excluding foreign currency forward transactions	**21**	184
Research and development costs	**260**	306
Amortisation and impairment of intangible assets	**689**	465
Depreciation on owned assets	**385**	271
Rentals under operating leases	**386**	425

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

	2018 £000	2017 £000
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	**30**	30
Fees payable to the Company's auditor and their associates for other services to the Group;		
The audit of the Company's subsidiaries	**61**	103
Other audit related services	**37**	37
Total audit fees	**128**	170
Taxation services	**23**	20
Accounting services	**13**	-
Total non-audit fees	**36**	20

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For the year ended 31 December 2018

9. Staff costs

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

	2018 Number	2017 Number
Pace Sensors manufacturing	**27**	37
Technology	**42**	38
Administration	**49**	33
Sales and marketing	**27**	29
Executive and Non-Executive Directors	**6**	7
Warehousing	**3**	3
	154	147

The aggregate remuneration for the above persons comprised:

	2018 £000	2017 £000
Wages and salaries	**6,338**	6,036
Social security costs	**614**	690
Other pension costs	**213**	174
Share-based payment expense	**107**	358
Total remuneration	**7,272**	7,258
Less: capitalised product development costs	**(1,595)**	(1,952)
Total remuneration charged to Income Statement	**5,677**	5,306

10. Finance (expense)/income

	2018 £000	2017 £000
Interest (expense)/income on bank balance	**(114)**	24

11. Income tax

	2018 £000	2017 £000
Current tax		
UK corporation tax (credit)/charge	**(685)**	(624)
UK – adjustments in respect of prior periods charge/(credit)	**61**	(332)
Foreign tax charge	**27**	190
	(597)	(766)
Deferred tax (note 26)		
Origination and reversal of temporary differences	**(805)**	823
Income tax (credit)/charge	**(1,402)**	57

Domestic income tax is calculated at 19.00% (2017: 19.25%) 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:

	2018 £000	%	2017 £000	%
(Loss)/profit before tax	**(5,885)**		545	
Tax at the domestic income tax rate of 19.00% (2017: 19.25%)	**(1,118)**		105	
Tax effect of expenses that are not deductible in determining taxable profit	**13**		13	
Effect of allowance for capitalised development expenditure	**(295)**		(359)	
Adjustments in respect of prior periods	**(69)**		108	
Impact of foreign tax rates	**1**		53	
Other adjustments	**66**		137	
Tax (credit)/charge and effective tax rate for the year	**(1,402)**	24%	137	10%

The weighted average applicable tax rate was 24% (2017: 10%). The tax credit for 2018 is largely due to enhanced research and development tax relief at a rate of 230% and operating losses in the year of £5.9 million.

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

Legislation to reduce the main rate of corporation tax to 17% from 1 April 2020 has been enacted. The deferred tax balances have been calculated at 17% where they are expected to be surrendered.

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

	2018 £000	2017 £000
Current tax		
Share options – exercised in the year	-	(17)
Deferred tax		
Share-based payments	**(260)**	(61)
Total income tax charge	**(260)**	(78)

12. Dividends

As a result of the loss reported for the year, and consistent with the decision not to pay an interim dividend (2017: 2.5 pence per share), the Directors do not recommend payment of a final dividend for the year (2017: nil pence per share). The total dividend payable for 2018 was therefore nil pence per share (2017: 2.5 pence per share).

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

13. Earnings per share

Earnings from continuing operations	2018 £000	2017 £000
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the parent)	**(4,483)**	488
Number of shares	'000	'000
Weighted average number of ordinary shares – basic calculation	**45,905**	45,905
Dilutive potential ordinary shares from share options	**30**	30
Weighted average number of ordinary shares – diluted calculation	**45,935**	45,935

	2018 pence	2017 pence
Basic earnings per share	**(9.8)**	1.1
Diluted earnings per share	**(9.8)**	1.1

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 2018.

14. Financial instruments

2018	Assets at fair value through profit and loss £000	Financial assets at amortised cost £000	Total £000
Financial assets			
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**

2017	Assets at fair value through profit and loss £000	Loans and receivables £000	Total £000
Financial assets			
Trade receivables and other debtors	-	16,927	16,927
Cash and cash equivalents	3,273	-	3,273
Total	3,273	16,927	20,200

Financial statements

2018	Liabilities at fair value through profit and loss £000	Financial liabilities held at amortised cost £000	Total £000
Financial liabilities			
Trade payables	-	8,220	8,220
Other payables	-	1,869	1,869
Loans and borrowings	-	5,700	5,700
Derivative financial liabilities	-	-	-
Total	-	15,789	15,789

2017	Liabilities at fair value through profit and loss £000	Financial liabilities held at amortised cost £000	Total £000
Financial liabilities			
Trade payables	-	10,583	10,583
Other payables	-	4,968	4,968
Derivative financial liabilities	364	-	364
Total	364	15,551	15,915

Pursuant to IFRS 9 the 2018 disclosure headings have been updated to reflect the latest framework. The 2017 disclosure remains under the previous headings.

At 31 December 2018 the Company held financial assets held at amortised cost in the form of intercompany balances to the value of £27.3 million (2017: £22.4 million). At the same date the Company had a financial liability held at amortised cost in the form of borrowings to the value of £5.7 million (2017: £nil).

Credit Risk Management

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

	2018 £000	2017 £000
Trade receivables	**10,792**	17,366
	10,792	17,366

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 12 months with trade receivables grouped together on similar credit risk and aging.

As at 31 December 2018 a credit loss provision of £10,000 (2017: nil) is against the exposure of potential bad debts.

15. Goodwill

	£000
Cost and carrying value of goodwill at 31 December 2018 and 2017	**169**

The recoverable amount of each cash-generating unit has been determined at each year end, based on value in use calculations. These calculations use post-tax cash flow projections from the Group's five-year strategy plan.

If necessary, cash flows beyond the budgeted five-year period are extrapolated using the estimated growth rate per the table below.

	Pace Sensors
Carrying value of goodwill (£000)	**169**
The key assumptions applied in the calculations were:	
Gross margin (%)	**32**
Growth rate (%)	**2.5**
Discount rate (%)	**10**

Gross margin over the next five years has been estimated based on past performance of each product line taking into account the anticipated changes in sales mix and future trading conditions. The sales mix takes into account estimated future revenue from current customers. It has been assumed that overhead costs and asset replacement will continue at the same levels as in the current year as there are no expansion or restructuring projects in the Board's plans in the short term. Cash flow has been derived from future earnings based on assumptions that key suppliers will be paid within agreed credit periods and that customers will continue to take pay on time. Stock holding levels will continue to be monitored to ensure that sufficient levels are retained to meet demand.

Group impairment test

During the year and at 31 December 2018, 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 2018 amounted to £27.9 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 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%. The other key assumptions have been assigned values by the Directors using estimates based on past experience and expectations of future performance.

The Directors believe that, based on the sensitivity analysis performed, 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 (2017: no impairment).

16. Other intangible assets

	Product development costs	Purchased software costs	Computer software costs	Total
Cost	£000	£000	£000	£000
At 1 January 2017	10,273	1,649	319	12,241
Additions	2,601	925	68	3,594
At 31 December 2017	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**
Amortisation				
At 1 January 2017	2,062	-	259	2,321
Amortisation for the year	430	-	35	465
At 31 December 2017	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**
Carrying amount				
At 31 December 2017	10,382	2,574	93	13,049
At 31 December 2018	**13,122**	**2,899**	**79**	**16,100**

The amortisation charge of £659,000 (2017: £465,000) and impairment charge of £30,000 (2017: nil) have been recognised within administrative expenses. A number of fully-amortised technologies with cost and amortisation of £280,000 have been disposed of in the year as the technology has now been superseded and is no longer used within our current product range. A summary of intangible costs as at 31 December 2018 is shown in the table which follows.

Except as outlined below, intangible assets are typically amortised over seven to 15 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.

In 2018, the Group incurred costs of approximately £0.9 million (2017: £0.8 million) in readying Flex to produce FireAngel products and in readying the Far East based supplier to produce replacements to the BRK range of products. These costs are directly attributable to bringing our manufacturing assets in to use and as such have been included within intangible assets and are being amortised over five years.

Many of the products to be produced by Flex were being made in China but now have changes in components, or suppliers, or a change in design to improve the manufacturing process. The transition of manufacturing to Flex has been a considerable undertaking which has involved a substantial proportion of the Group's Technical team in close collaboration with Flex.

Impairment review

During 2018, the Group recorded a £30,000 impairment charge (2017: nil) against projects where it was deemed not commercially viable to continue. Some of the costs incurred were able to be allocated to future projects where these will benefit from the technology or tooling.

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 Home Solution 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 Home Solution products will increase over time as the technology gradually becomes mainstream. Predicting exactly what year this is likely to happen is difficult to assess but the general market trend of an increased rate of take up is clearly evident.

Notes to the financial statements *continued*

For the year ended 31 December 2018

	Projects being amortised								Projects not currently being amortised			
	Connected Homes £000	Wi-safe 2 £000	Nano £000	Mains powered £000	Smoke sensing products £000	Manufacturing setup costs £000	Other £000	Total £000	Future projects £000	Connected Homes £000	Total £000	Grand total £000
Cost												
At 1 January 2018	1,852	1,978	1,403	1,280	1,464	-	1,764	9,741	3,458	2,249	5,707	15,448
Projects amortised in 2018	2,249	60	84	-	297	794	272	3,756	(1,507)	(2,249)	(3,756)	-
Disposals	-	-	-	-	-	-	(280)	(280)	-	-	-	(280)
Technical costs capitalised	598	183	45	-	3	597	2	1,428	271	418	689	2,117
Employment costs capitalised	210	132	35	-	39	297	6	719	706	170	876	1,595
Total additions	808	315	80	-	42	894	8	2,147	977	588	1,565	3,712
At 31 December 2018	**4,909**	**2,353**	**1,567**	**1,280**	**1,803**	**1,688**	**1,764**	**15,364**	**2,928**	**588**	**3,516**	**18,880**
Amortisation												
At 1 January 2018	32	450	59	124	478	-	1,349	2,492	-	-	-	2,492
Disposals	-	-	-	-	-	-	(280)	(280)	-	-	-	(280)
Charge	6	98	88	68	192	90	75	617	-	-	-	617
Impairment	-	-	-	-	30	-	-	30	-	-	-	30
At 31 December 2018	**38**	**548**	**147**	**192**	**700**	**90**	**1,144**	**2,859**	-	-	-	**2,859**
Carrying amount												
At 1 January 2018	1,820	1,528	1,344	1,156	986	-	415	7,249	*3,458	2,249	5,707	12,956
At 31 December 2018	**4,871**	**1,805**	**1,420**	**1,088**	**1,103**	**1,598**	**620**	**12,505**	***2,928**	**588**	**3,516**	**16,021**
% of total	*30%*	*11%*	*9%*	*7%*	*7%*	*10%*	*4%*	*78%*	*18%*	*4%*	*22%*	*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 Home Solutions

Connected Home Solutions products connect a range of FireAngel's own products through its interface gateway technology to the internet. This technology is key to FireAngel continuing to win new contracts such as the Mears partner agreement.

During 2019 the Group has 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 has been 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 2018 of projects being amortised with Connected Home Solutions technology amounted to approximately £4.9 million (2017: £1.8 million) which includes £2.9 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 on the Group's Wi-safe I technology with a combined net book value of approximately £1.8 million at 31 December 2018 (2017: £1.5 million). Wi-safe 2 is a core piece of technology which is expected to underpin a number of key products and accessories going forward, including the Group's product offering in the Connected Homes arena.

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 approximately £1.4 million at 31 December 2018 (2017: £1.3 million) and represents the costs incurred in the development of the CO sensor and the final development of finished CO products that incorporate the sensor.

Mains-powered products

Mains-powered products include the FireAngel Spec and FireAngel Pro ranges which at 31 December 2018 had a net book value of approximately £1.1 million (2017: £ 1.2 million).

Smoke-sensing products

The net book value at 31 December 2018 of non mains-powered smoke-sensing products (being heat and optical products) was approximately £1.1 million (2017: £1.0 million). This category includes all FireAngel's own-branded developed products.

Manufacturing setup costs

The net book value of the manufacturing setup costs at 31 December 2018 was approximately £1.6 million (2017: £0.8 million within Future projects), and includes costs incurred by the Group's Technical and Project Management teams in preparing Flex to produce FireAngel products and in preparing the 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 2018 amounted to approximately £0.6 million (2017: £0.4 million). This includes FireAngel's 10-year life CO alarm and the British Gas developed CO alarm.

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 cost 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 approximately £2.9 million at 31 December 2018 (2017: £3.5 million). This includes the major project development activities of the Group, including 'Gen5' costs of £1.5 million. Gen5 is the next generation of smoke, heat, CO and combined alarms. Gen5 will be a common platform across all product types and will allow FireAngel 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. Gen5 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 £0.6 million in developing its mains-powered Wi-safe 2 CO alarm which is expected to be rolled out in the second half of 2019. In addition, a total of £1 million has been capitalised in relation to a number of smaller product developments.

Connected Homes

Connected Homes technology which is not currently in use includes approximately £0.6 million at 31 December 2018 (2017: £2.2 million) in total of specific product development costs. The Group continues to invest in its FireAngel Connected B2B & B2C offerings which includes new gateway products, end mobile user apps and web interfaces.

Notes to the financial statements *continued*

For the year ended 31 December 2018

17. Plant and equipment

	Tooling	Office equipment	Motor vehicles	Fixtures & fittings	Total
Cost	**£000**	**£000**	**£000**	**£000**	**£000**
At 1 January 2017	-	1,352	5	431	1,788
Additions	1,382	48	7	1	1,438
Disposals	-	-	-	-	-
At 31 December 2017	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**
Accumulated depreciation					
At 1 January 2017	-	727	5	140	872
Depreciation charge for the year	-	219	2	51	272
Effect of exchange rates	-	4	-	1	5
At 31 December 2017	-	950	7	192	1,149
Depreciation charge for the year	156	179	2	48	385
Disposals	-	(10)	(5)	-	(15)
At 31 December 2018	**156**	**1,119**	**4**	**240**	**1,519**
Net book value At 31 December 2017	1,382	450	5	240	2,077
At 31 December 2018	**3,514**	**294**	**3**	**195**	**4,006**

The total depreciation expense of £385,000 (2017: £272,000) has been charged to administrative expenses.

Depreciation of tooling at the Group's supplier, Flex, commenced in 2018 as it was brought into use during the year. The Group purchased approximately £2.3 million of tooling and capital equipment at Flex over the course of 2018.

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

18. Shares in subsidiaries

Company	Shares £000	Total £000
Cost At 1 January 2018 and 31 December 2018	**149**	149
Accumulated impairment At 1 January 2018 and 31 December 2018	**-**	-
At 1 January 2018 and 31 December 2018	**149**	149

The Group has two non-trading companies, AngelEye Corporation and AngelEye Incorporated, both, registered in North America. The Company's subsidiaries as at 31 December 2018 are as follows:

	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

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

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

19. Inventories

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Raw materials	**131**	229	**-**	-
Work-in-progress	**562**	494	**-**	-
Finished goods	**10,102**	14,130	**-**	-
Total gross inventories	**10,795**	14,853	**-**	-
Inventory provisions	**(2,370)**	(3,652)	**-**	-
Total net inventories	**8,425**	11,201	**-**	-

Pace Sensors Limited, the Group's wholly-owned subsidiary in Canada, manufactures CO Sensors for use in the Group's CO detectors. The CO sensors are shipped to Pace Technologies, an independent third-party supplier based in China, for assembly into finished CO detectors, 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 detector stock, as CO sensors are sold to an independent third party, Pace Technologies, before being acquired as finished CO detector products and put into stock by the Group.

Of the exceptional charge of £1.1 million booked in cost of sales in 2018 (see note 7), £0.8 million relates to a provision against surplus French stock which was originally purchased to supply demand driven by a local legislative change. The majority of the balance of the provision relates to BRK stock yet to be disposed of at the year end.

20. Financial assets

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Trade receivables and other debtors	**10,269**	16,927	**27,343**	22,428
Cash and cash equivalents	**1,251**	3,273	**1**	64
Derivative financial assets	**214**	-	**-**	-
Maximum exposure to credit risk	**11,734**	20,200	**27,344**	22,492

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 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Trade receivables	**9,589**	16,634	**-**	-
Amounts due from fellow group companies	**-**	-	**27,343**	22,428
Other debtors	**680**	293	**-**	-
Prepayments	**523**	439	**-**	-
Trade and other receivables	**10,792**	17,366	**27,343**	22,428

The average credit period taken on sale of goods is 89 days (2017: 72 days).

An impairment review has been undertaken at the year end to assess whether the carrying amount of financial assets is deemed recoverable. Following the review, there are no financial assets that are impaired and all debts past due are recoverable. As at 31 December 2018 there was an overdue debt from one customer of £0.1 million which the Board expects to be repaid before 30 June 2019.

The primary credit risk relates to customers which potentially may be unable to settle their debts with the Group.

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 2018 was £7.8 million (31 December 2017: £8.9 million).

The Group believes that all major debtor balances will ultimately be recoverable based on 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.

At 31 December 2018 £7.8 million (2017: £8.9 million) of trade receivables were denominated in sterling, £0.8 million (2017: £2.4 million) in US dollars and £1.0 million (2017: £5.3 million) in euros.

At 31 December 2018, an overdrawn amount of £1.1 million (2017: cash balance of £1.1 million) was denominated in sterling, cash of £2.3 million (2017: £2.0 million) in US dollars, cash of £0.2 million (2017: £0.1 million) in Canadian dollars and an overdrawn amount of £0.1 million (2017: cash balance of £0.1 million) in euros.

At the year end, all other financial assets held were denominated in sterling.

21. Derivative financial instruments

	2018 £000	2017 £000
Assets Foreign currency forward contracts	**214**	-
	214	-
Liabilities Foreign currency forward contracts	-	(364)
	-	(364)

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 2018 were US $8.1 million (2017: US $6.1 million), sterling of £nil (2017: £1.3 million) and euro of €nil (2017: €nil).

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

22. Loans and borrowings

In January 2018 the Group entered into a three-year committed revolving credit facility for £7 million with HSBC UK Bank plc to provide additional financial headroom. The costs of arranging the facility amounting to £0.1 million in total are being amortised over the life of the facility and is secured by a floating charge over the assets of the Group.

As at 31 December 2018 the Group had drawn down £5.7 million of this facility. The Group has operated within its banking facilities throughout the year. As at the 31 December 2018 the Group also has an invoice discounting facility with HSBC with agreed credit terms of £1 million, at the year end, none of which was utilised.

Since the year end, the Group's borrowing facilities were restructured to move from a revolving credit facility to a more efficient invoice discounting and overdraft facility.

On the same date as the approval of this Annual Report and financial statements, the Group announced details of a placing and open offer to raise £6.0 million to accelerate recovery and specifically to reduce indebtedness, invest in the Connected Homes proposition and for working capital purposes.

23. Fair value disclosures

The total net gain on forward contracts recognised in the income statement for the year ended 31 December 2018 was £0.6 million (2017: loss of £0.3 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	Shares £000	Total £000
Asset Foreign currency forward contracts	**214**	-
Liabilities Foreign currency forward contracts	-	(364)

24. Provisions

	FireAngel warranty provisions £000	BRK Brands warranty provisions £000	Total £000
At 1 January 2017	4,333	260	4,593
(Release)/charge in year	(581)	245	(336)
Utilisation in year	(1,835)	(228)	(2,063)
At 31 December 2017	1,917	277	2,194
Charge in year	581	30	611
Utilisation in year	(1,098)	(173)	(1,271)
At 31 December 2018	**1,400**	**134**	**1,534**

25. Trade and other payables

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Trade payables	**8,220**	10,583	**-**	-
Accruals and deferred income	**1,868**	4,968	**-**	-
Other tax and social security	**1,377**	921	**-**	-
	11,465	16,472	**-**	-

At 31 December 2018, £1.2 million (2017: £8.0 million) of payables were denominated in sterling, £0.2 million (2017: £0.2 million) in euros and £6.8 million (2017: £2.4 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 137 days (2017: 80 days). This is 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.

26. Deferred tax

	2018 £000	2017 £000
Deferred tax liabilities	**(2,404)**	(1,974)
Deferred tax assets	**1,248**	273
Net position at 31 December	**(1,156)**	(1,701)

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

	2018 £000	2017 £000
At 1 January	**(1,701)**	(944)
Credit/(charge) to income for the year	**805**	(696)
Charge to equity for the year	**(260)**	(61)
At 31 December	**(1,156)**	(1,701)

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 2018	**44**	1,930	1,974
Charge/(credit) to income for the year	**(6)**	436	430
At 31 December 2018	**38**	2,366	2,404

Deferred tax liabilities	Deferred tax losses £000	Derivative financial instruments £000	Share-based payments £000	Total £000
At 1 January 2018	-	-	273	273
Credit/(charge) to income for the year	1,241	(6)	-	1,235
Charge to equity for the year	-	-	(260)	(260)
At 31 December 2018	**1,241**	**(6)**	**13**	**1,248**

27. 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 (2017: £0.2 million) represents contributions payable by the Group to the fund for the year. Contributions amounting to £24,000 (2017: £22,000) were payable at the year end.

28. Called up share capital

Authorised:	Company 2018 Number '000	Company 2017 Number '000
100,000,000 ordinary shares of 2p each Ordinary shares in issue:		
As at 1 January	**45,905**	45,855
Issue of shares in respect of share options exercised	**-**	50
As at 31 December	**45,905**	45,905
Issued and fully paid ordinary shares of 2p each:	**£000**	£000
As at 1 January	**918**	917
Issue of shares in respect of share options exercised	**-**	1
As at 31 December	**918**	918

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

Notes to the financial statements *continued*

For the year ended 31 December 2018

21. Derivative financial instruments

	2018 £000	2017 £000
Assets		
Foreign currency forward contracts	**214**	-
	214	-
Liabilities		
Foreign currency forward contracts	-	(364)
	-	(364)

On the same date as the approval of this Annual Report and financial statements, the Group announced details of a placing and open offer to raise £6.0 million to accelerate recovery and specifically to reduce indebtedness, invest in the Connected Homes proposition and for working capital purposes.

29. 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 £848,000 (2017: £nil). As allowed under Section 408 of the Companies Act 2006, a separate profit and loss account has not been presented for the Company.

30. Share-based payments

The share-based payments charge of £107,000 (2017: £358,000), included in the Consolidated Income Statement within administrative expenses, relates to the 2015 Long Term Incentive Plan nominal cost options awarded on 3 June 2015.

A summary of the change in options is set out below:

	2018		2017	
	Options '000	Weighted average exercise price	Options '000	Weighted average exercise price
Outstanding at 1 January	**1,902**	**99p**	1,952	97p
Exercised during the year	-	-	(50)	35p
Expired or lapsed during the year	**(1,218)**	**46p**	-	-
Outstanding at 31 December	**684**	**191p**	1,902	99p

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

Grant date	Outstanding at start of year	Exercised during the year	Lapsed during the year	Expired during the year	Outstanding at end of year	Expiry date	Exercise price
Directors' share options							
25/04/2014	**319,445**	-	(69,445)	-	**250,000**	28/04/2024	200p
03/06/2015	**900,000**	-	-	**(900,000)**	-	03/06/2025	2p
Employee share options							
25/04/2014	**607,614**	-	-	**(203,891)**	**403,723**	28/04/2024	200p
03/06/2015	**45,000**	-	-	**(45,000)**	-	03/06/2025	2p
03/06/2015	**30,000**	-	-	-	**30,000**	03/06/2020	2p
Outstanding at 31 December	**1,902,059**	**-**	**(69,445)**	**(1,148,891)**	**683,723**		

The 2015 LTIP did not satisfy the performance target within the agreed time and has therefore not met the criteria needed to exercise the shares.

As at 31 December 2018, a total of 683,723 options were outstanding which had an average exercise price of 191p, and a weighted average remaining contractual life of 5.2 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 1.46 million employee share options 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.

31. Operating lease arrangements

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

	2018 £000	2017 £000
Amounts due:		
Within one year	**325**	385
Between one and five years	**303**	467
More than five years	-	33
Total lease payments	**628**	885

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 8 of the financial statements.

32. Related party transactions

Balances and transactions between the Company and its subsidiaries:

	2018 £000
Loans and borrowings (principal amount)	5,700
Loans and borrowings (interest and amortised bank charges)	(120)
Cash transfer	60
Total transactions between Company and subsidiaries	**5,640**

Newell Brands, through its subsidiary BRK Brands Europe Limited, holds a significant proportion of the Company's ordinary shares (23.4% as at 31 December 2018). 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	
	2018 £000	2017 £000
Sales of goods in year	-	-
Net purchases of goods in year including engineering fees	**4,540**	23,521
Distribution agreement fee	**944**	2,915
Dividends payable	-	859
Amounts owed to related parties at year end	-	6,839

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 set out on page 28.

	2018 £000	2017 £000
Remuneration of key management personnel Aggregate emoluments	**1,400**	1,398
Company pension contributions	**74**	146
Sums paid for Non-Executive Directors' services	**117**	111
Share-based payments	**107**	358
Total remuneration	**1,698**	2,013

The remuneration in respect of the highest paid Director was:

	2018 £000	2017 £000
Emoluments	**270**	224
Defined pension contributions	**22**	21
	292	245

Notes to the financial statements *continued*

For the year ended 31 December 2018

Share-based payments

During 2014, three Executive Directors were granted a total of 375,000 share options under the equity-settled share option plan. These options had an exercise price of £2.00 per share and had an expected life of ten years. The share options vest evenly over a period of three years and the charge is taken to the income statement as the share-based payment charge. The element of the share-based payment charge relating to the Directors is nil as these reached the end of the vesting period in the prior year.

During 2015, four Executive Directors were awarded 900,000 share options in total under the new LTIP share option plan. These options had an exercise price of the nominal cost of the shares at 2 pence per share and had 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 FireAngel shareholder return targets. The element of the share-based payment charge relating to this award is £106,647.

Wilkins Kennedy

William Payne, a Non-Executive Director of the Company, is a partner of Wilkins Kennedy, which is the firm that provides his services. During the period Wilkins Kennedy were paid £42,000 (2017: £42,000) for the provision of William Payne's services as a Non-Executive Director and £9,775 (2017: £11,713) for accounting and management services. At the year end the Company owed Wilkins Kennedy £nil (2017: £nil).

33. Post balance sheet events

Since the year end, the Group's borrowing facilities were restructured to move from a revolving credit facility to a more efficient invoice discounting and overdraft facility.

On the same date as the approval of this Annual Report and financial statements, the Group announced details of a placing and open offer to raise £6.0 million to accelerate recovery and specifically to reduce indebtedness, invest in the Connected Homes proposition and for working capital purposes.

Corporate directory

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3991353

COMPANY SECRETARY

WJB Payne

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BANKER

HSBC UK Bank plc
3 Rivergate
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Bristol
BS1 6ER

Shareholder information

SHAREHOLDER ENQUIRIES

Any shareholder with enquiries should, in the first instance, contact our 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

Vanguard Centre
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FINANCIAL CALENDAR

Financial year end	31 December 2018
Full year results announced	29 March 2019
Annual General Meeting	25 June 2019

For any further enquires please contact us:

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