sprue

Sprue Aegis plc

ANNUAL REPORT AND ACCOUNTS 2016

PRODUCTS THAT SAVE LIVES

Sprue's Purpose

To **protect, save & improve** our customers' lives by making innovative, leading edge technology simple & accessible.

Think Ahead

Think Customer

Think Team

Leverage Leadership Within Existing Markets

Best Ever Quality, Service and Availability

New Markets and Channels

The Multi-Sensing and Connected Solution Provider

Building long term shareholder value

About Sprue

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

Sprue is one of the market leaders in the European home safety products market and is now launching its own connected homes product proposition. Its principal products are smoke alarms, CO alarms and accessories and the Group has an extensive portfolio of patented intellectual property. Sprue has patented its technology in Europe, the US and other selected territories.

The introduction of new technologically advanced products and new safety products legislation in the UK and in Europe, and increasing levels of awareness of the dangers of smoke and CO, continue to drive sales.

Sprue manufactures CO sensors at its subsidiary, Pace Sensors for use in its CO alarms. All other manufacturing and product assembly is outsourced to two principal third party contract manufacturers in China, one of which is Newell Brands (which acquired Jarden Corporation earlier this year) which owns 23.4% of the Company's issued share capital and Pace Technology which is independent from Newell Brands.

Sprue enjoys a leading sales footprint in UK Retail and the UK's Fire & Rescue Services ("UK F&RS"). The Group also supplies the UK's Utility sector which includes customers such as British Gas and Scottish Gas and has a well-established but relatively low market share of the UK Trade sector. Sprue has significant sales into Continental Europe mainly selling through a network of independently owned third party distributors.

The Group has won a number of prestigious Sunday Times Virgin Fast Track 100 Awards, which recognises the 100 fastest growing companies in the UK. Sprue's head office is in Coventry and it has a second office in Gloucester. Distribution centres are located in Cambridge and Gloucester.

Our Brands

Sprue's 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 (Fire & Rescue Service).

AngelEye. Launched in 2012, Sprue 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 Sprue's CO products are developed by Sprue and Pace Sensors, Sprue's wholly owned subsidiary in Canada. Pace Sensors' CO sensors are used within all FireAngel, AngelEye and Pace Sensors CO detectors and certain First Alert and Dicon branded CO detectors.

FireAngel Connect is 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.

Sprue has the exclusive rights to distribute the products and brands of BRK Brands Europe Limited (a subsidiary of Newell Brands, formerly Jarden Corporation) in Europe namely, First Alert, BRK and Dicon. First Alert is one of the leading safety products brands in North America.

Sprue At A Glance

Number 1
In 4 of our 5 key segments across Europe

+100
Registered Technology Patents & Further Pending

Unique
In-House CO Sensing Technology

Two
Supplier / manufacturing partnerships

x3
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 and CO alarms and wireless connectivity in Europe

Established
Third party distribution across Europe

C.175
Worldwide employees

Building A Bigger, Better And More Profitable Business

Innovation built on technology

Surprise and excite our customers with products that perform, look great, are simple to use and affordable. Strong industry relationships and certification knowledge create key points of competitive advantage.

The introduction of new technologically advanced products and new safety products legislation in the UK and in Europe, and increasing levels of awareness of the dangers of smoke and CO, continue to drive sales.

FireAngel FireAngel Pro
AngelEye PACE SENSORS

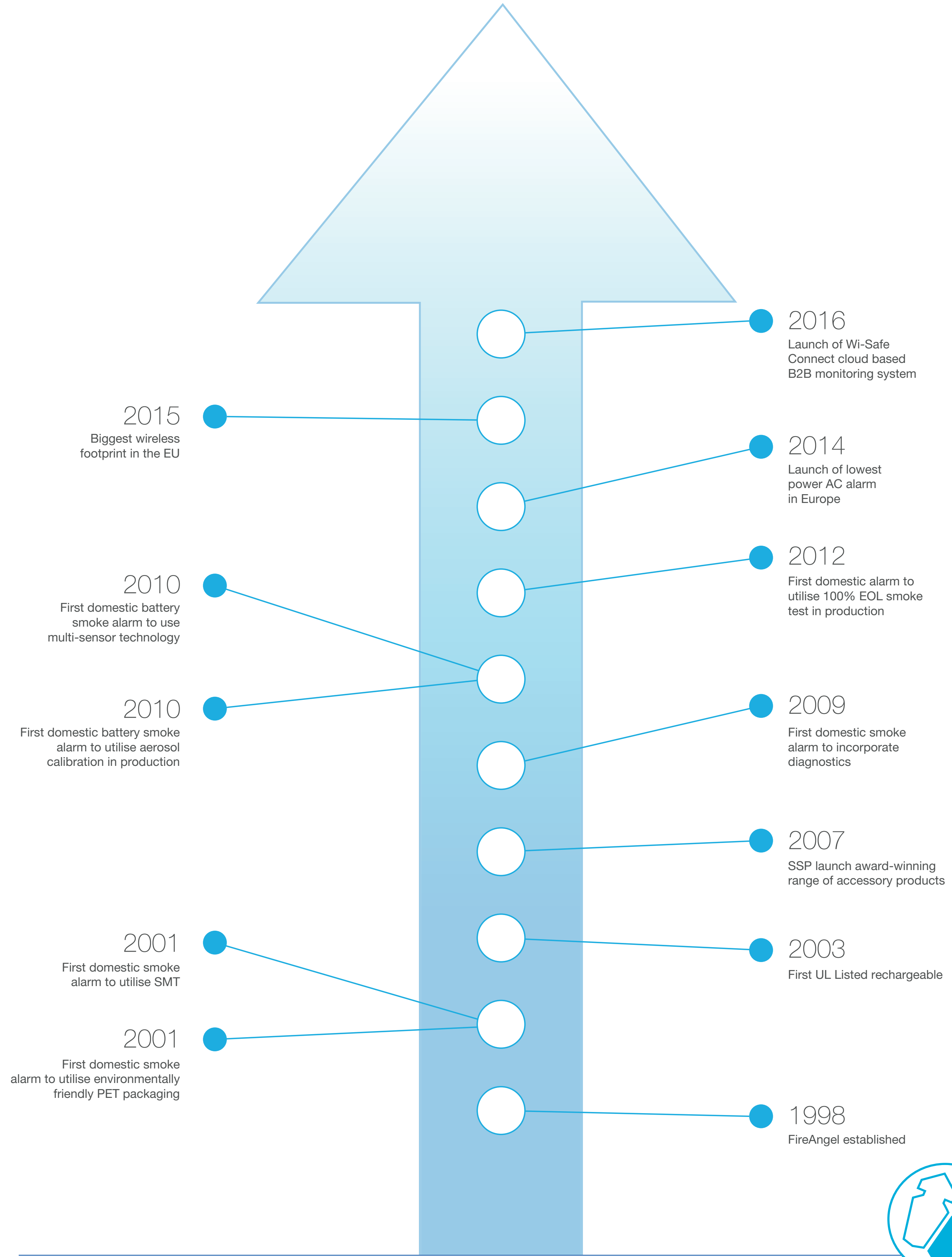
Building brands

Build complimentary portfolio of leading European Safety brands focussing on the FireAngel brand through locally relevant empathetic, consistent and innovative communications.

Execute

Building high performance team culture – always listening, always learning, with a collective determination to succeed supported by simple processes and fast decisions.

Developing Technology Through Innovation



Market Leading Technology

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 carbon monoxide (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.

Smoke Sensing Technology

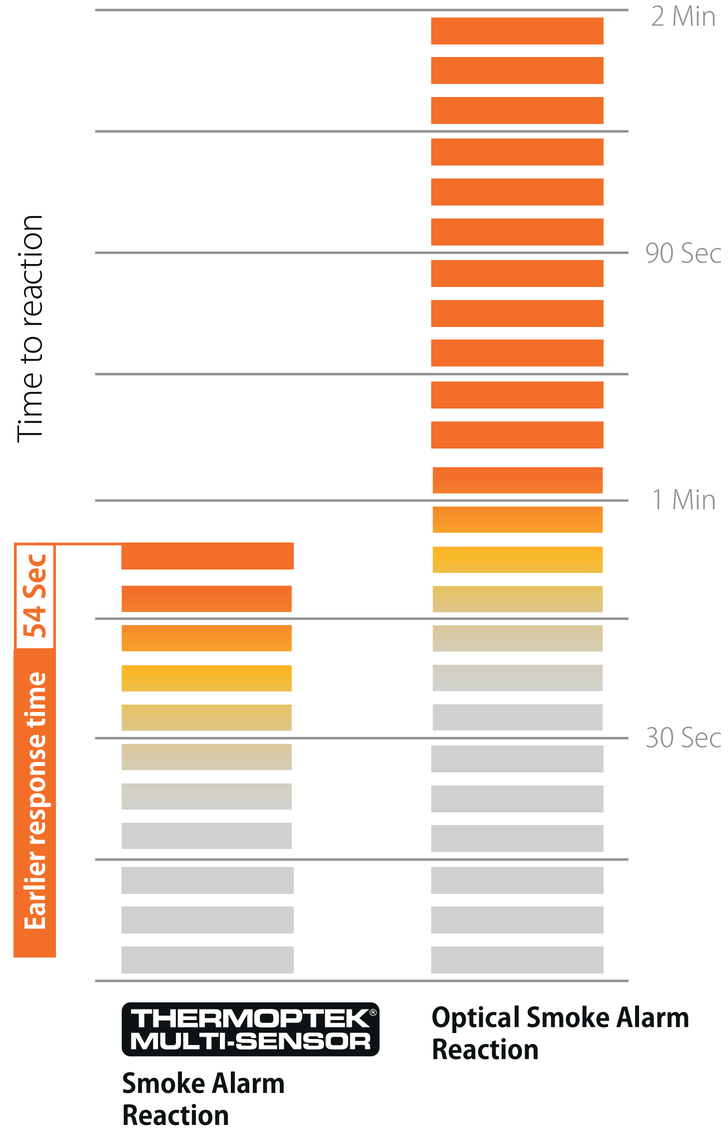
THERMOPTEK® MULTI-SENSOR

Our unique Thermoptek® Multi-Sensor is the smoke alarm technology of choice for UK Fire & Rescue Services and sold throughout Europe.

BS:5839-6 : 2013 recommends the use of multi-sensor technology. It provides an alternative to using separate ionisation and optical alarms; for detection of fast-flaming and slow smouldering fires in a single alarm.

Our Thermoptek® Multi-Sensor technology combines the very latest in optical sensing with a thermal enhancement. It constantly monitors for temperature change, and if a sudden temperature rise is detected the sensitivity of the alarm is increased. This provides a much faster reaction to both slow smouldering and fast-flaming fires in a single alarm.

Unlike ionisation technology, Thermoptek® Multi-Sensor technology has no storage or disposal issues relating to radioactive materials.



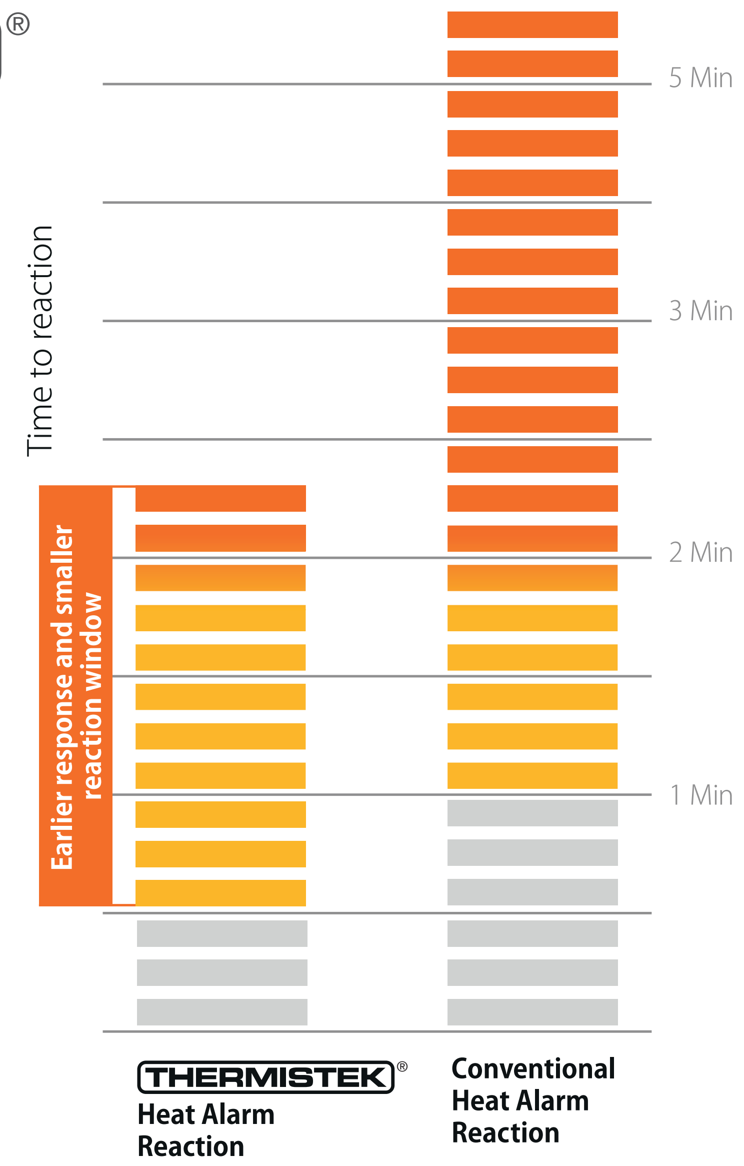
As tested against FireAngel alarm with Thermopotek® Multi-sensor decommissioned

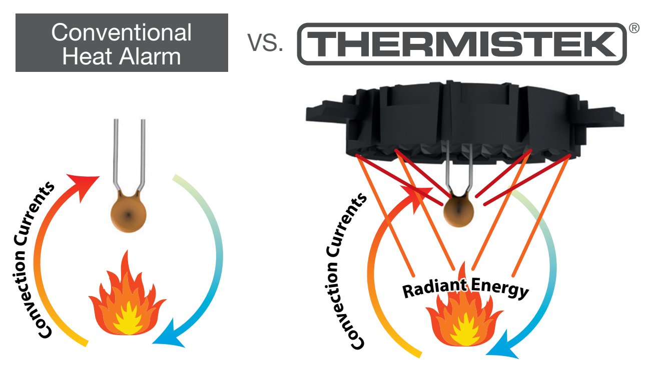
Heat Sensing Technology

THERMISTEK®

Class A1 radiant heat dish for a faster response.

Thermistek® technology constantly monitors for temperature change and incorporates a unique patented heat dish that reacts to both convection and radiant heat. If a temperature increase is detected it prepares the alarm for activation providing a quicker reaction to fires.





The thermistor is heated by convection and also by the radiant heat of the fire.

Review Of The Year

I am pleased to report significant progress across the business in a year in which we faced a number of operational challenges.

Sprue continues to establish itself as the leading supplier of innovative home safety products leveraging the Group's best in class technology to serve each of the markets in which it operates, as reflected in Sprue's market leading position in four of its five markets. Whilst sales for the full year decreased to £57.1m (2015: £88.3m), primarily due to reduced demand in France (post-implementation of the French smoke alarm legislation in 2015) and delays in product certification in Germany, the Group delivered a much improved performance in the second half of the year with total sales in Germany and UK Retail significantly ahead of the previous year.

H2 2016 sales into Germany increased 165% compared to H2 2015, underpinned by the launch of the new FireAngel products in the second half. Due to the staggered introduction of regional regulation in Germany and replacement cycles, the Board expects Germany to remain a robust market going forward and to deliver sustainable profitable growth for Sprue.

Our balance sheet remains strong with £14.3m of cash at the year-end (2015: £22.4m) and no debt. In addition, total warranty costs incurred in 2016 were in-line with the Board's expectations.

The acquisition of Intamac Systems' source code with development rights, for a maximum cash consideration of £2.8m, has expanded the Group's addressable market into connected home products, which the Board believes is a key growth area. Sales of connected home products are already underway in the UK and Germany which enable customers to remotely monitor their connected devices from their smartphone, tablet device or interoperate with other smart devices.

Sprue is seeking to use the data it collects from these products to not only detect fires but also to identify properties at an elevated risk of experiencing a fire in the future. We believe this is a major development for the Company as it significantly extends Sprue's technical capability and provides an opportunity to sell a wide range of internet-enabled products and services as part of our new connected home strategy. This has potential over time to deliver recurring revenues for our business.

The Board is also pleased to announce that it recommends payment of a maintained final dividend of 5.5p per share (2015: 5.5p per share) which takes the total 2016 dividend to 8.0p per share (2015: 8.0p per share).

Strategic update

The appointment of two new manufacturing partners announced on 31 March 2017 will significantly increase Sprue's scale and value proposition. The Board believes these changes will be transformational for Sprue and help deliver our long term strategic goals, whilst also creating value for shareholders.

Outlook

We have continued to develop our business over the last 12 months and have made significant strategic progress. The signing of our new manufacturing agreement with Flex is transformational for the Group.

Flex, with its global reach has the ability to be locally responsive to our customer needs and opens up international opportunities for Sprue to expand its addressable markets.

We believe the Group is now ideally placed to not only both develop and source "best in class product" but to explore new opportunities to greatly enhance the Group's earnings potential.

Sprue will continue to innovate, develop and design new home safety products whilst outsourcing manufacturing. This "outsourced" and highly scalable business model has served the Group well and the Board is optimistic about future growth prospects of the Group.

G.Whitworth

Graham Whitworth
Executive Chairman
3 April 2017

Strategic report

Corporate governance

Financial statements

Strategic Report

The Strategic Report comprises the following:

- Our business model at a glance
- Risks and risk management
- Key performance indicators
- Group CEO review
- Finance review
- Corporate social responsibility

Our business model at a glance

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

- Where existing product solutions were not meeting customer needs
- Products must have potential global product reach
- Products must use plastics and electronics as this was the area most familiar to Nick
- An ability to leverage economies of scale with low cost manufacturers in the Far East

After a huge amount of product testing and validation work, Sprue launched the world's first plug in smoke alarm and has gradually and significantly extended its range products to expand its range to become the business it is today with over 500 stock keeping units ("SKUs") of smoke, CO and wireless products sold under 8 brands.

Our customer-centric approach, combined with a comprehensive product range, world class third party manufacturing capabilities and third party distributors in Continental Europe combined with 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 are aiming to be the market leader selling the brands of choice in every one of the markets we serve.

The strong product and brand advocacy we have from being the supplier of choice of smoke and hearing impaired alarms to the UK Fire & Rescue Services who continue to fit our Thermoptek products today, supports the general broad customer loyalty and following we have been able to create. This philosophy shapes our business model.

Our flexible sourcing model enables us to expand our product range leveraging the economies of scale at each of our smoke and CO product manufacturers. The appointment of two new manufacturing partners announced on 31 March 2017, will help the Group better regulate its product cost base and deliver best in class products to customers.

The Board also announced that Sprue has entered into a Manufacturing and Supply Agreement ("MSA") with Flex in Poland, part of the world's second largest contract manufacturer, for a minimum period of three years.

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 the Group manages those risks is set out on 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 currently of most concern to the Board and those that have been the subject of debate at recent Board or Audit Committee meetings.

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 Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. Its 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.

The Executive Directors are responsible for identifying, evaluating and mitigating risks 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 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, Executive Chairman and Group Finance Director and if appropriate, formally reviewed by the Board to assess the financial impact on the Group and to determine the optimum course of action to address these risks.

Issue	Risk	Mitigation
Competition	There are around a handful of home safety product competitors who compete in our major markets. These companies vary in the relative strength of their product offering in each of the markets we serve and some of the competitors have a broad product offering and significant installed production capacity. In addition, as Sprue launches new products, our success may lead to those companies investing further in product offering or reducing prices to be competitive with Sprue	Sprue maintains a state of high vigilance over the products and actions of its competitors which are monitored by our sales teams and the Sprue management team. Our continued investment in new products and the expansion of our range provide a barrier to new entrants in the market place. Certification costs per product are estimated at approximately £0.1m per product which also acts as a barrier to new entrants
Changing trends in the market place	The introduction of connected home solutions with established and new emerging companies seeking to connect and monitor products in the home via the internet could potentially reduce the popularity of standalone safety products in Sprue's market place and competitors' product offerings will compete with the Company's products	Sprue is developing its connected home solution and already has its own Wi-Safe 2 connected home technology and is increasing investment to connect its home products to the internet. We continue to invest heavily in product technology to reduce the cost of our connected home solutions and to seek to ensure we are the company of choice in this market
Changing supplier relationships	Sprue currently has two principal suppliers, one for all its smoke detector needs, which is a Newell Brands (formerly Jarden Corporation) owned subsidiary and one for all its CO product needs, which is part of an independently owned business. As announced on 20 March 2017, the Group has appointed Flex in Poland and a Far Eastern based supplier to replace the products sourced from DTL	Relationships with suppliers are managed through Sprue's supply chain team and senior management involvement from both companies. Sprue has contracts in place with key suppliers and seeks to operate within the contractual terms
Product defensibility	It is possible that new products and technologies may emerge in the future as viable alternatives to Sprue's products	Sprue dedicates significant levels of resources in product development and research to keep the business and its products at the forefront of the technology available in the market. Sprue seeks to stay abreast of emerging market trends to position the Group to exploit and commercialise such technologies as they appear and Sprue routinely reviews potential small bolt on acquisitions, but to date has concluded its own technology offering is a good source of competitive advantage
Intellectual property	Many aspects of Sprue'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, Sprue carefully checks that it is not infringing the patented technology of third parties. Potentially, customers could seek to copy or find a "work around" Sprue's registered technology to make competitive products	Sprue believes that its principal protection in the market lies in its business model rather than through any specific intellectual property rights. The breadth of Sprue's product range and its ability to add new products to its product range and leverage its brands across the markets it serves represents a barrier to entry to competitors. Sprue is not dependent on any one single patent for sales which are typically supported by a number of different patents. Our products are protected by over 52 granted patents in our major markets and we continue to register new patents and maintain existing patents to protect our IP where the Group believes it is appropriate to do so
Distributor relationships	Sprue works through third party distributors of its products in Continental Europe who undertake marketing support activities and provide local logistical support. Sprue is highly dependent upon these distributors to fulfill these roles in an effective and efficient manner to continue to grow sales in these markets / countries. The distributors act as key customers for Sprue and therefore represent a financial risk for uncollected account balances	Sprue has contracts with most of its major distributors who are carefully selected before appointment. Many of these relationships are well established and in some cases, the distributor only sells Sprue's products so the relationship is very close. Sprue ensures that the contractual relationships with its customers are fair and commercially beneficial for both parties and carefully monitors outstanding credit balances to ensure distributors settle amounts owed to Sprue within terms to minimise potential bad debt risk for the Group. In some cases, the element of individual distributor sales that is represented by Sprue products are negligible, but in other businesses, particularly in Germany for example, the Board believes that sales of Sprue products represent the vast majority of the third party distributor's sales and profit. In addition, from time to time, overstocking in the distribution channel may cause financial pressures on our 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 market conditions and to assess the level of credit to be afforded to individual distributors
Product warranty	Each year, the installed number of Sprue's smoke and carbon monoxide products in the market place increases and it is inevitable, given the nature of Sprue's products that despite best efforts to produce a product with zero defects, from time to time, the Group will incur product warranty issues. Products are designed to "fail safe" so that if a product stops working, it is designed to alert the user that it requires replacing. Many products have a ten year life and if there are product issues, it is not unusual to experience the same product issues over a number of years	Sprue seeks to ensure that products manufactured by its suppliers comply with the relevant product specification which are approved by various test houses and regulatory bodies. If a product is not compliant to the relevant specification, potentially Sprue has a warranty claim on its supplier. Typical warranty issues experienced are usually around the battery and where there are known issues with batches of a certain product, Sprue typically provides free of charge replacements with a "no quibble" policy which is managed by Sprue's in-house Technical Support team. Sprue 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 makes a specific provision for the expected future cost of replacing products with known warranty issues above a set nominal percentage of normal returns which amounted to £4.6m as at 31 December 2016 (2015: £6.8m)
Staff recruitment and retention	The contribution by Sprue's dedicated staff and management team has been, and continues to be, important to Sprue's future success. As the Group's profile increases, it is important that it is able to recruit and retain high-calibre staff	Sprue places great emphasis on open communication with its employees, including regular staff updates and an annual staff away day. There is also a wide scale share ownership scheme across the Company with rewards based on seniority. Sprue looks to create a supportive working environment and employees are encouraged to learn and develop in their roles and seeks to promote internally where possible

Issue	Risk	Mitigation
International trade regulations	The Group's activities involve importing products from the Far East and exporting products into Continental Europe and other overseas markets. Any changes in the regulations covering such movements might have an effect on 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	Sprue closely monitors changes to international import and export regulations and seeks to adapt its procedures wherever possible to ensure that the movement of its products is not affected, while maintaining compliance with such regulations and seeking to minimise its import duty costs
Health and safety	As the Group's product range expands, the number of potential health and safety / regulatory risks grows and the Group is storing potentially more products containing batteries and /or in some cases, very small levels of radioactive particles in the "foils" contained within ionisation alarms which are sold in the UK	The Group seeks to comply with the requirements of ISO audits and detailed records are maintained to ensure that products are correctly stored and disposed of
Product certification compliance	Products are required to comply with the appropriate certification standards and if products do not comply with the relevant standards, certification bodies could seek to insist on quarantining product for further testing / rework, or in worst case scenario, in a potential product recall	In conjunction with suppliers, Sprue seeks to ensure that all products are manufactured in accordance with the relevant product certification standards and 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 operated as a contractual commitment by each of the Group's suppliers. Sprue works closely with the standard review bodies to ensure that its products remain of the highest quality. Sprue's suppliers are also audited by independent third parties to ensure that they maintain the highest quality standards
Risks following Britain's exit from the EU	The UK has voted to leave the EU, which is likely to continue to impact the financial results and financial position of UK companies for the foreseeable future. Whilst Article 50 has now been approved in both Houses of Parliament, there is likely to be a protracted period of negotiation, resulting in an increased level of uncertainty.	The Board remains vigilant and will continue to monitor the situation to ensure that the Company seeks to take the appropriate steps to manage the potential impact of further movements in relevant currencies and potential changes in import duty arrangements.

Key performance indicators

As part of Sprue's growth strategy, the executive management team is focusing its attention on a set of financial and non-financial KPIs that best support the growth initiatives referred to above.

The Group is looking to increase shareholder value as its principal objective. To focus on achieving this objective, the Group reviews financial performance on a number of levels which are set out in this section:

- Sales performance by business unit. Sales are reviewed each week to assess individual business unit performance against budget and to ensure all sales opportunities are pursued.
- Gross margin %. Gross margins by customer and by product are constantly reviewed to identify areas to improve the profitability of the Group.
- 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.
- Cash flow. Cash flow is a key measure of the Group's financial performance and is closely monitored.

In addition to the financial KPI's set out above, the Group monitors technical support and customer services and aims to respond to calls within a defined time period to deliver optimum customer satisfaction.

Commentary on Key Performance Indicators as above are set out in the Financial Review on pages 22 to 24.

Group Chief Executive's Statement

Review of the year

The Group has made significant progress across the business during the year despite the challenges experienced in 2016. The battery warranty issue which arose early last year was particularly disappointing after a period of sustained growth for the Group. However, our ability to retain the support and confidence of our customers is testament to the underlying strength of the relationships we have built and the quality of our products, which is reflected in a far stronger sales performance in the second half of 2016.

This is as a result of the excellent response from colleagues across Sprue dealing with our customers proactively, positively and professionally, once again demonstrating the incredible team we have, of whom I am extremely proud, and grateful to, for their ongoing commitment and contribution.

We have undertaken significant analysis around the issues that occurred with the batteries and have implemented a series of measures, including the strengthening of our quality team and improving our internal controls and processes in order to minimise the impact and likelihood of any such future incidents.

Despite the disruption in the first half of the year, we made good progress against our stated strategic goals:

- **Best ever quality, service and availability**
    - Investment within people and processes and new management information tools with success measured through clear KPIs

- **Leadership within existing markets**
    - Increased smoke alarm sales in Germany by circa 50% year on year with the successful launch of the new "P Line" FireAngel range
    - Maintained market leading position in CO alarm provision in the UK by continuing to raise awareness of the dangers of CO through "Project Shout", and through the addition of new customers
    - Launched "Un Cri D'Alarme" in France to drive CO sales supported by a bespoke advertising campaign on French television

- **Extend product and brand reach into new markets and channels**
    - The new markets plan is on track with significant international growth potential outside our core French and German markets
    - The launch of our products into Poland has been especially pleasing with FireAngel CO alarms selected by Warsaw City Council for use in all of its social housing which is a strong endorsement of our brand and product.

- **The multi-sensing and connected solution provider**
    - The acquisition of Intamac Systems' source code has brought control of this technology in-house and is managed by ex-Intamac software engineers who now work for Sprue
    - Launch of FireAngel Connect and Z-Wave compatible alarms enabling our products to connect with other devices, such as lighting and security products, takes Sprue into exciting new incremental market sectors.

Innovation is a core strength of our business and in the past two years we have invested approximately £6.1m in new product development, software and capex in the lab to strengthen our innovation base, reduce our time to market and to ensure we are the first to introduce exciting new products and services.

We continue to improve our internal processes, which will continue to deliver better results as we focus on the greatest value opportunities and ensure we execute our plans on time and in full to continue to win new customers.

The FireAngel brand is the number one brand within UK Retail and is highly trusted by the UK Fire & Rescue Services, many of which buy FireAngel products. Through greater focus on, and consolidated investment in, the FireAngel brand, we are confident we can accelerate market penetration and growth into new markets and sectors throughout the UK and Continental Europe.

The recent signing of the Manufacturing and Supply Agreement with Flex is a vital and key component of our strategic growth plan and we are delighted to be working with a partner of Flex's scale, experience and expertise.

Production from Flex's world class, highly automated facility located in Poland will help Sprue accelerate the development of its products and technology. Flex has the scale and resources to help us chart our own destiny with the people and processes in place to unlock the true potential of Sprue.

With production at Flex neighbouring our key markets, this will enable us to be more responsive to our customers' needs and expectations with the associated supply chain benefits. In addition, with Poland only a short flight from the UK with a one hour time difference, we expect to build a close collaborative and productive relationship with Flex.

Connecting our leading technology with our new manufacturing partner, delivered through our talented, committed people and our trusted brands will create a uniquely compelling proposition. This we believe will in turn deliver real value to Sprue's shareholders.

We anticipate 2017 and 2018 will be pivotal years for Sprue and with the focus, determination and belief we have as a Board and wider team we look forward to reporting further progress at a time of real opportunity for Sprue.

Neil Smith
Group Chief Executive
3 April 2017

Financial review

Summary

Sprue achieved revenue of £57.1m (2015: £88.3m) with the decline in sales principally attributable to a fall in French sales and product certification delays in Germany. Adjusted operating profit* reduced to £2.2m (2015: £12.8m) and at constant FX with 2015 would have been £1.7m (2015: £12.8m).

Adjusted gross margin** declined by 1.7% to 28.6% (2015: 30.3%) principally due to:

- Lower proportion of Continental European sales
- Higher proportion of UK Retail sales
- £0.4m net increase in stock provisions compared to 31 December 2015

FireAngel warranty returns and the cost of free of charge replacement products in relation to the battery issue announced in April 2016 were in line with the Board's expectations.

The Group maintained warranty provisions as at 31 December 2016 of £4.6m (31 December 2015: £6.8m) of which, the largest element relates to the expected cost of replacing smoke alarm products over the next four to five years where an issue in certain batteries supplied by a third party supplier may cause a premature low battery warning chirp.

Sprue expensed a net £0.7m for FireAngel warranty (just over 1% of total 2016 sales) after the net utilisation from the brought forward FireAngel warranty provision as at 31 December 2015. The Board continues to closely monitor the level of product returns as the warranty provision for each year of production is based on the expected level of returns for 2012 production. Accounting for warranties remains a critical judgement area as outlined further in the Company's 2016 Annual Report & Accounts.

During 2016, Sprue reached a £0.8m settlement with the battery supplier of the high impedance batteries with the benefit to be provided to Sprue through free of charge replacement batteries over the next 2-3 years (benefit received in 2016: £nil).

After deducting the BRK distribution fee of £3.0m (2015: £3.5m), the gross profit on sales of BRK products into three business units (UK Retail, UK Trade and EMEA) was £nil (2015: £4.6m). There are no BRK product sales into the UK Fire and Rescue Services ("UK FRS") or Utilities.

Distribution costs increased to £1.1m (2015: £0.8m) due to the higher cost of servicing sales due to the change in sales mix with significantly lower sales into Continental Europe.

The Group reported a modest tax credit of £0.2m principally due to taxable losses due to significant R&D tax credits (2015: £0.8m tax charge). Whilst the tax credit boosted Basic EPS in 2016, net income was lower than in the previous year and Basic EPS was therefore lower at 4.0p per share (2015: 13.2p per share).

The Board recommends payment of a final dividend of 5.5p per share (2015: 5.5p per share) with the total 2016 dividend maintained at 8.0p per share (2015: 8.0p per share)

**Adjusted operating profit is stated before share based payments charge of £0.5m (2015: £0.5m) and exceptional £0.2m restructuring charge reflecting a reduction in head count in the UK (2015: £5.5m warranty charge)*

*** Adjusted gross margin is stated before the BRK distribution fee of £3.0m (2015: £3.5m) and before exceptional items £nil (2015: £5.5m exceptional warranty charge)*

Revenue by business unit

The table below summarises the reported revenue for each of the Group's business units and Pace Sensors. At like-for-like exchange rates with 2015, the Sterling value of European revenue in 2016 would have been approximately 5% or £2.9m higher than reported.

Revenue from continuing operations	2016 Revenue £m	2015 Revenue £m	2016 %	2015 %	Change 2016-2015 £m
Business Units:					
Europe	23.3	53.8	41	61	(30.5)
Retail	15.4	13.9	27	16	1.5
Trade	7.2	7.3	13	8	(0.1)
Fire & Rescue Services	5.4	7.8	9	9	(2.4)
Utilities	2.1	2.6	4	3	(0.5)
Pace Sensors	3.7	2.9	6	3	0.8
Total revenue from external customers	**57.1**	88.3	100%	100%	(31.2)

The principal changes in revenue are as follows:

- Following the spike in sales in 2015 due to the legislation requiring all homes in France to fit at least one working smoke alarm, sales into France in 2016 declined significantly which reduced total sales into Europe. The reductions were partially offset by an increase in sales into Germany (H2 2016 sales increased 165% compared to H2 2015)
- 11% increase in UK Retail sales with sales growth across all major product groups; sales were also boosted by the addition of new customers
- UK Trade sales were flat overall but non-CO product sales still increased 5% year on year
- As expected, UK FRS sales declined by £2.4m to £5.4m as 2015 sales benefitted from £2.3m of smoke and CO alarms funded by the Department for Communities and Local Government ("DCLG")
- Utilities sales declined by £0.5m to £2.1m due to the 2015 CO landlord legislation which boosted sales in the prior year
- Pace Sensors' sales increased by £0.8m to £3.7m and benefitted from Sterling weakness against the US dollar

Exchange rates

Average month end exchange rates against Sterling are summarised below.

	Average for year		Average for H1		Average for H2	
	2016	2015	**2016**	2015	**2016**	2015
Euro	**1.23**	1.38	**1.27**	1.36	**1.16**	1.39
US Dollar	**1.36**	1.53	**1.42**	1.52	**1.27**	1.53
Canadian $	**1.80**	1.95	**1.87**	1.89	**1.69**	2.02

This table shows that on average, in 2016, Sterling weakened against the Euro by 11%, thereby increasing Sprue's revenue and profit on its Euro denominated income. However, over the same period, Sterling also weakened against the US Dollar by 11% which significantly increased the Sterling equivalent cost of Sprue's US Dollar CO detector purchases from Pace Tech and smoke and accessory products (and BRK CO detectors) from Detector Technologies Limited.

Where possible, Sprue is increasing 2017 selling prices to offset the product cost inflation as a result of Sterling's weakness against the US Dollar.

Much of Sterling's decline occurred in H2 2016 following the EU Referendum result. On a like for like basis with 2015, the operating profit for 2016 would have been approximately £1.7m.

Net gains or losses on forward contracts are marked to market and taken to the income statement in the month that they occur. The Group does not do hedge accounting for foreign exchange gains and losses on forward contracts.

Balance sheet and cash flow

Cash declined by £8.1m principally due to continued product development and capex investment of £2.7m in total (2015: £2.7m), the £1.6m initial cash consideration* for the acquisition of the Intamac Systems' source code and the maintained payment of the dividend of £3.7m (2015: £3.9m). However, the balance sheet remained strong with net cash of £14.3m as at 31 December 2016 (2015: £22.4m) and no debt.

Stock declined by £2.2m in the year but year end stock levels were still higher than the Board would have liked. Net of provisions, stock reduced by 15 per cent. to £13.3m (2015: £15.6m). Stock provisions were increased by £0.4m in the year to £0.7m, primarily in relation to French stock.

Debtors increased in 2016 to £13.5m (2015: £11.7m) due to increased sales in December 2016 compared to the prior year.

The continued investment in new product development increased the total net book value of other intangible assets to £8.3m (excluding the Intamac software), equivalent to 15 per cent of sales or approximately 50 per cent of 2016 gross profit before payment of the BRK distribution fee.

The purchase of in-house test equipment increased the net book value of tangible assets to £0.9m (2015: £0.7m) and deferred tax assets (reflecting unrelieved taxable losses) also increased from £0.3m to £0.6m taking total non-current assets to £11.6m (31 December 2015: £7.6m). The Group expects to gradually utilise its unrelieved tax losses over the next two to three years and to receive a further £0.2m tax refund (in addition to the £0.5m tax refund received in December 2016), once its 2016 tax computation has been agreed with HMRC.

Warranty costs and product returns in 2016 were in line with the Board's expectations. Net warranty provisions reduced by £2.2m to £4.6m (2015: £6.8m) to offset part of the warranty expense in the income statement. However, the Group continued to expense a modest level of FireAngel warranty at £0.7m in 2016, just over 1% of total sales in the year in respect of non-high impedance FireAngel battery issues.

Average debtor days improved during the year to 58 days (2015: 67 days) reflecting the change in sales mix by business unit. Average creditor days also reduced during the year to 76 days (2015: 82 days). The Group undertakes to pay its suppliers in line with agreed credit terms.

**total cash consideration payable for the Intamac software is up to £2.8m (excluding VAT)*

Dividend

The Board is recommending the payment of a maintained final dividend of 5.5 pence per share on 7 July 2017 to shareholders on the register on 23 June 2017, which if approved by shareholders at the Company's AGM which is expected to be held on 15 June 2017, takes the full year 2016 dividend to 8.0 pence per share (2015: 8.0 pence per share).

Signed on behalf of the Board

Neil Smith
Group Chief Executive
3 April 2017

John Gahan
Group Finance Director

Corporate social responsibility

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 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 focuses on the fair treatment and respect for each other is a core value and underpins our interactions with employees, our customers and our 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 seek to ensure that throughout the business our work place is free of harassment and bullying and we strive to create a positive environment that is supportive, enables employees to fulfil their maximum potential and drives business performance.

We are committed to ensuring that within the framework of the law, Sprue is free from discrimination along any grounds. Sprue 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, training and development are monitored to ensure that all employees have the opportunity to train and develop according to their abilities.

Supporting our community

We regularly donate to various charities, including various CO and fire fighters charities. We have established a 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 work experience in the Group from time to time.

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 local legislation relevant to the respective territories with regards to health, safety and the environment.

Well being

To support the environment, we have a range of initiatives from recycling to encouraging staff to cycle to work. We believe that we were the first company in our industry to have a smoke alarm with its own 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.

The Strategic Report has been approved by the Board of Directors and signed on behalf of the Board by:

Neil Smith
Group Chief Executive
3 April 2017

Corporate governance

In this section

- Executive Chairman's introduction to corporate governance
- Board of Directors
- Corporate governance statement
- Audit Committee
- Directors' Remuneration Report
- Directors' Report

Executive Chairman's introduction to corporate governance

Good corporate governance at Sprue

At Sprue we value corporate governance highly and 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 and at each business unit level, ultimately produces a business that supports improving long-term financial performance.

The reports on the following pages explain our governance arrangements in detail and describe how we apply sound corporate governance in the business.

Considerable time and effort has been spent to ensure that our Annual Report and Accounts provide shareholders with high quality and useful information, including the operations of the Board.

The core activities of the Board include:

- providing entrepreneurial leadership within a framework of prudent and effective controls for risk assessment and management,
- setting the strategic aims of the Group and reviewing individual management performance to ensure we remain highly effective and to ensure that appropriate resources are in place for the Group to create long-term shareholder value; and
- to position the Group to be the market leader in each of the markets in which it serves in terms of products, technology and services.

The current Board with four Executive Directors and four Non-Executive Directors has continued to play a highly active role in ensuring that these principles are core to the way Sprue does business. Commitment to these principles extends throughout the business.

Monitoring risk and compliance with expected governance rules

Monitoring the level of risk and ensuring appropriate governance to support this remains a key objective, involving the support of the Audit Committee. It is imperative that we continue to openly challenge and regularly debate the various risks our business faces as our business evolves.

I continue to be pleased with the performance and strategic direction of the Group and believe that we have a strong and very capable Board in place which has demonstrated its commitment to continue to drive the business for future growth on an ethical and transparent basis. The changes we have made to individual roles reflects our commitment to optimise the management of the Group.

Sound corporate governance

The Board manages the affairs of the Company with regard to the Corporate Governance guidance issued by Quoted Company Alliance. The Board confirms that the 2016 Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the performance, strategy, key risks and business model of the Group.

Graham Whitworth
Executive Chairman
3 April 2017

Board of Directors

Sprue's Board of Directors 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

Graham Whitworth, Executive Chairman, Aged 63

Prior to investing as a seed investor in Sprue, 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 where he became Managing Director before disposing of the enlarged business to Parametric Technology in 2000. Graham led the original Sprue IPO and until February 2016 was the Group Chief Executive and Chairman; he is the now Executive Chairman.

Neil Smith, Group Chief Executive, Aged 45

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. Neil holds a degree in Business Studies and a Diploma in Marketing.

John Gahan, Group Finance Director, Aged 47

John joined Sprue in January 2010 as the Group Finance Director and was appointed to the Board in April of that year. John led Sprue's bid defence of Jarden's failed hostile take-over in 2013 and Sprue's move to AIM and fund raising in April 2016. Qualifying as a chartered accountant with KPMG in Birmingham, John worked in Transaction Services performing financial due diligence on companies for sale in the UK and overseas. John has also worked in senior financial, operational and M&A roles with GKN plc. John lived in Singapore for four years where he was the Regional Finance Director and Regional Mergers and Acquisitions Director for GKN Driveline Driveshafts. John is a Fellow of the Institute of Chartered Accountants for England and Wales.

Nicholas ('Nick') Rutter, Chief Product Officer, Aged 44

Nick is one of the co-founders of Sprue; he began his career with Sprue as Technology Director before being appointed Managing Director in 2008. Nick's design skills and product vision have fundamentally shaped Sprue's product offering and brand strategy. Nick is also responsible for the development of the Group's product technology and design. Prior to co-founding Sprue, 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. During the year, Nick Rutter's title was changed from Managing Director to Chief Product Officer.

Non-Executive Directors

William Payne, Non-Executive Director, Senior Independent Director, Aged 51

William joined the Sprue Board in 2000 and acted as its finance director until January 2010. William is a partner at chartered accountants, Wilkins Kennedy LLP, where he acts for a broad range of clients across various industry sectors, providing audit and assurance advice to clients as well as assistance in planning, reporting and compliance. Having obtained an accounting degree from Exeter University, William qualified as a chartered accountant with what is now part of KPMG in London. William was made a partner at WH Payne & Co in 1991, prior to its merger with Wilkins Kennedy LLP in 2003. William is also a director of a number of companies, including Ariana Resources plc, which is quoted on AIM.

Ashley Silverton, Non-Executive Director, Aged 57

Ashley was appointed to the Board in February 2011 and is jointly nominated by Sprue and BRK Brands. Ashley 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. Ashley has served as a committee member of the FTSE/WMA Private Investor Indices. Ashley was previously Head of the Brewin Dolphin London office and a member of the Advisory Board.

John Shepherd, Non-Executive Director, Aged 63

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. Since 2008 until his retirement earlier this year, John served as Chief Executive of Synectics plc, an AIM quoted leader in the design, integration, control and management of advanced surveillance technology and networked security systems.

Thomas Russo, Non-Executive Director, Aged 63

Thomas was appointed to the Board in September 2011 and represents BRK Brands. Thomas has been President and CEO of BRK Brands Inc. /First Alert (Aurora, Illinois), a subsidiary of what is now Newell Brands (formerly Jarden), since 2006. Thomas has been a noted business leader in the home safety category for more than 25 years. For so long as Newell and its affiliates hold at least 12 per cent. of the Ordinary Shares of the Company, Newell has the right, at any time, to appoint and maintain in office (subject to the Articles) a director (the 'Newell Director'), to remove any director so appointed and, upon his removal (whether by Newell or otherwise), to appoint another person to act as the Newell Director in his place. The current Newell Director is Thomas Russo.

Corporate governance statement

Leadership and operation of the board

The Board holds full meetings approximately 7-9 times per annum, with attendance by the UK based directors generally made in person. Occasionally, board members may dial in if sickness / travel / other commitments prevent attendance in person. In addition, ad hoc board meetings are called to approve the annual and interim accounts or other administrative matters.

The "chief operating decision making" authority is the Board and delegates day to day responsibility for managing the Group to the Executive Management Team ("EMT") led by Graham Whitworth as Executive Chairman and to the Trading Reviews ("TR"), led by Neil Smith as Group Chief Executive. Details of the EMT and TR are set out below.

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

The EMT typically meets once a week and comprises the four Executive Directors. EMT meetings are attended by other senior operational personnel, as appropriate.

The three Directors of each of the five business units (one Director manages FR&S, Trade and Utilities) report into the Chief Executive and TR meetings are held every week. Business unit meetings are typically held once per month and together with the TR meetings, this provides the forum to ensure a consistent implementation of Sprue's strategy across the business. Business unit meetings are also attended by other senior departmental managers as required.

The main responsibilities of the Executive 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 and a constructive relationship with good communications between the Executive and Non-Executive Directors
- Promoting the highest standards of integrity, behaviour, probity and corporate governance throughout the Company, particularly at Board level
- Ensuring that the performance of the Board as a whole, its Committees and individual Directors is formally and rigorously evaluated at least once a year
- Ensuring that there is effective communication with shareholders
- Managing the EMT

The main responsibilities of the Group Chief Executive include:

- Chairing the TR meetings on a week to week basis
- Managing the five Business Unit heads, Sprue's Group Operations Director (who looks after operations and logistics) and the Marketing and Creative teams
- Ensuring initiatives for long-term growth are championed and appropriately resourced within the Company; and
- Fostering good relationships with key stakeholders.

William Payne has been identified as the Senior Independent Director, who provides a communication channel between the Executive Chairman and the Non-Executive Directors and is available to discuss matters with shareholders when required.

The Directors have the benefit of directors' and officers' liability insurance and have access to the advice of the Company Secretary, William Payne.

The Board agenda

The Board agenda focuses on the themes of driving the business strategy, monitoring financial performance and the risks of executing the strategy via regular business, financial and departmental updates.

During the year, the Executive Chairman meets with the Executive Directors prior to scheduled and ad hoc meetings to discuss and set each Board agenda. In addition, regular discussions between Board members is encouraged.

The culture of Board meetings is to encourage rigorous debate and the Non-Executive Directors constructively challenge the performance of management in meeting agreed goals and objectives and help develop the Group's overall strategy.

Effectiveness and ensuring the Board is effective

We have considered the overall balance between Executive and Non-Executive Directors and believe that the structure of the Board with 4 Executive and 4 Non-Executive Directors and the integrity of each Director ensures that there is no one individual or interest group dominating the decision making process.

The Board reflects a good balance between financial, sector specific, technology and general international business skills, with a highly experienced team leading the business in both Executive and Non-Executive roles.

Before each meeting, the Board is provided with operational updates on each area of the business and information setting out the financial position of the Group, year to date financial results, plus forecast financial results of the business to the half year / full year in a timely manner, and in a form of appropriate quality appropriate to enable it to 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.

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 either before or after the meeting to the Executive Chairman.

Director independence

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 material nature to Sprue's business and none are therefore deemed to impact on the independence of the Directors, although this is constantly reviewed given Tom Russo's involvement in BRK Brands Europe Limited, a key supplier to the Group. The obligation to notify the Company of any potential new conflict is immediate.

The beneficial interests of all Directors in the share capital of the Company are set out on page 44 of the annual report.

Performance evaluation

On behalf of the Board, the Remuneration Committee ("Remco") undertakes a regular evaluation of the performance of senior managers and the last review was undertaken during late 2016. This concluded that the Board and its individual members continue to perform effectively in an environment where there is constructive challenge from the Non-Executive Directors and operates within a framework of sound governance and practices.

Subjects covered during the review include 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, as well as how new members are selected and inducted.

The Executive Chairman holds meetings with the Non-Executive Directors without the Executive Directors present and 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, with no issues arising from the review performed this year.

Accountability and our approach to risk management

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

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.

We have implemented an internal control system 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 and fraud and ensuring that liabilities are identified and managed;
- high quality of internal and external financial reporting;
- compliance with applicable laws and regulations and with internal policies on the conduct of the Group's business; and
- the ability to recover in a timely manner from the effects of disasters or major accidents which originate from outside the Group's direct control

The principal risks and uncertainties the Group faces are set out on pages 15 to 18 of the Annual Report. It is recognised that the Group is exposed to a number of risks, wider than those listed. However, we have chosen to disclose those of most concern to the business at this moment in time including those that have been the subject of debate at recent Board or Audit Committee meetings.

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 failings or weaknesses or management override of controls which it has determined to be significant.

At this stage of the Group's development, we do not have a separate internal audit function. However all key processes and controls are documented and are periodically reviewed by the Finance function to ensure that they remain appropriate. The auditor reports to the Audit Committee (and to the Board) on any areas identified where controls are weak or missing which come to their attention and then prompt necessary action is taken to rectify any control deficiencies identified.

The Audit Committee reviews the need for a separate internal audit function on an annual basis and has concluded that, despite the rate of growth in recent years, the structure of the Group and the level of control exercised by the management team are both sufficient, such that an internal audit function is not 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 with the size of the Group, with respect to the identification, evaluation and monitoring of risk.

Given the relative size of the business, the Company does not maintain a separate Nominations Committee and regularly keeps this decision under review. Instead, the Board as a whole, considers and approves any nominations to join the Board.

Financial reporting

The Board is responsible for reviewing and approving the Annual Report and Accounts, the interim financial information and for ensuring these statements present a balanced assessment of the Group's trading results and financial position. Drafts of these reports are provided to the Board in a timely manner and Directors' feedback is discussed and incorporated where appropriate, prior to publication.

Whistleblowing procedures

The Group operates a whistleblowing policy which provides a mechanism for all employees to raise concerns to senior management in strict confidence about any unethical business practices, fraud, misconduct or wrongdoing. They can do so without fear of recrimination and the Audit Committee would receive any such confidential reports. There were no whistleblowing reports throughout 2016 and none up to the date of this report.

Anti-bribery and anti-corruption policy

The Company seeks to prohibit bribery and corruption in any form whether direct or indirect and has documented procedures to counter bribery and corruption. These principles are based on a Board commitment to fundamental values of integrity, transparency and accountability. The Company aims to create and maintain a trust-based and inclusive internal culture in which bribery and corruption is not tolerated.

The Company would cease to trade with any third parties it has reasonable grounds to suspect are involved in bribery or corruption. The Group would not hesitate to take legal and/or disciplinary action against employees and third parties who breach the Company's anti-bribery and anti-corruption programs.

Relations and dialogue with shareholders and institutional shareholders

The Board believes it is important to have open communications with shareholders and seeks to ensure that all communications with shareholders are informative and transparent. To this end, the EMT, working in consultation with the Company's corporate advisors, make themselves available and expect to meet with major shareholders at least twice a year to explain the published financial results.

Where appropriate and from time to time, the Company 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 Company's broker or through shareholder feedback following the EMT's investor roadshows, and through analysts' and brokers' briefings. We also regularly host investor days at our Coventry head office and seek investor feedback on our performance.

Stockdale Securities Limited remains the Company's nominated advisor, financial advisor and broker.

Constructive use of the AGM

The Board actively encourages the participation of all Directors in the AGM, which is the principal forum for dialogue with private shareholders. A presentation is made explaining the financial results and outlining recent developments in the business and an open question-and-answer session follows to enable shareholders to ask questions about the business in general.

Based on feedback from investors, we have decided that this year's AGM will be held at the Forest of Arden Marriott Hotel Maxstoke Lane, Meriden, Birmingham CV7 7HR at 10:30am on 15 June 2017. We hope as many shareholders will attend as possible.

Board meeting attendance

Excluding adhoc Board meetings to approve share options and other administrative matters, the number of Board meetings attended in person or telephonically is set out below:

Position	Name	Scheduled Board meetings	Attended
Executive Chairman	Graham Whitworth	8	8
Executive Directors	Neil Smith Nick Rutter John Gahan	8 8 8	8 8 8
Non-Executive Directors	William Payne John Shepherd Ashley Silverton Tom Russo*	8 8 8 8	8 8 8 8

*Tom Russo typically joins the Board meetings by telephone as he is based in the United States of America.

Board committees and committee attendance

Summary of Committee membership and attendance

Name	Audit Committee	Remuneration Committee	Audit Committee attendance	Remuneration Committee attendance
Graham Whitworth	No	Yes	N/A	2(2)
William Payne	Yes	Yes	2(2)	2(2)
John Shepherd	Yes	Yes	2(2)	2(2)
Ashley Silverton	Yes	Yes	2(2)	2(2)

Figures in brackets denote the maximum number of meetings that could have been attended.

Audit Committee

Composition

The Committee's key objectives are 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.

Details of the Audit Committee membership in the year and the number of Audit Committee meetings attended in respect of 2016 are given on page 32. The Committee meetings are also attended by invitation, by other members of the Board and other senior executives as required in order to ensure that all the information required by the Audit Committee for it to operate effectively is available. Representatives of the Group's external auditor meet with the Audit Committee at least twice a year without any Executive Directors or other Company management being present.

In accordance with best practice, the Audit Committee is required to include 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 20 years' experience in the financing and management of businesses generally.

I would like to thank committee members, the EMT and RSM UK Audit LLP for the open discussions that took place at our meetings and acknowledge the importance we all attach to this work.

Role of the Committee

The primary responsibilities of the Committee are to:

- 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;
- To 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.

Work of the committee in 2016

To assist us in our work, we received representations from the Group Finance Director, John Gahan and other key senior personnel and reviewed the audit findings report of the Group's auditor, RSM UK Audit LLP. These reports and representations covered key accounting judgements and estimates and internal controls and risk management.

We also reviewed the Committee's own terms of reference.

Internal control

The Committee reviews the processes by which the control environment is assessed to seek to identify and resolve any weaknesses and have satisfied themselves that internal controls are appropriate.

External auditor
The external audit is a continuous process. At the start of the audit cycle, RSM UK Audit LLP presented its audit strategy, identifying its assessment of the key risks for the purposes of the audit and the scope of their work.

RSM UK Audit LLP reports to the Committee on the full-year results setting out its assessment of the Group's judgements and estimates in respect of these risks and the adequacy of the reporting. I met with the lead audit partner in private before each meeting and the whole Committee physically meets with RSM UK Audit LLP to have discussions in private at least once a year.

Non-audit services provided by RSM UK Audit LLP
The main non-audit related services provided by RSM UK Audit LLP during the year were in respect of tax and advisory matters for the financial year with fees of £18,000 compared to this year's total audit fees of approximately £125,000.

The non-audit fees comprise advice on the Group's corporate tax, R&D tax credits and patent box claims. The nature and level of all services provided by the external auditor is a factor taken into account by the Audit Committee in its annual review of the external auditor.

Services provided by RSM UK Audit LLP are pre-approved by the Board in accordance with an agreed policy. We review the non-audit fees charged by RSM UK Audit LLP and annually review the approval limits.

Reappointment of auditor
Following the completion of the audit, we reviewed the effectiveness and performance of RSM UK Audit LLP with feedback from 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.

RSM UK Audit LLP was appointed as auditor in 2001 and this appointment has not been subject to a tender process since that date although from time to time, the Board has bench marked the audit cost with other third parties.

The lead audit partner is required to rotate every five years and Charles Fray retired from his role as lead auditor during 2016 after the 2015 audit was completed. Mike Thornton replaced Charles Fray as lead audit partner effective July 2016.

No contractual obligations restrict our choice of external auditors.

We concluded that RSM UK Audit LLP provides an effective audit and the Committee and the Board have recommended their reappointment at the 2017 AGM. We do not plan to recommend a tender of the audit in 2017 as a tender would be unnecessarily disruptive and appropriate procedures are in place to ensure RSM UK Audit LLP's audit effectiveness is maintained.

William Payne
Chairman of the Audit Committee
3 April 2017

Directors' Remuneration Report

On behalf of the Board, I am pleased to present our Directors' Remuneration Report for the year ended 31 December 2016, which sets out our policy on pay, benefits and the amounts earned by Directors 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 what has been paid to the directors during 2016.

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 our policy on Directors' remuneration, which will be put to an advisory vote at the 2017 AGM. Any changes to this policy in future will also be subject to an advisory vote at the forthcoming AGM.

Remuneration committee

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 demanding targets represent a significant proportion of Executive Directors' potential remuneration, which aligns the interests of the individuals with those of the shareholders.

Key remuneration decisions for 2016
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 key decisions made by the committee in relation to 2016 include:

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

We have a clearly defined strategy to drive the business forward to be successful by understanding the product needs of our customers, a focus on product innovation and working to develop market leading positions in each of the markets which we serve. Our remuneration policy supports the delivery of this strategy and aligns the interests of our Directors with the interests of our 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 continues to monitor the market competitiveness of the overall remuneration package for each member of the Group's senior management team in order to ensure we are able to retain and attract new talent as required.

Annual bonus
For Executive Directors (and all senior managers), the annual bonus is payable as a cash contribution once the year end financial statements have been approved by the Board.

An important principle of the annual bonus plan is that a bonus can only be paid provided the Group delivers at least 90% of the Group's EBIT budget for the year as approved by the Board. Apart from the senior management team who have their own incentive scheme, the rest of the UK staff are eligible to participate in the Group's incentive scheme which pays out up to 6% of annual salary dependent upon the results of the Group. Bonus potential is uncapped for the EMT and capped for staff.

The total cost of the Group's bonus payments for all directors and staff in 2016 was £0.7m (2015: £0.03m).

The Board sets the Group's budget with reference to the prior year the business plans for the coming year, expected foreign exchange rates against Sterling and ensuring the levels to achieve a bonus pay-out are appropriately challenging.

The performance condition may be replaced or varied if an event occurs or circumstances arise which cause the Committee to determine that the performance conditions have fundamentally ceased to be appropriate. If the performance condition is varied or replaced, the amended performance conditions must, in the opinion of the Committee, be fair, reasonable and materially no more or less difficult than the original conditions when set.

Enterprise management incentive ("EMI")

In the event of a takeover, scheme of arrangement or winding up of the Company (not being an internal reorganisation), EMI Awards shall, at the discretion of the Remco vest early in respect of a time pro-rated proportion of the awarded options. If the Remuneration Committee considers it appropriate, it may use its discretion to permit additional vesting by varying the application of time pro-rating to the number of awarded options subject to the provisions of relevant service agreement.

We believe our current remuneration practices are appropriate and in line with reporting regulations and that our remuneration policy is aligned with the Group's strategy to enhance long-term value for our stakeholders.

2015 LTIP award

In June 2015, the Board approved the award of the 2015 LTIP and the initial grant of awards of nil cost options that vest following a performance period of three years and are subject to the achievement of total Sprue shareholder return targets as outlined below.

The following members of the Sprue's management team are included in the award:

Director	Position	Number of nil cost options awarded
G Whitworth	Executive Chairman	200,000
N Rutter	Chief Product Officer	200,000
N Smith	Group Chief Executive	300,000
J Gahan	Group Finance Director	200,000

The key elements of the 2015 LTIP include:

- Measurement period is three years from the date of grant being 3 June 2015 to 3 June 2018
- Any 2015 LTIP award is subject to delivering a minimum total shareholder return ("TSR") of at least 25% over the measurement period
- If TSR is less than 25% over the measurement period, none of the share options vest
- For TSR of between 25% and 100%, 25% up to 100% of the options vest on a straight line basis
- For 100% TSR or more over the measurement period, only 100% of the share options vest
- Options are exercisable to the extent that the performance target is met as at 3 June 2018 at any time up to the tenth anniversary of the date of grant (or earlier in the case or a corporate event)
- If the option holder leaves the Group by reason of death, injury, ill health or disability, redundancy, or because the business he works for is sold outside the Group, or otherwise at the discretion of the Remuneration Committee, then his 2015 LTIP award shall vest on a time pro-rated proportion subject to the performance criteria being met or having been deemed to have been met by the Remuneration Committee
- If the option holder leaves the Group for any other reason, his 2015 LTIP award will lapse

Options under the 2015 award were valued using the Monte Carlo model (given the increased uncertainty around potential vesting) and the assumptions are set out in note 28.

Total remuneration

The total remuneration (excluding the value of share options) for the directors of the Company for the financial year ended 31 December 2016 is detailed below:

	Salary and car allowance (a) £	Benefits (b) £	Bonuses (c) £	Fees (a) £	Pension (d) £	2016 Total £	2015 Total £
G Whitworth	229,037	3,206	121,355	–	5,500	359,098	235,648
N Rutter	178,756	1,295	93,774	–	17,096	290,921	186,815
J Gahan	173,408	1,722	93,774	–	17,096	286,000	177,539
N Smith	187,914	1,810	109,215	–	18,011	316,950	169,484
W Payne	–	–	–	42,000	–	42,000	39,500
A Silverton	–	–	–	32,650	–	32,650	28,374
J Shepherd	–	–	–	36,000	–	36,000	24,750
T Russo (e)	–	–	–	–	–	–	–
	769,115	8,033	418,118	110,650	57,703	1,363,619	862,110

The Directors earned total bonuses of £0.4m in 2016 (2015: £nil).

Notes

(a) Salary/fees – cash paid in the year all in £ sterling

(b) Benefits – taxable value of all benefits paid in the year represents the only benefit payable for Executive Directors being private medical insurance

(c) Bonus. This is the total annual bonus earned;

(d) Pension payments are into defined contribution pension plans

(e) Tom Russo waived his non-executive director fees in both the current and preceding years

Share options exercised

During the year there were no share options exercised by any of the Directors.

Group employee considerations

The Group employs circa 175 people in 5 countries. Inevitably remuneration arrangements differ to reflect local markets, but some common themes apply to employees at all levels as the Group aims 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 financial performance of the Group.

Shareholders' views

We have considered the guidance provided by shareholder advisory groups in preparing this policy and have followed this insofar as it is appropriate in the context of our business. Prior to the introduction of this policy, we have sought to base the principles on current market practice. Looking ahead, we welcome an open dialogue with shareholders.

Remuneration policy framework

The Group is committed to achieving sustained improvements in performance and 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 will continue to reflect 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
- total remuneration should be based on the Group and individual performance, both in the short and long term
- the system of remuneration should establish a close identity of interest between senior executives and shareholders by ensuring a significant proportion of senior executive remuneration from equity based incentives
- when determining remuneration, the committee will take into account pay and employment conditions in the market

Non-Executive Directors' ("NEDs") remuneration policy is as follows:

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Fees	To reward individuals for fulfilling the relevant role and to attract individuals of the skills and calibre required.	The committee makes recommendations to the Board on the remuneration of the NEDs. The level of remuneration is set within a limit approved from time-to-time by shareholders. NEDs 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.	None

Executive Directors' remuneration policy is set out below:

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Salary	It is essential that the Company provides competitive salaries, suitable 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 a similar size, complexity and internationality. Salaries are reviewed annually and normally fixed for 12 months from 1 April each year. However, salary increases are not automatic. Exceptionally, 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 a level of under 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.	None, although individual performance is the primary consideration in setting salary alongside overall Company affordability and market competitiveness.
Benefits	To provide market competitive benefits Sufficient to recruit and retain, and to support the Executive to give maximum attention to their role.	Benefits provided 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 pensions sufficient to recruit and retain.	New Executives to the Company are offered membership to the Group's defined contribution pension plan. Pension contributions are based only on an individual's salary. Executives may opt to receive a pension contribution to an alternative pension provider of their choosing should they prefer.	The maximum employer contribution to defined contribution pension arrangements is 5% of gross salary and this increased to 10% from 1 April 2016	None.
Annual Bonus	To incentivise and reward execution of the business strategy, delivery of financial performance targets and the Company's strategic plan.	The Board approves the budget for the Group and bonus achievement is based on delivery of Group EBIT against the Group's EBIT budget. At the end of the year, business performance determines the bonus pay out level.	Bonus potential is uncapped to ensure that there is no incentive for Executives to restrict revenue and profit once the target level of performance has been met.	The bonus pay out level is determined primarily by Group financial performance

Service contracts

Executive Directors' contracts include the following provisions:

- 12 months' notice of termination from Sprue Aegis plc;
- 12 months' notice of termination from the Executive; and
- Re-imbursement of reasonable business expenses.

All contracts also include the entitlement to paid holidays, sick pay and other standard employee terms.

Policy on exit payments

The notice period the Company is required to give to Executive Directors under their contracts of employment is 12 months, with the exception of the Group Chief Executive Director which is 6 months. Payment in lieu of notice include not exceeding the value of 12 months' salary, 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 will take into account the specific commercial circumstances.

The committee has the discretion to preserve incentive awards pro-rated to service. In exercising this discretion, the committee will have regard to performance and 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 employment in the performance period. In cases such as death and terminal illness, the committee also has the discretion to vest the awards immediately.

The treatment of leavers in the Company's Share Option scheme is governed by the plan rules. The UK scheme rules are HMRC approved.

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

Policy on new appointments

The committee would normally award newly appointed Executive Directors with 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.

External directorships

The Directors currently hold (in addition to the Company) the following directorships or are partners in the following partnerships and have held the following directorships and have been partners in the following partnerships within the five years prior to the year end date:

Name	Current Directorships/partnerships
Graham Whitworth	AngelEye Corporation (Canada)
	AngelEye, Inc (USA)
	Pace Sensors Limited (Canada)
	Sprue Safety Products Limited
Nicholas Rutter	Sprue Safety Products Limited
	Pace Sensors Limited (Canada)
Neil Smith	Sprue Safety Products Limited
John Gahan	Calmwater Limited
	Sprue Safety Products Limited
	Catesby House Management Company Limited
William Payne	Ariana Exploration & Development Limited
	Ariana Resources plc
	Ferensway Limited
	Marlowe Investments (Kent) Limited
	Millard Estates Limited
	Millard Properties Limited
	Paynard Investments Limited
	ReallyEnglish.Com Limited
	ReallyEnglish (UK) Limited
	Sprue Safety Products Limited
	West Bridge Consulting Limited
	Wilkins Kennedy LLP
Ashley Silverton	Silverton Advisory
John Shepherd	A1 Presentations Limited
	Coex Limited
	Falcon Equipment and Systems Limited
	Fotovalue Limited
	IES Integrated Electronic Systems Limited
	Integrated Environmental Systems Limited
	Look CCTV Limited
	Look Closed Circuit T.V. Limited
	Protec 2001 Limited
	Protec Plc
	Quadnetics Group Limited
	Quadrant Research & Development Limited
	Quadrant Security Group Limited
	Quadrant Video Systems Plc
	SDA Network Solutions Limited
	SDA Protec Limited
	SDA Protec (2001) Limited
	SSS Managed Services Limited
	SSS Management Services Limited
	Sanpho Pension Trustees Limited
	Sectronic (Marketing) Limited
	Security Design Associates (1979) Limited
	Software Developments (Digital Direct) Limited
	Stanmore Systems Limited
	Synectic Systems (Asia) Pte Ltd
	Synectic Systems GmbH
	Synectic Systems Group Limited
	Synectic Systems Limited
	Synectic Systems (Macau) Ltd
	Synectics Managed Services Limited
	Synectics No. 2 Limited
	Synectics Plc
	Synectics Technology Centre Limited
Tom Russo	Imaging Solutions LLC
	Shenzen CICAM Manufacturing Co. Limited (China)

Executive Chairman remuneration

This section of the report enables our remuneration arrangements to be seen in context by providing a five-year history of our Executive Chairman remuneration compared to the year end market capitalisation of the Group.

Year	Executive Chairman	Total remuneration including bonus and pension (excluding share options) £000	Sprue Aegis plc year end market capitalisation £000	CEO total remuneration as a % of market capitalisation at year end
2016	G Whitworth	359	80,000	0.45%
2015	G Whitworth	236	148,000	0.16%
2014	G Whitworth	300	153,000	0.20%
2013	G Whitworth	259	50,500	0.51%
2012	G Whitworth	175	24,450	0.72%

Excluding the total remuneration costs of the Board, the average remuneration per employee from 2012 to 2016 inclusive is as follows:

Year	Total remuneration costs including bonus and pension (excluding share options) £000	Average number of employees excluding Executive and Non-Executive Directors	Average remuneration per employee £000
2016	6,526	167	39
2015	6,050	140	43
2014	5,832	124	47
2013	3,695	104	35
2012	2,679	77	35

Directors' interests in unvested and vested share option awards

	Options at 1.1.16	Options granted in year	Options lapsed in year	Options exercised in year	Options at 31.12.16	Exercise price (pence)	Market price at date of exercise (pence)	Exercise period (years)	Expiry date
G Whitworth	125,000	–	–	–	125,000	200	–	10	28/04/21
N Rutter	125,000	–	–	–	125,000	200	–	10	28/04/21
J Gahan	69,445	–	–	–	69,445	200	–	10	28/04/21
N Rutter	200,000	–	–	–	200,000	2	–	10	03/06/25
G Whitworth	200,000	–	–	–	200,000	2	–	10	03/06/25
N Smith	300,000	–	–	–	300,000	2	–	10	03/06/25
J Gahan	200,000	–	–	–	200,000	2	–	10	03/06/25
							–		

The remuneration policy report was approved by the Board on 3 April 2017 and signed on its behalf by:

William Payne

Chairman of the Remuneration Committee

3 April 2017

Directors' Report

The directors present their report and the audited financial statements for the Group for the year ended 31 December 2016.

Pages 42 to 46 inclusive (together with sections of the Annual Report incorporated by reference) consist of a Directors' Report that has been drawn up and presented in accordance with and in reliance upon the applicable laws of England and Wales and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

The following additional disclosures to be included in the Directors' Report are made in compliance with the Companies Act 2006.

Likely future developments

The outlook for the business and the likely future developments are outlined in the Group CEO review of the Strategic Report on pages 20 to 21 and in the Chairman's review on page 13 and are incorporated in the Directors' Report by cross reference.

Post balance sheet events

Information on any events occurring after the balance sheet year end is described in note 31 of the Annual Report.

Results and Dividends

The financial results for the year and financial position of the Group and the Company are as shown on pages 50 to 52 inclusive. Profit before tax for the year before exceptional £0.2m restructuring charge (2015: £5.5m warranty charge) and share-based payments charge was £2.2m (2015: £12.8m)

The directors recommend the payment of a final dividend of 5.5 pence per ordinary share (2015: 5.5 pence per share) taking the total dividend in respect of 2016 to 8.0 pence per share (2015: 8.0 pence per share).

Employee information

Details of the Group's policy in respect of the employment and training are given in the Corporate social responsibility statement on page 25.

Charitable contributions

The group made charitable contributions amounting to £426 (2016: £10,265) during the year.

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 are marked to market at the balance sheet date and the gain or loss on those contracts is taken to profit and loss in the period. Net profit on foreign exchange contracts and taken to profit and loss in the year amounted to £10,000 (2015: profit of £0.5m). Information on the principal risks and uncertainties and how they are managed by the Group is included in the Strategic Report on pages 15 to 18.

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 26. The Company has one class of ordinary share which carries no right to fixed income. Each share carries the right to vote at general meetings of the Company.

Other than the specific lock in and orderly marketing provisions negotiated with the Directors in connection with the admission of the Company's shares to AIM, 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 of Association 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 28. No person has any special rights of control over the Company's shares capital and all issued shares are fully paid.

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 take over 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 take-over bid.

Research and development

The Group continues to invest in research and development. The people and non-people costs of product development on specific projects are capitalised in accordance with the accounting policy set out on page 58. General research costs undertaken in respect of the Group's principal activities are charged to the profit and loss as incurred.

Directors

The following directors have held office since 1 January 2016:

G Whitworth	Executive Chairman
N Smith	Group Chief Executive Director
J Gahan	Group Finance Director
N Rutter	Chief Product Officer (formerly Group Managing Director)
W Payne	Senior Independent Director
J Shepherd	Non-Executive Director
A Silverton	Non-Executive Director
T Russo	Non-Executive Director

Re-election of directors

The Company's articles of Association require that a minimum of one third of the Directors must retire by rotation each year, or if their number is not 3 or a multiple of 3 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 AGM following their appointment to the Board. If the number of Directors subject to retirement by rotation is fewer than 3, one of such Directors shall retire. At the AGM to be held on 15 June 2017, Nicholas Rutter, John Gahan, Neil Smith, William Payne and John Shepherd will retire and stand for re-election.

Appointment of directors

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

Articles of association

Sprue's Articles of Association may be amended only by a special resolution at a general meeting of shareholders.

Powers of directors

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.

Corporate governance

The Company's statement on corporate governance can be found in the Corporate Governance Report on pages 29 to 29 of these financial statements. The Corporate Governance Report forms part of this Directors' Report and is incorporated into it by cross reference.

The policy of the Board is to manage the affairs of the Company with regard to the Corporate Governance guidance issued by Quoted Company Alliance. The Directors support the principles underlying this guidance in so far as it is appropriate to a group of the size of Sprue Aegis plc.

Directors' interests in shares

Directors' interests in the shares of the Company including connected persons were as follows:

	Ordinary shares of 2.0 pence each		Ordinary shares of 2.0 pence each	
	31 Dec 2016	1 Jan 2016	31 Dec 2015	1 Jan 2015
Executive Directors				
G Whitworth	3,521,937	3,521,937	3,521,937	3,540,000
N Rutter	3,000,000	3,000,000	3,000,000	3,000,000
J Gahan	10,000	10,000	10,000	23,000
N Smith	–	–	–	–
Non-Executive Directors				
W Payne	100,000	100,000	100,000	100,000
J Shepherd	23,063	23,063	23,063	–
A Silverton	15,000	15,000	15,000	20,000
T Russo	–	–	–	–

During the year no Directors transacted in the purchase and selling of shares.

Details of Directors share options are set out in note 28.

Conflicts of interest

Tom Russo, a Non-Executive Director of the Company, is a Director of BRK Brands Europe Limited, part of Newell Brands (formerly Jarden Corporation). The Group has a distribution agreement which gives it exclusive rights to distribute BRK products and brands in Europe.

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, Sprue Aegis 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 to a value of £1m.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement, Strategic Report and Financial Review on pages 13 to 24.

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's businesses operate
- the potential actions that could be taken in the event that revenues are worse than expected, to ensure that operating profit and cash flows are protected

As 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.

Auditor

RSM UK Audit LLP has indicated their willingness to continue in office and a resolution that they be re-appointed as auditors will be proposed at the annual general meeting.

Share capital and voting rights

As at 31 December 2016, there were 45,855,365 ordinary shares of 2 pence each in issue. The ordinary shares are listed on AIM.

Payments to shareholders

Taking account of the Group's future prospects and cash resources, the Board is pleased to recommend a final dividend of 5.5 pence per share (2015: 5.5 pence per share) taking the total dividend for the year to 8.0 pence per share (2015: 8.0 pence per share). The proposed total cost of dividends to the Group amounts to £3.7 million and is covered 0.5x by post-tax profit (2015: 1.5x). If approved by shareholders at the AGM on 15 June 2017, the record date will be 23 June 2017 and the dividend will be paid to shareholders on 7 July 2017.

Share class rights

The rights and obligations attaching to the different classes of shares are summarised below. The full rights are set out in the Company's Articles of Association, the latest copy of which can be found on the Group's website at www.sprueaegis.com

Ordinary shares

Holders of ordinary 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 AGM 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.

Restrictions on transfer of shares and limitations on holdings

There are no restrictions on transfer or limitations on the holding of the ordinary shares other than under the Articles of Association (as described here), under restrictions imposed by law or regulation (for example, insider trading laws) or pursuant to the Company's share dealing code.

Shareholder agreements and consent requirements

There are no known arrangements under which financial rights carried by any of the shares in the Company are held by a person other than the holder of the shares and no known agreements between the holders of shares with restrictions on the transfer of shares or exercise of voting rights.

Authority to issue and purchase own shares

At the AGM on June 2016, authority was given to the directors to allot new ordinary shares up to a nominal value of £306,000 equivalent to 33% of the issued share capital of the Company. These authorities are valid until 30 September 2017.

In addition, authority was given to the directors to allot further new ordinary shares up to a nominal value of £45,855 equivalent to 5% of the authorised share capital of the Company. These authorities are valid until 30 September 2017.

The authority was given for the Company to make market purchases of its ordinary shares provided that the maximum aggregate number of ordinary shares that may be purchased is limited to 4.5m, the minimum price paid for each ordinary share is £0.02 and the maximum price which may be paid for each ordinary share is an amount not exceeding 105% of the average of the mid-market price as derived from AIM. These authorities are valid until 30 September 2017.

Voting rights

Deadlines for exercising voting rights must be received by the Company's Registrar not less than 48 hours before a general meeting.

Major shareholdings

At 31 December 2016, the following companies had notified an interest in the issued ordinary share capital of the Company:

	% of issued ordinary share capital
BRK BRANDS EUROPE LIMITED	23.4
GRAHAM WHITWORTH ESQ	7.7
NICHOLAS ALEXANDER RUTTER ESQ	6.5
AURORA NOMINEES LIMITED	6.1
LION NOMINEES LIMITED	5.3
ROCK (NOMINEES) LIMITED	4.6
CHASE NOMINEES LIMITED	3.4
JOLYON WILLIAM MONEY ESQ	3.3
RULEGALE NOMINEES LIMITED	3.0
NORTRUST NOMINEES LIMITED	2.9
BROOKS MACDONALD NOMINEES LIMITED	2.6
THE BANK OF NEW YORK (NOMINEES) LIMITED	2.5
DARTINGTON PORTFOLIO NOMINEES LIMITED	2.5
HSBC GLOBAL CUSTODY NOMINEE (UK) LIMITED	2.4
PERSHING NOMINEES LIMITED	2.0
STATE STREET NOMINEES LIMITED	1.9
HARGREAVES LANSDOWN (NOMINEES) LIMITED	1.9
GOLDMAN SACHS SECURITIES (NOMINEES) LIMITED	1.7
JIM NOMINEES LIMITED	1.5
OTHER	14.8
	100.0

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 auditor is unaware.

Each of the directors have 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 auditor.

John Gahan
Group Finance Director
3 April 2017

Statement of Directors' responsibilities

The directors are responsible for preparing the Strategic Report and 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. Under that law the directors have elected to prepare the financial statements of the Group and the Company in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("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 IFRSs adopted by the EU;
- 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 Sprue Aegis 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

Neil Smith
Group Chief Executive
3 April 2017

John Gahan
Group Finance Director
3 April 2017

Independent auditor's report to the members of Sprue Aegis plc

Opinion on financial statements

We have audited the Group and parent company financial statements ("the financial statements") on pages 50 to 86. 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 the parent's affairs as at 31 December 2016 and of the Group's profit 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 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.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at http://www.frc.org.uk/auditscopeukprivate

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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 based on the work undertaken in the course of our audit 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 company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters where 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.

Respective responsibilities of directors and auditor

As more fully explained in the Directors' Responsibilities Statement set out on page 47, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

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
3 April 2017

Financial statements

In this section

Consolidated income statement

for the year ended 31 December 2016

	Notes	2016 £000	2015 £000
Revenue	6	57,106	88,303
Cost of sales excluding BRK distribution fee and exceptional warranty charge		(40,789)	(61,548)
BRK distribution fee		(2,982)	(3,460)
Exceptional warranty charge		–	(5,500)
Total cost of sales		(43,771)	(70,508)
Gross profit		13,335	17,795
Distribution costs		(1,083)	(750)
Administrative expenses excluding share-based payments charge		(10,182)	(9,788)
Share-based payments charge		(563)	(527)
Total administrative expenses*		(10,745)	(10,315)
Total fixed costs		(11,828)	(11,065)
Profit from operations pre-exceptional £0.2m restructuring charge (2015: warranty charge £5.5m) and pre share-based payments charge		2,236	12,757
Profit from operations	7	1,507	6,730
Finance income	9	66	89
Profit before tax		1,573	6,819
Income tax credit / (charge)	10	246	(810)
Profit attributable to equity owners of the parent		1,819	6,009
Earnings per share (pence)	12		
From continuing operations:			
Basic		4.0	13.2
Diluted		4.0	13.1

All amounts stated relate to continuing activities.

**Total administrative expenses include a £0.2m restructuring charge reflecting a reduction in head count in the UK (2015: £nil)*

Consolidated statement of comprehensive income

for the year ended 31 December 2016

	2016 £000	2015 £000
Profit for the year	1,819	6,009
Items that may be reclassified subsequently to profit and loss:		
Exchange differences on translation of foreign operations (net of tax)	393	(60)
Other comprehensive income / (expense) for the year	393	(60)
Total comprehensive income for the year	2,212	5,949

Statement of Consolidated and Company financial position

at 31 December 2016

	NOTES	Consolidated 2016 £000	Consolidated 2015 £000	Company 2016 £000	Company 2015 £000
Non-current assets					
Goodwill	14	169	169	–	–
Other intangible assets	15	8,271	6,396	–	–
Purchased software costs	15	1,649	–	–	–
Plant and equipment	16	916	740	–	–
Shares in subsidiaries	17	–	–	149	149
Deferred tax assets	24	625	284	–	–
		11,630	7,589	149	149
Current assets					
Inventories	18	13,316	15,557	–	–
Trade and other receivables	19	13,451	11,717	25,348	28,751
Current tax asset		287	308	–	–
Derivative financial assets	20	1	91	–	–
Cash and cash equivalents		14,333	22,403	796	857
		41,388	50,076	26,144	29,608
Total assets		53,018	57,665	26,293	29,757
Current liabilities					
Trade and other payables	23	(16,741)	(18,202)	–	–
Current tax liabilities		(43)	–	–	–
Provisions	22	(2,800)	(2,200)	–	–
Derivative financial liabilities	20	(88)	(187)	–	–
		(19,672)	(20,589)	–	–
Net current assets		21,716	29,487	26,144	29,608
Non-current liabilities					
Provisions	22	(1,793)	(4,593)	–	–
Deferred tax liabilities	24	(1,569)	(1,386)	–	–
		(3,362)	(5,979)	–	–
Total liabilities		(23,034)	(26,568)	–	–
Net assets		29,984	31,097	26,293	29,757
Equity					
Share capital	26	917	917	917	917
Share premium		12,713	12,713	12,713	12,713
Foreign exchange reserve		264	(129)	–	–
Retained earnings		16,090	17,596	12,663	16,127
Total equity attributable to the owners of the parent		29,984	31,097	26,293	29,757

The financial statements on pages 50 to 86 were approved by the Board of directors and authorised for issue on 3 April 2017 and are signed on its behalf by:

Neil Smith

John Gahan

Company registered number: 3991353

Consolidated statement of changes in equity

for the year ended 31 December 2016

	Share capital £000	Share premium £000	Foreign exchange reserve £000	Retained earnings £000	Total £000
Balance at 1 January 2015	909	12,003	(69)	14,795	27,638
Profit for the year	–	–	–	6,009	6,009
Net foreign exchange losses from overseas subsidiaries	–	–	(60)	–	(60)
Total comprehensive income for the year	–	–	(60)	6,009	5,949
Transactions with owners in their capacity as owners:					
Dividends	–	–	–	(3,877)	(3,877)
Issue of shares	8	–	–	–	8
Premium arising on issue of equity shares	–	710	–	–	710
Total transactions with owners in their capacity as owners	8	710	–	(3,877)	(3,159)
Share-based payments charge	–	–	–	527	527
Deferred tax credit on share-based payments charge	–	–	–	63	63
Current tax credit on share-based payments charge	–	–	–	79	79
Balance at 31 December 2015	917	12,713	(129)	17,596	31,097
Profit for the year	–	–	–	1,819	1,819
Net foreign exchange gains from overseas subsidiaries	–	–	393	–	393
Total comprehensive income for the year	–	–	393	1,819	2,212
Transactions with owners in their capacity as owners:					
Dividends	–	–	–	(3,668)	(3,668)
Total transactions with owners in their capacity as owners	–	–	–	(3,668)	(3,668)
Share-based payments charge	–	–	–	563	563
Deferred tax (charge) on share-based payments charge	–	–	–	(220)	(220)
Balance at 31 December 2016	917	12,713	264	16,090	29,984

Company statement of changes in equity
for the year ended 31 December 2016

	Share capital £000	Share premium £000	Retained earnings £000	Total £000
Balance at 1 January 2015	909	12,003	10,005	22,917
Profit for the year	–	–	9,999	9,999
Total comprehensive income for the year	–	–	9,999	9,999
Transactions with owners in their capacity as owners:				
Dividends	–	–	(3,877)	(3,877)
Issue of shares	8	–	–	8
Premium arising on issue of equity shares	–	710	–	710
Total transactions with owners in their capacity as owners	8	710	(3,877)	(3,159)
Balance at 31 December 2015	917	12,713	16,127	29,757
Profit for the year	–	–	204	204
Total comprehensive income for the year	–	–	204	204
Transactions with owners in their capacity as owners:				
Dividends	–	–	(3,668)	(3,668)
Total transactions with owners in their capacity as owners	–	–	(3,668)	(3,668)
Balance at 31 December 2016	917	12,713	12,663	26,293

Cash flow statements
for the year ended 31 December 2016

	NOTES	Consolidated 2016 £000	Consolidated 2015 £000	Company 2016 £000	Company 2015 £000
Profit before tax		1,573	6,818	204	9,999
Finance income		(66)	(89)	–	–
Operating profit for the year		1,507	6,729	204	9,999
Adjustments for:					
Depreciation of property, plant and equipment		281	203	–	–
Amortisation of intangible assets		332	258	–	–
(Increase) / reduction in fair value of derivatives		(10)	464	–	–
Share-based payments charge		563	527	–	–
Operating cash flows before movements in working capital		2,673	8,181	204	9,999
Movement in inventories		2,241	(7,248)	–	–
Movement in receivables		(1,734)	8,496	3,403	(6,125)
Movement in provisions		(2,200)	5,920	–	–
Movement in payables		(1,460)	(1,745)	–	–
Cash (used) / generated by operations		(480)	13,604	3,607	3,874
Income taxes paid		(56)	(1,197)	–	–
Net cash (used) / generated from operating activities		(536)	12,407	3,607	3,874
Investing activities					
Purchase of intangible assets		(2,207)	(2,321)	–	–
Purchase of software costs		(1,649)	–	–	–
Purchase of property, plant and equipment		(497)	(411)	–	–
Interest received		66	89	–	–
Net cash used on investing activities		(4,287)	(2,643)	–	–
Financing activities					
Proceeds from issue of ordinary shares		–	718	–	718
Dividends paid	11	(3,668)	(3,877)	(3,668)	(3,877)
Net cash used on financing activities		(3,668)	(3,159)	(3,668)	(3,159)
Net (decrease) / increase in cash and cash equivalents		(8,491)	6,605	(61)	715
Cash and cash equivalents at beginning of year		22,403	15,887	857	142
Non-cash movements		421	(89)	–	–
Cash and cash equivalents at end of year		14,333	22,403	796	857

Notes to the financial statements

for the year ended 31 December 2016

1. Principal activities

Sprue Aegis 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 is Bridge House, London Bridge, London, SE1 9QR 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") is in the business of the design, sale and marketing of smoke and carbon monoxide detectors and accessories sold under the FireAngel, AngelEye, Pace Sensors, First Alert, SONA, BRK and Dicon brands. The Group also operates its own carbon monoxide 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 incorporates 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 the 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 and contingent 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, except to the extent those intra-Group losses indicate impairment.

Going concern

The Directors have prepared detailed financial forecasts and cash flows looking beyond 12 months from the date of these financial statements. In developing these forecasts the Directors have made assumptions based upon its view of the current and future economic conditions that will prevail over the forecast period.

On the basis of the above projections, the Directors are confident that the Company and its Group have sufficient working capital to honour all of its obligations to creditors as and when they fall due. Accordingly, the Directors continue to adopt the going concern basis in preparing the consolidated financial statements.

Adoption of new and revised accounting standards

New and amended accounting standards:

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 2016:

- Annual improvements 2012-2014
- Amendments to IAS 1 Disclosure Initiative
- Amendments to IAS 16 and IAS 38: Clarification of acceptable Methods of Depreciation and Amortisation

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 9: Financial Instruments
- IFRS 15: Revenue from contracts with customers
- IFRS 16: Leases
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7: Disclosure Initiative
- Clarifications to IFRS 15: Revenue from Contracts with Customers
- Amendments to IFRS 2: Classification and measurement of share-based payment transactions

With regards IFRS 15, this brings into play significantly different principles for determining how revenue should be recognised and how it is measured in comparison with IAS 18. The Group is still in the process of determining which sales transactions (if any) will be affected and hence is unable to quantify the impact at this time. However, the Group is aware of the potential additional disclosures that may be required and therefore a need to consider how this information will be captured is necessary.

In addition, IFRS 16 on 'Leases' will also impact the financial statements and the relevant disclosures as the Group has operating leases that will need to be disclosed and identified separately on the face of the Consolidated Financial Position. The Group is still in the process of quantifying the impact and deciding on which transitional exemptions it decides to take.

The Directors anticipate that the adoption of the remaining standards and interpretations in future periods will have no material impact on the financial statements 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.

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

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 £0.3m to certain UK retailers in respect of maintaining the ongoing relationship with these customers and to secure promotional activities during the year (2015: £0.3m). Such costs are taken to the income statement in the year in which they relate to. Prepaid discretionary amounts paid to suppliers as at 31 December 2016 was £nil (2015: £nil).

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 – Internally generated intangible assets

Expenditure on research activities is recognised in profit or loss as incurred.

Expenditure arising from the Group's development of future products is capitalised only if all of 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 in profit or loss 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 directors estimate that the useful economic life of various intangible assets is between seven and fifteen years and further details of each product / technology are outlined at note 15.

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

Intamac development software

On 16 September 2016, Sprue acquired source code and development rights to software developed by Intamac to enable its customers to connect and monitor Sprue's whole range of wireless products over the internet for a total consideration of up to £2.8m in cash (excluding VAT) payable as to £1.0 million initially, together with £0.45m pre-paid licences paid to Intamac converted into consideration, and the balance over the next 12 months on the achievement of certain agreed milestones,

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

This software 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 being fifteen years. At the end of 31 December 2016 purchased software of £1.6m was stated within non-current assets of the Group.

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 being 4 years.

Plant and equipment

All 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 profit or loss 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:

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 Income Statement.

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 (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 (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 (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 is presented in UK Sterling (£), which is the functional currency of the Company and the Group's presentational currency.

The financial statements are presented in round thousands of the presentational currency.

Foreign currency transaction and balances

Foreign currency transactions are translated at the exchange rate prevailing on the dates 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 profit or loss 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 to profit or loss 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 in profit or loss 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 in profit or loss, 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.

Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit and loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss are financial assets held for trading. Derivatives are categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

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 of its liabilities.

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

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.

Impairment of financial assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

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.

Trade receivables

Trade receivables are classified as loans and receivables and are initially recognised at fair value. They are subsequently measured at their amortised cost using the effective interest method less any provision for impairment.

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 or less.

Trade payables are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

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. Options under the new LTIP 2015 award that were granted during the year have been valued using the Monte Carlo model (given the increased uncertainty around the potential vesting of share options).

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 in profit or loss 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 on the Group in the Annual Report on the same basis as information reported to the Board. The Board is considered the chief operating decision maker, for the purposes of resource allocation and assessment of performance is based wholly on the overall activities of 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. 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.

Critical accounting estimates and assumptions

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 that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Warranty provisioning

In April 2016, the Company identified an issue in 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 Company's customer service obligations, the Board increased the Group's total warranty provisions as at 31 December 2015 to £6.8m and has continued to provide free of charge replacement products to compensate customers who experience issues with the Group's products. The Group's total warranty provision as at 31 December 2016 reduced to £4.6m after the net warranty provision of £2.2m of the 2015 year end warranty provision was utilised during the year.

The failure mode in the battery in affected smoke alarms typically occurs after around three years from the date of battery manufacture so the vast majority of product returns in 2016 relate to 2012 and 2013 production where returns of both years of production are in decline. Returns of 2014 and 2015 products in 2016 were not as significant but are expected to increase over the next couple of years.

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

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

In addition, we are reviewing whether with returned products, we could simply upgrade the software on those products to increase the threshold of battery impedance testing which would reduce the warranty costs going forwards to the postage and packaging, plus a small amount of labour cost to update the software rather than supplying a new replacement product.

We have also reviewed our 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 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 actual product returns in 2016 were in line with management's expected level of product returns and therefore no further adjustment to the provision (upwards or downwards) was deemed necessary as at 31 December 2016.

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 £0.5m. The Board is not aware of any other major warranty issues but has continued to expense FireAngel warranty at just over 1% 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 in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

During 2016, the Group did not record any impairment charges upon review of its tangible and intangible assets.

Amortisation of internally generated intangible assets

When the Group commences sales of a new product, for up to the first three years of sales or earlier if sales have normalised, the amortisation charge associated with the capitalised development expenditure is restricted to be not more than 15% of the gross profit arising on the sale of the new products. This ensures that as sales gradually increase over the first three years of a new product's life, the amortisation charge is a reasonable proportion of the product gross profit generated on that sale. Once new product sales have normalised, the remaining capitalised development costs are amortised on a straight line basis over the remaining life of the product. The amortisation charge is recognised within administrative expenses.

Inventory provision

The Group reviews each stock 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 12 months (and beyond) and the likely gross margin thereon.

Discontinued SKUs are fully provided for (at 100% of the cost) where the potentially recovery of the book value is not likely to be achieved in full. In addition, where stock is identified as being potentially slow moving, a 10% provision is booked against the cost of the stock. The Group's stock provisioning policy therefore looks historically at unit sales and margins relative to current stock and what sales are likely to be achieved in the future and at what margin before determining an appropriate stock provision.

Historically, on eventual sale of slow moving SKUs, the Group has not experienced any major 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, 10 year products are typically reworked into 7 year or 5 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 product costs plus rework costs added together. 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 as at the year ended 31 December 2016 was £0.7m (2015: £0.3m).

Share-based payments

On granting of share options, the fair value as at the date of grant is calculated using either the Black-Scholes option pricing model or the Monte Carlo model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that are likely to vest.

For the 2014 share options award, the grant date fair value of stock options is estimated using a Black-Scholes option valuation model. This Black-Scholes option valuation model requires the use of assumptions, including expected stock price volatility, the estimated life of each award and the estimated dividend yield. The risk-free interest rate used in the model is determined, based on 10 year UK government bonds with a life equal to the expected life of the equity-settled share-based payments. See note 28 for further details re the assumptions used in the pricing model.

For the 2015 LTIP share options award, the grant date fair value of stock options is estimated using the Monte Carlo option valuation model. This model is similar to the Black Scholes model in which it requires the use of assumptions as described previously but differs in the initial calculation taking into account the probability that the options will be exercisable dependent on meeting the criteria as seen in note 28.

The total gross amount of recognised expenses associated with share-based payments was £0.6m (2015: £0.5m).

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.

2016	Within 6 months £000	6 months – 1 year £000	1 to 5 years £000	Over 5 years £000	Total £000
Trade payables	11,696	–	–	–	11,696
Derivative financial liabilities	78	10	–	–	88
Financial liabilities	11,774	10	–	–	11,784

2015	£000	£000	£000	£000	£000
Trade payables	15,282	–	–	–	15,282
Derivative financial liabilities	130	57	–	–	187
Financial liabilities	15,412	57	–	–	15,469

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.

2016	Within 6 months £000	6 months – 1 year £000	1 to 5 years £000	Over 5 years £000	Total £000
Cash at bank and on hand	14,333	–	–	–	14,333
Trade receivables and other debtors	13,050	–	–	–	13,050
Derivative financial assets	1	–	–	–	1
Financial assets	27,384	–	–	–	27,384

2015	£000	£000	£000	£000	£000
Cash at bank and on hand	22,403	–	–	–	22,403
Trade receivables and other debtors	11,410	–	–	–	11,410
Derivative financial assets	44	47	–	–	91
Financial assets	33,857	47	–	–	33,904

The Group would normally expect that sufficient cash is generated in the operating cycle to meet the contractual cash flows as disclosed above through effective cash management. In addition, the Group maintains a committed invoice discounting facility secured on UK trade debtors which can be accessed as considered necessary.

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 in particular, the 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 with its banker, HSBC plc.

Sensitivity analysis

The Group derived the following sensitivities based on the forward rates readily available for the US Dollar and the 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 profit from a 1 cent change in the value of the US Dollar and the Euro against Sterling on a full year basis is approximately £0.26m and £0.25m respectively.

Interest rate risk

The business has remained debt free throughout 2016 and earns modest income on its Sterling cash deposits.

Credit risk

Credit risk predominantly arises from trade receivables and cash and cash equivalents.

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 customers' 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 almost all held with an AA- rated bank, HSBC plc.

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

Maximum exposure to credit risk	2016 £000	2015 £000
Trade receivables and other debtors	13,050	11,410
Cash and cash equivalents	14,333	22,403
	27,383	33,813

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.

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 and managing the level of dividends paid to ordinary shareholders to ensure reasonable dividend cover compared to post tax profit.

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

6. Revenue and segmental reporting

Revenue	2016 £000	2015 £000
Continuing operations:		
Sale of goods	57,106	88,303
Total sale of goods	57,106	88,303
Finance income (note 9)	66	89
Total revenue from continuing operations	57,172	88,392

6. Revenue and segmental reporting (continued)

Sprue 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 mainly based throughout 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.

Segmental revenues for each of the Group's business units, comprising gross and net sales to external customers and movement in gross profit from previous forecasts is the main financial information reported to the Board at business-unit level. Business unit reporting to the Board excludes information of overheads and other income statement information reported on an aggregated basis.

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

	2016	2015
	Revenue	Revenue
Revenue from continuing operations	£000	£000
Business Units:		
Europe	23,321	53,781
Trade	7,158	7,287
Retail	15,385	13,932
Fire & Rescue Services	5,373	7,823
Utilities	2,164	2,572
Pace Sensors	3,705	2,908
Total revenue from external customers	57,106	88,303

All Business Units earn revenue from the sale of smoke and carbon monoxide detectors and accessories to end customers. Pace Sensors earns revenue from the manufacture and sale of carbon monoxide sensors to a third party carbon monoxide detector assembler based in China.

For 2016, revenues of approximately £15.0m (2015: £39.0m) were derived from one external customer (2015: two external customers), which individually contributed over 10% of total revenue of the Group. These revenues are attributable to the European business units. An analysis of the Group's revenue is as follows:

	2016	2015
	£000	£000
Continuing operations:		
United Kingdom	30,080	31,614
Continental Europe	20,657	52,142
Rest of World	6,369	4,547
	57,106	88,303

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

	2016	2015
	£000	£000
Continuing operations:		
UK	10,720	7,112
Canada	285	193
Non-current assets	11,005	7,305

7. Profit from operations

The following table analyses the nature of expenses:

	2016	2015
	£000	£000
Staff costs (see note 8)	6,143	5,529
Depreciation, amortisation and impairment (see notes 15 and 16)	613	461
Premises costs	1,152	1,150
Change in inventory of finished goods excluding inventory provision movement	(1,825)	7,244
Purchase of finished goods	39,482	53,463
BRK distribution fee	2,982	3,460
Movement in inventory provisions	416	(4)
Distribution costs	1,083	750
Marketing and trade contributions	1,411	1,434
Professional fees excluding Non-Executive Directors	1,049	801
Research and development costs	114	476
Net warranty provision (utilisation), including exceptional £5.5m for 2015 (see note 22)	2,200	5,920
Other expenses	779	889
Total cost of sales, distribution costs and administrative expenses	55,599	81,573

Profit from operations has been arrived at after charging:

	2016	2015
	£000	£000
Net foreign exchange losses excluding foreign currency forward transactions	641	186
Research and development costs	114	476
Amortisation of intangible assets	332	258
Depreciation on owned assets	281	203
Rentals under operating leases	453	369

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

	2016	2015
	£000	£000
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	35	40
Fees payable to the Company's auditor and their associates for other services to the Group;		
The audit of the Company's subsidiaries	60	76
Other audit related services	30	29
Total audit fees	125	145
Other taxation advisory services	18	16
Total non-audit fees	18	16

8. Staff costs

The average monthly number of employees (including Executive Directors) for the year for each of the Group's principal divisions was as follows:

	2016 Number	2015 Number
Pace Sensors manufacturing	64	43
Technology	34	29
Administration	38	38
Sales and Marketing	26	25
Executive and Non-Executive Directors	8	8
Warehousing	5	5
	175	148

The aggregate remuneration for the above persons comprised:

	2016 £000	2015 £000
Wages and salaries	6,388	5,701
Social security costs	630	541
Other pension costs	125	151
Share-based payment expense	563	527
Total remuneration	7,706	6,920
Less: Capitalised product development costs	(1,563)	(1,391)
Total remuneration charged to Income Statement	6,143	5,529

9. Finance income

	2016 £000	2015 £000
Interest on bank deposits	66	89

10. Income tax

	2016 £000	2015 £000
Current tax		
UK corporation tax (credit) / charge	(99)	301
UK - Adjustments in respect of prior periods (credit)	(46)	(38)
Foreign tax charge	267	235
	122	498
Deferred tax (note 24)		
Origination and reversal of temporary differences	(368)	312
Income tax (credit) / charge	(246)	810

Domestic income tax is calculated at 20% (2015: 20.25%) of the estimated assessable profit for the year.

10. Income tax (continued)

The (credit) / charge for the year can be reconciled to the profit per the statement of consolidated income as follows:

	2016 £000	%	2015 £000	%
Profit before tax	1,573		6,819	
Tax at the domestic income tax rate 20% (2015: 20.25%)	314		1,398	
Tax effect of expenses that are not deductible in determining taxable profit	375		142	
Effect of allowance for capitalised development expenditure	(889)		(692)	
Adjustments in respect of prior periods	(46)		(38)	
Tax (credit) / charge and effective tax rate for the year	(246)	(16%)	810	12%

The weighted average applicable tax rate was a credit of 16% (2015: charge of 12%). The tax credit for 2016 is attributed to enhanced R&D tax relief at 230% rate (2015: 230%).

Legislation to reduce the main rate of corporation tax from 20% to 19% from 1 April 2017 has been enacted. The deferred tax balances have been calculated at 17% where they are expected to be utilised after 1 April 2017.

The income tax credited / (charged) to equity during the year is as follows:

	2016 £000	2015 £000
Current tax		
Share options - exercised in the year	-	79
Deferred tax		
Share-based payments	(220)	63
Total income tax	(220)	142

11. Dividends

On 22 July 2016, a dividend of £2.5m, 5.5 pence per share, was paid to shareholders. On 31 October 2016 an interim dividend of £1.1m, 2.5 pence per share, was paid to shareholders.

In respect of the year ended 31 December 2016, the directors recommend the payment of a final dividend of 5.5 pence per share on 7 July 2017 to shareholders on the register on 23 June 2017. This dividend is subject to approval by shareholders at the Annual General Meeting to be held on 15 June 2017 and has not been included as a liability in these financial statements. The total estimated final dividend to be paid is £2.5m.

12. Earnings per share

The calculation of the basic and diluted earnings per share post exceptional items and before share-based payments charge is based on the following data:

Earnings from continuing operations	2016 £000	2015 £000
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the parent)	1,819	6,009
Number of shares	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	45,855	45,613
Effect of dilutive potential ordinary shares:		
Deemed issue of potentially dilutive shares	71	322
Weighted average number of ordinary shares for the purposes of diluted earnings per share	45,926	45,935

	2016 pence	2015 pence
Basic earnings per share (pence)	4.0	13.2
Diluted earnings per share (pence)	4.0	13.1

13. Financial instruments

2016	Assets at fair value through profit and loss £000	Loans and receivables £000	Total £000
Financial assets			
Trade receivables and other debtors	–	13,050	13,050
Cash and cash equivalents	14,333	–	14,333
Derivative financial assets	1	–	1
Total	14,334	13,050	27,384
2015			
Financial assets			
Trade receivables and other debtors	–	11,410	11,410
Cash and cash equivalents	22,403	–	22,403
Derivative financial assets	91	–	91
Total	22,494	11,410	33,904

2016	Liabilities at fair value through profit and loss £000	Financial liabilities held at amortised cost £000	Total £000
Financial liabilities			
Trade payables	–	11,696	11,696
Derivative financial liabilities	88	–	88
Total	88	11,696	11,784
2015			
Financial liabilities			
Trade payables	–	15,282	15,282
Derivative financial liabilities	187	–	187
Total	187	15,282	15,469

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to the following:

Financial instruments contain an element of risk that the counterparties are unable to meet their obligations. This financial credit risk is monitored and minimised per type of financial instrument by limiting the Group's counterparties to a sufficient number of major financial institutions. Sprue Aegis plc does not expect the counterparties to default given their high credit quality. The maximum exposure to credit risk at the reporting date is the fair value of the financial assets in the statement of financial position.

The Group's customers include a number of key distributors located in Continental Europe. The Group performs credit evaluations of potential customers' financial status before approving credit limits. The Group regularly reviews if an allowance for doubtful debts is needed by considering factors such as historical payment experience, credit quality, and age of the accounts receivable balances, and current economic conditions that may affect a customer's ability to pay. In response to the increased volatility of the financial markets, the Group has taken additional measures to mitigate credit risk when considered appropriate, including down payments, letters of credit, and retention of ownership. Retention of ownership may enable the Group to recover the inventory in the event a customer defaults on payment.

14. Goodwill

	£000
Cost	
Cost of goodwill and carrying value at 31 December 2016 and 2015	169

The recoverable amount of each cash generating unit ("CGU") 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 5 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 5 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.

15. Other intangible assets

	Product development costs £000	Purchased software costs £000	Computer software £000	Total £000
Cost				
At 1 January 2015	5,824	–	240	6,064
Additions	2,271	–	50	2,321
At 31 December 2015	8,095	–	290	8,385
Additions	2,178	1,649	29	3,856
At 31 December 2016	**10,273**	**1,649**	**319**	**12,241**
Amortisation				
At 1 January 2015	1,531	–	200	1,731
Amortisation for the year	231	–	27	258
At 31 December 2015	1,762	–	227	1,989
Amortisation for the year	300	–	32	332
At 31 December 2016	**2,062**	**–**	**259**	**2,321**
Carrying amount				
At 31 December 2015	6,333	–	63	6,396
At 31 December 2016	**8,211**	**1,649**	**60**	**9,920**

The total amortisation charge of £332,000 (2015: £258,000) has been recognised within administrative expenses.

A summary of product development costs (including the purchased software costs of £1.6m) with a net book value of £9.9m as at 31 December 2016, is shown below, along with the average remaining useful economic life of each intangible asset which are typically amortised between 7 to 15 years.

	Connected home* £000	Wi-safe 2 £000	SONA £000	Nano £000	Smoke sensing products £000	Future products* £000	Other £000	CO sensing products £000	Total £000
Cost									
At 1 January	509	1,505	1,164	1,403	1,273	341	1,505	395	8,095
Additions	2,335	233	335	–	241	224	330	129	3,827
At 31 December	**2,844**	**1,738**	**1,499**	**1,403**	**1,514**	**565**	**1,835**	**524**	**11,922**
Amortisation									
At 1 January	–	155	19	–	270	–	1,278	40	1,762
Charge	2	105	53	19	82	–	13	26	300
At 31 December	**2**	**260**	**72**	**19**	**352**	**–**	**1,291**	**66**	**2,062**
Carrying amount									
At 31 December 2015	509	1,350	1,145	1,403	1,003	341	227	355	6,333
At 31 December 2016	**2,842**	**1,478**	**1,427**	**1,384**	**1,162**	**565**	**544**	**458**	**9,860**
% of total	*29%*	*15%*	*14%*	*14%*	*12%*	*6%*	*5%*	*5%*	*100%*
Av UEL left (yrs)	**15.0**	**8.5**	**11.4**	**11.8**	**7.7**	**10.0**	**2.1**	**8.7**	**9.4**

**products within the Connected Homes and various future products are still under development and as such, are not finalised and therefore there is no amortisation charge in respect of these intangibles.*

Additions relate to new products and / or technology under development which will be amortised over their expected useful economic lives once sales of the associated products commence. The following is a high level summary of the products in the table above:

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 NBV of £1.5m as at 31 December 2016. Wi-safe 2 is a core piece of technology which is expected to underpin a number of key products and accessories going forwards, especially in the Connected Homes arena.

Nano

Nano is the miniaturised CO sensor developed by Sprue's wholly owned subsidiary in Canada, Pace Sensors. The Nano went into production into finished CO detectors in November 2016. Nano's net book value of £1.4m as at 31 December 2016 represents the costs incurred in the development of the CO sensor and the final development of finished CO products that incorporate the sensor.

SONA

Sprue launched a new fully certified range of mains powered SONA branded smoke and carbon monoxide products and accessories for the UK Trade sector which includes heat alarms, smoke alarms, CO alarms and a remote test and reset product in December 2015.

SONA provides a technology advantage over competitor products especially with its market leading low power consumption, which is particularly important for new housing projects which require a "sustainability" assessment. The net book value of SONA, which also includes other SONA technology related products under development this year, amounted to £1.4m as at 31 December 2016.

Smoke sensing products

The net book value of smoke sensing products as at 31 December 2016 amounted to £1.2m and includes all Sprue's own branded FireAngel developed products and smoke products under development.

Connected Home Solutions ("CHS")

CHS allows Sprue to connect and monitor a wider range of Sprue's own products through its interface gateway technology to the internet. As part of this plan, Sprue is developing an app for users which will work on any Android or iOS device. At the same time, Sprue is expanding the skills and capabilities of its Technical team to accelerate product development in this area. The net book value of CHS as at 31 December 2016 amounted to £2.8m and includes the following net book values:

- Intamac technology £0.8m
- Z-wave module (wireless language technology) £0.3m
- Innohome (cooker shut off products) £0.1m
- Intamac software licenses and source code £1.6m

In the deal announced with Intamac in September 2016, Sprue acquired the software and development rights to the source code to Intamac's software. As part of that transaction, Sprue and Intamac agreed to convert Sprue's prepaid licence fee of £0.45m into consideration for the acquisition of Intamac's software and the £0.45m prepayment was therefore reclassified into intangible assets as stated above.

Various future products ("VFP")

The net book value of VFP amounted to £0.6m as at 31 December 2016 and consists primarily of the Group's next generation smoke and CO alarms. These are major projects which are expected to come to market over the next few years.

CO sensing products

The net book value of CO sensing products as at 31 December 2016 was £0.5m, which includes Sprue's 10 year life CO alarm, the British Gas developed CO alarm and CO sensing products currently under development. The CO market is growing through marketing activities and increased awareness of the dangers of carbon monoxide.

Other

Other includes various smaller products that do not fall neatly into any one category or where the net book values are not individually significant.

Impairment review

During 2016, the Group did not record any impairment charges upon review of its product development cost intangible assets.

Products completed and available for sale

As part of the Group's impairment review, the Group prepares a schedule that compares the net book value of each intangible asset with the gross profit in the next 12 months which is expected to be derived from the sale of products 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 next few years. In many cases, the expected gross profit within the next 12 months from the sale of products that use the intangible asset is actually significantly larger than the net book value of the individual intangible asset on the balance sheet. This provides significant comfort that the carrying value of each intangible is reasonable and, therefore, not impaired.

Products not yet completed

Product development costs and other intangible assets not yet available for use are tested for impairment annually, and are assessed whether there is any indication that the asset may be impaired. This assessment includes consideration of the likely cost of completing the project.

16. Plant and equipment

	Office equipment £000	Motor vehicles £000	Fixtures & fittings £000	Total £000
Cost				
At 1 January 2015	772	5	140	917
Additions	228	–	183	411
Disposals	(21)	–	–	(21)
At 31 December 2015	979	5	323	1,307
Additions	389	–	108	497
Disposals	(16)	–	–	(16)
At 31 December 2016	1,352	5	431	1,788
Accumulated Depreciation				
At 1 January 2015	337	4	40	381
Depreciation charge for the year	158	–	45	203
Disposals	(21)	–	–	(21)
Effect of exchange rates	4	–	–	4
At 31 December 2015	478	4	85	567
Depreciation charge for the year	225	1	55	281
Disposals	(15)	–	–	(15)
Effect of exchange rates	39	–	–	39
At 31 December 2016	727	5	140	872
Net book value				
At 31 December 2015	501	1	238	740
At 31 December 2016	625	–	291	916

The total depreciation expense of £281,000 (2015: £203,000) has been charged to administrative expenses.

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

17. Shares in subsidiaries

Company	Shares £000	Total £000
Cost		
At 1 January 2016 and 31 December 2016	149	149
Accumulated impairment		
At 1 January 2016 and 31 December 2016	–	–
At 31 December 2016 and 31 December 2015	149	149

Details of the Company's subsidiaries as at 31 December 2016 are as follows:

Name of subsidiary	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
Sprue Safety Products Limited	UK	100	100	Distribution of smoke and CO alarms
Pace Sensors Limited	Canada	100	100	Manufacture of CO sensors
AngelEye Corporation	Canada	100	100	Non-trading
AngelEye Incorporation	USA	100	100	Non-trading

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

Sprue Aegis plc has a direct holding in Sprue Safety Products Limited, AngelEye Corporation and AngelEye Incorporated. It has an indirect holding in Pace Sensors Limited, via AngelEye Incorporated.

18. Inventories

	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Raw materials	236	142	–	–
Work-in-progress	370	170	–	–
Finished goods	13,404	15,523	–	–
Total gross inventories	14,010	15,835	–	–
Inventory provisions	(694)	(278)	–	–
Total net inventories	13,316	15,557	–	–

Pace Sensors, the Group's wholly owned subsidiary in Canada manufactures carbon monoxide sensors ("CO Sensors") for use in the Group's CO detectors. The CO sensors are shipped to Pace Technology, an independent third party supplier based in China for assembly into finished CO detectors which are then purchased by Sprue 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.

19. Financial assets

	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Trade receivables and other debtors	13,050	11,410	25,348	28,751
Cash and cash equivalents	14,333	22,403	796	857
Derivative financial assets	1	91	–	–
Maximum exposure to credit risk	27,384	33,904	26,144	29,608

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.

Within trade and other receivables for the company, this is solely balances owed to the parent from Group undertakings.

Trade and other receivables are as follows:

	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Trade receivables	13,003	11,297	–	–
Amounts due from fellow group companies	–	–	25,348	28,751
Other debtors	47	113	–	–
Prepayments	401	307	–	–
Trade and other receivables	13,451	11,717	25,348	28,751

The average credit period taken on sale of goods is 58 days (2015: 67 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.

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 2016 was £6.4m (31 December 2015: £7.7m).

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 Company. Credit limits are kept under review to ensure customers are not exceeding agreed terms. The Group has made no doubtful debt provision.

At 31 December 2016, £6.4m (2015: £7.7m) of trade receivables were denominated in Sterling, £1.4m (2015: £1.2m) in US Dollars and £5.2m (2015: £2.4m) in Euros.

At 31 December 2016, £10.5m (2015: £20.5m) of cash was denominated in Sterling, cash of £2.3m (2015: overdraft of (£0.5m)) in US Dollars, cash of £0.1m in Canadian dollars and £1.4m (2015: £2.4m) in Euros.

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

20. Derivative financial instruments

	2016 £000	2015 £000
Assets		
Foreign currency forward contracts	1	91
	1	91
Liabilities		
Foreign currency forward contracts	(88)	(187)
	(88)	(187)

Derivative financial instruments are classified between current and non-current based on the maturity of the item and are all measured at their fair value. The maturity of all forward contracts at each year end reported was less than 12 months, and therefore all contracts are classified as current.

The notional principal amounts of the outstanding foreign currency forward contracts was US $3.8m at 31 December 2016 (2015: US $1.4m), GBP of £2.9m (2015: £nil) and Euro of nil (2015: Euro 10.2m).

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 product purchases in currencies other than the Company's functional currency.

21. Fair value disclosures

The total net profit on forward contracts recognised in the profit for the year ended 31 December 2016 was £10,000 (2015: £0.5m loss) 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 for the two years ended 31 December 2016. All assets and liabilities measured are valued at level 2.

LEVEL 2	2016 £000	2015 £000
Assets		
Foreign currency forward contracts	1	91
Liabilities		
Foreign currency forward contracts	(88)	(187)

22. Provisions

	FireAngel warranty provisions £000	BRK Brands warranty provisions £000	Total £000
At 1 January 2015	819	55	874
Additional provision in year	5,500	950	6,450
Increase / (utilisation) of provision	144	(675)	(531)
At 31 December 2015	6,463	330	6,793
Increase in provision in year	447	651	1,098
Utilisation of provision	(2,577)	(721)	(3,298)
At 31 December 2016	4,333	260	4,593

The warranty provision is analysed between current and non-current provisions as follows:

	2016 £000	2015 £000
Current provision	2,800	2,200
Non-current provision	1,793	4,593
Total provisions	4,593	6,793

Review of warranty policy

Determining 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 actual product returns in 2016 were in line with management's expected level of product returns and therefore no further adjustment to the provision (upwards or downwards) was deemed necessary as at 31 December 2016.

The provision relates mainly to the high impendence 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 £0.5m

23. Trade and other payables

	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Trade payables	11,696	15,282	–	–
Accruals and deferred income	4,421	2,310	–	–
Other tax and social security	624	610	–	–
	16,741	18,202	–	–

At 31 December 2016, £2.9m (2015: £3.3m) of payables were denominated in Sterling, £0.05m of payables were dominated in Euros (2015: £11.9m) and £8.8m (2015: £0.1m) in US Dollars.

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 76 days (2015: 82 days).

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

24. Deferred tax

	2016 £000	2015 £000
Deferred tax liabilities	(1,569)	(1,386)
Deferred tax assets	625	284
Net position at 31 December	(944)	(1,102)

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

	2016 £000	2015 £000
At 1 January	(1,102)	(853)
Credit / (charge) to income for the year	368	(312)
(Charge) / credit to equity for the year	(210)	63
At 31 December	(944)	(1,102)

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	Non-current asset timing differences	Total
At 1 January 2016	–	1,405	1,405
Charge to income for the year	–	164	164
At 31 December 2016	–	1,569	1,569

Deferred tax assets	Deferred tax losses £000	Derivative financial instruments £000	Share-based payments £000	Total £000
At 1 January 2016	–	19	284	303
Credit / (charge) to income for the year	440	(4)	96	532
(Charge) to equity for the year	–	–	(210)	(210)
At 31 December 2016	440	15	170	625

25. Retirement benefits – Defined contribution plans

The Group operates a defined contribution retirement benefit plan and the assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost charge represents contributions payable by the Group to the fund for the year and amounted to £0.1m (2015: £0.1m). Contributions amounting to £18,000 (2015: £17,000) were payable at the year end.

26. Share capital

	Company 2016 Number '000	Company 2015 Number '000
Authorised:		
100,000,000 Ordinary shares of 2p each		
Ordinary shares in issue:		
As at 1 January	45,855	45,496
Issue of shares in respect of share options exercised	–	359
As at 31 December	45,855	45,855
Issued and Fully Paid Ordinary shares of 2p each:	£000	£000
As at 1 January	917	909
Issue of share capital in respect of share options exercised	–	8
As at 31 December	917	917

The Company has one class of ordinary shares which carry no right to fixed income.

27. Reserves

Share premium

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

Foreign exchange reserve

The foreign exchange 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 profit for the financial year dealt with in the Company was £0.2m (2015: £10.0m). As allowed under Section 408 of the Companies Act 2006, a separate profit and loss account has not been presented for the Company.

28. Share-based payments

The share-based payment charge of £563,000 (2015: £527,000) included in the Consolidated Income Statement within administrative expenses includes:

- £308,000 attributable to 2014 share options
- £255,000 attributable to 2015 long term incentive nominal cost options awarded on 3 June 2015

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

	2016		2015	
	Options 000	Weighted average exercise price	Options 000	Weighted average exercise price
Outstanding at 1 January	2,025	102p	1,479	200p
Exercised during the year	–	200p	(359)	200p
Granted during the year	–	2p	975	2p
Forfeited during the year	(73)	200p	(70)	200p
Outstanding and exercisable at 31 December	1,952	97p	2,025	102p

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	Granted during the year	Forfeited during the year	Outstanding at end of year	Expiry date	Exercise price
Directors' share options							
25/04/2014	319,445	–	–	–	319,445	28/04/2021	200p
03/06/2015	900,000	–	–	–	900,000	03/06/2025	2p
Employee share options							
30/06/2010	50,000	–	–	–	50,000	29/06/2017	35p
25/04/2014	681,230	–	–	(73,616)	607,614	28/04/2021	200p
03/06/2015	45,000	–	–	–	45,000	03/06/2025	2p
03/06/2015	30,000	–	–	–	30,000	03/06/2015	2p
	2,025,675	–	–	(73,616)	1,952,059		

No shares were exercised during the year. As at 31 December 2016, a total of 1,952,059 options were outstanding which had an average exercise price of 97p, and a weighted average remaining contractual life of 5.3 years.

2014 share options award

On 30 April 2014, the Company granted 1.46m employee share options at an exercise price of £2.00 per share. The share options vest evenly over three years and are exercisable for ten years from the date of grant.

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 10 years from the date of grant, the options usually expire except in exceptional circumstances at the discretion of the Board. Furthermore, options are typically forfeited if an employee leaves the Group before options have vested.

2015 LTIP

Executive directors included in the 2015 LTIP are as follows:

Director	Position	Number of nil cost options awarded
G Whitworth	Executive Chairman	200,000
N Rutter	Chief Product Officer	200,000
N Smith	Group Chief Executive	300,000
J Gahan	Group Finance Director	200,000

The key elements of the 2015 LTIP include:

- Measurement period is three years from the date of grant being 3 June 2015 to 3 June 2018
- Any 2015 LTIP award is subject to delivering a minimum total shareholder return ("TSR") of at least 25% over the measurement period
- If TSR is less than 25% over the measurement period, none of the share options vest
- For TSR of between 25% and 100%, 25% up to 100% of the options vest on a straight line basis
- For 100% TSR or more over the measurement period, only 100% of the share options vest
- Options are exercisable (to the extent that the performance target is met as at 3 June 2018) at any time up to the tenth anniversary of the date of grant (or earlier in the case or a corporate event)
- If the option holder leaves the Group by reason of death, injury, ill health or disability, redundancy, or because the business he works for is sold outside the Group, or otherwise at the discretion of the Remuneration Committee, then his 2015 LTIP award shall vest on a time pro-rated proportion subject to the performance criteria being met or having been deemed to have been met by the Remuneration Committee
- If the option holder leaves the Group for any other reason, his 2015 LTIP award will lapse

The Group recognised total expenses of £0.6m (2015: £0.5m) relating to equity-settled share-based payment transactions.

29. Operating lease arrangements

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

	2016 £000	2015 £000
Amounts due:		
Within one year	425	446
Between one and five years	440	877
Total lease payments	865	1,323

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 7.

30. Related party transactions

In 2016, Newell Brands acquired the entire issued share capital of Jarden Corporation, the Group's previous largest individual shareholder in the Group.

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

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

	Newell Brands	
	2016 £000	2015 £000
Sales of goods in year	196	3,168
Purchases of goods in year including engineering fees	19,534	49,581
Distribution agreement fee	2,982	3,460
Dividends payable	912	912
Amounts owed to related parties at year end	7,670	11,221

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 2016) and has representation on the Company's board of directors. Consequently, the Directors consider that Newell Brands is a related party. Purchases between related parties are made under contractual arrangements negotiated on an arm's length basis.

Newell Brands represents the single largest supplier to the Group supplying a significant proportion of the Group's purchased products. Sales of goods in the period relate to Newell Brand's wholly owned subsidiary, Mapa Spontex, which is based in France.

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.

	2016 £000	2015 £000
Remuneration of key management personnel		
Aggregate emoluments	1,631	1,045
Company pension contributions	73	98
Sums paid for Non-Executive Directors' services	111	100
Share-based payment	289	313
Total remuneration	2,104	1,556

The remuneration in respect of the highest paid Director was:

	2016 £000	2015 £000
Emoluments	354	210
Defined pension contributions	5	25
	359	235

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 200.00 pence 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 £140,118.

In June 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 Sprue shareholder return targets. The element of the share-based payment charge relating to this award is £149,305.

Wilkins Kennedy LLP

William Payne, a Non-Executive Director of the Company, is a partner of Wilkins Kennedy LLP, Chartered Accountants, which is the firm that provides his services. During the period Wilkins Kennedy LLP were paid £42,000 (2015: £39,500) for the provision of William Payne's services as a Non-Executive Director and £13,138 (2015: £11,665) for accounting and management services. At the year end the Company owed Wilkins Kennedy LLP £nil (2015: £nil).

31. Post balance sheet events

Distribution Agreement ("DA") and Manufacturing Agreement ("MA")

On 31 March 2017, Sprue received the requisite 12 months' written notice from Newell Brands to terminate the distribution agreement entered into between Sprue and BRK Brands Europe Limited ("BRK") dated 10 April 2010. The DA will terminate on 31 March 2018.

Expiry of the 12 months' notice period on the DA will end Sprue's obligation to pay the fixed BRK annual distribution fee of £2.9m and Sprue's right to distribute BRK's products and brands in Europe, both with effect from 31 March 2018.

Also on 31 March 2017, Sprue received the requisite 12 months' written notice from Newell Brands to terminate its manufacturing and supply agreement with DTL. The MA will terminate on 31 March 2018.

While Newell Brands has given notice to terminate the DA and MA, Sprue will continue to purchase and source products under both agreements until 31 March 2018, and honour its contractual commitments.

Appointment of two new strategic manufacturing partners

As announced on 31 March 2017, the Company entered into a manufacturing and supply agreement ("MSA") with Flex to source a range of smoke and heat alarms and accessories from the Flex facility in Tczew, Poland.

Also on 31 March 2017, the Company entered into an additional supply agreement with a leading manufacturer based in the Far East to purchase alternatives to the BRK products.

Resignation of a Non-Executive Director

Post year end on 31 March 2017, the nominated Non-Executive Director of Newell Brands, Tom Russo, resigned from the Board by mutual agreement.

Board of Directors

EXECUTIVE

G Whitworth	*Executive Chairman*
N Smith	*Group Chief Executive*
J Gahan	*Group Finance Director*
N Rutter	*Chief Product Officer*

NON-EXECUTIVE

W Payne	*Senior Independent Director*
A Silverton	
T Russo (resigned 31 March 2017)	
J Shepherd	

Corporate Directory

REGISTERED NUMBER
3991353

SECRETARY
W Payne

REGISTERED OFFICE
Bridge House
4 Borough High Street
London
SE1 9QR

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

REGISTRAR
Neville Registrars Limited
Neville House
18 Laurel Lane
Halesowen
B63 3DA

SOLICITORS
Ashfords LLP
1 New Fetter Lane
London
EC4A 1AN

BANKER
HSBC plc
3 Rivergate
Temple Quay
Bristol
BS1 6ER

NOMINATED ADVISOR AND BROKER
Stockdale Securities Limited
Beaufort House
15 St Botolph Street
London
EC3A 7BB

Shareholder information

SHAREHOLDER ENQUIRIES

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

SHARE PRICE INFORMATION

London Stock Exchange Alternative Investment Market (AIM) symbol: **SPRP**

Information on the Company's share price is available on the Sprue Aegis investor relations website at www.sprueaegis.com

INVESTOR RELATIONS

Vanguard Centre
Sir William Lyons Road
Coventry
CV4 7EZ
England

Telephone: 024 7771 7700
Fax: 024 7669 3610

Email: info@sprueaegis.com
Website: www.sprueaegis.com

FINANCIAL CALENDAR

Financial year end	31 December 2016
Full year results announced	4 April 2017
Annual General Meeting	15 June 2017
Record date for final dividend	23 June 2017
Final dividend payment	7 July 2017

Thank you for your continued support.

For any further enquires please contact us:

www.sprueaegis.com
info@sprue.com
0800 171 2009