sprue

Sprue Aegis plc

Annual Report and Accounts 2015

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

Sprue, who are we?

Sprue makes products that save lives. It is a simple philosophy.

We are a company with market leading products with brands everyone can trust. We aspire to be the company of choice for our customers' home safety product needs of today and tomorrow.

£70M
Approx market capitalisation; listed on AIM

52
Registered Technology Patents & Further Pending

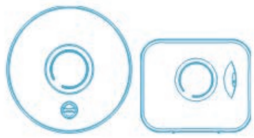
Number 1
in 4 of our 5 key segments across Europe

Two
supplier/ manufacturing partnerships

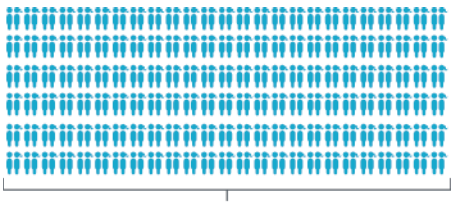
8
Brands targeted at different markets

Influential
Member of Industry Trade Associations

Scalable & defensive
business model with high barriers to entry



Leading
Designer & supplier of Smoke and CO alarms and wireless connectivity in Europe



C140 Worldwide Employees

Established
third party distributors In Continental Europe

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:

The UK's No1 Retail brand and the brand of choice for over 90% of UK's Fire and Rescue Services. Within European markets the FireAngel brand is targeted at the Trade customer

AngelEye. Launched in 2012, Sprue sells smoke alarms and CO detectors predominantly into the French market under AngelEye. AngelEye has become a leading brand targeted at the DIY channel in France and is also sold in UK Retail by Sainsbury's

SONA. A new, energy saving mains powered range of smoke and heat alarm products plus CO detection that are market leading and which can be wirelessly interconnected with up to 50 products on a single wireless network

FireAngel Pro. Mains-powered smoke 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. Mounting plate has wide, easily accessible connection to the mains feed. Cable knock-out allows for compatibility with YT2 cable trunking

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 branded CO detectors

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

History of the business

1998

Sprue first incorporated as "Runner and Sprue limited"

2001

First production set up at CICAM in China

*

IPO and listing on OFEX (now ISDX)

*

FireAngel PS101 plug-in smoke alarm launched in B&Q

2002

First public sector deal (with the London Borough of Islington) to supply PS101

2004

Distribution agreement signed with Pace Technology for CO detectors

2006

Began supplying long-life optical smoke alarms to UK FRS

*

Appointed sole supplier of a selected range of FireAngel branded products to Tesco

2009

Acquired control of Pace Sensors

2010

Appointed exclusive European distributor for BRK Brands' products for minimum of 5 years

2012

Appointed sole supplier of products to B&Q and of CO alarms to British Gas

2013

Launch of the AngelEye brand in France

2014

Extension of the Distribution Agreement with BRK Brands on revised terms

*

Listed on AIM in April and raised £8m pre expenses via a placing

*

Agreement with Intamac Systems to remotely connect and monitor Sprue's Wi-Safe 2 home safety products

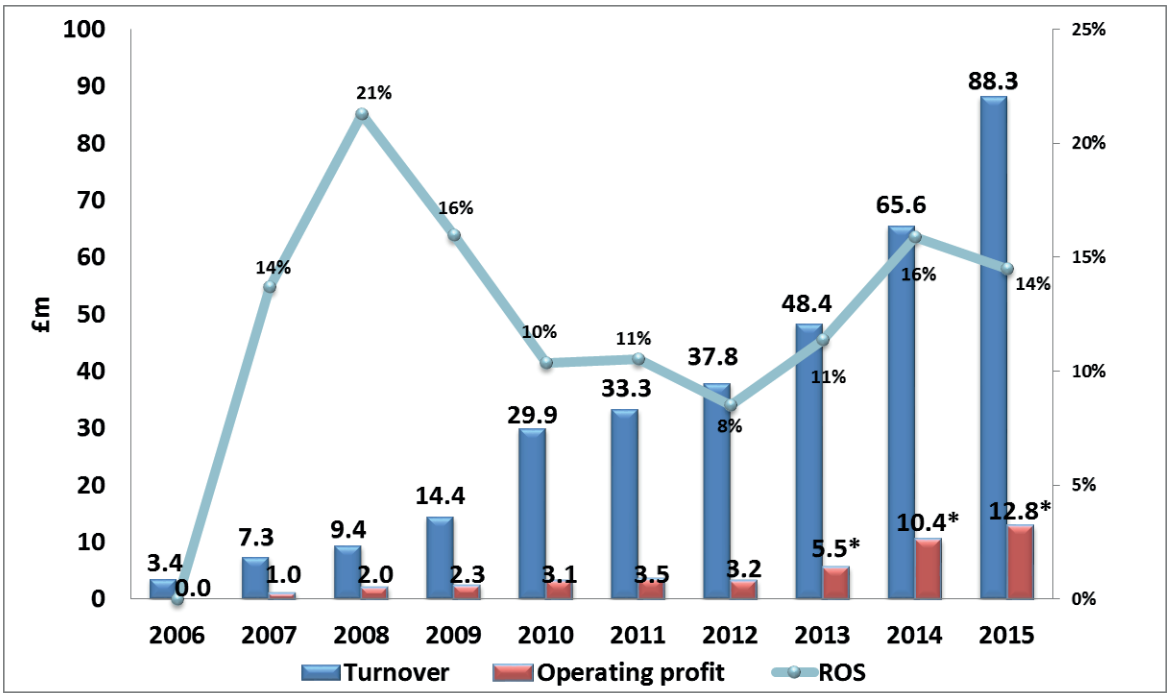
2015

Launched new range of mains powered products branded SONA

*

Appointed master distributor in the UK to sell Innohome's cooker shut off products

Sprue Aegis plc 10 year growth in revenue and operating profit pre-exceptional* items and share-based payments charge



** Exceptional items include hostile bid defence costs of £0.4m in 2013, AIM costs of £0.5m in 2014 and £5.5m of warranty charge for 2015. Share-based payments charge was £0.01m in 2013, £0.2m in 2014 and £0.5m in 2015.*

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

Overview

Strategic report

Corporate governance

Financial statements

Executive Chairman's review

The Group reported a robust operating profit of £12.8m (£10.4m) on record sales of £88.3m (2014: £65.6m). It is hugely disappointing that our results have been overshadowed by the battery warranty issue which was only discovered recently. With new product certifications underway already and sales into Germany expected to recover strongly, we expect to build momentum in trading in the second half of 2016 and into 2017

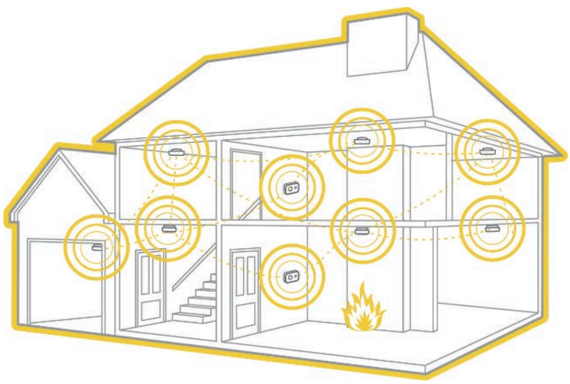
Whilst 2015 was a record year of sales for Sprue, it was overshadowed by the announcement released on 18 April 2016 of a significantly increased warranty provision which is hugely disappointing for the Company and all stakeholders. This is due to a percentage of certain smoke alarm products indicating a premature end of life battery warning chirp resulting in an additional £5.5m warranty charge which the Group has booked to cover the expected cost of dealing with the issue over the next six years. I wish to reassure our customers that we will continue to meet our customer service obligations and we have very much appreciated those messages of support received. The Board is keen to stress that this is not a safety critical issue. Further details on the battery warranty issue are set out below.

Strong sales into France and record trading within the UK combined to help generate the highest ever annual Group sales, up 35% to £88.3m, and operating profit before £5.5m exceptional charge and £0.5m share based payments charge increased 23% to £12.8m (2014: £10.4m).

Despite the warranty issue which we are addressing, I am pleased with the new strategic plan which Neil Smith, Sprue's CEO, has led from inception since joining the Group in February 2015. The strategic plan was approved by the Board in H2 2015, from which we are already seeing significant results.

Traditionally Sprue has had a low market share in the UK Trade sector, primarily selling the BRK mains powered range. The introduction of our new SONA range represents an exciting new growth opportunity for Sprue as we start to sell the range of mains powered SONA branded smoke and heat alarms along with carbon monoxide alarms and accessories designed specifically for the UK Trade market. These products and accessories went into full production in December 2015. SONA, which incorporates Sprue's own Thermoptek, Thermistek and Wi-Safe 2 technology has unique patented energy saving technology. Over time, we expect to secure a greater market share of the UK Trade sector with this exciting new range of market leading mains powered products.

Throughout 2015, we have sought to strengthen the Coventry based Technical team and, in particular, our firmware capability, increasing the Technical headcount from 15 to 24. In 2015, we invested in approximately £0.3m of specialist test equipment to accelerate our time to market for new products by being able to replicate many of the third party tests performed by the certification bodies in-house as part of our own in-house product development.



Innovation – The Connected Home

Exceptional £5.5m charge for battery warranty issue

On 18 April 2016, the Company announced that it had recently 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.

As a result, to support the Company's customer service obligations, the Board has increased the Group's warranty provision as at 31 December 2015 by £5.5m to £6.8m (2014: £0.9m). The cash cost of dealing with this issue is expected to be incurred over the next six years. As at 31 December 2015, the Company had cash of £22.4m and no debt.

I am deeply disappointed about the impact this third party component issue is having and I wish to reassure customers and all stakeholders that the quality of all of our products is of the utmost importance to the Company. The failure mode in the battery in affected smoke alarms has only recently become apparent and typically occurs after around three years from the date of battery manufacture. To prevent the issue happening in the future and to ensure all the Group's smoke products perform to the highest standards, the Group has introduced additional screening processes on the production line at CICAM, its principal supplier, prior to the battery being fitted into finished smoke alarms.

Review of product warranty

The Group provides a warranty on the entire product including the battery which is typically between one and ten years in duration. The Board believes that Sprue's product warranty policies are generally in line with UK and European smoke/CO industry "norms". However, in light of the battery warranty issues recently identified, the Group is reviewing its warranty policies.

More extensive testing of product returns is to be introduced to reduce the number of free of charge replacement products issued to customers. Where products are found to have "no fault found", the Group will restrict free of charge replacement products. This review has just commenced and although the work is not complete, the Board expects to be able to reduce the Group's future warranty costs.

Dividends

Despite the reduction in distributable reserves as a result of the additional charge for expected warranty costs, subject to shareholder approval at the Company's AGM, the Board recommends the payment of a final dividend for the year ended 31 December 2015 of 5.5p per share which when added to the interim dividend of 2.5p per share gives a total dividend unchanged on last year's. The total 2015 dividend is 1.6x covered by post tax profit (2014: 2.2x). Subject to shareholder approval at the Company's Annual General Meeting to be held on 30 June 2016, the final dividend will be paid on 22 July 2016 to shareholders on the register on 8 July 2016.

Board changes

There have been a number of Board changes during 2015 which have been made principally to support the business in the next phase of its growth and to comply with the principles of sound corporate governance. In accordance with the commitment made in the Company's admission document published in connection with the Company's admission to AIM in 2014, I relinquished the role of Group Chief Executive on 2 February 2015 on the appointment of Neil Smith as Group Chief Executive. Neil was appointed to the Board at the Company's AGM in June 2015. I remain Executive Chairman of the Company.

As announced in April 2015, I am delighted that John Shepherd has joined the Board as a Non-Executive Director. John has held a number of senior positions in technology companies, including Non-Executive Chairman and Chief Executive.

After 15 years on the Board, Peter Lawrence retired at the Company's AGM in 2015. We wish Peter well for the future and thank him for his commitment and contribution to Sprue.

Early last year, Nick Rutter's role as Managing Director was reshaped to allow him more time to focus on innovation and emerging technologies and on the delivery of our core technology to keep Sprue at the forefront of our current and potential new markets by optimising our future product and service offerings.

Relocation of CICAM's manufacturing

I would like to thank BRK for successfully moving CICAM's production to a new facility ahead of schedule and for ensuring that the certification of the new facility was seamless. In July 2015, the Board decided to acquire around £7.0m of additional buffer stock ahead of the year end to mitigate against potential supply disruption which I am pleased to report was ultimately not needed. We expect to sell this buffer stock over the next twelve months.

The new CICAM facility

New supply terms with DTL post year end

Agreed in March 2016, but with effect from 1 January 2016, supply arrangements with DTL (which buys Sprue's products from CICAM) supplying 100% of Sprue's own smoke products and accessories and BRK's smoke and CO products were revised. For the duration of the manufacturing agreement (which has a rolling 12 months' notice period), the parties have agreed to an annual volume and GBP/USD exchange rate rebate mechanism.

Should Sterling strengthen against the US Dollar and/or production volumes increase from the expected level in 2016, Sprue will benefit through reduced product costs and vice versa. In addition, Sprue and DTL have agreed to work together to seek to balance the loading of CICAM to improve the operational efficiency of the facility by smoothing out production. This will result in an increase in Sprue's stock in certain months of the year, but stock at the year end is not likely to be materially affected.

Despite the significant product on-cost for the Group in 2016 to implement the new arrangement, this is an important agreement for the Group with its key supplier DTL. The new terms allow Sprue to share equitably the impact of changes in production volumes and movements in the GBP/US Dollar exchange rate with DTL whilst ensuring its key supplier has sufficient capacity and the appropriate investment base from which to deliver the products to support Sprue's strategic plan.

Outlook

As the Company announced on 18 April 2016, challenging trading conditions in France, principally due to overstocking, and weaker sales in Germany, due to product certification delays are likely to significantly adversely impact the Group's expected results for this year.

Subject to no major changes in exchange rates, the Board now expects:

- sales and operating profit* in 2016 of circa £55.0m and £1.9m respectively;
- H1 2016 operating loss* of approximately £1.9m which includes a restructuring charge of £0.2m as a result of reducing certain fixed overheads; and
- an operating profit* in H2 2016 of approximately £3.8m

We expect to rebuild trading momentum in the second half of 2016 with certified new products and enter 2017 with normal levels of trading.

Whilst regrettable, the overhead reductions will put the Group onto a lower cost base, saving an estimated £0.8m in 2017, and keep the Group on the right course to deliver our longer term strategic objectives as set out last year by Neil Smith, the Group's CEO. The Board's priority remains to continue to improve the operational and financial performance of the Group and deliver value for our customers and shareholders.

Product range into Continental Europe

We expect to strengthen our product portfolio with SONA now selling in the market, Nano being included in finished 7 year CO products, entry into new smoke and CO markets in H2 2016 and the launch of our exciting new connected homes strategy.

As we rebuild confidence in our products in Germany and put the brand damage behind us with new certified products, we expect to increase sales significantly into Germany in H2 2016 and into 2017 with 10 million German homes required by law to install smoke alarms by the end of 2017.

CO detector sales are a key part of the strategic plan to drive revenue in emerging markets which will also help boost production volumes at Pace Sensors and improve our gross margin.

**Stated before share-based payments charge*

Graham Whitworth
Executive Chairman
25 April 2016

Strategic Report

In this section

- Our business model at a glance
- Extension of BRK distribution deal
- Risks and risk management
- Quality assured and quality control
- 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.

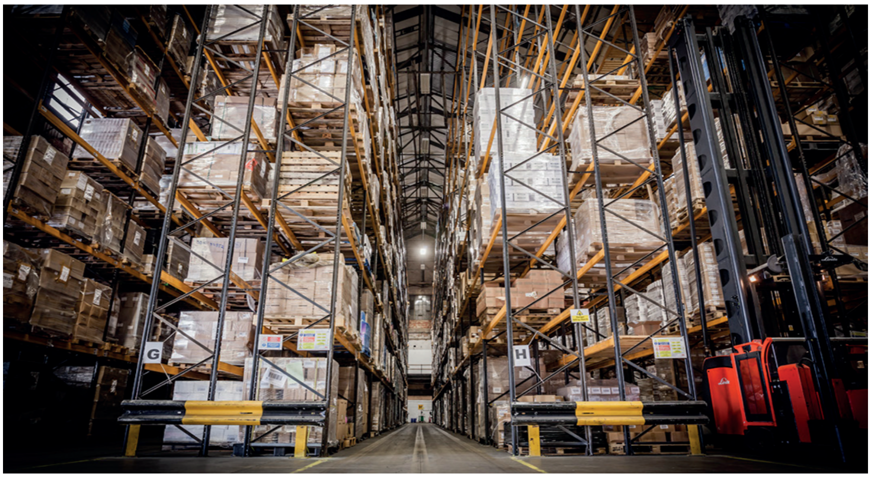
PS101 - the world's first plug in smoke alarm launched 2001

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.

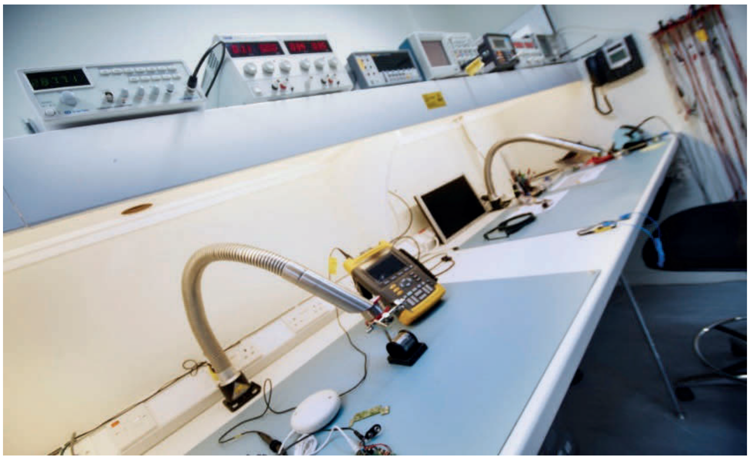
The strong product and brand advocacy we have from being the supplier of choice of smoke and hearing impaired alarms to the UK Fire & Rescue Services who continue to fit our Thermoptek products today, supports the general broad customer loyalty and following we have been able to create. This philosophy 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. Our manufacturing partners continue to invest to expand, develop and enhance their engineering and manufacturing facilities to deliver best in class products.

Sprue operates from worldwide locations:



Third party logistics warehouse in Cambridge



HQ & Technology Centre in Coventry

Extension of BRK distribution deal

As announced on 21 March 2014, Sprue entered into a three year extension to its existing exclusive distribution agreement with BRK Brands and Jarden. The extension, which is on improved terms, came into effect on 1 April 2015, when the existing distribution agreement expired. The distribution fee for 2015 is £3.5m (2014: £4.2m) and reduces to £3.0m and £2.9m in calendar years 2016 and 2017 respectively.

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 during Board meetings 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
Supplier relationships	Sprue has two principal suppliers, one for all its smoke detector needs, which is a Jarden Corporation owned subsidiary and one for all its CO product needs, which is part of an independently owned business. Ensuring these suppliers remain competitive and that they provide Sprue with the optimum combination of product cost and quality is a key challenge for the Group whilst not becoming over dependent on either business for product supply	Relationships with suppliers are managed through Sprue's supply chain team and senior management involvement from both companies. Sprue has established long standing relationships with its principal suppliers and protects itself with manufacturing agreements with each supplier outlining the key terms of supply which provides the freedom to Sprue to seek third party quotes for products and provide a product "target price" should Sprue not accept prices quoted by its incumbent suppliers
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

Issue	Risk	Mitigation
Foreign currency exposure	The Group has significant sales into Continental Europe which are predominantly in Euros and a significant proportion of its purchases are in USD, being sourced from China / Hong Kong. The Group has minimal natural hedges in which it can offset the Euro and USD exchange risk as it has minimal costs in Euro and minimal sales in USD. After utilising part of its Euro income to fund its USD purchase requirements, the Group generates a surplus of Euro which are exchanged into Sterling	The Board's policy is hedge a significant proportion of its foreign exchange rate risk selling Euros for both US Dollars and Sterling under forward contracts typically for up to 12 months out to hedge the transaction risk on its cash flow. However, long term movements in the relative strength of Sterling against the US Dollar and the Euro both significantly impact the Group's profits. It is estimated that for each Euro cent movement against Sterling and each US Dollar cent movement against Sterling, the Group's profit is impacted by approximately £0.2m and £0.1m respectively and therefore the impact on operating profit and net margin of movements in foreign exchange are significant.
Complexity	The size of our organisation and the number of employees has grown rapidly in recent years. This brings with it a number of challenges of managing staff over larger geographical distances / cultures / languages and implementing appropriate systems, policies and compliance procedures in different jurisdictions to ensure local risks are properly managed	Sprue has grown rapidly for a number of years and is familiar with the types of issues this presents. The Group continues to invest in its infrastructure and to apply the appropriate resources necessary to support its business and ensure that appropriate controls are in place to safeguard its assets, its future business and to protect its reputation. Controls are regularly kept under review and the senior management team work closely with the key members of staff in each business unit
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 £6.8m as at 31 December 2015 (2014: £0.9m)
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

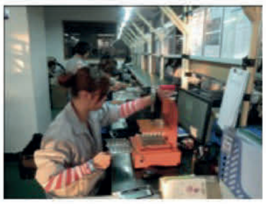
Issue	Risk	Mitigation
International trade regulations	The Group's activities involve importing products from the Far East and exporting products into Continental Europe and other overseas markets. Any changes in the regulations covering such movements might have an effect on the Group's trading activities. 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
Viability of intangible assets	New products are required to be properly certified and it is usual for a business like Sprue to carry an intangible asset on its balance sheet reflecting capitalised people and non-people costs incurred in developing the products, some of which may relate to products which are not yet in the market as relevant testing and final certification may not have been completed. The risk is whether the carrying amount reflects the viability of the product and whether an impairment of the product is necessary	Expenditure on research is written off as incurred. However, specific product development expenditure is capitalised on a case by case basis where the Group believes that the product (or the technology) is technically feasible and the level of capitalised costs is sensible relative to the expected level of returns to be derived from the capitalised costs. Intangible assets are periodically reviewed for impairment at the time of the half year and full year results with any adjustment taken to the Income Statement if the capitalised costs do not meet the Group's recognition criteria. Impairment review is based on sales to date and forecasted on products and future products. The Group would only undergo a product development if there is a market for that specific product therefore reducing the inherent risk of impairment
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.

We work closely with our customers to ensure our products are practical, innovative and market leading and so all products go through a vigorous quality review.

Quality Assured

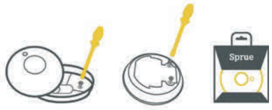
Sprue engineers based on production line overseeing manufacturing and operating procedures

UK designed test rigs and QC procedures



QA inspection.
Every product is tested

Rigorous validation testing prior to full scale manufacture



Quality Control

Sprue constantly performs quality checks at its UK warehouse on stock against product build standards and performance requirements.

Regular factory production control audits carried out by BSi, VdS and AFNOR.

Annual ISO 9001:2008 audits carried out by Lloyds Register Quality Assurance.

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:

- OPIC – operating profit after investment charge. The Group charges each business unit with a notional cost of capital at 12% against the net assets and liabilities required to support the sales growth of that business unit. This notional charge is deducted from the operating profit of the business unit and the objective is to increase the operating profit after investment charge year on year through a combination of increasing operating profit and minimising the asset base required to generate the returns. OPIC is a methodology of ensuring that business decisions are made in the Group's best interests by creating a level playing field for each business unit to propose future plans for growth.

- Gross margin %. Gross margins by customer, by product and by business unit 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 from operating activities. 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 Finance Review on pages 21 to 24.

Group CEO review

I share the disappointment and dissatisfaction of shareholders and colleagues in the discovery of the battery issue within certain smoke alarms and, along with my Board colleagues, will take the necessary learnings and implement the required changes to ensure no future repetition.

The warranty issue has unfortunately, though understandably, overshadowed our 2015 results. However, since joining the business last year, it is clear we have a talented and committed team at Sprue with exciting new products and marketing campaigns which have been recognised by our customers in their purchase decisions and our resultant record year of revenue.

We have an authentic and important purpose – to protect, save and improve our customers' lives by making innovative, leading edge technology simple and accessible, with strong values which run through our entire business with a shared culture of continuous improvement benefitting Sprue's customers and shareholders.

We have a clear future growth strategy built upon:

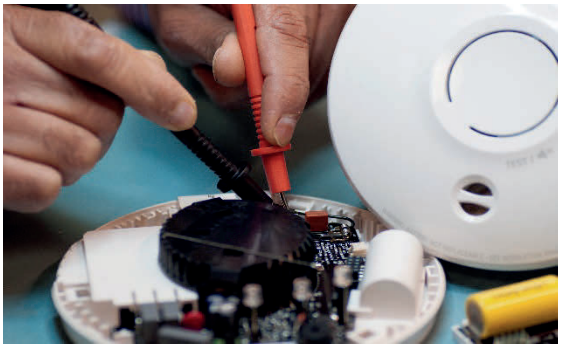
- Increasing sales within existing markets through our strong brand portfolio and new technology
- Incremental growth through new European markets
- New product launches
- Accelerating our Connected Home proposition
- Leading through best ever quality, service & availability

In supporting our new purpose and strategy, we have made good progress in implementing the necessary changes to deliver continued growth, including

- A new, strengthened organisational structure with new talent joining the team and expanded opportunities for existing colleagues to maximise their potential through a new people plan
- The creation of a new business unit with focussed expertise to launch our Connected Home proposition
- A new product road map which ensures we are focused on delivering solutions which have the greatest benefit to our customers and shareholders
- A marketing strategy with increased emphasis on digital and own brand product development as demonstrated through our successful "Project Shout" campaign
- A new financial reporting regime utilising our existing strong IT infrastructure

A strong balance sheet provides the platform for growth as we seek to operate with focus to develop and launch new products on time to the highest quality and with an enhanced service proposition.

We remain focused on driving the productivity loop to leverage our operating expense. The most important way to deliver against this objective is to increase sales, but we are also driving process improvements combined with capital discipline and efficiency to ensure we operate effectively.



New technology enhancing Sprue's product offering

The strategic plan is being delivered through organic growth rather than acquisition. However, acquisition opportunities continue to be under review to establish whether Sprue's technology and product offering could be enhanced through a strategic purchase to accelerate incremental revenue, profit opportunities and thereby increase shareholder value. Strict financial and commercial justification criteria will be applied to any acquisition, prior to it being approved by the Board.

European home safety is an attractive and growing market and as an established and trusted brand leader, with the actions we are taking, I am excited at the opportunities ahead and growth potential as we implement our plans.

Legislative and advertising drivers

UK. The fitting of domestic smoke alarms in homes has been a key factor in the continuing reduction in house fires, fire-related injuries and deaths in the UK. In the last 10 years in the UK, there has been a 63% reduction in house fires and fire deaths are at an all-time low according to Government published statistics.

In 2015, the Energy Act 2013 came into force which requires all private sector landlords in England and Scotland to install a smoke alarm on every floor of their property, a carbon monoxide alarm to be installed in those properties which burn solid fuels and for landlords to check that alarms are working at the start of every new tenancy. The enforcing body will be the local council and the regulations allow penalties of up to £5,000 per property to be imposed. The Company sees this as another important step towards increasing awareness of the dangers of smoke and CO in the home.

Sprue promoted through its websites and on TV channels during last year, "Project Shout", an advertising campaign designed to encourage action to protect against the dangers of CO. The campaign generated significant amounts of publicity across various media channels, including national TV coverage and social media which significantly increased CO sales in Retail by 75% compared with the previous year.

Germany. The smoke alarm legislation in Germany which is already in place in Nordrhein-Westfalen and Bayern (Rauchmeldegesetz ab 01.04.2013 and Bayerische Bauordnung Art. 46 Abs. 4 BayBO) requires smoke alarms to be fitted in every bedroom, children's room and hallway by 31 December 2016 and 31 December 2017 respectively. In addition, the ten year replacement cycle of smoke alarms previously installed from 2006 is about to commence which offers additional revenue opportunities with increased level of technology and higher local currency replacement product prices.

France. Legislation requiring smoke alarms to be fitted in every home in France has had a significant impact on Sprue's revenue and increased awareness of the dangers of fire and smoke.

The Group expects further new legislation will be announced in other parts of Europe as governments seek to improve home safety. This is expected to continue to drive sales, in particular CO products, where market penetration levels in countries such as France and Germany are still significantly lower than smoke alarms.

Technical review

Sprue has launched a new fully certified range of mains-powered SONA branded smoke and heat alarms along with carbon monoxide alarms and accessories for the UK Trade sector which includes a remote test and reset product. SONA provides a technology advantage over competitor products especially with its market leading low power consumption, which is particularly important for new "sustainable" housing projects. Customer feedback to date is highly positive and full scale production of this range of products commenced in December 2015.

SONA range for Trade

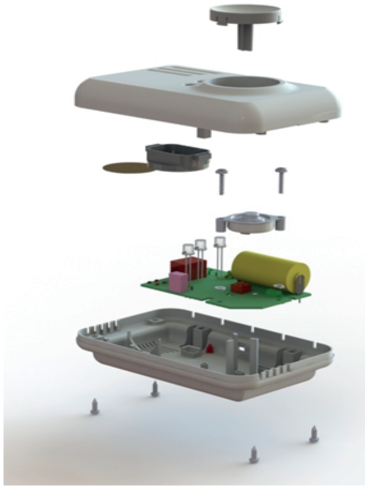
Sprue continues to invest in its Connected Homes Solutions ("CHS") business unit and will shortly be connecting a wider range of its products through its interface gateway technology to the internet. At the same time, Sprue is expanding and enhancing the skills of its Technical team, which increased from 15 to 24 engineers over the course of the year, to accelerate product development.

Connecting products to the internet

Based on our research, sales opportunities from CHS appear significant. To bring greater certainty and accountability to our CHS proposition, we have formed a new business unit to focus on this opportunity. In January 2016, Sprue prepaid £0.45m for a number of user licences to support its connected homes business proposition and is continuing to work closely with its third party supplier to develop and enhance bespoke software for its own commercial needs and those of its customers.

The Wi-Safe 2 Connected Home Solution

We are pleased that the Nano-905 CO sensor is finally being fitted into finished 7 year life carbon monoxide detectors and we expect further growth in CO detector sales across Europe.



Nano-905 fitted CO alarm

By the end of 2016, consistent with our new five year strategy, we expect to enter a number of new markets, including the Nordic countries, Poland and the Germany Retail market.

I look forward to working with my Board colleagues and everyone at Sprue to take the business onto its next phase of development. We are committed to working through the issues that have been created by the premature end of life battery warning chirping and we will honour all of our customer service commitments. This will be a challenging period for the business but I am confident that we will get through it, and ultimately continue to thrive.

Neil Smith
Group Chief Executive Director
25 April 2016

Finance review

A summary of the income statement for the Group is as follows:

Consolidated income statement

	% change	2015 £000	2014 £000
Revenue	34.6%	**88,303**	65,600
Cost of sales excluding BRK distribution fee and exceptional warranty charge	47.6%	**(61,548)**	(41,699)
BRK distribution fee	(16.9%)	**(3,460)**	(4,164)
Exceptional warranty charge	-	**(5,500)**	-
Total cost of sales	53.7%	**(70,508)**	(45,863)
Gross profit	(9.8%)	**17,795**	19,737
Distribution costs	(14.6%)	**(750)**	(878)
Administrative expenses excluding share-based payments charge and exceptional items	15.2%	**(9,788)**	(8,498)
Share-based payments charge	157.1%	**(527)**	(205)
Exceptional items	-	**-**	(525)
Total administrative expenses	11.8%	**(10,315)**	(9,228)
Total fixed costs	9.5%	**(11,065)**	(10,106)
Profit from operations pre-exceptional items and share-based payments charge		***12,757***	10,361
% of sales	23.1%	***14.5%***	*15.8%*
Profit from operations post exceptional items pre-share-based payments charge	(26.2%)	**7,257**	9,836
Profit from operations	(30.1%)	**6,730**	9,631
Finance income	122.6%	**89**	40
Profit before tax	(29.5%)	**6,819**	9,671
Income tax	(58.5%)	**(810)**	(1,952)
Profit attributable to equity owners of the parent	(22.2%)	**6,009**	7,719
Earnings per share			
From continuing operations:			
Basic	(25.2%)	**13.2**	17.6
Diluted	(25.2%)	**13.1**	17.5
Adjusted basic pre-exceptional items*	26.8%	**24.3**	19.2
Adjusted diluted pre-exceptional items*	26.8%	**24.2**	19.1

All amounts stated relate to continuing activities.

**Adjusted basic and diluted EPS on a management basis are stated before the exceptional £5.5m warranty charge (2014: AIM costs of £0.5m) and share based payments charge £0.5m (2014: £0.2m)*

The chart below shows the movement in the mid share price for Sprue Aegis plc taken from the London Stock Exchange throughout the year.

Summary

Revenue for 2015 increased by 35% to £88.3m (2014: £65.6m) helped by the £13.8m increase in sales into Continental Europe, largely due to growth in sales into France. Total sales in the UK increased by 32% largely due to higher CO sales with sales by every business unit up on 2014.

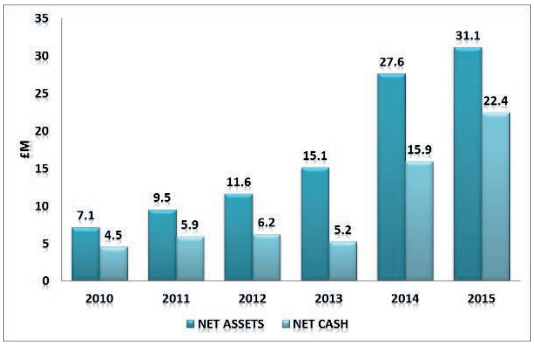
The 2015 results include an exceptional warranty charge of £5.5m (2014: exceptional AIM costs of £0.5m).

In total, the Group had warranty provisions as at 31 December 2015 of £6.8m (2014: £0.9m) of which, the largest element relates to the expected cost of replacing smoke alarm products over the next six years where an issue in certain batteries supplied by a third party supplier may cause a premature low battery warning chirp. The smoke alarms affected have been sold in the UK and in Continental Europe.

Operating profit* increased by 23.1% to £12.8m (2014: £10.4m) whilst return on sales decreased slightly to 14.5% (2014: 15.8%). At like-for-like exchange rates with the previous year, operating profit* would have been approximately £7.6m higher at £20.4m.

With a key focus on cash generation to optimise working capital, the Group's year end cash increased by £6.5m to £22.4m (2014: £15.9m). The balance sheet remains strong with no debt.

**Stated before exceptional items representing £5.5m warranty charge (2014: £0.5m AIM costs) and share-based payments charge £0.5m (2014: £0.2m)*



Sprue Aegis plc 6 year growth in net assets and net cash

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 2014, the Sterling value of European revenue in 2015 would have been approximately 12% or £6.5m higher than reported.

Revenue from continuing operations	change %	2015 Revenue £m	2014 Revenue £m
Business Units:			
Europe	35	**53.8**	39.9
Trade	21	**7.3**	6.0
Retail*	37	**13.9**	10.2
Fire & Rescue Services	29	**7.8**	6.1
Utilities*	55	**2.6**	1.7
Pace Sensors Limited	70	**2.9**	1.7
Total revenue from external customers	35	**88.3**	65.6

Note in 2015, certain Leisure accounts were transferred into the Retail business unit and therefore, we have restated the 2014 Retail comparative which increased by £0.4m and the Utilities comparative which decreased by £0.4m*

The principal changes in revenue are as follows:

- The Group benefitted from significant smoke alarm sales into France following the legal requirement for all domestic homes to fit at least one working smoke alarm
- Strong growth in CO detector sales by all UK business units. CO market penetration levels in France and Germany in particular remain very low compared to the UK as the markets are less mature which remains an opportunity for Sprue
- Sales of the Group's new SONA range have now commenced and initial signs are encouraging

New UK trade SONA heat alarm

- Sales in 2015 of CO sensors by Pace Sensors increased by 38% and were helped by higher CO detector sales through each UK business unit

Gross margin

Gross margin (before taking account of the fixed £3.5m BRK distribution fee and the exceptional £5.5m warranty charge) decreased to 30.3% (2014: 36.4%). The reduction in gross margin reflected the significant net adverse impact of the strength of Sterling against the Euro affecting the translation of Euro income into Sterling, Sterling's weakness against the US Dollar increasing US Dollar sourced product costs and £1.5m product cost increase from DTL. In addition, an increase in the charge for other legacy warranty issues of £1.2m to £2.8m (2014: £1.6m) also impeded gross margin.

Exchange rates

Average month end exchange rates against Sterling are summarised below.

	Av for year		Av for H1		Av for H2	
	2015	2014	2015	2014	2015	2014
Euro	1.38	1.24	1.36	1.22	1.39	1.27
US Dollar	1.53	1.64	1.52	1.67	1.53	1.62
Canadian	1.95	1.82	1.89	1.81	2.02	1.82

This table shows that on average, in 2015, Sterling strengthened against the Euro by 11%, thereby reducing Sprue's revenue and profit on its Euro denominated income, and weakened against the US Dollar by 7% increasing the Sterling equivalent of Sprue's USD purchases. In 2015, Sterling also strengthened by approximately 7% against the Canadian Dollar although the net adverse financial impact on Group profit was not material.

The impact of the movement between Sterling and the USD on the Group in 2015 was far less significant than the movement between Sterling and the Euro as the Group purchased a significant proportion of its product costs (all DTL products) in Sterling. This has changed with effect from 1 January 2016 as the Group is now effectively sharing the impact of movements in the exchange rate between Sterling and the US Dollar with its key supplier, DTL, despite continuing to purchase in Sterling. All the Group's CO detector requirements continue to be sourced in US Dollars from a third party supplier.

Total fixed costs

Total fixed costs* as a percentage of sales in 2015 reduced to 11.9% (2014: 14.3%), slightly below the Group's target fixed costs range of 12-15% of sales. However, the Board will continue to invest for growth, even if the total fixed costs target range is not achieved in the short term.

As a result of the £5.5m exceptional warranty charge, the 2015 year end bonus was not payable saving £0.7m which was added back to profit in the year.

Earnings and tax

Adjusted basic EPS* increased by 27% to 24.3 pence per share (2014: 19.2 pence per share).

Excluding deferred tax and the impact of the exceptional items, the effective cash tax rate decreased from 16.8% in 2014 to 7.3% in 2015 due to the benefit of Patent Box, higher R&D tax credit rates (as Sprue is again a "small" company for tax purposes) and a 1% reduction in the rate of corporation tax in the UK from 1 April 2015.

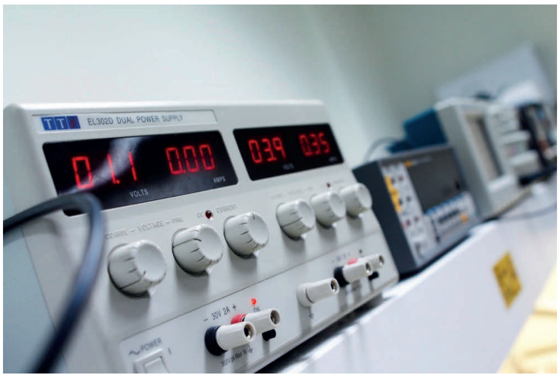
We are aware that there continue to be ongoing challenges by certain Continental European states to the fairness of Patent Box although we have been advised that for companies already in, Patent Box is "here to stay for the foreseeable future". The benefit of Patent Box in the tax charge in 2015 reduced to approximately £0.1m (2014: £0.2m) as the taxable profit was lower than the 2014 comparative.

**Stated before exceptional items representing £5.5m warranty charge (2014: £0.5m AIM costs) and share-based payments charge £0.5m (2014: £0.2m)*

Balance sheet and cash flow

Sprue continues to increase its investment in product development and capitalises specific people and non-people costs which meet the relevant criteria. Product development costs are typically amortised over a period of 7 to 10 years and reviewed periodically for impairment. We have reviewed the intangible assets as a result of the recently announced battery warranty issue and have concluded that there are no impairment issues that affect the intangible asset base.

The net book value of intangible capitalised product development costs at 31 December 2015 was £6.4m (2014: £4.3m), equivalent to 7.2% of sales (2014: 6.6% of sales).



The annual amortisation charge is expected to increase significantly as capitalised costs for Nano-905, SONA and other new products are amortised through the income statement as sales of products including this technology commence.

Net working capital as a percentage of annualised sales improved materially in 2015 to 8.0% of sales (2014: 11.6% of sales), despite high stock holding levels to offset the risk of moving the manufacturing activities of CICAM before the year end. Overall, net working capital decreased by £0.5m compared to 2014 despite sales increasing in the year by 35%. Whilst there have been no major supply chain issues from the relocation of CICAM last year, the Board believed it was a prudent decision to increase year end stock to mitigate against such potential risk.

Cash generation continues to be a key objective for the Group and management regularly reviews the stock requirements of each business unit to optimise the Group's stock holding. It is expected to take around 12 months to sell through the approximate £7.0m of additional buffer stock acquired last year.

The significant reduction in total debtors year on year reflects the lower Q4 2015 sales compared to the last three months of 2014, largely due to the reduction of sales into France. Average debtor days in 2015 increased to 67 days (2014: 54 days), as one of Sprue's principal customers in France took extended terms on repayment of its debts and the proportion of UK Retail sales increased.

Average creditor days in 2015 increased to 82 days (2014: 57 days) with the extension in DTL creditor terms with effect from 1 April 2015. The Group aims to settle its debts in line with supplier payment due dates.

Cash flow from operations increased to £13.6m (2014: 8.8m). The balance sheet remains robust with net cash at 31 December 2015 of £22.4m (2014: £15.9m) and no debt.

Relocation of CICAM's manufacturing activities

The smoke alarm and accessory manufacturing activities of CICAM, the Company's principal supplier in China, were successfully transferred to a nearby alternative facility before the year end. The new facility was formally opened on 9 December 2015 slightly ahead of schedule and Sprue acquired approximately £7.0m of buffer stock to mitigate against any potential supply chain disruption which ultimately was not needed.

Dividend

The Board is recommending the payment of a final dividend of 5.5 pence per share on 22 July 2016 to shareholders on the register on 8 July 2016, which if approved by shareholders at the Company's AGM to be held on 30 June 2016, takes the full year 2015 dividend to 8.0 pence per share (2014: 8.0 pence per share). 2015 dividend cover is significantly reduced at 1.6x post-tax profit (2014: 2.2x). The Board will keep its dividend policy under review in the light of the lower trading outlook for 2016 and expected recovery in 2017.

John Gahan

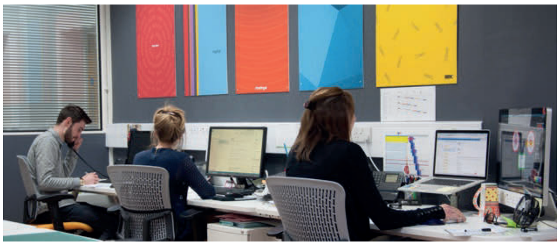
Group Finance Director
25 April 2016

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.

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 2015 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

25 April 2016

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.

Further to the appointment of Neil Smith as Group Chief Executive on 2 February 2015 and in accordance with the commitment made in the Company's AIM admission document published on 24 April 2014, Graham Whitworth relinquished his role as Group Chief Executive to Neil and became Executive Chairman of the Company from 2 February 2015. A resolution to appoint Neil as a Director of the Company was passed by shareholders at the June 2015 AGM.

As confirmed in the announcement made in April 2015, John Shepherd joined the Board as a Non-Executive Director. We are very pleased to welcome John to the Board and he brings a wealth of international and technology business experience.

Peter Lawrence retired from the Board at the Company's AGM in June. On behalf of the Board, I would like to thank Peter, who was a seed investor in the business for his significant contribution to the business since the Company listed on what was then OFEX in 2001.

A brief biography of each of the Directors is set out below:

Graham Whitworth, Executive Chairman, Aged 62

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 2015 was the Group Chief Executive and Chairman; he is the now Executive Chairman.

Neil Smith, Group Chief Executive, Aged 44

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 46

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 2015. 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, Managing Director, Aged 43

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.

William Payne, Non-Executive Director, Senior Independent Director, Aged 50

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 56

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 62

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 62

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 Jarden, since 2006. Thomas has been a noted business leader in the home safety category for more than 25 years.

For so long as Jarden and its affiliates hold at least 12 per cent. of the Ordinary Shares of the Company, Jarden has the right, at any time, to appoint and maintain in office (subject to the Articles) a director (the 'Jarden Director'), to remove any director so appointed and, upon his removal (whether by Jarden or otherwise), to appoint another person to act as the Jarden Director in his place. The current Jarden 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.

Managers of each of the five business units 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.

With the appointment of Neil Smith on 2 February 2015 and with effect from that date, the role of Executive Chairman and Chief Executive Officer now vest in separate individuals, each with clear allocation of accountability and responsibility. 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 46 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 2015. 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 12 to 15 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 2015 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 (formerly Westhouse 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 Nailcote Hall Hotel, Nailcote lane, Berkswell, Coventry, CV7 7DE at 10:30am on 30 June 2016. We hope as many shareholders will attend as possible.

Board meeting attendance

Excluding ad-hoc 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	Nick Rutter John Gahan Neil Smith (appointed 3 June 2015)	8 8 6	8 8 6
Non-Executive Directors	William Payne John Shepherd (appointed 1 April 2015) Ashley Silverton Tom Russo* Peter Lawrence (retired 3 June 2015)	8 7 8 8 2	7 7 8 8 2

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

Peter Lawrence retired from the Board at the AGM in 3 June 2015.

John Shepherd was appointed to the Board on 1 April 2015. Neil Smith was appointed to the Board on 3 June 2015.

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 (appointed 1 April 2015)	Yes	Yes	2(2)	2(2)
Peter Lawrence (retired 3 June 2015)	Yes	Yes	-	-
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 2015 are given on page 34. 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 (formerly Baker Tilly 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 2015

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 £16,000 compared to this year's audit fee of £145,000.

The non-audit fees comprise advice on the Group's corporate tax 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 took over as lead audit partner in 2012 and will retire from his role as lead auditor during 2016 after the 2015 audit is completed. Mr Fray had no previous involvement with Sprue Aegis plc in any capacity.

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 2016 AGM. We do not plan to recommend a tender of the audit in 2016 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
25 April 2016

Directors' Remuneration Report

On behalf of the Board, I am pleased to present our Directors' Remuneration Report for the year ended 31 December 2015, 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 2015.

Basis of preparation

This report has been prepared in accordance with Schedule 8 of the Accounting Regulations Act 2006. Although not required to provide all the information detailed in this report, the Directors have chosen to do so in accordance with 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 2016 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 2015

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 2015 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 through 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.

We have had to acknowledge that the Group has significantly increased turnover, EBIT and net assets in recent years, particularly following the bid defence in 2013 and the move to AIM in April 2014 which have transformed the Group into a leading business on AIM. With this in mind, 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 after the year end financial results have been reviewed by the auditor.

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 schemes, the rest of the UK staff are eligible to participate in the Group's incentive scheme which typical pays out up to 6% of annual salary. 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 2015 was £0.03m (2014: £0.9m).

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	Managing Director	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 prorated 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 2015 is detailed below:

	Salary and car allowance (a) £	Benefits (b) £	Bonuses (c) £	Fees (a) £	Pension (d) £	2015 Total £	2014 Total £
G Whitworth	207,987	2,300	-	-	25,361	**235,648**	299,832
N Rutter	164,219	1,000	-	-	21,596	**186,815**	266,579
J Gahan	162,407	1,000	-	-	14,132	**177,539**	253,072
N Smith (f)	153,817	1,000	-	-	14,667	**169,484**	-
W Payne	-	-	-	39,500	-	**39,500**	12,000
P Lawrence	-	-	-	7,896	-	**7,896**	10,200
A Silverton	-	-	-	28,374	-	**28,374**	14,400
J Shepherd	-	-	-	24,750	-	**24,750**	-
T Russo (e)	-	-	-	-	-	**-**	-
	688,430	5,300	-	100,520	75,756	**870,006**	856,083

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

(f) Neil Smith joined the Company on 2 February 2015

Share options exercised

On 22 September 2015, John Gahan exercised 55,555 of his 125,000 share options awarded 24 April 2014 at an option price of 200.00p per share. At the date of exercise the share price was 320.00p per share and the gain on these share options amounted to £0.1m.

Group employee considerations

The Group employs circa 140 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 2015	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 will not exceed 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, share option awards may 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	CEO	Total remuneration including bonus and pension (excluding share options) £000	Sprue Aegis plc year end market capitalisation £000	CEO total remuneration as a % of average market capitalisation at year end
2015	G Whitworth	235	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%
2011	G Whitworth	205	19,620	1.04%

Excluding Executive Directors remuneration, the average remuneration per employee from 2011 to 2015 inclusive is as follows:

Year	Total remuneration including bonus and pension (excluding share options) £000	Average number of employees excluding Executive and non-executive directors	Average remuneration per employee £000
2015	6,050	140	43
2014	5,832	124	47
2013	3,695	104	35
2012	2,679	77	35
2011	2,481	65	38

Directors' interests in unvested and vested share option awards

	Options at 1.1.15	Options granted in year	Options lapsed in year	Options exercised in year	Options at 31.12.15	Exercise price (pence)	Market price at date of exercise (pence)	Exercise period (years)	Expiry date
G Whitworth	125,000	-	-	-	125,000	200	-	10	28/04/24
N Rutter	125,000	-	-	-	125,000	200	-	10	28/04/24
J Gahan	125,000	-	-	(55,555)	69,445	200	3.20	10	28/04/24
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 25 April 2016 and signed on its behalf by:

William Payne

Chairman of the Remuneration Committee
25 April 2016

Directors' report

The directors present their report and the audited financial statements for the Group for the year ended 31 December 2015.

Pages 44 to 49 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 page 18 and in the Chairman's review on pages 7 to 9 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 53 to 58 inclusive. Profit before tax for the year before exceptional items and share-based payments charge was £12.8m (2014: £10.4m)

The directors recommend the payment of a final dividend of 5.5 pence per ordinary share (2014: 6.0 pence per share) taking the total dividend in respect of 2015 to 8.0 pence per share (2014: 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 £10,265 (2015: £3,250) 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 account in the period. Net losses on foreign exchange contracts and taken to profit in the year amounted to £(0.5)m (2014: profit of £0.2m). Information on the principal risks and uncertainties and how they are managed by the Group is included in the Strategic Report on pages 13 to 15.

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 61. General research costs undertaken in respect of the Group's principal activities are charged to the profit and loss account as incurred.

Directors

The following directors have held office since 1 January 2015:

G Whitworth	Executive Chairman
J Gahan	Group Finance Director
N Rutter	Managing Director
N Smith	Group Chief Executive Director (appointed 3 June 2015)
W Payne	Senior Independent Director
P Lawrence	Non-Executive Director (resigned 3 June 2015)
J Shepherd	Non-Executive Director (appointed 1 April 2015)
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 30 June, Graham Whitworth, Tom Russo and Ashley Silverton 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 30 to 34 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 2015	1 Jan 2015	31 Dec 2014	1 Jan 2014
Executive Directors				
G Whitworth	3,521,937	3,540,000	3,540,000	3,666,700
N Rutter	3,000,000	3,000,000	3,000,000	3,184,250
J Gahan	10,000	23,000	23,000	-
N Smith	-	-	-	-
Non-Executive Directors				
W Payne	100,000	100,000	100,000	289,167
J Shepherd	23,063	-	-	-
A Silverton	15,000	20,000	20,000	20,000
T Russo	-	-	-	-

On 22 September 2015, the following Directors transacted in shares:

John Shepherd purchased 23,063 shares at £3.25 per share, following which he is interested in 23,063 shares representing approximately 0.05 per cent of the Company's issued share capital.

John Gahan sold 10,000 shares at £3.20 per share, following which he is interested in 10,000 shares, representing approximately 0.02 per cent of the Company's issued share capital.

Graham Whitworth sold 18,063 shares at £3.25 per share, following which together with controlled parties he is interested in 3,521,937 shares representing approximately 7.7 per cent of the Company's issued share capital.

Ashley Silverton sold 5,000 shares at £3.25 per share, following which he is interested in 15,000 shares representing 0.03 per cent of the Company's issued share capital.

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

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	Managing Director	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 was 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 prorated 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 a 2015 LTIP share based expense of £149,000 (2014: £Nil) relating to equity-settled share-based payment transactions.

Conflicts of interest

Tom Russo, a Non-Executive Director of the Company, is a Director of BRK Brands Europe Limited, part of Jarden Corporation. The Group has a distribution agreement which gives 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.

Policy on payment of suppliers

It is and will continue to be the Group's policy to negotiate with suppliers so as to obtain the best available terms taking account of quality, delivery, price and period of settlement, and having agreed those terms, to abide by them. Average trade creditor days during 2015 were 82 days (2014: 57 days).

Related party transactions Jarden Corporation

Jarden and its subsidiaries and associates (collectively referred to as "Jarden") are related parties to the Group with a 23.4% interest in the ordinary share capital of the Company and the appointment of a Jarden nominated Non-Executive Director, Tom Russo to the Sprue Aegis plc board on 29 September 2011.

Jarden, through its subsidiary BRK Brands Europe Limited, represents the single largest supplier to the company supplying 100% of the Group's smoke alarm and wi-safe products and many accessories (Sprue's own brand carbon monoxide alarms are supplied by an independent third party). In 2015, total net purchases from Jarden amounted to £53.5m of which, £3.5m relates to the distribution fee (2014: net purchases from Jarden were £33.1m which included £4.16m for the BRK distribution fee). Total net creditors relating to Jarden as at 31 December 2015 amounted to £11.2m (2014: £13.5m).

In early 2012, the Company appointed Mapa Spontex, part of Jarden as its supplier to the hypermarket channel in France. Net sales to Mapa Spontex in 2015 amounted to £3.2m (2014: £2.8m). As at 31 December 2015, the net debtor related to Mapa Spontex amounted to £nil (2014: £0.6m).

Wilkins Kennedy LLP

WJB 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 £39,500 (2014: £12,000) for the provision of WJB Payne's services as a Non-Executive Director and £11,665 (2014: £33,000) for accounting and management services. At the year end, the Company owed Wilkins Kennedy LLP £nil (2014: £7,000).

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 7 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 (formerly Baker Tilly 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 2015, there were 45,855,365 ordinary shares of 2 pence each in issue. The ordinary shares are listed on AIM.

Payments to shareholders
In line with its progressive dividend policy and 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 (2014: 6.0 pence per share) taking the total dividend for the year to 8.0 pence per share (2014: 8.0 pence per share). The proposed total cost to the Group amounts to £2.5 million and is covered 1.6x by post-tax profit (2014: 2.2x). If approved by shareholders at the AGM on 30 June 2016, the record date will be 8 July 2016 and the dividend will be paid to shareholders on 22 July 2016.

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 2015, authority was given to the directors to allot new ordinary shares up to a nominal value of £303,000 equivalent to 33% of the issued share capital of the Company. These authorities are valid until 3 September 2016.

In addition, authority was given to the directors to allot a further new ordinary shares up to a nominal value of £45,497 equivalent to 5% of the issued share capital of the Company. These authorities are valid until 3 September 2016.

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 3 September 2016.

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 2015, 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
HSBC GLOBAL CUSTODY NOMINEE (UK) LIMITED	7.2
AURORA NOMINEES LIMITED	6.9
NICHOLAS ALEXANDER RUTTER ESQ	6.5
ROCK (NOMINEES) LIMITED	4.8
LION NOMINEES LIMITED	4.3
JOLYON WILLIAM MONEY ESQ	3.3
STATE STREET NOMINEES LIMITED	2.7
DARTINGTON PORTFOLIO NOMINEES LIMITED	2.6
THE BANK OF NEW YORK (NOMINEES) LIMITED	2.3
BROOKS MACDONALD NOMINEES LIMITED	1.9
GOLDMAN SACHS SECURITIES (NOMINEES) LIMITED	1.8
HAREWOOD NOMINEES LIMITED	1.7
NORTRUST NOMINEES LIMITED	1.6
JIM NOMINEES LIMITED	1.6
CHASE NOMINEES LIMITED	1.4
RULEGALE NOMINEES LIMITED	1.2
SECURITAS SERVICES NOMINEES LIMITED	1.2
OTHER	15.9
	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
25 April 2016

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 Director
25 April 2016

John Gahan
Group Finance Director
25 April 2016

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

We have audited the Group and parent company financial statements ("the financial statements") on pages 53 to 88. 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.

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.

Respective responsibilities of directors and auditor

As more fully explained in the Directors' Responsibilities Statement set out on page 50, 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.

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 financial statements

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 2015 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.

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.

Matters on which we are required to report by exception

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.

CHARLES FRAY (Senior Statutory Auditor)
For and on behalf of RSM UK AUDIT LLP (formerly Baker Tilly UK Audit LLP), Statutory Auditor
Chartered Accountants
St Phillips Point
Temple Row
Birmingham B2 5AF
25 April 2016

Financial statements

In this section

- Consolidated income statement
- Consolidated statement of comprehensive income
- Statement of consolidated and Company financial position
- Consolidated statement of changes in equity
- Company statement of changes in equity
- Cash flow statements
- Notes to the financial statements
- Corporate directory
- Shareholder information

Consolidated income statement
for the year ended 31 December 2015

	Notes	2015 £000	2014 £000
Revenue	6	**88,303**	65,600
Cost of sales excluding BRK distribution fee and exceptional warranty charge		**(61,548)**	(41,699)
BRK distribution fee		**(3,460)**	(4,164)
Exceptional warranty charge		**(5,500)**	-
Total cost of sales		**(70,508)**	(45,863)
Gross profit		**17,795**	19,737
Distribution costs		**(750)**	(878)
Administrative expenses excluding share-based payments charge and exceptional items		**(9,788)**	(8,498)
Share-based payments charge		**(527)**	(205)
Exceptional items*		**-**	(525)
Total administrative expenses		**(10,315)**	(9,228)
Total fixed costs		**(11,065)**	(10,106)
Profit from operations pre-exceptional items and share-based payments charge		***12,757***	10,361
% of sales		***14.5%***	*15.8%*
Profit from operations post exceptional items pre-share-based payments charge		**7,257**	9,836
Profit from operations	7	**6,730**	9,631
Finance income	9	**89**	40
Profit before tax		**6,819**	9,671
Income tax	10	**(810)**	(1,952)
Profit attributable to equity owners of the parent		**6,009**	7,719
Earnings per share	12		
From continuing operations:			
Basic		**13.2**	17.6
Diluted		**13.1**	17.5

All amounts stated relate to continuing activities.

**Exceptional items represents AIM costs of £0.5m relating to 2014.*

Consolidated statement of comprehensive income

for the year ended 31 December 2015

	2015 £000	2014 £000
Profit for the year	**6,009**	7,719
Items that may be reclassified subsequently to profit and loss:		
Exchange differences on translation of foreign operations (net of tax)	**(60)**	(21)
Other comprehensive expense for the year	**(60)**	**(21)**
Total comprehensive income for the year	**5,949**	**7,698**

Statement of Consolidated and Company financial position
at 31 December 2015

	NOTES	Consolidated 2015 £000	Consolidated 2014 £000	Company 2015 £000	Company 2014 £000
Non-current assets					
Goodwill	14	**169**	169	**-**	-
Other intangible assets	15	**6,396**	4,333	**-**	-
Plant and equipment	16	**740**	536	**-**	-
Shares in subsidiaries	17	**-**	-	**149**	149
Deferred tax assets	24	**284**	116	**-**	-
		7,589	5,154	**149**	149
Current assets					
Inventories	18	**15,557**	8,309	**-**	-
Trade and other receivables	19	**11,717**	20,213	**28,751**	22,626
Current tax asset		**308**	-	**-**	-
Derivative financial assets	20	**91**	369	**-**	-
Cash and cash equivalents		**22,403**	15,887	**857**	142
		50,076	44,778	**29,608**	22,768
Total assets		**57,665**	49,932	**29,757**	22,917
Current liabilities					
Trade and other payables	23	**(18,202)**	(19,946)	**-**	-
Current tax liabilities		**-**	(505)	**-**	-
Provisions	22	**(2,200)**	(873)	**-**	-
Derivative financial liabilities	20	**(187)**	(1)	**-**	-
		(20,589)	(21,325)	**-**	-
Net current assets		**29,487**	23,453	**29,608**	22,768
Non-current liabilities					
Provisions	22	**(4,593)**	-	**-**	-
Deferred tax liabilities	24	**(1,386)**	(969)	**-**	-
		(5,979)	(969)	**-**	-
Total liabilities		**(26,568)**	(22,294)	**-**	-
Net assets		**31,097**	27,638	**29,757**	22,917
Equity					
Share capital	26	**917**	909	**917**	909
Share premium		**12,713**	12,003	**12,713**	12,003
Foreign exchange reserve		**(129)**	(69)	**-**	-
Retained earnings		**17,596**	14,795	**16,127**	10,005
Total equity attributable to the owners of the parent		**31,097**	27,638	**29,757**	22,917

The financial statements on pages 53 to 88 were approved by the Board of directors and authorised for issue on 25 April 2016 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 2015

	Share capital £000	Share premium £000	Foreign exchange reserve £000	Retained earnings £000	Total £000
Balance at 1 January 2014	801	4,123	(48)	10,222	15,098
Profit for the year	-	-	-	7,719	7,719
Net foreign exchange losses from overseas subsidiaries	-	-	(21)	-	(21)
Total comprehensive income for the year	-	-	(21)	7,719	7,698
Transactions with owners in their capacity as owners:					
Dividends	-	-	-	(3,640)	(3,640)
Issue of shares	108	-	-	-	108
Premium arising on issue of equity shares	-	8,236	-	-	8,236
Transaction costs arising on issue of equity shares	-	(356)	-	-	(356)
Total transactions with owners in their capacity as owners	108	7,880	-	(3,640)	4,348
Share-based payments charge	-	-	-	205	205
Deferred tax credit on share-based payments charge	-	-	-	(201)	(201)
Current tax credit on share-based payments charge	-	-	-	490	490
Balance at 31 December 2014	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 charge 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**

Company statement of changes in equity

for the year ended 31 December 2015

	Share capital £000	Share premium £000	Retained earnings £000	Total £000
Balance at 1 January 2014	801	4,123	5,684	10,608
Profit for the year	-	-	7,961	7,961
Total comprehensive income for the year	-	-	7,961	7,961
Transactions with owners in their capacity as owners:				
Dividends	-	-	(3,640)	(3,640)
Issue of shares	108	-	-	108
Premium arising on issue of equity shares	-	8,236	-	8,236
Transaction costs arising on issue of equity shares	-	(356)	-	(356)
Total transactions with owners in their capacity as owners	108	7,880	(3,640)	4,348
Balance at 31 December 2014	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**

Cash flow statements

for the year ended 31 December 2015

	NOTES	Consolidated 2015 £000	Consolidated 2014 £000	Company 2015 £000	Company 2014 £000
Profit before tax		**6,818**	9,671	**9,999**	8,089
Finance income		**(89)**	(40)	**-**	-
Operating profit for the year		**6,729**	9,631	**9,999**	8,089
Adjustments for:					
Depreciation of property, plant and equipment		**203**	131	**-**	-
Amortisation of intangible assets		**258**	294	**-**	-
Change in fair value of derivatives		**464**	(156)	**-**	-
Share-based payments charge		**527**	205	**-**	-
Operating cash flows before movements in working capital		**8,181**	10,105	**9,999**	8,089
Movement in inventories		**(7,248)**	(639)	**-**	-
Movement in receivables		**8,496**	(9,820)	**(6,125)**	(12,489)
Movement in warranty provision		**5,920**	139	**-**	-
Movement in payables		**(1,745)**	9,020	**-**	-
Cash generated / (used) by operations		**13,604**	8,805	**3,874**	(4,400)
Income taxes paid		**(1,197)**	(694)	**-**	-
Net cash generated / (used) from operating activities		**12,407**	8,111	**3,874**	(4,400)
Investing activities					
Purchase of intangible assets		**(2,321)**	(1,599)	**-**	-
Purchase of property, plant and equipment		**(411)**	(234)	**-**	-
Interest received		**89**	40	**-**	-
Net cash used on investing activities		**(2,643)**	(1,793)	**-**	-
Financing activities					
Proceeds from issue of ordinary shares		**718**	7,988	**718**	7,988
Dividends paid	11	**(3,877)**	(3,640)	**(3,877)**	(3,640)
Net cash (used) / generated from financing activities		**(3,159)**	4,348	**(3,159)**	4,348
Net increase / (decrease) in cash and cash equivalents		**6,605**	10,666	**715**	(52)
Cash and cash equivalents at beginning of year		**15,887**	5,227	**142**	194
Non-cash movements		**(89)**	(6)	**-**	-
Cash and cash equivalents at end of year		**22,403**	15,887	**857**	142

Notes to the financial statements
for the year ended 31 December 2015

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 a material impact on these financial statements, are mandatory and relevant to the Group for the first time for the financial year ended 31 December 2015:

- Annual improvements 2011-2013

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):

- Annual improvements 2010-2012
- Annual improvements 2012-2014
- IFRS 9: Financial Instruments
- IFRS 15: Revenue from contracts with customers
- IFRS 16: Leases
- Amendments to IAS 1 Disclosure Initiative
- Amendments to IAS 16 and IAS 38: Clarification of acceptable Methods of Depreciation and Amortisation
- 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

The Directors anticipate that the adoption of these 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 (2014: £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 2015 was £nil (2014: £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 also 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, the identified expenditure is carried forward and amortised on a straight line basis over the period during which the Group is expected to benefit, which the directors have estimated is between seven and ten years once sales of the product commence. Provision is made for any impairment. The amortisation charge is recognised within administration expenses.

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 measureable 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 provision and exceptional £5.5m warranty charge

As at 31 December 2015, the Group carried a warranty provision of £6.8m (2014: £0.9m) against the cost of replacing products where there were known specific product issues resulting in an expectation that the level of returned products will exceed the Group's maximum long term product returns rate of 1.0% (2014: 1.0%).

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, as in the case of the battery issue which resulted in a £5.5m exceptional warranty charge in 2015 where the failure typically occurs around three years from the date of the battery manufacture. 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 as required.

The key drivers relating to the battery warranty provision, which equates to £6.1m of the total £6.8m provision as at 31 December 2015, and the work the Board has undertaken to assess them, is set out below:

- **Final return percentage rate.** The Board has used past experience of the Group's product returns with battery related issues to develop a model of the expected returns profile in order to estimate the final return percentage rate, using the best available data in respect of batteries manufactured in 2012.
- **The return rate for each year affected.** Whilst the Board consider that it is likely that process improvements at the battery manufacturer are expected to reduce product return rates in respect of later years' production, in the absence of any data to definitively confirm this, only a marginal improvement has been factored into the provision.
- **Different product return rates from different sales channels.** The Board has estimated the expected product return rates for different sales channels based on the Group's past experience.
- **Cost of redress.** The cost of issuing free of charge returns is relatively straight forward to determine and as such, this is the lowest risk assumption in the model.

The provision estimate of £6.1m relates solely to the 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.

Review of warranty policy

On all of its products, the Group provides a warranty on the whole product, including the battery, which is typically between one to ten years in duration; Sprue's product warranty policies are thought by the Board to be generally in line with UK and European smoke/CO industry "norms".

However, in light of the battery warranty issues recently identified, the Group is reviewing its policies around product warranty. More extensive testing of product returns is to be introduced to reduce the number of free of charge replacement products issued to customers. Where products are found to have "no fault found", the Group may decide not to provide free of charge replacements. In addition, as the battery is typically less than 10% of the cost of replacing a smoke alarm, the Group may restrict its product warranty for shorter periods or seek to not provide a warranty on the battery at all. The Group is also reviewing its "sealed for life" products which are designed to prevent the batteries being removed as requested by our UK F&RS customers. If there is an issue with the battery, the sealed for life design exacerbates the warranty cost as the whole product is replaced, rather than just one replacement battery.

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 recognized 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 2015, the Group did not record any impairment charges upon review of its tangible and intangible assets.

Inventory provision

Inventories are stated at the lower of cost (first-in-first-out method) or net realisable value. The cost of inventories comprise net prices paid for materials purchased, charges for freight and customs duties, and where applicable, production labour cost and factory overhead. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Inventory provisions are recognised for slow-moving, obsolete or unsalable inventory and are reviewed on a quarterly basis. Our stock provision methodology involves matching our on-hand and on-order inventory with our sales forecast. In determining inventory provisions, we evaluate inventory in excess of our forecast needs on a SKU by SKU basis and make appropriate provisions to reflect the risk of obsolescence. This methodology is significantly affected by our forecast needs for inventory. If actual demand or usage were to be lower than estimated, additional inventory provisions for excess or obsolete inventory may be required, which could have a material adverse effect on our business, financial position and results of operations.

As at 31 December 2015, the provision for inventory obsolescence amounted to £0.3m (2014: £0.3m). The increase/decrease in provision for inventory obsolescence is mainly due to review of slow moving and stock obsolescence based on forecast stock figures.

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 £0.5m (2014: £0.2m).

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.

2015	Within 6 months £000	6 months - 1 year £000	1 to 5 years £000	Over 5 years £000	Total £000
Trade payables	15,282	-	-	-	15,282
Derivative financial liabilities	130	57	-	-	187
Financial liabilities	**15,412**	**57**	**-**	**-**	**15,469**

2014	£000	£000	£000	£000	£000
Trade payables	15,631	-	-	-	15,631
Derivative financial liabilities	1	-	-	-	1
Financial liabilities	15,632	-	-	-	15,632

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.

2015	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	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**

2014	£000	£000	£000	£000	£000
Cash at bank and on hand	15,887	-	-	-	15,887
Trade receivables and other debtors	19,169	-	-	-	19,169
Derivative financial assets	355	14	-	-	369
Financial assets	35,411	14	-	-	35,425

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.

Impact on equity and profit or (loss) pre tax	2015 £000	2014 £000
5% increase in US Dollar fx rate against £	**563**	999
5% decrease in US Dollar fx rate against £	**(623)**	(1,104)
5% increase in Euro fx rate against £	**(2,501)**	(1,918)
5% decrease in Euro fx rate against £	**2,764**	2,120

Interest rate risk
The business has remained debt free throughout 2015 and earns modest income on its 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	**2015 £000**	2014 £000
Trade receivables and other debtors	**11,410**	19,169
Cash and cash equivalents	**22,403**	15,887
	33,813	35,056

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	**2015 £000**	2014 £000
Continuing operations:		
Sale of goods	**88,303**	65,600
Total sale of goods	**88,303**	65,600
Finance income (note 9)	**89**	40
Total revenue from continuing operations	**88,392**	65,640

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 consider 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.

Revenue from continuing operations	2015 Revenue £000	2014 Revenue £000
Business Units:		
Europe	**53,781**	39,950
Trade	**7,287**	6,040
Retail*	**13,932**	10,151
Fire & Rescue Services	**7,823**	6,081
Utilities*	**2,572**	1,664
Pace Sensors Limited	**2,908**	1,714
Total revenue from external customers	**88,303**	65,600

Note: In 2015, certain Leisure accounts were transferred into the Retail business unit and therefore, we have restated the previous 2014 Retail comparative which increased by £0.4m and the Utilities comparative which decreased by £0.4m*

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

For 2015, revenues of approximately £39.0m (2014: £25.5m) were derived from two (2014: two) external customers, each of which individually contributed over 10% of total external revenue of the Group. These revenues are attributable to the European business units. An analysis of the Group's revenue is as follows:

	2015 £000	2014 £000
Continuing operations:		
United Kingdom	**31,614**	23,936
Continental Europe and Rest of World	**56,689**	41,664
	88,303	65,600

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

	2015 £000	2014 £000
Continuing operations:		
UK	**7,112**	4,820
Canada	**193**	218
Non-current assets	**7,305**	5,038

7. Profit from operations

The following table analyses the nature of expenses:

	2015 £000	2014 £000
Staff costs (see note 8)	**5,529**	5,427
Depreciation, amortisation and impairment (see notes 15 and 16)	**461**	425
Premises costs	**1,150**	876
Change in inventory of finished goods excluding inventory provision movement	**7,244**	8,502
Purchase of finished goods	**53,463**	31,774
BRK distribution fee	**3,460**	4,164
Movement in inventory provisions	**(4)**	140
Distribution costs	**750**	878
Marketing and trade contributions	**1,434**	872
Professional fees	**801**	1,392
Research and development costs	**476**	668
Warranty charge (including exceptional £5.5m for 2015 (see note 22))	**5,920**	139
Other expenses	**889**	712
Total cost of sales, distribution costs and administrative expenses	**81,573**	55,969

Profit from operations has been arrived at after charging:

	2015 £000	2014 £000
Net foreign exchange losses excluding foreign currency forward transactions	**186**	81
Research and development costs	**476**	668
Amortisation of intangible assets	**258**	294
Depreciation - owned assets	**203**	131
Rentals under operating leases	**369**	282

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

	2015 £000	2014 £000
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	**40**	32
Fees payable to the Company's auditor and their associates for other services to the Group;		
The audit of the Company's subsidiaries	**76**	43
Other audit related services	**29**	20
Total audit fees	**145**	95
Other taxation advisory services	**16**	22
Corporate finance services	**-**	115
Other services	**-**	24
Total non-audit fees	**16**	161

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:

	2015 Number	2014 Number
Pace Sensors manufacturing	43	42
Technology	29	24
Administration	38	31
Sales and Marketing	25	23
Executive and Non-Executive Directors	8	6
Warehousing	5	4
	148	130

The aggregate remuneration for the above persons comprised:

	2015 £000	2014 £000
Wages and salaries	5,701	5,774
Social security costs	541	587
Other pension costs	151	122
Share-based payment expense	527	205
Total remuneration	6,920	6,688
Less: Capitalised product development costs	(1,391)	(1,261)
Total remuneration charged to Income Statement	5,529	5,427

9. Finance income

	2015 £000	2014 £000
Interest on bank deposits	89	40

10. Income tax

	2015 £000	2014 £000
Current tax		
UK corporation tax charge	301	1,596
UK – Adjustments in respect of prior periods (credit) / charge	(38)	136
Foreign tax charge	235	11
	498	1,743
Deferred tax (note 24)		
Origination and reversal of temporary differences	312	209
	312	209
Income tax expense	810	1,952

Domestic income tax is calculated at 20.5% (2014: 21.5%) of the estimated assessable profit for the year.

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

	2015 £000	%	2014 £000	%
Profit before tax	**6,818**		9,671	
Tax at the domestic income tax rate 20.25% (2014: 21.5%)	**1,398**		2,080	
Tax effect of expenses that are not deductible in determining taxable profit	**142**		209	
Effect of allowance for capitalised development expenditure	**(692)**		(473)	
Adjustments in respect of prior periods	**(38)**		136	
Tax expense and effective tax rate for the year	**810**	**12%**	1,952	20%

The weighted average applicable tax rate was 12% (2014: 20%). The decrease is primarily attributed to the adjustment in respect of claiming small company's enhanced R&D tax relief at the elevated 230% rate compared to the previous year of claiming R&D tax relief at the large company rate of 125%, which decreased the tax charge for the year.

During the year, as a result of the change in the UK corporation tax rate from 21% to 20% that was substantively enacted on 26 June 2014 and that was effective from 1 April 2015, the relevant deferred tax balances have been re-assessed.

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

	2015 £000	2014 £000
Current tax		
Share options – exercised in the year	**79**	490
Deferred tax		
Share-based payments	**63**	(201)
Total income tax	**142**	289

11. Dividends

On 3 July 2015, a dividend of £2.7m, 6.0 pence per share, was paid to shareholders. On 31 October 2015 an interim dividend of £1.1m, 2.5 pence per share, was paid to shareholders.

In respect of the year ended 31 December 2015, the directors recommend the payment of a final dividend of 5.5 pence per share on 22 July 2016 to shareholders on the register on 8 July 2016. This dividend is subject to approval by shareholders at the Annual General Meeting to be held on 30 June 2016 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	2015 £000	2014 £000
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the parent)	**6,009**	7,719

Number of shares	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**45,613**	43,824
Effect of dilutive potential ordinary shares:		
Deemed issue of potentially dilutive shares	**322**	302
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**45,935**	44,126

	2015 pence	2014 pence
Basic earnings per share (pence)	**13.2**	17.6
Diluted earnings per share (pence)	**13.1**	17.5

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

Earnings from continuing operations	2015 £000	2014 £000
Earnings for the purposes of basic earnings per share (profit for the year attributable to owners of the parent)	**6,009**	7,719
Exceptional items	**5,500**	525
Share-based payments charge	**527**	205
Less: tax on exceptional items and share-based payments charge	**(941)**	(41)
Earnings for the purposes of adjusted basic and diluted earnings per share	**11,095**	8,408

Number of shares	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**45,613**	43,824
Effect of dilutive potential ordinary shares:		
Deemed issue of potentially dilutive shares	**322**	302
Weighted average number of ordinary shares for the purposes of adjusted diluted earnings per share	**45,935**	44,126

	2015 pence	2014 pence
Adjusted basic earnings per share pre-exceptional items and share-based payments charge (pence)	**24.3**	19.2
Adjusted diluted earnings per share pre-exceptional items and share-based payments charge (pence)	**24.2**	19.1

13. Financial instruments

2015	Assets at fair value through profit and loss £000	Loans and receivables £000	Total £000
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**

2014			
Financial assets			
Trade receivables and other debtors	-	19,169	19,169
Cash and cash equivalents	15,887	-	15,887
Derivative financial assets	369	-	369
Total	16,256	19,169	35,425

2015	Liabilities at fair value through profit and loss £000	Financial liabilities held at amortised cost £000	Total £000
Financial liabilities			
Trade payables	-	15,282	15,282
Derivative financial liabilities	187	-	187
Total	**187**	**15,282**	**15,469**

2014			
Financial liabilities			
Trade payables	-	15,631	15,631
Derivative financial liabilities	1	-	1
Total	1	15,631	15,632

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	
Deemed cost of goodwill and carrying value at 31 December 2015 and 2014	**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 pre-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 rates per the table below. In accordance with IAS 36, the growth rates beyond the budgeted three year period do not exceed the long-term average growth rate for the industry.

	Pace Sensors
Carrying value of goodwill (£000)	169
The key assumptions applied in the calculations were:	
Gross margin (%)	32
Growth rate (%)	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	Computer software £000	Total £000
Cost			
At 1 January 2014	4,232	233	4,465
Additions	1,592	7	1,599
At 31 December 2014	5,824	240	6,064
Additions	2,271	50	2,321
At 31 December 2015	**8,095**	**290**	**8,385**
Amortisation			
At 1 January 2014	1,295	142	1,437
Amortisation for the year	236	58	294
At 31 December 2014	1,531	200	1,731
Amortisation for the year	231	27	258
At 31 December 2015	**1,762**	**227**	**1,989**
Carrying amount			
At 31 December 2014	4,293	40	4,333
At 31 December 2015	**6,333**	**63**	**6,396**

The total amortisation charge of £258,000 (2014: £294,000) has been recognised within administrative expenses.

The remaining amortisation period on product development costs is in the range 4 to 9.5 years. The carrying value of development intangibles includes £3.3m which is still in the development stage and consequently not yet been amortised in the year.

16. Plant and equipment

	Office equipment £000	Motor vehicles £000	Fixtures & fittings £000	Total £000
Cost				
At 1 January 2014	591	5	89	685
Additions	181	-	53	234
Effect of exchange rates	-	-	(2)	(2)
At 31 December 2014	772	5	140	917
Additions	228	-	183	411
Disposals	(21)	-	-	(21)
At 31 December 2015	**979**	**5**	**323**	**1,307**
Accumulated Depreciation				
At 1 January 2014	213	3	33	249
Depreciation charge for the year	124	1	6	131
Effect of exchange rates	-	-	1	1
At 31 December 2014	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**
Net book value				
At 31 December 2014	435	1	100	536
At 31 December 2015	**501**	**1**	**238**	**740**

The total depreciation expense of £203,000 (2014: £131,000) 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 2015 and 31 December 2015	149	149
Accumulated impairment		
At 1 January 2015 and 31 December 2015	-	-
At 31 December 2015 and 31 December 2014	**149**	**149**

Details of the Company's subsidiaries as at 31 December 2015 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 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
Raw materials	142	260	-	-
Work-in-progress	170	250	-	-
Finished products	15,523	8,081	-	-
Total gross inventories	15,835	8,591	-	
Write-down of inventory to net realisable value	(278)	(282)	-	-
Total net inventories	15,557	8,309	-	-

19. Financial assets

	Group 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
Trade receivables and other debtors	11,410	19,169	28,751	22,626
Cash and cash equivalents	22,403	15,887	857	142
Derivative financial assets	91	369	-	-
Maximum exposure to credit risk	33,904	35,425	29,608	22,768

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 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
Trade receivables	11,297	18,939	-	-
Amounts due from fellow group companies	-	-	28,751	22,626
Other debtors	113	230	-	-
Prepayments	307	1,044	-	-
Trade and other receivables	11,717	20,213	28,751	22,626

The average credit period taken on sale of goods is 67 days (2014: 54 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 the year end 2015 was £7.7m (2014: £4.8m).

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 2015, £7.7m (2014: £4.8m) of trade receivables were denominated in Sterling, £1.2m (2014: £0.4m) in US Dollars and £2.4m (2014: £13.7m) in Euros.

At 31 December 2015, £20.5m (2014: £10.5m) of cash was denominated in Sterling, overdraft of £(0.5)m (2014: Cash of £0.5m) in US Dollars and £2.4m (2014: £4.8m) in Euros.

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

20. Derivative financial instruments

	2015 £000	2014 £000
Assets		
Foreign currency forward contracts	91	369
	91	369
Liabilities		
Foreign currency forward contracts	(187)	(1)
	(187)	(1)

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 $1.4m at 31 December 2015 (2014: US $5.7m) and Euro 10.2m (2014: Euro nil). The level of US$ rate exposure as at 31 December 2015 is less than the previous year as from April 2015 as the Group commenced the purchase of products from DTL, its key smoke supplier, in Sterling rather than USD however increased its forward contracts to sell Euros to Sterling.

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 loss on forward contracts recognised in the profit for the year ended 31 December 2015 was £(0.5)m (2014: £0.2m gain) 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 2015. All assets and liabilities measured are valued at level 2.

sprue

LEVEL 2	2015 £000	2014 £000
Assets		
Foreign currency forward contracts	**91**	369
Liabilities		
Other foreign currency forward contracts	**(187)**	(1)

22. Provisions

	Warranty provision £000
At 1 January 2014	734
Additional provision in year	1,305
Utilisation of provision	(1,166)
At 31 December 2014	873
Additional provision in year (including exceptional charge of £5.5m as per note 7)	6,450
Utilisation of provision	(530)
At 31 December 2015	**6,793**

The warranty provision is stated as the following:

	2015 £000	2014 £000
Non-current provision	**4,593**	-
Current provision	**2,200**	873

Exceptional £5.5m warranty charge for battery related issues

As at 31 December 2015, the Group carried a warranty provision of £6.8m (2014: £0.9m) against the cost of replacing products where there were known specific product issues resulting in an expectation that the level of returned products will exceed the Group's maximum long term product returns rate of 1.0% (2014: 1.0%).

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, as in the case of the battery issue which resulted in a £5.5m exceptional warranty charge in 2015 where the failure typically occurs around three years from the date of the battery manufacture. 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 as required.

The key drivers relating to the battery warranty provision, which equates to £6.1m of the total £6.8m provision as at 31 December 2015, and the work the Board has undertaken to assess them, is set out below:

- **Final return percentage rate.** The Board has used past experience of the Group's product returns with battery related issues to develop a model of the expected returns profile in order to estimate the final return percentage rate, using the best available data in respect of batteries manufactured in 2012.
- **The return rate for each year affected.** Whilst the Board consider that it is likely that process improvements at the battery manufacturer are expected to reduce product returns rates in respect

of later years' production, in the absence of any data to definitively confirm this, only a marginal improvement has been factored into the provision.

- **Different product return rates from different sales channels.** The Board has estimated the expected product return rates for different sales channels based on the Group's past experience.
- **Cost of redress.** The cost of issuing free of charge returns is relatively straight forward to determine and as such, this is the lowest risk assumption in the model.

The provision estimate of £6.1m relates solely to the 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.

Review of warranty policy

On all of its products, the Group provides a warranty on the whole product, including the battery, which is typically between one to ten years in duration; Sprue's product warranty policies are thought by the Board to be generally in line with UK and European smoke/CO industry "norms".

However, in light of the battery warranty issues recently identified, the Group is reviewing its policies around product warranty. More extensive testing of product returns is to be introduced to reduce the number of free of charge replacement products issued to customers. Where products are found to have "no fault found", the Group may decide not to provide free of charge replacements. In addition, as the battery is typically less than 10% of the cost of replacing a smoke alarm, the Group may restrict its product warranty for shorter periods or seek to not provide a warranty on the battery at all. The Group is also reviewing its "sealed for life" products which are designed to prevent the batteries being removed as requested by our UK F&RS customers. If there is an issue with the battery, the sealed for life design exacerbates the warranty cost as the whole product is replaced, rather than just one replacement battery.

23. Trade and other payables

	Group 2015 £000	Group 2014 £000	**Company 2015 £000**	Company 2014 £000
Trade payables	**15,282**	15,631	**-**	-
Accruals and deferred income	**2,310**	4,015	**-**	-
Other tax and social security	**610**	300	**-**	-
	18,202	19,946	**-**	-

At 31 December 2015, £3.3m (2014: £2.5m) of payables were denominated in Sterling, £11.9m of payables were dominated in Euros (2014: £0.1m) and £0.1m (2014: £13.0m) 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 82 days (2014: 57 days) and the increase is related to the extension in DTL creditor terms with effect from 1 April 2015.

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

24. Deferred tax

	2015 £000	2014 £000
Deferred tax liabilities	**(1,386)**	(969)
Deferred tax assets	**284**	116
Net position at 31 December	**(1,102)**	(853)

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

	2015 £000	2014 £000
At 1 January	(853)	(443)
Charge to income for the year	(312)	(209)
Credit / (charge) to equity for the year	63	(201)
At 31 December	**(1,102)**	(853)

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

Deferred tax liabilities	Derivative financial instruments £000	Non-current asset timing differences £000	Total £000
At 1 January 2015	74	895	969
(Credit) / charge to income for the year	(93)	510	417
At 31 December 2015	**(19)**	**1,405**	**1,386**

Deferred tax assets	Derivative financial instruments £000	Share-based payments £000	Total £000
At 1 January 2015	-	116	116
Credit to income for the year	-	105	105
Credit to equity for the year	-	63	63
At 31 December 2015	**-**	**284**	**284**

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 (2014: £0.1m). Contributions amounting to £17,000 (2014: £14,000) were payable at the year end.

26. Share capital

Authorised:	**Company 2015 Number '000**	Company 2014 Number '000
100,000,000 Ordinary shares of 2p each		
Ordinary shares in issue:		
As at 1 January	**45,496**	40,075
Issue of shares in respect of admission to AIM	**-**	4,000
Issue of shares in respect of share options exercised	**359**	1,421
As at 31 December	**45,855**	45,496

Issued and Fully Paid Ordinary shares of 2p each:	**£000**	£000
As at 1 January	**909**	801
Issue of share capital in respect of admission to AIM	**-**	80
Issue of share capital in respect of share options exercised	**8**	28
As at 31 December	**917**	909

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

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 3 years and are exercisable for 10 years from the date of grant. The share-based payment charge for the year of £0.3m (2014: £0.2m) is attributable to these share options and is included within the Consolidated Income Statement.

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 in note 28. The share-based payment charge for the year of £0.2m (2014: £nil) is attributable to these share options and is included within the Consolidated Income Statement.

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. During the year, a premium on issue of shares amounted to £0.7m (2014: £8.2m) with transaction costs of £nil (2014: £0.4m) as a result of the exercise of share options (2014: as a result of the float to AIM and exercise of share options).

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 £10.0m (2014: £8.0m). 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 £527,000 (2014: £205,000) included in the Consolidated Income Statement within administrative expenses includes:

- £308,000 attributable to 2014 share options
- £70,000 attributable to 30,000 share options awarded to one employee in June 2015 in Canada. These options fully vested immediately and will not be accrued over three years
- £149,000 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:

	2015		2014	
	Options 000	**Weighted average exercise price**	Options 000	Weighted average exercise price
Outstanding at 1 January	**1,479**	**200p**	1,471	24p
Exercised during the year	**(359)**	**200p**	(1,421)	24p
Granted during the year	**975**	**2p**	1,464	200p
Expired during the year	**(70)**	**200p**	(35)	200p
Outstanding at 31 December	**2,025**	**102p**	1,479	200p
Exercisable at 31 December	**2,025**	**102p**	1,479	200p

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	375,000	(55,555)	-	-	**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	1,054,000	(303,187)	-	(69,583)	**681,230**	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
	1,479,000	(358,742)	975,000	(69,583)	**2,025,675**		

The weighted average share price at the date of exercise for share options exercised during the year was 315p. As at 31 December 2015, a total of 2,025,675 options were outstanding which had an exercise price of 102p, and a weighted average remaining contractual life of 9.3 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.

Options under the 2014 share options award have been valued using the Black Scholes model with the following assumptions:

	2014
Directors' and Employee share options award 2014	
Average share price when options issued (pence)	**200**
Average expected volatility	**35.6%**
Expected life	**10 yrs**
Risk free rate	**1.8%**
Expected dividends	**2.4%**

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 7 years. The expected life used in the model has been adjusted, based on the Board's best estimate, for the effects of non-transferability and exercise restrictions.

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	Managing Director	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 prorated 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 have been valued using the Monte Carlo model (given the increased uncertainty around potential vesting) with the following assumptions:

	2015
Directors' and employee share options LTIP award 2015	
30 day average share price before options were issued (pence)	**289**
Average expected volatility	**30.7%**
Expected life	**5 yrs**
Risk free rate	**2.4%**
Expected dividends	**4.0%**

Expected volatility was determined using the historical volatility of the Group's share price since moving onto AIM. The expected life of the option used in the model of 5 years has been adjusted, based on management's best estimate, for the effects of non-transferability and the likelihood of the timing of potential exercise.

The Group recognised total expenses of £0.5m (2014: £0.2m) 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:

	2015 £000	2014 £000
Amounts due:		
Within one year	**446**	365
Between one and five years	**877**	1,126
After five years	**-**	-
Total lease payments	**1,323**	1,491

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

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 Jarden which is not a member of the Group:

	Jarden Corporation	
	2015	2014
	£000	£000
Sales of goods in year	**3,168**	2,792
Purchases of goods in year including engineering fees	**49,581**	28,956
Distribution agreement fee	**3,460**	4,164
Dividends payable	**912**	643
Amounts owed by related parties at year end	**-**	580
Amounts owed to related parties at year end	**11,221**	13,486

Jarden, through its subsidiary BRK Brands Europe Limited holds a significant proportion of the Company's ordinary shares (23.4% as at 31 December 2015) and has representation on the Company's board of directors. Consequently the Directors consider that Jarden is a related party. Purchases between related parties are made under contractual arrangements.

Jarden represents the single largest supplier to the Company supplying a significant proportion of the Group's purchased products and charging the Company for its ongoing engineering support for its BRK, First Alert and Dicon brands. Sales of goods in the year relate to Jarden's wholly owned subsidiary, Mapa Spontex which is based in France.

Relocation of CICAM's manufacturing activities

We are pleased to confirm that the facilities of CICAM were successfully transferred to a nearby alternative facility and that the relevant certification approvals for the new facility are in place. Products are now being produced at the new facility which was formally opened on 9 December 2015.

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.

	2015	2014
	£000	£000
Remuneration of key management personnel		
Aggregate emoluments	**1,045**	1,416
Company pension contributions	**98**	43
Sums paid for Non-Executive Directors' services	**100**	37
Share-based payment	**313**	107
Total remuneration	**1,556**	1,603

The remuneration in respect of the highest paid Director was:

	2015	2014
	£000	£000
Emoluments	**210**	285
Defined pension contributions	**25**	15
	235	300

Included within aggregate emoluments set out above is a termination payment of £0.1m to Peter Brigham, Technical Director, who left the Company during the year.

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 £0.1m.

On 22 September 2015, John Gahan exercised 55,555 of his 125,000 share options awarded 24 April 2014 at an option price of 200.00p per share. At the date of exercise the share price was 320.00p per share and the gain on these share options amounted to £0.1m.

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 £0.2m.

Emoluments amounting to £26,000 (2014: £12,000) have been waived by one Director (2014: 1 Director).

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 £39,500 (2014: £12,000) for the provision of William Payne's services as a Non-Executive Director and £11,665 (2014: £33,000) for accounting and management services. At the year end the Company owed Wilkins Kennedy LLP £nil (2014: £7,000).

31. Post balance sheet events

With effect from 1 January 2016, Sprue has agreed to amend supply terms with DTL. The details of the amended supply terms are as follows:

- Working in partnership with, and at Sprue's request, DTL has made significant investment in its new high technology manufacturing facility and is bearing increases in Chinese labour costs. Sprue has agreed to accept modest product price increases to reflect a share of the incremental costs incurred by DTL. The new CICAM manufacturing facility has significant capacity above current production levels which Sprue can utilise as product volumes increase over time.

- Sprue has agreed to share equally the impact of Sterling's depreciation against the US Dollar from a previously fixed rate of GBP/US Dollar 1.62 exchange rate.

  Furthermore, the parties have agreed to an annual retrospective volume/12 month average foreign exchange rate rebate mechanism which effectively increased the Group's foreign exchange rate risk on Sterling v US Dollar purchases with effect from 1 January 2016, despite the Group continuing to acquire products from DTL in Sterling.

- At the expected current volumes and the current GBP/US Dollar exchange rate, this results in significant product on cost on all DTL sourced product this year. However, should purchase volumes increase and/or the average GBP/US Dollar exchange rate improve from the current level, Sprue will see its share of the benefit.

- Sprue continues to purchase all Sprue and BRK products from DTL on 90 day landed credit terms.

In January 2016, the Group prepaid £450,000 in respect of software licences granted by Intamac Systems Limited ("Intamac") in accordance with a Software Development Agreement to enable Sprue to connect and monitor its products over the internet.

Board of Directors

EXECUTIVE

G Whitworth — *Executive Chairman*
J Gahan — *Group Finance Director*
N Rutter — *Managing Director*
N Smith — *Chief Executive Director*

NON-EXECUTIVE

W Payne — *Senior Independent Director*
A Silverton
T Russo
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 Phillips 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
(formerly Westhouse Securities)
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, UK

Telephone: 024 7771 7700
Fax: 024 7669 3610

Email: info@sprueaegis.com

Website: www.sprueaegis.com

FINANCIAL CALENDAR

Financial year end	31 December 2015
Full year results announced	26 April 2015
Annual General Meeting	30 June 2016
Ex-dividend date for final dividend	7 July 2016
Record date for final dividend	8 July 2016
Final dividend payment	22 July 2016

Thank you for your continued support.

For any further enquires please contact us:

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