Sprue's Purpose

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

Think Ahead

Think Customer

Think Team

Leverage Leadership Within Existing Markets

Best Ever Quality, Service and Availability

New Markets and Channels

The Multi-Sensing and Connected Solution Provider

Building long term shareholder value

Our Brands

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

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

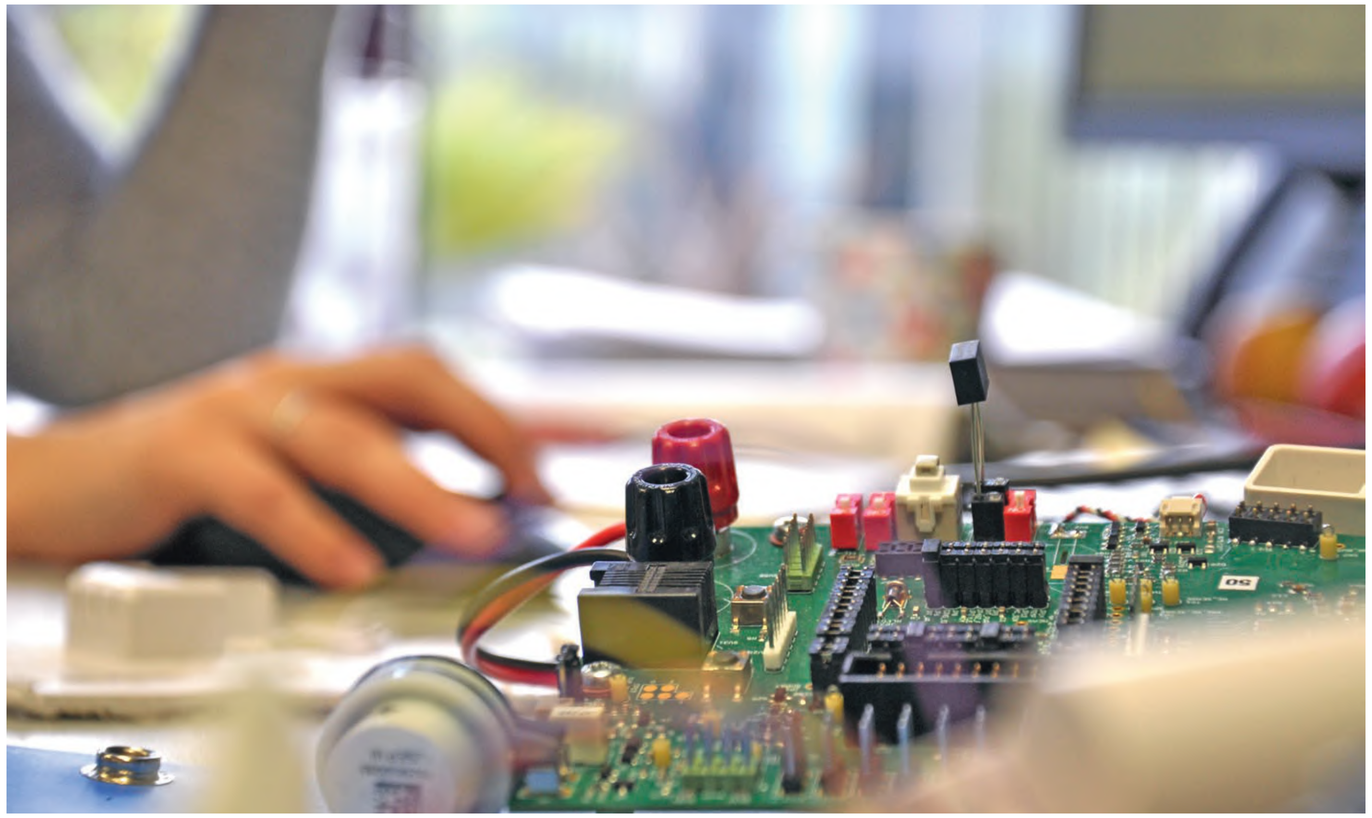
AngelEye. Launched in 2012, Sprue sells smoke alarms and CO detectors principally into the French market under the AngelEye brand which has become a leading brand targeted at the DIY channel in France.

FireAngel Pro. Mains-powered smoke and heat alarms with a 10 year, sealed for life lithium battery back-up. Modern design, quick fitting, tamper-proof mounting plate which locks the alarm head securely in place.

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

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

FireAngel. FireAngel. Pro AngelEye.



Nick Rutter
Co-Founder

Building A Bigger, Better And More Profitable Business

Innovation built on technology

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

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

FireAngel FireAngel Pro
AngelEye

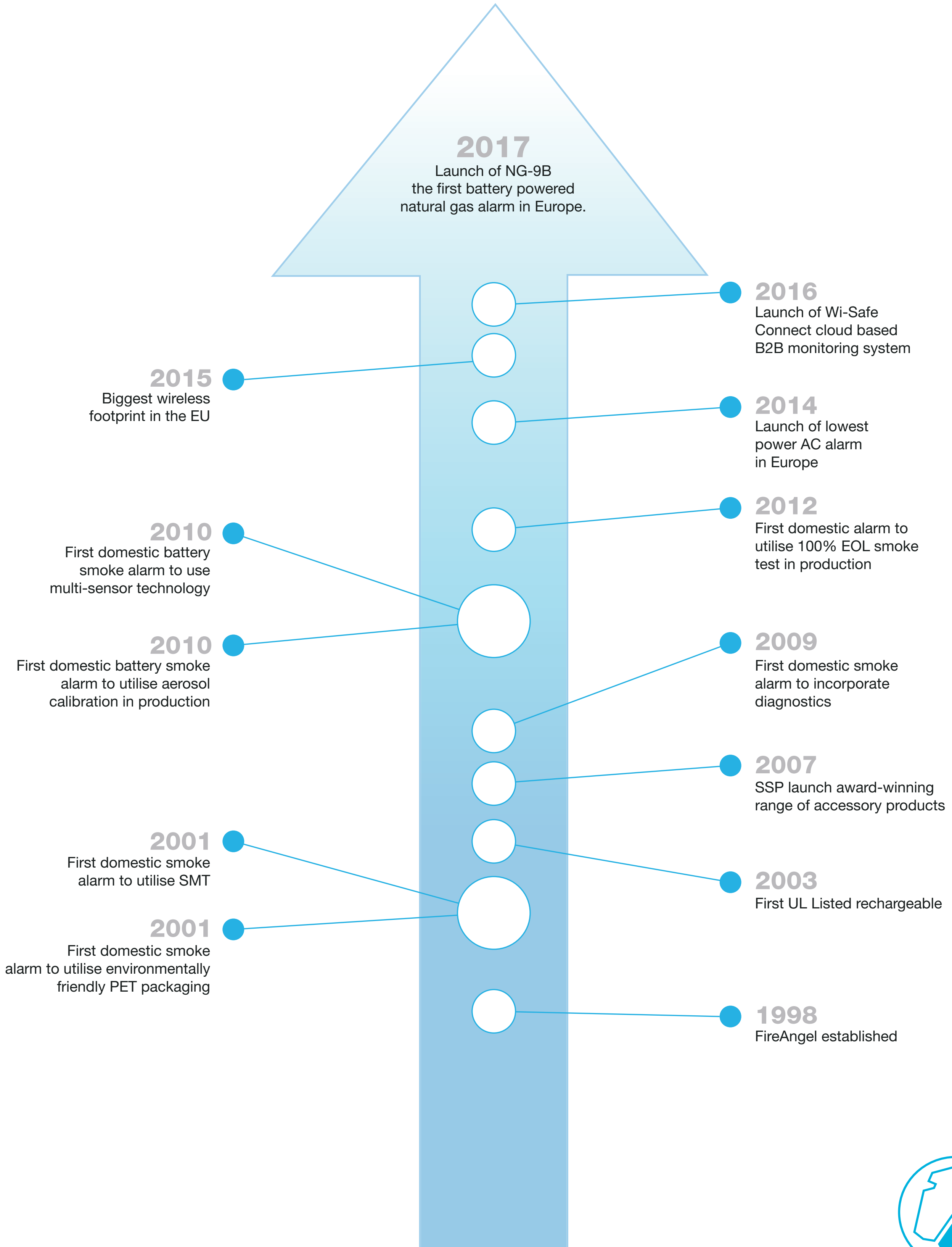
Building brands

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

Execute

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

Developing Technology Through Innovation



Market Leading Technology

FireAngel CONNECT

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

Enhanced Protection

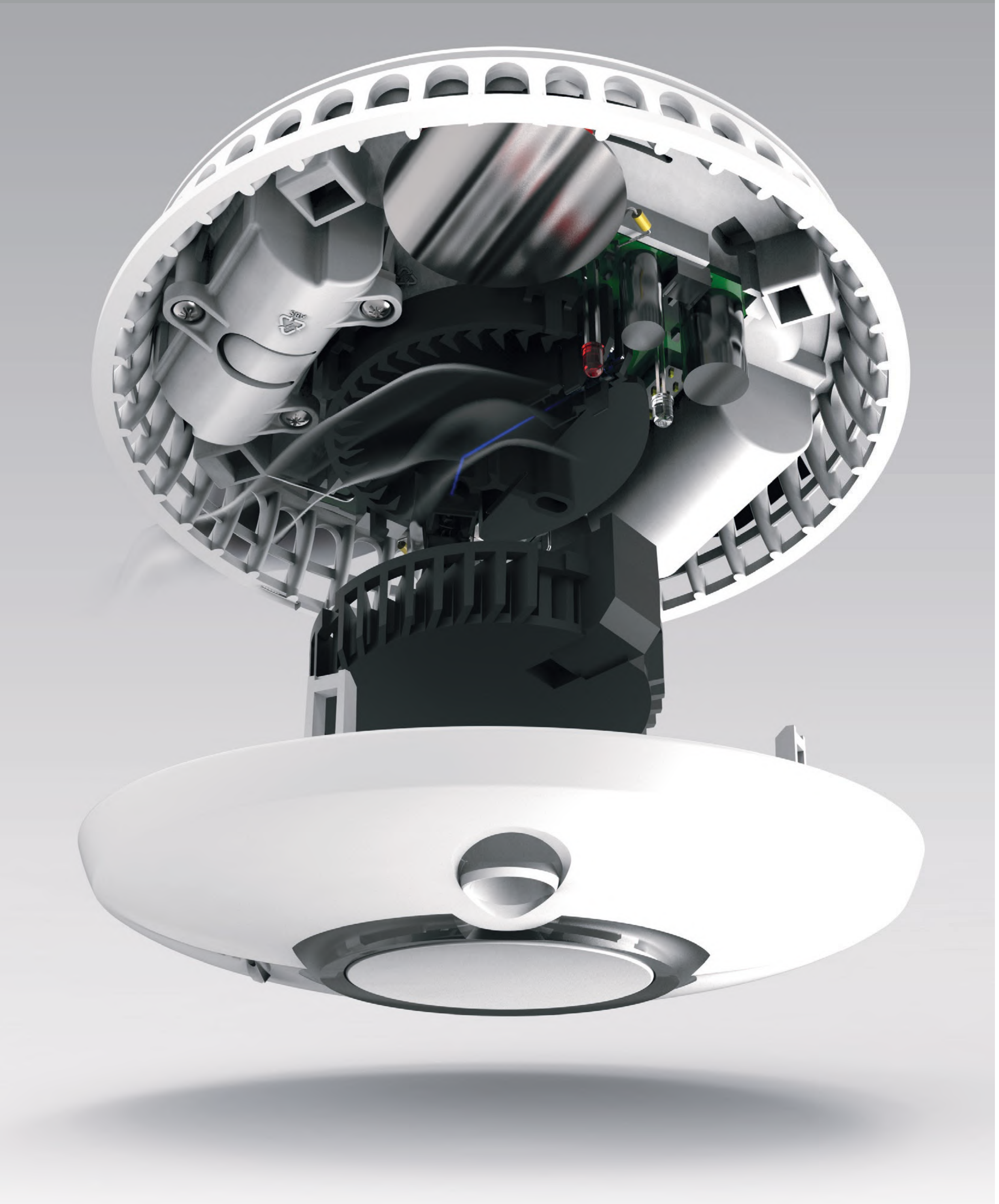
The Wi-Safe 2 range of products are designed to provide an enhanced level of fire and carbon monoxide safety for high risk individuals such as the deaf, those with mild to moderate hearing loss, children and people under the influence of alcohol or drugs.

Simple Connection

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

Intelligent Locate

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



Smoke Sensing Technology

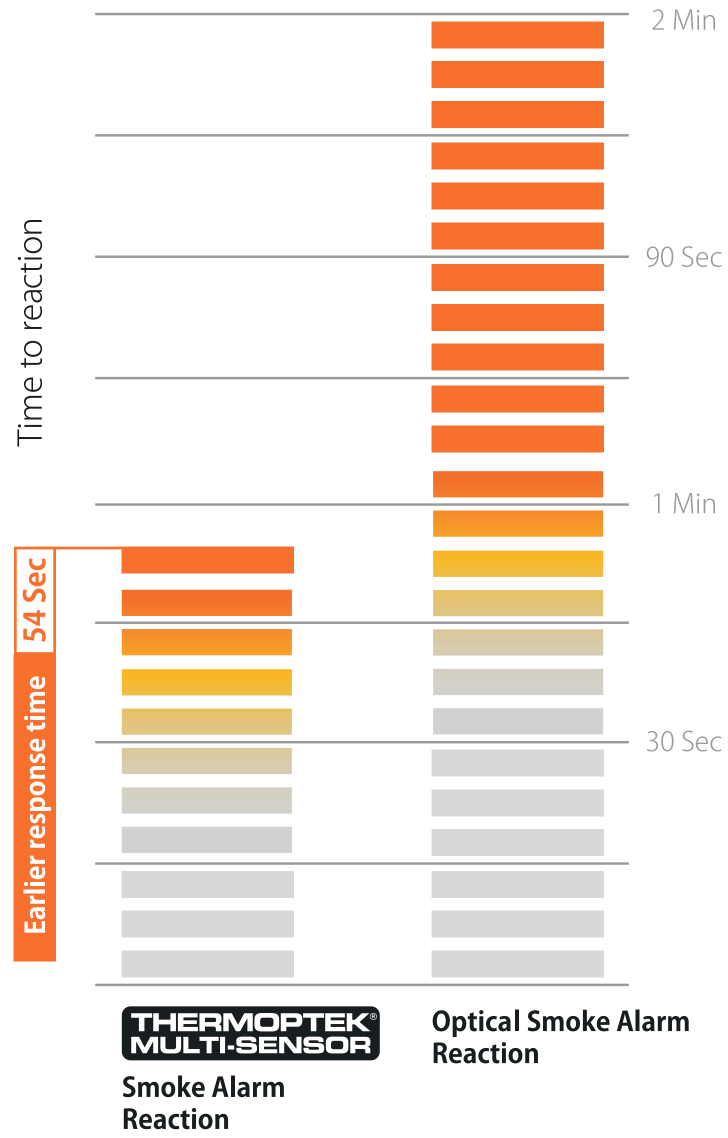
THERMOPTEK® MULTI-SENSOR

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

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

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

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



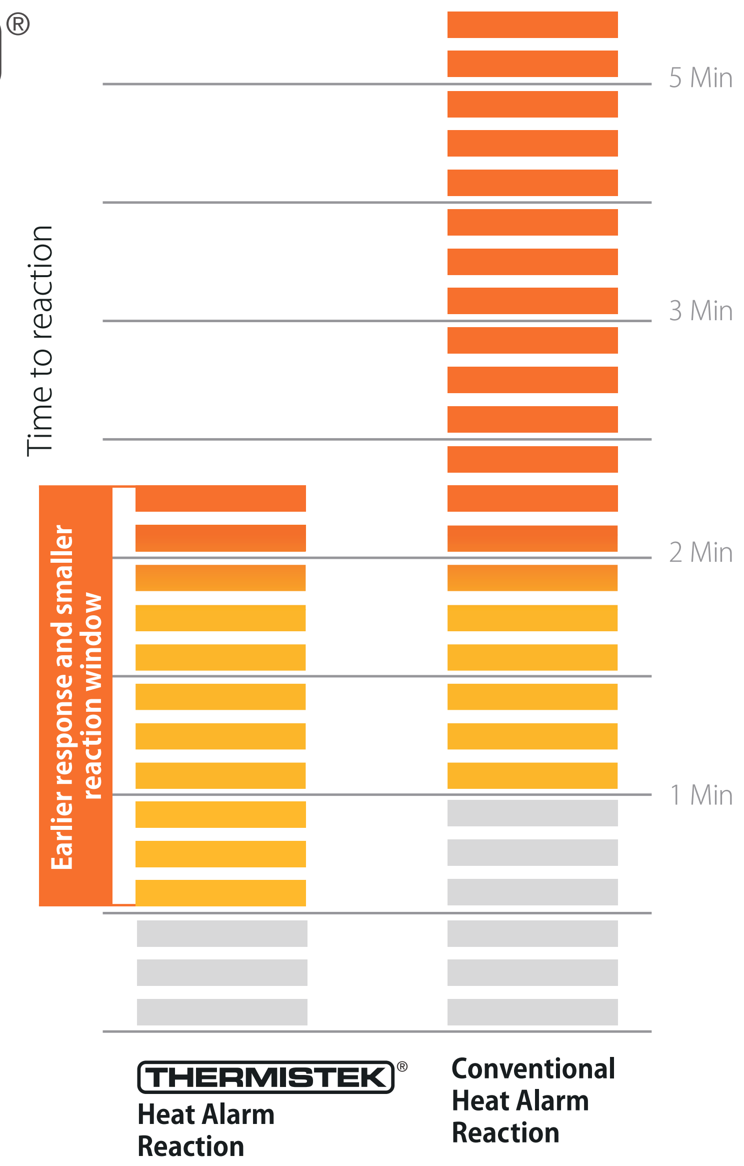
As tested against FireAngel alarm with Thermopotek® Multi-sensor decommissioned

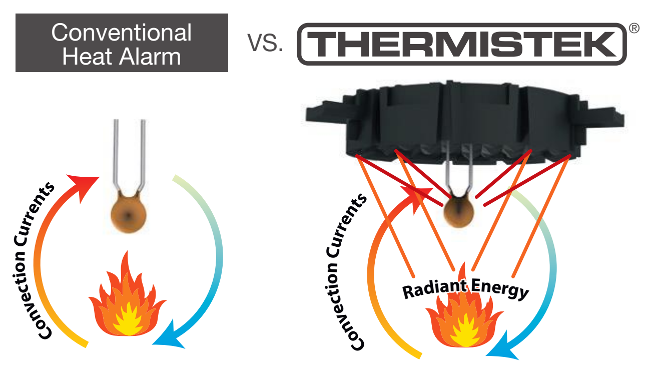
Heat Sensing Technology

THERMISTEK®

Class A1 radiant heat dish for a faster response.

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





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

Strategic report

Corporate governance

Financial statements

Strategic Report

In this section:

- Financial and operational highlights of our year, Termination of DA and MA and Settlement Agreement
- About us
- Our business model
- Executive Chairman's statement
- Group Chief Executive's review
- Our KPIs
- Financial review
- Our risks and risk management
- Our financials
- Corporate social responsibility

Financial highlights

- Group revenue of £54.3m (2016: £57.1m)
- Adjusted operating profit pre-exceptional charge* of £4.7m (2016: £2.2m)
- Operating profit of £0.5m (2016: £1.5m)
- Adjusted profit before tax pre-exceptional charge* of £4.7m (2016: £2.3m)
- Exceptional charge for Settlement Agreement with BRK of £3.8m included in cost of sales (2016: exceptional restructuring charge of £0.2m included within administrative expenses)
- Profit after tax of £0.5m (2016: £1.8m)
- Adjusted gross margin** increased to 33.1% (2016: 28.6%), principally due to a significant reduction in product warranty and product screening costs
- Basic EPS post-exceptional items of 1.1p per share (2016: 4.0p per share)
- Maintained investment in intangible assets of £3.6m (2016: £3.9m)
- Net cash of £3.3m as at 31 December 2017 (2016: £14.3m) and no debt (2016: £nil)

**Adjusted operating profit and profit before tax are stated before an exceptional charge for the Settlement Agreement with BRK of £3.8m (2016: £0.2m restructuring charge) and share-based payments charge of £0.4m (2016: £0.6m)*

***Adjusted gross margin is stated before the BRK distribution fee of £2.9m (2016: £3.0m) and before the exceptional charge for the Settlement Agreement with BRK of £3.8m (2016: £nil)*

Operational highlights

- Expanded revenue channels with major customer wins across UK Retail, Trade and EMEA
- Launched Wi-Safe Connect and Z-Wave compatible alarms expanding the Company's connected homes proposition
- Maintained market-leading position in CO alarm provision in the UK supporting national marketing campaigns
- Launched Europe's first domestic battery powered gas alarm as a range extension product
- Acquisition of final core modules of Intamac Systems' source code for £0.9m in cash to enhance the Group's connected home product offering
- Product warranty returns and warranty costs were in line with the Board's expectations
- Manufacturing of Sprue's own products at Flex in Poland is underway and on track
- The Board proposes to seek shareholder approval at the Company's forthcoming AGM to change the Company's name to FireAngel Safety Technology Group plc

Termination of Distribution Agreement ("DA") and Manufacturing Agreement ("MA") and appointment of two new strategic manufacturing partners

- On 31 March 2017, Sprue received the requisite 12 months' written notice from Newell Brands Inc. ("Newell"), to terminate the DA entered into between Sprue, BRK Brands Europe Limited ("BRK") and Jarden Corporation (now owned by Newell) and the MA with DTL, a subsidiary of Newell (the "Termination")
- Termination ended Sprue's obligation to pay the fixed BRK annual distribution fee of £2.9m and Sprue's right to distribute BRK's products and brands in Europe, both with effect from 31 March 2018
- As announced on 31 March 2017, the Company entered into a manufacturing and supply agreement with Flex to source a range of smoke and heat alarms and accessories from Flex's facility in Poland together with a new supply agreement with a leading manufacturer based in the Far East to purchase alternatives to the BRK products

Settlement Agreement

- As announced on 10 May 2018, Sprue signed a settlement agreement (the "Settlement Agreement") with BRK Brands Inc, BRK Brands Europe Limited, Jarden LLC and Detector Technology Limited (together "BRK") in full and final settlement of all matters between the parties
- As a result of signing the Settlement Agreement, Sprue has booked a £3.8m exceptional charge as part of cost of sales in these results which includes £3.4m to write down the book value of the remaining BRK inventory as at 30 April 2018 to £nil (as Sprue will no longer be selling BRK inventory), provisions of £0.2m to cover disposal (scrappage) costs of BRK inventory manufactured before 1 January 2017 and £0.2m to cover the Group's legal and professional fees incurred since 22 March 2018 in respect of the dispute with BRK

About us

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

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

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

Sprue manufactures CO sensors at its subsidiary, Pace Sensors for use in its CO alarms. All other manufacturing and product assembly is outsourced and from 31 March 2018, almost all of the Group's product cost base is sourced in US Dollars. Currently, Sprue's own smoke, heat and accessory products are manufactured in China by Newell Brands. However, from 31 March 2018, Flex, Poland will commence the supply of such products and the Group will cease to use Newell Brands as a supplier. The Group's own carbon monoxide detectors are manufactured at Pace Technologies in China.

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

Our business model

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 did not meet customer needs
- Products must have potential global sales potential
- Products must use plastics and electronics (as this was the area most familiar to Nick)
- An ability to leverage economies of scale of manufacture with low cost manufacturers

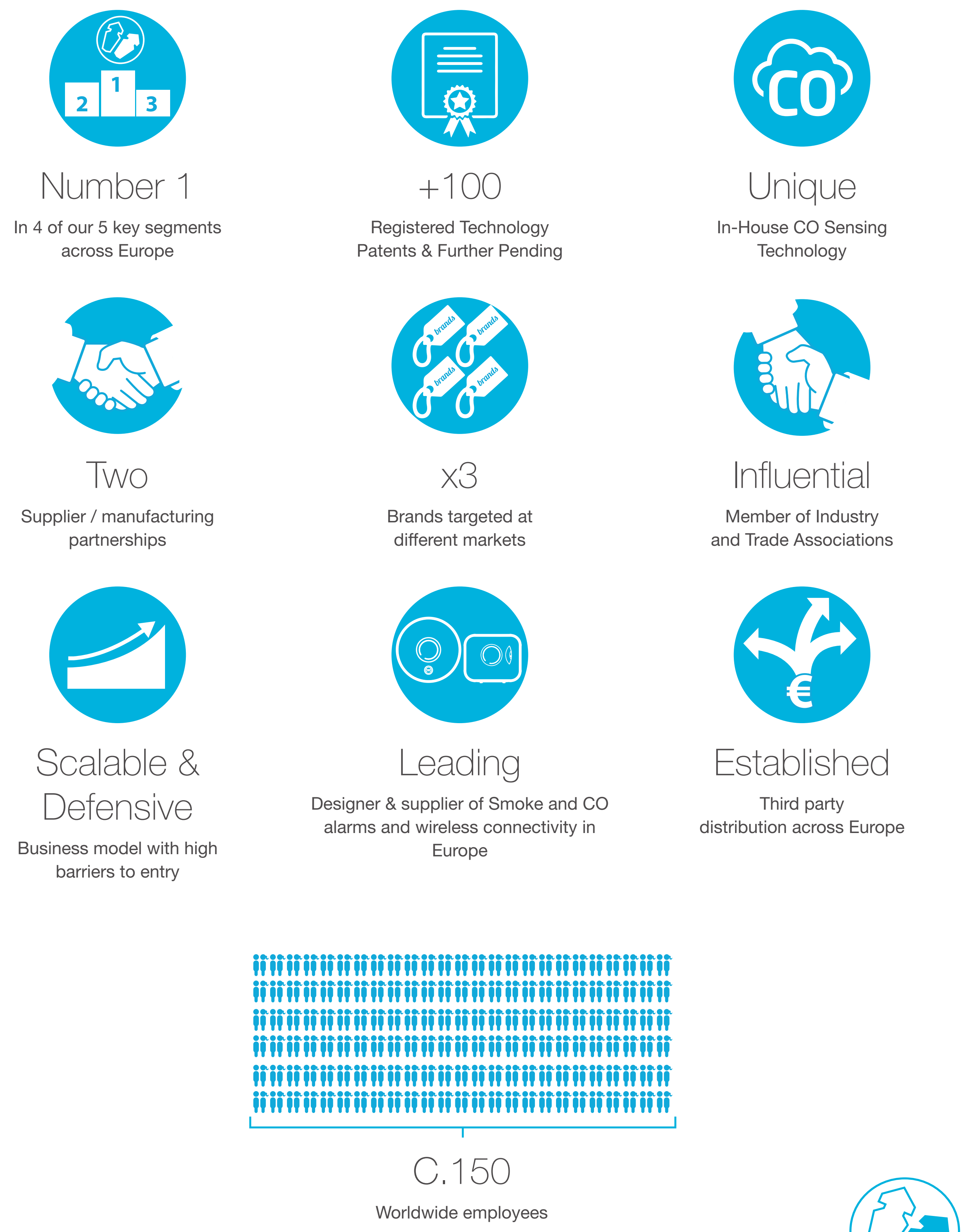
After a huge amount of product testing and validation work, Sprue with Nick as the Managing Director, launched the world's first plug-in smoke alarm. Since that ground breaking design, Sprue has gradually extended its product range and expanded to become the business it is today with over 400 stock keeping units ("SKUs") of smoke, CO and wireless products sold under its principal brand of FireAngel. As part of the transition to manufacture products at Flex in Poland, the total number of SKUs is set to reduce to approximately 200.

Our customer-centric approach, combined with a comprehensive product range, world class third party manufacturing capabilities and high barriers to entry through product certification, makes our business model robust and defensible. In turn, this enables us to build strong, long lasting partnerships with key customers to maintain and gain market share. Over time, we want to become *the* European market leader selling FireAngel branded products of choice in each of the markets we serve.

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

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

Sprue At A Glance



Executive Chairman's review

Overview

The Company once again proved its resilience and reported a much improved adjusted operating profit* in 2017 of £4.7m (2016: £2.2m) against a backdrop of significant changes to the Group's supply chain arrangements, brand and product range consolidation and the continued development of the product roadmap. Across the business, we invested a large amount of time on the transition to manufacturing Sprue's own products at Flex in Poland, where we are pleased to report that production has commenced and the first smoke alarm products are due to be shipped to Sprue later this month, to be followed by heat alarms and accessories as production increases.

Adjusted gross margin improved by 4.5% to 33.1%, still a long way away from, but moving towards the Board's medium terms 40% target. The improvement in gross margin was helped by a significant reduction in total warranty and screening costs. The introduction of new products and more connected products is expected to lead to further material improvement in gross margin over time.

**Adjusted operating profit and profit before tax are stated before an exceptional charge for the Settlement Agreement with BRK of £3.8m (2016: £0.2m restructuring charge) and share-based payments charge of £0.4m (2016: £0.6m)*

Settlement Agreement

As announced on 10 May 2018, Sprue signed a settlement agreement (the "Settlement Agreement") with BRK Brands Inc, BRK Brands Europe Limited, Jarden LLC and Detector Technology Limited (together "BRK"). In summary, and in consideration for a full and final settlement of all matters between the parties, it has been agreed that:

- BRK will purchase from Sprue all BRK inventory manufactured from 1 January 2017 for £1.02 million to be paid by way of deduction from payments due by Sprue to BRK under the terms of the DA, save for 3,097 units required by Sprue for its ongoing warranty purposes;
- Sprue will provide warranty support to its customers on all BRK products manufactured before 1 April 2018 and provide transitional support to ensure an orderly handover as part of the settlement agreement;
- Sprue will dispose of all BRK inventory manufactured before 1 January 2017 at its own cost, save for 4,857 units required by Sprue for its ongoing warranty purposes;
- BRK approves the sale by Sprue of excess stock of Sprue's CO products using BRK's brands valued at approximately £300,000 for a period of 6 months;
- Sprue grants BRK a 12 month non-exclusive licence for its relevant intellectual property, including registered patents and design registration; and
- Sprue will pay the outstanding balance of payments, amounting to a total of £10,972,484.88 and $71,071, owed to BRK under the terms of the DA and the MA in monthly instalments by 24 December 2018.

As a result of signing the Settlement Agreement, Sprue has booked a £3.8m exceptional charge as part of cost of sales in these results (2016: £0.2m exceptional restructuring charge in administrative expenses) which includes £3.4m to write down the book value of the remaining BRK inventory as at 30 April 2018 to £nil (as Sprue will no longer be selling BRK inventory), provisions of £0.2m to cover disposal (scrappage) costs of BRK inventory manufactured before 1 January 2017 and £0.2m to cover the Group's legal and professional fees incurred since 22 March 2018 in respect of the dispute with BRK.
After taking account of exceptional charges, the Group reported a profit before taxation of £0.5m (2016: £1.5m).

New sourcing arrangements

We are pleased to confirm that Flex, Poland has commenced manufacture of Sprue's products and the Far East based supplier has commenced supply of alternatives to the BRK products in April 2018. While the significant amount of activity across the business to ready the Group for this transition has been a significant distraction, we now look forward to re-energising our sales efforts in 2018 selling a consolidated range of products.

Although we do not expect any significant disruption to our supply chain as we migrate to the new sourcing arrangements, we continue to monitor stock levels and the availability of components that are on longer lead times. Supplies of the Group's carbon monoxide detectors from an independent third party supplier in China are unaffected. Through a combination of a brand and SKU consolidation exercise, which is already underway, and by sourcing from Poland, we expect to significantly reduce our inventory by the end of this year.

Since entering into the DA and MA in April 2010, the relationship with BRK has served us well and provided the Group with an enviable list of sizeable customers in UK Trade, together with a number of well-established exclusive key distributors that sell the Group's products in Continental Europe. However, last year, both Sprue and BRK considered that the DA and MA arrangements had run their course. The Board believes that Sprue has market leading IP and technology, great products and strong brands and will continue to be successful following the conclusion of its relationship with BRK.

The Group does not require any technology or products from BRK to continue its business. The Settlement Agreement announced on 10 May 2018 draws a line under the relationship with BRK and leaves both companies free to move forward unfettered after a relationship that lasted just over eight years.

Saving of BRK distribution fee in 2018 of £2.0m and £2.9m each year thereafter

The saving of the annual BRK distribution fee of £2.0m in 2018 and £2.9m each year thereafter represents a substantial reduction in the fixed costs of the Group.

HSBC £7m revolving credit facility

In late January 2018, the Group entered into a committed 3 year revolving credit facility with HSBC Bank plc for £7.0m ("RCF") to fund the Group's working capital. On 29 March 2018, the Group drew down £3.0 million under the facility to increase available short term cash resources which was subsequently repaid during the 30 day draw down period. Notwithstanding the financial impact of the Settlement Agreement, the Board are confident that the group will comply with terms attaching to this facility and that it will be available for the 3 year term.

Product costs

The changes we have made to the supply chain bring greater certainty to our future product cost base. As production volumes normalise, and we use Flex to introduce improved design for manufacture features, new product introductions and increased volumes will help to improve the Group's gross margin.

Sourcing products from Flex and the Far East supplier instead of Detector Technology Limited (where the Group had the benefit of an agreed Sterling / USD exchange rate sharing mechanism with Newell), will increase the Group's product costs in the short term at the Group's budgeted exchange rate of Sterling / USD 1.40. The average Sterling / USD exchange rate in 2017 was 1.30.

Since 1 April 2018, in addition to all carbon monoxide sensors that are already purchased in USD, the Group now sources almost all of its other products in US Dollars. The Group hedges exchange rate risk using forward contracts to smooth the impact of exchange rates on the Group's results.

Strategy for new products

We have a clear strategic objective to develop our technology in-house. We want to offer our customers innovative and market leading products in the growing area of connected home arena where the market dynamic requires easy to use connected and "smarter" solutions. This will allow us to compete for new and emerging market opportunities.

The purchase in 2017 of the final core software modules from Intamac Systems Limited ("Intamac") for £0.9m in cash will help the Group to expand its addressable markets with added functionality to its current connected home solutions product offering. In future, we expect that the majority of home safety product devices that the Group sells will become internet connected.

In addition to the £2.7m investment in intangible assets made in the year (2016: £2.2m) and the purchase of Intamac software costs of £0.9m (2016: £1.6m), the Group purchased tooling at Flex at a cost of £1.4m (2016: £0.5m other property and equipment). The Board is committed to continue to invest in the Technical team in Coventry to provide the products and technology for the future.

Our partnership with Samsung SmartThings™ and our OEM relationship with Siemens are strong endorsements of our products and our connected homes technology offering.

Dividend

In light of the £3.8m cash cost in 2018 as a result of signing the Settlement Agreement, the Group's reduced prospects for 2018 as outlined below, the long term higher capital costs the Group faces using a third party contract manufacturer and the Board's commitment for continuing significant investment in new products and technology, the Board is not recommending payment of a final dividend in respect of 2017. The total dividend payable for 2017 is therefore 2.5 pence per share (2016: 8.0 pence per share).

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

Board changes

On 31 March 2017, Tom Russo resigned as a Non-Executive Director of the Company with immediate effect. Mr Russo was appointed to the Board in September 2011 as the nominated director for Jarden Corporation (which was acquired by Newell Brands in early 2016). Following the announcement by Newell to terminate both the DA and MA, it was agreed by mutual consent that Mr Russo should resign. I would like to take this opportunity to thank Mr Russo for his contribution while a director of the Company.

Post-year end, on 5 March 2018, the Company announced that John Gahan, the Group Finance Director, had resigned as a director of the Company with immediate effect. In line with his contractual obligations, John will be available to the Company during his notice period. The Board has commenced the process to recruit a replacement. I wish to place on record the Board's thanks to John for the contribution he has made to the Company since joining in 2010 and wish him all the best in his future endeavours.

People

Our people have worked extremely hard to help us position the Company for the future and to ensure that Sprue thrives with the new independent supply arrangements. I would like to thank all my colleagues for all their hard work and commitment to ensure the smooth transition to the new suppliers. In addition, I wish to also thank all of our colleagues at Flex who have helped to make this project happen in such a short space of time.

Our employees are critical to the successful execution of our strategy. Every year, Sprue delivers millions of home safety products to customers across Europe and our employees ensure the products are delivered to the right specification and to the right place at the right time and at the highest possible quality level. What we have achieved through our people, makes me very proud. Sprue has a unique team of highly talented individuals who are focused and working as one team under Neil Smith's excellent leadership as Group Chief Executive.

Proposed change of the Company's name

The Company proposes to seek shareholder approval at its 2018 Annual General Meeting to change the Company's name to FireAngel Safety Technology Group plc. The proposed change of name reflects the Group's renewed focus on its core brand, FireAngel, and on the development of innovative home safety technology, including its connected home products offering. It also takes the Company back to its early "roots" centered on building value in its core brand, FireAngel.

Summary

Overall, 2017 was a pivotal year for Sprue in which we reset the direction of the Company for the years ahead. The Settlement Agreement with BRK was a disappointing and unfortunate end to our eight year relationship, but it drew a line under the relationship and gives both parties a "clean break" to pursue their own goals and objectives.

The manufacture of Sprue's products at Flex, Poland has commenced and the Far East based supplier has commenced supply of alternatives to the BRK products. As an independent supplier, Flex is willing to work closely with Sprue to improve product quality and help deliver Sprue's exciting new product roadmap whilst reducing the time to market of our new products. We also expect to benefit from shorter lead times and product cost reductions over time as production volumes at Flex increase.

Outlook

Sales in the four months to 30 April 2018 are approximately 20% lower than the previous year primarily because of lower sales into Germany due to overstocking.

Whilst the Board believes that manufacturing Sprue's products at Flex, Poland, plus the investment into technology building blocks will open up growth opportunities, and is the right move for the Group strategically, in the short term, this has impacted the Group's trading as management has been focused on the transition plan, and latterly, on settling the dispute with BRK amicably.

Disruption from the transition to the new FireAngel range, new product introductions and lower than anticipated sales into EMEA in 2018, largely due to weaker sales into Germany due to overstocking is expected to result in reduced prospects for the Group in the current financial year. In addition, the Company's 2018 results will be more heavily weighted towards H2 than has been the case in recent years as we install new FireAngel retail ranges, potential new sales emerge and sales into Germany are expected to recover in H2. Therefore, the Board expects that the Group will report an operating loss for H1 2018.

In addition, the Group's sales and operating profit for the full year are likely to be significantly below the previous market expectations. .

However, the Board expects the Company's operating results to improve significantly in 2019 and beyond when there is no BRK distribution fee to pay and, as expected, sales increase into newly emerging channel opportunities, recover in the Group's key market, Germany, together with sales growth in UK Retail and UK Trade.

Taken in the context of the challenges faced throughout the year and the Settlement Agreement signed with BRK post year end, the Board believes that the Company can look forward with confidence as an independent company once again putting its technology and the FireAngel brand at the heart of its product offering.

The Group has a new sense of direction and purpose. Our employees feel it and our customers see it. We shall continue to invest in our Technical team to deliver the strongest product roadmap in our history and, combined with emerging new partnerships, channels and market opportunities, this will help us become a stronger and more profitable technology-led business. We continue to pursue a number of other potential significant contracts and partnering opportunities and if any of these opportunities are successful, the outlook for the Group's sales and operating profit will therefore improve.

Graham Whitworth
Executive Chairman
14 May 2018

Key performance indicators

Introduction

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

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

- Sales performance. Sales are reviewed each week to assess individual Business Unit performance against budget and to ensure all sales opportunities are pursued. Sprue seeks to build long term customer relationships and grow its revenue with new customers and the sales of new and higher technology products at higher price points and better margins to improve sales mix.

- Gross margin % (excluding the BRK distribution fee). Gross margins by Business Unit are reviewed to identify areas to improve the profitability of the Group. The Group accepts that different market segments have varying gross margin opportunities, depending on the level of competition in the relevant market and where Sprue's products and brands are positioned in the market. The Group's long term target gross margin is 40% and in Flex Poland and Pace Tech, the Group has two key suppliers that are committed to driving down product costs.

- Operating margin %. The fixed costs of the business are carefully managed to ensure that in conjunction with the gross profit generated, the Group can generate an acceptable level of operating margin. The Group's target operating margin is in the range of 15% to 20% return on sales.

- Basic EPS. The Group seeks to reward its shareholders with an annual dividend. The Group's target dividend cover is 1.25x Profit After Tax.

- Net working capital. The Group seeks to proactively manage its working capital to ensure that it minimises its asset base to maximise cash flow from which to pay dividends.

- Free cash flow. Free cash flow is cash flow to service of dividends but is stated after the capital costs of investment in product development and third party capital costs for specific tooling and equipment which, with the transition to Flex, Sprue will now pay its supplier for directly.

- Net investment in R&D. The Group's principal source of product differentiation is through investment in its technology base, rather than simply price. The Board regularly reviews the Group's product road map to ensure its internal investment is focused on the right areas and that products come to market on time.

- Product warranty returns. In addition to the financial KPI's set out above, the Group records and monitors all free of charge replacement products issued to customers under the Group's warranty procedures. Warranty returns by market and by year of manufacture are reviewed and monitored and presented to the Board to ensure that the pattern of warranty returns is in line with expectation.

Commentary on Key Performance Indicators as above are set out in the Financial Review on pages 26 to 28.

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 risks of most concern to the Board and those that have been the subject of debate at recent Board or Audit Committee meetings. It is recognised however, that no risk management strategy can provide absolute assurance against loss.

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

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

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

Significant risks, which are defined with reference to magnitude of impact and likelihood of occurrence, are escalated to the Group Chief Executive, Executive Chairman and Group Finance Director and if appropriate, formally reviewed by the Board to assess the financial impact on the Group and to determine the optimum course of action to address these risks.

Risks and uncertainties

An outline of the key risks and uncertainties faced by the Group is as follows:

Issue	Risk	Mitigation
Competition	A handful of home safety product competitors compete against Sprue. These companies vary in the relative strength of their product offering compared to Sprue. As competitors launch new products, our success may be affected which could either reduce or enhance Sprue product sales.	Sprue maintains a state of high vigilance and regularly reviews competitor products. Our continued investment in new products and technology range provide a barrier to new entrants in the market. Certification costs per product are high, estimated at approximately £0.1m per new product which also acts as a significant barrier to entry.
Changing trends in the market place	The introduction of connected home products and solutions with companies seeking to connect and monitor products in the home via the internet could potentially reduce the popularity of standalone safety products in Sprue's market place.	Sprue is selling its own connected home solution products and is increasing its investment in technology and products which connect to the internet. Sprue continues to invest heavily in product technology to reduce the cost of connected home solutions and to seek to ensure that our products are the "products of choice" for our customers.
Changing supplier relationships	As announced on 31 March 2017, the Group appointed Flex in Poland to supply its own smoke, heat and accessory products, and a Far East based supplier to replace the BRK products sourced from DTL up to 31 March 2018. Sprue continues to source CO products from Pace Tech in China (which buys all the CO sensors from the Group's small CO manufacturing facility in Canada)	Relationships with suppliers are managed through Sprue's supply chain team which reports into the Group Chief Executive. Sprue has contracts in place with its key suppliers and seeks to operate within the contractual terms for the mutual benefit of all parties. The transition to Flex and the Far East Asian supplier introduces the potential of supply chain disruption risk in the short term but these risks are being closely managed by the business. Manufacturing at Flex is on track and we do not expect any significant disruption to product supply.
Product defensibility	It is possible that new products and technologies may emerge in the future as more viable alternatives to Sprue's products.	Sprue dedicates significant levels of the Group's resources to product development and research to keep the business and its products at the forefront of technology. Sprue seeks to stay abreast of emerging market trends to position the Group to exploit and commercialise such technologies as they appear. Sprue regularly reviews other technologies to ensure that it has the right technology and engineering capability in house. Sprue's established Technical team and its know how is a significant source of competitive advantage for the Group.
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, third parties could seek to	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 significant barrier to entry to competitors. Sprue is not dependent on any one single patent for sales. Sprue's products are protected by over 52 granted patents in our major markets and we continue

	copy or find a "work around" Sprue's registered technology to source competitive products.	to register new patents to protect our IP where the Group believes it is appropriate to do so.
Distributor relationships	Sprue works with third party distributors of its products in Continental Europe who own the key customer relationships and undertake marketing support activities to drive revenue in the markets which they serve. 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. Given the significant concentration of sales in a handful of distributors, Sprue closely monitors sales by the third party distributors. From time to time, the Group has financially supported its distributors with extensions to distributor's payment terms.	Sprue has contracts with most of its major distributors. Many of these relationships are well established and in some cases, the distributor only or mainly sells Sprue's products. Sprue ensures that the contractual relationships with its customers are fair and commercially beneficial for both parties. Sprue monitors outstanding credit balances owed by distributors to minimise potential bad debt risk for the Group. From time to time, overstocking in the distribution channel may cause financial pressures on Sprue and its third party distributors depending on the sales conditions in the relevant market. The Group continues to keep in close contact with each of its distributors to monitor their sales and market conditions to maximise the sales potential of the distributor and Sprue.
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 experience product warranty issues. Products are designed to "fail safe" so that if a product is not 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. If a product fails, Sprue's liability is typically a free of charge replacement product although in certain markets, for example Germany, Sprue is liable to contribute to its distributor's costs to help its customers replace products that suffer warranty issues.	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. Most warranty issues are usually around the battery and where there are known issues with batches of a certain product, Sprue makes specific provision to cover 100% of the estimated warranty costs of providing free of charge replacements with a "no quibble" warranty policy. Product returns in each market are managed by Sprue's in-house Technical Support team which records all product warranty by date of manufacture. 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 had warranty provisions of £2.2m as at 31 December 2017 (2016: £4.6m).
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. It is important that the Group retains and recruits 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 across the Company. Sprue looks to create a supportive working environment and employees are encouraged to learn and develop in their roles through personal development plans.
International trade regulations	The Group's activities involve importing products and exporting products. 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. See comments on the potential impact of Brexit below.	Sprue closely monitors international import and export regulations and seeks to adapt its procedures 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. The Group also stocks products with low levels of radioactive particles in the "foils" contained within ionisation alarms which are sold in the UK.	The Group complies 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. Ensuring product certification is obtained in a timely manner helps ensure that the Group's sales are not affected by certification.

Risks following Britain's exit from the EU so called "Brexit"	The UK Parliament voted in favour of triggering Article 50, and on 29 March 2017, the UK Government duly gave the requisite notice, initiating a two year process for Britain to leave the EU. This means that the process of Britain leaving the EU is now legally in place. Following an eight week gap due to the UK General Election, negotiations between the UK and the EU began on 19 June 2017. The deadline for concluding the talks remains as 29 March 2019.	The Board remains vigilant and will continue to monitor the situation to ensure that the Company takes the appropriate steps to manage the potential impact of further movements in relevant currencies and potential changes in import duty arrangements to be able to effectively carry out its business. The Board expects the value of Sterling to fluctuate significantly during the Brexit negotiation phase. Tax legislation in EU member states and other countries, contains tax exemptions and tax reliefs (eg withholding tax and merger relief) that depend on whether or not the entities involved are EU domiciled. Once the UK leaves the EU, these exemptions and reliefs may no longer apply to transactions between UK entities and entities that remain within the EU. In those cases, additional tax liabilities may crystallize. It is uncertain which of these exemptions and reliefs will be renegotiated as part of the UK's exit. IAS 12 Income Taxes, the income tax accounting standard, requires entities to measure current and deferred tax at the amount expected to be paid to the taxation authorities, using tax rates and tax laws that have been enacted, or substantively enacted, at the end of the reporting period. However, the triggering of Article 50 gives rise to uncertain tax positions as it raises significant uncertainty about how the existing tax legislation will apply after Brexit. It has also raised uncertainty about the future tax status of entities, which may lead to changes in the accounting treatment. Given the uncertainties, we expect to continue to apply our current account accounting policies, until the position becomes clearer. We are not aware of any specific additional disclosures that are required in the financial standards at the current time but expect that as "Brexit" becomes clearer, this assumption will need to be revisited in due course. In addition, the carrying value of intangible assets will be kept under close review although the Board expects to continue to sell its products into Continental Europe post Brexit and beyond 31 March 2019, even if the UK is no longer in the Customs Union which is widely considered to be the most likely position by many commentators. Whether the UK will obtain access to the Customs Union (which could change the cost of imports etc) or access to the EU labour market remains to be finalised. Either way, without second guessing where the negotiation will end up, the Board believes that at the appropriate time it will take steps to protect its business. If that involved setting up a subsidiary within the Customs Union, that option remains on the table. With the introduction of Flex in Poland to manufacture the Group's own smoke, heat and accessory products, the Group will shortly start to source products from Poland. Poland has not adopted the Euro but has been a full member of the EU since 2004. Should the import duty regime change following the UK's exit from the EU, Sprue would review the import duty arrangements and adjust its product pricing (up or down) accordingly.
2017 UK General Election result	The UK General Election result – where no single party managed to win an outright majority – has injected additional uncertainty and instability into the Brexit process.	The likelihood of a "softer" Brexit – meaning single market and / or Customs Union membership has increased – though the central scenario remains a negotiation Free trade Agreement. A "no-deal" scenario also remains a risk. Fundamentally, the result does not change the need for the Board to take into account the impact of Brexit, as discussed above. Legal notice to exit the EU has been given and stands until and unless such notice to leave is withdrawn, which at the moment remains an unlikely prospect although this could change in the future. The Board continues to plan on the assumption that the UK is leaving the EU in March 2019.

Potential supply chain disruption with migration of manufacturing to Flex and the Far East supplier	Delays in product certification or delays in readying the production lines at Flex could delay the production ramp up at Flex. Delays in supplying products from the Far East based supplier could also potentially hamper sales.	Supported by Sprue's Project Management team, Sprue's Technical team has worked very closely with Flex and the Far East supplier to ensure continuity of supply when the DA ends on 31 March 2018. Sprue's own products have been certified before so the Board is not expecting any delays in securing product certification at Flex and the certification process is progressing well. Similar products to those to be sourced from the Far East have also been certified before and no disruption to the supply chain is expected as part of the transition to source from the far East supplier.
Future product prices from Flex and the Far East based supplier could materially change	The relationship with each of Flex and the Far East based supplier are relatively new and product prices could materially change if the indicated purchase volumes do not materialise and /or the expected design for manufacture and component sourcing synergies do not come through. In addition, the Group's product costs could change significantly if exchange rate between GBP and the USD changes significantly.	Sprue's Supply Chain and Technical team continue to work closely with the Group's suppliers to seek to mitigate any potential on costs. Sprue seeks to treat its suppliers fairly and to work closely to identify areas where product costs can be reduced for the mutual benefit of both parties, Where product cost increases cannot be mitigated by close working with suppliers, Sprue would seek to increase product selling prices to recover any potential on cost.

Group Chief Executive's Review

Introduction

Having reached reach a Settlement Agreement with BRK earlier this month, the management were finally able to close out both a time consuming and a major distraction for the business. The full and final settlement announced on 10 May 2018 means that we can return to executing our plans to drive growth and deliver long term shareholder value despite incurring a one-off £3.8m exceptional charge in these results and a £3.8m cash impact to be absorbed this year.

The revenue in 2017 was disappointing set against an otherwise productive and important year of transition, but despite lower sales, the Group more than doubled its adjusted operating profit* to £4.7m (2016: £2.2m).

Adjusted gross margin** increased from 28.6% to 33.1% mainly through a reduction in warranty and screening costs.

The modest growth during 2017 in UK Retail and Trade was encouraging, with a particularly strong Q4 trading period. However, sales into EMEA were 6% lower year on year impacted by slower sales into Germany in H2 2017. The German trade market is shifting dramatically to higher value connected alarms which, in the medium term is good news for Sprue, but, in the short term, will be challenging until our new connected product range targeting this market is available in early 2019.

The demand for connected products in Germany reinforces our connected strategy and the investments we have made to be the European market leader in Home Safety solutions combining, connecting and complementing our unique technology, products and services through our trusted brands.

We continued to invest in new technology throughout 2017 and purchased further core modules of software from Intamac to enhance our connected homes proposition. This includes software modules which will allow us to introduce a low-cost gateway and increase our market penetration into the B2C market later this year.

In March 2017, the Company announced two new strategic manufacturing agreements which will transform our business and improve Sprue's operational scale and geographic footprint. The Group signed a new manufacturing and supply agreement with Flex in Poland and an agreement with a leading supplier in the Far East. Both agreements afford Sprue greater control and certainty regarding its product roadmap along with manufacturing process and supply chain benefits.

The capital investments made have been significant, but are essential to ensure that we are well set for future growth as an independent business.

**Adjusted operating profit and profit before tax are stated before an exceptional charge for the Settlement Agreement with BRK of £3.8m (2016: £0.2m restructuring charge) and share-based payments charge of £0.4m (2016: £0.6m)*
***Adjusted gross margin is stated before the BRK distribution fee of £2.9m (2016: £3.0m) and before the exceptional charge for the Settlement Agreement with BRK of £3.8m (2016: £nil)*

Revenue growth

Our new product strategy is focused around the development of value added products across our standalone alarms and connected solutions that reflect the trends of customers seeking more *feature-rich* alarms and accessories.

The connected home market commands a price premium compared to the non-connected products currently sold across our core markets. Our connected products can be managed via the FireAngel Connect cloud-based administration system and interact via an app with tablets and smart phones.

The increase in average transaction values through higher specification product and sales mix, particularly through increased sales of carbon monoxide alarms along with Trade and connected products, should enhance both our top line revenue and profit contribution.

The good progress made in securing incremental sales and market share within new sectors, including German Retail, Poland, the Far East and the significant opportunities in which we are currently participating, are important as we extend our reach and reduce our reliance on any particular territory.

The launch of FireAngel technology products under the Siemens brand in Bauhaus, a leading DIY retailer in Germany, during 2017 has been very well received and we plan to expand our business partnership with Siemens. Within the German Trade market, we continue to build the FireAngel "P Line" brand and range of products which were launched in H2 2016. These products are all powered by Panasonic batteries with over 1.5 million units sold to date and, with a product returns rate of only 0.1%, our focus is to build advocacy and confidence around P Line within the German Trade market. Our new connected product range in 2019 will also feature Panasonic batteries and be sold under the FireAngel P Line brand.

New technology

Fire Angel Predict™ which was launched in Germany in February 2018 is reflective of the thinking and direction we are taking the business from a supplier of hardware to a solutions-based connected technology provider.

FireAngel Predict™ has been developed by the Company in-house and represents significant progress in the protection of people and properties from the risk of fire. Using the Company's cloud-based technology and unique predictive algorithm to monitor data in real time over the internet, FireAngel Predict™ identifies properties with an increased risk of fire so appropriate action can be taken *before* a potential incident occurs. The FireAngel Predict™ system improves protection of the occupier and property and potentially avoids the cost of addressing a fire.

This unique, patent pending technology has been developed using data from smoke alarms from past fires in conjunction with self-learning AI technology which will constantly refine and improve the system in the future.

Partnering with SmartThings™

Sprue entered into a partnership with SmartThings™ in September 2017 to certify the FireAngel Z-wave smoke and heat alarms as "Works with SmartThings™" devices, for use with the SmartThings™ platform. This exciting partnership is testament to the strength and trust in our brand and products and will extend the reach and connected products footprint under the FireAngel umbrella.

Control, certainty and cash benefits of our new supply chain

Ahead of the transition to Flex and our new Far East based manufacturer, our product range was reduced by over 50% which will deliver supply chain and operational efficiencies, increase forecast accuracy and significantly reduce the Group's inventory level. Sourcing from Flex in Poland will reduce our supply chain by approximately four weeks, which in turn will further reduce inventory levels.

The decision by Newell to give notice to terminate the DA for BRK and First Alert brands means that the Company no longer has to pay the annual BRK distribution fee representing an annualised saving of £2.9m in cash post-31 March 2018.

Higher levels of automation and product design changes to improve manufacturing efficiency will bring benefits of economies of scale combined with world class manufacturing processes and procedures ensuring consistency of quality and product performance thereby reducing future warranty costs.

Customers and markets

Over the course of 2017, the Board was pleased to secure multiple contract wins with major new customers, including:

- Bauhaus - leading German DIY retailer, marking Sprue's entry into the German retail market;
- Moyne Roberts (Ireland) - strengthening Sprue's position in Trade;
- Tyne & Wear Fire & Rescue Services;
- Bunnings UK and Bunnings New Zealand – enhancing Sprue's leading position in UK Retail and extending our reach in New Zealand

Based on customer feedback, it is clear that the FireAngel brand resonates well and, as a result, will become the central focus of our sales and marketing efforts. FireAngel is a huge brand asset which is trusted by our customers and organisations such as the UK Fire and Rescue services who have been fitting FireAngel products in homes for over 10 years. We will focus investment in the FireAngel brand to access other market sectors and through the rationalisation of other brands, release resources to increase sales of our FireAngel branded products.

Sprue continues to lead in developing effective UK and international marketing campaigns that raise awareness of the dangers of smoke and CO. In the UK, the CO campaign, Project Shout reached over 36 million people while CO campaigns were also launched in France and Germany where the levels of household CO penetration are significantly below those of the UK. A new campaign, "Check The Date" was launched in the UK in September 2017 which aimed to advise people of the need to check the expiry date on their alarms and replace accordingly. The growth of digital channels continues at pace, to which we have adapted and innovated our marketing to improve reach, sales conversion and return on investment.

2018 and beyond

The work involved to move manufacturing to Flex cannot be understated in terms of its importance to Sprue's future growth, but also the tremendous impact it has had across the business. It is a testament to the talent, determination and hard work of our people that we have successfully achieved the transition.

The manufacturing partnership with Flex will deliver significant benefits through more efficient production, shorter lead times, lower inventory and a faster time to market, which, along with a tight control on costs, will help drive greater profitability for the Group in the medium term.

The product roadmap is the strongest Sprue has ever had with a mix of value added enhancements to our current range as well as step change innovation, such as the new unique FireAngel Predict™, which with the close collaboration and support of Flex, we can now bring to the market faster than ever before.

Neil Smith
Group Chief Executive

Financial Report

Income statement

In 2017, Sprue achieved reduced revenue of £54.3m (2016: £57.1m) affected, in particular, by a slowdown in sales into Germany in H2. Adjusted operating profit* increased to £4.7m (2016: £2.2m). Adjusted gross margin** improved to 33.1% (2016: 28.6%), principally due to a reduction in screening and warranty costs.

Post-year end, and as announced on 10 May 2018 and summarised in the Chairman's Statement, the Company entered into the Settlement Agreement with BRK. Consequently, the Group recorded a £3.8m exceptional charge in these results as part of cost of sales (2016: £0.2m exceptional restructuring charge in administrative expenses) which included £3.4m to write down the value of the remaining BRK inventory as at 30 April 2018 to £nil (as the Company will no longer be selling BRK inventory), provisions of £0.2m to cover the disposal (scrappage) costs of the BRK inventory manufactured before 1 January 2017 and £0.2m to cover the legal and professional fees incurred since 22 March 2018 in respect of the dispute with BRK. Whilst the profit impact on the Group has been fully recognised in these results, the cash cost of the Settlement Agreement amounting to £3.8m will be borne in 2018.

After taking account of exceptional charges, the Group reported a profit before taxation of £0.5m (2016: £1.5m).

In 2017, distribution costs decreased to £1.0m (2016: £1.1m) due to the lower level of sales. Administrative expenses (excluding share based payments charge) were £9.4m (2016: £10.2m) reflecting tight cost control, given the lower sales in the second half of the year.

Despite lower sales compared to 2016, the Group reported an improved adjusted operating profit* of £4.7m (2016: £2.2m) helped by the increase in gross margin and reduction in distribution and administrative expenses in the year.

The Group reported a tax charge of £0.1m (2016: tax credit £0.2m) helped by the surrender of taxable losses and significant R&D tax credits. Basic EPS in 2017 reduced to 1.1p per share (2016: 4.0p per share).

**Adjusted operating profit and profit before tax are stated before the exceptional charge for the Settlement Agreement with BRK of £3.8m (2016: £0.2m restructuring charge included in fixed costs) and share-based payments charge of £0.4m (2016: £0.6m)*

***Adjusted gross margin is stated before the BRK distribution fee of £2.9m (2016: £3.0m) and before the exceptional charge for the Settlement Agreement with BRK of £3.8m (2016: £nil)*

Balance sheet

The continued investment in new product development increased the total net book value of other intangible assets at 31 December 2017 to £10.5m (2016: £8.3m), equivalent to 19%of sales or 58% of 2017 gross profit before charging the annual BRK distribution fee and exceptional items. The Board is committed to continue to invest in new products and new technology to drive the future sales of the Group.

Purchased software costs increased to £2.6m (2016: £1.7m) reflecting the £0.9m cost of the additional core software modules purchased from Intamac during the year. A cash payment of £0.3m in early 2018 completed the purchase of Intamac software for a total cash consideration of £2.8m.

The decision to source products from third party contract manufacturers is likely to see an increase in the cost of tooling and capital equipment included in the Group's balance sheet over time. Plant and equipment increased to £2.1m (2016: £0.9m) and reflects the purchase of £1.4m of Sprue specific tooling at Flex in Poland (2016: £nil).

Deferred tax assets reflect timing differences on the charge for share based payments which amounted to £0.3m (2016: £0.6m in total analysed as to £0.2m for share based payments and £0.4m for tax losses). The Group has utilised the tax losses in 2017 and, therefore, the deferred tax asset of £0.4m has been realised.

Stock at 31 December 2017 had reduced to £11.2m (2016: £13.3m) mainly due to the £3.4m write down in the book value of BRK inventory as a result of signing the Settlement Agreement with BRK.

Despite sales being 5% lower compared to 2016, debtors at 31 December 2017 increased by £3.9m to £17.4m (2016: £13.5m) reflecting:

- Non-payment of £1.7m of overdue debt from one customer which remained unpaid as at 31 December 2017 in respect of sales recorded in H1 2017. The balance of this overdue debt has reduced to approximately £0.9m as at the date of this announcement and the Board expects to recover it in full before 30 June 2018.
- Significant increase in average debtor days from 58 to 72 days reflecting the change in sales mix away from customers on the shortest credit terms of 14 days to customers paying on 60 and 90 day payment terms and the impact of the overdue debt referred to above.
- A £2.0m increase in sales in December 2017 compared to December 2016.

Average creditor days increased slightly during the year to 80 days (2016: 76 days). The Group undertakes to pay its suppliers in line with agreed credit terms.

The Group maintained warranty provisions as at 31 December 2017 of £2.2m (31 December 2016: £4.6m) of which, the largest element related to the expected cost of replacing smoke alarm products over the next two years where an issue in certain batteries supplied by a third party supplier may cause a premature low battery warning chirp. FireAngel warranty returns and the cost of free of charge replacement products in relation to the battery issue announced by the Company in April 2016 were in line with the Board's expectations.

The Board continues to closely monitor the level of product returns by year of manufacture by market. Accounting for warranties remains a critical judgement area as outlined further in the Company's 2017 Annual Report & Accounts. Product returns are in line with the Board's expectations and the warranty provision will continue to unwind over the next couple of years.

Cash Flow

Cash at the end of the year declined by £11.1m (2016: £8.5m decline), principally due to:

- Adverse net movement in debtors (as outlined above) of £4.2m
- Reduction in net stock (as outlined above) of £2.1m
- Acquisition of core software modules from Intamac for £0.9m (2016: £1.6m)
- Continued investment in product development of £2.7m, which includes £0.8m of pre- production set up costs at Flex, Poland (2016: £2.2m)
- Purchase of property plant and equipment, mainly at Flex in Poland, of £1.4m (2016: £0.5m)
- Dividends with a cash cost of £3.7m (2016: £3.7m)

The Group had net cash of £3.3m as at 31 December 2017 (2016: £14.3m) and no debt.

HSBC Bank plc £7m revolving credit facility

In late January 2018, the Group entered into a committed 3 year revolving credit facility with HSBC Bank plc for £7.0m ("RCF") to fund the Group's working capital. On 29 March 2018, the Company drew down £3.0 million under the facility to increase available short term cash resources which was subsequently repaid during the 30 day draw down period. The costs of arranging the facility amounting in total to approximately £0.1m are being amortised over the life of the RCF on a straight line basis.

By the end of 2018, Sprue will have absorbed the full £3.8m cash cost of the Settlement Agreement. Cash flow in 2018 will be hampered further by the expected significant reduction in sales into EMEA where Sprue's key customer typically pays on 14 day landed terms. The Board expects to draw down part of the RCF in the second half of this year and again in 2019.

The RCF has covenants which have been agreed with HSBC and are tested at quarterly intervals on a rolling twelve months basis. The Board considers that, even on a "worst case" basis, it expects the Group to remain comfortably within these covenants throughout the term of the RCF.

Revenue by business unit

The table below summarises the reported revenue for each of the Group's business units and Pace Sensors.

£m	2017	2016	Change	Change %	2017 % sales	2016 % sales
Retail	15.6	15.4	0.2	1%	29%	27%
Trade	7.4	7.2	0.2	3%	14%	13%
UK F&RS	4.5	5.4	(0.9)	-17%	8%	9%
Utilities	1.9	2.1	(0.2)	-10%	3%	4%
Total UK sales	29.4	30.1	(0.7)	-2%	54%	53%
EMEA	21.9	23.3	(1.4)	-6%	40%	41%
Pace Sensors	3.0	3.7	(0.7)	-19%	6%	6%
Total	54.3	57.1	(2.8)	-5%	100%	100%

The principal changes in revenue in 2017 relate to:

- The £0.2m growth in each of Retail and Trade sales following new account wins in these business units
- UK F&RS in 2016 included a one-off Department of Communities and Local Government contribution of £2.5m which was not repeated in 2017. In addition, the Group reduced product selling prices in 2017 reflecting new tender prices
- Lower than expected sales into EMEA, primarily due to reduced sales into Germany in H2 2017
- CO volumes at Pace Sensors were also slightly lower in 2017

Exchange rates

After deducting a £0.3m loss in respect of the mark to market of forward contracts that mature beyond the balance sheet date, the net impact of exchange rates on operating profit in the year compared to 2016 exchange rates is estimated as a net favourable credit of approximately £0.1m.

Average month end exchange rates against Sterling are summarised below.

	Average for year		Average for H1		Average for H2	
	2017	2016	**2017**	2016	**2017**	2016
Euro	**1.14**	1.23	**1.16**	1.27	**1.12**	1.16
US Dollar	**1.30**	1.36	**1.27**	1.42	**1.33**	1.27
Canadian $	**1.68**	1.80	**1.69**	1.87	**1.68**	1.69

This table shows that on average in 2017, Sterling weakened against the Euro by 7%, thereby increasing Sprue's revenue and profit on its Euro denominated income. However, over the same period, Sterling also weakened against the US Dollar by approximately 4% which increased the Sterling equivalent cost of Sprue's US Dollar sourced CO detector purchases from Pace Technology and smoke and accessory products (and BRK CO detectors) from Detector Technology Limited.

Where possible, Sprue has sought to increase 2018 selling prices to offset the product cost inflation as a result of Sterling's weakness against the US Dollar and the higher than expected on costs of sourcing products from Flex. If Sterling strengthens against the US Dollar, Sprue will see the benefit in reduced Sterling product costs and vice versa.

Signed on behalf of the Board

Neil Smith
Group Chief Executive

Graham Whitworth
Executive Chairman

Corporate social responsibility

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

Respect for people and diversity
Employee experience and satisfaction in the work place are very important to us. Operating our business in a non-discriminatory manner that 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 are responsible for ensuring 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 drive our 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 fighter charities. We have an established charity committee to manage our involvement with, and support of, local and national charities. We also work closely with local universities to give presentations and support students with their career progression including work experience in the Group from time to time. A number of employees also mentor MBA students at local universities.

Health, safety and the environment
Supporting health, safety and the environment are important elements to our success. We view the standards of health and safety required by law as being only the minimum and endeavour to follow best practice at each of our sites. The Group complies with 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 through “bike to work”. We believe that we were the first company in our industry to have a smoke alarm with its own very low carbon footprint where the product range has been specifically designed to minimise power consumption using approximately 10% of the stand-by power of a conventional alarm.

The Strategic Report on pages 12 to 29 has been approved by the Board of Directors and signed on behalf of the Board by:

Neil Smith
Group Chief Executive
14 May 2018

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

At Sprue we value corporate governance highly and this is reflected in our governance principles, policies and practices which is ultimately my responsibility. We believe that effective governance, not only in the boardroom but right across the business and at each business unit level with transparent reporting, 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
- Ensuring that appropriate resources are in place and being managed effectively for the Group to create long-term shareholder value through the development of the Group’s technology; 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 service

Up to 31 March 2017, the Board operated with four Executive Directors and four Non-Executive Directors. Following the resignation of Tom Russo on 31 March 2017, the Board operated with three Non-Executive Directors. The Board 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 strategic direction of the Group. The manufacturing of Sprue’s own smoke, heat and accessory products at Flex in Poland will shortly commence, and the refocusing of our brands around the FireAngel brand across each business unit and consolidation of the SKUs is also transformative. I believe that we have a strong and very capable Board in place which has demonstrated its commitment to continue to be bold and be willing to drive the business for future growth.

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 2017 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
14 May 2018

Board of Directors

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

Executive Directors

Graham Whitworth, Executive Chairman, Aged 64

Prior to investing as a seed investor in Sprue, Graham developed a diverse set of international business skills from the corporate boardroom to his own start up. Graham has worked in a number of technology businesses, initially in engineering and then IT based design technology roles, where he led a number of strategic initiatives and directed many multi-million Dollar contracts with leading blue chip companies across a diverse set of industries with ComputerVision Corporation, a leading US CAD/CAM provider. From the late 1980s Graham was Sales Director, Managing Director and then Executive Vice-President, before leaving in 1997. In 1998, Graham started his own company which he later merged with Division Plc where he became Managing Director before disposing of the enlarged business to Parametric Technology in 2000. Graham led the original Sprue IPO and until February 2016 was the Group Chief Executive and Chairman; he is the now Executive Chairman.

Neil Smith, Group Chief Executive, Aged 46

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 48

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 2014. Qualifying as a chartered accountant with KPMG in Birmingham, John worked in Transaction Services performing financial due diligence on companies for sale in the UK and overseas. John has also worked in senior financial, operational and M&A roles with GKN plc. John lived in Singapore for four years where he was the Regional Finance Director and Regional Mergers and Acquisitions Director for GKN Driveline Driveshafts. John is a Fellow of the Institute of Chartered Accountants for England and Wales.

Nicholas ('Nick') Rutter, Chief Product Officer, Aged 45

Nick is one of the co-founders of Sprue; he began his career with Sprue as Technology Director before being appointed Managing Director in 2008. Nick's design skills and product vision have fundamentally shaped Sprue's product offering and brand strategy. Nick is also responsible for the development of the Group's product technology and design. Prior to co-founding Sprue, Nick achieved a BA in Industrial Design from Coventry University and worked as a product designer based in Hong Kong, designing portable audio products for Philips. During the year, Nick Rutter's title was changed from Managing Director to Chief Product Officer.

Non-Executive Directors

William Payne, Non-Executive Director, Senior Independent Director, Aged 52

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 58

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 64

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.

Corporate governance report

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 which delegates day to day responsibility for managing the Group to the Executive Management Team ("EMT") led by Graham Whitworth as Executive Chairman and supported by Neil Smith as Group Chief Executive. Neil Smith leads the weekly Trading Reviews ("TR") of the Group to ensure operational targets are met or exceeded. 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 explanation to and approval of the Board.

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

The three business unit directors, which collectively manage the five Business Units (one Director manages FR&S, Trade and Utilities) report into the Chief Executive and meet weekly with Neil Smith. The TR meetings are also held every week which include key managers of each of the departments across the business. Business unit reviews are typically held once per quarter and together with the TR meetings, this provides the forum for Neil Smith to ensure a consistent implementation of Sprue's business agenda across the business. Business Unit meetings are also attended by other senior departmental managers as required.

The main responsibilities of the Executive Chairman include:

- Ensuring that the Board as a whole plays a full and constructive part in the development of strategy and overall commercial objectives
- Leadership of the Board and creating the conditions for overall Board and individual Director effectiveness and a constructive relationship with good communications between the Executive and Non-Executive Directors
- Promoting the highest standards of integrity, behaviour, probity and corporate governance throughout the Company, particularly at Board level
- Ensuring that the performance of the Board as a whole, its Committees and individual Directors is formally and rigorously evaluated at least once a year
- Ensuring that there is effective and open 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 Units, Technical, Finance, Quality, Sales and Marketing, HR, Technical Support and Creative to achieve the Annual Trading Budget set by the Board as a minimum;
- Ensuring initiatives for long-term growth are championed and appropriately resourced within the Company; and
- Fostering good relationships with key stakeholders

William Payne is 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, advancing the Group's technology, monitoring financial performance and the risks of executing the strategy via regular business, financial and departmental updates.

The Executive Chairman typically meets with the other three Executive Directors once per week to review the key issues from the TR. Executive Chairman sets the Board agenda and has regular discussions with the Non-Executive Directors.

The culture of Board meetings is to continually encourage rigorous debate and discussion and the Non-Executive Directors constructively challenge the performance of management in meeting agreed goals and objectives and to 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 despite the significant shareholding in the Company of the Executive Chairman and the Chief Product Officer, the structure of the Board with 4 Executive and 3 Non-Executive Directors ensures that there is no one individual or interest group dominating the decision making process.

The Board reflects a balance of 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 detailed 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 sufficient detail 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. From time to time, the Board meets off site to review and discuss specific business issues.

In the event that Directors are unable to attend a meeting or a conference call, they receive and read the papers for consideration and have the opportunity to relay their comments to the 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 up to the 31 March 2018. 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 45 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 Directors. The last Remco review concluded that the Board and its individual members continue to operate effectively with sound constructive challenge from the Non-Executive Directors to ensure that the Company operates within a framework of good governance and practices.

Subjects covered during the last 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 were also considered.

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 20 to 23 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, the Company does not operate a separate internal audit function. 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 changes in the business 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 2017 (or 2016) and none up to the date of this report.

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

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

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

Where appropriate and from time to time, the Company may consult with major shareholders on any significant issues.

Members of the Board develop an understanding of the views of major shareholders through direct contact that may be initiated by the Company's broker or through shareholder feedback following the EMT's investor roadshows, and through analysts' and brokers' briefings. The Company also regularly hosts investor days at its Coventry head office and seeks investor feedback on its performance.

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

Resignation of a Non-Executive Director
On 31 March 2017, the nominated Non-Executive Director of Newell Brands, Tom Russo, resigned from the Board by mutual agreement.

Resignation of an Executive Director
On 5 March 2018, the Group Finance Director, John Gahan resigned as a Director of the Company with immediate effect. John is available to the Company throughout his period of notice.

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 usually made to explain 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 for a Midlands-based AGM, we have decided that this year's AGM will be held at the Nailcote Hall, Nailcote Lane, Berkswell, Warwickshire, CV7 7DE at 10:30am on 28 June 2018. We hope as many shareholders will attend as possible.

Board meeting attendance
Excluding adhoc Board meetings for general 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	7	7
Executive Directors	Neil Smith Nick Rutter John Gahan	7 7 7	7 7 7
Non-Executive Directors	William Payne John Shepherd Ashley Silverton Tom Russo*	7 7 7 2	7 7 7 2

**Tom Russo joined the Board meetings by telephone as he is based in the United States of America. Mr Russo resigned by mutual agreement on 31 March 2017.*

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	3(3)
William Payne	Yes	Yes	2(2)	3(3)
John Shepherd	Yes	Yes	2(2)	3(3)
Ashley Silverton	Yes	Yes	2(2)	3(3)

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 2017 are given above. 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. A representative of the Group's external auditor either physically meet or meet telephonically 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 30 years' experience in the financing and management of businesses generally.

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

Role of the Committee
The primary responsibilities of the Committee are to:

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

Work of the committee in 2017
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, all of which are shared with the Board.

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 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 £20,000 compared to this year's total audit fees of approximately £170,000 which includes the additional work undertaken by RSM following the impact of the Settlement Agreement announced on 10 May 2018.

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

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

Reappointment of auditor
Following the completion of the audit, we reviewed the effectiveness and performance of RSM UK Audit LLP with feedback from Committee members and senior finance personnel covering overall quality, independence and objectivity, business understanding, technical knowledge, quality and continuity of personnel, responsiveness and cost effectiveness.

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

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 2018 AGM. We do not plan to recommend a tender of the audit in 2018 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
14 May 2018

Directors' Remuneration Report

Introduction
On behalf of the Board, I am pleased to present our Directors' Remuneration Report for the year ended 31 December 2017, 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 2017.

Basis of preparation
This report follows the principles of the Companies Act 2006. The Directors have chosen to apply these principles as best practice and in order to provide greater transparency to shareholders. This includes details of our policy on Directors' remuneration, which will be put to an advisory vote at the 2018 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 a demanding EBIT target 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 2018
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 2017 include:

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

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

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

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

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

The total cost of the Group's bonus payments for all directors and staff in 2017 was circa £0.3m (2016: £0.7m). Given the unexpected £3.8m unexpected cost of the BRK Settlement Agreement, the Executive Directors did not take their 2017 bonus and as such, the Group saved approximately £0.4m in 2017.

The Board sets the Group's budget EBIT with reference to a reasonably challenging total sales and EBIT target in the context of the Group's business plans for the year, based on foreign exchange rates against Sterling around the time the Budget is approved. The Board considers that the Budget EBIT is a stretch target that can be reached provided the business is well managed throughout the year.

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

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

We believe our current remuneration practices are appropriate and in line with reporting regulations and that our remuneration policy is

aligned with the Group's strategy to enhance long-term value for our stakeholders.

2015 LTIP award

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

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

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

The key elements of the 2015 LTIP include:

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

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

Total remuneration

The total remuneration (excluding the value of share options) for the directors of the Company for the financial year ended 31 December 2017 is detailed below:

	Salary and car allowance (a) £	Benefits (b) £	Bonuses (c) £	Fees (a) £	Pension (d) £	**2017 Total £**	2016 Total £
G Whitworth	229,031	2,954	-	-	-	**231,985**	359,098
N Rutter	182,711	1,619	-	-	17,491	**201,821**	290,921
J Gahan	182,711	2,118	-	-	17,491	**202,320**	286,000
N Smith	221,645	1,903	-	-	21,385	**244,933**	316,950
W Payne	-	-	-	42,000	-	**42,000**	42,000
A Silverton	-	-	-	36,000	-	**36,000**	32,650
J Shepherd	-	-	-	33,000	-	**33,000**	36,000
T Russo (e)	-	-	-	-	-	**-**	-
	816,099	8,594	-	111,000	56,367	**992,059**	1,363,619

Between the Executive Directors, the total bonuses earned was nil in 2017 (2016: £0.4m).

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 and life 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 year

Share options exercised

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

Group employee considerations

The Group employs circa 150 people in 5 countries although the majority of staff of UK based. 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 continue to welcome an open dialogue and input from shareholders on the remuneration policies of the Group.

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 reflects the following broad principles:

- the remuneration of Executive Directors and senior managers reflects their responsibilities and contains incentives to deliver the Group's performance objectives without encouraging excessive risk taking
- remuneration must be capable of attracting and retaining the individuals necessary for business success
- remuneration should be based on the both the individual and Group 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 either in March or October depending on the financial performance of the Group. However, salary increases are not automatic. In exceptional circumstances, salaries may be increased on other dates in the year.	Annual salary increases will not normally exceed average increases for employees in other appropriate parts of the Group. On occasion, increases may be larger where the committee considers this to be necessary to align with market rate or exceptional performance. Circumstances where this may apply include: growth into a role to reflect a change in scope of role and responsibilities or where market conditions indicate 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	The maximum employer contribution to defined contribution pension arrangements is 5% of gross	None.

		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.	salary and this increased to 10% from 1 April 2016	
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 who has a 6 month notice period. Payment in lieu of notice includes 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 its discretion on incentive awards, the committee will have regard to performance and the circumstances of the Director leaving the Group and the terms of the relevant service agreement.

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

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

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

Policy on new appointments

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

External directorships

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

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

Executive Chairman remuneration

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

Year	Executive Chairman	Total remuneration including bonus and pension (excluding share options) £000	Sprue Aegis plc year end market capitalisation £000	Executive Chairman total remuneration as a % of market capitalisation at year end
2017	G Whitworth	232	88,000	0.26%
2016	G Whitworth	359	80,000	0.45%
2015	G Whitworth	236	148,000	0.16%
2014	G Whitworth	300	153,000	0.20%
2013	G Whitworth	259	50,500	0.51%

Excluding the total remuneration costs of the Board, the average remuneration per employee from 2013 to 2017 inclusive is as follows:

Year	Total remuneration costs including bonus and pension (excluding share options) £000	Average number of employees excluding Executive and Non-Executive Directors	Average remuneration per employee £000
2017	6,428	140	46
2016	6,526	167	39
2015	6,050	140	43
2014	5,832	124	47
2013	3,695	104	35

Directors' interests in unvested and vested share option awards

	Options at 1.1.17	Options granted in year	Options lapsed in year	Options exercised in year	Options at 31.12.17	Exercise price (pence)	Market price at date of exercise (pence)	Exercise period (years)	Expiry date
G Whitworth	125,000	-	-	-	125,000	200	-	10	28/04/21
N Rutter	125,000	-	-	-	125,000	200	-	10	28/04/21
J Gahan	69,445	-	-	-	69,445	200	-	10	28/04/21
N Rutter	200,000	-	-	-	200,000	2	-	10	03/06/25
G Whitworth	200,000	-	-	-	200,000	2	-	10	03/06/25
N Smith	300,000	-	-	-	300,000	2	-	10	03/06/25
J Gahan	200,000	-	-	-	200,000	2	-	10	03/06/25
							-		

The remuneration policy report was approved by the Board on 14 May 2018 and signed on its behalf by:

William Payne
Chairman of the Remuneration Committee
14 May 2018

Directors' Report

Introduction

The directors present their report and the audited financial statements for the Group for the year ended 31 December 2017.

Pages 44 to 47 inclusive (together with sections of the Annual Report incorporated by reference) consist of a Directors' Report that has been drawn up and presented in accordance with and in reliance upon the applicable laws of England and Wales and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

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

Likely future developments

The outlook for the business and the likely future developments are outlined in the Group CEO review of the Strategic Report on pages 24 to 25 and in the Chairman's review on pages 15 to 18 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 55 inclusive. Profit after tax for the year was £0.5m (2016: £1.8m).

In light of the £3.8m cash cost of the Settlement Agreement this year, the Group's reduced prospects for 2018, the long term higher capital costs the Group faces using a third party contract manufacturer and the Board's commitment for significant investment in new products and technology, the Board is not recommending payment of a final dividend in respect of 2017. The total dividend payable for 2017 is therefore 2.5 pence per share (2016: 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 29.

Charitable contributions

The group made charitable contributions amounting to approximately £522 (2016: £426) during the year. The Group has a charity committee that organises regular events and donates money to specific charities.

Financial instruments

The Group's financial risk management objectives and policies, including the policy for hedging future foreign exchange rate risk are outlined in note 4. The Group does not adopt hedge accounting and all future contracts beyond the balance sheet date are marked to market at the balance sheet date and the net gain or loss on those contracts is taken to profit and loss in the period. Net loss on foreign exchange contracts taken to the income statement in the year amounted to £0.3m loss (2016: £nil). Information on the principal risks and uncertainties and how they are managed by the Group is included in the Strategic Report on pages 20 to 23.

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.

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 significant resources into research and development. The people and non-people costs of product development on specific identifiable projects are capitalised in accordance with the accounting policy set out on pages 61 to 62. General research costs undertaken in respect of the Group's principal activities are charged to the profit and loss as incurred.

Directors
The following directors have held office since 1 January 2017:

G Whitworth	Executive Chairman
N Smith	Group Chief Executive Director
J Gahan	Group Finance Director (resigned with immediate effect 5 March 2018)
N Rutter	Chief Product Officer (formerly Group Managing Director)
W Payne	Senior Independent Director
J Shepherd	Non-Executive Director
A Silverton	Non-Executive Director
Tom Russo	Non-Executive Director (resigned with immediate effect 31 March 2018)

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 28 June 2018, Graham Whitworth, Neil Smith and John Shepherd will retire and stand for re-election.

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

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

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

Corporate governance
The Company's statement on corporate governance can be found in the Corporate Governance Report on page 33 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 2017	1 Jan 2017	31 Dec 2016	1 Jan 2016
Executive Directors				
G Whitworth	3,521,937	3,521,937	3,521,937	3,521,937
N Rutter	3,000,000	3,000,000	3,000,000	3,000,000
J Gahan	10,000	10,000	10,000	10,000
N Smith	-	-	-	-
Non-Executive Directors				
W Payne	100,000	100,000	100,000	100,000
J Shepherd	23,063	23,063	23,063	23,063
A Silverton	15,000	15,000	15,000	15,000
T Russo	-	-	-	-

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

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

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

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

Directors' and Officers' Liability Insurance
The Group maintains a management protection policy including directors' and officers' liability insurance which is reviewed annually. The insurance covers the directors and officers of the ultimate holding company of the Group, Sprue Aegis plc and its subsidiaries against the costs of defending themselves in civil proceedings taken against them in their capacity as a director or officer of a Group company and in respect of damages or civil fines or penalties resulting from the unsuccessful defence of any proceedings to a value of £1m.

Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement, Strategic Report and Financial Review on pages 15 to 28.

The Group's forecasts and projections, taking account of the £3.8m cash cost of the Settlement Agreement with BRK which will be borne in 2018 and reasonably predictable changes in trading performance (even after applying downside sensitivities), support the conclusion that there is a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, a period of not less than twelve months from the date of this report. Even after applying downside sensitivities, the Company is forecast to remain within the HSBC Bank plc revolving credit facility banking covenants. Accordingly, the going concern basis has been adopted in preparing the financial information.

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

The key factors considered by the Directors were:

- the implications of the current economic environment and future uncertainties around the Group's revenues and profits by undertaking forecasts and projections on a regular basis
- the impact of the competitive environment within which the Group's businesses operate
- the impact of Brexit
- the potential actions that could be taken in the event that revenues or gross profits are worse than expected, to ensure that operating profit and cash flows are protected

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

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

Share capital and voting rights
As at 31 December 2017, there were 45,905,422 ordinary shares of 2 pence each in issue. The ordinary shares are listed on AIM.

Payments to shareholders
In light of the £3.8m cash cost of the Settlement Agreement this year, the Group's reduced prospects for 2018, the long term higher capital costs the Group faces using a third party contract manufacturer and the Board's commitment for significant investment in new products and technology, the Board is not recommending payment of a final dividend in respect of 2017. The total dividend payable for 2017 is therefore 2.5 pence per share (2016: 8.0 pence per share).

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

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 in June 2017, authority was given to the directors to allot new ordinary shares up to a nominal value of £306,000 equivalent to 33% of the issued share capital of the Company. These authorities are valid until 30 September 2018.

In addition, authority was given to the directors to allot further new ordinary shares up to a nominal value of £45,855 equivalent to 5% of the authorised share capital of the Company. These authorities are valid until 30 September 2018.

The authority was given for the Company to make market purchases of its ordinary shares provided that the maximum aggregate number of ordinary shares that may be purchased is limited to 4.5m, the minimum price paid for each ordinary share is £0.02 and the maximum price which may be paid for each ordinary share is an amount not exceeding 105% of the average of the mid-market price as derived from AIM. These authorities are valid until 30 September 2018.

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 2017, 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
LION NOMINEES LIMITED	6.9
NICHOLAS ALEXANDER RUTTER ESQ	6.5
AURORA NOMINEES LIMITED	6.1
ROCK (NOMINEES) LIMITED	5.1
JOLYON WILLIAM MONEY ESQ	3.3
THE BANK OF NEW YORK (NOMINEES) LIMITED	2.9
RULEGALE NOMINEES LIMITED	2.5
HSBC GLOBAL CUSTODY NOMINEE (UK) LIMITED	2.4
DARTINGTON PORTFOLIO NOMINEES LIMITED	2.2
NORTRUST NOMINEES LIMITED	2.1
CHASE NOMINEES LIMITED	2.1
BROOKS MACDONALD NOMINEES LIMITED	1.7
JIM NOMINEES LIMITED	1.4
STATE STREET NOMINEES LIMITED	1.3
CAM NOMINEES LIMITED	1.3
OTHER	21.1
	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.

Graham Whitworth
Executive Chairman
14 May 2018

Financial statements

In this section

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with 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	Graham Whitworth
Group Chief Executive	Executive Chairman

14 May 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SPRUE AEGIS PLC

Opinion

We have audited the financial statements of Sprue Aegis plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company statement of financial position, the consolidated statement of changes in equity, the company statement of changes in equity, the consolidated cash flow statement , the company cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 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 company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Settlement Agreement with BRK Brands Inc., BRK Brands Europe Limited, Jarden LLC and Detector Technology Limited (together "BRK") relating to the termination of the Distribution Agreement ("DA")

On 31 March 2017, Sprue received the requisite 12 months' written notice to terminate the DA. In accordance with the DA management expected BRK to repurchase all unsold stock at 31 March 2018 at purchase cost.

On 22 March 2018, BRK served written notice on Sprue to terminate the DA with immediate effect on the basis of various alleged breaches of the DA. In particular, BRK advised Sprue that they would not repurchase all unsold stock at 31 March 2018.

On 9 May 2018, Sprue and BRK entered into a settlement agreement, the terms of which are disclosed in note 31. This resulted in an exceptional charge of £3.8m being recorded as an adjusting post balance sheet event in these financial statements.

The key accounting and audit issues arising from the resolution of this matter relate to the valuation of inventory at 31 December 2017, the adoption of the going concern basis and the related disclosures thereon.

Our work on inventory valuation included, but was not restricted to:

- Reviewing the settlement agreement and considering whether management had made appropriate adjustments in the financial statements, and
- Obtaining a breakdown of BRK inventory at 31 March and comparing it to the stock held at the year end, seeking explanations and corroboration for any unexpected movements.

Our work on going concern included, but was not restricted to:

- Reviewing management's updated going concern assessment to ensure that it properly reflected the financial consequences of the Settlement Agreement and their latest assessment of future trading as described in the Executive Chairman's statement,
- Assessing the extent to which externally provided debt facilities remain available for utilisation following the Settlement Agreement,
- Challenging key assumptions included within management's assessment and ensuring that appropriate downside sensitivities were considered, and
- Discussing with management the potential actions that could be taken by the group should actual results be worse than anticipated.

We also assessed the adequacy of related disclosures in the financial statements as set out in notes 1 and 31.

Revenue recognition
There is a risk that revenue may be misstated due to the incorrect recognition of revenue. The group's revenue arises on the sale of goods, and there is therefore a risk that revenue is recognised before the risks and rewards of ownership have transferred to the customer. This risk is elevated to one of the most significant risks of material misstatement because the group has significant sales activity in the final part of the financial year and the group also recognises revenue on a "bill and hold" basis in accordance with IAS18 "Revenue" and the accounting policies set out in note 1.

We tested a sample of revenue transactions in respect of the sale of goods and validated them to supporting documentation to ensure that revenue has been appropriately recorded in accordance with IAS 18 "Revenue". For goods subject to despatch prior to the year end, this included confirming that the related goods had been despatched.

For "bill and hold" sales, management provided us with a schedule of all revenue recorded on this basis. Our work on these sales included obtaining the bonding agreement, and supporting documentation, to evaluate the recognition of this revenue against the criteria set out in the Appendix to IAS18 "Revenue". Our testing of the despatch of goods (set out in the preceding paragraph) enabled us to assess the completeness of the schedule provided by management,

Our work on revenue also included comparing revenue recorded in the period with revenue in the prior year, obtaining explanations for significant or unusual variances. We also reviewed payments received from customers subsequent to the end of the financial year end to confirm the existence of recorded sales.

FireAngel warranty provisioning
The group reported a significant battery warranty issue in the financial statements for the year ended 31 December 2015 which included an exceptional warranty cost charge of £5.5m. The warranty provision has been subsequently utilised, and was £2.1m at 31 December 2017. The recorded provision is one of the most significant risks of material misstatement due to the high degree of estimation uncertainty contained within management's calculations of the required provision. Management have explained in detail in note 3 and note 22 the estimation uncertainties relevant to the calculation of the warranty provision. The most significant estimates include:

- the terminal rate of product return, as the majority of products do not appear to be affected by this issue, and
- the cost of servicing each returned unit, having regard to current inventory, purchase price and returns reworking.

Management provided us with a calculation of the warranty provision. Our work included, but was not restricted to:

- Obtaining an understanding of the calculation methodology used by management to calculate the remaining warranty provision in light of our understanding of the specific warranty issue and the wider business,
- Challenging the appropriateness of key assumptions used in the calculations, and any changes made compared to prior periods, by validating them to other internal information held by management,
- Comparing the actual rates of return to those anticipated when the issue was initially identified to assess the adequacy of projected terminal rates of return and challenging management as to the reasons for any changes made to assumptions in this regard,
- Assessing the calculations prepared by management in light of latest available returns information and
- Assessing the adequacy of disclosures set out in the financial statements, particularly detailing critical accounting estimates and areas of judgement.

Given the degree of estimation, we aggregated both factual and judgemental differences that our work identified and considered these within the context of our overall audit.

Impairment of product development costs
The group continues to develop new products and has unamortised capitalised product development costs of £10.382m at the reporting date, of which £3.133m relates to projects where amortisation has not yet commenced. In accordance with their stated accounting policy, management should only capitalise these costs on the basis that it is probable that the asset, or product, created will generate future economic benefits and management are required to consider whether or not there are any indicators of impairment for each asset at each reporting date.

The recovery of these assets in future periods is dependent upon the successful completion and / or sale of each project. The potential for impairment is one of the most significant risks of material misstatement due to the quantum of costs capitalised in respect of certain individual projects and also due to the exercise of management judgement regarding inherently uncertain future outcomes relating to the adoption of new technologies and sales performance. Management have explained in detail in note 3 the estimation uncertainties relevant to their impairment considerations.

Our work included, but was not restricted to:

- Obtaining and reviewing management's documented assessment of all projects within unamortised capitalised product development costs.
- For projects where amortisation has commenced, we reviewed the sales and gross margin achieved on products using this technology and comparing the gross margin achieved with unamortised capitalised costs at the reporting date to assess the period over which the capitalised costs will be recovered.
- For projects where amortisation has not yet commenced, we challenged management's assessment and validated explanations to supporting evidence where available.

Given the significant degree of management judgement, we evaluated our findings in the light of our knowledge of the business and considered these within the context of our overall audit.

Our application of materiality
When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures and to evaluate the effects of misstatements, both individually and on the financial statements as a whole. During planning we determined a magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole (FSM). During planning FSM was calculated as £680,000, which was not changed during the course of our audit. We agreed with the Audit

Committee that we would report to them all unadjusted differences in excess of £30,000, as well as differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit
Our audit scope comprised full scope audits of Sprue Aegis plc and its trading UK subsidiary undertaking, Sprue Safety Products Limited. We performed review procedures on the other trading component of the group, Pace Sensors Limited. Our full scope audit work covered 94% of group revenue, 83% of group profit before taxation, and 93% of group net assets.

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:
• the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
• the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
• adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
• the parent company financial statements are not in agreement with the accounting records and returns; or
• certain disclosures of directors' remuneration specified by law are not made; or
• we have not received all the information and explanations we require for our audit.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 49, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Michael Thornton (Senior Statutory Auditor)
For and on behalf of RSM UK AUDIT LLP, Statutory Auditor
Chartered Accountants
St Phillips Point
Temple Row
Birmingham
B2 5AF
14 May 2018

Consolidated income statement
for the year ended 31 December 2017

	Notes	2017 £000	2016 £000
Revenue	6	**54,277**	57,106
Cost of sales excluding BRK distribution fee and exceptional charge		**(36,309)**	(40,789)
BRK distribution fee		**(2,915)**	(2,982)
Exceptional charge for settlement agreement with BRK	31	**(3,777)**	-
Total cost of sales		**(43,001)**	(43,771)
Gross profit		**11,276**	13,335
Gross margin % pre BRK distribution fee & exceptional charge		**33.1%**	28.6%
Distribution costs		**(1,007)**	(1,083)
Administrative expenses excluding share-based payments charge		**(9,390)**	(10,182)
Share-based payments charge		**(358)**	(563)
Total administrative expenses*		**(9,748)**	(10,745)
Total fixed costs		**(10,755)**	(11,828)
Profit from operations pre-exceptional charge for the settlement agreement with BRK of £3.8m (2016: £0.2m restructuring charge) and pre share-based payments charge £0.4m (2016: £0.6m)		**4,656**	2,236
Profit from operations	7	**521**	1,507
Finance income	9	**24**	66
Profit before tax		**545**	1,573
Income tax (charge) / credit	10	**(57)**	246
Profit attributable to equity owners of the parent		**488**	1,819
Earnings per share (pence)	12		
From continuing operations:			
Basic		**1.1**	4.0
Diluted		**1.1**	4.0

All amounts stated relate to continuing activities.

**Total administrative expenses in 2016 include a restructuring charge of £0.2m*

Continuing operations
None of the Group's activities are treated as acquired or discontinued during the above periods.

Consolidated statement of comprehensive income
for the year ended 31 December 2017

	2017 £000	2016 £000
Profit for the year	**488**	1,819
Items that may be reclassified subsequently to profit and loss:		
Exchange differences on translation of foreign operations (net of tax)	**(85)**	393
Other comprehensive (expense) / income for the year	**(85)**	393
Total comprehensive income for the year	**403**	2,212

Consolidated and company statement of financial position at 31 December 2017

		Consolidated		Company	
	NOTES	2017 £000	2016 £000	2017 £000	2016 £000
Non-current assets					
Goodwill	14	169	169	-	-
Other intangible assets	15	10,474	8,271	-	-
Purchased software costs	15	2,575	1,649	-	-
Plant and equipment	16	2,077	916	-	-
Shares in subsidiaries	17	-	-	149	149
Deferred tax assets	24	273	625	-	-
		15,568	11,630	149	149
Current assets					
Inventories	18	11,201	13,316	-	-
Trade and other receivables	19	17,366	13,451	22,428	25,348
Current tax asset		625	287	-	-
Derivative financial assets	20	-	1	-	-
Cash and cash equivalents		3,273	14,333	64	796
		32,465	41,388	22,492	26,144
Total assets		48,033	53,018	22,641	26,293
Current liabilities					
Trade and other payables	23	(16,472)	(16,741)	-	-
Current tax liabilities		(15)	(43)	-	-
Provisions	22	(1,507)	(2,800)	-	-
Derivative financial liabilities	20	(364)	(88)	-	-
		(18,358)	(19,672)	-	-
Net current assets		14,107	21,716	22,492	26,144
Non-current liabilities					
Provisions	22	(687)	(1,793)	-	-
Deferred tax liabilities	24	(1,974)	(1,569)	-	-
		(1,661)	(3,362)	-	-
Total liabilities		(21,019)	(23,034)	-	-
Net assets		27,014	29,984	22,641	26,293
Equity					
Share capital	26	918	917	918	917
Share premium		12,729	12,713	12,729	12,713
Foreign exchange reserve		179	264	-	-
Retained earnings		13,188	16,090	8,994	12,663
Total equity attributable to the owners of the parent		27,014	29,984	22,641	26,293

The Company has taken advantage of the exemption contained within section 408 of the Companies Act 2006 not to present its own statement of comprehensive income. The result for the year dealt with in the financial statements of the Company was £nil (2016: profit of £204,000).

The financial statements on pages 53 to 85 were approved by the Board of directors and authorised for issue on 14 May 2018 and are signed on its behalf by:

Neil Smith Graham Whitworth

Company registered number: 3991353

Consolidated and company cash flow statement for the year ended 31 December 2017

		Consolidated		Company	
	NOTES	2017 £000	2016 £000	2017 £000	2016 £000
Profit before tax		545	1,573	-	204
Finance income		(24)	(66)	-	-
Operating profit for the year		521	1,507	-	204
Adjustments for:					
Depreciation of property, plant and equipment		271	281	-	-
Amortisation of intangible assets		465	332	-	-
(Increase) / reduction in fair value of derivatives		277	(10)	-	-
Share-based payments charge		358	563	-	-
Operating cash flow before movements in working capital		1,892	2,673	-	204
Movement in inventories		2,116	2,241	-	-
Movement in receivables		(4,188)	(1,734)	2,921	3,403
Movement in provisions		(2,405)	(2,200)	-	-
Movement in payables		(236)	(1,460)	-	-
Cash used by operations		(2,821)	(480)	2,921	3,607
Income taxes paid		376	(56)	-	-
Net cash used from operating activities		(2,445)	(536)	2,921	3,607
Investing activities					
Purchase of intangible assets		(2,670)	(2,207)	-	-
Purchase of software costs		(925)	(1,649)	-	-
Purchase of property, plant and equipment		(1,432)	(497)	-	-
Interest received		24	66	-	-
Net cash used on investing activities		(5,003)	(4,287)	-	-
Financing activities					
Proceeds from issue of ordinary shares		17	-	17	-
Dividends paid	11	(3,670)	(3,668)	(3,670)	(3,668)
Net cash used on financing activities		(3,653)	(3,668)	(3,653)	(3,668)
Net decrease in cash and cash equivalents		(11,101)	(8,491)	(732)	(61)
Cash and cash equivalents at beginning of year		14,333	22,403	796	857
Non-cash movements		41	421	-	-
Cash and cash equivalents at end of year		3,273	14,333	64	796

Consolidated statement of changes in equity for the year ended 31 December 2017

	Share capital £000	Share premium £000	Foreign exchange reserve £000	Retained earnings £000	Total £000
Balance at 1 January 2016	917	12,713	(129)	17,596	31,097
Profit for the year	-	-	-	1,819	1,819
Net foreign exchange losses from overseas subsidiaries	-	-	393	-	393
Total comprehensive income for the year	-	-	393	1,819	2,212
Transactions with owners in their capacity as owners:					
Dividends	-	-	-	(3,668)	(3,668)
Total transactions with owners in their capacity as owners	-	-	-	(3,668)	(3,668)
Share-based payments charge	-	-	-	563	563
Deferred tax credit on share-based payments charge	-	-	-	(220)	(220)
Balance at 31 December 2016	**917**	**12,713**	**264**	**16,090**	**29,984**
Profit for the year	-	-	-	488	488
Net foreign exchange gains from overseas subsidiaries	-	-	(85)	-	(85)
Total comprehensive income for the year	-	-	(85)	488	403
Transactions with owners in their capacity as owners:					
Dividends	-	-	-	(3,670)	(3,670)
Issue of shares	1	-	-	-	1
Premium arising on issue of equity shares	-	16	-	-	16
Total transactions with owners in their capacity as owners	1	16	-	(3,670)	(3,653)
Share-based payments charge	-	-	-	358	358
Deferred tax on share-based payments charge	-	-	-	(61)	(61)
Current tax on share-based payments charge	-	-	-	(17)	(17)
Balance at 31 December 2017	**918**	**12,729**	**179**	**13,188**	**27,014**

Company statement of changes in equity for the year ended 31 December 2017

	Share capital £000	Share premium £000	Retained earnings £000	Total £000
Balance at 1 January 2016	917	12,713	16,127	29,757
Profit for the year	-	-	204	204
Total comprehensive income for the year	-	-	204	204
Transactions with owners in their capacity as owners:				
Dividends	-	-	(3,668)	(3,668)
Total transactions with owners in their capacity as owners	-	-	(3,668)	(3,668)
Balance at 31 December 2016	**917**	**12,713**	**12,663**	**26,293**
Profit for the year	-	-	-	-
Total comprehensive income for the year	-	-	-	-
Transactions with owners in their capacity as owners:				
Dividends	-	-	(3,669)	(3,669)
Issue of shares	1	-	-	1
Premium arising on issue of equity shares	-	16	-	16
Total transactions with owners in their capacity as owners	1	16	(3,669)	(3,652)
Balance at 31 December 2017	**918**	**12,729**	**8,994**	**22,641**

Notes to the financial statements
for the year ended 31 December 2017

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 brands of Fire Angel, AngelEye and Pace Sensors. 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 power to govern the financial and operating policies so as to obtain economic benefits from their activities. Subsidiaries are consolidated from the date on which control is obtained (the acquisition date) up until the date that control ceases.

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

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

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

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

- the financial consequences of the Settlement Agreement, including the £3.8m cash cost in 2018,
- the latest expected trading performance for 2018 and beyond, as described in the outlook section of the Executive Chairman's statement,
- the availability of currently committed banking facilities and actual and projected compliance with material terms attaching to those facilities,
- the degree of headroom offered by current cash reserves and available banking facilities,
- the implications of the current economic environment and future uncertainties around the Group's revenues and profits,
- the consequence of reasonably foreseeable downside sensitivities including lower than expected trading performance and adverse movements in working capital, and
- the potential actions that could be taken in the event that revenues or gross profits are worse than expected, to ensure that operating profit and cash flows are protected.

The Group's review of forecasts and projections, taking account of the £3.8m cash cost of the Settlement Agreement with BRK which will be borne in 2018 and reasonably predictable changes in trading performance (even after applying downside sensitivities), support the conclusion that there is a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, a period of not less than twelve months from the date of this report. Even after applying downside sensitivities, the Company is forecast to remain within the HSBC Bank plc revolving credit facility banking covenants.

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

Changes in accounting policies and disclosures
New standards, amendments and interpretations adopted by the Group
The following new standards and amended standards, none of which have had a material impact on these financial statements, are mandatory and relevant to the Group for the first time for the financial period commencing 1 January 2017:

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IAS 7: Disclosure Initiative

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

IFRS 9: Financial Instruments (effective 1 January 2018)
IFRS 15: Revenue from contracts with customers (effective 1 January 2018)
IFRS 16: Leases (effective 1 January 2019)
Clarifications to IFRS 15: Revenue from Contracts with Customers (effective 1 January 2018)
Amendments to IFRS 2: Classification and measurement of share-based payment transactions (effective 1 January 2018)
Annual improvements 2014-2016 (effective 1 January 2019)
IFRIC 22: Foreign currency transactions and advance consideration (effective 1 January 2019)
Annual improvements 2015-2017 (effective 1 January 2019)

With regards IFRS 15, this brings into play significantly different principles for determining how revenue should be recognised and how it is measured in comparison with IAS 18. The Group has commenced a review of its principal customer contracts and initial indications are that the recognition of revenue is not affected by the adoption of IFRS 15 for the vast majority of sales.

However, it is noted that under IFRS 15, the sales and profit on "bill and hold sales" is only to be recognised if the bill and hold conditions have been met, which includes a condition that the products under the bonded sale are not capable of sale to another customer. This additional condition could lead to the deferral of certain bill and hold sales compared to when they are recognised under IAS 18. The impact of this change in policy is not expected to have a material impact on the Group's results.

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

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

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

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 the risks and rewards of ownership have transferred 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.

Bill and hold sales
In certain situations, the Group recognises revenue on a "bill and hold" basis whereby the related inventory remains at the Group's premises for a period of time. Revenue is only recognised on this basis when the customer has taken title to the goods and accepted billing, it is probable that delivery will be made, the goods are on hand and separately identified, the customer acknowledges the deferred delivery and normal payment terms apply

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 £0.4m to certain UK retailers in respect of maintaining the ongoing relationship with these customers and to secure promotional activities during the year (2016: £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 2017 was £nil (2016: £nil).

Goodwill

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

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

Other intangibles - Internally generated intangible assets

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

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

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

Where these criteria have not been achieved, development expenditure is recognised in profit or loss in the period in which it is incurred.

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

The directors estimate that the useful economic life of various intangible assets is between seven and fifteen years and further details of each product / technology are outlined at note 15.

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

Intamac development software

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

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

This software is amortised at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its estimated useful life being fifteen years. At the end of 31 December 2017 purchased software of £2.6m was stated within non-current assets of the Group.

Other intangibles - Computer software

Software capitalised is amortised at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its estimated useful life being 4 years.

Plant, equipment and tooling

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

Subsequent costs, including replacement parts and major inspections, are capitalised only when it is probable that such costs will generate future economic benefits. Any replaced parts are derecognised. All other costs of repairs and maintenance are charged to 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 Group and the Group's presentational currency.

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

Foreign currency transaction and balances

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

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

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

Retirement benefit costs

For defined contribution schemes the amount charged to profit or loss in respect of pension costs and other post retirement contributions is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Taxation

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

Current tax

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

Deferred tax

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

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

Financial instruments

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

Financial assets

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

Loans and receivables

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

Financial assets at fair value through profit and loss

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

Financial liabilities and equity

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

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

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

Recognition and measurement

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

Impairment of financial assets carried at amortised cost

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

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

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

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

Inventories

Inventories are stated at the lower of historical cost and net realisable value. Cost comprises direct material cost and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is

calculated using the first-in-first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs to completion and selling costs to be incurred.

Trade receivables

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

Forward currency derivatives

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

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

Cash and cash equivalents

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

Trade payables

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

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

Provisions

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

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

Equity instruments

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

Share-based payment transactions

The Group issues equity-settled share options to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant by reference to the fair value of the equity instruments granted. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of instruments that will eventually vest with a corresponding adjustment to equity. Fair value is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions, and behavioural considerations. Options under the LTIP 2015 award 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.

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

Full recoverability of overdue debts

As at 31 December 2017, the Group had permitted certain customers to extend their credit terms. Specifically, one customer had extended credit terms on approximately £1.7m of overdue debt which remained unpaid at year end (31 December 2016: £nil) in respect of sales recorded in H1 2017. The customer has continued to make regular repayments against the debt since 30 June 2017 and the Board expects the H1 2017 overdue debt will be repaid before 30 June 2018.

Warranty provisioning of FireAngel products

In April 2016, the Company identified an issue in certain batteries supplied by a third party supplier that may cause a premature low battery warning chirp in certain of its smoke alarm models sold in the UK and in Continental Europe. The Board is keen to stress that this is not a safety critical issue.

As a result of the battery issue, to support the Company's customer service obligations, the Board increased the Group's total warranty provisions as at 31 December 2015 to £6.8m and has continued to provide free of charge replacement products to compensate customers who experience issues with the Group's products. The Group's total warranty provision as at 31 December 2017 reduced to £2.2m after £2.4m of the 2016 year end warranty provision was utilised during the year.

The failure mode in the battery in affected smoke alarms typically occurs after around three years from the date of battery manufacture so the vast majority of product returns in 2017 relate to 2012 and 2013 production where returns of both years of production are in decline. Returns of 2014 and 2015 products in 2017 were not as significant but are expected to increase over the next couple of years.

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

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

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

With specific reference to FireAngel products, the determination of the amount of the provision, which reflects the Board's best estimate of resolving these issues, requires the exercise of significant judgement. It is necessary, therefore, to form a view on matters which are inherently uncertain, such as the returns profile over time, the final return rate, whether the return rate of each year of production will be similar, whether the return rates from different sales channels will vary and the average cost of redress.

There is a greater degree of uncertainty in assessing these factors when an issue is first identified. Consequently, the continued appropriateness of the underlying assumptions will be reviewed on an ongoing basis against actual experience and other relevant evidence, and adjustment made to the provision over time as required.

The provision relates mainly to the high impedance battery issue and is most sensitive to the assumption regarding the final return percentage rate. For reference, a 10% increase in the estimated final return rate, with no further improvement for each subsequent year of affected production, would result in an increase in the provision of approximately £0.5m. The Board is not aware of any other major warranty issues but has continued to expense FireAngel warranty at approximately 1% of sales in the year.

Impairment of non-financial assets

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

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

Recoverable amount is the higher of fair value less costs to sell and value in use.

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

During 2017, the Group did not record any material impairment charges upon review of its tangible and intangible assets.

The Board notes that the Company has significant intangible assets on the balance sheet at year end which amounted to a net book value £2.2m of connected home intangibles not being depreciated and a net book value of £1.8m of connected home intangible assets which are being depreciated. The Board expects that in future, the vast majority of products sold will in some way be connected (through Wisafe II, Z wave or Zigbee etc) and given that the Group already has a connected home solutions product offering which is working, the Board believes that the carrying value of connected homes solutions intangibles is not impaired. This assumption will be reviewed over time.

Amortisation of intangible assets

With effect from 1 January 2017, the Group adopted the "units of production" method for amortising product development costs and moved away from straight line amortisation. The change in policy is intended to ensure that the amortisation charge of product development costs more closely correlates to the gross profit generated on the sale of products which incorporate the Group's technology. Essentially, the units of production methodology more closely matches the consumption of the economic benefit of the Group's technology. The net impact on the 2017 results as a result of changing from straight line to units of production for the amortisation of product development costs is not material. However, the change in accounting policy will reduce the amortisation charge in respect of connected homes products in 2018 and potentially 2019 as it may take several years before sales of connected home product solutions increase significantly.

Inventory provision

The Group reviews each stock SKU on a line by line basis taking into account sales and gross margins achieved on every SKU over the past 24 months and the expected sales of each SKU over the next 12 months (and beyond) and the likely gross margin thereon.

Discontinued SKUs are fully provided for (at 100% of the cost) where the potential recovery of the book value is not likely to be achieved in full. In addition, where stock is identified as being potentially slow moving, a 10% provision is typically booked against the cost of the stock. The Group's stock provisioning policy reviews unit sales and margins on each line of stock and considers what sales are likely to be achieved in the future, and at what margin, before determining if a stock provision is required.

Historically, on eventual sale of slow moving SKUs, the Group has not experienced any major issues where the net realisable value of stock ultimately transpires to be less than the book value of the stock (plus associated rework costs). Moreover, where stock has been identified as slow moving (for example the Group's own French stock), 10 year products are typically reworked into 7 year or 5 year product packaging and sold as such still at a positive net margin. Even after rework costs, the net realisable value of slow moving SKUs typically exceeds the product costs plus rework costs added together. The Group is fortunate that products are certified to common European standards (and certain country standards) and many products are saleable in markets other than the original market destination.

The inventory provision as at 31 December 2017 was £3.7m (2016: £0.7m) and effectively included a 100% provision to write down the value of BRK stock as at 30 April 2018 to £nil as the Group no longer sells BRK products

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.

2017	Within 6 months £000	6 months - 1 year £000	1 to 5 years £000	Over 5 years £000	Total £000
Trade payables	10,583	-	-	-	10,583
Derivative financial liabilities	364	-	-	-	364
Financial liabilities	**10,947**	**-**	**-**	**-**	**10,947**

2016	£000	£000	£000	£000	£000
Trade payables	11,696	-	-	-	11,696
Derivative financial liabilities	78	10	-	-	88
Financial liabilities	11,774	10	-	-	11,784

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.

2017	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	3,273	-	-	-	3,273
Trade receivables and other debtors	16,927	-	-	-	16,927
Derivative financial assets	-	-	-	-	-
Financial assets	**20,200**	**-**	**-**	**-**	**20,200**

2016	£000	£000	£000	£000	£000
Cash at bank and on hand	14,333	-	-	-	14,333
Trade receivables and other debtors	13,050	-	-	-	13,050
Derivative financial assets	1	-	-	-	1
Financial assets	27,384	-	-	-	27,384

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, in January 2018, the Group entered into a committed £7m revolving credit facility with HSBC and maintains a £1m 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.

Given the significant opening stock position, the approximate impact on the Group's operating profit in 2018 from a 1 cent change in the value of the US Dollar and the Euro against Sterling on a full year basis is approximately £0.1m and £0.2m respectively.

Interest rate risk

The business has remained debt free throughout 2017 and earns modest income on its Sterling cash deposits.

Credit risk

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

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

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

Maximum exposure to credit risk	2017 £000	2016 £000
Trade receivables and other debtors	16,927	13,050
Cash and cash equivalents	3,273	14,333
	20,200	27,383

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.

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

6. Revenue and segmental reporting

Revenue	2017 £000	2016 £000
Continuing operations:		
Sale of goods	54,277	57,106
Total sale of goods	**54,277**	57,106
Finance income (note 9)	23	66
Total revenue from continuing operations	**54,300**	57,172

6. Revenue and segmental reporting (continued)

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

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

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

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

Revenue from continuing operations	2017 Revenue £000	2016 Revenue £000
Business Units:		
Europe	21,907	23,321
Trade	7,428	7,158
Retail	15,550	15,385
Fire & Rescue Services	4,506	5,373
Utilities	1,850	2,164
Pace Sensors	3,036	3,705
Total revenue from external customers	**54,277**	57,106

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

For 2017, revenues of approximately £10.0m (2016: £15.0m) were derived from one external customer (2016: one external customer), which individually contributed over 10% of total revenue of the Group. These revenues are attributable to the European business units. An analysis of the Group's revenue is as follows:

	2017 £000	2016 £000
Continuing operations:		
United Kingdom	29,362	30,080
Continental Europe	20,474	20,657
Rest of World	4,441	6,369
	54,277	57,106

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

	2017 £000	2016 £000
Continuing operations:		
UK	15,108	10,720
Canada	187	285
Non-current assets	15,295	11,005

7. Profit from operations

The following table analyses the nature of expenses:

	2017 £000	2016 £000
Staff costs (see note 8)	5,306	6,143
Depreciation, amortisation and impairment (see notes 15 and 16)	736	613
Premises costs	1,127	1,152
Change in inventory of finished goods excluding inventory provision movement	736	(1,825)
Purchase of finished goods	34,971	39,482
BRK distribution fee	2,915	2,982
Movement in inventory provisions	2,958	416
Distribution costs	1,007	1,083
Marketing and trade contributions	1,028	1,411
Professional fees excluding Non-Executive Directors	701	1,049
Research and development costs	306	114
Other net expenses / costs	1,965	2,979
Total cost of sales, distribution costs and administrative expenses	53,756	55,599

Profit from operations has been arrived at after charging:

	2017 £000	2016 £000
Net foreign exchange losses excluding foreign currency forward transactions	184	641
Research and development costs	306	114
Amortisation of intangible assets	465	332
Depreciation on owned assets	271	281
Rentals under operating leases	425	453

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

	2017 £000	2016 £000
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	30	35
Fees payable to the Company's auditor and their associates for other services to the Group;		
The audit of the Company's subsidiaries	103	60
Other audit related services	37	30
Total audit fees	170	125
Taxation services	20	18
Total non-audit fees	20	18

8. Staff costs

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

	2017 Number	2016 Number
Pace Sensors manufacturing	37	64
Technology	38	34
Administration	33	38
Sales and Marketing	29	26
Executive and Non-Executive Directors	7	8
Warehousing	3	5
	147	175

The aggregate remuneration for the above persons comprised:

	2017 £000	2016 £000
Wages and salaries	6,036	6,388
Social security costs	690	630
Other pension costs	174	125
Share-based payment expense	358	563
Total remuneration	7,258	7,706
Less: Capitalised product development costs	(1,952)	(1,563)
Total remuneration charged to Income Statement	5,306	6,143

There were no staff remunerated by the Company.

9. Finance income

	2017 £000	2016 £000
Interest on bank deposits	24	66

10. Income tax

	2017 £000	2016 £000
Current tax		
UK corporation tax (credit) / charge	(624)	(99)
UK – Adjustments in respect of prior periods (credit)	(332)	(46)
Foreign tax charge	190	267
	(766)	122
Deferred tax (note 24)		
Origination and reversal of temporary differences	823	(368)
Income tax charge / (credit)	57	(246)

Domestic income tax is calculated at 19.25% (2016: 20%) of the estimated assessable profit for the year.

10. Income tax (continued)

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

	2017 £000	%	2016 £000	%
Profit before tax	**545**		1,573	
Tax at the domestic income tax rate 19.25% (2016: 20%)	105		314	
Tax effect of expenses that are not deductible in determining taxable profit	13		306	
Effect of allowance for capitalised development expenditure	(359)		(889)	
Adjustments in respect of prior periods	108		(46)	
Impact of foreign tax rates	53		69	
Other adjustments	137		-	
Tax charge / (credit) and effective tax rate for the year	**57**	**10%**	(246)	(16%)

The weighted average applicable tax rate was a charge of 10% (2016: credit of 16%). The tax credit for 2016 is attributed to enhanced R&D tax relief at 230% rate.

In the prior year, tax losses carried forwards were recognised as a deferred tax asset. These were realised during the year being surrendered for R&D tax credits.

Legislation to reduce the main rate of corporation tax 17% from 1 April 2020 has been enacted. The deferred tax balances have been calculated at 17% where they are expected to be surrendered after 1 April 2017.

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

	2017 £000	2016 £000
Current tax		
Share options – exercised in the year	(17)	-
Deferred tax		
Share-based payments	(61)	**(220)**
Total income tax	**(78)**	**(220)**

11. Dividends

On 7 July 2017, a dividend of £2.5m, 5.5 pence per share, was paid to shareholders. On 27 October 2017 an interim dividend of £1.1m, 2.5 pence per share, was paid to shareholders.

In light of the £3.8m cash cost of the Settlement Agreement this year, the Group's reduced prospects for 2018, the long term higher capital costs the Group faces using a third party contract manufacturer and the Board's commitment for significant investment in new products and technology, the Board is not recommending payment of a final dividend in respect of 2017. The total dividend payable for 2017 is therefore 2.5 pence per share (2016: 8.0 pence per share).

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

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	2017 £000	2016 £000
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the parent)	**488**	1,819
Number of shares	**'000**	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**45,905**	45,855
Effect of dilutive potential ordinary shares:		
Deemed issue of potentially dilutive shares	**30**	71
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**45,935**	45,926

	2017 pence	2016 pence
Basic earnings per share (pence)	**1.1**	4.0
Diluted earnings per share (pence)	**1.1**	4.0

Basic EPS is calculated by dividing the earnings attributable to ordinary owners of the parent by the weighted average number of shares outstanding during the period.

Diluted EPS is calculated on the same basis as Basic EPS but with a further adjustment to the number of weighted average shares in issue to reflect the effect of all potentially dilutive share options. The number of potentially dilutive share options is derived from the number of share options and awards granted to employees and directors where the exercise price is less than the average market price of the Company's ordinary shares during the period.

13. Financial instruments

2017	Assets at fair value through profit and loss £000	Loans and receivables £000	Total £000
Financial assets			
Trade receivables and other debtors	-	16,927	16,927
Cash and cash equivalents	3,273	-	3,273
Derivative financial assets	-	-	-
Total	**3,273**	**16,927**	**20,200**
2016			
Financial assets			
Trade receivables and other debtors	-	13,050	13,050
Cash and cash equivalents	14,333	-	14,333
Derivative financial assets	1	-	1
Total	14,334	13,050	27,384

2017	Liabilities at fair value through profit and loss £000	Financial liabilities held at amortised cost £000	Total £000
Financial liabilities			
Trade payables	-	10,583	10,583
Derivative financial liabilities	364	-	364
Total	**364**	**10,583**	**10,947**
2016			
Financial liabilities			
Trade payables	-	11,696	11,696
Derivative financial liabilities	88	-	88
Total	88	11,696	11,784

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

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

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

14. Goodwill

	£000
Cost	
Cost of goodwill and carrying value at 31 December 2017 and 2016	**169**

The recoverable amount of each cash generating unit ("CGU") has been determined at each year end, based on value in use calculations. These calculations use post-tax cash flow projections from the Group's 5 year strategy plan.

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

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

Gross margin over the next 5 years has been estimated based on past performance of each product line taking into account the anticipated changes in sales mix and future trading conditions. The sales mix takes into account estimated future revenue from current customers. It has been assumed that overhead costs and asset replacement will continue at the same levels as in the current year as there are no expansion or restructuring projects in the Board's plans in the short term. Cash flow has been derived from future earnings based on assumptions that key suppliers will be paid within agreed credit periods and that customers will continue to take pay on time. Stock holding levels will continue to be monitored to ensure that sufficient levels are retained to meet demand.

15. Other intangible assets

	Product development costs £000	Purchased software costs £000	Computer software costs £000	Total £000
Cost				
At 1 January 2016	8,095	-	290	8,385
Additions	2,178	1,649	29	3,856
At 31 December 2016	10,273	1,649	319	12,241
Additions	**2,601**	**925**	**68**	**3,594**
At 31 December 2017	**12,874**	**2,574**	**387**	**15,835**
Amortisation				
At 1 January 2016	1,762	-	227	1,989
Amortisation for the year	300	-	32	332
At 31 December 2016	2,062	-	259	2,321
Amortisation for the year	**430**	-	**35**	**465**
At 31 December 2017	**2,492**	-	**294**	**2,786**
Carrying amount				
At 31 December 2016	8,211	1,649	60	9,920
At 31 December 2017	**10,382**	**2,574**	**93**	**13,049**

The total amortisation charge of £465,000 (2016: £332,000) has been recognised within administrative expenses.

A summary of intangible costs as at 31 December 2017 is shown overleaf.

Except as outlined below, intangible assets are typically amortised between 7 to 15 years depending on the Group's assessment of the likely period of time over which the benefit from the technology is expected to be realised.

In 2017, the Group incurred approximately £0.8m of costs by its Technical and Project Management teams in readying Flex to produce Sprue products and in readying the Far East based supplier to produce replacements to the BRK range of products. Such costs have been included within intangible assets and are to be amortised over 4 years from when Sprue starts selling such products in 2018.

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

The Board expects that the quality of Sprue's own products made at Flex will be better than products made in China and that over time, the Group will see significant reductions in product costs as further improvements from enhanced design for manufacture, waste reduction, consolidation of component buying power come to bear. In addition, manufacturing in Europe, closer to our core customers and our team of 30 engineers in Coventry, will help keep Sprue closer to the manufacturing of its products.

Impairment review
During 2017, the Group did not record any material impairment charges upon review of its product development cost intangible assets.

As part of the Group's impairment review, the Group prepares a schedule that compares the net book value of each intangible asset with the gross profit which is expected to be derived from the sale of products in the next 12 months that use the relevant intangible asset. The purpose of this review is to ensure that the value of the intangible asset is likely to be "recovered" within the foreseeable future. In many cases, the expected gross profit within the next 12 months from the sale of products that use the intangible asset is significantly greater than the net book value of the individual intangible asset on the balance sheet. This provides significant comfort that the carrying value of the intangible is reasonable and, therefore, is not impaired.

Assessing the potential sales of products like Sprue's CHS technology is inherently more difficult than products where the "run rate" of sales is already well known and the pattern of sales is established. The Board expects that the take up of CHS products will increase over time as the technology gradually becomes "main-stream". Predicting exactly what year this is likely to happen is difficult to assess but the general market trend of an increased rate of take up is clearly evident.

Given the gradual take up of CHS technology which is expected to increase over time, the Group introduced "units of production" amortisation in 2017 as outlined further in Note 2.

	Connected Home £000	Wi-safe 2 £000	Nano £000	Mains Powered £000	Smoke Sensing products £000	CO Sensing Products £000	Other £000	Total £000	Future Projects £000	Connected Homes £000	Total £000	Grand Total £000
	Projects Being Amortised								Projects Not Currently Being Amortised			
Cost												
At 1 January	1,798	1,951	1,403	1,280	1,360	280	1,314	9,386	1,491	1,045	2,536	11,922
Technical Costs Capitalised	-	25	-	-	-	-	94	119	498	956	1,454	1,573
Employment Costs Capitalised	54	2	-	-	104	-	76	236	1,469	248	1,717	1,953
Total Additions	54	27	-	-	104	-	170	355	1,967	1,204	3,171	3,526
At 31 December	**1,852**	**1,978**	**1,403**	**1,280**	**1,464**	**280**	**1,484**	**9,741**	**3,458**	**2,249**	**5,707**	**15,448**
Amortisation												
At 1 January	2	324	19	72	352	66	1,227	2,062	-	-	-	2,062
Charge	30	126	40	52	126	31	25	430	-	-	-	430
At 31 December	**32**	**450**	**59**	**124**	**478**	**97**	**1,252**	**2,492**	-	-	-	**2,492**
Carrying amount												
At 1 January	1,796	1,627	1,384	1,208	1,008	214	87	7,324	1,491	1,045	2,536	9,860
At 31 December	**1,820**	**1,528**	**1,344**	**1,156**	**986**	**183**	**232**	**7,249**	***3,458**	**2,249**	**5,707**	**12,956**
% of total	*14%*	*12%*	*10%*	*9%*	*8%*	*1%*	*2%*	*56%*	*27%*	*17%*	*44%*	*100%*

*Analysed in more detail on the following pages

Projects being amortised

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

Connected Home Solutions ("CHS")
CHS products connect a range of Sprue's own products through its interface gateway technology to the internet. Sprue has an app for users which works on any Android or iOS device which enables the products to be monitored in real time.

Sprue has expanded the skills and capabilities of its Technical team to accelerate CHS product development. The total net book value of projects being amortised with CHS technology as at 31 December 2017 amounted to approximately £1.8m (2016: £1.8m).

Wi-safe 2
Wi-safe 2 (including products using Wi-safe 2 capabilities) are an enhancement and development on the Group's Wi-safe I technology with a combined net book value of approximately £1.5m as at 31 December 2017 (2016: £1.6m). Wi-safe 2 is a core piece of technology which is expected to underpin a number of key products and accessories going forwards, including the Group's product offering in the Connected Homes arena.

Nano
Nano is the Group's miniaturised CO sensor developed by Sprue's wholly owned subsidiary in Canada, Pace Sensors. The Nano went into production into finished CO detectors in November 2016. The net book value of Nano technology was approximately £1.3m as at 31 December 2017 (2016: £1.4m) and represents the costs incurred in the development of the CO sensor and the final development of finished CO products that incorporate the sensor.

Mains powered products
Mains powered products include the SONA range of mains powered products which as at 31 December 2017 had net book value of approximately £1.2m (2016: £ 1.2m).

Smoke sensing products
The net book value of non-mains powered smoke sensing products (heat, ionisation optical products) had net book value as at 31 December 2017 of approximately £1.0m (2016: £1.0m). This category includes all Sprue's own branded FireAngel developed products.

CO sensing products
The net book value of CO sensing products as at 31 December 2017 was approximately £0.2m (2016: £0.2m), which includes Sprue's 10 year life CO alarm, the British Gas developed CO alarm and CO sensing products currently under development.

Other projects
The net book value of other projects amounted to approximately £0.2m as at 31 December 2017 (2016: £0.1m).

Projects not currently being amortised
Product development costs and other intangible assets not yet available for use are tested for impairment annually, and are assessed whether there is any indication that the asset may be impaired. This assessment includes consideration of the likely cost of completing the project, the time to market and an assessment of the potential sales and gross profit opportunity using the relevant technology.

Assessing the potential sales of products like Sprue's CHS technology is inherently more difficult than products where the "run rate" of sales is already well known and the pattern of sales is established. The Board expects that the take up of CHS products will increase over time as the technology gradually becomes "mainstream". Predicting exactly what year this is likely to happen is difficult to assess but the general market trend is one that is expected for most electrical products in the home to all be connected to the internet

Other projects
Other projects with cost and net book value of approximately £3.5m as at 31 December 2017 (2016: £1.5m) includes the major project development activities of the Group, including "Gen 5" costs of £1.1m (the next generation major product platform), Flex pre-production costs of £0.8m and other product development which makes up the balance of £1.6m (split between circa 15 different projects).

In 2017, the Group incurred approximately £0.8m of costs by its Technical and Project Management teams in readying Flex to produce Sprue products and in readying the Far East based supplier to produce replacements to the BRK range of products. Such costs have been included within intangible assets and are to be amortised over 4 years from when Sprue starts selling such products in 2018.

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

The Board expects that the quality of Sprue's own products made at Flex will be better than products made in China and that, over time, the Group will see significant reductions in product costs as further improvements from enhanced design for manufacture, waste reduction, consolidation of component buying power come to bear. In addition, manufacturing in Europe, closer to our core customers and our team of 30 engineers in Coventry, will help keep Sprue closer to the manufacturing of its products.

Connected Homes
Connected Homes technology which is not currently in use includes approximately £2.2m as at 31 December 2017 (2016: £1.0m) in total of specific product development cost and Intamac software costs which are still under development.

16. Plant and equipment

	Tooling £000	Office equipment £000	Motor vehicles £000	Fixtures & fittings £000	Total £000
Cost					
At 1 January 2016	-	979	5	323	1,307
Additions	-	389	-	108	497
Disposals	-	(16)	-	-	(16)
At 31 December 2016	-	1,352	5	431	1,788
Additions	1,382	48	7	1	1,438
Disposals	-	-	-	-	-
At 31 December 2017	1,382	1,400	12	432	3,226
Accumulated Depreciation					
At 1 January 2016	-	478	4	85	567
Depreciation charge for the year	-	225	1	55	281
Disposals	-	(15)	-	-	(15)
Effect of exchange rates	-	39	-	-	39
At 31 December 2016	-	727	5	140	872
Depreciation charge for the year	-	219	2	51	271
Disposals	-	-	-	-	-
Effect of exchange rates	-	4	-	1	5
At 31 December 2017	-	950	7	192	1,149
Net book value					
At 31 December 2016	-	625	-	291	916
At 31 December 2017	1,382	450	5	240	2,077

The total depreciation expense of £271,000 (2016: £281,000) has been charged to administrative expenses.

Tooling at the Group's supplier, Flex, Poland has not been depreciated during the year as it was not brought into in use during the year . The Company is committed to purchase approximately £3.6m of tooling and capital equipment at Flex in Poland over the course of 2018.

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

17. Shares in subsidiaries

Company	Shares £000	Total £000
Cost		
At 1 January 2017 and 31 December 2017	149	149
Accumulated impairment		
At 1 January 2017 and 31 December 2017	-	-
At 31 December 2017 and 31 December 2016	149	149

The Group has two non-trading companies, AngelEye Corporation and AngelEye Incorporation, both, registered in North America. The Company's subsidiaries as at 31 December 2017 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 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Raw materials	229	236	-	-
Work-in-progress	494	370	-	-
Finished goods	14,130	13,404	-	-
Total gross inventories	14,853	14,010	-	-
Inventory provisions	(3,652)	(694)	-	-
Total net inventories	11,201	13,316	-	-

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

Following the Settlement Agreement with BRK announced on the 10 May 2018, the Board has written the value of all BRK stock down to £nil as the Group will no longer be selling BRK stock.

19. Financial assets

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Trade receivables and other debtors	16,927	13,050	22,428	25,348
Cash and cash equivalents	3,273	14,333	64	796
Derivative financial assets	-	1	-	-
Maximum exposure to credit risk	20,200	27,384	22,492	26,144

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 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Trade receivables	16,634	13,003	-	-
Amounts due from fellow group companies	-	-	22,428	25,348
Other debtors	293	47		-
Prepayments	439	401		-
Trade and other receivables	17,366	13,451	22,428	25,348

The average credit period taken on sale of goods is 72 days (2016: 58 days).

An impairment review has been undertaken at the year end to assess whether the carrying amount of financial assets is deemed recoverable. Following the review, there are no financial assets that are impaired and all debts past due are recoverable. As at 31 December 2017, approximately £1.7m of debt from the first half of 2017 in respect of sales to one customer was overdue. The balance of that overdue debt had reduced to approximately £0.9m as at 14 May 2018 and the Board expects to recover the debt in full before 30 June 2018.

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

Domestic trade debtors are pledged as security to the Group's bankers as part of the Group's banking facilities. The domestic trade debtor balance at 31 December 2017 was £8.9m (31 December 2016: £6.4m).

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 2017, £8.9m (2016: £6.4m) of trade receivables were denominated in Sterling, £2.4m (2016: £1.4m) in US Dollars and £5.3m (2016: £5.2m) in Euros.

At 31 December 2017, £1.1m (2016: £10.5m) of cash was denominated in Sterling, cash of £2.0m (2016: £2.3m) in US Dollars, cash of £0.1m in Canadian dollars and £0.1m (2016: £1.4m) in Euros.

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

20. Derivative financial instruments

	2017 £000	2016 £000
Assets		
Foreign currency forward contracts	-	1
	-	1
Liabilities		
Foreign currency forward contracts	(364)	(88)
	(364)	(88)

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 $6.1m at 31 December 2017 (2016: US $3.8m), GBP of £1.3m (2016: £2.9m) and Euro of nil (2016: Euro nil).

Gains and losses on foreign currency forward contracts are recognised within cost of sales each month, as the forward contract are utilised to mitigate foreign currency risk associated with product sales and 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 2017 was £278,000 (2016: £10,000 profit) 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 2017. All assets and liabilities measured are valued at level 2.

LEVEL 2	**2017 £000**	2016 £000
Assets		
Foreign currency forward contracts	-	1
Liabilities		
Foreign currency forward contracts	(364)	(88)

22. Provisions

	FireAngel warranty provisions £000	**BRK Brands warranty provisions £000**	**Total £000**
At 1 January 2016	6,463	330	6,793
Net utilisation of provision	(2,130)	(70)	(2,200)
At 31 December 2016	4,333	260	4,593
Net (utilisation of)/increase in provision	(2,416)	17	(2,399)
At 31 December 2017	**1,917**	**277**	**2,194**

The total warranty provision is classified between less than one year and greater than 1 year as follows:

	2017 £000	2016 £000
Current provision	**1,507**	2,800
Non-current provision	**687**	1,793
Total warranty provisions	**2,194**	4,593

Review of warranty provision

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

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

The Board notes that in total, the expected terminal rate of product returns is still in line with expectation, although returns in Germany are higher, and returns in the UK are lower than originally expected.

23. Trade and other payables

	Group 2017 £000	Group 2016 £000	**Company 2017 £000**	Company 2016 £000
Trade payables	**10,583**	11,696	-	-
Accruals and deferred income	**4,968**	4,421	-	-
Other tax and social security	**921**	624	-	-
	16,472	16,741	-	-

At 31 December 2017, £8.0m (2016: £8.3m) of payables were denominated in Sterling, £0.2m of payables were dominated in Euros (2016: £0.05m) and £2.4m (2016: £3.3m) 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 80 days (2016: 76 days).

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

24. Deferred tax

	2017 £000	2016 £000
Deferred tax liabilities	(1,974)	(1,569)
Deferred tax assets	273	625
00Net position at 31 December	(1,701)	(944)

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

	2017 £000	2016 £000
At 1 January	(944)	(1,102)
(Charge) / credit to income for the year	(696)	368
(Charge) to equity for the year	(61)	(210)
At 31 December	(1,701)	(944)

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 2017	-	1,569	1,569
Charge to income for the year	44	361	405
At 31 December 2017	44	1,930	1,974

Deferred tax assets	Deferred tax losses £000	Derivative financial instruments £000	Share-based payments £000	Total £000
At 1 January 2017	440	15	170	625
(Charge) / credit / to income for the year	(440)	(15)	164	(291)
Charge to equity for the year	-	-	(61)	(61)
At 31 December 2017	-	-	273	273

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 £0.2m (2016: £0.1m). Contributions amounting to £22,000 (2016: £18,000) were payable at the year end.

26. Share capital

	Company 2017 Number '000	Company 2016 Number '000
Authorised:		
100,000,000 Ordinary shares of 2p each		
Ordinary shares in issue:		
As at 1 January	45,855	45,855
Issue of shares in respect of share options exercised	50	-
As at 31 December	45,905	45,855

Issued and Fully Paid Ordinary shares of 2p each:	£000	£000
As at 1 January	917	917
Issue of share capital in respect of share options exercised	1	-
As at 31 December	918	917

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

27. Reserves

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

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

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

The profit for the financial year dealt with in the Company was nil (2016: £0.2m). 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 £358,000 (2016: £563,000) included in the Consolidated Income Statement within administrative expenses includes:

- £102,000 attributable to 2014 share options
- £256,000 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:

	2017		2016	
	Options 000	Weighted average exercise price	Options 000	Weighted average exercise price
Outstanding at 1 January	1,952	97p	2,025	102p
Exercised during the year	(50)	35p	-	200p
Granted during the year	-	-	-	2p
Forfeited during the year	-	-	(73)	200p
Outstanding at 31 December	1,902	99p	1,952	97p

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

Grant date	Outstanding at start of year	Exercised during the year	Granted during the year	Forfeited during the year	Outstanding at end of year	Expiry date	Exercise price
Directors' share options							
25/04/2014	319,445	-	-	-	**319,445**	28/04/2021	200p
03/06/2015	900,000	-	-	-	**900,000**	03/06/2025	2p
Employee share options							
30/06/2010	50,000	(50,000)	-	-	**-**	29/06/2017	35p
25/04/2014	607,614	-	-	-	**607,614**	28/04/2021	200p
03/06/2015	45,000	-	-	-	**45,000**	03/06/2025	2p
03/06/2015	30,000	-	-	-	**30,000**	03/06/2020	2p
	1,952,059	(50,000)	-	-	**1,902,059**		

As at 31 December 2017, a total of 1,902,059 options were outstanding which had an average exercise price of 99p, and a weighted average remaining contractual life of 4.8 years. 50,000 share options were exercised during the year.

2014 share options award

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

The Company has an approved EMI scheme for qualifying UK based employees which provided for an award of share options based on seniority. Share options vest over three years. If options remain unexercised after a period of 10 years from the date of grant, the options usually expire except in exceptional circumstances at the discretion of the Board. Furthermore, options are typically forfeited if an employee leaves the Group before options have vested.

2015 LTIP

Executive directors included in the 2015 LTIP are as follows:

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

The key elements of the 2015 LTIP include:

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

29. Operating lease arrangements

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

	2017 £000	2016 £000
Amounts due:		
Within one year	**385**	425
Between one and five years	**467**	440
More than five years	**33**	-
Total lease payments	**885**	865

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.

Newell Brands has the right to representation on the Company's board of directors and to jointly nominate a second director for appointment to the Sprue Board provided it owns at least 12% of the issued share capital of the Company. Consequently, the Directors consider that Newell Brands is a related party. Purchases between related parties are made under contractual arrangements negotiated on an arm's length basis.

Newell Brands represents the single largest supplier to the Group supplying a significant proportion of the Group's purchased products which are purchased in Sterling albeit the Sterling cost is linked to the GBP / USD exchange rate through an exchange rate sharing mechanism. Sales of goods in 2016 relate to Newell Brands wholly owned subsidiary, Mapa Spontex, which is based in France. There were no sales to Mapa Spontex in 2017.
Newell Brands is a party to the Settlement Agreement announced on 10 May 2018.

Newell Brands, through its subsidiary BRK Brands Europe Limited, holds a significant proportion of the Company's ordinary shares (23.4% as at 31 December 2017)

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

	Newell Brands 2017 £000	2016 £000
Sales of goods in year	**-**	196
Purchases of goods in year including engineering fees	**23,521**	19,534
Distribution agreement fee	**2,915**	2,982
Dividends payable	**859**	912
Amounts owed to related parties at year end	**6,839**	7,670

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.

	2017 £000	2016 £000
Remuneration of key management personnel		
Aggregate emoluments	**1,398**	1,631
Company pension contributions	**146**	73
Sums paid for Non-Executive Directors' services	**111**	111
Share-based payment	**358**	289
Total remuneration	**2,013**	2,104

The remuneration in respect of the highest paid Director was:

	2017 £000	2016 £000
Emoluments	**224**	354
Defined pension contributions	**21**	5
	245	359

Share-based payments
During 2014, three Executive Directors were granted a total of 375,000 share options under the equity-settled share option plan. These options had an exercise price of 200.00 pence per share and had an expected life of ten years. The share options vest evenly over a period of three years and the charge is taken to the income statement as the share-based payment charge. The element of the share-based payment charge relating to the Directors is £140,118.

In June 2015, four Executive Directors were awarded 900,000 share options in total under the new LTIP share option plan. These options had an exercise price of the nominal cost of the shares at 2 pence per share and had an expected life of ten years. The share options vest following a performance period of three years and are subject to the achievement of total Sprue shareholder return targets. The element of the share-based payment charge relating to this award is £149,305.

Wilkins Kennedy LLP
William Payne, a Non-Executive Director of the Company, is a partner of Wilkins Kennedy LLP, Chartered Accountants, which is the firm that provides his services. During the period Wilkins Kennedy LLP were paid £42,000 (2016: £42,000) for the provision of William Payne's services as a Non-Executive Director and £11,713 (2016: £13,138) for accounting and management services. At the year end the Company owed Wilkins Kennedy LLP £nil (2016: £nil).

31. Post balance sheet events

HSBC £7m revolving credit facility
In January 2018, the Group entered into a 3 year committed revolving credit facility for £7m with HSBC to provide additional financial headroom. The costs of arranging the facility amounting to £0.1m in total are being amortised over the life of the facility.

Settlement Agreement
As announced on 10 May 2018, the Group entered into a Settlement Agreement with BRK. In summary, and in consideration for a full and final settlement of all matters between the parties, it has been agreed that:

- BRK will purchase from Sprue all BRK inventory manufactured from 1 January 2017 for £1.02 million to be paid by way of deduction from payments due by Sprue to BRK under the terms of the DA, save for 3,097 units required by Sprue for its ongoing warranty purposes;

- Sprue will provide warranty support to its customers on all BRK products manufactured before 1 April 2018 and provide transitional support to ensure an orderly handover as part of the settlement agreement;

- Sprue will dispose of all BRK inventory manufactured before 1 January 2017 at its own cost, save for 4,857 units required by Sprue for its ongoing warranty purposes;

- BRK approves the sale by Sprue of excess stock of Sprue's CO products using BRK's brands valued at approximately £300,000 for a period of 6 months;

- Sprue grants BRK a 12 month non-exclusive licence for its relevant intellectual property, including registered patents and design registration; and

- Sprue will pay the outstanding balance of payments, amounting to a total of £10,972,484.88 and $71,071, owed to BRK under the terms of the DA and the MA in monthly instalments by 24 December 2018.

As a result of the Settlement Agreement, the Company recorded a £3.8m exceptional charge in 2017 (2016: £nil) which includes £3.4m to write down the book value of remaining BRK stock as at 30 April 2018 to £nil (as Sprue will no longer selling BRK stock), a provision of £0.2m to cover disposal costs of the BRK stock, together with a £0.2m provision to cover the Group's legal and professional fees since 22 March 2018 in respect of the dispute with BRK.

Whilst the Board is pleased to have brought all disputes with BRK to an end with a full and final settlement, the Group's 2018 cash flow will be adversely impacted by approximately £3.8m as a result of the Settlement Agreement.

Board of Directors

EXECUTIVE

G Whitworth	*Executive Chairman*
N Smith	*Group Chief Executive*
J Gahan (resigned 5 March 2018)	*Group Finance Director*
N Rutter	*Chief Product Officer*

NON-EXECUTIVE

W Payne	*Senior Independent Director*
A Silverton	
J Shepherd	

Corporate Directory

REGISTERED NUMBER
3991353

SECRETARY
W Payne

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

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

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

SOLICITORS
Pinsent Masons
30 Crown Place
London
EC2A 4ES

BANKER
HSBC plc
3 Rivergate
Temple Quay
Bristol
BS1 6ER

NOMINATED ADVISOR AND BROKER
Stockdale Securities Limited
100 Wood Street
London
EC2V 7AN

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

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

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

INVESTOR RELATIONS
Vanguard Centre
Sir William Lyons Road
Coventry
CV4 7EZ
England

Telephone: 024 7771 7700
Fax: 024 7669 3610

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

FINANCIAL CALENDAR

Financial year end	31 December 2017
Full year results announced	15 May 2018
Annual General Meeting	28 June 2018