Sprue

Sprue Aegis plc

ANNUAL REPORT AND ACCOUNTS 2014

Products that save lives

Sprue, who are we?

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

Sprue's mission is to protect, save and improve our customers' lives by making innovative, leading edge technology simple and accessible. We are a company with market leading products with brands everyone can trust. We aspire to be the company of choice for our customers' home safety product needs of today and tomorrow.

We have 14 years' experience of the European home safety products market. We are quoted on AIM.

We design and develop smoke and carbon monoxide sensing technology with optional wireless interconnectivity to keep our products at the forefront of each of the markets in which we serve.

Our home safety products are certified to the highest standards of safety and many European countries have introduced legislation to mandate the use of safety products which helps drive our sales.

Our products are protected by over 50 granted patents. We have our own Wi-Safe II technology connecting up to 50 products on the same wireless network.

We are working on our "connected home solution" to wirelessly connect and monitor products over the internet. We have proved our connected home technology works.

We outsource essentially all of our product manufacturing to two major suppliers of substantial scale based in the Far East. The only "production" we are involved in is to make our own carbon monoxide sensors which we do at Pace Sensors, our wholly owned subsidiary in Canada.

We are essentially one of, if not *the,* leading home safety products suppliers in Europe with significant intellectual property, strong recognisable brands and innovative products in a market with high barriers to entry with highly stringent product certification requirements.

We have a clear brand and product strategy and an exciting road map of new products coming through to position us as the market leader in each of the markets we serve. We keep close to our customers and their emerging product and technology needs. We are flexible and innovative.

We launched the business via an IPO in 2001 and since then, we have grown into a £65.6m turnover business generating double digit return on sales with operating profit pre-exceptional items and share-based payments charge of £10.4m. We are conservatively managed with no debt and £15.9m cash as at 31 December 2014. We employ 90 people in the UK and Continental Europe and 42 at Pace Sensors in Canada. We are well placed to continue to grow and our business is highly scaleable.

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Executive Chairman's overview

Welcome to Sprue's 2014 Annual Report. I am pleased to report further significant progress during an exciting year with record sales up 36% to £65.6m and record adjusted profit from operations* up 89% to £10.4m (2013: £5.5m).

As announced on 21 March 2014, we were pleased to have extended our exclusive right in Europe to distribute the products and brands of BRK Brands, part of Jarden Corporation ("Jarden"), for an initial period of three years on improved terms with effect from 1 April 2015 purchasing all products in Sterling at a fixed exchange rate of USD 1.62. Jarden remains the key supplier to the Group supplying essentially all of the Group's smoke alarm and product accessory requirements. This agreement consolidates Sprue's position as a leading home safety products supplier in Europe and the agreement is a good deal for the Company and all stakeholders.

We were delighted with the Company's move to AIM which was successfully completed on 30 April 2014 and I would like in particular to thank our Group Finance Director, John Gahan, who led the AIM flotation process on behalf of the Company, for his efforts. At the same time, in order to strengthen the Company's balance sheet and provide working capital for expansion, £8.0m of new equity was placed with institutional investors at £2.00 per share. I am pleased to report that cash at the year end was at a record level of £15.9m and there is no debt in the business.

In December 2014, we were pleased to launch our new range of SONA mains powered smoke and carbon monoxide products and accessories designed specifically for the UK Trade sector branded SONA, incorporating Sprue's own Thermoptek, Thermistek and Wi-Safe 2 technology. SONA transforms Sprue's product offering in the UK Trade and sits alongside a refreshed range of BRK trade products. To date, customer feedback has been highly encouraging on the new range and we expect to significantly grow our market share in UK Trade over time.

The Nano-905, the Company's miniaturised version of its proven 7 and 10 year carbon monoxide sensor, is now being installed into certain seven year "sealed for life" carbon monoxide detectors for sale in the second half of 2015 before being rolled out across the product range in the second half of the year and beyond. This is an excellent example of how investment in technology leads to enhanced product performance.

I am also pleased to confirm that a trial to wirelessly connect Sprue's home safety products to the internet using its Wi-Safe 2 technology - allowing remote monitoring of Sprue's products over the internet - is underway and initial signs are highly encouraging. We expect to commercialise our "internet of things" product offering later this year and we have an exciting array of new products under development which will come through in the next couple of years.

Sprue's mission remains to protect, save and improve our customers' lives by making innovative, leading edge technology simple and accessible. It is a simple philosophy. At the same time, we remain focused on driving shareholder returns and will continue to invest in our product base and technology and with Nick Rutter devoting more time to drive this initiative, we will continue to enhance our market leadership position in each of the markets in which we operate.

The appointment of Neil Smith in February 2015 has significantly strengthened the management team allowing me to relinquish the Group Chief Executive role and focus on my Executive Chairman role full time. I am also pleased that John Shepherd has recently joined the business as a Non-Executive Director bringing significant international business experience to the Board. I remain highly optimistic about the future prospects of our business and this is an exciting time for Sprue and all our stakeholders.

**Before exceptional AIM costs of £0.5m and a share-based payments charge of £0.2m in 2014 and before exceptional hostile bid defence costs of £0.4m in 2013*

Notification of potential relocation of CICAM's manufacturing activities

As outlined further in note 30, in early April 2015, the Board was informed by its supplier, Jarden that the manufacturing activities of Jarden's majority owned smoke alarm manufacturer in China, CICAM – which supplies 100% of the Group's Sprue and BRK smoke alarms and accessories, together with the Group's BRK carbon monoxide ("CO") alarms – may have to be relocated later this year or early next year to make way for a proposed new railway line which the Chinese government has indicated may run through the site of the current facility. Sprue understands that Jarden is seeking clarification of the potential impact and timing of the proposed new railway line on CICAM.

Sprue further understands that Jarden is in the process of identifying appropriate alternative manufacturing facilities close to the current CICAM facility and developing plans to migrate production from CICAM's current facility. Sprue will work closely with Jarden to take the appropriate steps to build up buffer stocks prior to the potential relocation of the smoke and CO production / assembly lines. Having worked previously with CICAM to move the facility about five years ago, Sprue understands what is required and is now engaging with the appropriate certification bodies to ensure that the facility can be certified by the relevant approval authorities in a timely manner.

Dividends

The strong balance sheet and cash generation capability of the Group has allowed us to sustain a progressive improvement in dividends and during the year we paid a final dividend of 6p per share in July followed by maiden interim dividend of 2p per share in October 2014 for the six months ended 30 June 2014. For 2014, the Board is recommending the payment of a final dividend of 6.0p per share which when added to the interim dividend of 2p per share represents an increase of 33% for the year as a whole. The total 2014 dividend is 2.2x covered by post tax profit (2013: 1.8x). Subject to shareholder approval at the Company's Annual General Meeting to be held on 3 June 2015, the final dividend will be paid on 3 July 2015 to shareholders on the register on 19 June 2015.

Board changes

There have been a number of Board changes during 2014 and since the year end which have been made principally to support the business in the next phase of its growth and in compliance with good corporate governance.

To reduce the size of the Board ahead of the Company's admission to AIM and address the imbalance of Executive to Non-Executive directors, Peter Brigham and John Walsh stepped down as Directors of the Company in April 2014 but remained key members of the management team.

As announced earlier in April 2015, I am delighted that John Shepherd, age 61 has joined the Board as a Non-Executive Director. John has held a number of senior positions in technology companies including British Aerospace PLC, Smiths Group PLC, First Technology PLC, Synectics PLC and has worked as a consultant to private equity. John was previously Non-Executive Chairman of FTSA Holdings Limited for almost four years and he speaks fluent German.

After 15 years' service to the Company, Peter Lawrence retires and on behalf of the Board, I would like to thank Peter for his commitment and contribution to the business. Peter will retire from the Board at the AGM on 3 June 2015.

In accordance with the commitment made in the Company's admission document published on 24 April 2014 in connection with the admission to AIM, I relinquished the role of Group Chief Executive on 2 February 2015 with the appointment of Neil Smith as Group Chief Executive. Neil who is based at the Company's head office in Coventry is focused on managing the Group's sales and marketing and operations, including logistics and our Creative team. Neil is nominated to be appointed to the Board at the AGM in June. I remain Executive Chairman of the Company.

Nick Rutter's role as Managing Director has also been reshaped to allow him to focus more on our future product and service offerings and the delivery of our technology to keep Sprue at the forefront of the current and potentially new markets which we serve. Nick now leads R&D, Technical Support and the Projects team to bring greater certainty to delivering an exciting new product roadmap capitalising on opportunities in the rapidly changing safety products market and Sprue's innovative technologies. In addition, Nick is also responsible for business development activities and the deeper integration of Pace Sensors in Canada into the broader Sprue business as John Walsh steps down to a part time role.

Corporate Governance

As part of the Company's move onto AIM and over the course of the last year, the Board and its committees have sought to review and address the corporate governance requirements arising out of the increased regulations Sprue is subject to now that its shares are admitted to trading on AIM. With the adoption of International Financial Reporting Standards in our accounts for the first time, we have sought to expand our annual report and accounts to include a detailed Strategic Report, details of our business model and key strategic priorities amongst other disclosures which we hope shareholders will find useful. Embracing the new reporting regime, Sprue is seeking is be more transparent and open with shareholders and the level of disclosures reflects this objective.

The composition of the Board is kept under regular review to ensure that its members bring the appropriate skills required to improve its effectiveness and performance. I am pleased to report that the Board has functioned well in all respects during the year providing knowledge and robust challenge and support to the Executive Directors. I am also confident that the changes described above will enable the Board to continue to be effective as Sprue's business grows.

Outlook

Whilst the Company's order book has continued to build strongly over the past 12 months and remains at record levels extending into the second half of this year, 2015 sales into France depend heavily on the "sell through" rate of products which is uncertain at this stage although feedback from our French distributors to date has been highly encouraging. Sprue enjoys an estimated footprint of around 50% of French DIY and 75% of French retail space, therefore the business remains well positioned in that market.

France is performing ahead of management's expectations with a significant order book extending into the second half of 2015. As a result, the Board now expects Sprue's revenue for 2015 to significantly exceed market expectations, however, due in particular to Sterling's strength against the Euro continuing to adversely impact gross margin, it expects the Group's profit before tax (before share-based payments charge) for 2015 to be marginally below market expectations.

Graham Whitworth
Executive Chairman
25 April 2015

Strategic Report

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Executive Chairman Introduction

The year ended 31 December 2014 has been an exciting and busy time for Sprue:

- We completed the move to AIM in April 2014 raising £8.0 million before costs
- Demand in Continental Europe and in particular France has significantly increased
- Our new range of Trade products was launched in December 2014
- Our connected home trial has progressed well

Our strategy

The key to our success in 2015 and beyond lies in the continued focus and investment around our core strategic goals:

- Continue the development of our core smoke, carbon monoxide ("CO") sensing and Wi-Safe technology into new products that help position us as the market leader in each of the markets we serve
- Establish new platforms for growth to capitalise on emerging technology and market trends
- Create a stable and scaleable organisational structure that helps deliver and support growth
- Maintain attractive returns for our shareholders
- Leverage our economies of scale to drive sustained financial performance

We aim to deliver sustainable, long-term growth in shareholder value by adding new product ranges and services which are attractive to our customers, either in the same or adjacent markets in which we operate, or by extending our geographical penetration.

Maintaining the highest standards

Whether it be our smoke or CO sensing products, our continuous improvement processes seek to deliver products of the highest quality. Products are sourced through two principal suppliers who are independently audited and approved to the highest standards to manufacture our products. We work closely with our suppliers to ensure the highest standards of quality are met before products leave the factory.

Stringent quality control and validation processes are carried out by our in-house technical team and by our suppliers to check the quality, performance and reliability of products. We employ a full time production specialist based in the Far East whose role is to monitor and improve product quality at each of our two principal suppliers who are also audited by independent certification bodies.

Strengthening technical support to meet the needs of our customers

We are increasingly moving our business model towards a focus on understanding what happens at each customer touch point by enhancing our technical support / customer services team in the UK to support our customer base both here and in Continental Europe.

We have added further European language capability into the technical support to meet the needs of our customers. We regularly encourage feedback from our customers through surveys and carefully analyse product returns data to improve customer experience of our products.

Our business model at a glance

By understanding our customers' needs, we are able to drive the direction of the business to advance our product range and services to keep Sprue at the forefront of each of the markets which we serve.

The Sprue story started in 2000 when the business model was conceived by one of the two founders, Nick Rutter who wanted to design and sell products that met the following criteria:

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

After a huge amount of validation work, Sprue launched the world's first plug in smoke alarm and has gradually extended its range of smoke products and introduced carbon monoxide detectors and other safety products accessories to expand its range to become the business it is today with over 500 stock keeping units ("SKUs").

Our consumer-centric approach, along with the extensive product range and world class third party manufacturing capabilities and our broad network of customers and third party distributors in Continental Europe, makes our business model robust and defensible. In turn, this enables us to build strong, long lasting partnerships with key customers and provides the flexibility to gain market share in markets where we are not well represented. Over time, we are aiming to sell the brands of choice in every one of the markets we serve.

By ensuring that our products meet the needs of our customers, they potentially become repeat purchasers and may recommend our products to their peers. The strong product advocacy we have from being the largest supplier of smoke and hearing impaired alarms to the UK Fire & Rescue Services who continue to fit our Thermoptek products today, supports the general broad customer loyalty and following we have been able to create. This philosophy shapes our business model.

Our flexible sourcing model enables us to grow our product range leveraging the economies of scale at each of our smoke and CO product manufacturers. Our suppliers have invested considerable resources to expand, develop and enhance their engineering and manufacturing facilities to remain world class manufacturers. We work closely with our two key suppliers to ensure that products are designed for ease of manufacture and it is rare that we do not have at least one of our UK based engineers at our suppliers alongside our Far East manufacturing support specialist.

Extension of exclusive European distribution agreement with BRK Brands and its ultimate parent company, Jarden Corporation ("Jarden")

As announced on 21 March 2014, Sprue entered into a three year extension to its existing exclusive distribution agreement with BRK Brands and Jarden. The extension, which is on improved terms, came into effect on 1 April 2015, when the existing distribution agreement expired.

Under the terms of the new agreement, Sprue has retained the exclusive rights to distribute the products and brands of BRK Brands, namely, First Alert, BRK and Dicon throughout Europe. The key terms of the agreement are as follows:

- Annual distribution fee (£4.2m payable previously) reduced to £3.5m, £3.0m and £2.9m in calendar years 2015, 2016 and 2017 respectively; and
- Minimum term of three years to 31 March 2018 with twelve months' notice required by either party to terminate the agreement. Unless terminated, the agreement automatically renews on the same terms for further periods of twelve months.

As part of the negotiations, Sprue secured improved manufacturing terms from Detector Technologies Limited ("DTL"), a Jarden subsidiary company, which supplies Sprue's own-brand smoke alarms and other associated accessories:

- Improved credit terms equivalent to two months' purchases;
- Right to source products at a fixed GBP / USD exchange rate of US$ 1.62, removing foreign exchange rate risk on these purchases which are currently in USD; and
- Fixed product prices for two years from 1 January 2014.

Risks and risk management

Like every business, the Group faces risks undertaking its day to day operation and in pursuit of its longer term objectives.

Further information on those risks and how the Group manages those risks is set out on the following pages. It is recognised that the Group is exposed to a number of risks wider than those identified here. However, we have chosen to disclose those currently of most concern to the business and those that have been the subject of debate at recent Board or Audit Committee meetings.

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

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. Its role is to set the tone and influence the culture of risk management within the Group, determine the Group's risk prioritisation and monitor and manage the fundamental risks which the business faces.

The Executive Directors are responsible for identifying and evaluating and mitigating risks in a timely manner, ensuring that there is an open and receptive approach to solving risk problems in the Group, embedding risk management as part of the system of internal controls within the Group and updating the Board on the status of risks and controls where significant issues are identified. An Executive Director mentors each of the Group's five business units which are each led by a Business Unit Director.

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 if appropriate, formally reviewed by the Board during Board meetings to assess the financial impact on the Group and to determine the optimum course of action to address these risks.

Issue	Risk	Mitigation
Competition	There are around a handful of home safety product competitors who compete in our major markets. These companies vary in the relative strength of their product offering in each of the markets we serve and already some of the competitors have a broad product offering and significant installed production capacity. In addition, as Sprue launches new products, our success may lead to those companies investing further in product offering or reducing prices to be competitive with Sprue	Sprue maintains a state of high vigilance over the products and actions of our competitors which are monitored by our sales teams and the Sprue management team. Our continued investment in new products and the expansion of our range provide a barrier to new entrants in the market place. Certification costs per product are estimated at approximately £0.1m per product which also acts as a barrier to new entrants
Changing trends in the market place	The introduction of connected home solutions with companies seeking to connect and monitor products in the home via the internet could potentially reduce the popularity of standalone products in the market place and competitors' product offerings will compete with the Company's products	Sprue is developing its connected home solution and already has its own Wi-Safe 2 connected home technology and is increasing investment in a trial to connect its home products to the internet. We continue to invest heavily in product technology to reduce the cost of our connected home solutions and to seek to ensure we are the company of choice in this market
Supplier relationships	Sprue has two principal suppliers, one for all its smoke detector needs which is a Jarden Corporation owned subsidiary and one for all its CO product needs which is part of an independently owned business. Ensuring these suppliers remain competitive and that they provide Sprue with the optimum combination of product cost and quality is a key challenge for the Group whilst not becoming over dependent on either business	Relationships with suppliers are managed through Sprue's supply chain team and senior management involvement from both companies. Sprue has established long standing relationships with its principal suppliers and protects itself with manufacturing agreements with each supplier outlining the key terms of supply which provides the freedom to Sprue to seek third party quotes for products should Sprue not accept prices quoted by its incumbent suppliers. Suppliers have a right to be able to match third party quotes in certain circumstances
Product defensibility	It is possible that new products and technologies may emerge in the future as viable alternatives to Sprue's product range	Sprue dedicates significant levels of resources in product development and research to keep the business and its products at the forefront of the technology available in the market. Sprue seeks to stay abreast of emerging market trends to position the Group to exploit and commercialise such technologies as they appear and Sprue routinely reviews potential small bolt on acquisitions, but to date has concluded its own technology offering is a good source of competitive advantage

Issue	Risk	Mitigation
Intellectual property	Many aspects of Sprue's products are protected by intellectual property rights and the market can be characterised as having relatively high barriers to entry in this regard. Before introducing new products, Sprue carefully checks that it is not infringing the patented technology of third parties. Potentially, customers could seek to copy or find a "work around" Sprue's registered technology to make competitive products	Sprue believes that its principal protection in the market lies in its business model rather than through any specific intellectual property rights. The breadth of Sprue's product range and its ability to add new products to its product range and leverage its brands across the markets it serves represents a barrier to entry to competitors. Sprue is not dependent on any one single patent for sales which are typically supported by a number of different patents. Our products are protected by over 50 granted patents in our major markets and we continue to register new patents and maintain existing patents to protect our IP where the Group believes it is appropriate to do so
Distributor relationships	Sprue works through third party distributors of its products in Continental Europe who undertake marketing support activities and provide local logistical support. Sprue is highly dependent upon these distributors to fulfill these roles in an effective and efficient manner to continue to grow sales in these markets / countries. The distributors act as key customers for Sprue and therefore represent a financial risk for uncollected account balances	Sprue has contracts with most of its major distributors who are carefully selected before appointment. Many of these relationships are well established and in some cases, the distributor only sells Sprue's products so the relationship is very close. Sprue ensures that the contractual relationships with its customers are fair and commercially beneficial for both parties and carefully monitors outstanding credit balances to ensure distributors settle amounts owed to Sprue within terms to minimise potential bad debt risk for the Group
Foreign currency exposure	The Group has significant sales into Continental Europe which are predominantly in Euros and a significant proportion of its purchases are in USD, being sourced from China / Hong Kong. The Group has minimal natural hedges in which it can offset the Euro and USD exchange risk as it has minimal costs in Euro and minimal sales in USD. After selling part of its Euro income to fund its USD purchase requirements, the Group generates a surplus of Euro which are sold for Sterling.	The Board's policy is to sell Euros forward for up to 12 months and management reviews the level of surplus Euro and seeks to place contracts to translate the surplus Euro into US Dollars and Sterling. However, long term movements in the relative strength of Sterling will impact the Group's profits. It is estimated that for each 1 euro cent movement in the £/Euro exchange rate Group's income for a period of 12 months, the impact on the Group's profit is approximately £0.4m and therefore the potential impact on profits and margins of movements in foreign exchange are significant. Each 1 cent movement in the US Dollar exchange rate equates to additional costs or profit of approximately £0.1m
Complexity	The size of our organisation and the number of employees has grown rapidly in recent years with most of the growth being organic. This brings with it a number of challenges of managing over larger geographical distances / cultures / languages and implementing appropriate systems, policies and compliance procedures in different jurisdictions to ensure local risks are properly managed	Sprue has grown rapidly for a number of years and is familiar with the types of issues this presents. The Group continues to invest in its infrastructure and to apply the appropriate resources necessary to support its business and ensure that appropriate controls are in place to safeguard its assets, its future business and to protect its reputation. Controls are regularly kept under review and the senior management team work closely with the key members of staff in each business unit

Issue	Risk	Mitigation
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 may suffer from product warranty issues. Products are designed to "fail safe" so that if a product stops working, it is designed to alert the user that it requires replacing.	Sprue seeks to ensure that products manufactured by its suppliers comply with the relevant product specification which are approved by various test houses and regulatory bodies. If a product is not compliant to the relevant specification, potentially Sprue has a warranty claim on its supplier. Typical warranty issues experienced are usually around the battery and where there are known issues with batches of a certain product, Sprue typically provides free of charge replacements with "no quibble" which is managed by Sprue's in-house Technical Support team. Sprue also maintains product recall insurance to mitigate the potential cost of a product recall should one of its approved and fully certified designs be found to be at fault. The Group makes 100% specific provision for the expected future cost of replacing products with known warranty issues above a set nominal percentage of normal returns which amounted to £0.9m as 31 December 2014 or 1.4% of sales (2013: £0.7m, 1.5% of sales)
Staff recruitment and retention	The contribution by Sprue's dedicated staff and management team has been, and continues to be, important to Sprue's future success. As the Group's profile increases, it is important that it is able to recruit and retain high-calibre staff	Sprue places great emphasis on open communication with its employees, including regular staff updates and an annual staff away day. There is also a wide scale share ownership scheme across the Company with rewards based on seniority. Sprue looks to create a supportive working environment and employees are encouraged to learn and develop in their roles and seeks to promote internally where possible
International trade regulations	The Group's activities involve importing products from the Far East and exporting products into Continental Europe and other overseas markets. Any changes in the regulations covering such movements might have an effect on the Group's trading activities. Increasing geographical reach and continual expansion of our customer base, particularly into Continental Europe exposes the Group to a potentially wider set of regulatory restrictions	Sprue closely monitors changes to international import and export regulations and seeks to adapt its procedures wherever possible to ensure that the movement of its products is not affected, while maintaining compliance with such regulations and seeking to minimise its import duty costs

Issue	Risk	Mitigation
Health and safety	As the Group's product range expands, the number of potential health and safety / regulatory risks grows and the Group is storing potentially more products containing batteries and /or in some cases, very small levels of radioactive particles in the "foils" contained within ionisation alarms which are sold in the UK	The Group seeks to comply with the requirements of ISO audits and detailed records are maintained to ensure that products are correctly stored and disposed of
Product certification compliance	Products are required to comply with the appropriate certification standards and if products do not comply with the relevant standards, certification bodies could seek to insist on quarantining product for further testing / rework or in worst case scenario in a potential product recall	In conjunction with suppliers, Sprue seeks to ensure that all products are manufactured in accordance with the relevant product certification standards and detailed compliance records are maintained for each product which is approved for sale. In addition, detailed testing is performed on each product with traceability of key components. 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
Carrying value of intangible assets	New products are required to be properly certified and it is usual for a business like Sprue to carry an intangible asset on its balance sheet reflecting capitalised costs incurred in developing the products, some of which may relate to products which are not yet in the market as relevant testing and final certification may not have been completed	Expenditure on research is written off as incurred. However, specific product development expenditure is capitalised on a case by case basis where the Group believes that the product is technically feasible and the level of capitalised costs is sensible relative to the expected level of returns to be derived from the capitalised costs. Intangible assets are periodically reviewed for impairment at the time of the half year and full year results with any adjustment taken to the Income Statement if the capitalised costs do not meet the Group's recognition criteria

Key performance indicators

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

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

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

- Gross margin %. Gross margins by customer, by product and by business unit are constantly reviewed to identify areas to improve the profitability of the Group.

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

- Cash flow from operating activities. Cash flow is a key measure of the Group's financial performance and is closely monitored.

Finance review

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

Consolidated income statement

	% change	2014 £000	**2013 £000
Revenue	35.7%	**65,600**	48,357
Cost of sales	33.6%	**(45,863)**	(34,320)
Gross profit	40.6%	**19,737**	14,037
Distribution costs	46.0%	**(878)**	(601)
Administrative expenses excluding share-based payments charge and exceptional items	7.0%	**(8,498)**	(7,944)
Share-based payments charge		**(205)**	(15)
Exceptional items*		**(525)**	(398)
Total administrative expenses	10.4%	**(9,228)**	(8,357)
Total fixed costs	12.8%	**(10,106)**	(8,958)
Profit from operations pre-exceptional items and share-based payments charge	88.7%	**10,361**	5,492
% of sales		***15.8%***	*11.4%*
Profit from operations	89.6%	**9,631**	5,079
Finance income		**40**	5
Profit before tax	90.2%	**9,671**	5,084
Income tax	106.3%	**(1,952)**	(946)
Profit attributable to equity owners of the parent	86.6%	**7,719**	4,138
Earnings per share			
From continuing operations:			
Basic	66.4%	**17.6**	10.6
Diluted	71.9%	**17.6**	10.2
Basic pre-exceptional items*	62.1%	**18.8**	11.6
Diluted pre-exceptional items	67.5%	**18.8**	11.2

All amounts stated relate to continuing activities.

*Exceptional items include AIM costs of £0.5m in 2014 and exceptional hostile bid defence costs of £0.4m in 2013

**Restated under IFRS from UK GAAP

Summary

Revenue for 2014 increased by 36% to £65.6m (2013: £48.4m) helped by the £21.3m increase in sales into Continental Europe, largely due to growth in sales into France and to a lesser extent, Germany. Whilst UK Trade sales increased by 9%, total sales in the UK declined by 10% mainly due to a £2.0m decline in UK retail sales due to slower CO sales and some customer inventory reduction programs.

Profit from operations before a share based payments charge of £0.2m and exceptional items* increased by 89% to £10.4m (2013: £5.5m) reflecting strong operational leverage / scalability of the business, together with tight control over fixed costs. Return on sales before the share based payments charge and pre-exceptional items* increased significantly to 15.8% (2013: 11.4%). The Group's medium to long term target return on sales % remains in excess of 20%.

With a key focus on cash generation to optimise working capital and with the benefit of the net £7.2m in cash raised from the share placing on the move to AIM in April 2014, the Group's year end cash increased by £10.7m to £15.9m (2013: £5.2m). The balance sheet remains strong with £15.9m in cash and no debt. The Group paid a maiden interim dividend of 2 pence per share in October 2014.

The Group incurred a non-cash share based payments charge of £205,000 in respect of staff equity based incentives granted in April 2014 (2013: £15,000).

**exceptional items of AIM costs of £0.5m in 2014 and bid defence costs of £0.4m in 2013*

Gross margin

Despite a positive change in sales mix, gross margin (before taking account of the fixed £4.2m BRK distribution fee) decreased slightly to 36.4% (2013: 37.6%). The slight reduction in gross margin reflected the significant net adverse impact of the strength of Sterling against the Euro and the net movement of Sterling against the US Dollar. In addition, warranty costs to deal with legacy warranty issues on one particular product also squeezed gross margin slightly. At like-for-like exchange rates with the previous year, 2014 Group profit would have been approximately £1.7m higher than reported adding approximately 260 basis points onto the Group's gross margin.

Average month end exchange rates against Sterling are summarised below. This table shows that on average, over the course of 2014, Sterling has strengthened against the Euro by 5% reducing Sprue's profit on its Euro denominated income and strengthened against the US Dollar by 5% increasing Sprue's profit on its USD purchases. The impact of the movement between Sterling and the USD is far less significant than the movement between Sterling and the Euro as the Group purchases a significant proportion of its product costs in Sterling under the terms of the 2010 distribution agreement with BRK. In 2014 Sterling also strengthened by approximately 12% against the Canadian Dollar although the net financial impact on Group profit is not material.

	Average for year		Average for H1		Average for H2	
	2014	2013	**2014**	2013	**2014**	2013
Euro	**1.24**	1.18	**1.22**	1.17	**1.27**	1.18
US Dollar	**1.64**	1.56	**1.67**	1.53	**1.62**	1.60
Canadian $	**1.82**	1.62	**1.81**	1.57	**1.82**	1.67

Total fixed costs

Excluding exceptional items* and the share-based payments charge, total fixed costs as a percentage of sales in 2014 reduced to 14.3% (2013: 17.7%), within the Group's target fixed costs range of 13-15% of sales. The Board is not "cash cowing" the business and will continue to invest for growth, even if the total fixed costs target range is not achieved in the short term.

In any event, a key focus for 2014 included selective expenditure in our cost base including staff and new product development to position the Group in the key growth markets of Continental Europe and UK Trade.

Earnings and tax

Basic EPS pre-exceptional items* increased by 62% to 18.8 pence per share (2013: 11.6 pence per share) whilst reported basic EPS increased 66% at 17.6 pence per share (2013: 10.6 pence per share). Excluding deferred tax and the impact of the exceptional items*, the effective cash tax rate increased from 14.1% in 2013 to 16.8% in 2014 as the value of BRK product sales increased significantly and the Group was unable to claim the benefit of Patent Box on BRK sales to reduce its overall tax charge. Going forward, this is expected to reverse as the proportion of Sprue product sales increases.

Following the Company's admission to AIM on 30 April 2014 and the placing of 4 million new shares at £2.00 per share, with no shareholder now owning more than 25% of the Company's issued share capital from that point, Sprue's status as a "large" Enterprise (i.e. not an SME) for R&D credit purposes is almost certain to change. Consequently, the Group will be able to access an increased rate of R&D tax credits (230% from April 2015 rather than 125%).

We are aware that there have been a number of challenges by certain Continental European states to the fairness of Patent Box although we have been advised currently that for Sprue, Patent Box is "here to stay for the foreseeable future". The benefit of Patent Box in the tax charge in 2014 was approximately £0.2m (2013: £0.1m).

**exceptional items of AIM costs of £0.5m in 2014 and bid defence costs of £0.4m in 2013*

Balance sheet and cash flow

Sprue continues to invest in product development and capitalise specific costs which meet the relevant criteria. The net book value of intangible capitalised product development costs at 31 December 2014 was £4.3m (2013: £2.9m), equivalent to 6.6% of sales (2013: 6.0% of sales). Product development costs are typically amortised over a period of 7 to 10 years and reviewed periodically for impairment. The annual amortisation charge is expected to gradually increase as capitalised costs for Nano-905, SONA and other new products start to be amortised through the income statement as sales of these products commence.

Net working capital as a percentage of annualised sales improved materially in 2014 to 12.8% of sales (2013: 15.3% of sales), reflecting a 17% reduction in UK Retail sales where stock holding levels are significantly more onerous than other sectors of the market and customer credit terms are more generous than other business units. Overall, net working capital increased by just £1.0m or 13% on the 2013 comparative against a sales increase in the year of 36%.

Cash generation continues to be a key objective for the Group and management regularly reviews business unit stock requirements to optimise the Group's stock holding. Based on year end stock, 2014 stock turn improved 22% to 5.5x cost of goods sold (2013: 4.5x).

The significant increase in total debtors year on year reflects the upsurge in sales in the last three months of 2014, largely due to France and Q4 sales represented 42% of total 2014 sales (2013: 30%). Average debtor days in 2014 reduced to 54 days (2013: 57 days) reflecting the lower level of UK Retail sales where credit terms are generally more generous.

Sprue's principal customers, including its key two distributors in France, have all continued to pay largely within their credit terms and it has not been necessary – as envisaged in the early part of 2014 – to accommodate our French customers by extending payment terms to ensure that they can capitalise on the growth in their market.

Average creditor days in 2014 were 57 days (2013: 62 days) with the Group aiming to settle its debts in line with the due dates. We expect creditor days to increase slightly over the course of 2015 as the impact of the improved credit terms from our supplier, DTL commenced from 1 April 2015 (where credit terms increased from effectively 30 days landed to 90 days landed).
During the year, the Group placed significant emphasis on improving cash flow generating net cash flow from operations of £8.8m (2013: £2.2m). The balance sheet remains robust with net cash of £15.9m (2013: £5.2m) and no debt.

In addition, improving cash flow further in 2015, the Group will shortly move to a monthly VAT return regime to be able to recover the excess input VAT from HMRC monthly rather than quarterly which will provide a sizeable one off but permanent cash flow benefit to the Group provided the Group's European sales remain around the current proportion of total sales. Sales into Continental Europe are zero rated and therefore the net monthly input VAT generally now exceeds monthly output VAT.

Introduction of OPIC as a financial metric

The Group has introduced an "operating profit after investment charge" ("OPIC") financial metric that provides a nominal cost of capital charge to the operational assets required to generate the returns for each business unit which is deducted from the business unit contribution. This ensures that the Group carefully considers the cash implications of growing the revenue of each of the business units and prioritises investment to those areas of the business that generate the greatest overall financial return for shareholders.

Move to AIM

On 30 April 2014, Sprue raised £7.2m net of expenses from the placing of 4 million ordinary shares at £2.00 per share when the Group moved its listing from ISDX to AIM.

Dividend

The Board was pleased to declare a maiden interim dividend of 2p per share for the six months ended 30 June 2014 which was paid to shareholders in October 2014. The Board recommends the payment of a final dividend of 6.0 pence per share on 3 July 2015 to shareholders on the register on 19 June 2015, which if approved by shareholders at the AGM to be held on 3 June 2015, takes the full year 2014 dividend to 8.0 pence per share (2013: 6.0 pence per share), an increase of 33%. 2014 dividend cover has improved to 2.2x post-tax profit (2013: 1.8x post-tax profit) and the Board continues to pursue a progressive dividend policy.

Revenue by business unit

The table below summarises the reported revenue for each of the Group's business units and Pace Sensors. At like for like exchange rates, the Sterling value of Euro revenue in 2014 would have been approximately £2.6m higher than reported.

Revenue from continuing operations	**% change**	**2014 Revenue £000**	2013 Revenue £000
Business Units:			
Europe	114%	**39,950**	18,630
Trade	9%	**6,040**	5,563
Retail	-17%	**9,722**	11,720
Fire & Rescue Services	-13%	**6,081**	7,000
Utilities and Leisure	-12%	**2,093**	2,385
Pace Sensors Limited	-44%	**1,714**	3,059
Total revenue from external customers	**36%**	**65,600**	48,357

The principal changes in revenue are as follows:

- Strong growth in smoke detector sales into both the trade and retail channels into France ahead of the March 2015 legislation which required all domestic homes to fit at least one working smoke alarm helped increase total sales into Continental Europe by 114%; sales into Germany also increased year on year. CO market penetration levels in France and Germany in particular remain very low compared to the UK as the markets are less mature which remains an opportunity for Sprue

- Strengthening of the UK housing market, the launch of a ten year CO alarm and a stronger UK Trade sales team presence with more targeted selling helped increase total UK Trade sales by 9%. Sales of the refreshed BRK trade range and the Group's new SONA range have now commenced and initial signs are highly encouraging
- Retail customer inventory reduction initiatives combined with reduced UK wide CO promotional activity generally reduced Sprue's sales to UK retailers by 17%. However, internet sales continue to perform well
- UK coalition Government budget cuts at the smaller brigades and the loss of some brigades to competitors, contributed to a 13% decrease in sales to the UK Fire & Rescue Services
- Utilities and Leisure sales declined by around £0.2m with slightly slower than expected CO sales
- Sales of CO sensors by Pace Sensors declined by 44% and were adversely impacted by slower CO detector sales in the UK and an adverse rate of exchange between Sterling and the Canadian Dollar which accounted for approximately 7% of the year on year decline.

Notification of potential relocation of CICAM's manufacturing activities

As outlined further in note 30, in early April 2015, the Board was informed by its supplier, Jarden that the manufacturing activities of Jarden's majority owned smoke alarm manufacturer in China, CICAM – which supplies 100% of the Group's Sprue and BRK smoke alarms and accessories, together with the Group's BRK carbon monoxide ("CO") alarms – may have to be relocated later this year or early next year to make way for a proposed new railway line which the Chinese government has indicated may run through the site of the current facility. Sprue understands that Jarden is seeking clarification of the potential impact and timing of the proposed new railway line on CICAM.

Sprue further understands that Jarden is in the process of identifying appropriate alternative manufacturing facilities close to the current CICAM facility and developing plans to migrate production from CICAM's current facility. Sprue will work closely with Jarden to take the appropriate steps to build up buffer stocks prior to the potential relocation of the smoke and CO production / assembly lines. Having worked previously with CICAM to move the facility about five years ago, Sprue understands what is required and is now engaging with the appropriate certification bodies to ensure that the facility can be certified by the relevant approval authorities in a timely manner.

Outlook

France is performing ahead of management's expectations with a significant order book extending into the second half of 2015. As a result, the Board now expects Sprue's revenue for 2015 to significantly exceed market expectations, however, due in particular to Sterling's strength against the Euro continuing to adversely impact gross margin, it expects the Group's profit before tax (before share-based payments charge) for 2015 to be marginally below market expectations.

We will continue to invest in product development and our connected home solution to deliver future profitable growth whilst prioritising the cash generation potential of each investment opportunity. We believe that these investments will continue to drive sales and provide healthy returns for shareholders.

John Gahan

Group Finance Director

25 April 2015

Corporate social responsibility

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

Respect for people and diversity

Employee experience and satisfaction in the work place are very important to us. Operating our business in a non-discriminatory manner that focuses on the fair treatment and respect for each other is a core value and underpins our interactions with employees, our customers and our suppliers.

The Board and the human resources function are responsible for ensuring that our policies and practices reflect best practice for equality of opportunity and long-term professional development for our employees. Our work place is free of harassment and bullying and we strive to create a positive environment that is supportive, enables employees to fulfil their maximum potential and drives business performance.

We are committed to ensuring that within the framework of the law, Sprue is free from discrimination along any grounds. Sprue is an equal opportunities employer and ensures that all applications for employment are given full and fair consideration. Every effort is made to support employees to be successful in their careers. Our people and development policies are reviewed regularly to ensure that they are non-discriminatory and promote equal opportunity. In particular, recruitment, selection, promotion, training and development are monitored to ensure that all employees have the opportunity to train and develop according to their abilities.

As part of our commitment to listen to our employees, we held a number of "workshops" between mixed Groups of employees and the Executive Chairman where open feedback to the management team was encouraged. We have also run surveys to obtain employee feedback on issues in the business and to make sure that the results are made available to all of our managers for action.

Supporting our community

We regularly donate to various charities including various fire fighters charities. We have established a committee to manage our involvement with, and support of, local and national charities. We also work closely with local universities to give presentations and support students with their career progression including work experience in the Group from time to time.

Health, safety and the environment

Supporting health, safety and the environment are important elements to our success. We view the standards of health and safety required by law as being only the minimum and endeavour to follow best practice at each of our sites. The Group complies with local legislation relevant to the respective territories with regards to health, safety and the environment.

Well being

To support the environment, we have a range of initiatives from recycling to encouraging staff to cycle to work. We believe that we were the first company in our industry in the UK to have a smoke alarm with its own carbon footprint where the product range has been specifically designed to minimise power consumption using approximately 10% of the stand-by power of a conventional alarm.

Corporate governance

In this section

Chairman's introduction to corporate governance

Good corporate governance at Sprue

At Sprue we value corporate governance highly and this is reflected in our governance principles, policies and practices. We believe that effective governance, not only in the boardroom but right across the business and at each business unit level, ultimately produces a business that supports improving long-term financial performance.

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

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

The core activities of the Board include:

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

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

Monitoring risk and compliance with expected governance rules

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

I continue to be pleased with the performance of the Group and believe that we have a strong and very capable Board in place which has demonstrated its commitment to continue to drive the business for future growth on an ethical and transparent basis.

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 2014 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 and business model of the Group.

Graham Whitworth
Executive Chairman
25 April 2015

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.

On moving Sprue's listing from ISDX to AIM on 30 April 2014, we took the opportunity to restructure the Board and two Executive directors, Peter Brigham and John Walsh stepped down from the Board but remained key members of the management team. The net impact was that the Board was rebalanced 4:3 in favour of Non-Executive Directors.

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

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

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

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

Graham Whitworth, Executive Chairman, Aged 60

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 high 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 Sprue IPO and until February 2014 was the Group Chief Executive and Chairman; he is the now Executive Chairman.

John Gahan, Group Finance Director, Aged 45

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 move to AIM 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. John has also worked in senior financial, operational and M&A roles with GKN plc and at Clearwater Corporate Finance. John lived in Singapore for four years where he was the Regional Finance Director and Regional Mergers and Acquisitions Director for GKN Driveline Driveshafts. John is a Fellow of the Institute of Chartered Accountants for England and Wales.

Nicholas ('Nick') Rutter, Managing Director, Aged 42

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

William Payne, Non-Executive Director, Senior Independent Director, Aged 49

William joined the Sprue Board in 2000 and acted as its finance director until January 2010 and is still the Company Secretary. William is a partner at the 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 in 2003. William is also a director of a number of companies, including Ariana Resources plc, which is quoted on AIM.

Peter Lawrence, Non-Executive Director, Aged 81

Peter was among the founding shareholders of Sprue and was a seed investor in the Group before joining the Board in 2000. Prior to his involvement with Sprue, Peter was Chairman of Associated British Industries plc, a Group of chemical companies manufacturing waxes, resins, sealants and adhesives, from 1970 to 1995. Associated British Industries plc had subsidiaries in Belgium, France and the US supplying the rubber, automotive, plastics and paper packaging industries among many others. Associated British Industries was sold in 1995 and eventually became part of Honeywell International Inc.

Ashley Silverton, Non-Executive Director, Aged 55

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.

Thomas Russo, Non-Executive Director, Aged 61

Thomas was appointed to the Board in September 2011 and represents BRK Brands. Thomas has been President and CEO of BRK Brands Inc./First Alert (Aurora, Illinois), a subsidiary of Jarden, since 2006. Thomas has been a noted business leader in the home safety category for more than 25 years.

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

Corporate governance statement

Leadership and operation of the board

The Board holds full meetings approximately 7-9 times per annum, with attendance 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 Board delegates day to day responsibility for managing the Group to the Executive Management Team ("EMT") led by Graham Whitworth as Executive Chairman and to the Operations Committee ("OC"), led by Graham Whitworth during 2014 and now Neil Smith from 2 February 2015 in his role as Group Chief Executive. Details of the EMT and OC are set out below.

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

The EMT typically meets at least twice per month and comprises:

- the Executive Chairman, Graham Whitworth,
- the Group Finance Director, John Gahan
- the Managing Director, Nick Rutter; and
- Group Chief Executive, Neil Smith.

EMT meetings are attended by other senior operational personnel, as appropriate.

Two members of the EMT typically meet with the other five senior members of the management team once a week.

Managers of each of the five business units report into the Chief Executive and business unit meetings are typically held once per month which provides the forum to ensure a consistent implementation of Sprue's strategy across the business. Business unit meetings are also attended by other senior departmental managers as required.

With the appointment of Neil Smith on 2 February 2015 and with effect from that date, the role of Executive Chairman and Chief Executive Officer now vest in separate individuals, each with clear allocation of accountability and responsibility. The main responsibilities of the Executive Chairman include:

- Ensuring that the Board as a whole plays a full and constructive part in the development of strategy and overall commercial objectives
- Leadership of the Board and creating the conditions for overall Board and individual Director effectiveness and a constructive relationship with good communications between the Executive and Non-Executive Directors
- Promoting the highest standards of integrity, probity and corporate governance throughout the Company, particularly at Board level
- Ensuring that the performance of the Board as a whole, its Committees and individual Directors is formally and rigorously evaluated at least once a year
- Ensuring that there is effective communication with shareholders
- Managing the EMT

The main responsibilities of the Group Chief Executive include:

- Chairing the OC meetings on a week to week basis
- Managing the five Business Unit heads, Sprue's Group Operations Director (who looks after operations and logistics) and the Marketing and Creative teams
- Proposing and developing the Company's long-term strategy and overall commercial objectives to ensure the Company's position remains clear, in conjunction with the EMT;
- Ensuring initiatives for long-term growth are championed and appropriately resourced within the Company; and
- Fostering good relationships with key stakeholders.

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

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

The Board agenda

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

During the year, the Chairman meets with the Executive Directors prior to scheduled and ad hoc meetings to discuss and set each Board agenda.

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

Effectiveness and ensuring the Board is effective

We have considered the overall balance between Executive and Non-Executive Directors and believe that the structure of the Board with 4 Executive and 4 Non-Executive directors and the integrity of each Director ensures that there is no one individual or interest group dominating the decision making process. With Neil Smith joining the Board in June 2015, we will review the balance of Executive and Non-Executive directors at that point in time.

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

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

Should they wish to, Non-Executive Directors are able to influence agendas for Board discussions and to ensure the amount of time spent reviewing strategic and operational issues is appropriately balanced.

In the event that Directors are unable to attend a meeting or a conference call, they receive and read the papers for consideration and have the opportunity to relay their comments either before or after the meeting to the Executive Chairman.

Director independence

In the period since listing on AIM, no equity-based incentives have been granted to Non-Executive Directors and there are no plans for any such grants in the future.

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. The obligation to notify the Company of any potential new conflict is immediate.

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

Performance evaluation

On behalf of the Board, the Remuneration Committee ("Remco") undertakes a regular evaluation of the performance of senior managers and the last review was undertaken during late 2014. This concluded that the Board and its individual members continue to perform effectively in an environment where there is constructive challenge from the Non-Executive Directors and operates within a framework of sound governance and practices.

Subjects covered during the review include a general overview as to the operation of the Board, opinions on shareholder relationships, views on the Board's input into strategy discussions, governance and compliance, risk management and succession planning, the Board culture and relationships with senior management, as well as how new members are selected and inducted.

The Executive Chairman holds meetings with the Non-Executive Directors without the Executive Directors present and the Non-Executive Directors, led by the Senior Non–Executive Director, meet without the Chairman present at least once annually to appraise the Chairman's performance, with no issues arising from the review performed this year.

Accountability and our approach to risk management

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

The Board has overall responsibility for ensuring the Group maintains an adequate system of internal control and risk management, whilst the Audit Committee reviews its effectiveness on behalf of the Board. The implementation of internal control systems is the responsibility of management.

We have implemented an internal control system designed to help ensure:

- the effective and efficient operation of the Group by enabling management to respond appropriately to significant risks to achieving the Group's business objectives;
- the safeguarding of assets from inappropriate use or from loss and fraud and ensuring that liabilities are identified and managed;
- high quality of internal and external financial reporting;
- compliance with applicable laws and regulations and with internal policies on the conduct of the Group's business; and
- the ability to recover in a timely manner from the effects of disasters or major accidents which originate from outside the Group's direct control

The principal risks and uncertainties the Group faces are set out on pages 9 to 13 of the annual report. It is recognised that the Group is exposed to a number of risks, wider than those listed. However, we have chosen to disclose those of most concern to the business at this moment in time including those that have been the subject of debate at recent Board or Audit Committee meetings.

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

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

The Audit Committee reviews the need for a separate internal audit function on an annual basis and has concluded that, despite the rate of growth in recent years, the structure of the Group and the level of control exercised by the management team are currently sufficient, such that an internal audit function continues to be neither necessary nor cost effective at this time. The Directors have taken steps to ensure that the Group has an appropriate control environment for its size and complexity. The management team will ensure that the internal control environment develops with the size of the Company, 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.

Operations Committee ("OC")

The OC is a senior decision-making management committee previously led by Graham Whitworth and now led by Neil Smith which typically meets every Monday morning for approximately one to two hours. Its membership consists of the senior managers of the principal Europe business. Each week, the OC makes the detailed tactical decisions in accordance with the strategy set out by Executive Chairman and approved by the Board.

Each of the five business units within the Group typically hold a monthly meeting to review financial and operational performance. Each Business unit is mentored by one of the Executive Directors or a senior member of the management team. The head of each business unit, the Business Unit Director, assists the management team in taking such decisions that fall within their remit and reviews proposals before presentation to the OC or the Board for approval as appropriate.

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 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 2014 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 will 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 and the auditors, make themselves available and expect to meet with major shareholders at least twice a year to explain the published financial results.

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

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

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

Constructive use of the AGM

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

Based on feedback from investors, we have decided that this year's AGM will be held at Westhouse Securities Limited's offices, 110 Bishopsgate in London starting at 10:30am on 3 June 2015 which will potentially allow more investors to attend than a Midlands based AGM. We hope as many shareholders will attend as possible.

Board meeting attendance

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

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

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

Board Committees

Summary of Committee membership

Name	Audit Committee	Remuneration Committee
Graham Whitworth	No	Yes
William Payne	Yes	Yes
Peter Lawrence	Yes	Yes
Ashley Silverton	Yes	Yes

Summary of Committee attendance

Summary of Committee attendance

Name	Audit Committee	Remuneration Committee
Graham Whitworth	N/A	2(2)
William Payne	2(2)	2(2)
Peter Lawrence	2(2)	2(2)
Ashley Silverton	2(2)	2(2)

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

Audit Committee

Composition

The Committee's key objectives are the provision of effective financial governance and assistance to the Board in ensuring the integrity of the Group's financial reporting. The Committee oversees the external audit process and reviews the Group's risk management framework, the effectiveness of its risk management processes and the system of internal control.

Details of the Audit Committee membership in the year and the number of Audit Committee meetings attended in respect of 2014 are given on page 30. The Committee meetings are also attended by invitation, by other members of the Board and other senior executives as required in order to ensure that all the information required by the Audit Committee for it to operate effectively is available. Representatives of the Group's external auditor meet with the Audit Committee at least twice a year without any Executive Directors or other Company management being present.

In accordance with best practice, the Audit Committee is required to include one financially qualified member (as recognised by the Consultative Committee of Accountancy Bodies). I am deemed by the Board to have recent and relevant financial experience as a qualified chartered accountant with more than 20 years' experience in the financing and management of businesses generally.

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

Role of the Committee

The primary responsibilities of the Committee are to:

- To monitor the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance and review significant financial reporting judgements contained therein before they are submitted to the Board for approval
- 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 the 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 2014

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, Baker Tilly UK Audit LLP. These reports and representations covered key accounting judgements and estimates and internal controls and risk management.

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

Internal control

As part of the Group's move to AIM, the Group Finance Director provided the Committee with a report setting out an overview of the Group's control environment. The Committee reviewed 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, Baker Tilly 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.

Baker Tilly 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 meet with the lead audit partner in private before each meeting and the whole committee physically meets with Baker Tilly UK Audit LLP to have discussions in private at least once a year.

Non-audit services provided by Baker Tilly

The main non-audit related services provided by Baker Tilly during the year were in respect of the Transaction Services / tax fees for the financial and tax due diligence report on the Group in conjunction with the Group's move to AIM and these fees totalled approximately £139,000 compared to the annual audit fee of £75,000.

In addition, Baker Tilly also provides advice on the Group's corporate tax and patent box claims resulting in fees of approximately £22,000. 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 Baker Tilly are pre-approved by the Board in accordance with an agreed policy. We review the non-audit fees charged by Baker Tilly and annually review the approval limits.

Reappointment of auditor

Following the completion of the audit, we reviewed the effectiveness and performance of Baker Tilly 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.

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

The lead audit partner is required to rotate every five years and Charles Fray took over as lead audit partner in 2012. Mr Fray had no previous involvement with Sprue Aegis plc in any capacity.

No contractual obligations restrict our choice of external auditors.

We concluded that Baker Tilly UK Audit LLP provides an effective audit and the Committee and the Board have recommended their reappointment at the 2015 AGM. We do not plan to recommend a tender of the audit in 2015 as a tender would be unnecessarily disruptive and appropriate procedures are in place to ensure Baker Tilly UK Audit LLP’s audit effectiveness is maintained.

William Payne
Chairman of the Audit Committee
25 April 2015

Directors' Remuneration Report

On behalf of the Board, I am pleased to present our Directors' Remuneration Report for the year ended 31 December 2014, 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 2014.

Basis of preparation

This report has been prepared in accordance with Schedule 8 of the Accounting Regulations Act 2006. Although not required to provide all the information detailed in this report, the Directors have chosen to do so in accordance with best practice and in order to provide greater transparency to shareholders. This includes details of our policy on Directors' remuneration, which will be put to an advisory vote at the 2015 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 Group performance by providing arrangements which fairly and responsibly reward individuals for their contribution to the success of the Group. Performance-related bonuses and long term equity based remuneration linked to demanding targets represent a significant proportion of Executive Directors potential remuneration, which aligns the interests of the individuals with those of the shareholders.

Key remuneration decisions for 2014

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 2014 include:

- to consider and make recommendations to the Board on the policy for the remuneration of the Executive directors and other direct reports to the Chief Executive (collectively the Operations Committee "the OC")
- to determine the whole remuneration package for Senior Executives including bonuses
- to recommend to the Board the whole 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 any annual and long-term incentive schemes for Senior Executives and to approve total and individual payments under these schemes
- to determine targets for any annual and long-term incentive schemes
- to determine the issue and terms of all share-based plans available to all employees
- to determine compensation in the event of termination of service contracts of any of the Senior Executives

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

We have to acknowledge that the Group has significantly increased in turnover, EBIT, net assets and market capitalisation in recent years, particularly following the bid defence in 2013 and the move to

AIM in April 2014 which have transformed the Group into a leading business on AIM. With this in mind, the committee continues to monitor the market competitiveness of the overall remuneration package for each member of the Group's senior management team in order to ensure we are able to retain and attract new talent as required.

Annual bonus

For Executive Directors (and all senior managers), the annual bonus is payable as a cash contribution after the year end financial results have been reviewed by the auditor.

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

All Executive Directors and the OC members are eligible to participate in the Company's bonus scheme and they are contractually entitled to a bonus calculated by reference to the Group's earnings before interest and taxation ('EBIT') against budget as outlined below:

- If the Group's EBIT is less than 90 per cent of the Group's EBIT budget for the financial year, no bonus is payable
- Bonus potential is uncapped for the EMT and OC and is capped for staff

This year's bonus reflects the Group's EBIT performance before exceptional AIM costs of £0.5m and before the share-based payments charge of £0.2m. The total cost of the Group's bonus payments for all directors and staff in 2014 was £0.9m (2013: £0.6m), representing 8.6% of 2014 profit before exceptional items and share-based payments charge (2013: 10.9%).

The Board sets the Group's budget with reference to the prior year and to the business plans for the coming year, ensuring the levels to achieve a bonus pay-out are appropriately challenging. If the Group delivers less than 90% of its EBIT budget, no bonus is payable to the Executive Directors and members of the management team and indeed staff.

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 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")

Just prior to the Group's Admission to AIM, the Remco approved an award of 1.46 million share options at £2.00 – the market price at the time – per ordinary share to all eligible UK staff. Options vest over three years and are not exercisable for the first twelve months post grant.

If the Remuneration Committee considers it appropriate, it may use its discretion to permit vesting of options by varying the application of time pro-rating to the number of shares awarded.

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.

The Remuneration Committee is currently finalising the terms of a long term incentive plan based around total stockholder return to further incentivise the directors and other senior staff. Further details will be announced to the market when this process is complete.

We believe our current remuneration practices are appropriate and in line with reporting regulations and we welcome the structure and transparency introduced by the new requirements. Overall, we believe that our remuneration policy is aligned with the Group strategy to enhance long-term value for our stakeholders.

Total remuneration

The total remuneration (excluding the value of share options) for the directors of the Company for the financial year ending 31 December 2014 is detailed below:

	Salary and car allowance (a) £	Benefits (b) £	Bonuses (c) £	Fees (a) £	Pension (d) £	**2014 Total £**	2013 Total £
G Whitworth	147,773	2,300	134,998	-	14,761	**299,832**	253,480
N Rutter	122,840	1,000	135,952	-	6,787	**266,579**	216,025
J Gahan	115,538	1,000	131,037	-	5,497	**253,072**	197,633
P Brigham*	99,319	1,000	88,266	-	4,671	**193,256**	162,028
J Walsh*	115,183	1,000	103,566	-	5,925	**225,674**	222,028
W Payne	-	-	-	12,000	-	**12,000**	12,000
P Lawrence	-	-	-	10,200	-	**10,200**	10,200
A Silverton	-	-	-	14,400	-	**14,400**	14,400
T Russo (e)	-	-	-	-	-	**-**	-
	600,653	6,300	593,819	36,600	37,641	**1,275,013**	1,085,394

* P Brigham and J Walsh resigned as directors of the Company on 29 April 2014 although their remuneration for the whole of 2014 is disclosed above.

Notes

(a) Salary/fees – cash paid in the year all in £ sterling
(b) Benefits – taxable value of all benefits paid in the year represents the only benefit payable for Executive directors being private medical insurance
(c) Bonus. This is the total annual bonus earned; John Gahan and Nick Rutter each received a special £25,000 bonus in respect of the additional efforts during the year, both relating to the AIM float. Amounts earnt by John Walsh in 2013 includes a discretionary £26,000 bonus for managing the sales to the UK Fire & Rescue Services in that year
(d) Pension payments are into defined contribution pension plans
(e) Tom Russo waived emoluments of £12,000 in both the current and preceding years

Group employee considerations

The Group employs 130 people in 5 countries. Inevitably remuneration arrangements differ to reflect local markets, but some common themes apply to employees at all levels as the Group aims to offer competitive levels of remuneration, benefits and incentives to attract and retain employees.

At more senior levels, remuneration has a larger variable proportion dependent on the financial performance of the Group.

Shareholders' views

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

Remuneration policy framework

The Group is committed to achieving sustained improvements in performance and this depends crucially on the individual contributions made by the executive team and by employees at all levels. The Board believes that an effective remuneration strategy plays an essential part in the future success of the Group. Accordingly, the remuneration policy will continue to reflect the following broad principles:

- the remuneration of Executive Directors and senior managers reflects their responsibilities and contains incentives to deliver the Group's performance objectives without encouraging excessive risk taking
- remuneration must be capable of attracting and retaining the individuals necessary for business success
- total remuneration should be based on the Group and individual performance, both in the short and long term
- the system of remuneration should establish a close identity of interest between senior executives and shareholders by ensuring a significant proportion of senior executive remuneration from equity based incentives
- when determining remuneration, the committee will take into account pay and employment conditions in the market

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

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Fees	To reward individuals for fulfilling the relevant role and to attract individuals of the skills and calibre required.	The committee makes recommendations to the Board on the remuneration of the NEDs. The level of remuneration is set within a limit approved from time-to-time by shareholders. NEDs are paid a base fee covering Board and committee membership.	Fees are set at a level appropriate for the role and are reviewed regularly, taking in to account fees payable to Non-Executive directors of companies of a similar size and complexity.	None

Executive Directors' remuneration policy is set out below:

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Salary	It is essential that the Company provides competitive salaries, suitable to attract and retain individuals of the right calibre to develop and execute the business strategy	Salary levels are set using careful judgement, taking into account the scope of the role and responsibilities, performance, experience, potential, retention issues and salaries elsewhere in the Group and in the market place. Judgement will be informed, but not led, by reference to companies of a similar size, complexity and internationality. Salaries are reviewed annually and normally fixed for 12 months from 1 April each year. However, salary increases are not automatic. Exceptionally, salaries may be increased on other dates in the year.	Annual salary increases will not normally exceed average increases for employees in other appropriate parts of the Group. On occasion, increases may be larger where the committee considers this to be necessary to align with market rate or exceptional performance. Circumstances where this may apply include: growth into a role, to reflect a change in scope of role and responsibilities or where market conditions indicate a level of under competitiveness and the committee judges that there is a risk in relation to attracting or retaining Executives. Where the committee exercises its discretion to award increases above the average for other employees, the resulting salary will not exceed the competitive market range.	None, although individual performance is the primary consideration in setting salary alongside overall Company affordability and market competitiveness.
Benefits	To provide market competitive benefits Sufficient to recruit and retain, and to support the Executive to give maximum attention to their role.	Benefits provided include life assurance and medical insurance.	Benefits will be market competitive taking into account the role and the local market.	None.
Pension	To provide market competitive pensions sufficient to recruit and retain.	New Executives to the Company are offered membership to the Group's defined contribution pension plan. Pension contributions are based only on an individual's salary. Executives may opt to receive a pension contribution to an alternative pension provider of their choosing should they prefer.	The maximum employer contribution to defined contribution pension arrangements is 5% of notional salary and this will increase to 10% of notional salary from 1 April 2015	None.
Annual Bonus	To incentivise and reward execution of the business strategy, delivery of financial performance targets and the Company's strategic plan.	The Board approves the budget for the Group and bonus achievement is based on delivery of Group EBIT against the Group's EBIT budget. At the end of the year, business performance determines the bonus pay out level.	Bonus potential is uncapped to ensure that there is no incentive for Executives to restrict revenue and profit once the target level of performance has been met.	The bonus pay out level is determined primarily by Group financial performance

Service contracts
Executive Directors' contracts include the following provisions:

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

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

Policy on exit payments
The notice period the Company is required to give to Executive Directors under their contracts of employment is 12 months. Payment in lieu of notice will not exceed the value of 12 months' salary, bonus, benefits, car allowance and pension contributions. Both mitigation and the staggering of payments through the notice period will be considered by the committee where appropriate, as will the funding of professional fees. Should additional compensation matters arise, such as a settlement or compromise agreement, the committee would exercise judgement and will take into account the specific commercial circumstances.

The committee has the discretion to preserve incentive awards pro-rated to service. In exercising this discretion, the committee will have regard to performance and the circumstances of the Director leaving the Group and the terms of the relevant service agreement.

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

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

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

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

External directorships

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

Name	Current Directorships/partnerships
Graham Whitworth	AngelEye Corporation (Canada) AngelEye, Inc (USA) Pace Sensors Limited (Canada) Sprue Safety Products Limited
Nicholas Rutter	Sprue Safety Products Limited
John Gahan	Calmwater Limited Sprue Safety Products Limited
Peter Lawrence	Algodon Europe Limited Algodon Luxury Wine Estates Inc (USA) Infinity IP Limited Sprue Safety Products Limited The Judith Trust
William Payne	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
Tom Russo	Imaging Solutions LLC Shenzen CICAM Manufacturing Co. Limited (China)

Executive Chairman remuneration

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

Year	CEO	Total remuneration including bonus and pension (excluding share options) £000	Sprue Aegis plc year end market capitalisation £000	CEO total remuneration as a % of average market capitalisation at year end
2014	G Whitworth	300	153,000	0.20%
2013	G Whitworth	259	50,500	0.51%
2012	G Whitworth	175	24,450	0.72%
2011	G Whitworth	205	19,620	1.04%
2010	G Whitworth	201	11,950	1.68%

Directors' interests in unvested and vested share option awards

	Options at 1.1.14	Options granted in year	Options lapsed in year	Options exercised in year	Options at 31.12.14	Exercise price (pence)	Market price at date of exercise (pence)	Exercise period (years)	Expiry date
G Whitworth	285,000	-	-	(285,000)	-	19.25	202.00	7	15/05/15
N Rutter	435,000	-	-	(435,000)	-	19.25	202.00	7	15/05/15
J Gahan	300,000	-	-	(300,000)	-	35.00	130.00	7	29/06/17
N Rutter	75,000	-	-	(75,000)	-	35.00	202.00	7	29/06/17
G Whitworth	75,000	-	-	(75,000)	-	35.00	202.00	7	29/06/17
G Whitworth	-	125,000	-	-	125,000	200.00	-	10	28/04/24
N Rutter	-	125,000	-	-	125,000	200.00	-	10	28/04/24
J Gahan	-	125,000	-	-	125,000	200.00	-	10	28/04/24

The remuneration policy report was approved by the Board on 25 April 2015 and signed on its behalf by:

William Payne
Chairman of the Remuneration Committee
25 April 2015

Directors' report

The directors present their report and the audited financial statements for the Group for the year ended 31 December 2014.

Pages 42 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 Our Strategy section of the Strategic Report on pages 7 to 20 and in the Chairman's overview on pages 4 to 6 are incorporated in the Directors' Report by cross reference.

Post balance sheet events

As outlined further in note 30, in early April 2015, the Board was informed by its supplier, Jarden that the manufacturing activities of Jarden's majority owned smoke alarm manufacturer in China, CICAM – which supplies 100% of the Group's Sprue and BRK smoke alarms and accessories, together with the Group's BRK carbon monoxide ("CO") alarms – may have to be relocated later this year or early next year to make way for a proposed new railway line which the Chinese government has indicated may run through the site of the current facility. Sprue understands that Jarden is seeking clarification of the potential impact and timing of the proposed new railway line on CICAM.

Sprue further understands that Jarden is in the process of identifying appropriate alternative manufacturing facilities close to the current CICAM facility and developing plans to migrate production from CICAM's current facility. Sprue will work closely with Jarden to take the appropriate steps to build up buffer stocks prior to the potential relocation of the smoke and CO production / assembly lines. Having worked previously with CICAM to move the facility about five years ago, Sprue understands what is required and is now engaging with the appropriate certification bodies to ensure that the facility can be certified by the relevant approval authorities in a timely manner.

There have been no other important events affecting the Company or the Group since the year end.

Research and development activities

Description of the Group's R&D activities are included within the Finance Review on page 17 and is incorporated in the Directors' report by cross reference.

Results and Dividends

The results for the year and financial position of the Group and the company are as shown on pages 51 to 56. Profit before tax for the year before exceptional items and share based payments charge was £10.4m (2013: £5.5m)

The directors recommend the payment of a final dividend of 6.0 pence per ordinary share (2013: 6.0 pence per share) taking the total dividend in respect of 2014 to 8.0 pence per share (2013: 6 pence per share), representing a combined increase of 33%.

Employee information

Details of the Group's policy in respect of the employment and training are given in the Directors' Report by cross reference.

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 with all future contracts marked to market at the balance sheet date and the gain or loss on those contracts taken to profit and loss account in the period. Net gains on foreign exchange contracts in the money and taken to profit in the year amounted to £0.4m (2013: £0.2m). Information on the principal risks and uncertainties and how they are managed by the Group is included in the Strategic Report on pages 9 to 13.

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 share of ordinary share which carries no right to fixed income.

Each share carries the right to vote at general meetings of the Company.

Other than specific lock in and orderly marketing provisions negotiated with the Directors in connection with the admission of the Company's shares to AIM, there are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between shareholders of the Company's shares that may result in restrictions on the transfer of securities or voting rights.

Details of employee share schemes are set out in note 28. No person has any special rights of control over the Company's shares capital and all issued shares are fully paid.

Agreements affected by change of control

Other than some customer and supplier contracts that have an option to be terminated, the Company is not a party to any agreements which take effect, alter or terminate upon a change of control of the Company following a take over bid. There are no agreements between the Company and its Directors or employees providing compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a take over bid.

Research and development

The Group continues to invest in research and development. The people and non-people costs of product development on each specific project are capitalised in accordance with the accounting policy set out on page 60. General research costs undertaken in respect of the Group's principal activities are charged to the profit and loss account as incurred.

Directors

The following directors have held office since 1 January 2014:

G Whitworth	Chairman/Chief Executive
J Gahan	Group Finance Director
N Rutter	Managing Director
P Brigham	Technical Director (resigned 29 April 2014)
J Walsh	Business Development Director (resigned 29 April 2014)
W Payne	Senior Independent Director
P Lawrence	Non-Executive Director
A Silverton	Non-Executive Director
T Russo	Non-Executive Director

Subsequent to the year end, John Shepherd was appointed a Non-Executive Director on 16 April 2015.

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 3 June, Nicholas Rutter, John Gahan and William Payne will retire and stand for re-election.

The beneficial and non-beneficial interests of the Directors in the Company's ordinary 2p shares are disclosed in the remuneration report.

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
Sprue's Articles of Association confer the following powers on the Directors which are summarised as follows:

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

Corporate governance
The Company's statement on corporate governance can be found in the Corporate Governance Report on pages 21 to 22 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 2014	1 Jan 2014	31 Dec 2013	1 Jan 2013
Executive directors				
G Whitworth	3,540,000	3,666,700	3,666,700	3,666,700
N Rutter	3,000,000	3,184,250	3,184,250	3,184,250
J Gahan	23,000	-	-	117,833
Non-Executive directors				
P Lawrence	665,412	665,412	715,412	815,214
W Payne	100,000	289,167	289,167	189,167
A Silverton	20,000	20,000	20,000	20,000
T Russo	-	-	-	-

Executive Directors each have the right to acquire 125,000 shares in the Company via the exercise of options granted under the terms of share option agreements dated 25 April 2014 at an option price of £2.00 per ordinary share. Share options vest evenly over three years and cannot be exercised until 12 months have lapsed.

On the 6 January 2014, John Gahan exercised all of the 300,000 share options awarded on 30 June 2010 at an option price of 35.00p per share.

On 29 April 2014, Graham Whitworth exercised the following share options: 285,000 awarded on 7 May 2008 at an option price of 19.25p per share and 75,000 awarded on 30 June 2010 at an option price of 35.00p per share.

On 29 April 2014, Nick Rutter exercised the following share options: 435,000 awarded on 7 May 2008 at an option price of 19.25p per share and 75,000 awarded on 30 June 2010 at an option price of 35.00p per share.

Conflicts of interest

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

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

Directors' and Officers' Liability Insurance

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

Policy on payment of suppliers

It is and will continue to be the Group's policy to negotiate with suppliers so as to obtain the best available terms taking account of quality, delivery, price and period of settlement, and having agreed those terms, to abide by them. Average trade creditor days during 2014 were 57 days (2013: 62 days).

Related party transactions

Jarden Corporation

Jarden and its subsidiaries and associates (collectively referred to as "Jarden") are related parties to the Group with a 23.6% interest in the ordinary share capital of the Company and the appointment of a Jarden nominated Non-Executive director, Tom Russo to the Sprue Aegis plc board on 29 September 2011.

Jarden, through its subsidiary BRK Brands Europe Limited, represents the single largest supplier to the company supplying 100% of the Group's smoke alarm and wi-safe products and many accessories (Sprue's own brand carbon monoxide alarms are supplied by an independent third party). In 2014, total net purchases from Jarden amounted to £33.1m of which, £4.16m relates to the distribution fee (2013: net purchases from Jarden were £22.2m which included £4.16m for the BRK distribution fee). Total net creditors relating to Jarden as at 31 December 2014 amounted to £13.5m (2013: £6.1m).

In early 2012, the Company appointed Mapa Spontex, part of Jarden as its supplier to the hypermarket channel in France. Net sales to Mapa Spontex in 2014 amounted to £2.8m (2013: £0.2m). As at 31 December 2014, the net debtor related to Mapa Spontex amounted to £0.6m (2013: £0.1m).

Wilkins Kennedy

WJB Payne, a Non-Executive director of the company, is a partner of Wilkins Kennedy, Chartered Accountants, which is the firm that provides his services. During the period Wilkins Kennedy were paid £12,000 (2013: £12,000) for the provision of WJB Payne's services as a Non-Executive director and £33,000

(2013: £34,000) for accounting and management services. At the year end, the Company owed Wilkins Kennedy £7,000 (2013: £nil).

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 Strategic Report, Chairman's Statement and Financial Review on pages 7 to 19.

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

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

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

Auditor

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

Share capital and voting rights

As at 31 December 2014, there were 45,496,623 ordinary shares of 2 pence each in issue. The ordinary shares are listed on AIM.

Payments to shareholders

In line with its progressive dividend policy and taking account of the Group's future prospects and cash resources, the Board is pleased to recommend a final dividend of 6.0 pence per share (2013: 6 pence per share) taking the total dividend for the year to 8.0 pence per share (2013: 6 pence per share). The proposed total cost to the Group amounts to £3.6 million and is covered 2.2x by post-tax profit (2013: 1.8x). If approved by shareholders at the AGM on 3 June 2015, the record date will be 19 June 2015 and the dividend will be paid to shareholders on 3 July 2015.

Share class rights

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

Ordinary shares

Holders of ordinary shares are entitled to receive the Company's annual report. They are also entitled to attend and speak at general meetings of the Company, to appoint one or more proxies or, if they are corporations, corporate representatives, and to exercise voting rights. They have the right to ask questions at the AGM relating to the business of the meeting and for these to be answered, unless such answer would interfere unduly with the business of the meeting, involve the disclosure of confidential information, if the answer has already been published on the Group's website or if it is not in the interests of the Group or the good order of the meeting that the question be answered.

Restrictions on transfer of shares and limitations on holdings

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

Shareholder agreements and consent requirements

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

Authority to issue and purchase own shares

At the AGM on 27 May 2010, authority was given to the directors to allot new ordinary shares up to a nominal value of £209,000, equivalent to 10.4% of the issued share capital of the Company.

These authorities are valid until 26 May 2015, and the directors propose to seek a further authority at the 2015 AGM to allot up to 10% of the total issued share capital.

The Board believes that this additional authority will allow the Company to retain maximum flexibility to respond to circumstances and opportunities as they arise and to allot new Shares up to a nominal value of £4.5 million.

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 2014, 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	23.6
GRAHAM WHITWORTH	7.4
NICHOLAS RUTTER	6.6
AURORA NOMINEES LIMITED	6.4
HSBC CLIENT HOLDINGS NOMINEE (UK) LIMITED	5.6
LION NOMINEES LIMITED	4.2
ROCK (NOMINEES) LIMITED	4.1
JOLYON WILLIAM MONEY ESQ	3.3
DARTINGTON PORTFOLIO NOMINEES LIMITED	2.8
HAREWOOD NOMINEES LIMITED	2.8
THE BANK OF NEW YORK NOMINEES LIMITED	2.7
CHASE NOMINEES LIMITED	2.5
SECURITIES SERVICES NOMINEES LIMITED	1.7
L R NOMINEES LIMITED	1.3
VIDACOS NOMINEES LIMITED	1.0
NORTRUST NOMINEES LIMITED	0.7
OTHER	23.3
	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.

Statement of Directors’ responsibilities

The directors are responsible for preparing the Strategic Report and the Directors’ Report, and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and company financial statements for each financial year. Under that law the directors have elected to prepare the financial statements of the group and the company in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (“EU”).

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

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

In preparing the group and company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs adopted by the EU;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group’s and the company’s transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Sprue Aegis plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

Graham Whitworth
Executive Chairman
25 April 2015

John Gahan
Group Finance Director
25 April 2015

Financial statements

In this section

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

We have audited the Group and parent company financial statements ("the financial statements") on pages 51 to 97. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As more fully explained in the Directors' Responsibilities Statement set out on page 48, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the Group's and the parent's affairs as at 31 December 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

CHARLES FRAY (Senior Statutory Auditor)
For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor
Chartered Accountants
St Phillips Point
Temple Row
Birmingham B2 5AF
25 April 2015

Consolidated income statement
for the year ended 31 December 2014

	NOTES	2014 £000	**2013 £000
Revenue	6	**65,600**	48,357
Cost of sales		**(45,863)**	(34,320)
Gross profit		**19,737**	14,037
Distribution costs		**(878)**	(601)
Administrative expenses excluding share-based payments charge and exceptional items		**(8,498)**	(7,944)
Share-based payments charge		**(205)**	(15)
Exceptional items*		**(525)**	(398)
Total administrative expenses		**(9,228)**	(8,357)
Total fixed costs		**(10,106)**	(8,958)
Profit from operations pre-exceptional items and share-based payments charge		**10,361**	5,492
% of sales		***15.8%***	*11.4%*
Profit from operations	7	**9,631**	5,079
Finance income	9	**40**	5
Profit before tax		**9,671**	5,084
Income tax	10	**(1,952)**	(946)
Profit attributable to equity owners of the parent		**7,719**	4,138
Earnings per share	12		
From continuing operations:			
Basic		**17.6**	10.6
Diluted		**17.6**	10.2
Basic pre-exceptional items*		**18.8**	11.6
Diluted pre-exceptional items*		**18.8**	11.2

All amounts stated relate to continuing activities.

*Exceptional items include AIM costs of £525,000 in 2014 and hostile bid defence costs of £398,000 in 2013.

**Restated under IFRS from UK GAAP

Consolidated statement of comprehensive income

for the year ended 31 December 2014

	2014 £000	*2013 £000
Profit for the year	**7,719**	4,138
Items that may be reclassified subsequently to profit and loss:		
Exchange differences on translation of foreign operations (net of tax)	**(21)**	(38)
Other comprehensive expense for the year	**(21)**	(38)
Total comprehensive income for the year	**7,698**	4,100

*Restated under IFRS from UK GAAP

Statement of Consolidated and Company financial position

at 31 December 2014

		Consolidated		Company	
	NOTES	**2014 £000**	*2013 £000	**2014 £000**	*2013 £000
Non-current assets					
Goodwill	14	**169**	169	**-**	-
Other intangible assets	15	**4,333**	3,028	**-**	-
Plant and equipment	16	**536**	436	**-**	-
Shares in subsidiaries	17	**-**	-	**149**	149
Deferred tax assets	24	**116**	292	**-**	-
		5,154	3,925	**149**	149
Current assets					
Inventories	18	**8,309**	7,671	**-**	-
Trade and other receivables	19	**20,213**	10,328	**22,626**	10,137
Current tax assets		**-**	65	**-**	127
Derivative financial assets	20	**369**	307	**-**	-
Cash and cash equivalents		**15,887**	5,227	**142**	195
		44,778	23,598	**22,768**	10,459
Total assets		**49,932**	27,523	**22,917**	10,608
Current liabilities					
Trade and other payables	23	**(19,946)**	(10,860)	**-**	-
Current tax liabilities		**(505)**	-	**-**	-
Derivative financial liabilities	20	**(1)**	(95)	**-**	-
		(20,452)	(10,955)	**-**	-
Net current assets		**24,326**	12,643	**22,768**	10,459
Non-current liabilities					
Deferred tax liabilities	24	**(969)**	(736)	**-**	-
Provisions	22	**(873)**	(734)	**-**	-
		(1,842)	(1,470)	**-**	-
Total liabilities		**(22,294)**	(12,425)	**-**	-
Net assets		**27,638**	15,098	**22,917**	10,608
Equity					
Share capital	26	**909**	801	**909**	801
Share premium		**12,003**	4,123	**12,003**	4,123
Foreign exchange reserve		**(69)**	(48)	**-**	-
Retained earnings		**14,795**	10,222	**10,005**	5,684
Total equity attributable to the owners of the parent		**27,638**	15,098	**22,917**	10,608

*Restated under IFRS from UK GAAP

The financial statements on pages 51 to 97 were approved by the Board of directors and authorised for issue on 25 April 2015 and are signed on its behalf by:

G R A Whitworth

J R Gahan

Company registered number: 3991353

Consolidated statement of changes in equity

for the year ended 31 December 2014

	Share capital	Share premium	Foreign exchange reserve	Retained earnings	Total
	£000	**£000**	**£000**	**£000**	**£000**
Balance at 1 January 2013	771	3,822	(10)	7,294	11,877
Profit for the year	-	-	-	4,138	4,138
Foreign exchange gains and losses from overseas subsidiaries	-	-	(38)	-	(38)
Total comprehensive income for the year	-	-	(38)	4,138	4,100
Transactions with owners in their capacity as owners:-					
Dividends	-	-	-	(1,573)	(1,573)
Issue of shares	30	-	-	-	30
Premium arising on issue of equity shares	-	301	-	-	301
Total transactions with owners in their capacity as owners	30	301	-	(1,573)	(1,242)
Share-based payment charge	-	-	-	15	15
Deferred tax credit on share-based payment charge	-	-	-	73	73
Current tax credit on share-based payment charge	-	-	-	275	275
Balance at 31 December 2013	801	4,123	(48)	10,222	15,098
Profit for the year	-	-	-	7,719	7,719
Foreign exchange gains and losses from overseas subsidiaries	-	-	(21)	-	(21)
Total comprehensive income for the year	-	-	(21)	7,719	7,698
Transactions with owners in their capacity as owners:-					
Dividends	-	-	-	(3,640)	(3,640)
Issue of shares	108	-	-	-	108
Premium arising on issue of equity shares	-	8,236	-	-	8,236
Transaction costs arising on issue of equity shares	-	(356)	-	-	(356)
Total transactions with owners in their capacity as owners	108	7,880	-	(3,640)	4,348
Share-based payment charge	-	-	-	205	205
Deferred tax charge on share-based payment charge	-	-	-	(201)	(201)
Current tax credit on share-based payment charge	-	-	-	490	490
Balance at 31 December 2014	**909**	**12,003**	**(69)**	**14,795**	**27,638**

Company statement of changes in equity

for the year ended 31 December 2014

	Share capital £000	Share premium £000	Retained earnings £000	Total £000
Balance at 1 January 2013	771	3,822	3,183	7,776
Profit for the year	-	-	4,074	4,074
Total comprehensive income for the year	-	-	4,074	4,074
Transactions with owners in their capacity as owners:-				
Dividends	-	-	(1,573)	(1,573)
Issue of shares	30	-	-	30
Premium arising on issue of equity shares	-	301	-	301
Total transactions with owners in their capacity as owners	30	301	(1,573)	(1,242)
Balance at 31 December 2013	801	4,123	5,684	10,608
Profit for the year	-	-	7,961	7,961
Total comprehensive income for the year	-	-	7,961	7,961
Transactions with owners in their capacity as owners:-				
Dividends	-	-	(3,640)	(3,640)
Issue of shares	108	-	-	108
Premium arising on issue of equity shares	-	8,236	-	8,236
Transaction costs arising on issue of equity shares	-	(356)	-	(356)
Total transactions with owners in their capacity as owners	108	7,880	(3,640)	4,348
Balance at 31 December 2014	**909**	**12,003**	**10,005**	**22,917**

Consolidated cash flow statement

for the year ended 31 December 2014

	NOTES	2014 £000	*2013 £000
Profit before tax		**9,671**	5,083
Finance income		**(40)**	(5)
Operating profit for the year		**9,631**	5,078
Adjustments for:			
Depreciation of property, plant and equipment		**131**	80
Amortisation of intangible assets		**294**	223
Change in fair value of derivatives		**(156)**	(193)
Share-based payments charge		**205**	15
Operating cash flows before movements in working capital		**10,105**	5,203
Movement in inventories		**(639)**	(2,267)
Movement in receivables		**(9,820)**	(746)
Movement in warranty provision		**139**	209
Movement in payables		**9,020**	(153)
Cash generated by operations		**8,805**	2,246
Income taxes paid		**(694)**	(652)
Net cash generated from operating activities		**8,111**	1,594
Investing activities			
Purchase of intangible assets		**(1,599)**	(1,016)
Purchase of property, plant and equipment		**(234)**	(338)
Interest received		**40**	5
Net cash used on investing activities		**(1,793)**	(1,349)
Financing activities			
Proceeds from issue of ordinary shares		**7,988**	331
Dividends paid	11	**(3,640)**	(1,573)
Net cash generated / (used) from financing activities		**4,348**	(1,242)
Net increase / (decrease) in cash and cash equivalents		**10,666**	(997)
Cash and cash equivalents at beginning of year		**5,227**	6,226
Non-cash movements		**(6)**	(2)
Cash and cash equivalents at end of year		**15,887**	5,227

*Restated under IFRS from UK GAAP

Notes to the financial statements
for the year ended 31 December 2014

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 was formerly quoted on the ISDX Growth Market until 30 April 2014 when its shares were admitted onto AIM. The Company's registered office is Bridge House, London Bridge, London, SE1 9QR and the address of its principal place of business is The Vanguard Centre, Sir William Lyons Road, Coventry, West Midlands, CV4 7EZ.

The Company and its subsidiary undertakings ("the Group") is in the business of the design, sale and marketing of smoke and carbon monoxide detectors and accessories sold under the FireAngel, AngelEye, Pace Sensors, First Alert, SONA, BRK and Dicon brands. The Group also operates its own carbon monoxide CO sensor manufacturing facility in Canada.

2. Summary of significant accounting policies
The Group has adopted the accounting policies set out below in preparation of the consolidated financial statements. All of these policies have been applied consistently throughout the periods presented, unless otherwise stated.

Basis of preparation
These consolidated financial statements are the first published consolidated financial statements of Sprue Aegis plc prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). The consolidated financial statements of Sprue Aegis plc were previously prepared in accordance with UK GAAP.

Some of the IFRS recognition, measurement, presentation and disclosure requirements and accounting policy choices differ from UK GAAP. Consequently, the directors have amended certain accounting policies to comply with IFRS. The directors have also taken advantage of certain exemptions from the requirements of IFRS permitted by IFRS 1 'First-time Adoption of International Financial Reporting Standards'.

Comparative figures have been restated to reflect the adjustments made, except to the extent that the directors have taken advantage of exemptions to retrospective application of IFRS permitted by IFRS 1 'First-time Adoption of International Financial Reporting Standards'.

Reconciliations and descriptions of the effect of the transition to IFRS on the consolidated and Company equity, and the consolidated and Company total comprehensive income previously reported under UK GAAP are given at the end of the financial statements.

The preparation of financial statements requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where the Group's assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

Basis of consolidation
The consolidated financial statements of the Group incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year.

Subsidiaries
Subsidiaries are entities over which the Group has the power to govern the financial and operating policies so as to obtain economic benefits from their activities. Subsidiaries are consolidated from the date on which control is obtained (the acquisition date) up until the date that control ceases.

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

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

Intra-Group transactions, balances, and unrealised gains and losses on transactions between Group companies are eliminated on consolidation, except to the extent those intra-Group losses indicate impairment.

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

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

Adoption of new and revised accounting standards
New and amended accounting standards:
The following new standards and amended standards, none of which have a material impact on these financial statements, are mandatory and relevant to the Group for the first time for the financial year ended 31 December 2014:

- Annual improvements 2011-2013
- IFRS 10 – Consolidated Financial Statement
- IFRS 11 – Joint Arrangements
- IFRS 12 - Disclosure of Interests in Other Entities
- Amendment to IAS 27 - Separate Financial Statements
- Amendment to IAS 28 - Interests in Associates and Joint Ventures
- Amendment to IAS 32 – Offsetting Financial Assets and Financial Liabilities
- Amendment to IAS 36 – Impairment of Assets
- Amendment to IAS 39 – Financial Instruments: Recognition and Measurement

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

- Annual improvements 2010-2012
- Annual improvements 2012-2014
- IFRS 9 Financial Instruments
- IFRS 15 – Revenue from contracts with customers

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group or the Company when the relevant standards and interpretations come into effect.

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

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

Interest income
Interest income is accrued on a time-apportioned basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Accounting for discretionary payments made to suppliers
The Group made discretionary payments in total amounting to £0.3m to certain UK retailers in respect of maintaining the ongoing relationship with these customers and to secure promotional activities during the year (2013: £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 2014 was £nil (2013: £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.

Goodwill arising on acquisitions that occurred prior to the date of transition to IFRS (1 January 2011) has been retained at the UK GAAP carrying amount at the date of transition. Subsequent to the transition date no amortisation charge has been recognised, but goodwill has been tested for impairment at the date and annually thereafter in accordance with IAS 36.

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 recognised only if all of the following conditions are met:

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

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

Development expenditure is also written off, except where the directors are satisfied as to the innovative nature and technical, commercial and financial viability of clearly defined projects whose outcome can be assessed with reasonable certainty. In such cases, the identified expenditure is carried forward and amortised on a straight line basis over the period during which the Group is expected to benefit, which the directors have estimated is between seven and ten years once sales of the product commence. Provision is made for any impairment. The amortisation charge is recognised within administration expenses.

Other intangibles - Computer software
Software capitalised is amortised at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its estimated useful life being 3 years.

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

Subsequent costs, including replacement parts and major inspections, are capitalised only when it is probable that such costs will generate future economic benefits. Any replaced parts are derecognised. All other costs of repairs and maintenance are charged to profit or loss as incurred.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following bases:

Fixtures and fittings	4 years
Motor vehicles	4 years
Office equipment	3 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment of plant and equipment and intangible assets excluding goodwill
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 are tested for impairment annually and whenever there is an indication that the asset may be impaired.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit) for which the estimates of future cash flows have not been adjusted.

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Operating leases
Rentals payable under operating leases are expensed on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

Functional and presentation currency
Items included in the financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements is presented in UK Sterling (£), which is the functional currency of the Company and the Group's presentational currency.

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

Foreign currency transaction and balances
Foreign currency transactions are translated at the exchange rate prevailing on the dates of the transaction. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the exchange rate prevailing at the reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was 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 liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 company after deducting all of its liabilities.

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

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

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

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

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

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

Inventories
Inventories are stated at the lower of historical cost and net realisable value. Cost comprises direct material cost and, where applicable, directs 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, discontinued 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-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant by reference to the fair value of the equity instruments granted. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of instruments that will eventually vest with a corresponding adjustment to equity. Fair value is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions, and behavioural considerations.

Non-vesting and market vesting conditions are taken into account when estimating the fair value of the option at grant date. Service and non-market vesting conditions are taken into account by adjusting the number of options expected to vest at each reporting date.

Options over the Company's shares granted to employees of subsidiaries are recognised as a capital contribution by the Company to the subsidiaries.

Cancelled or settled options are accounted for as an acceleration of vesting. The unrecognised grant date fair value is recognised 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 provides segmental information for the Group on the basis of information reported internally to the chief operating decision-maker for decision-making purposes. The Group considers that the role of chief operating decision-maker is performed by the Executive Management Team. The adoption of IFRS 8 has not had any impact on the performance or position of the Group.

3. Critical accounting estimates and areas of judgement

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

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

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

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

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

During 2014, the Group did not record any impairment charges upon review of its tangible and intangible assets.

Warranty provision
The warranty provision is expected to be sufficient to cover the cost of replacing products where there are specific known warranty issues where the level of returned products is above a normal long term run rate level of warranty return based on Sprue's experience. The balance of the warranty provision as 31 December 2014 was £0.9m (2013: £0.7m).

The Directors' estimate for warranty costs at each year end is based on returns experience and industry experience.

The Directors have not taken into consideration the present value of the expected warranty cost when estimating the warranty provision, and similarly the inflation rate has not been considered for this purpose, on the grounds that neither adjustment is likely to be material.

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

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

As at 31 December 2014, the provision for inventory obsolescence amounted to £0.3m (2013: £0.1m). The increase/decrease in provision for inventory obsolescence is mainly due to review of slow moving and stock obsolescence based on forecast stock figures.

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

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

The total gross amount of recognised expenses associated with share-based payments was £0.2m (2013: £0.015m).

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, liquidity risk and environmental risk. The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group by monitoring these risks and taking appropriate action where necessary.

Liquidity risk

Management's objective is to meet its liabilities as they fall due whilst maintaining sufficient headroom to enable the board to react to unexpected changes in market conditions. Management monitors its cash flows through the preparation of forecasts on a monthly basis.

Cash forecasts are based on historic trading levels, expected settlement of supplier balances and collection of trade receivables as they fall due. Subject to unforeseen adverse trading conditions, the cash flows from operations are not expected to change significantly from the level of underlying business performance.

Maturity Analysis

The table below analyses the Group's financial liabilities on a contractual gross undiscounted cash flow basis into maturity groupings based on amounts outstanding at the reporting date up to the contractual maturity date.

	Within 6 months	**6 months - 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
2013	**£000**	**£000**	**£000**	**£000**	**£000**
Trade payables	8,647	-	-	-	8,647
Derivative financial liabilities	-	95	-	-	95
Financial liabilities	8,647	95	-	-	8,742
2014	**£000**	**£000**	**£000**	**£000**	**£000**
Trade payables	15,631	-	-	-	15,631
Derivative financial liabilities	1	-	-	-	1
Financial liabilities	**15,632**	**-**	**-**	**-**	**15,632**

The table below analyses the Group's financial assets held for managing liquidity risk which are considered to be readily saleable or are expected to generate cash inflows to meet cash outflows on financial liabilities.

2013	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	5,227	-	-	-	5,227
Trade receivables	9,993	-	-	-	9,993
Derivative financial assets	270	37	-	-	307
Financial assets	15,490	37	-	-	15,527

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

The Group would normally expect that sufficient cash is generated in the operating cycle to meet the contractual cash flows as disclosed above through effective cash management. In addition, the Group maintains a committed invoice discounting facility secured on UK trade debtors which can be accessed as considered necessary. This facility expires in September 2015.

Foreign currency risk

The Group operates in a number of markets across the world and is exposed to foreign exchange risk arising from various currency exposures in particular, with respect to the US Dollar and in particular, the Euro. The Group is exposed to foreign currency risk arising from recognised assets and liabilities as well as commitments arising from future trading transactions. Management has set up a policy to manage foreign exchange risk by entering into forward exchange contracts with its banker, HSBC plc.

Sensitivity analysis

The Group derived the following sensitivities based on the forward rates readily available for the US Dollar and the Euro. Management believe that these most closely reflect the probable performance of the various economies in which the Group's financial assets and liabilities are located.

Impact on equity and profit or loss pre tax	**2014 £000**	2013 £000
5% increase in US Dollar fx rate against £	**999**	844
5% decrease in US Dollar fx rate against £	**(1,104)**	(933)
5% increase in Euro fx rate against £	**(1,918)**	(857)
5% decrease in Euro fx rate against £	**2,120**	947

Interest rate risk

The business has remained debt free throughout 2014 and earns modest income on its cash deposits.

Credit Risk

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

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

Cash and cash equivalents and derivative financial instruments are almost all held with an AAA 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.

	2014	2013
Maximum exposure to credit risk	**£000**	£000
Trade receivables	**19,169**	9,993
Cash and cash equivalents	**15,887**	5,227
	35,056	15,220

The Group did not have any financial instruments that would mitigate the credit exposure arising from the financial assets designated at fair value through profit or loss in either the current or the preceding financial year.

5. Capital management

The Group's main objective when managing capital is to protect returns to shareholders by ensuring the Group will continue to trade profitably in the foreseeable future and cash is managed on a conservative basis.

The Group manages its capital with regard to the risks inherent in the business and the sector within which it operates by monitoring its cash balances on a daily basis and managing the level of dividends paid to ordinary shareholders to ensure reasonable dividend cover compared to post tax profit.

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

6. Revenue and Segmental Reporting

	2014	2013
Revenue	**£000**	£000
Continuing operations:		
Sale of Goods	**65,600**	48,357
Total sale of goods	**65,600**	48,357
Finance income (note 9)	**40**	5
Total revenue from continuing operations	**65,640**	48,362

Sprue Aegis plc sells and distributes home safety products and accessories in the UK, Continental Europe and certain other countries and undertakes manufacturing activities in Canada. Its major customers are mainly based throughout Continental Europe.

Financial information is reported to the board on a consolidated basis with revenue and operating profits stated for the Group.

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

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

Revenue from continuing operations	2014 Revenue £000	2013 Revenue £000
Business Units:		
Europe	**39,950**	18,630
Trade	**6,040**	5,563
Retail	**9,722**	11,720
Fire & Rescue Services	**6,081**	7,000
Utilities and Leisure	**2,093**	2,385
Pace Sensors Limited	**1,714**	3,059
Total revenue from external customers	**65,600**	48,357

The Retail, Europe, Trade, Fire & Rescue Services and Utilities and Leisure Business Units earn revenue from the sale of smoke and carbon monoxide detectors to end customers. Pace Sensors Limited earns revenue from the manufacture and sale of carbon monoxide sensors to a third party carbon monoxide detector assembler based in China.

For 2014, revenues of approximately £26.2m (2013: £20.7m) were derived from two (2013: three) external customers, each of which contributed over 10% of total external revenue of the Group. These revenues are attributable to the European and Retail business units. An analysis of the Group's revenue is as follows:

	2014 £000	2013 £000
Continuing operations:		
United Kingdom	**23,936**	26,466
Continental Europe and Rest of World	**41,664**	21,891
	65,600	48,357

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

	2014 £000	2013 £000
Continuing operations:		
UK	**4,820**	3,461
Canada	**218**	172
Non-current assets	**5,038**	3,633

7. Profit from operations

The following table analyses the nature of expenses:-

	2014 £000	2013 £000
Staff costs (see note 8)	**5,427**	4,123
Depreciation, amortisation and impairments (see notes 15 and 16)	**425**	303
Premises costs	**876**	917
Change in inventory of finished goods excluding inventory provision movement	**8,502**	6,909
Purchase of finished goods	**36,077**	27,421
Movement in inventory provisions	**140**	(13)
Transport costs	**878**	602
Marketing and trade contributions	**872**	762
Professional fees including exceptional items	**1,392**	1,218
Research and development costs	**668**	265
Other expenses	**712**	771
Total cost of sales, distribution costs and administrative expenses	**55,969**	43,278

Profit from operations has been arrived at after charging:

	2014 £000	2013 £000
Net foreign exchange losses excluding foreign currency forward transactions	**81**	11
Research and development costs	**668**	265
Amortisation of intangible assets	**294**	223
Depreciation - owned assets	**131**	80
Rentals under operating leases	**282**	282

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

	2014 £000	2013 £000
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	**32**	20
Fees payable to the Company's auditor and their associates for other services to the Group;		
The audit of the Company's subsidiaries	**43**	43
Other audit related services	**20**	6
Total audit fees	**95**	69
Other taxation advisory services	**22**	3
Corporate finance services	**115**	-
Other services	**24**	-
Total non-audit fees	**161**	3

8. Staff costs

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

	2014 Number	2013 Number
Pace Sensors manufacturing	**42**	42
Technology	**24**	16
Administration	**31**	22
Sales and Marketing	**23**	19
Executive and Non-Executive directors	**6**	8
Warehousing	**4**	5
	130	112

The aggregate remuneration for the above persons comprised:

	2014 £000	2013 £000
Wages and salaries	**5,774**	4,214
Social security costs	**587**	462
Other pension costs	**122**	89
Share-based payment expense	**205**	15
Total remuneration	**6,688**	4,780
Less: Capitalised	**(1,261)**	(657)
Total remuneration charged to Income Statement	**5,427**	4,123

9. Finance income

	2014 £000	2013 £000
Interest on bank deposits	**40**	5

10. Income tax

	2014 £000	2013 £000
Current tax		
UK corporation tax charge	**1,596**	769
UK – Adjustments in respect of prior periods charge / (credit)	**136**	(81)
Foreign tax charge	**11**	88
	1,743	776
Deferred tax (note 24)		
Origination and reversal of temporary differences	**209**	170
	209	170
Income tax expense	**1,952**	946

Domestic income tax is calculated at 21.5% (2013: 23%) of the estimated assessable profit for the year.

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

	2014 £000	**%**	2013 £000	**%**
Profit before tax	**9,671**		5,084	
Tax at the domestic income tax rate 21.5% (2013: 23%)	**2,080**		1,169	
Tax effect of expenses that are not deductible in determining taxable profit	**209**		49	
Effect of allowance for capitalised development expenditure	**(473)**		(191)	
Adjustments in respect of prior periods	**136**		(81)	
Tax expense and effective tax rate for the year	**1,952**	**20%**	946	19%

The weighted average applicable tax rate was 20% (2013: 19%). The increase is primarily attributed to the adjustment in respect of prior period's charge which increased the taxable charge for the year.

During the year, as a result of the change in the UK corporation tax rate from 23% to 21% that was substantively enacted on 26 June 2013 and that was effective from 1 April 2014, the relevant deferred tax balances have been re-assessed. Deferred tax expected to reverse in the year to 31 December 2014 has been measured using the effective rate that will apply in the UK for the future period.

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

	2014 £000	2013 £000
Current tax		
Share options – exercised in the year	**490**	275
Deferred tax		
Share-based payments	**(201)**	73
Total income tax	**289**	348

11. Dividends

On 4 July 2014, a dividend of £2.7m, 6.0 pence per share, was paid to shareholders. On 31 October 2014 an interim dividend of £0.9m, 2.0 pence per share, was paid to shareholders.

In respect of the year ended 31 December 2014, the directors recommend the payment of a final dividend of 6.0 pence per share on 3 July 2015 to shareholders on the register on 19 June 2015. This dividend is subject to approval by shareholders at the Annual General Meeting to be held on 3 June 2015 and has not been included as a liability in these financial statements. The total estimated final dividend to be paid is £2.7m.

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	**2014 £000**	2013 £000
Earnings for the purposes of basic earnings per share (profit for the year attributable to owners of the parent)	**7,719**	4,138
Share-based payment charge	**205**	15
Earnings for the purposes of diluted earnings per share	**7,924**	4,153
Number of shares	**'000**	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**43,824**	39,087
Effect of dilutive potential ordinary shares:		
Deemed issue of potentially dilutive shares	**302**	1,471
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**44,126**	40,558

	2014 pence	2013 pence
Basic earnings per share (pence)	**17.6**	10.6
Diluted earnings per share (pence)	**17.6**	10.2

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

Earnings from continuing operations	**2014 £000**	2013 £000
Earnings for the purposes of basic earnings per share (profit for the year attributable to owners of the parent)	**7,719**	4,138
Exceptional AIM costs (2013: Exceptional hostile bid costs)	**525**	398
Earnings for the purposes of basic earnings per share pre-exceptional	**8,244**	4,536
Share-based payment charge	**205**	15
Earnings for the purposes of diluted earnings per share pre-exceptional	**8,449**	4,551
Number of shares	**'000**	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**43,824**	39,087
Effect of dilutive potential ordinary shares:		
Deemed issue of potentially dilutive shares:	**302**	1,471
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**44,126**	40,558

	2014 pence	2013 pence
Basic earnings per share (pence) pre-exceptional costs	**18.8**	11.6
Diluted earnings per share (pence) pre-exceptional costs	**18.8**	11.2

For the basis of the diluted earnings per share above, this is stated to be the same as the basic earnings per share due to the 'anti-dilutive' nature of the share options.

13. Financial instruments

2014	Assets at fair value through profit and loss £000	Loans and receivables £000	Total £000
Financial assets			
Trade receivables	-	19,169	19,169
Cash and cash equivalents	15,887	-	15,887
Derivative financial assets	369	-	369
Total	**16,256**	**19,169**	**35,425**

2013			
Financial assets			
Trade receivables	-	9,993	9,993
Cash and cash equivalents	5,227	-	5,227
Derivative financial assets	307	-	307
Total	5,534	9,993	15,527

2014	Liabilities at fair value through profit and loss £000	Financial liabilities held at amortised cost £000	Total £000
Financial liabilities			
Trade payables	-	15,631	15,631
Derivative financial liabilities	1	-	1
Total	**1**	**15,631**	**15,632**

2013			
Financial liabilities			
Trade payables	-	8,647	8,647
Derivative financial liabilities	95	-	95
Total	95	8,647	8,742

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 minimized 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 by means of e.g. down payments, letters of credit, and retention of ownership. Retention of ownership may enable the Group to recover the inventory in the event a customer defaults on payment.

14. Goodwill

	£000
Cost	
Deemed cost of goodwill upon IFRS transition and carrying value at 31 December 2014 and 2013	**169**

The recoverable amount of each CGU has been determined at each year end, based on value in use calculations. These calculations use pre-tax cash flow projections from the Group's 3 year strategy plan.

If necessary, cash flows beyond the budgeted three year period are extrapolated using the estimated growth rates per the table below. In accordance with IAS 36, the growth rates beyond the budgeted three year period do not exceed the long-term average growth rate for the industry.

	Pace Sensors
Carrying value of goodwill (£000)	**169**
The key assumptions applied in the calculations were:	
Gross margin (%)	**32**
Growth rate (%)	**5**
Discount rate (%)	**10**

Gross margin over the next 3 years has been estimated based on past performance of each product line taking into account the anticipated changes in sales mix and future trading conditions. The sales mix takes into account estimated future revenue from current customers. It has been assumed that overhead costs and asset replacement will continue at the same levels as in the current year as there are no expansion or restructuring projects in the Board's plans in the short term. Cash flow has been derived from future earnings based on assumptions that key suppliers will be paid within agreed credit periods and that customers will continue to take pay on time. Stock holding levels will continue to be monitored to ensure that sufficient levels are retained to meet demand.

15. Other intangible assets

	Product development costs £000	Computer software £000	Total £000
Cost			
At 1 January 2013	3,244	205	3,449
Additions	988	28	1,016
At 31 December 2013	4,232	233	4,465
Additions	1,592	7	1,599
At 31 December 2014	**5,824**	**240**	**6,064**
Amortisation			
At 1 January 2013	1,109	105	1,214
Amortisation for the year	186	37	223
At 31 December 2013	1,295	142	1,437
Amortisation for the year	236	58	294
At 31 December 2014	**1,531**	**200**	**1,731**
Carrying amount			
At 31 December 2013	2,937	91	3,028
At 31 December 2014	**4,293**	**40**	**4,333**

The total amortisation charge of £294,000 (2013: £223,000) has been recognised within administrative expenses.

16. Plant and equipment

	Office equipment £000	Motor vehicles £000	Fixtures & fittings £000	Total £000
Cost				
At 1 January 2013	311	5	42	358
Additions	291	-	47	338
Disposals	(11)	-	-	(11)
At 31 December 2013	591	5	89	685
Additions	181	-	53	234
Effect of exchange rates	-	-	(2)	(2)
At 31 December 2014	**772**	**5**	**140**	**917**
Accumulated Depreciation				
At 1 January 2013	153	2	24	179
Depreciation charge for the year	70	1	9	80
Disposals	(10)	-	-	(10)
At 31 December 2013	213	3	33	249
Depreciation charge for the year	124	1	6	131
Effect of exchange rates	-	-	1	1
At 31 December 2014	**337**	**4**	**40**	**381**
Net book value				
At 31 December 2013	378	2	56	436
At 31 December 2014	**435**	**1**	**100**	**536**

The total depreciation expense of £131,000 (2013: £80,000) has been charged to administrative expenses.

There are no material capital commitments post balance sheet date.

17. Shares in subsidiaries

Company	Shares £000	Total £000
Cost		
At 1 January 2014 and 31 December 2014	149	149
Accumulated impairment		
At 1 January 2014 and 31 December 2014	-	-
At 31 December 2014 and 31 December 2013	**149**	**149**

Details of the Company's subsidiaries as at 31 December 2014 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. Pace Sensors Limited manufactures carbon monoxide sensors and the principal activity of Sprue Safety Products Limited is to develop and distribute smoke alarms, carbon monoxide detectors and other safety related products. The other entities are currently non-trading.

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 2014 £000	Group 2013 £000	**Company 2014 £000**	Company 2013 £000
Raw materials	**260**	218	**-**	-
Work-in-progress	**250**	245	**-**	-
Finished products	**8,081**	7,350	**-**	-
Total gross inventories	**8,591**	7,813	**-**	
Write-down of inventory to net realisable value	**(282)**	(142)	**-**	-
Total net inventories	**8,309**	7,671	**-**	-

19. Financial assets

	Group 2014 £000	Group 2013 £000	**Company 2014 £000**	Company 2013 £000
Trade receivables	**19,169**	9,993	**22,626**	10,137
Cash and cash equivalents	**15,887**	5,227	**142**	195
Derivative financial assets	**369**	307	**-**	-
Maximum exposure to credit risk	**35,425**	15,527	**22,768**	10,332

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 2014 £000	Group 2013 £000	**Company 2014 £000**	Company 2013 £000
Trade receivables	**18,939**	9,695	**-**	-
Amounts due from fellow group companies	**-**	-	**22,626**	10,137
Other debtors	**230**	298	**-**	-
Prepayments	**1,044**	335	**-**	-
Trade and other receivables	**20,213**	10,328	**22,626**	10,137

The average credit period taken on sale of goods is 54 days (2013: 57 days).

An impairment review has been undertaken at the year end to assess whether the carrying amount of financial assets is deemed recoverable.

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

Domestic trade debtors are pledged as security to the Group's bankers as part of the Group's banking facilities. The domestic trade debtor balance at the year end 2014 was £4.8m (2013: £5.2m).

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.

At 31 December 2014, £4.8m (2013: £7.3m) of trade receivables were denominated in Sterling, £0.4m (2013: £0.6m) in US Dollars and £13.7m (2013: £1.8m) in Euros.

Cash and cash equivalents of £nil (2013: £0.4m) comprise cash and short-term deposits. The carrying amount of these assets approximates to their fair value.

At 31 December 2014, £10.5m (2013: £2.7m) of cash was denominated in Sterling, £0.5m (2013: £0.2m) in US Dollars and £4.8m (2013: £2.3m) in Euros.

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

20. Derivative financial instruments

	2014 £000	2013 £000
Assets		
Foreign currency forward contracts	**369**	307
	369	307
Liabilities		
Foreign currency forward contracts	**(1)**	(95)
	(1)	(95)

Derivative financial instruments are classified between current and non-current based on the maturity of the hedged 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 $5.7m at 31 December 2014 (2013: US $11.9m). The level of hedging as at 31 December 2014 is lower than the previous year as Sprue's exposure to hedge the USD declines from April 2015 as the Group commences the purchase of products from DTL, its key smoke supplier, in Sterling rather than USD.

Gains and losses on foreign currency forward contracts are recognised within cost of sales each month, as the forward contract are utilised to hedge 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 gain on forward contracts recognised in the profit for the year ended 31 December 2014 was £0.4m (2013: £0.2m gain) and is included within "Cost of Sales".

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3)

The following table presents the Group's financial assets and liabilities that are measured at fair value for the two years ended 31 December 2014. All assets and liabilities measured are valued at level 2.

LEVEL 2	**2014 £000**	2013 £000
Assets		
Foreign currency forward contracts	**369**	307
Liabilities		
Other foreign currency forward contracts	**(1)**	(95)

22. Provisions

	Warranty provision £000
At 1 January 2013	525
Additional provision in year	1,062
Utilisation of provision	(853)
At 31 December 2013	734
Additional provision in year	1,305
Utilisation of provision	(1,166)
At 31 December 2014	**873**

	2014 £000	2013 £000
Non-current provision	**873**	734

Warranties over the Group's products typically cover periods of between one to ten years. Provision is made for 100% of the expected future likely cost of replacement of products for known warranty issues above a base level of warranty which is expensed to the income statement month on month. A provision of £0.9m (2013: £0.7m) has been recognised for expected warranty claims. It is expected that most of this expenditure will be incurred in the next two financial years.

23. Trade and other payables

	Group 2014 £000	Group 2013 £000	**Company 2014 £000**	Company 2013 £000
Trade payables	**15,631**	8,647	-	-
Accruals and deferred income	**4,015**	2,041	-	-
Other tax and social security	**300**	172	-	-
	19,946	10,860	-	-

At 31 December 2014, £2.5m (2013: £5.4m) of payables were denominated in Sterling, £0.1m of payables were dominated in Euros (2013: £0.05m) and £13.0m (2013: £3.2m) 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 57 days (2013: 62 days).

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

24. Deferred tax

	2014 £000	2013 £000
Deferred tax liabilities	**(969)**	(735)
Deferred tax assets	**116**	292
Net position at 31 December	**(853)**	(443)

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

	2014 £000	2013 £000
At 1 January	**(443)**	(346)
Charge to income for the year	**(209)**	(170)
(Charge) / credit to equity for the year	**(201)**	73
At 31 December	**(853)**	(443)

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 2014	42	693	735
Charge to income for the year	32	202	234
At 31 December 2014	**74**	**895**	**969**

Deferred tax assets	Derivative financial instruments £000	Share-based payments £000	Total £000
At 1 January 2014	-	292	292
Charge to income for the year	-	25	25
Credit to equity for the year	-	(201)	(201)
At 31 December 2014	**-**	**116**	**116**

25. Retirement benefits - Defined contribution plans

The Group operates a defined contribution retirement benefit plan and the assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost charge represents contributions payable by the Group to the fund for the year and amounted to £0.1m (2013: £0.1m). Contributions amounting to £14,000 (2013: £12,000) were payable at the year end.

26. Share capital

Authorised:	**Company 2014 Number '000**	Company 2013 Number '000
100,000,000 Ordinary shares of 2p each		
Ordinary shares in issue:		
As at 1 January	**40,075**	38,584
Issue of shares in respect of admission to AIM	**4,000**	-
Issue of shares in respect of share options exercised	**1,421**	1,491
As at 31 December	**45,496**	40,075

Issued and Fully Paid Ordinary shares of 2p each:	**£000**	£000
As at 1 January	**801**	771
Issue of share capital in respect of admission to AIM	**80**	-
Issue of share capital in respect of share options exercised	**28**	30
As at 31 December	**909**	801

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

On 30 April 2014, the Company granted 1.46m employee share options at an exercise price of £2.00 per share. The share options vest evenly over 3 years and are exercisable for 10 years from the date of grant. The share-based payment charge for the year of £0.2m is attributable to these share options and is included within administrative expenses in the Consolidated Income Statement.

27. Reserves

Share premium
The share premium account represents the excess of consideration received for shares issued above their nominal value net of transaction costs. During the year, a premium on issue of shares amounted to £8.2m with transaction costs of £0.4m as a result of the float to AIM.

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 £8.0m (2013: £4.1m). 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 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 on a straight line over 3 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 may be forfeited if an employee leaves the Group before options have vested.

	2014		2013	
	Options 000	**Weighted average exercise price**	Options 000	Weighted average exercise price
Outstanding at 1 January	**1,471**	**24.40p**	2,972	17.50p
Exercised during the year	**(1,421)**	**24.08p**	(1,491)	17.04p
Granted during the year	**1,464**	**200.00p**	-	-
Expired during the year	**(35)**	**200.00p**	(10)	18.00p
Outstanding at 31 December	**1,479**	**200.00p**	1,471	24.40p
Exercisable at 31 December	**1,479**	**200.00p**	1,471	24.40p

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							
16/05/2008	720,000	(720,000)	-	-	**-**	15/05/2015	19.25p
30/06/2010	450,000	(450,000)	-	-	**-**	28/06/2017	35.00p
25/04/2014	-	-	375,000	-	**375,000**	28/04/2021	200.00p
Employee share options							
07/05/2009	21,250	(21,250)	-	-	**-**	05/05/2016	18.00p
30/06/2010	50,000	-	-	-	**50,000**	29/06/2017	35.00p
25/04/2014	-	-	1,089,000	(35,000)	**1,054,000**	28/04/2021	200.00p
Other share options							
16/05/2008	225,000	(225,000)	-	-	**-**	06/05/2015	19.25p
07/05/2009	5,000	(5,000)	-	-	**-**	06/05/2016	18.00p
	1,471,250	(1,421,250)	1,464,000	(35,000)	**1,479,000**		

The weighted average share price at the date of exercise for share options exercised during the year was 199p. As at 31 December 2014, a total of 1,479,000 options were outstanding which had an exercise price of 200p, and a weighted average remaining contractual life of 9.3 years.

Options have been valued using the following inputs into the Black-Scholes model:

	2014	2013
Directors' share options		
Average share price when options issued (pence)	**200.00**	24.84
Average expected volatility	**35.57%**	15.11%
Expected life	**10 yrs**	7 yrs
Risk free rate	**1.78%**	2.7%
Expected dividends	**2.42%**	zero

	2014	2013
Employee share options		
Average share price when options issued (pence)	**200.00**	19.69
Average expected volatility	**35.57%**	19.81%
Expected life	**10 yrs**	7 yrs
Risk free rate	**1.78%**	2.7%
Expected dividends	**2.42%**	zero

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

The Group recognised total expenses of £0.2m (2013: £0.015m) relating to equity-settled share-based payment transactions.

29. Operating lease arrangements

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

	2014 £000	2013 £000
Amounts due:		
Within one year	696	602
Between one and five years	2,173	2,433
After five years	-	218
Total lease payments	2,869	3,253

Operating lease payments represent rentals payable by the Group principally for its offices and warehouse.

The operating lease expenditure charged to the income statement during the year is disclosed in note 7.

30. Related party transactions

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

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

	Jarden Corporation	
	2014	2013
	£000	£000
Sales of goods in year	**2,792**	189
Purchases of goods in year including engineering fees	**28,956**	18,036
Distribution agreement fee	**4,164**	4,164
Dividends payable	**643**	400
Amounts owed by related parties at year end	**13,486**	6,100
Amounts owed to related parties at year end	**580**	97

Jarden, through its subsidiary BRK Brands Europe Limited holds a significant proportion of the Company's ordinary shares (23.6% as at 31 December 2014) and has representation on the Company's board of directors. Consequently the Directors consider that Jarden is a related party. Purchases between related parties are made under contractual arrangements.

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

Notification of potential relocation of CICAM's manufacturing activities

In early April 2015, the Board was informed by its supplier, Jarden that the manufacturing activities of Jarden's majority owned smoke alarm manufacturer in China, CICAM – which supplies 100% of the Group's Sprue and BRK smoke alarms and accessories, together with the Group's BRK carbon monoxide ("CO") alarms – may have to be relocated later this year or early next year to make way for a proposed new railway line which the Chinese government has indicated may run through the site of the current facility. Sprue understands that Jarden is seeking clarification of the potential impact and timing of the proposed new railway line on CICAM.

Sprue further understands that Jarden is in the process of identifying appropriate alternative manufacturing facilities close to the current CICAM facility and developing plans to migrate production from CICAM's current facility. Sprue will work closely with Jarden to take the appropriate steps to build up buffer stocks prior to the potential relocation of the smoke and CO production / assembly lines. Having worked previously with CICAM to move the facility about five years ago, Sprue understands what is required and is now engaging with the appropriate certification bodies to ensure that the facility can be certified by the relevant approval authorities in a timely manner.

Whilst all possible steps will be taken to ensure that Sprue's 2015 and 2016 sales are not disrupted, there is a residual risk that the relocation of CICAM's activities could potentially disrupt Sprue's business. To mitigate any potential disruption, Sprue continues to work closely with Jarden and Sprue's own full time manufacturing specialist who is based in China to help project manage the transition to the new facility. The supply of Sprue's own CO alarms from its other supplier, Pace Technology Limited is unaffected.

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.

	2014	2013
	£000	£000
Remuneration of Directors		
Aggregate emoluments	**1,416**	1,009
Company pension contributions	**43**	39
Sums paid to for Non-Executive Directors' services	**37**	34
Share-based payment	**107**	15
Total remuneration	**1,603**	1,097

The remuneration in respect of the highest paid Director was:

	2014	2013
	£000	£000
Emoluments	**285**	247
Defined pension contributions	**15**	6
	300	253

On the 6 January 2014, John Gahan exercised all of his 300,000 share options awarded 30 June 2010 at an option price of 35.00p per share. At the date of exercise the share price was 130.00p per share and the gain on these share options amounted to £0.3m.

On 29 April 2014, Graham Whitworth exercised the following share options: 285,000 awarded 7 May 2008 at an option price of 19.25p per share and 75,000 awarded 30 June 2010 at an option price of 35.00p per share. At the date of exercise the share price was 202.00p per share and the gain on these share options amounted to £0.6m.

On 29 April 2014, Nick Rutter exercised the following share options: 435,000 awarded 7 May 2008 at an option price of 19.25p per share and 75,000 awarded 30 June 2010 at an option price of 35.00p per share. At the date of exercise the share price was 202.00p per share and the gain on these share options amounted to £0.9m.

During the year three Executive Directors were granted a total of 375,000 share options under the equity-settled share option plan. These options had an exercise price of 200.00 pence per share and had an expected life of ten years. The share options vest evenly over a period of three years and the charge is taken to the income statement as the share-based payment charge. The element of the share-based payment charge relating to the Directors is £0.1m.

Emoluments amounting to £12,000 (2013: £12,000) have been waived by one Director (2013: 1 Director).

William Payne, a Non-Executive Director of the Company, is a partner of Wilkins Kennedy, Chartered Accountants, which is the firm that provides his services. During the period Wilkins Kennedy were paid £12,000 (2013: £12,000) for the provision of William Payne's services as a Non-Executive Director and £33,000 (2013: £34,000) for accounting and management services. At the year end the Company owed Wilkins Kennedy £7,000 (2013: £nil).

Reconciliation of consolidated income statement from UK GAAP to IFRS
for the year ended 31 December 2013

	Notes	Year ended 31 December 2013 UK GAAP £000	Effect of transition to IFRS £000	Year ended 31 December 2013 IFRS £000
Revenue		48,357	-	48,357
Cost of sales	(d)	(34,512)	192	(34,320)
Gross profit		13,845	192	14,037
Distribution costs		(602)	1	(601)
Administrative expenses excluding share-based payments charge and exceptional items	(a)	(7,963)	19	(7,944)
Share-based payments charge		(15)	-	(15)
Exceptional items*		(398)	-	(398)
Total administrative expenses		(8,376)	19	(8,357)
Total fixed costs		(8,978)	20	(8,958)
Profit from operations		4,867	212	5,079
Finance income		5	-	5
Profit before tax		4,872	212	5,084
Income tax	(e)	(633)	(313)	(946)
Profit attributable to equity owners of the parent		4,239	(101)	4,138
Earnings per share				
From continuing operations:				
Basic		10.9	(0.3)	10.6
Diluted		10.2	-	10.2

All amounts stated relate to continuing activities.

*Exceptional items include hostile bid defence costs of £398,000 in 2013.

Reconciliation of consolidated statement of comprehensive income
for the year ended 31 December 2013

	Year ended 31 December 2013 UK GAAP £000	Effect of transition to IFRS £000	Year ended 31 December 2013 IFRS £000
Profit for the year	4,239	(101)	4,138
Items that may be reclassified subsequently to profit and loss:			
Exchange differences on translation of foreign operations (net of tax)	(26)	(12)	(38)
Other comprehensive expense for the year	(26)	(12)	(38)
Total comprehensive income for the year	4,213	(113)	4,100

Reconciliation of statement of consolidated financial position from UK GAAP to IFRS

As at 31 December 2013

	Notes	As at 31 December 2013 UK GAAP £000	Effect of transition to IFRS £000	As at 31 December 2013 IFRS £000
Non-current assets				
Goodwill	(a)	112	57	169
Other intangible assets		2,937	91	3,028
Plant and equipment	(b)	527	(91)	436
Deferred tax assets	(e)	-	292	292
		3,576	349	3,925
Current assets				
Inventories		7,670	1	7,671
Trade and other receivables		10,328	-	10,328
Current tax assets		65	-	65
Derivative financial assets	(d)	-	307	307
Cash and cash equivalents		5,227	-	5,227
		23,290	308	23,598
Total assets		26,866	657	27,523
Current liabilities				
Trade and other payables		(10,860)	-	(10,860)
Derivative financial liabilities	(d)	-	(95)	(95)
		(10,860)	(95)	(10,955)
Net current assets		12,430	213	12,643
Non-current liabilities				
Deferred tax liabilities	(e)	(693)	(43)	(736)
Provisions		(734)	-	(734)
		(1,427)	(43)	(1,470)
Total liabilities		(12,287)	(138)	(12,425)
Net assets		14,579	519	15,098
Equity				
Share capital		801	-	801
Share premium		4,123	-	4,123
Foreign exchange reserve		(48)	-	(48)
Retained earnings	(e)	9,703	519	10,222
Total equity attributable to the owners of the parent		14,579	519	15,098

Reconciliation of statement of Company financial position from UK GAAP to IFRS

As at 31 December 2013

	Notes	As at 31 December 2013 UK GAAP £000	Effect of transition to IFRS £000	As at 31 December 2013 IFRS £000
Non-current assets				
Shares in subsidiaries	(c)	905	(756)	149
		905	(756)	149
Current assets				
Trade and other receivables;				
Corporation tax		127	-	127
Group debtors	(c)	9,381	756	10,137
Cash and cash equivalents		195	-	195
		9,703	756	10,459
Total assets		10,608	-	10,608
Net assets		10,608	-	10,608
Equity				
Share capital		801	-	801
Share premium		4,123	-	4,123
Retained earnings		5,684	-	5,684
Total equity attributable to the owners of the parent		10,608	-	10,608

Reconciliation of consolidated cash flow statement from UK GAAP to IFRS
for the year ended 31 December 2013

	Year ended 31 December 2013 UK GAAP £000	Effect of transition to IFRS £000	Year ended 31 December 2013 IFRS £000
Profit before tax	5,083	-	5,083
Finance income	(5)	-	(5)
Operating profit for the year	5,078	-	5,078
Adjustments for:			
Depreciation of property, plant and equipment	80	-	80
Amortisation of intangible assets	223	-	223
Change in fair value of derivatives	(193)	-	(193)
Share-based payments charge	15	-	15
Operating cash flows before movements in working capital	5,203	-	5,203
Movement in inventories	(2,267)	-	(2,267)
Movement in receivables	(746)	-	(746)
Movement in warranty provision	209	-	209
Movement in payables	(153)	-	(153)
Cash generated by operations	2,246	-	2,246
Income taxes paid	(652)	-	(652)
Net cash generated from operating activities	1,594	-	1,594
Investing activities			
Purchase of intangible assets	(988)	(28)	(1,016)
Purchase of property, plant and equipment	(366)	28	(338)
Interest received	5	-	5
Net cash used on investing activities	(1,349)	-	(1,349)
Financing activities			
Proceeds from issue of ordinary shares	331	-	331
Dividends paid	(1,573)	-	(1,573)
Net cash used in financing activities	(1,242)	-	(1,242)
Net decrease in cash and cash equivalents	(997)		(997)
Cash and cash equivalents at beginning of year	6,226	-	6,226
Non-cash movement	(2)	-	(2)
Cash and cash equivalents at end of year	5,227	-	5,227

Notes to the financial statements

IFRS transition disclosures

The following were the more significant adjustments in the transition from UK GAAP to IFRS for 2013:

(a) Goodwill and other intangible assets

Under UK GAAP, goodwill was amortised on a straight-line basis over its useful life of 20 years.

Additionally, certain intangible assets subsumed in goodwill under UK GAAP are recognised separately under IFRS. The company has elected not to apply IFRS 3 'Business Combinations' retrospectively to business combinations that arose before 1 January 2011 (the date of transition to IFRS). Goodwill arising on business combinations before the date of transition to IFRS has therefore been recognised at its net book value as previously reported under UK GAAP at the date of transition and has not been restated for any separable intangible assets, other than those that would fall to be recognised in separate entity financial statements.

IFRS does not permit amortisation of goodwill and requires goodwill to be reviewed at least annually for impairment. Goodwill was tested for impairment at 1 January 2011.

The following adjustments were made to goodwill:

- reversal of goodwill amortisation of £19,000 in respect of the year ended 31 December 2013 reducing administrative expenses;
- the add back of amortisation brought forward of £57,000 at the date of transition at 1 January 2011 relating to the acquisition of Pace Sensors limited. The corresponding adjustment has been recognised against retained earnings;

(b) Plant and equipment

Under UK GAAP, computer software was included within property, plant and equipment held under non-current assets.

Under IFRS, computer software is considered to be an intangible asset, unless it is an integral part of the related hardware. The period over which the computer software is amortised is not affected.

Accordingly, a net reclassification of £91,000 as at 31 December 2013 has been made between intangible assets and property, plant and equipment. There is no impact on the income statement as a result of this reclassification.

(c) Shares in Group undertakings

Under UK GAAP, loans in participating interests were included within Shares in Group undertakings held under non-current assets in the Statement of Company financial position.

Under IFRS, the loans of £756,000 were reclassified under 'Group debtors' held within current assets. There is no impact on the income statement as a result of this reclassification.

(d) Financial instruments

Under IAS 39, the Group is required to recognise foreign exchange contracts at their fair value. These have been recognised on the balance sheet as either financial assets or financial liabilities.

The following adjustments were made to financial instruments:

- a derivative financial asset under current assets for the amount of £307,000;
- a derivative financial liability under current liabilities for the amount of £95,000;
- the gain arising on the financial instruments reported within cost of sales in the Income Statement for £212,000
- the reversal of £19,000 in the income statement under cost of sales relating to the previous year's gain on the same principle as above

(e) Deferred tax

Under UK GAAP, deferred tax is recognised on timing differences that had originated but not reversed at the reporting date where, at that date, there was an obligation or requirement to pay more or less tax in the future.

IAS 12 'Income Taxes' requires deferred tax to be recognised in respect of taxable temporary differences being the difference between the tax bases of assets and liabilities and their carrying amounts. The additional deferred tax liabilities recognised on transition to IFRS are:

- £43,000 in respect to the gain on the financial instruments of £212,000 recognised in the taxation charge within the Income Statement. The corresponding adjustment is recognised in the deferred tax liabilities within the Statement of Financial Position

Under IAS 12, an entity receives a tax deduction (i.e. an amount that is deductible in determining taxable profit) that relates to remuneration paid in shares, share options or other equity instruments of the entity. The amount of that tax deduction may differ from the related cumulative remuneration expense, and may arise in a later accounting period. For example, in some jurisdictions, an entity may recognise an expense for the consumption of employee services received as consideration for share options granted, in accordance with IFRS 2 Share-based Payment, and not receive a tax deduction until the share options are exercised, with the measurement of the tax deduction based on the entity's share price at the date of exercise.

The difference between the tax base of the employee services received to date (being the amount the taxation authorities will permit as a deduction in future periods), and the carrying amount of nil, is a deductible temporary difference that results in a deferred tax asset. If the amount the taxation authorities will permit as a deduction in future periods is not known at the end of the period, it shall be estimated, based on information available at the end of the period. For example, if the amount that the taxation authorities will permit as a deduction in future periods is dependent upon the entity's share price at a future date, the measurement of the deductible temporary difference should be based on the entity's share price at the end of the period.

The amount of the tax deduction (or estimated future tax deduction may differ from the related cumulative remuneration expense. The standard requires that current and deferred tax should be recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from (a) a transaction or event that is recognised, in the same or a different period, outside profit or loss, or (b) a business combination. If the amount of the tax deduction (or estimated future tax deduction) exceeds the amount of the related cumulative remuneration expense, this indicates that the tax deduction relates not only to remuneration expense but also to an equity item.

In this situation, the excess of the associated current or deferred tax should be recognised directly in equity.

Following the principles above, a deferred tax asset is created based on the share options existing at the end of the period date. The following adjustment have been made upon recognition of transition to IFRS:

- Deferred tax asset of £292,000 created within Non-current assets relating to the share options;
- Current tax credit on share-based payment charge of £275,000 taken to equity under retained earnings. The corresponding adjustment has been recognised in the taxation charge within the Income Statement;
- Deferred tax credit on share-based payment charge of £73,000 taken to equity under retained earnings;
- Deferred tax asset brought forward of £171,000 recognised in retained earnings in equity

Board of Directors

Executive

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

Non-Executive

W Payne — *Senior Independent Director*
P Lawrence
A Silverton
T Russo
J Shepherd

Corporate Directory

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