

SPRUE AEGIS PLC
REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER 2005

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The Company's Incorporation No. is: 3991353

SPRUE AEGIS PLC**CHAIRMAN'S STATEMENT****FOR THE YEAR ENDED 31ST DECEMBER 2005**

Overall the results were broadly consistent with our targets for 2005, registering much reduced operating losses thanks to a combination of strict cost control and DuPont's contribution to offset US technical and marketing support. However, we were not immune to the challenging trading conditions on the UK high street and a re-branding exercise for DuPont during the first half of the year eroded our operating margins. Margins have returned to previous years' levels during the second half.

BUSINESS OVERVIEW

Sprue Aegis achieved a great deal in 2005, providing the technical support required by DuPont in preparation for US market readiness and refocusing our sales and marketing resources towards the UK retail sector. The latter resulted in a number of new and expanded UK retail account wins throughout the year and culminated, most recently, in an exclusive deal with Tesco to provide selected FireAngel products for its 2006 range.

In addition, we placed renewed focus on product innovation, which is key to our ability to develop a broader range of highly-differentiated and exciting new products, which the domestic safety products market clearly needs. We continue to emphasise optimisation of time-to-market for new products with innovative new products due for release later this year on both sides of the Atlantic.

The slowdown previously experienced in the social housing and fire services sector was in part addressed by our selection as an approved supplier of domestic smoke alarms to the Fire and Rescue Services under the "FiReBuy" national procurement scheme, with additional plans put in place to address further this key sector going forward.

FUNDING

Last December, Sprue Aegis received GBP 425,000 of additional funding via a secured loan note; this represented more cost effective finance for the Company than an issue of new equity. The loan notes mature in 2010 and are secured by a debenture over the assets of the company.

The additional funds, combined with other measures being put in place, will provide the Company with working capital to fund the growth and expand the business going forward.

SPRUE AEGIS PLC**CHAIRMAN'S STATEMENT (CONTINUED)****FOR THE YEAR ENDED 31ST DECEMBER 2005****PROSPECTS**

Sprue Aegis' business now is more robust and management is confident and excited by the Company's potential. The results reflect a challenging year and we recognise that our shareholders have been both patient and supportive whilst this re-focusing process has occurred.

Whilst resource constraints are a constant challenge for small businesses, we expect our volumes and product range to increase substantially as we gain increased traction, and together with other strategic initiatives we see the potential for significant improvement in the Company's operational and financial performance.

We continue to focus heavily in product development, which is critical to the Company retaining its competitive advantage. Our US strategy is now clearly defined, we are capitalising on our strong UK retail connections, and initiatives are underway to accelerate our penetration of the social housing and fire services markets. Hence, the Board remains confident that excellent opportunities exist to reward our industrious staff and loyal shareholders.

Graham RA Whitworth
Chairman & CEO
Sprue Aegis plc

5th October 2006

SPRUE AEGIS PLC**DIRECTORS' REPORT****FOR THE YEAR ENDED 31ST DECEMBER 2005**

The directors present their annual report on the affairs of the group and company, together with the consolidated financial statements and auditors' report for the year ended 31st December 2005.

Principal activity

The group's principal activity is the development and distribution of fire and related safety products.

Results and dividends

The group loss for the period after taxation credits was £192,061. The directors do not recommend the payment of a dividend. The costs of research and development are separately disclosed in the profit and loss account.

Review of the business and future developments

The profit and loss account for the period is set out on page 7. A review of the business and expected future developments are set out in the Chairman's review on pages 1-2.

Directors and their interests

The directors who have held office during the year and their beneficial interests in the company's issued ordinary share capital at the beginning of the year, or appointment date if later, and at the end of the year were as follows:

	31st December 2005	31st December 2004
Executive		
N A Rutter	3,184,250	3,184,250
G R A Whitworth	3,666,700	3,666,700
W J B Payne	189,167	189,167
J Walsh (appointed 13 December 2005)	-	-
Non executive		
S P Tate	3,184,250	3,184,250
P J L Lawrence	946,750	946,750

The following directors had an interest in the following share options:

S P Tate	1,299,718 ordinary 2p shares, exercisable by 31st March 2008 at 34p per share
N A Rutter	1,299,718 ordinary 2p shares, exercisable by 31st March 2008 at 34p per share
G R A Whitworth	519,888 ordinary 2p shares, exercisable by 31st March 2008 at 34p per share
J Walsh	220,956 ordinary 2p shares, exercisable by 13th June 2009 at 25p per share

Qualifying third party indemnity provision for the directors and officers of the company was in force during the year.

SPRUE AEGIS PLC**DIRECTORS' REPORT (CONTINUED)****FOR THE YEAR ENDED 31ST DECEMBER 2005****Substantial shareholdings**

At 7th September 2006 the following shareholders, in addition to the directors noted above, had notified an interest of 3% or more in the company's ordinary shares:

	Shares	%
Forest Nominees Limited	2,676,061	9.46%
P F Barbour	1,470,590	5.20%
Chase Nominees Limited	1,400,000	4.95%
C Collins	946,750	3.35%
R Kriger	946,750	3.35%
L R Nominees Limited	1,162,701	4.11%

The directors have not been notified of any other interests in holdings of 3% or more of the ordinary shares in issue.

Corporate governance

The board continues to give careful consideration to the principles of corporate governance as set out in the Combined Code. However, the company is small and it is the opinion of the Directors that not all the provisions of the Combined Report are relevant or desirable for a company of Sprue Aegis plc's size. The board meets regularly and has the ultimate responsibility for the management of the company. The board now includes two non-executive directors, S P Tate and P J L Lawrence. The directors believe that this is an appropriate balance of non-executive and executive directors at this stage of the company's development.

Post balance sheet events

In March 2006 the company issued 66,667 shares to John Walsh, a director of the company and at the same time completed a private placing of 366,666 shares. In total 433,333 shares were issued raising £65,000 gross to provide additional working capital.

On 29th September 2006 the company raised £1 million gross through the issue of convertible unsecured loan stock.

SPRUE AEGIS PLC**DIRECTORS' REPORT (CONTINUED)****FOR THE YEAR ENDED 31ST DECEMBER 2005****Directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Payment of creditors

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.

At 31st December 2005, the level of trade creditors, based upon the ratio of the period end trade creditor balance and the total amounts invoiced by suppliers during the period, as prescribed by Statutory Instrument Number 1997/571, is calculated to be 93 days (2004 89 days).

Auditors

The directors will place a resolution before the Annual General Meeting to reappoint Baker Tilly as auditors for the ensuing year.

BY ORDER OF THE BOARD

W J B Payne
Secretary

Bridge House
London Bridge
London SE1 9QR

5th October 2006

SPRUE AEGIS PLC

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

We have audited the financial statements on pages 7 to 24.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Report and Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs at 31 December 2005 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BAKER TILLY
Registered Auditor
Chartered Accountants
City Plaza
Temple Row
Birmingham B2 5AF

5th October 2006

SPRUE AEGIS PLC**CONSOLIDATED PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 31ST DECEMBER 2005**

	<u>Note</u>	<u>2005</u>	<u>2004</u>
		£	£
Turnover	(2)	2,208,992	1,567,437
Cost of sales		<u>(1,137,339)</u>	<u>(917,148)</u>
Gross profit		1,071,653	650,289
Distribution costs		(43,058)	(41,833)
Research and development		(280,230)	(218,492)
Administrative expenses		(918,318)	(1,230,074)
Goodwill amortisation		<u>(17,292)</u>	<u>(17,292)</u>
Operating loss		(187,245)	(857,402)
Interest receivable and similar income	(3)	4,697	14,017
Interest payable and similar charges	(4)	(52,736)	(52,469)
Loss on ordinary activities before taxation	(6)	(235,284)	(895,854)
Tax on loss on ordinary activities	(7)	43,223	61,221
Loss for the year	(18)	<u>(192,061)</u>	<u>(834,633)</u>
Loss per share			
Basic and diluted	(8)	<u>0.0069</u>	<u>0.0309</u>

Continuing operations

None of the group's activities were acquired or discontinued during the above two financial years.

Total recognised gains and losses

The group has no recognised gains or losses other than the loss for the above years.

The accompanying notes form an integral part of these financial statements.

SPRUE AEGIS PLCCONSOLIDATED BALANCE SHEET31ST DECEMBER 2005

	<u>Note</u>	Group 2005	Group <u>2004</u>
		£	£
<u>Fixed assets</u>			
Intangible assets	(9)	76,725	94,017
Tangible assets	(10)	18,773	11,176
		<u>95,498</u>	<u>105,193</u>
<u>Current assets</u>			
Stocks	(12)	406,109	689,318
Debtors	(13)	593,874	448,162
Cash at bank and in hand		460,232	195,675
		<u>1,460,215</u>	<u>1,333,155</u>
Creditors: amounts falling due within one year	(14)	(552,747)	(668,321)
		<u>907,468</u>	<u>664,834</u>
Total assets less current liabilities		1,002,966	770,027
Creditors: amounts falling due after more than one year	(15)	(925,000)	(500,000)
		<u>77,966</u>	<u>270,027</u>
Net assets		77,966	270,027
<u>Capital and reserves</u>			
Called up share capital	(16)	557,175	557,175
Share premium account	(17)	2,228,163	2,228,163
Accumulated deficit	(18)	(2,707,372)	(2,515,311)
		<u>77,966</u>	<u>270,027</u>
Equity shareholders' funds	(19)	77,966	270,027

The financial statements were approved for issue by the board on 5th October 2006

G R A Whitworth

W J B Payne

The accompanying notes form an integral part of these financial statements.

SPRUE AEGIS PLC**BALANCE SHEET****31ST DECEMBER 2005**

	<u>Note</u>	Company <u>2005</u> £	Company <u>2004</u> £
<u>Fixed assets</u>			
Investments	(11)	149,256	149,256
<u>Current assets</u>			
Debtors -due within one year	(13)	159,323	2,108,765
-due after one year	(13)	1,711,209	-
Cash at bank and in hand		449,762	183,220
		2,320,294	2,291,985
Creditors: amounts falling due within one year	(14)	(271,704)	(216,470)
Net current assets		2,048,590	2,075,515
Total assets less current liabilities		2,197,846	2,224,771
Creditors: amounts falling due after more than one year	(15)	(925,000)	(500,000)
Net assets		1,272,846	1,724,771
<u>Capital and reserves</u>			
Called up share capital	(16)	557,175	557,175
Share premium account	(17)	2,228,163	2,228,163
Accumulated deficit	(18)	(1,512,492)	(1,060,567)
Equity shareholders' funds	(19)	1,272,846	1,724,771

The financial statements were approved for issue by the board on 5th October 2006

G R A Whitworth

W J B Payne

SPRUE AEGIS PLC**CONSOLIDATED CASH FLOW STATEMENT****FOR THE YEAR ENDED 31ST DECEMBER 2005**

	<u>Note</u>	<u>2005</u>	<u>2004</u>
		£	£
Net cash outflow from operating activities	(20a)	(97,344)	(1,278,169)
Returns on investment and servicing of finance	(20b)	(48,039)	(38,452)
Taxation	(20b)	-	123,669
Capital expenditure and financial investment	(20b)	(15,060)	(940)
		<hr/>	<hr/>
Cash outflow before use of liquid resources and financing		(160,443)	(1,193,892)
Management of liquid resources	(20b)	(300,195)	123,014
Financing	(20b)	425,000	1,006,405
		<hr/>	<hr/>
Decrease in cash during the year		(35,638)	(64,473)
		<hr/>	<hr/>
Reconciliation of net cash flow to movement in net funds			
Decrease in cash during the year		(35,638)	(64,473)
Cash used to increase/(released from) liquid resources		300,195	(123,014)
Cash inflow from increase in debt		(425,000)	-
		<hr/>	<hr/>
Movement in net funds in the year		(160,443)	(187,487)
Net debt at beginning of year		(304,325)	(116,838)
		<hr/>	<hr/>
Net debt at end of year	(20c)	(464,768)	(304,325)
		<hr/>	<hr/>

The accompanying notes form an integral part of these financial statements.

SPRUE AEGIS PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2005****1. Accounting policies**

A summary of the principal accounting policies, all of which have been applied consistently throughout the period is set out below.

a) Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards and on a going concern basis. The group loss for the year amounted to £192,061 and at the year end group net assets amounted to £77,966. However as disclosed in note 25 the company has concluded raising £1million of convertible unsecured loan stock which in the opinion of the directors will enable the company to meet its obligations as and when they fall due.

b) Basis of consolidation

The group financial statements consolidate the financial statements of Sprue Aegis plc and its subsidiary undertakings drawn up to 31st December 2005. The results of subsidiaries acquired are consolidated for the period from the date on which control passed.

c) Intangible fixed assets

Goodwill arising on the acquisition of subsidiary undertakings, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which the directors have estimated is 10 years. Provision is made for any impairment.

d) Tangible fixed assets

Fixed assets are stated at original historical cost less aggregate depreciation.

Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a reducing balance basis over its estimated useful life as follows:-

Fixtures and fittings	25% per annum
Office equipment	33% per annum

e) Investments

Fixed asset investments are shown at cost less provision for impairment.

f) Stocks

Stocks are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price. Provision is made for obsolete, slow moving or defective items where appropriate.

SPRUE AEGIS PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2005****1. Accounting policies (continued)****g) Taxation**

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and laws. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded that they will be recovered. Deferred tax assets and liabilities are not discounted.

h) Foreign currency translation

Trading transactions denominated in foreign currencies are recorded in sterling at the actual exchange rate as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the period end are reported at the rates of exchange prevailing at the period end. Any gain or loss arising from a change in exchange rates is included as an exchange difference on conversion or translation in the profit and loss account.

The accounts of foreign subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. Exchange differences arising from the translation of the opening net investment in subsidiaries are taken directly to reserves.

i) Liquid resources

Liquid resources include bank deposits where more than 24 hours notice for withdrawal is required.

j) Revenue recognition

Turnover comprises the value of sales net of trade discounts (excluding VAT) of goods supplied in the normal course of business. Revenue is recognised when control of the goods has passed to the buyer.

k) Grants

Grants of a revenue nature are credited to income in the period to which they relate.

l) Development expenditure

All development expenditure is charged directly to the profit and loss account in the period in which it is incurred.

m) Leased assets

Fixed assets acquired under finance leases and hire purchase contracts are stated at their fair value at the date of acquisition, with an equivalent liability categorised as appropriate under creditors due within or after one year. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of return on the outstanding balance.

Rentals applicable to operating leases are recognised in the profit and loss account as incurred.

SPRUE AEGIS PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2005****2. Turnover and loss on ordinary activities before taxation**

The group's turnover and loss before taxation were all derived from its principal activity. Disclosure of turnover, results and net operating assets by geographical location is given in note 21.

3. Interest receivable and similar income

	<u>2005</u>	<u>2004</u>
	£	£
Bank deposit interest	4,697	14,017

4. Interest payable and similar charges

	<u>2005</u>	<u>2004</u>
	£	£
Bank overdraft interest	23	210
Interest on other loans	50,672	49,095
Hire purchase interest	-	1,526
Other interest	2,041	1,638
	<u>52,736</u>	<u>52,469</u>

5. Employees

Average number of people (including directors) employed by the group during the year:

	<u>2005</u>	<u>2004</u>
	Number	Number
Sales and marketing	6	7
Technology	5	4
Administration	4	4
	<u>15</u>	<u>15</u>

Costs in respect of these employees:

	£	£
Wages and salaries	528,602	542,734
Social security costs	51,711	53,942
	<u>580,313</u>	<u>596,676</u>

Directors' emoluments in respect of the directors of Sprue Aegis plc

	£	£
Aggregate emoluments	222,635	220,157
The emoluments of the highest paid director	<u>66,015</u>	<u>67,572</u>

SPRUE AEGIS PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2005**

6. <u>Loss on ordinary activities before taxation</u>	<u>2005</u>	<u>2004</u>
Loss on ordinary activities before taxation is stated after charging:	£	£
Amortisation of goodwill	17,292	17,292
Depreciation of tangible fixed assets	7,463	5,195
Auditor's remuneration - audit services	13,490	19,019
Foreign exchange (gains)/losses	(18,267)	11,933
Operating lease rentals - land and buildings	24,888	23,867
- other	12,920	8,464
	<hr/>	<hr/>
7. <u>Taxation</u>	<u>2005</u>	<u>2004</u>
Analysis of credit in year	£	£
Current tax:		
Tax credit recoverable on research and development expenditure in the current year	43,223	48,754
Adjustment in respect of previous year	-	12,467
	<hr/>	<hr/>
Tax on loss on ordinary activities	<u>43,223</u>	<u>61,221</u>

No liability to corporation tax will arise on the results for the year ended 31st December 2005. At the year end there were corporation tax losses of approximately £1,500,000 (2004 £1,800,000) available for set off against future assessable profits. The deferred tax asset associated with the available tax losses will not be recognised until future taxable profits become more likely than not.

The adjustment in respect of previous year in 2004 represents the difference between research and development tax credit booked in the accounts as recoverable and the amount actually recovered.

SPRUE AEGIS PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2005****7. Taxation (continued)****Factors affecting tax credit for year**

The differences between the tax assessed for the year and the standard rate of corporation tax are explained as follows:

	<u>2005</u>	<u>2004</u>
	£	£
Loss on ordinary activities before taxation	235,284	895,854
	<hr/>	<hr/>
Standard rate of corporation tax in the UK	19%	19%
	£	£
Loss on ordinary activities multiplied by the standard rate of corporation tax	44,704	170,212
Effects of:		
Expenses not deductible for tax purposes	(4,139)	(806)
Depreciation for year in excess of capital allowances	(1,308)	(912)
Additional deduction under FA 2000 for research and development	9,005	10,156
Utilisation of tax losses brought forward	13,677	-
Tax losses carried forward	(18,716)	(129,896)
Profits taxable within the zero rate band of corporation tax	-	-
Adjustments to tax charge in respect of previous years		12,467
	<hr/>	<hr/>
Current tax credit for year	43,223	61,221
	<hr/>	<hr/>
8. <u>Loss per share</u>	<u>2005</u>	<u>2004</u>
	£	£
Loss attributable to shareholders being loss after taxation	192,061	834,633
	<hr/>	<hr/>
Weighted average number of shares in issue for basic calculation	27,858,730	27,051,553
Deemed issue of potentially dilutive shares	-	-
	<hr/>	<hr/>
Weighted average number of shares in issue for diluted calculation	27,858,730	27,051,553
	<hr/>	<hr/>
Loss per share		
-basic and diluted	0.0069	0.0309
	<hr/>	<hr/>

The effect of the share options in issue at the year end is anti-dilutive and there is therefore no adjustment to the earnings per share for the year ended 31st December 2005 or the year ended 31st December 2004.

SPRUE AEGIS PLCNOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2005

9. <u>Intangible fixed assets</u>	Group <u>2005</u>		
Goodwill	£		
Cost			
1 January 2005 and 31 December 2005	172,922		
	<hr/>		
Amortisation			
1 January 2005	78,905		
Charge for the period	17,292		
	<hr/>		
31 December 2005	96,197		
	<hr/>		
Net book value			
31 December 2005	76,725		
	<hr/>		
1 January 2005	94,017		
	<hr/>		
10. <u>Tangible fixed assets</u>	<u>Fixtures & fitting</u>	<u>Office equipment</u>	<u>Total</u>
Group	£	£	£
Cost			
1 January 2005	4,559	37,387	41,946
Additions	11,407	3,653	15,060
	<hr/>	<hr/>	<hr/>
31 December 2005	15,966	41,040	57,006
	<hr/>	<hr/>	<hr/>
Depreciation			
1 January 2005	2,995	27,775	30,770
Charge for year	3,243	4,220	7,463
	<hr/>	<hr/>	<hr/>
31 December 2005	6,238	31,995	38,233
	<hr/>	<hr/>	<hr/>
Net book value			
31 December 2005	9,728	9,045	18,773
	<hr/>	<hr/>	<hr/>
1 January 2005	1,564	9,612	11,176
	<hr/>	<hr/>	<hr/>

SPRUE AEGIS PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2005**

11. <u>Fixed asset investments</u>	Company	Company
	<u>2005</u>	<u>2004</u>
Fixed asset investments comprise the following:	£	£
Subsidiary undertakings at cost	149,256	149,256
	<hr/>	<hr/>

The fixed asset investments represents the following:

Name	Place of registration	Description	Proportion of nominal value of issued shares and voting rights held
FireAngel Limited	England and Wales	110 £1 ordinary shares	100%
AngelEye Corporation	Canada	100 Can\$1 ordinary shares	100%
AngelEye Inc	U.S.A	100 US\$1 ordinary shares	100%

Subsidiary undertakings:

The results of all subsidiary undertakings are included in the consolidated accounts. The principal activity of all three subsidiaries is the development and distribution of fire and related safety products.

12. <u>Stocks</u>	Group	Company	Group	Company
	<u>2005</u>	<u>2005</u>	<u>2004</u>	<u>2004</u>
	£	£	£	£
Goods for resale	406,109	-	689,318	-
	<hr/>	<hr/>	<hr/>	<hr/>

SPRUE AEGIS PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2005**

13. Debtors	Group 2005	Company 2005	Group 2004	Company 2004
	£	£	£	£
Amounts falling due within one year:				
Trade debtors	396,683	-	341,954	-
Amounts owed by group undertaking	-	-	-	2,016,957
Other debtors	12,020	8,169	11	4,586
Corporation tax	91,977	91,977	48,754	48,754
Prepayments and accrued income	93,194	59,177	57,443	38,468
	593,874	159,323	448,162	2,108,765
Amounts falling due after more than one year:				
Amounts owed by group undertaking	-	1,711,209	-	-
	-	1,711,209	-	-
14. Creditors: amounts falling due within one year	Group 2005	Company 2005	Group 2004	Company 2004
	£	£	£	£
Trade creditors	217,500	-	339,355	-
Amounts owed to group undertaking	-	27,813	-	-
Other taxation and social security	111,184	76,860	116,700	105,879
Other creditors	97,397	57,523	107,500	27,532
Accruals and deferred income	126,666	109,508	104,766	83,059
	552,747	271,704	668,321	216,470
15. Creditors: amounts falling due after more than one year	Group 2005	Company 2005	Group 2004	Company 2004
	£	£	£	£
Loan note repayable between two and five years other than by instalments	425,000	425,000	-	-
Other loan repayable after more than five years other than by instalments	500,000	500,000	500,000	500,000
	925,000	925,000	500,000	500,000

SPRUE AEGIS PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2005****15. Creditors: amounts falling due after more than one year (continued)**

The above loan of £500,000 is secured on the company and groups' intellectual property rights. It bears interest at 9% and is repayable in full on, or at the company's discretion prior to, 20th January 2013. The above loan note of £425,000 is secured by a debenture over all assets owned by the company and group that ranks second only to the existing charge over the intellectual property noted above. It bears interest at 8% and is repayable in full on, or at the company's discretion prior to, 16th December 2010.

16. <u>Called-up share capital</u>	Group and company <u>2005</u>	Group and company <u>2004</u>
	£	£
Authorised		
100,000,000 (2004 100,000,000) Ordinary shares of 2p each	2,000,000	2,000,000
	<hr/>	<hr/>
Allotted, called up and fully paid		
27,858,730 (2004 27,858,730) Ordinary shares of 2p each	557,175	557,175
	<hr/>	<hr/>
Share options		
Directors * 3,340,280 shares average 33p exercisable by March 2008 - June 2009		
Employees 130,000 shares average 25p exercisable by December 2008 - December 2011		
Other 4,587,000 shares average 16p exercisable by September 2005 - January 2013		
	<hr/>	
	8,057,280	
	<hr/>	

* Full details of directors' share options are given in the Directors' Report

17. <u>Share premium account</u>	Group and company <u>2005</u>	Group and company <u>2004</u>
	£	£
At beginning of year	2,228,163	1,299,289
Premium on issue of shares	-	949,735
Less costs associated with issue	-	(20,861)
	<hr/>	<hr/>
At end of year	2,228,163	2,228,163
	<hr/>	<hr/>

SPRUE AEGIS PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2005**

18. <u>Profit and loss account</u>	Group <u>2005</u>	Company <u>2005</u>	Group <u>2004</u>	Company <u>2004</u>
	£	£	£	£
At beginning of year	(2,515,311)	(1,060,567)	(1,680,678)	(518,110)
Retained loss for year	(192,061)	(451,925)	(834,633)	(542,457)
At end of year	(2,707,372)	(1,512,492)	(2,515,311)	(1,060,567)

The loss for the financial period dealt with in the company was £451,925 (2004 £542,457). As allowed under Section 230 of the Companies Act 1985, a separate profit and loss account has not been presented for the company.

19. <u>Reconciliation of movements on shareholders' funds</u>	Group <u>2005</u>	Company <u>2005</u>	Group <u>2004</u>	Company <u>2004</u>
	£	£	£	£
At beginning of year	270,027	1,724,771	93,523	1,256,091
Retained loss for year	(192,061)	(451,925)	(834,633)	(542,457)
Share capital subscribed	-	-	82,263	82,263
Share premium received	-	-	949,735	949,735
Costs associated with share issue	-	-	(20,861)	(20,861)
At end of year	77,966	1,272,846	270,027	1,724,771

20. <u>Cash flow statement</u>	Group <u>2005</u>	Group <u>2004</u>
	£	£
a) <u>Reconciliation of operating loss to operating cash flows</u>		
Operating loss	(187,245)	(857,402)
Amortisation of goodwill	17,292	17,292
Depreciation charges	7,463	5,195
(Increase)/decrease in debtors	(102,489)	222,463
Decrease/(increase) in stock	283,209	(473,123)
Decrease in creditors	(115,574)	(192,594)
Net cash outflow from operating activities	(97,344)	(1,278,169)

SPRUE AEGIS PLCNOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2005

20. <u>Cash flow statement (continued)</u>	Group 2005	Group 2004	
b) Analysis of cash flows for headings netted in the cash flow statement	£	£	
Returns on investment and servicing of finance			
Interest received	4,697	14,017	
Debt related finance costs	(50,672)	(49,095)	
Hire purchase interest	-	(1,526)	
Other interest paid	(2,064)	(1,848)	
	<u>(48,039)</u>	<u>(38,452)</u>	
Taxation			
Tax credit received	-	123,669	
	<u>-</u>	<u>123,669</u>	
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(15,060)	(940)	
	<u>(15,060)</u>	<u>(940)</u>	
Management of liquid resources			
(Increase)/decrease in term deposits	(300,195)	123,014	
	<u>(300,195)</u>	<u>123,014</u>	
Financing			
Increase in debt	425,000	-	
Issue of shares by parent undertaking (including share premium)	-	1,031,998	
Expenses in connection with share issue	-	(20,861)	
Capital element of finance lease rental payments	-	(4,732)	
	<u>425,000</u>	<u>1,006,405</u>	
c) Analysis of net debt	At beginning of year	Cash flows	At end of year
	£	£	£
Cash at bank and in hand	195,675	(35,638)	160,037
Liquid resources	-	300,195	300,195
		<u>264,557</u>	
Debt due after one year	(500,000)	(425,000)	(925,000)
	<u>(304,325)</u>	<u>(160,443)</u>	(464,768)

SPRUE AEGIS PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2005****21. Segment information**

a) Turnover by geographical segment	<u>2005</u>		<u>2004</u>	
	Origin	Destination	Origin	Destination
	£	£	£	£
United Kingdom and Eire	2,206,026	1,230,922	1,553,870	1,443,599
Australia & New Zealand	-	3,799	-	-
North America	2,966	974,271	13,567	123,838
	<hr/>	<hr/>	<hr/>	<hr/>
	2,208,992	2,208,992	1,567,437	1,567,437
	<hr/>	<hr/>	<hr/>	<hr/>
b) Operating loss by geographical origin			<u>2005</u>	<u>2004</u>
			£	£
United Kingdom and Eire			(39,841)	(612,882)
North America			(147,404)	(244,520)
			<hr/>	<hr/>
			(187,245)	(857,402)
			<hr/>	<hr/>
c) Net operating assets by geographical segment			<u>2005</u>	<u>2004</u>
			£	£
United Kingdom and Eire			994,246	508,436
North America			8,720	261,591
			<hr/>	<hr/>
			1,002,966	770,027
			<hr/>	<hr/>
Unallocated liabilities			(925,000)	(500,000)
			<hr/>	<hr/>
Total net assets			77,966	270,027
			<hr/>	<hr/>

SPRUE AEGIS PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2005****22. Financial risk management**

Responsibility for identification and control of financial risks rests with the Board of Directors.

The Board considers, amongst other matters, financing requirements for both existing and future operations. On the basis of their considerations, the Board determines the degree to which it is appropriate to use financial instruments, other hedging instruments or other techniques to mitigate the identified risks. The main risks for which such instruments may be appropriate are liquidity risk and exchange rate risk.

Liquid resources are monitored against forecast requirements and timely action is taken to ensure funding is available. Funds not required immediately for the group's operations are invested in sterling denominated term deposits.

The group currently takes no action to protect or hedge exchange rate risk other than to closely monitor exchange rate fluctuations, and take action as deemed appropriate.

As permitted by Financial Reporting Standard 13, short term debtors and creditors have been omitted from all disclosures which follow in this note, other than the currency profile of the group's net assets.

Financial instruments

Interest rate and currency profile:

	Sterling	Euros	US Dollar	Canadian Dollar	2005 Total	2004 Total
	£	£	£	£	£	£
Financial assets						
Cash and deposits- floating rate	428,361	58	31,264	549	460,232	195,675
Financial liabilities						
Loan note and loan due after one year- fixed rate	925,000	-	-	-	925,000	500,000

Floating interest rate deposits earn interest at approximately 2.4%. Interest payable on loan notes and loans due after one year is fixed at 8% and 9%.

Currency profile of the group's net assets:	2005	2004
	£	£
Sterling	241,052	25,922
US Dollar	(165,569)	235,627
Canadian Dollar	2,425	11,913
Euro	58	(3,435)
	77,966	270,027

SPRUE AEGIS PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2005****23. Guarantees and other financial commitments****a) Lease commitments**

The annual minimum rentals under operating leases are as follows:-

	2005		2004	
	Property	Others	Property	Others
	£	£	£	£
Operating leases which expire:-				
-within one year	-	-	7,038	4,590
-within two - five years	25,840	-	24,320	-
	25,840	-	31,358	4,590

b) Charge over group's assets

On 21st January 2003 the company received a loan of £500,000 and a charge was given over certain intellectual property owned by the company and the group as security for the loan. On 16th December 2005 the company issued loan notes of £425,000 secured by a debenture over all assets owned by the company and group that ranks second only to the existing charge over the intellectual property noted above.

24. Related parties

W J B Payne is a partner of Wilkins Kennedy, Chartered Accountants, the firm which provides his services. During the period Wilkins Kennedy were paid £22,958 (2004 £26,667) for W J B Payne's services as the company's Finance Director and £25,570 (2004 £45,713) for accounting and management services. Fees paid for W J B Payne's services are included as part of aggregate directors' emoluments disclosed in note 5.

25. Post balance sheet events

In March 2006 the company issued 66,667 shares to John Walsh, a director of the company and at the same time completed a private placing of 366,666 shares. In total 433,333 shares were issued raising £65,000 gross to provide additional working capital.

On 29th September 2006 the company raised £1 million gross through the issue of convertible unsecured loan stock.

SPRUE AEGIS PLC

DETAILED COMPANY PROFIT AND LOSS ACCOUNT

YEAR ENDED 31ST DECEMBER 2005

	2005		2004	
	£	£	£	£
Management fees receivable		-		536,737
Research and development		(280,230)		(217,834)
Other operating income		650,771		110,271
Administrative expenses:				
Wages and national insurance contributions	227,071		269,848	
Directors remuneration	140,346		133,098	
Motor leasing and expenses	16,455		13,938	
Management fees payable	158,502		425,580	
Exchange difference	3,437		9,604	
Audit Fees	6,778		11,050	
Legal and professional fees	5,550		2,029	
Consultants fees	15,000		21,250	
Accountants fees	48,528		72,380	
Product marketing and PR	-		38,813	
		<hr/>		<hr/>
		(621,667)		(997,690)
Operating loss		(251,126)		(568,516)
Provision against balances due from subsidiary companies		(196,397)		-
Interest receivable		4,609		13,933
Interest payable		(52,234)		(49,095)
		<hr/>		<hr/>
Loss for the year before taxation		(495,148)		(603,678)
Taxation		43,223		61,221
		<hr/>		<hr/>
Loss for the year		(451,925)		(542,457)
		<hr/>		<hr/>

This page does not form part of the audited financial statements