

SPRUE AEGIS PLC
REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER 2006

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The Company's Incorporation No. is: 3991353

SPRUE AEGIS PLC**CHAIRMAN'S STATEMENT****FOR THE YEAR ENDED 31ST DECEMBER 2006****RESULTS**

I am pleased to report that our renewed focus on the domestic market has proved successful, such that UK revenues more than doubled in the 2006 financial year to £3.27 million (2005:£1.23 million) and UK gross margins improved by 10%.

The introduction of a broader product range, coupled with significant additions to our retail footprint (notably securing Tesco's entire fire safety range and new business wins with Focus DIY and Mothercare), and the expansion of our non-retail sales, including the Fire Brigades and the social housing sector, helped to offset a significant reduction in the royalty contribution from DuPont, as our US licensed distributor continued to review its "go to market" strategy.

Growing consumer awareness of the dangers of carbon monoxide, particularly in the wake of a high profile incident involving the tragic deaths of two children whilst on holiday in Corfu last October, led to strong demand for our range of carbon monoxide detectors. Our ability to meet such a spike in consumer demand, whilst the general market for CO products was suffering from supply shortages, reflects well on the Group's exclusive supply relationship with its CO product supplier.

Turning to the costs side of the equation, R&D expenditure remained at high levels due to ongoing development work on a new and highly innovative range of smoke alarms, for which we have already agreed terms of supply, and will be on sale in the UK during the second quarter of this year. Administration expenses increased, reflecting both the £124,357 exceptional costs associated with the non-binding agreement to acquire QSA Global Limited and the higher marketing and administrative expenditure required to meet growing UK demand.

BUSINESS OVERVIEW

We made considerable progress on a number of operational fronts during 2006. The extended manufacturing agreement with QSA Global Limited and its joint venture partner CICAM, located in Shenzhen, China, has significantly shortened our time to market for new products. As well as eliminating our dependency on third party suppliers for battery-operated smoke alarms, this exclusive arrangement has widened our access to skilled resources. It equally affords greater economies of scale, enabling us to remain highly competitive in the volume smoke alarm market whilst providing us more control of the supply chain as we extend our product portfolio into ground-breaking, high-end products.

This, combined with our own innovative design capabilities, has enabled us to fast-track the development of two important new ranges of smoke products, both of which are due to be launched in the UK later this quarter. The first is a new stylish and feature-rich battery-operated range and we also have developed an innovative range of wireless safety accessories.

SPRUE AEGIS PLC**CHAIRMAN'S STATEMENT (CONTINUED)****FOR THE YEAR ENDED 31ST DECEMBER 2006****BUSINESS OVERVIEW (CONTINUED)**

These new ranges, which have been CE marked and tested to the latest European standards, coupled with new packaging and merchandising concepts, are expected to enhance our competitive position across all sectors within the UK market. Our consumer-driven approach, with a focus on enhanced product features, is proving to be a key differentiator, enabling Sprue Aegis to develop a sustainable business on a UK standalone basis. Since the end of the period, we have announced major new wins and have secured B&Q as launch customer for the new ranges, with other retailers and fire brigades expected to follow shortly.

Via these strategic initiatives in 2006, we have reduced our dependency both on third party suppliers and the successful entry into overseas markets; nevertheless, we will continue to evaluate additional product and market opportunities as and when appropriate.

QSA GLOBAL LIMITED

On 2 October 2006 we announced that non-binding terms had been agreed for the planned acquisition of QSA during the summer of 2008. QSA is a leading manufacturer and supplier of fire and related safety products and is the principal supplier of smoke detector products to us. It is a major supplier of ionisation foils and reported turnover in excess of \$10 million for the year ended 31 March 2006. The success of the trading arrangements between us over the last 5 years resulted in an expanded manufacturing supply agreement for the next generation of FireAngel safety products. The acquisition of QSA would create a strong, vertically integrated group, combining manufacture, supply and distribution with our proven technological and product development skills.

FUNDING

The injection of an additional £1 million of funding last October via a convertible unsecured loan note issued to CIPI (an investment vehicle backed by Collier Capital, a leading private equity group, of whom QSA Global Limited is a wholly-owned subsidiary), has enabled Sprue Aegis to finance its UK expansion, as well as providing the additional working capital required to meet increased customer inventories.

Interest accruing on the convertible unsecured loan note (8% coupon) is included in the Group interest charges for the year. However, since interest is only payable in the event that the loan note is redeemed assuming the acquisition of QSA Global Limited is ultimately approved by shareholders and the loan note is converted into shares, these charges will be reversed.

SPRUE AEGIS PLC**CHAIRMAN'S STATEMENT (CONTINUED)****FOR THE YEAR ENDED 31ST DECEMBER 2006****PROSPECTS**

Whilst it is disappointing to record another loss for the year, shareholders should be encouraged by the fact that the underlying business became profitable during the last quarter of 2006.

We enter 2007 with a renewed sense of purpose and direction. The Group has made an encouraging start to the current financial year, with significant new business wins, including the London Fire and Emergency Planning Authority and B&Q. With a number of new product and marketing initiatives in the pipeline, we are confident in our ability to build on last year's sales momentum.

Whilst the last few years have been difficult, we are now concentrating on transitioning Sprue Aegis from a start-up to a more established and financially stronger entity, focused on sustained growth via ongoing product innovation and customer delivery. Subject to shareholder approval, the proposed acquisition of QSA would be a logical progression, representing a step change in the evolution of the Group, creating an enlarged, more robust, vertically integrated business.

We acknowledge that this will present new challenges but the Board and the operational management team remain committed to delivery to our customers and shareholders alike.

Graham RA Whitworth
Chairman & Chief Executive
Sprue Aegis plc

25th May 2007

SPRUE AEGIS PLC**DIRECTORS' REPORT****FOR THE YEAR ENDED 31ST DECEMBER 2006**

The directors present their report with the consolidated financial statements of the group and company for the year ended 31st December 2006.

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 £248,416. 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 business

The results for the year and financial position of the company are as shown in the annexed financial statements.

Fair review of the business and expected future developments

A review of the business and expected future developments are set out in the Chairman's review on pages 1-3.

Principal risks and uncertainties

The principal commercial risks facing the group would be anything that threatened the good working relationship we have with our suppliers and customers, and anything which prevented us from continuing to design and develop high quality innovative products. The financial risk associated with the group is its ability to trade within existing facilities given the substantial increase in activity over the year and expected future growth.

The directors continue to review risks associated with the group's business and make every effort to address these as soon as they are identified.

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 2006	31st December 2005
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	66,667	-
Non executive		
S P Tate	3,184,250	3,184,250
P J L Lawrence	946,750	946,750
J Kreminski (appointed 29 September 2006)	-	-
	<hr/>	<hr/>

SPRUE AEGIS PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2006

Directors and their interests (continued)

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.

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 Code 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 three non-executive directors, S P Tate, J Kreminski 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.

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 2006, the number of creditor days in respect of trade creditors was 80 days (2005 69 days).

SPRUE AEGIS PLC**DIRECTORS' REPORT (CONTINUED)****FOR THE YEAR ENDED 31ST DECEMBER 2006****Research and development**

The group continues to invest in research and development. This activity has generated a number of new products as noted in the chairman's statement which is accelerating the growth of the business.

Statement as to disclosure of information to auditors

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are 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.

Auditors

The directors, having been notified of the cessation of the partnership known as Baker Tilly, resolved that Baker Tilly UK Audit LLP be appointed as successor auditor with effect from 1 April 2007, in accordance with the provisions of the Companies Act 1989, s26(5). Baker Tilly UK Audit LLP has indicated its willingness to continue in office and will be proposed for re-appointment in accordance with Section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD

W J B Payne

Secretary

Bridge House
London Bridge
London SE1 9QR

25th May 2007

SPRUE AEGIS PLC

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

We have audited the financial statements on pages 8 to 28.

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 Directors' Report and the Chairman's Statement. 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 group's and 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 group's and parent company's affairs as at 31 December 2006 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Baker Tilly UK Audit LLP

Registered Auditor

Chartered Accountants

City Plaza, Temple Row, Birmingham B2 5AF

25th May 2007

SPRUE AEGIS PLC**CONSOLIDATED PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 31ST DECEMBER 2006**

	<u>Note</u>	<u>2006</u> £	<u>2005</u> £
Turnover	(2)	3,383,968	2,208,992
Cost of sales		<u>(2,041,430)</u>	<u>(1,137,339)</u>
Gross profit		1,342,538	1,071,653
Distribution costs		(82,639)	(43,058)
Research and development		(265,421)	(280,230)
Administrative expenses		(1,218,437)	(918,318)
Other operating income		10,225	-
Goodwill amortisation		<u>(17,292)</u>	<u>(17,292)</u>
Operating loss		(231,026)	(187,245)
Interest receivable and similar income	(3)	12,390	4,697
Interest payable and similar charges	(4)	<u>(120,411)</u>	<u>(52,736)</u>
Loss on ordinary activities before taxation	(6)	(339,047)	(235,284)
Tax on loss on ordinary activities	(7)	90,631	43,223
Loss for the year	(18)	<u>(248,416)</u>	<u>(192,061)</u>
Loss per share			
Basic	(8)	<u>0.0088</u>	<u>0.0069</u>
Diluted	(8)	<u>0.0087</u>	<u>0.0069</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 PLC**CONSOLIDATED BALANCE SHEET****31ST DECEMBER 2006**

	<u>Note</u>	Group <u>2006</u>	Group restated <u>2005</u>
		£	£
<u>Fixed assets</u>			
Intangible assets	(9)	59,433	76,725
Tangible assets	(10)	17,328	18,773
		<u>76,761</u>	<u>95,498</u>
<u>Current assets</u>			
Stocks	(12)	505,129	406,109
Debtors	(13)	1,534,967	543,081
Cash at bank and in hand		645,257	460,232
		<u>2,685,353</u>	<u>1,409,422</u>
Creditors: amounts falling due within one year	(14)	(953,416)	(552,747)
Net current assets		<u>1,731,937</u>	<u>856,675</u>
Total assets less current liabilities		1,808,698	952,173
Creditors: amounts falling due after more than one year	(15)	(1,912,447)	(874,207)
Net (liabilities)/assets		<u>(103,749)</u>	<u>77,966</u>
<u>Capital and reserves</u>			
Called up share capital	(16)	565,841	557,175
Share premium account	(17)	2,283,397	2,228,163
Accumulated deficit	(18)	(2,952,987)	(2,707,372)
Equity shareholders' (deficit)/funds	(19)	<u>(103,749)</u>	<u>77,966</u>

The financial statements on pages 8 to 28 were approved by the board of directors and authorised for issue on 25th May 2007 and are signed on its behalf by:

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 2006**

	<u>Note</u>	Company 2006	Company restated 2005
		£	£
<u>Fixed assets</u>			
Investments	(11)	149,256	149,256
<u>Current assets</u>			
Debtors -due within one year	(13)	216,489	108,530
-due after one year	(13)	1,825,144	1,711,209
Cash at bank and in hand		356,949	449,762
		2,398,582	2,269,501
Creditors: amounts falling due within one year	(14)	(293,167)	(271,704)
Net current assets		2,105,415	1,997,797
Total assets less current liabilities		2,254,671	2,147,053
Creditors: amounts falling due after more than one year	(15)	(1,912,447)	(874,207)
Net assets		342,224	1,272,846
<u>Capital and reserves</u>			
Called up share capital	(16)	565,841	557,175
Share premium account	(17)	2,283,397	2,228,163
Accumulated deficit	(18)	(2,507,014)	(1,512,492)
Equity shareholders' funds	(19)	342,224	1,272,846

The financial statements on pages 8 to 28 were approved by the board of directors and authorised for issue on 25th May 2007 and are signed on its behalf by:

 G R A Whitworth

 W J B Payne

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

SPRUE AEGIS PLC**CONSOLIDATED CASH FLOW STATEMENT****FOR THE YEAR ENDED 31ST DECEMBER 2006**

	<u>Note</u>	<u>2006</u>	<u>2005</u>
		£	£
Net cash outflow from operating activities	(20a)	(845,812)	(97,344)
Returns on investment and servicing of finance	(20b)	(108,021)	(48,039)
Taxation	(20b)	25,000	-
Capital expenditure and financial investment	(20b)	(5,042)	(15,060)
		<hr/>	<hr/>
Cash outflow before use of liquid resources and financing		(933,875)	(160,443)
Management of liquid resources	(20b)	300,195	(300,195)
Financing	(20b)	1,118,900	425,000
		<hr/>	<hr/>
Increase/(decrease) in cash during the year		485,220	(35,638)
		<hr/>	<hr/>
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash during the year		485,220	(35,638)
Cash (released from)/used to increase liquid resources		(300,195)	300,195
Cash inflow from increase in debt		(1,118,900)	(425,000)
		<hr/>	<hr/>
Movement in net debt in the year		(933,875)	(160,443)
Net debt at beginning of year		(464,768)	(304,325)
		<hr/>	<hr/>
Net debt at end of year	(20c)	(1,398,643)	(464,768)
		<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 2006****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 £248,416 and at the year end the group had net liabilities amounting to £103,749. However as disclosed in note 27 the directors have prepared profit and cash flow projections for the group until June 2008. These show that, in their opinion, sufficient profit and cash will be generated to ensure that the group is able to meet its liabilities 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 2006. 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 2006****1. Accounting policies (continued)****g) Share-based payments**

During the year the Group has adopted FRS 20 "Share Based Payments" to share options granted after 7th November 2002 which had not yet vested at 1 January 2006. For such grants 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, except where forfeiture is only due to market-based conditions not achieving the threshold for vesting.

h) 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 when recovery is certain. Deferred tax assets and liabilities are not discounted.

i) 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.

j) Liquid resources

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

k) 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.

SPRUE AEGIS PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2006****1. Accounting policies (continued)****l) Grants**

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

m) Development expenditure

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

n) Operating leases

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

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>2006</u>	<u>2005</u>
	£	£
Bank deposit interest	12,390	4,697
	_____	_____

4. Interest payable and similar charges

	<u>2006</u>	<u>2005</u>
	£	£
Bank overdraft interest	3,226	23
Interest on other loans	115,830	50,672
Other interest	1,355	2,041
	_____	_____
	120,411	52,736
	_____	_____

SPRUE AEGIS PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2006****5. Employees**

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

	<u>2006</u>	<u>2005</u>
	Number	Number
Sales and marketing	6	6
Technology	5	5
Administration	3	4
	14	15

Costs in respect of these employees:

	£	£
Wages and salaries	566,450	528,602
Social security costs	64,941	51,711
Share-based payments (option scheme)	2,801	-
	634,192	580,313

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

	£	£
Aggregate emoluments	311,308	222,635
The emoluments of the highest paid director	83,615	66,015

6. Loss on ordinary activities before taxation

	<u>2006</u>	<u>2005</u>
	£	£
Loss on ordinary activities before taxation is stated after charging/(crediting):		
Amortisation of goodwill	17,292	17,292
Depreciation of tangible fixed assets	6,487	7,463
Auditor's remuneration - audit services	19,650	13,490
Foreign exchange (gains)/losses	20,922	(18,267)
Operating lease rentals - land and buildings	25,713	24,888
- other	6,409	12,920
Exceptional expenditure	124,357	-

Exceptional expenditure of £154,357 was incurred during the year, £124,357 of which has been charged to the profit and loss account in respect of professional costs arising on the proposed acquisition of QSA Global Limited by the company. The balance of costs has been included within creditors as detailed in note 15.

SPRUE AEGIS PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2006**

7. <u>Taxation</u>	<u>2006</u>	<u>2005</u>
	£	£
Analysis of credit in year		
Current tax:		
Tax credit recoverable on research and development expenditure in the current year	35,000	43,223
Adjustment in respect of previous year	(10,369)	-
	<hr/>	<hr/>
Total current tax	24,631	43,223
Deferred tax	66,000	-
	<hr/>	<hr/>
Tax on loss on ordinary activities	90,631	43,223
	<hr/>	<hr/>

No liability to corporation tax will arise on the results for the year ended 31st December 2006. At the year end there were corporation tax losses of approximately £2,300,000 (2005 £1,500,000) available for set off against future assessable profits. A deferred tax asset of £66,000 is included in debtors, relating to the tax losses expected to be utilised within FireAngel Limited at the corporation tax rate of 19% which is expected to apply over the periods concerned. The deferred tax asset associated with the remaining tax losses within the group will not be recognised until future taxable profits become certain.

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>2006</u>	<u>2005</u>
	£	£
Loss on ordinary activities before taxation	339,047	235,284
	<hr/>	<hr/>
Standard rate of corporation tax in the UK	19%	19%
	£	£
Loss on ordinary activities multiplied by the standard rate of corporation tax	64,419	44,704
Effects of:		
Expenses not deductible for tax purposes	(4,548)	(4,139)
Depreciation for year in excess of capital allowances	(1,178)	(1,308)
Additional deduction under FA 2000 for research and development	7,292	9,005
Utilisation of tax losses brought forward	144,133	13,677
Tax losses carried forward	(175,118)	(18,716)
Adjustments to tax charge in respect of previous years	(10,369)	-
	<hr/>	<hr/>
Current tax credit for year	24,631	43,223
	<hr/>	<hr/>

SPRUE AEGIS PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2006**

8. <u>Loss per share</u>	<u>2006</u>	<u>2005</u>
	£	£
Loss attributable to shareholders being loss after taxation	248,416	192,061
	<hr/>	<hr/>
Weighted average number of shares in issue for basic calculation	28,195,899	27,858,730
Deemed issue of potentially dilutive shares	273,680	-
	<hr/>	<hr/>
Weighted average number of shares in issue for diluted calculation	28,469,579	27,858,730
	<hr/>	<hr/>
Loss per share		
-basic	0.0088	0.0069
	<hr/>	<hr/>
-diluted	0.0087	0.0069
	<hr/>	<hr/>

The effect of the share options in issue for the year ended 31st December 2005 was anti-dilutive and therefore no adjustment was made to the earnings per share for that year.

9. <u>Intangible fixed assets</u>	Group
	<u>2006</u>
	£
Goodwill	
Cost	
1 January 2006 and 31 December 2006	172,922
	<hr/>
Amortisation	
1 January 2006	96,197
Charge for the period	17,292
	<hr/>
31 December 2006	113,489
	<hr/>
Net book value	
31 December 2006	59,433
	<hr/>
1 January 2006	76,725
	<hr/>

SPRUE AEGIS PLCNOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2006

10. <u>Tangible fixed assets</u>	<u>Fixtures & fitting</u>	<u>Office equipment</u>	<u>Total</u>
Group	£	£	£
Cost			
1 January 2006	15,966	41,040	57,006
Additions	-	5,042	5,042
	<hr/>	<hr/>	<hr/>
31 December 2006	15,966	46,082	62,048
	<hr/>	<hr/>	<hr/>
Depreciation			
1 January 2006	6,238	31,995	38,233
Charge for year	2,433	4,054	6,487
	<hr/>	<hr/>	<hr/>
31 December 2006	8,671	36,049	44,720
	<hr/>	<hr/>	<hr/>
Net book value			
31 December 2006	7,295	10,033	17,328
	<hr/>	<hr/>	<hr/>
1 January 2006	9,728	9,045	18,773
	<hr/>	<hr/>	<hr/>

11. <u>Fixed asset investments</u>	<u>Company 2006</u>	<u>Company 2005</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.

SPRUE AEGIS PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2006**

12. <u>Stocks</u>	Group <u>2006</u>	Company <u>2006</u>	Group <u>2005</u>	Company <u>2005</u>
	£	£	£	£
Goods for resale	505,129	-	406,109	-
	505,129	-	406,109	-
	505,129	-	406,109	-
13. <u>Debtors</u>	Group <u>2006</u>	Company <u>2006</u>	Group restated <u>2005</u>	Company restated <u>2005</u>
	£	£	£	£
Amounts falling due within one year:				
Trade debtors	1,198,603	-	396,683	-
Amounts owed by group undertaking	-	71,777	-	-
Other debtors	107,901	28,222	12,020	8,169
Corporation tax	91,608	91,608	91,977	91,977
Prepayments and accrued income	70,855	24,882	42,401	8,384
Deferred tax asset	66,000	-	-	-
	1,534,967	216,489	543,081	108,530
	1,534,967	216,489	543,081	108,530
Amounts falling due after more than one year:				
Amounts owed by group undertaking	-	1,825,144	-	1,711,209
	-	1,825,144	-	1,711,209
	-	1,825,144	-	1,711,209

Trade debtors have been pledged as security to the group's bankers as part of the group's banking facilities.

SPRUE AEGIS PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2006**

14. <u>Creditors: amounts falling due within one year</u>	Group <u>2006</u>	Company <u>2006</u>	Group <u>2005</u>	Company <u>2005</u>
	£	£	£	£
Trade creditors	472,335	-	217,500	-
Amounts owed to group undertaking	-	66,918	-	27,813
Other taxation and social security	59,507	25,420	111,184	76,860
Other creditors	210,931	114,884	97,397	57,523
Accruals and deferred income	210,643	85,945	126,666	109,508
	953,416	293,167	552,747	271,704

15. <u>Creditors: amounts falling due after more than one year</u>	Group <u>2006</u>	Company <u>2006</u>	Group restated <u>2005</u>	Company restated <u>2005</u>
	£	£	£	£
Convertible unsecured loan stock	973,558	973,558	-	-
Loan note repayable between two and five years other than by instalments	463,117	463,117	402,433	402,433
Other loan repayable after more than five years other than by instalments	475,772	475,772	471,774	471,774
	1,912,447	1,912,447	874,207	874,207

The above balances are stated net of unamortised issue costs of £67,553 (2005: £50,793). The company incurred total issue costs of £30,000 in respect of the issue of the current year's £1m convertible unsecured loan stock (CULS). These costs together with the interest expense are allocated to the profit and loss account over the terms of the facilities.

The CULS were issued at par by Sprue Aegis plc and will carry a coupon of 8% which will be accrued and will only be payable in the event that the CULS are redeemed. The CULS are convertible into fully paid ordinary shares of 2p each in the company ("Ordinary Shares") at a conversion price of 18.425p per share (i) at the option of the holders of the CULS at any time; (ii) automatically at the option of the company on completion of the acquisition by Sprue Aegis plc of QSA Global Limited in 2008; or (iii) at the option of the company if the option holder elects not to proceed to completion of the acquisition of QSA Global Limited on the envisaged terms by 15 October 2008. The CULS may be redeemed by the company at any time on or after 15 October 2008 or at the option of the holders of the CULS on a sale or liquidation of the company, on certain events of default or if Sprue Aegis plc is not able to proceed to completion of the acquisition of QSA Global Limited on the envisaged terms by 15 October 2008.

SPRUE AEGIS PLCNOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2006**15. Creditors: amounts falling due after more than one year (continued)**

The above loan of £475,772 (£500,000 gross of unamortised issue costs) 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 £463,117 (£480,000 gross of unamortised issue costs) 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>2006</u>	Group and company <u>2005</u>
	£	£
Authorised		
100,000,000 (2005 100,000,000) Ordinary shares of 2p each	2,000,000	2,000,000
	<hr/>	<hr/>
Allotted, called up and fully paid		
28,292,063 (2005 27,858,730) Ordinary shares of 2p each	565,841	557,175
	<hr/>	<hr/>

The following shares were issued during the year:

	Number	Nominal value	Consideration
		£	£
Ordinary shares of 2p each	433,333	8,666	65,000
	<hr/>	<hr/>	<hr/>

17. <u>Share premium account</u>	Group and company <u>2006</u>
	£
At beginning of year	2,228,163
Premium on issue of shares	56,334
Less costs associated with issue	(1,100)
	<hr/>
At end of year	2,283,397
	<hr/>

SPRUE AEGIS PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2006**

18. <u>Profit and loss account</u>	Group <u>2006</u>	Company <u>2006</u>
	£	£
At beginning of year	(2,707,372)	(1,512,492)
Loss for year	(248,416)	(997,323)
Reduction in deficit arising from charge to income for share based payments	2,801	2,801
	<hr/>	<hr/>
At end of year	(2,952,987)	(2,507,014)
	<hr/>	<hr/>

The loss for the financial period dealt with in the company was £997,323. 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>2006</u>	Company <u>2006</u>	Group <u>2005</u>	Company <u>2005</u>
	£	£	£	£
Loss for the financial year	(248,416)	(997,323)	(192,061)	(451,925)
Share capital subscribed	8,666	8,666	-	-
Share premium received	56,334	56,334	-	-
Costs associated with share issue	(1,100)	(1,100)	-	-
Increase in shareholders' funds arising from charge to income for share based payments	2,801	2,801	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net deductions from shareholders' funds	(181,715)	(930,622)	(192,061)	(451,925)
Opening shareholders' funds	77,966	1,272,846	270,027	1,724,771
	<hr/>	<hr/>	<hr/>	<hr/>
Closing shareholders' (deficit)/funds	(103,749)	342,224	77,966	1,272,846
	<hr/>	<hr/>	<hr/>	<hr/>

SPRUE AEGIS PLCNOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2006

20. <u>Cash flow statement</u>	Group <u>2006</u>	Group <u>2005</u>
	£	£
a) Reconciliation of operating loss to operating cash flows		
Operating loss	(231,026)	(187,245)
Amortisation of goodwill	17,292	17,292
Depreciation charges	6,487	7,463
Share based payment expense	2,801	-
Increase in debtors	(926,255)	(102,489)
(Increase)/decrease in stock	(99,020)	283,209
Increase/(decrease) in creditors	383,909	(115,574)
	<hr/>	<hr/>
Net cash outflow from operating activities	(845,812)	(97,344)
	<hr/>	<hr/>
b) Analysis of cash flows for headings netted in the cash flow statement		
	£	£
Returns on investment and servicing of finance		
Interest received	12,390	4,697
Debt related finance costs	(115,830)	(50,672)
Other interest paid	(4,581)	(2,064)
	<hr/>	<hr/>
	(108,021)	(48,039)
	<hr/>	<hr/>
Taxation		
Tax credit received	25,000	-
	<hr/>	<hr/>
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(5,042)	(15,060)
	<hr/>	<hr/>
Management of liquid resources		
Decrease/(Increase) in term deposits	300,195	(300,195)
	<hr/>	<hr/>
Financing		
Increase in debt	1,055,000	425,000
Issue of shares by parent undertaking (including share premium)	65,000	-
Expenses in connection with share issue	(1,100)	-
	<hr/>	<hr/>
	1,118,900	425,000
	<hr/>	<hr/>

SPRUE AEGIS PLCNOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2006**20. Cash flow statement (continued)**

c) Analysis of net debt	At beginning of year (restated)	Cash flows	Non - cash movements	At end of year
	£	£	£	£
Cash at bank and in hand	160,037	485,220		645,257
Liquid resources	300,195	(300,195)		-
		<u>185,025</u>		
Debt due after one year	(874,207)	(1,055,000)	16,760	(1,912,447)
	<u>(413,975)</u>	<u>(869,975)</u>	<u>16,760</u>	<u>(1,267,190)</u>

Non - cash movements represent the net movement in unamortised issue costs.

21. Segment information

a) Turnover by geographical segment	<u>2006</u>		<u>2005</u>	
	Origin	Destination	Origin	Destination
	£	£	£	£
United Kingdom and Eire	3,383,968	3,269,012	2,206,026	1,230,922
Australia & New Zealand	-	-	-	3,799
North America	-	114,956	2,966	974,271
	<u>3,383,968</u>	<u>3,383,968</u>	<u>2,208,992</u>	<u>2,208,992</u>
b) Operating loss by geographical origin			<u>2006</u>	<u>2005</u>
			£	£
	United Kingdom and Eire		(174,112)	(39,841)
North America		(56,914)	(147,404)	
		<u>(231,026)</u>	<u>(187,245)</u>	

SPRUE AEGIS PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2006****21. Segment information (continued)**

c) Net operating (liabilities)/assets by geographical segment	<u>2006</u>	<u>2005</u>
	£	£
United Kingdom and Eire	1,774,083	943,453
North America	34,615	8,720
	1,808,698	952,173
Unallocated liabilities	(1,912,447)	(874,207)
Total net (liabilities)/assets	(103,749)	77,966

22. Prior year adjustments

The group has disclosed debt net of issue costs in accordance with FRS 4 "Capital instruments" for the first time in the current year. In prior years, debt was disclosed gross within creditors, the related unamortised loan issue costs were included within debtors.

The group and company balance sheets for the year ended 31 December 2005 have been restated to reflect this change with the effect that debtors, and creditors falling due after more than one year have both been reduced by the unamortised issue costs of £50,793 at 31 December 2005.

SPRUE AEGIS PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2006****23. 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 closely monitor exchange rate fluctuations and where practical to do so transfers surplus cash into US Dollar dominated accounts to offset exchange differences on US Dollar liabilities. During the year the group also entered into forward contracts to purchase £600,000 worth of US Dollars at the rate of \$1.89 to £1 over the six month period November 2006 to April 2007. £400,000 of these contracts were outstanding at the year end, a foreign exchange loss of £16,849 was incurred on the exercise of these contracts in 2007.

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						2005
Interest rate and currency profile:	Sterling	Euros	US Dollar	Canadian Dollar	2006 Total	Total restated
	£	£	£	£	£	£
Financial assets						
Cash and deposits-floating rate	517,819	26	126,612	800	645,257	460,232
Financial liabilities						
Loans due after one year-fixed rate	1,912,447	-	-	-	1,912,447	874,207

Floating interest rate deposits earn interest at approximately 2.75%. Interest payable on loans due after one year is fixed at 8% and 9% as detailed in note 15.

Currency profile of the group's net (liabilities)/assets:	2006	2005
	£	£
Sterling	46,244	241,052
US Dollar	(147,765)	(165,569)
Canadian Dollar	434	2,425
Euro	(2,662)	58
	(103,749)	77,966

SPRUE AEGIS PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2006****24. Share options and share-based payments**

Details of the share options outstanding during the year are as follows:

Grant date	Outstanding at start of year	Granted during the year	Outstanding at end of year	Expiry date	Exercise price
<i>Directors share options</i>					
01/04/2001	3,119,324	-	3,119,324	31/03/2008	34p
01/03/2002	220,956	-	220,956	28/02/2009	25p
<i>Employee share options</i>					
17/12/2001	45,000	-	45,000	17/12/2008	41p
16/12/2004	85,000	-	85,000	15/12/2011	16.5p
12/07/2006	-	90,000	90,000	11/07/2013	15p
<i>Other share options</i>					
05/11/2001	115,000	-	115,000	31/03/2008	44p
01/01/2003	32,000	-	32,000	01/11/2010	25p
01/01/2003	2,000,000	-	2,000,000	01/01/2013	15p
01/10/2003	20,000	-	20,000	01/10/2010	25p
20/12/2005	1,920,000	-	1,920,000	21/01/2013	15p
20/12/2005	500,000	-	500,000	21/01/2013	15p

No options were exercised, forfeited or expired in the year.

Options granted during the year have been valued using the following inputs to the Black-Scholes model:

	<u>2006</u>
Share price when options issued	14.25p
Expected volatility (based on closing prices in the year prior to issue)	1.28%
Expected life	7 years
Risk-free rate	4.25%
Expected dividends	Zero

The group recognised the following expenses relating to equity settled share-based payment transactions:

	<u>2006</u>	<u>2005</u>
	£	£
Employee benefits (note 5)	2,801	-

SPRUE AEGIS PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2006****25. Guarantees and other financial commitments****a) Lease commitments**

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

	2006		2005	
	Property	Others	Property	Others
	£	£	£	£
Operating leases which expire:-				
-between one and five years	25,840	3,878	25,840	-
	<u>25,840</u>	<u>3,878</u>	<u>25,840</u>	<u>-</u>

b) Charges over group 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.

Trade debtors have been pledged as security to the group's bankers as part of the group's banking facilities.

26. 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 £50,750 (2005 £22,958) for W J B Payne's services as the company's Finance Director and £40,003 (2005 £25,570) 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.

27. Going concern

During the period the group made a loss of £248,416 (2005 : £192,061 loss).

The directors have prepared profit and cash flow projections for the group until June 2008. These show that, in their opinion, sufficient profit and cash will be generated to ensure that the group is able to meet its liabilities as and when they fall due.

SPRUE AEGIS PLC

DETAILED COMPANY PROFIT AND LOSS ACCOUNT

YEAR ENDED 31ST DECEMBER 2006

	2006		2005	
	£	£	£	£
Management fees receivable		-		-
Research and development		(265,421)		(280,230)
Other operating income		125,181		650,771
Administrative expenses:				
Wages and national insurance contributions	303,200		227,071	
Director's remuneration	175,225		140,346	
Motor leasing and expenses	9,091		16,455	
Management fees payable	49,929		158,502	
Equipment rental and maintenance	3,200		-	
Exchange difference	7,944		3,437	
Audit Fees	14,650		6,778	
Legal and professional fees	102,618		5,550	
Consultants fees	20,000		15,000	
Accountants fees	90,753		48,528	
		<hr/>		<hr/>
		(776,610)		(621,667)
Operating loss		<hr/>		<hr/>
		(916,850)		(251,126)
Provision against balances due from subsidiary companies		-		(196,397)
Interest receivable		12,081		4,609
Interest payable		(117,185)		(52,234)
		<hr/>		<hr/>
Loss for the year before taxation		(1,021,954)		(495,148)
Taxation		24,631		43,223
		<hr/>		<hr/>
Loss for the year		(997,323)		(451,925)
		<hr/>		<hr/>

This page does not form part of the audited financial statements