

**SPRUE AEGIS PLC**  
**REPORT AND ACCOUNTS**  
**FOR THE YEAR ENDED 31ST DECEMBER 2007**

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**The Company's Incorporation No. is: 3991353**

**SPRUE AEGIS PLC**

**CHAIRMAN'S STATEMENT**

**FOR THE YEAR ENDED 31ST DECEMBER 2007**

For all associated with Sprue Aegis' successful transition from an entrepreneurial start-up, I am delighted to be able to report the Group's maiden annual retained profits of £1,001,965. This would not have been achieved without the sustained commitment of our close-knit R&D, sales, marketing, customer service and back-office teams, as well as the ongoing support of our customers and loyal shareholder base. Our strategy of broadening our product range with new and enhanced products, combined with diversifying our distribution channels within the UK, undoubtedly is producing positive results.

As we grow the business we continue to reduce our dependency on any one particular market sector or product type whilst, at the same time, focusing on innovation and technology to strengthen our product portfolio through cost-effective, quality manufacturing and continuity of supply.

**Financial Overview**

Group turnover more than doubled year-on-year to £7,263,057, thanks to the broadening of our retail product range and increased penetration of our non-retail customer base. The gross margin widened by 2%, despite tough trading conditions and increased competition, reflecting a wider product mix and economies of scale achieved on increasing sales volumes.

R&D spend increased this year by £214,216 to £479,637 as we continue to deliver new and improved products across an expanding and more diverse range, including smoke and carbon monoxide ("CO") alarms and "Wi-Safe" (wireless interconnect) safety accessories, for both our retail and non-retail customers.

A significant change this year has been the decision to capitalise that element of R&D expenditure that can be directly attributable to particular products in accordance with SSAP 13. The Board believes that this gives a fairer representation of our results now that the Group has achieved profitability, in terms of matching revenues with the associated costs. The net effect of this change in accounting policy has been to increase pre-tax profits by £145,632 in 2006 and by £219,106 for 2007.

Whilst administrative costs have increased, reflecting our heightened retail marketing spend, these have been more than offset by the growth in our top line, such that overheads as a percentage of revenue have reduced significantly and now are in line with forecast and expectation.

The interest charge continues to reflect accrued interest on the Convertible unsecured loan stock amounting to £94,757 in 2007. The Board expects that this will not become payable and, indeed, is likely to be reversed in 2008, whether or not the potential deal with QSA Global Ltd. ("QSA") is completed.

**Business Overview**

The significant improvement in Sprue Aegis' financial performance this year reflects our continued emphasis on consumer-led product innovation and the successful implementation of more targeted marketing campaigns. We now have a well-balanced product mix, with the notable additions of the new feature-rich 600 series battery-operated smoke alarm range (launched during Q2 2007), a range of carbon monoxide detectors and our Wi-Safe safety accessories range. Each of our products has applications in both the retail and non-retail sectors, ensuring that we are not over exposed to any one product line or market sector.

**SPRUE AEGIS PLC**

**CHAIRMAN'S STATEMENT (CONTINUED)**

**FOR THE YEAR ENDED 31ST DECEMBER 2007**

**Business Overview (continued)**

Despite tough trading conditions in the retail sector, we have continued to grow, largely at the expense of our competition and expect this to continue as we deliver further improved competitive offerings. FireAngel is gaining greater brand recognition as we deliver more products via more routes to market and expand our in-store presence.

The 600-series smoke alarm range, for example, has achieved notable market acceptance, not simply as a result of cost-competitive product enhancements, but also thanks to the clarity of messaging of the end-user benefits used in our merchandising and consumer marketing. Whilst we anticipate that consumer spending may come under pressure as the UK economic climate tightens, we believe this will be offset by increased demand for carbon monoxide detectors, generated from consumer awareness campaigns, together with other new and innovative products that we plan to launch within the next twelve months.

We experienced significant growth in non-retail, namely the UK Fire Brigades and Social Housing, in the latter part of 2007, with the launch of the 10-year battery-operated, optical sensor variant of the 600 series being particularly successful. In addition, our Wi-Safe range of safety accessories is also building strong momentum, with a particular application in meeting the specific needs of the hearing impaired. The non-retail sector is a key and growing part of our business, and particular attention is being paid to additional product introductions throughout 2008.

The successful introduction of the 600 series smoke alarms and the Wi-Safe range are prime examples of our ability, having identified customer and or end-user needs, to innovate and deliver new products to market in a cost effective and timely manner.

Through the year the Group continued to increase its involvement and influence through trade associations, industry working groups and cross party parliamentary committees related to the benefits of smoke alarms and the dangers of carbon monoxide poisoning. Additionally the Group was instrumental in the formation of the 'Wake Up' campaign aimed at increasing public awareness and understanding of a wide range of home safety issues and is delighted to have been joined in the campaign by media personalities, members of parliament, academics and industry experts. We continue to be well positioned to monitor changing trends and legislation and to influence best practice and product acceptance of the innovative solutions we strive to provide.

Internally we have already implemented a number of infrastructure and process improvements to accommodate the rapid growth that Sprue Aegis is experiencing, including the recruitment of key personnel, to ensure that we can continue to grow. As sales volumes build, with resultant economies of scale, it was imperative to cement and extend our relationships with our manufacturing partners. We have strengthened even further our manufacturing relationships with QSA Hong Kong Limited and its joint venture partner, CICAM, who now produce our entire smoke alarm and Wi-Safe range of products under an exclusive license arrangement in Shenzhen, China.

The potential acquisition of QSA (announced in October 2006) in the summer of 2008 remains under consideration, although no final decision has been made by either party at this time. Sprue Aegis will make that decision taking into account the best interests of its shareholders. It is, however, anticipated that the £1 million convertible unsecured loan, issued as part of the agreement, will convert.

**SPRUE AEGIS PLC****CHAIRMAN'S STATEMENT (CONTINUED)****FOR THE YEAR ENDED 31ST DECEMBER 2007****Business Overview (continued)**

In addition, in April 2008, we concluded a joint venture agreement with Pace Sensors Inc. ("Pace"), via our wholly owned Canadian subsidiary, AngelEye Corporation, in relation to the manufacture of carbon monoxide sensors for use in our CO detectors. This extends an existing manufacturing and distribution agreement between Pace and Sprue Aegis. In future, the Group will take over the design authority for all CO detectors incorporating Pace's CO sensor, with any resulting IP becoming the property of Sprue Aegis. Pace will continue to manufacture the CO sensors in Canada, whilst the finished CO detectors will be manufactured by Pace at its factory in China under an exclusive distribution agreement. In addition, Sprue Aegis has acquired a 17.5% interest in Pace for a nominal consideration and has agreed to provide Pace with R&D services in the future. Subject to certain earn-in terms, we expect to increase our aggregate holding in Pace Sensors to 49% by the end of 2010. As the overall CO industry is expected to face increasing supply difficulties and upward price pressure this agreement was seen by the board as a key strategic achievement.

**Outlook**

We view 2008 with confidence, as we continue to build on our success to date, grow market share where possible and look to expand into other domestic markets, with both core and specialist product applications. With each of our new products certified to the harmonised European standards, we have a strong platform for growth outside the UK as we evaluate market entry.

We will retain our R&D focus and continue to deliver new and innovative products and product variants, whilst further enhancing our existing product range where clear opportunities have been identified. We also expect to minimise the increasing cost pressures that others are reporting from SE Asia through ongoing product innovation and improved manufacturing techniques.

Our Customer Service team remains critical in delivering exceptional levels of customer support, whilst our Sales and Marketing teams remain at the forefront of driving revenue growth. Whilst we have the necessary skills and manpower for our immediate needs, we will selectively expand the team to meet anticipated growth and any new opportunities of which we choose to take advantage.

In summary, we have executed well on our business strategy throughout 2007 to build a growing, sustainable and profitable UK business and expect that momentum to carry forward into 2008, with a strong first quarter already behind us. That said, we cannot be complacent in the face of the expected slowdown in the UK economy, although many of the markets in which we operate are relatively defensive, as demand is driven by legislation and "duty of care". We have experienced management and a highly motivated and dedicated team to meet the challenges ahead. We remain totally focused and committed to building a larger and financially stronger group for the benefit of all our stakeholders.

**Graham RA Whitworth****Chairman & CEO****Sprue Aegis plc**

6 May 2008

**SPRUE AEGIS PLC****DIRECTORS' REPORT****FOR THE YEAR ENDED 31ST DECEMBER 2007**

The directors present their report with the consolidated financial statements of the group and company for the year ended 31st December 2007.

**Principal activity**

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

**Results and dividends**

The group profit for the period after taxation was £1,001,965. The directors do not recommend the payment of a dividend.

**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 2007	31st December 2006
<b>Executive</b>		
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	66,667
<b>Non executive</b>		
S P Tate	2,934,250	3,184,250
P J L Lawrence	946,750	946,750
J Kreminski	-	-
	<hr/>	<hr/>

**SPRUE AEGIS PLC****DIRECTORS' REPORT (CONTINUED)****FOR THE YEAR ENDED 31ST DECEMBER 2007****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, 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. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 2007, the number of creditor days in respect of trade creditors was 57 days (2006 80 days).

**SPRUE AEGIS PLC****DIRECTORS' REPORT (CONTINUED)****FOR THE YEAR ENDED 31ST DECEMBER 2007****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. As noted in the chairman's statement, the costs of research and development on specific projects have been capitalised in accordance with the accounting policy set out on page 13. General research and development costs are charged to the profit and loss account.

**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 with effect from 1 April 2007, in accordance with the provisions of the Companies Act 1989, Section 26(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

6 May 2008

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

We have audited the financial statements on pages 8 to 27.

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 2007 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

St Philips Point, Temple Row, Birmingham B2 5AF

6 May 2008

**SPRUE AEGIS PLC****CONSOLIDATED PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 31ST DECEMBER 2007**

	<u>Note</u>	<u>2007</u> £	Restated <u>2006</u> £
<b>Turnover</b>	(2)	7,263,057	3,383,968
Cost of sales		(4,243,509)	(2,041,430)
<b>Gross profit</b>		<u>3,019,548</u>	<u>1,342,538</u>
Distribution costs		(125,334)	(82,639)
Research and development		(260,531)	(119,789)
Administrative expenses		(1,683,434)	(1,218,437)
Other operating income		-	10,225
Goodwill amortisation		(17,292)	(17,292)
<b>Operating profit/(loss)</b>		<u>932,957</u>	<u>(85,394)</u>
Interest receivable and similar income		27,214	12,390
Interest payable and similar charges	(3)	(192,106)	(120,411)
<b>Profit/(loss) on ordinary activities before taxation</b>	(5)	<u>768,065</u>	<u>(193,415)</u>
Tax on profit/(loss) on ordinary activities	(6)	233,900	55,631
<b>Profit/(loss) for the year</b>	(17)	<u>1,001,965</u>	<u>(137,784)</u>
<b>Profit/(loss) per share</b>			
Basic	(7)	<u>0.0354</u>	<u>(0.0049)</u>
Diluted	(7)	<u>0.0351</u>	<u>(0.0048)</u>

**Continuing operations**

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

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

**SPRUE AEGIS PLC****STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES****FOR THE YEAR ENDED 31ST DECEMBER 2007**

	<b><u>2007</u></b>	Restated <b><u>2006</u></b>
	£	£
<b>Profit/(loss) for the year</b>	<b>1,001,965</b>	<b>(137,784)</b>
	<hr/>	<hr/>
<b>Total recognised gains and losses relating to the period</b>	<b>1,001,965</b>	
Prior year adjustment on the capitalisation and amortisation of development costs in the year ended 31 December 2006:-		
Development expenses capitalised	<b>182,040</b>	
Amortisation of development expenses	<b>(36,408)</b>	
Tax credit on development expenditure no longer due	<b>(35,000)</b>	
	<hr/>	
	<b>110,632</b>	
	<hr/>	
<b>Total recognised gains and losses recognised since the last annual report</b>	<b>1,112,597</b>	
	<hr/>	

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

SPRUE AEGIS PLCCONSOLIDATED BALANCE SHEET31ST DECEMBER 2007

	<u>Note</u>	<b>Group 2007</b>	Restated Group <u>2006</u>
		£	£
<b><u>Fixed assets</u></b>			
Intangible assets	(8)	406,880	205,066
Tangible assets	(9)	44,000	17,328
		<hr/>	<hr/>
		<b>450,880</b>	222,394
<b><u>Current assets</u></b>			
Stocks	(11)	1,193,848	505,129
Debtors	(12)	2,051,066	1,499,967
Cash at bank and in hand		1,050,373	645,257
		<hr/>	<hr/>
		<b>4,295,287</b>	2,650,353
<b>Creditors: amounts falling due within one year</b>	(13)	<b>(2,782,477)</b>	(953,417)
		<hr/>	<hr/>
<b>Net current assets</b>		<b>1,512,810</b>	1,696,936
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		<b>1,963,690</b>	1,919,330
<b>Creditors: amounts falling due after more than one year</b>	(14)	<b>(948,567)</b>	(1,912,447)
		<hr/>	<hr/>
<b>Net assets</b>		<b>1,015,123</b>	6,883
		<hr/>	<hr/>
<b><u>Capital and reserves</u></b>			
Called up share capital	(15)	565,841	565,841
Share premium account	(16)	2,283,397	2,283,397
Accumulated deficit	(17)	(1,834,115)	(2,842,355)
		<hr/>	<hr/>
<b>Equity shareholders' funds</b>	(18)	<b>1,015,123</b>	6,883
		<hr/>	<hr/>

The financial statements on pages 8 to 27 were approved by the board of directors and authorised for issue on 6 May 2008 and are signed on its behalf by:

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G R A Whitworth

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W J B Payne

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

SPRUE AEGIS PLC

<b>BALANCE SHEET</b>	<b>31ST DECEMBER 2007</b>		
	<u>Note</u>	Company <u>2007</u> £	Restated Company <u>2006</u> £
<b><u>Fixed assets</u></b>			
Intangible assets	(8)	364,738	145,632
Investments	(10)	149,256	149,256
		<u>513,994</u>	<u>294,888</u>
<b><u>Current assets</u></b>			
Debtors -due within one year	(12)	402,583	181,489
-due after one year	(12)	1,864,909	1,825,144
Cash at bank and in hand		783,359	356,949
		<u>3,050,851</u>	<u>2,363,582</u>
<b>Creditors: amounts falling due within one year</b>	(13)	<b>(1,384,742)</b>	<b>(293,167)</b>
<b>Net current assets</b>		<u><b>1,666,109</b></u>	<u>2,070,415</u>
<b>Total assets less current liabilities</b>		<b>2,180,103</b>	2,365,303
<b>Creditors: amounts falling due after more than one year</b>	(14)	<b>(948,567)</b>	<b>(1,912,447)</b>
<b>Net assets</b>		<u><b>1,231,536</b></u>	<u>452,856</u>
<b><u>Capital and reserves</u></b>			
Called up share capital	(15)	565,841	565,841
Share premium account	(16)	2,283,397	2,283,397
Accumulated deficit	(17)	(1,617,702)	(2,396,382)
<b>Equity shareholders' funds</b>	(18)	<u><b>1,231,536</b></u>	<u>452,856</u>

The financial statements on pages 8 to 27 were approved by the board of directors and authorised for issue on 6 May 2008 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 2007**

	<u>Note</u>	<u>2007</u>	Restated <u>2006</u>
		£	£
<b>Net cash inflow/(outflow) from operating activities</b>	<b>(19a)</b>	<b>879,963</b>	(650,067)
Returns on investment and servicing of finance	(19b)	(164,892)	(108,021)
Taxation	(19b)	56,508	25,000
Capital expenditure and financial investment	(19b)	(366,463)	(187,082)
		<hr/>	<hr/>
<b>Cash inflow/(outflow) before use of liquid resources and financing</b>		<b>405,116</b>	(920,170)
Management of liquid resources	(19b)	-	300,195
Financing	(19b)	-	1,118,900
		<hr/>	<hr/>
<b>Increase in cash during the year</b>		<b>405,116</b>	498,925
		<hr/>	<hr/>
<b>Reconciliation of net cash flow to movement in net debt</b>			
Increase in cash during the year		405,116	485,220
Cash (released from)/used to increase liquid resources		-	(300,195)
Cash inflow from increase in debt		-	(1,055,000)
Net movement in unamortised issue costs.		(24,435)	16,760
		<hr/>	<hr/>
Movement in net debt in the year		380,681	(853,215)
Net debt at beginning of year		(1,267,190)	(413,975)
		<hr/>	<hr/>
<b>Net debt at end of year</b>	<b>(19c)</b>	<b>(886,509)</b>	(1,267,190)
		<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 2007****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.

**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 2007. The results of subsidiaries acquired are consolidated for the period from the date on which control passed.

**c) Research and development**

Research expenditure is written off in the year 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 five years. This is a change of accounting policy, and the 2006 results have been restated accordingly. The impact of this on the current year and 2006 results is given in note 20 to the accounts.

**d) Goodwill**

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.

**e) 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

**f) Investments**

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

**g) 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 2007****1. Accounting policies (continued)****h) Share-based payments**

FRS 20 "Share Based Payments" applies 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.

**i) 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 in respect of expected utilisable trading losses are recognised in the accounts. Deferred tax assets and liabilities are not discounted.

**j) 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.

**k) Liquid resources**

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

**l) 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 2007****1. Accounting policies (continued)****m) Grants**

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

**n) Forward exchange contracts**

The group uses foreign currency contracts to reduce the exposure associated with foreign currency fluctuations. Such contracts are not stated in the accounts at fair value as the group does not prepare its accounts in accordance with the fair value accounting rules set out in the Companies Act 1985. Outstanding contracts have been disclosed as commitments and any gains or losses arising on exercise of these contracts are taken directly to net profit or loss in the period the contracts are exercised.

**o) Operating leases**

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

**2. Turnover**

An analysis of turnover by geographical market for the years ended 31 December 2007 and 31 December 2006 is given below:

	<u>2007</u>	<u>2006</u>
	£	£
United Kingdom and Eire	7,260,229	3,269,012
North America	-	114,956
Others	2,828	-
	<u>7,263,057</u>	<u>3,383,968</u>

**3. Interest payable and similar charges**

	<u>2007</u>	<u>2006</u>
	£	£
Interest on other loans	187,797	115,830
Other interest	4,309	4,581
	<u>192,106</u>	<u>120,411</u>

**SPRUE AEGIS PLC****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2007****4. Employees**

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

	<u>2007</u>	<u>2006</u>
	Number	Number
Sales and marketing	6	6
Technology	7	5
Administration	5	3
	<u>18</u>	<u>14</u>
<b>Costs in respect of these employees:</b>	<b>£</b>	<b>£</b>
Wages and salaries	<b>689,738</b>	566,450
Social security costs	<b>80,363</b>	64,941
Share-based payments (option scheme)	<b>6,275</b>	2,801
	<u><b>776,376</b></u>	<u>634,192</u>

Included in the above are labour costs that have been capitalised as part of development costs as follows:

	£	Restated £
Wages and salaries	<b>123,634</b>	96,782
Social security costs	<b>14,505</b>	10,816
	<u><b>138,139</b></u>	<u>107,598</u>
<b>Directors' emoluments in respect of the directors of Sprue Aegis plc</b>	<b>£</b>	<b>£</b>
Aggregate emoluments	<b>380,059</b>	311,308
	<u><b>105,538</b></u>	<u>83,615</u>

The highest paid director did not exercise any share options in the current or preceding year. No element of the share based payment charge relates to the highest paid director (2006 £-).

**SPRUE AEGIS PLC****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2007**

<b>5. <u>Profit/loss on ordinary activities before taxation</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>
Profit/loss on ordinary activities before taxation is stated after charging:	£	£
Amortisation of goodwill	<b>17,292</b>	17,292
Depreciation of tangible fixed assets	<b>19,112</b>	6,487
Current year research and development expenditure	<b>160,244</b>	83,381
Amortisation of deferred development expenditure	<b>100,287</b>	36,408
Auditor's remuneration - audit services	<b>24,350</b>	14,650
-company		
-subsidiaries	<b>5,000</b>	5,000
Foreign exchange losses	<b>47,076</b>	20,922
Operating lease rentals		
- land and buildings	<b>35,786</b>	25,713
- other	<b>4,507</b>	6,409
Exceptional expenditure	-	124,357
	<b>_____</b>	<b>_____</b>

Exceptional expenditure of £154,357 was incurred during the prior year, £124,357 of which was 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 was included within creditors as detailed in note 15.

<b>6. <u>Taxation</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>
<b>Analysis of charge/(credit) in year</b>	£	£
Current tax:		
Adjustment in respect of previous year	<b>100</b>	10,369
	<b>_____</b>	<b>_____</b>
Total current tax charge	<b>100</b>	10,369
Deferred tax - increase in deferred tax asset	<b>(234,000)</b>	(66,000)
	<b>_____</b>	<b>_____</b>
Tax on profit/(loss) on ordinary activities	<b>(233,900)</b>	(55,631)
	<b>_____</b>	<b>_____</b>

No liability to corporation tax will arise on the results for the year ended 31st December 2007 or the year ended 31st December 2006. At the year end there were corporation tax losses of approximately £2,115,000 (2006 restated £2,700,000) available for set off against future assessable profits. The deferred tax asset of £300,000 (2006: £66,000) is included in debtors, relating to the tax losses expected to be utilised within the group at the corporation tax rate of 20% which is expected to apply over the periods concerned.

**SPRUE AEGIS PLC****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2007****6. Taxation (continued)****Factors affecting tax charge for year**

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

	<b><u>2007</u></b>	Restated <u>2006</u>
	£	£
Profit/(loss) on ordinary activities before taxation	<b>768,065</b>	(193,415)
Standard rate of corporation tax in the UK	<b>20%</b>	19%
	£	£
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax	<b>153,613</b>	(36,749)
Effects of:		
Expenses not deductible for tax purposes	<b>26,397</b>	11,466
Capital allowances in excess of depreciation	<b>(490)</b>	-
Depreciation for year in excess of capital allowances	-	1,178
Allowance for capitalised development expenditure	<b>(63,879)</b>	(34,588)
Utilisation of tax losses brought forward	<b>(115,641)</b>	(141,529)
Tax losses carried forward	-	200,222
Adjustments to tax charge in respect of previous years	<b>100</b>	10,369
Current tax charge for year	<b>100</b>	10,369

**7. Profit/(loss) per share**

	<b><u>2007</u></b>	Restated <u>2006</u>
	£	£
Profit/(loss) attributable to shareholders being profit/(loss) after taxation	<b>1,001,965</b>	(137,784)
Weighted average number of shares in issue for basic calculation	<b>28,292,063</b>	28,195,899
Deemed issue of potentially dilutive shares	<b>240,570</b>	273,680
Weighted average number of shares in issue for diluted calculation	<b>28,532,633</b>	28,469,579
<b>Profit/(loss) per share</b>		
-basic	<b>0.0354</b>	(0.0049)
-diluted	<b>0.0351</b>	(0.0048)

SPRUE AEGIS PLCNOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2007

8. <u>Intangible fixed assets</u>	Company Restated		Development costs	Group Restated
	<u>Development costs</u>	<u>Goodwill</u>	<u>Development costs</u>	<u>Total</u>
	£	£	£	£
<b>Cost</b>				
1 January 2007	<b>182,040</b>	172,922	182,040	<b>354,962</b>
Additions	<b>319,393</b>	-	319,393	<b>319,393</b>
	<hr/>	<hr/>	<hr/>	<hr/>
31 December 2007	<b>501,433</b>	172,922	501,433	<b>674,355</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Amortisation</b>				
1 January 2007	<b>36,408</b>	113,488	36,408	<b>149,896</b>
Charge for the period	<b>100,287</b>	17,292	100,287	<b>117,579</b>
	<hr/>	<hr/>	<hr/>	<hr/>
31 December 2007	<b>136,695</b>	130,780	136,695	<b>267,475</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net book value</b>				
31 December 2007	<b>364,738</b>	42,142	364,738	<b>406,880</b>
	<hr/>	<hr/>	<hr/>	<hr/>
1 January 2007	<b>145,632</b>	59,434	145,632	205,066
	<hr/>	<hr/>	<hr/>	<hr/>

SPRUE AEGIS PLCNOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2007

<b>9. <u>Tangible fixed assets</u></b>	<b>Fixtures &amp; fitting</b>	<b>Office equipment</b>	<b>Total</b>
<b>Group</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Cost</b>			
1 January 2007	15,966	46,082	62,048
Additions	4,553	42,517	47,070
Disposals	-	(21,235)	(21,235)
	<hr/>	<hr/>	<hr/>
31 December 2007	<b>20,519</b>	<b>67,364</b>	<b>87,883</b>
	<hr/>	<hr/>	<hr/>
<b>Depreciation</b>			
1 January 2007	8,671	36,049	44,720
Charge for year	2,962	16,150	19,112
Eliminated on disposals	-	(19,949)	(19,949)
	<hr/>	<hr/>	<hr/>
31 December 2007	<b>11,633</b>	<b>32,250</b>	<b>43,883</b>
	<hr/>	<hr/>	<hr/>
<b>Net book value</b>			
31 December 2007	<b>8,886</b>	<b>35,114</b>	<b>44,000</b>
	<hr/>	<hr/>	<hr/>
1 January 2007	7,295	10,033	17,328
	<hr/>	<hr/>	<hr/>

<b>10. <u>Fixed asset investments</u></b>	<b>Company 2007</b>	<b>Company 2006</b>
	<b>£</b>	<b>£</b>
Fixed asset investments comprise the following:		
Subsidiary undertakings at cost	<b>149,256</b>	149,256
	<hr/>	<hr/>

The fixed asset investments represents the following:

<b>Name</b>	<b>Place of registration</b>	<b>Description</b>	<b>Proportion of nominal value of issued shares and voting rights held</b>
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 2007**

<b>11. <u>Stocks</u></b>	<b>Group <u>2007</u></b>	<b>Company <u>2007</u></b>	<b>Group <u>2006</u></b>	<b>Company <u>2006</u></b>
	£	£	£	£
Goods for resale	<b>1,193,848</b>	-	505,129	-

<b>12. <u>Debtors</u></b>	<b>Group <u>2007</u></b>	<b>Company <u>2007</u></b>	<b>Group restated <u>2006</u></b>	<b>Company restated <u>2006</u></b>
	£	£	£	£
Amounts falling due within one year:				
Trade debtors	<b>1,696,182</b>	-	1,198,603	-
Amounts owed by group undertaking	-	<b>74,701</b>	-	71,777
Other debtors	<b>3,672</b>	<b>13,820</b>	107,901	28,222
Corporation tax	-	-	56,608	56,608
Prepayments and accrued income	<b>51,212</b>	<b>14,062</b>	70,855	24,882
Deferred tax asset	<b>300,000</b>	<b>300,000</b>	66,000	-
	<b>2,051,066</b>	<b>402,583</b>	1,499,967	181,489
Amounts falling due after more than one year:				
Amounts owed by group undertaking	-	<b>1,864,909</b>	-	1,825,144
	-	<b>1,864,909</b>	-	1,825,144

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

<b>13. <u>Creditors: amounts falling due within one year</u></b>	<b>Group <u>2007</u></b>	<b>Company <u>2007</u></b>	<b>Group <u>2006</u></b>	<b>Company <u>2006</u></b>
	£	£	£	£
Trade creditors	<b>672,791</b>	-	472,335	-
Amounts owed to group undertaking	-	<b>103,244</b>	-	66,918
Other taxation and social security	<b>145,533</b>	<b>29,412</b>	59,507	25,420
Other creditors	<b>91,593</b>	<b>35,857</b>	210,931	114,884
Accruals and deferred income	<b>884,245</b>	<b>227,914</b>	210,643	85,945
Convertible unsecured loan stock	<b>988,315</b>	<b>988,315</b>	-	-
	<b>2,782,477</b>	<b>1,384,742</b>	953,416	293,167

Details of the Convertible unsecured loan stock are given in note 14.

**SPRUE AEGIS PLC****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2007****14. Creditors: amounts falling due after more than one year**

	<b>Group</b>	<b>Company</b>	<b>Group</b>	<b>Company</b>
	<b><u>2007</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>2006</u></b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Convertible unsecured loan stock	-	-	973,558	973,558
Loan note repayable between two and five years other than by instalments	<b>468,797</b>	<b>468,797</b>	463,117	463,117
Other loan repayable after more than five years other than by instalments	<b>479,770</b>	<b>479,770</b>	475,772	475,772
	<b><u>948,567</u></b>	<b><u>948,567</u></b>	<b><u>1,912,447</u></b>	<b><u>1,912,447</u></b>

The loan balances included in notes 13 and 14 are stated net of unamortised issue costs of £43,118 (2006: £67,553). These costs together with the interest expense are allocated to the profit and loss account over the terms of the facilities.

The above Convertible unsecured loan stock (CULS) of £988,315 (£1,000,000 gross of unamortised issue costs) 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.

The above loan of £479,770 (£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 £468,797 (£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.

**15. Called-up share capital**

	<b>Group and company <u>2007</u></b>	<b>Group and company <u>2006</u></b>
	<b>£</b>	<b>£</b>
<b>Authorised</b>		
100,000,000 (2006 100,000,000) Ordinary shares of 2p each	<b>2,000,000</b>	2,000,000
<b>Allotted, called up and fully paid</b>		
28,292,063 (2006 28,292,063) Ordinary shares of 2p each	<b>565,841</b>	565,841

SPRUE AEGIS PLCNOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2007

<b>16. <u>Share premium account</u></b>	<b>Group and company <u>2007</u></b>
	<b>£</b>
At beginning and at end of year	<b>2,283,397</b>

<b>17. <u>Profit and loss account</u></b>	<b>Group <u>2007</u></b>	<b>Company <u>2007</u></b>
	<b>£</b>	<b>£</b>
At beginning of year as previously stated	(2,952,987)	(2,507,014)
Prior year adjustment	110,632	110,632
At beginning of year as restated	(2,842,355)	(2,396,382)
Profit for year	1,001,965	772,405
Reduction in deficit arising from charge to income for share based payments	6,275	6,275
<b>At end of year</b>	<b>(1,834,115)</b>	<b>(1,617,702)</b>

The profit for the financial period dealt with in the company was £772,405. As allowed under Section 230 of the Companies Act 1985, a separate profit and loss account has not been presented for the company.

<b>18. <u>Reconciliation of movements on shareholders' funds</u></b>			Restated	Restated
	<b>Group</b>	<b>Company</b>	<b>Group</b>	<b>Company</b>
	<b><u>2007</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>2006</u></b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Profit/(loss) for the financial year	1,001,965	772,405	(137,784)	(886,691)
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	6,275	6,275	2,801	2,801
Net additions/(deductions) from shareholders' funds	1,008,240	778,680	(71,083)	(819,990)
Opening shareholders' funds (originally Group deficit £103,749 and Company £342,224 before adding prior year adjustment of £110,632)	6,883	452,856	77,966	1,272,846
<b>Closing shareholders' funds</b>	<b>1,015,123</b>	<b>1,231,536</b>	<b>6,883</b>	<b>452,856</b>

**SPRUE AEGIS PLC****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2007****19. Cash flow statement**

	<b>Group</b>	Restated
	<b><u>2007</u></b>	<u>2006</u>
	£	£
<b>a) Reconciliation of operating profit/(loss) to operating cash flows</b>		
Operating profit/(loss)	932,957	(85,394)
Amortisation	117,579	53,700
Depreciation charges	19,112	6,487
Loss on disposal of tangible fixed assets	1,286	-
Share based payment expense	6,275	2,801
Increase in debtors	(373,707)	(1,312,550)
Increase in stock	(688,719)	(99,020)
Increase in creditors	865,180	783,909
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	879,963	(650,067)
	<hr/>	<hr/>
<b>b) Analysis of cash flows for headings netted in the cash flow statement</b>		
	£	£
<b>Returns on investment and servicing of finance</b>		
Interest received	27,214	12,390
Debt related finance costs	(187,797)	(115,830)
Other interest paid	(4,309)	(4,581)
	<hr/>	<hr/>
	(164,892)	(108,021)
	<hr/>	<hr/>
<b>Taxation</b>		
Tax credit received	56,508	25,000
	<hr/>	<hr/>
<b>Capital expenditure and financial investment</b>		
Purchase of intangible fixed assets	(319,393)	(182,040)
Purchase of tangible fixed assets	(47,070)	(5,042)
	<hr/>	<hr/>
	(366,463)	(187,082)
	<hr/>	<hr/>
<b>Management of liquid resources</b>		
Decrease/(Increase) in term deposits	-	300,195
	<hr/>	<hr/>
<b>Financing</b>		
Increase in debt	-	1,055,000
Issue of shares by parent undertaking (including share premium)	-	65,000
Expenses in connection with share issue	-	(1,100)
	<hr/>	<hr/>
	-	1,118,900
	<hr/>	<hr/>

**SPRUE AEGIS PLC****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2007****19. Cash flow statement (continued)**

c) Analysis of net debt	At beginning of year	Cash flows	Non - cash movements	Reclassify balance	At end of year
	£	£	£	£	£
Cash at bank and in hand	645,257	405,116			<b>1,050,373</b>
		405,116			
Debt due within one year	-	-		(988,315)	<b>(988,315)</b>
Debt due after one year	(1,912,447)	-	(24,435)	988,315	<b>(948,567)</b>
	(1,267,190)	405,116	(24,435)	-	<b>(886,509)</b>

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

**20. Prior year adjustments**

In view of the continued significance of the group's research and development expenditure the directors have decided to capitalise and amortise development costs associated with the development of certain product ranges to achieve a more appropriate matching of costs and associated revenues. The capitalisation and amortisation of development expenditure incurred in the year ended 31 December 2006 has resulted in the following prior period adjustment:

	<b>£</b>
Development costs previously written off as incurred now capitalised	182,040
Amortisation of these capitalised costs	(36,408)
Reversal of tax credit recoverable on research and development expenditure	(35,000)
	<b>110,632</b>

Current years results have been affected as follows as a result of the new policy on research and development expenditure:

	<b>£</b>
Development costs previously written off as incurred now capitalised	319,393
Amortisation of capitalised costs	(100,287)
	<b>219,106</b>

SPRUE AEGIS PLCNOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2007**21. Share options and share-based payments**

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

<b>Grant date</b>	<b>Outstanding at start of year</b>	<b>Forfeited during the year</b>	<b>Granted during the year</b>	<b>Outstanding at end of year</b>	<b>Expiry date</b>	<b>Exercise price</b>
<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	(10,000)	-	80,000	11/07/2013	15p
31/10/2007	-	-	125,000	125,000	01/11/2014	17p
<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 or expired in the year. For all options the vesting date is equivalent to the grant date.

As of 31 December 2007 a total of 8,262,280 options had been issued all of which were exercisable at 31 December 2007. The weighted average remaining contractual life of share options outstanding at the period end is three years.

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

	<u>2007</u>	<u>2006</u>
Share price when options issued	17.25p	14.25p
Expected volatility (based on closing prices in the year prior to issue)	1.23%	1.28%
Expected life	7 years	7 years
Risk-free rate	5.00%	4.25%
Expected dividends	Zero	Zero

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

	<u>2007</u>	<u>2006</u>
	£	£
Employee benefits (note 4)	<b>6,275</b>	2,801

**SPRUE AEGIS PLC****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2007****22. Guarantees and other financial commitments****a) Lease commitments**

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

	2007		2006	
	Property	Others	Property	Others
	£	£	£	£
Operating leases which expire:-				
-within one year	-	3,878	25,840	-
-between two and five years	37,740	-	-	3,878
	<u>37,740</u>	<u>3,878</u>	<u>25,840</u>	<u>3,878</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 and 6th January 2006 the company issued loan notes of £425,000 and £55,000 respectively 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.

**c) Foreign exchange commitments**

Forward contracts to purchase a total of US\$2,828,680 for total consideration of £1,400,000 over the seven month period January 2008 to July 2008 were outstanding at the year end (2006: US\$756,790 for total consideration of £400,000 over the four month period January 2007 to April 2007). Unrealised gains on these contracts at the year end based on the year end rate of exchange were £16,252 (2006: unrealised losses £13,705).

**23. 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 £40,000 (2006 £50,750) for W J B Payne's services as the company's Finance Director and £48,783 (2006 £40,003) 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 4.

J Kreminski is a director of QSA Global Limited, which is the parent company of one of the group's principal suppliers QSA Hong Kong Limited. During the year the group purchased goods with a value of £2,023,707 (2006: £225,043) from QSA Hong Kong Limited at normal commercial terms. At the year end the group owed QSA Hong Kong Limited £462,953 (2006: £106,755).

**SPRUE AEGIS PLC**

**DETAILED COMPANY PROFIT AND LOSS ACCOUNT**

**YEAR ENDED 31ST DECEMBER 2007**

	<b>2007</b>		<b>Restated 2006</b>	
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Management fees receivable</b>		1,675,000		-
<b>Research and development</b>				
Current years expenditure		160,244		83,381
Amortisation of capitalised development costs		100,287		36,408
		<hr/>		<hr/>
		(260,531)		(119,789)
<b>Other operating income</b>		-		125,181
<b>Administrative expenses:</b>				
Wages and national insurance contributions		300,422		303,200
Director's remuneration		240,587		175,225
Motor leasing and expenses		7,206		9,091
Recruitment and training		29,516		-
Management fees payable		42,365		49,929
Equipment rental and maintenance		71		3,200
Exchange difference		17,779		7,944
Audit Fees		24,350		14,650
Legal and professional fees		547		102,618
Consultants fees		26,593		20,000
Accountants fees		88,783		90,753
		<hr/>		<hr/>
		(778,219)		(776,610)
<b>Operating profit/(loss)</b>		<hr/>		<hr/>
		636,250		(771,218)
Interest receivable		24,151		12,081
Interest payable		(187,896)		(117,185)
		<hr/>		<hr/>
<b>Profit/(loss) for the year before taxation</b>		472,505		(876,322)
Taxation		299,900		(10,369)
		<hr/>		<hr/>
<b>Profit/(loss) for the year</b>		772,405		(886,691)

This page does not form part of the audited financial statements