

# Lupus Capital plc

**Lupus Capital plc announces its unaudited preliminary results for the year ended 31 December 2005**

Highlights:

- Proposed major acquisition for £84 million
- Sales increase of over 13%
- £3.176 million pre tax profits, up almost 7%
- 0.41p dividend per share in respect of the year, up over 5%
- continued strong cash generation

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Listed on the London Stock Exchange and classified under "Speciality and other finance"

## CHAIRMAN'S STATEMENT

Dear Shareholder,

I am very pleased to announce the proposed acquisition of Schlegel, an international door and window seal manufacturer for £84 million for which we will be holding an EGM on 29 March 2006. Full details are enclosed in the prospectus that is being published on 6 March.

It is also very satisfying to be able to report to you an outstanding year for your company in relation to our existing business. Sales were up 13.2% to £7.479 million (2004: £6.607 million) and adjusted pre-tax profits increased 6.8% to £3.176 million (2004: £2.974 million) before goodwill, the lesot charge and exceptional items. On an unadjusted basis for the above items the reported pre-tax result for 2004 was a loss of £5.050 million.

A growing dividend has also been one of our objectives and we have been able, yet again, to achieve this with a series of proposed dividends.

We are recommending a final dividend for 2005 of 0.278p (2004: 0.264p) which is an increase of over 5%. This final dividend will be paid to shareholders following the AGM, which we expect to hold in May 2006.

We also intend to pay a special interim dividend of 0.114p per Ordinary Share in respect of the quarter ending 31 March 2006 to shareholders on the register on 31 March 2006. This special interim dividend will be paid to shareholders on 21 April 2006.

In addition we expect to pay, firstly, a further interim dividend of 0.049p for the first half of 2006. These two interims for existing shareholders will make a total dividend for the first half of 2006 of 0.163p (0.132p) up 23% from the 2005 first half. Secondly, we are planning a final dividend for the six months ending 31 December 2006 of 0.292p (2005: 0.278p).

Thus we expect, in the absence of unforeseen circumstances, to declare dividends (including the special interim dividend) for the financial year ending 31 December 2006 totalling 0.455p. This is equivalent to a dividend yield of 3.25 per cent at the issue price of the shares for the acquisition and will mean an increase for existing shareholders of almost 11 per cent over the level of 2005 dividends. It is the intention of the Board to maintain a progressive dividend policy in the future.

We are very excited about the progress that we are making with your company. Our results are good, backed up by strong cash generation and a progressive dividend policy. The acquisition of Schlegel, a leading building products manufacturer, is yet another step in creating a successful growing international business in line with our strategy of developing Lupus Capital plc.

Yours sincerely,

Greg Hutchings  
3 March 2006

The preliminary announcement was approved by the Board on 3 March 2006.

## Group Income Statement

For the year ended 31 December 2005

	Note	2005 £'000 Unaudited	2004* £'000 Audited
<b>Revenue</b>	3	<b>7,479</b>	6,607
Cost of sales		<u>(2,213)</u>	<u>(1,838)</u>
<b>Gross profit</b>		<b>5,266</b>	4,769
<b>Administrative expenses</b>			
- administrative expenses	3	(2,180)	(1,822)
- lesot charge	3	-	(6,715)
- exceptional restructuring costs		<u>-</u>	<u>(1,309)</u>
Total administrative expenses		<b>(2,180)</b>	(9,846)
<b>Operating profit/(loss)</b>	3	<u><b>3,086</b></u>	<u>(5,077)</u>
Interest receivable and similar income	5	<b>316</b>	251
Interest payable and similar charges	5	<b>(226)</b>	(224)
<b>Profit/(loss) on ordinary activities before taxation</b>		<u><b>3,176</b></u>	<u>(5,050)</u>
Taxation	6	<b>(1,025)</b>	(538)
<b>Profit/(loss) on ordinary activities attributable to shareholders of the company</b>		<u><b>2,151</b></u>	<u>(5,588)</u>
Earnings/(loss) per share – basic and diluted	8	<b>0.90p</b>	(2.49p)

\*restated under IFRS (see notes 2 and 24)

There were no recognised income and expense other than the profit for the year.

All results relate to continuing operations.

## Group balance sheet

### As at 31 December 2005

	Note	2005 £'000 Unaudited	2004* £'000 Audited
<b>Non-current assets</b>			
Intangible assets	9	11,421	11,421
Property, plant and equipment	10	<u>443</u>	<u>396</u>
		<b>11,864</b>	11,817
<b>Current assets</b>			
Inventories	11	331	251
Trade and other receivables	12	2,965	2,323
Cash and cash equivalents	19	<u>2,654</u>	<u>1,649</u>
		<b>5,950</b>	4,223
		<u>17,814</u>	<u>16,040</u>
<b>Current liabilities</b>			
Finance lease obligations		(1)	-
Current tax		(718)	(518)
Trade and other payables	13	<u>(1,196)</u>	<u>(854)</u>
		<b>(1,915)</b>	<b>(1,372)</b>
<b>Non-current liabilities</b>			
Finance lease obligations	14	(2)	-
Deferred tax	14	<u>(19)</u>	<u>-</u>
		<b>(21)</b>	-
<b>Net assets</b>			
		<u>15,878</u>	<u>14,668</u>
<b>Capital and reserves</b>			
Called up share capital	17	1,188	1,188
Merger reserve	18	10,389	10,389
Lesot reserve	18	-	(8,201)
Profit and loss account	18	<u>4,301</u>	<u>11,292</u>
<b>Shareholders' funds</b>		<u>15,878</u>	<u>14,668</u>

\*restated under IFRS (see notes 2 and 24)

## Group Statement of Changes in Equity

For the year ended 31 December 2005

	Note	2005 £'000 Unaudited	2004* £'000 Audited
Opening equity	18	14,668	13,161
Profit/(loss) for the financial year	18	2,151	(5,588)
Lesot cost included in loss for the year		-	6,715
Shares issued net of costs		-	1,231
Dividends paid or legally committed to be paid on ordinary shares	18	(941)	(851)
Closing equity		<b>15,878</b>	14,668

\*restated under IFRS (see note 24)

## Group cash flow statement

For the year ended 31 December 2005

	2005 £'000 Unaudited	2004* £'000 Audited
<b>Cash flows from operating activities</b>		
Operating profit/(loss)	3,086	(5,077)
Depreciation	58	55
Movement in inventories	(80)	-
Movement in receivables	(642)	548
Movement in payables	342	(575)
Lesot cost included in operating loss	-	6,715
Interest received	316	252
Interest paid	(226)	(221)
UK corporation tax paid	(806)	(489)
<b>Net cash inflow from operating activities</b>	<u>2,048</u>	<u>1,208</u>
<b>Investing activities</b>		
Property, plant and equipment	(102)	(36)
<b>Net cash outflow from investing activities</b>	<u>(102)</u>	<u>(36)</u>
<b>Financing</b>		
Issue of shares net of costs	-	1,231
Equity dividends paid	(941)	(851)
<b>Net cash (outflow)/inflow from financing activities</b>	<u>(941)</u>	<u>380</u>
<b>Increase in cash and cash equivalents</b>	<u>1,005</u>	<u>1,552</u>

\*restated under IFRS (see note 24)

## Notes to the accounts

### 1. Accounting policies

#### 1.1 Going concern basis

The financial statements have been prepared on the going concern basis.

#### 1.2 Accounting convention

The financial statements have been prepared on a historical cost basis in accordance with applicable International Financial Reporting Standards (IFRS) as adopted by the EU and with IFRS1 "First time adoption of International Financial Reporting Standards". The comparative information for the year ended 31 December 2004 was previously reported under applicable UK accounting standards (UK GAAP) and has been restated where necessary. The relevant changes of accounting policies are as follows:

##### (a) *Goodwill*

The previous requirement to amortise goodwill is replaced by an impairment review of goodwill based upon the value of the Company's investments. The directors have conducted an impairment review and have concluded that the value at which Gall Thomson Environmental Limited (Gall Thomson) was stated in the Company's balance sheet at 1 January 2004 and the value at which KLAW Products Limited was stated in the balance sheet of Gall Thomson at 1 January 2004 are not greater than the realisable values of those investments. Therefore the carrying value of goodwill is the value as at 1 January 2004 and no further provision has been made against that value.

##### (b) *Dividends*

Dividends payable are no longer recorded as liabilities until a legal requirement to pay them has arisen. As explained in note 7 below, payment of the final dividend for the year 2004 did not become a legal obligation of the Company until after 30 June 2005. Therefore this dividend is added back to the shareholders' funds previously shown as at 31 December 2004 and is not deducted from shareholders' funds as at 30 June 2005. During the comparative period ended on 30 June 2004, the final dividend for the year ended 31 December 2003 had become a legal obligation of the Company, having been approved by shareholders at the AGM in May 2004 (although it had not yet been paid in cash).

The financial effects of these changes upon the results for the year ended 31 December 2004 are set out in note 2 below.

#### 1.3 Basis of consolidation

The Group financial statements consolidate those of the Company and its subsidiary undertakings (see note 13) drawn up to 31 December each year.

#### 1.4 Revenue

Revenue represents the value of work completed for customers during the year net of VAT.

#### 1.5 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand as well as short-term highly liquid investments such as money market instruments and bank deposits. Money market instruments are financial assets carried at fair value through profit or loss.

## 1.6 Financial instruments

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Trade payables are stated at their nominal amount.

## 1.7 Bank borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received. All borrowing costs are expensed as incurred, on an accruals basis, to the Group income statement using the effective interest rate method.

## 1.8 Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation. Depreciation is provided on all assets except freehold land at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis over its expected useful life, at the following annual rates:

Freehold buildings	2%
Plant and machinery	15% to 25%
Motor vehicles	20% to 25%

The carrying values of tangible fixed assets are reviewed for impairment periodically if events or changes in circumstances indicate that the carrying value may not be recoverable.

## 1.9 Leasing

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

## 1.10 Inventories

Inventories were valued at the lower of cost and net realisable value. Cost is determined on a purchase cost basis. Work-in-progress includes materials and labour costs and an appropriate proportion of overheads incurred on uncompleted contracts at the year end.

## 1.11 Pensions

The Group operates defined contribution pension schemes within Gall Thomson Environmental Limited. Contributions are charged to the profit and loss account as incurred.

## 1.12 Deferred taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates enacted at the balance sheet dates and that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### 1.13 Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the Group income statement.

### 1.14 Share-based employee remuneration

All share-based payment arrangements are recognised in the consolidated financial statements. The group operates an equity-settled share-based remuneration plan for remuneration of its employees.

All employee services received in exchange for the grant of any share-based remuneration are measured at their fair values. These are indirectly determined by reference to the fair value of the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to additional paid-in capital, net of deferred tax where applicable. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Upon exercise of share options, the proceeds received net of any directly attributable costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as share premium.

## 2. Reconciliation of effect of adoption of IFRS

The restatements required by the changes in accounting policy, as set out in note 1 above, are as follows:

(a) Loss after taxation		Year ended 31 December 2004 £'000
Loss for the financial year, as previously stated under UK GAAP		<u>(6,328)</u>
Amortisation of goodwill written back		740
As reported under IFRS		<u>(5,588)</u>
(b) Net assets		
	At 1 January 2005 (unaudited) £'000	At 1 January 2004 (unaudited) £'000
Opening net assets, as previously stated under UK GAAP	<u>13,301</u>	<u>12,610</u>
Proposed dividends written back	627	551
Amortisation of goodwill added back	740	-
As reported under IFRS	<u>14,668</u>	<u>13,161</u>

### 3. Revenue and operating profit

Revenue is attributable to the continuing operations of Gall Thomson Environmental Limited and its subsidiary, stated net of VAT. All revenue is based in the United Kingdom and is related to oil services.

	<b>2005</b>	2004
	<b>£'000</b>	£'000
Revenue	<b>7,479</b>	6,607
Cost of sales	<u>(2,213)</u>	<u>(1,838)</u>
Gross profit	<b>5,266</b>	4,769
Administrative expenses	<u>(2,180)</u>	<u>(3,131)</u>
Operating profit, before lesot charge	<u><b>3,086</b></u>	<u>1,638</u>
Lesot charge	<u>-</u>	<u>(6,715)</u>
Operating profit/(loss)	<u><b>3,086</b></u>	<u>(5,077)</u>

#### Revenue by destination

	<b>2005</b>	2004
	<b>£'000</b>	£'000
United Kingdom	<b>990</b>	622
Other European countries	<b>3,839</b>	2,049
North America	<b>908</b>	594
South America	<b>388</b>	141
Africa	<b>39</b>	161
Middle East	<b>706</b>	1,971
Asia Pacific	<u><b>609</b></u>	<u>1,069</u>
Total	<u><b>7,479</b></u>	<u>6,607</u>

#### Operating profit is stated after charging

	<b>2005</b>	2004
	<b>£'000</b>	£'000
Depreciation of property, plant and equipment - owned assets	<b>58</b>	55
Operating lease rentals - land and buildings	<b>86</b>	84
Auditors' remuneration - audit services	<b>36</b>	19
Auditors' remuneration - other services	<b>14</b>	8
Foreign exchange (profit)/loss	<u><b>(39)</b></u>	<u>29</u>

The other services provided by the auditors related to the provision of taxation services which the directors consider it cost effective for the auditors to provide.

#### Segmental analysis

All profits, losses and net assets in the year ended 31 December 2005 and 31 December 2004 were attributable to oil services, which are deemed to be continuing activities.

## 4. Employees

### Number of employees

The average monthly number of employees (including directors) of the Group during the financial year was:

	2005 Number	2004 Number
Administration	15	16
Operations	18	16
	<u>33</u>	<u>32</u>

### Employment costs

Employment costs of these employees during the year were as follows:

	2005 £'000	2004 £'000
Wages and salaries	1,565	1,310
Social Security costs	192	158
Other pension costs	85	83
	<u>1,842</u>	<u>1,551</u>

## 5. Interest receivable and payable

	2005 £'000	2004 £'000
Bank interest receivable	316	251
Interest payable on bank overdraft	(226)	(224)
	<u>90</u>	<u>27</u>

## 6. Taxation

### a). Factors affecting the tax charge in the year:

The tax assessed for the year differs from the standard rate of tax in the UK (30%). The differences are explained below:

	2005 £'000	2004 £'000
Profit/(loss) from ordinary activities before taxation	<u>3,176</u>	<u>(5,050)</u>
Rate of corporation tax in the UK of 30% (2004: 30%)	952	(1,515)
Effects of:		
Expenses not deductible for tax purposes:		
Charge in respect of transfer of shares to lesot	-	2,014
Legal charges in respect of share issues	-	63
Other items	42	2
Capital allowances in advance of depreciation	12	(3)

Other timing differences	19	(69)
Corporation tax rate difference	-	(8)
Offset of Advanced Corporation Tax	-	(5)
Adjustment in respect of prior periods	-	59
<b>Current tax for the year</b>	<b>1,025</b>	<b>538</b>

Comprising:

Current tax expense	1,006	539
Deferred tax expense	19	(1)
	<b>1,025</b>	<b>538</b>

b). *Factors that may affect future tax charges:*

There are estimated tax losses of £11,954,000 (2004: £11,954,000) within the Group, comprising capital losses of £6,760,000 and other tax losses of £5,194,000. As the future use of these losses is uncertain, in accordance with the Group's accounting policy no deferred tax asset has been recognised in respect of them.

The amounts of deferred tax not recognised are as follows:

	2005 £'000	2004 £'000
Tax losses	(1,558)	(1,558)
Capital losses	(2,028)	(2,028)
Other short term timing differences	-	-
	<b>(3,586)</b>	<b>(3,586)</b>

## 7. Dividends

	2005 £'000	2004 £'000
Dividends reflected in the financial statements:		
Interim dividend at 0.132p per share (2004: 0.126p)	314	300
Final dividend paid for the year 2004 at 0.264p (2003: 0.25p)	627	551
	<b>941</b>	<b>851</b>
Dividends not reflected in the financial statements:		
Proposed final dividend for the year 2005 at 0.278p per share (2004: 0.264p)	661	627

## 8. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit/(loss) after taxation for the financial year and on a weighted average number of shares in issue during the year of 237,696,286 ordinary shares of 0.5p (2004: *weighted average 224,306,337*). There are no dilutive instruments in issue.

## 9. Intangible fixed assets

Intangible fixed assets comprise goodwill arising on consolidation of Gall Thomson Environmental and based upon the value of the Company's investment.

	Goodwill arising on consolidation £'000
<b>Net book value, as restated under IFRS</b>	
At 1 January 2005 and at 31 December 2005	<u><b>11,421</b></u>

All goodwill relates to the ongoing business stream in Gall Thomson Environmental and the single activity of the Group. The recoverable amount was determined on its value in use calculation using a detailed three year forecast followed by an extrapolation of expected cash flows at the growth rates below:

	<b>2005</b>	2004
Growth rates	<b>0%</b>	0%
Discount rate	<b>5.7%</b>	5.7%

The key assumptions for the business include stable operating margins, based on past experience.

## 10. Property, plant and equipment

	Freehold land and buildings £'000	Plant and machinery £'000	Motor vehicles £'000	Total £'000
Gross carrying amount	207	424	8	639
Accumulated depreciation and impairment	<u>(34)</u>	<u>(182)</u>	<u>(8)</u>	<u>(224)</u>
Carrying amount 1 January 2004	<u>173</u>	<u>242</u>	<u>-</u>	<u>415</u>
Gross carrying amount	207	460	8	675
Accumulated depreciation and impairment	<u>(39)</u>	<u>(232)</u>	<u>(8)</u>	<u>(279)</u>
Carrying amount 31 December 2004	<u>168</u>	<u>228</u>	<u>-</u>	<u>396</u>
Gross carrying amount	292	477	11	780
Accumulated depreciation and impairment	<u>(45)</u>	<u>(284)</u>	<u>(8)</u>	<u>(337)</u>
<b>Carrying amount 31 December 2005</b>	<u><b>247</b></u>	<u><b>193</b></u>	<u><b>3</b></u>	<u><b>443</b></u>

The carrying amounts of property, plant and equipment for the period presented in the Group financial statements as at 31 December 2005 are reconciled as follows:

	Freehold land and Buildings £'000	Plant And Machinery £'000	Motor vehicles £'000	Total £'000
Carrying amount 1 January 2004	<u>173</u>	<u>242</u>	<u>-</u>	<u>415</u>
Additions	-	36	-	36
Depreciation	(5)	(50)	-	(55)
Carrying amount 31 December 2004	<u>168</u>	<u>228</u>	<u>-</u>	<u>396</u>
Additions	85	17	3	105
Depreciation	(6)	(52)	-	(58)
<b>Carrying amount 31 December 2005</b>	<b><u>247</u></b>	<b><u>193</u></b>	<b><u>3</u></b>	<b><u>443</u></b>

## 11. Inventories

	2005 £'000	2004 £'000
Raw materials and consumables	194	121
Work-in-progress	125	116
Finished goods	<u>12</u>	<u>14</u>
	<b><u>331</u></b>	<b><u>251</u></b>

## 12. Trade and other receivables

	2005 £'000	2004 £'000
Trade receivables	2,812	2,114
Other receivables	91	90
Prepayments and accrued income	<u>62</u>	<u>119</u>
	<b><u>2,965</u></b>	<b><u>2,323</u></b>

## 13. Trade and other payables

	2005 £'000	2004 £'000
Trade payables	307	224
Other taxes and social security costs	102	51
Accruals and deferred income	<u>787</u>	<u>579</u>
	<b><u>1,196</u></b>	<b><u>854</u></b>

## 14. Non-current liabilities

2005 £'000	2004 £'000
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Finance lease obligations	2	-
Deferred taxation	<u>19</u>	<u>-</u>
	<u>21</u>	<u>-</u>

## 15. Borrowings

The Group has an overdraft facility of £100,000, which falls due for renewal on 31 October 2006. No use has been made of gearing during 2005 to sustain the Group's operations.

## 16. Financial instruments: risk profile

The Group's principal financial instruments have comprised bank loans, finance leases and hire purchase contracts, and cash and short-term deposits. The Group has various other financial instruments such as trade debtors and trade creditors that arise directly from its operations. No trading in financial instruments is undertaken.

The Board reviews and agrees policies for managing each financial instrument risk and they are summarised below. The disclosures in this note exclude information relating to short-term Debtors and creditors, except relating to credit risk and foreign currency risk.

### Credit risk

The group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

The credit risk on liquid funds is limited because the counterparties are reputable international banks.

### Liquidity risk

During the year ended 31 December 2005 the Group operated without borrowings. The Board continues to keep the liquidity position under review.

### Interest rate risk profile of financial liabilities

The Group had an overdraft facility, but this was not used for borrowing purposes, as described in note 15 above. No balance was outstanding at 31 December 2005 (2004: £Nil).

### Interest rate risk of financial assets

The Board periodically reviews any exposure the Group may have to interest rate fluctuations. The weighted average interest rate received on deposited funds was 4.07% during the year.

### Foreign currency risk

The Group's subsidiary, Gall Thomson Environmental, conducts part of its business in US dollars. Gall Thomson Environmental held the following balances denominated in US dollars as at 31 December:

	2005 £'000	2004 £'000
Debtors	436	398
Cash	45	36
Creditors	(30)	(26)

The Group keeps under review the extent of its exposure to currency fluctuations.

## Fair values

The directors consider there to be no material difference between the book value and fair value of the Group's financial instruments in either financial year.

## 17. Share capital

	2005 £'000	2004 £'000
<b>Authorised:</b>		
500,000,000 (2004: 500,000,000) Ordinary shares of 0.5 pence each	<u>2,500</u>	<u>2,500</u>
<b>Allotted, called up and fully paid:</b>		
237,696,286 (2004: 237,696,286) Ordinary shares of 0.5 pence each	<u>1,188</u>	<u>1,188</u>

47,539,257 ordinary shares are held by the trustees of the Lupus Employee Share Ownership Trust ("the lesot") under the employee incentive arrangements described in the circular dated 21 January 2004 and approved by shareholders on 16 February 2004. The lesot subscribed for the shares in cash at a price of 17.25p per share using funds contributed to the lesot by the Company.

The issue of the shares to the lesot gave rise to an additional £237,696 of paid up share capital and £7,962,826 of share premium, offset by a charge to the reserves of £8,200,522. There was no change to the net assets of the Company as a result of the share issue. However, there was a reduction of £8,200,522 in the distributable reserves, which would have impeded the Company's ability to pay dividends. An extraordinary general meeting of shareholders on 24 May 2005 approved a reduction of the entire share premium account to create a reserve to offset the deficit on distributable reserves. The approval of the Court was also obtained and the share premium account was reduced accordingly.

The Company requested the trustees of the lesot to hold the shares for the benefit of the family of Greg Hutchings, executive chairman of the Company. On 31 December 2005 that request became unconditional, since Mr Hutchings was still employed by the Company at that date.

### Contingent rights to the allotment of shares

At 31 December 2005 there were 714,285 contingent rights to the allotment of shares, in respect of options granted to Mr Hutchings under the EMI scheme. The shares held by the lesot are available to satisfy these contingent rights.

## 18. Movements on share capital and reserves

	Share Capital £'000	Share Premium Account £'000	Merger Reserve £'000	Lesot Reserve £'000	Profit and loss Account £'000	Total £'000
At 1 January 2004	864	4,709	10,389	-	(2,801)	13,161
Shares issued net of costs	86	1,145	-	-	-	1,231
Lesot share issue	238	7,963	-	(8,201)	-	-

Capital reorganisation	-	(13,817)	-	-	13,817	-
Loss for the year	-	-	-	-	(5,588)	(5,588)
Lesot cost included in loss for the year	-	-	-	-	6,715	6,715
Dividends	-	-	-	-	(851)	(851)
At 1 January 2005	1,188	-	10,389	(8,201)	11,292	14,668
Lesot share issue	-	-	-	8,201	(8,201)	-
Profit for the year	-	-	-	-	2,151	2,151
Dividends paid	-	-	-	-	(941)	(941)
<b>At 31 December 2005</b>	<b>1,188</b>	<b>-</b>	<b>10,389</b>	<b>-</b>	<b>4,301</b>	<b>15,878</b>

The cost of lesot shares is no longer identified separately in the reserves, reflecting the fact that the residual element of control on the part of the Company has ceased to be effective.

Included within the profit and loss account above, is £96,000, which represents an amount transferred to a Special Reserve within the accounts of a subsidiary company under the terms of a Court Order on a reduction in share capital of that company.

## 19. Cash and cash equivalents

	1 January 2005 £'000	Cash flow £'000	31 December 2005 £'000
Cash at bank and in hand	1,649	1,005	2,654

## 20. Contingent liabilities

The Group's banking arrangements include a cross corporate guarantee for bank overdrafts and borrowings of all group undertakings, which are included within set-off arrangements. At 31 December 2005, the Group had overdraft facilities available to it of £100,000, none of which was utilised.

## 21. Financial commitments

The Group had future annual lease commitments under non-cancellable operating leases as at 31 December as follows:

	Land and buildings	
	2005 £'000	2004 £'000
Expiry date:		
Within one year	62	-
Between one and five years	8	84
Present value of minimum lease payments	69	81

## 22. Investments in subsidiaries

Details of the principal subsidiaries of the Group, all of which are wholly owned, incorporated and operate in England, are as follows:

## Nature of business

Gall Thomson Environmental Limited	Oil services
KLAW Products Limited*	Industrial couplings
Octroi Group Limited	Investment company
Lupus Capital Management Limited	Management services

\*held by a subsidiary

## 23. Annual report

Copies of the annual report and accounts will be sent to shareholders in the near future and will be obtainable from the Company's head office at 85 Buckingham Gate, London SW1E 6PD and from the Company's website [www.lupuscapital.co.uk](http://www.lupuscapital.co.uk).

## 24. Status of this report

The financial information set out in the announcement, which was approved by the Board of Directors on 2 March 2006, is unaudited and does not constitute the Company's statutory accounts for the years ended 31 December 2004 or 2005. The financial information for the year ended 31 December 2004 is derived from the statutory accounts for that year, which have been delivered to the Registrar of Companies, as subsequently restated under IFRS. The auditors reported on those accounts: their report was unqualified and did not include a statement under Section 237(2) or 237(3) of the Companies Act 1985. The statutory accounts for the year ended 31 December 2005 will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the Registrar of Companies following the Company's annual general meeting.