

02 March 2007

Lupus Capital plc Preliminary Statement of Results for the year ended 31 December 2006

Chairman's Statement

Dear Shareholder,

I am pleased to report a record set of financial results for the year ended 31 December 2006 together with the successful integration of Schlegel Building Products, which was acquired on 4 April 2006. Group profits, earnings and cash generation all surpassed previous highs.

Gall Thomson Environmental, which operates primarily in the oil and gas sector, has had its best year yet beating 2005 in sales, profits, cash generation and also return on capital employed.

The nine month contribution from the acquisition of Schlegel has been very positive. The management has responded well both to the change of ownership and new direction and has improved on key performance indicators over 2005.

Results for the year

It is very satisfying to be able to detail to you an outstanding year for your company. Sales, including Schlegel, were £62.940 million (2005: £7.479 million) and pre-tax profits increased to £10.013 million (2005: £2.435 million). Reported earnings per share jumped to 1.233p (2005: 0.593p). The figures for the period are not directly comparable as they include a major acquisition and have been prepared on the basis of the requirements of UK GAAP, as explained in the notes to the accounts.

Dividend

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

We are recommending a final dividend for 2006 of 0.334p (2004: 0.278p) which is an increase of over 20%. This final dividend will be paid to Shareholders on the register at 9 March 2007 following the AGM, which we will be holding on 16 May 2007.

This, together with the special interim dividend of 0.114p per Ordinary Share in respect of the quarter ending 31 March 2006 and the further interim dividend of 0.049 for the first half of 2006, will make a total dividend for the 2006 year of 0.497p up 21% from the 0.410p paid in the 2005 year.

It is the intention of the Board to maintain a progressive dividend policy in the future.

Business of Gall Thomson Environmental Limited

Gall Thomson is the world's leading supplier of marine breakaway couplings. Its subsidiary, KLAW is a supplier of industrial couplings including quick release couplings and breakaway couplings.

A Gall Thomson marine breakaway coupling is used in the oil and gas industry to enable a loading line to part safely and then to shut off the product supply in the event of a vessel moving off station during the loading or discharging of oil and gas products, whether at offshore moorings or jetty terminals. The purpose of the breakaway coupling is firstly to stop environmental pollution and secondly to prevent damage to pumping and transfer equipment. Gall Thomson also supplies the quick release Welin Lambie camlock coupling which is used in the hose and loading arm system for the transfer of oil and gas products.

The greater number of our couplings are designed and made to order for the major oil producers. Stock and working capital levels are thus easily visible. There is also an increasing demand for refurbishment of our products which have been in use for many years and exposed to the elements.

The excellence of the couplings and their technology together with the significant environmental and financial consequences of risking less established products gives Gall Thomson a considerable advantage and strong market share.

The principal activity of KLAW is that of the manufacture, assembly and distribution of industrial quick release couplings for activities such as refining, exploration and construction. They are also used in the transportation of product by road and rail.

Both Gall Thomson Environmental Ltd (GTE) and its subsidiary KLAW Products Ltd (KLAW) have performed well during the year.

GTE, who operate mainly in the offshore industry, has benefited from a strong oil price that had encouraged the major oil producers to commence new projects worldwide. In addition, the drive towards environmental improvements continues to have a positive effect. Approximately 90% of turnover was derived from exported sales spanning the world from Europe to Asia, America to the Middle East and Africa. Nearly all sales are made in pounds sterling so we have limited exposure to a fluctuating dollar.

In respect of KLAW, who operate in the oil, gas, refining and petrochemical markets, the underlying business has continued to develop. New products have been introduced, namely the cryogenic ERC (Emergency Release Coupling) for ship to ship transfer of LNG and the hazardous chemical units, both being received with much interest. In the case of the cryogenics ERC, KLAW has already received significant orders from major oil companies.

Business of Schlegel Building Products

The £84 million acquisition of Schlegel, a leader in the manufacture and marketing of door and window seals, primarily for the worldwide housing market, was completed on 4 April 2006. Schlegel, which currently has over 625 employees and more than 5,000 customers, sells over 650 million metres of seals in a year. Core manufacturing competencies are continuously moulded urethane foam, narrow fabric textiles, and extruded plastics. As a leading producer of urethane foam (compression seals) and woven pile (sliding seals) for the window and door markets, seals are sold in more than 75 countries from seven manufacturing plants located around the world. In addition, Schlegel supply both manufactured and assembled door and window locking mechanisms to a number of their key seal customers.

Also manufactured are related products for the non-housing markets such as cleaning brushes, static control devices for copiers and printers, speciality automotive products as in sunroof seals and truck spray suppressants, tractor seat trim and sway bar brushes.

In 2006 Schlegel saw many exciting changes, which produced increased profitability over the previous year and which we hope to continue to build on. New customers have been won, productivity has improved, prices have been raised to compensate for raw material inputs, sales have been refocused into higher margin customers, financial controls have been tightened and resulting action from extensive analysis has yielded higher gross margins. The global market for housing, both new build and refurbishment, has been generally satisfactory with the long term worldwide trend being upwards. As an international business with activities across three continents we have a limited exposure to both dollar currency, and the current U.S. new build housing market difficulties where we have taken action to mitigate any effects.

On the corporate front

A comprehensive tax review is being undertaken with an expected outcome that our worldwide group tax rate will decline from an anticipated 38% band previously predicted to 36% in 2006 and a lower cash tax rate in future.

The acquisition of Schlegel has broadened the sphere of operations of Lupus Capital plc and management has reviewed the risk profile of the enlarged group.

We continue to seek the development of Lupus through both organic growth and selective acquisitions.

The excellent cash generation from both our businesses has enabled Lupus to reduce the net debt taken on to buy Schlegel (£35m) at a speed quicker than originally envisaged. At 31st December 2006 net debt stood at £23.3m. It has also provided funds to increase our dividend to shareholders for the 2006 year at a higher rate than forecast at the time of the Schlegel acquisition.

Strategy

Our strategy is to build shareholder value through the acquisition of industrial assets with the potential for development using a spectrum of funding instruments, where with the application of our management skills and systems we can achieve greater profitability. Once they have been improved, potential long-term growth configurations installed, and a critical mass built, we would expect to realise a gain through a variety of exit mechanisms.

Our strategy is very similar to that developed at Tomkins PLC, with one key exception. Institutional investors are not sympathetic to public conglomerate organisations; they have, however, even though with very diverse interests, favoured private equity structures. We intend to follow the private equity principle of timed investment exits when critical mass and creation of shareholder value have been achieved by demergers, IPO's or sales followed by cash returns to shareholders when appropriate.

The speed of our decision making and the management experience we possess together with the flexibility of being able to offer an on-going interest should give us a competitive edge over private equity competitors when negotiating transactions. In addition, we have proven management skills and systems, as well as the application of standard financial modelling.

Our approach to sectors will be very disciplined and with a clear focus. Target companies will be involved in industrial manufacturing, processing or services or distribution for industries, businesses or consumers. Retailing, financial services, property and media are outside our range of interest. Our key requirements are asset based, positive cash flow, industrial activities with potential for development. In addition, we will target fragmented industries, seek consolidations, as well as develop organic growth opportunities.

We will choose to operate in stable markets where the technology is low-risk rather than markets exposed to quick innovation and sudden obsolescence. We prefer to sell high quantities of inexpensive items or fulfil a high volume of contracts as opposed to a small number of very significant cost constituents.

We expect to inject our management skills, operating systems, financial control mechanisms and strategy experience to improve profitability and financial efficiency.

Our industrial focus and business experience of acquiring, stabilising, controlling, investing in and developing businesses, together with a strong existing operation gives Lupus Capital plc exciting prospects.

Outlook

Gall Thomson is a reliable business and looks forward to maintaining its success. There are opportunities in most areas of the world due to an increase in global floating production systems, as well as the traditional Single Point Mooring business. The drive to exploration in deeper waters (greater than 1,000 metres), which require off loading techniques as opposed to pipeline infrastructure, provides a sound basis for the Gall Thomson business in the short and long term. KLAW continues to grow as a result of entering new markets with successfully developed innovative products.

Schlegel operates within the worldwide housing market, which is likely to continue to grow due to increased populations and more single housing requirements. In addition, environmental regulations for energy conservation, of which seals are an integral part, are becoming more and more critical to both developed and developing countries. These factors should ensure a growing future.

We are very excited about the progress that we are making with Lupus. Our results are good, backed up by strong cash generation enabling us to continue our progressive dividend policy. The purchase of Schlegel, a leading building products manufacturer, was yet another step in creating a successful growing international business.

We have a defined strategy, a sound balance sheet, good operating activities generating cash and an enthusiastic entrepreneurial management team ambitious to drive Lupus Capital plc forward. I am confident that your Board has the right platform to deliver further value for shareholders.

Record order books, comprising both marine and industrial breakaway couplings, at Gall Thomson and further opportunities for new products for KLAW together with a full contribution from the global activities of Schlegel, enable us to enter 2007 with optimism.

We look forward to another year of growth and development of Lupus Capital plc.

Greg Hutchings
Chairman

2nd March 2007

Consolidated profit and loss account

For the year ended 31 December 2006

	Note	2006 £'000	2005 £'000 Restated
Turnover		62,940	7,479
Cost of sales		<u>(22,434)</u>	<u>(2,213)</u>
Gross profit		40,506	5,266
Administrative expenses			
- excluding goodwill amortisation		(28,960)	(2,180)
- goodwill amortisation		<u>-</u>	<u>(741)</u>
Total administrative expenses		(28,960)	(2,921)
Operating profit	3	<u>11,546</u>	<u>2,345</u>
Interest receivable and similar income		501	316
Interest payable and similar charges		(2,034)	(226)
Profit on ordinary activities before taxation		<u>10,013</u>	<u>2,435</u>
Taxation		(3,605)	(1,025)
Profit on ordinary activities for the year		<u>6,408</u>	<u>1,410</u>
Earnings per share	5	1.233p	0.593p

All results relate to continuing operations.

Consolidated balance sheet

As at 31 December 2006

	Note	2006 £'000	2005 £'000 Restated
Fixed assets			
Intangible assets		72,832	9,940
Tangible assets		<u>13,123</u>	<u>443</u>
		85,955	10,383
Current assets			
Stocks and work-in-progress	6	7,396	331
Debtors	7	15,210	2,965
Deferred tax	7	6,067	-
Cash at bank and in hand		<u>9,738</u>	<u>2,654</u>
		38,411	5,950
Creditors: amounts falling due within one year	8	<u>(20,237)</u>	<u>(1,915)</u>
Net current assets		18,174	4,035
Total assets less current liabilities		<u>104,129</u>	<u>14,418</u>
Creditors: amounts falling due after more than One year	9	<u>(34,153)</u>	<u>(21)</u>
Net assets		<u>69,976</u>	<u>14,397</u>
Capital and reserves			
Called up share capital	11	3,083	1,188
Share premium account	12	45	-
Merger reserve	12	10,389	10,389
Profit and loss account	12	<u>56,459</u>	<u>2,820</u>
Equity shareholders' funds		<u>69,976</u>	<u>14,397</u>

Consolidated cash flow statement

For the year ended 31 December 2006

	2006 £'000	2005 £'000
Cash flows from operating activities		
Operating profit	11,546	2,345
Depreciation	1,669	58
Amortisation of goodwill	-	741
Movement in inventories	1,698	(80)
Movement in receivables	1,394	(642)
Movement in payables	619	342
Interest received	501	316
Interest paid	(2,034)	(226)
Corporation tax paid	(2,050)	(806)
Net cash from operating activities	13,343	2,048
Investing activities		
Acquisition, net of cash acquired	(47,408)	-
Schlegel debt repaid upon acquisition	(40,281)	-
Property, plant and equipment	(964)	(105)
Net cash from investing activities	(88,653)	(105)
Financing		
Issue of shares, net of costs	51,653	-
Capital element of finance leases	(112)	3
Bank loan, net of costs	34,734	-
Repayment of long term loans	(2,500)	-
Equity dividends paid	(1,234)	(941)
Net cash from financing activities	82,541	(938)
Increase in cash	7,231	1,005

Consolidated statement of recognised gains and losses

For the year ended 31 December 2006

		2006 £'000	2005 £'000
	Note		
Opening balance – as previously stated		15,878	14,668
Restatement	2	<u>(1,481)</u>	<u>(740)</u>
Opening balance – as restated		14,397	13,928
Profit for the financial year		6,408	1,410
Shares issued net of costs		51,653	-
Translation difference		(1,248)	-
Dividends paid on ordinary shares		<u>(1,234)</u>	<u>(941)</u>
		55,579	469
Closing shareholders' funds		<u>69,976</u>	<u>14,397</u>

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 in accordance with applicable UK accounting standards (UK GAAP).

The consolidated financial statements for the year ended 31 December 2005 were prepared in accordance with International Financial Reporting Standards (IFRS). UK GAAP differs in some respects from IFRS. The relevant change of accounting policy is as follows:

Under IFRS, the requirement to amortise goodwill was replaced by an impairment review of the value of the Company's investments. The directors conducted an impairment review and 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 were not greater than the realisable values of those investments. Therefore the carrying value of goodwill under IFRS was the value as at 1 January 2004 and no further provision was made against that value. Under UK GAAP a decision to cease amortisation represents a change in accounting policy; no such change was made in respect of 2004 or 2005. The Board has resolved that amortisation should be discontinued under UK GAAP with effect from 1 January 2006. Therefore the valuation of goodwill is lower under UK GAAP by two years' amortisation.

The accounting policies are unchanged from those used in the last annual accounts except where otherwise stated.

1.3 Basis of consolidation

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

1.4 Turnover

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

1.5 Tangible fixed assets and depreciation

Tangible fixed assets 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%
Leasehold improvements	25%
Fixtures, fittings and equipment	15% to 25%
Plant and machinery	7.5% to 35%
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.

1.6 Leasing

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

1.7 Stocks and work-in-progress

Stocks and work-in-progress 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.

1.8 Pensions

The Group operates defined contribution schemes within Gall Thomson Environmental Limited and Schlegel Building Products and contributions are charged to the profit and loss account as incurred. Additionally within Schlegel Building Products defined benefit arrangements exist. In this case in accordance with FRS 17 the operating and financing costs are charged to the profit and loss account in the period in which they arise and are recognised separately. Any difference between actual and expected returns on assets during the year, including changes in actuarial assumptions, is recognised in the statement of gains and losses.

1.9 Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more tax, with the following exceptions:

Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

1.10 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 profit and loss account.

The results of overseas companies are translated into sterling at the average rates during the period and the balance sheets at the rate ruling at the balance sheet date. Exchange differences on the net assets on the results of overseas operations are reported in the statement of gains and losses.

1.11 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.

1.12 Share-based employee remuneration

All share-based payment arrangements are recognised in the historical financial information. 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. 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.

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. Restatements

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

(a) Profit after taxation

	Year ended 31 December 2005 £'000
Profit for the financial period/year, as previously stated under IFRS	2,151
Amortisation of goodwill	(741)
As reported under UK GAAP	<u>1,410</u>

(b) Net assets

	At 1 January 2006 £'000	At 1 January 2005 £'000
Opening net assets, as previously stated under IFRS	15,878	14,668
Amortisation of goodwill	(1,481)	(740)
As reported under UK GAAP	<u>14,397</u>	<u>13,928</u>

3. Operating profit by sector

	Schlegel (9 months) £'000	Pre-existing Lupus Group (12 months) £'000	Total £'000
Revenue	53,626	9,314	62,940
Cost of sales	<u>-19,602</u>	<u>-2,832</u>	<u>-22,434</u>
Gross profit	34,024	6,482	40,506
Administrative expenses	<u>-25,923</u>	<u>-3,037</u>	<u>-28,960</u>
Operating profit	<u>8,101</u>	<u>3,445</u>	<u>11,546</u>

4. Dividends

	2006	2005
	£'000	£'000
Dividends reflected in the financial statements:		
Final dividend for the year 2005 at 0.278p per share (2004: 0.264p)	661	627
Interim dividends at 0.114p per share and 0.049p per share (2005: 0.132p)	<u>573</u>	<u>314</u>
	<u>1,234</u>	<u>941</u>
Dividend not reflected in the financial statements :		
Proposed final dividend for the year 2006 at 0.334p per share (2005: 0.278p)	<u>2,059</u>	<u>661</u>

5. Earnings per share

The calculation of basic earnings per share is based on the profit after taxation for the financial year and on the weighted average number of shares in issue during the year of 519,845,797 ordinary shares of 0.5p (2005: *weighted average 237,696,286*).

6. Stocks and work-in-progress

	2006	2005
	£'000	£'000
Raw materials and consumables	3,019	194
Work-in-progress	1,023	125
Finished goods	<u>3,354</u>	<u>12</u>
	<u>7,396</u>	<u>331</u>

7. Debtors

	2006	2005
	£'000	£'000
Trade debtors	12,277	2,812
Other debtors	1,051	91
Prepayments and accrued income	<u>1,882</u>	<u>62</u>
	<u>15,210</u>	<u>2,965</u>

The deferred tax asset arises on the acquisition of Schlegel and is anticipated to be recovered after more than one year.

8. Creditors: amounts falling due within one year

	2006	2005
	£'000	£'000
Trade creditors	7,016	307
Bank loan	4,938	-
Finance lease obligations	156	1
Corporation tax	1,453	718
Other taxes and social security costs	272	102
Accruals and deferred income	<u>6,402</u>	<u>787</u>
	<u>20,237</u>	<u>1,915</u>

9. Creditors: amounts falling due after more than one year

	2006 £'000	2005 £'000
Bank loan	27,296	-
Finance lease obligations	334	2
Retirement benefits	3,290	-
Maintenance warranties	3,118	-
Deferred taxation	-	19
Other creditors	115	-
	<u>34,153</u>	<u>21</u>

10. Borrowings

The Group took out loans totalling £35,000,000 in connection with the acquisition of Schlegel, of which £30,000,000 was a long term loan and £5,000,000 short term. A repayment of £2,500,000 has been made. A further revolving credit facility of £10,000,000 was made available by the bank, but no drawings have been made under this facility at the end balance sheet date.

11. Share capital

	2006 £'000	2005 £'000
Authorised:		
825,000,000 (2005: 500,000,000) Ordinary shares of 0.5 pence each	<u>4,125</u>	<u>2,500</u>
Allotted, called up and fully paid:		
616,559,778 (2005: 237,696,286) Ordinary shares of 0.5 pence each	<u>3,083</u>	<u>1,188</u>

12. Movements on share capital and reserves

Group	Share capital £'000	Merger reserve £'000	Share Premium Account £'000	Profit and loss Account £'000
At 1 January 2006 – as previously stated	1,188	10,389	-	4,301
Restatement – see note 2	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,481)</u>
	1,188	10,389	-	2,820
Shares issued net of costs	1,895	-	45	49,713
Profit for the year	-	-	-	6,408
Translation adjustment	-	-	-	(1,248)
Dividends paid	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,234)</u>
At 31 December 2006	<u>3,083</u>	<u>10,389</u>	<u>45</u>	<u>56,459</u>

13. Status of this Report

The above results for the year ended 31 December 2006 are unaudited. This financial information does not constitute the Company and Group's statutory accounts for the year ended 31 December 2006, which will be finalised on the basis of the financial information in this Preliminary Announcement.

Statutory accounts for the year ended 31 December 2006 are to be delivered to the Registrar of Companies following the Annual General Meeting.

The information for the year ended 31 December 2005 has been extracted from the latest published audited financial statements, as restated to comply with UK GAAP (see note 2). The audited financial statements for the year ended 31 December 2005 have been filed with the Registrar of Companies. The report of the auditors on those accounts contained no qualification or statement under section 237(2) or (3) of the Companies Act 1985.