

LUPUS CAPITAL plc

Interim Report

**FOR THE SIX MONTHS ENDED
30 JUNE 2004**

LUPUS CAPITAL PLC

Chairman's Statement

Dear Shareholder,

As I am sure you are aware, substantial changes took place in the first half of the year, mainly in February 2004, as approved by shareholders at the EGM. These comprised the installation of a new central management team, a subscription issue for £1,556,000 and a change of strategy for your company. Whilst the costs of these have been taken during this period the underlying business has progressed unhindered.

I am pleased to report a satisfactory first half year of trading results. Adjusted pre-tax profits were up 11.6% on last year, before goodwill and other adjustments (which have no cash cost to the Company), and exceptional items. Our order book is currently at a high level and operating cash flow has been strong as a result of improved cash collecting procedures.

Sales to 30 June 2004 were £3,044,000 (2003: £2,886,000) up 5.5% with adjusted pre-tax profit of £1,240,000 (2003: £1,111,000) up 11.6%. Adjusted pre-tax profit excludes goodwill amortisation of £370,000 (2003: £370,000), lesot share scheme charges of £5,468,000 (2003: £nil) – both of which are non-cash items - exceptional items of £1,309,000 (2003: £nil) and in 2003 a loss of £200,000 on disposal of investments. The lesot scheme charges arise as a consequence of meeting the share price criterion as approved by shareholders at the EGM on 16 February 2004. Exceptional items comprise the cost of the strategy realignment, management changes and advisors' fees, for both achieving objectives established in November 2002 and expenditure for completing the EGM proposals. After these adjustments the pre-tax result was a loss of £5,907,000 (2003: £541,000 profit).

During the period the Company effected a capital reorganisation in order to continue to pay dividends. The directors have declared an increased interim dividend of 0.126p per share (2003: 0.12p per share), up 5%, payable on 29 October 2004 to shareholders on the register at the close of business on 8 October 2004.

Cash collection and the monies received from the share subscription in February 2004 less cash costs of the deal has resulted in a strong balance sheet containing £1,569,000 net cash at 30 June 2004.

Our strategy as laid out in our Annual Report published on 22 April 2004 has been well documented and received. We are currently examining a number of opportunities which have potential for the company. Whilst we are fully committed to expanding the group it is our intention to do this carefully and economically as opposed to rushing into unwise situations.

Trading prospects for Gall Thomson remain good. The order profile is encouraging and management are confident about the business flow and improved activity in the current period. With regard to Lupus Capital plc, we have a clear strategy, a sound balance sheet, good operating activities, excellent cash generation and an enthusiastic entrepreneurial management team, ambitious to drive Lupus Capital plc forward. I am confident that we have the right platform to deliver value for shareholders.

Greg Hutchings
Chairman

28 September 2004

Group profit and loss account

	Six months ended	Six months ended	Year ended 31 December 2003
	30 June 2004 (unaudited) £'000	30 June 2003 (unaudited) £'000	(audited) £'000
Turnover	3,044	2,886	6,551
Operating (loss)/profit			
Continuing operations – excluding exceptional items, lesot charges and goodwill amortisation	1,237	1,197	2,929
Exceptional items	(1,309)	-	-
Lesot charges	(5,468)	-	-
Goodwill amortisation	(370)	(370)	(740)
	(5,910)	827	2,189
Loss on disposal of fixed asset investments	-	(200)	(200)
Interest and similar items	3	(86)	(81)
(Loss)/profit on ordinary activities before taxation	(5,907)	541	1,908
Taxation	10	(273)	(788)
(Loss)/profit on ordinary activities after taxation	(5,897)	268	1,120
Ordinary dividends	(299)	(207)	(758)
Retained (loss)/profit	(6,196)	61	362
(Loss)/earnings per share	(2.81p)	0.16p	0.65p
Adjusted earnings per share before exceptional items, lesot charges, goodwill amortisation and investment activity	0.41p	0.49p	1.20p
Dividend per share	0.126p	0.12p	0.37p

Statement of total recognised gains and losses

There were no recognised gains and losses in each period other than the (loss) / profit for the period.

Group Balance Sheet

	At 30 June 2004 £'000 (unaudited)	At 30 June 2003 £'000 (unaudited)	At 31 December 2003 £'000 (audited)
Fixed assets			
Intangible fixed assets	11,051	11,792	11,421
Tangible fixed assets	417	438	415
	<u>11,468</u>	<u>12,230</u>	<u>11,836</u>
Current assets			
Stock and work-in-progress	262	186	251
Debtors	1,854	1,872	2,871
Cash	1,569	-	97
	<u>3,685</u>	<u>2,058</u>	<u>3,219</u>
Creditors: amounts falling due within one year	(2,020)	(1,894)	(2,360)
Net current assets	<u>1,665</u>	<u>164</u>	<u>859</u>
Total assets less current liabilities	13,133	12,394	12,695
Creditors: amounts falling due after more than one Year	(20)	(84)	(85)
Net assets	<u>13,113</u>	<u>12,310</u>	<u>12,610</u>
Capital and reserves			
Share capital	1,188	864	864
Share premium	-	4,710	4,709
Merger reserve	10,389	10,389	10,389
Profit and loss account	1,536	(3,653)	(3,352)
Equity shareholders' funds	<u>13,113</u>	<u>12,310</u>	<u>12,610</u>

Group Cash Flow Statement

	Six months ended 30 June 2004 (unaudited) £'000	Six months ended 30 June 2003 (unaudited) £'000	Year ended 31 December 2003 (audited) £'000
Operating activities			
Net cash (outflow)/inflow from operating activities	(5,010)	479	1,289
Return on investments and servicing of finance			
Interest received	113	70	161
Interest paid	(103)	(185)	(273)
Dividends received	-	56	56
	10	(59)	(56)
Taxation			
UK corporation tax (paid)/recovered	(198)	181	(146)
Capital expenditure and financial investment			
Sale of tangible fixed assets	-	4	4
Purchase of tangible fixed assets	(29)	(5)	(8)
Sale of fixed asset investments	-	3,621	3,622
	(29)	3,620	3,618
Equity dividends paid	-	(852)	(1,060)
Net cash (outflow)/inflow before financing	(5,227)	3,369	3,645
Financing			
Issue of shares net of costs	6,699	141	279
Increase in cash	1,472	3,510	3,924

Notes

1. *Status of these financial statements*

These financial statements are not the Company's statutory accounts for the purposes of Section 240 of the Companies Act 1985. They are unaudited. The Company's statutory accounts for the year ended 31 December 2003 received an unqualified audit report and have been filed with the registrar of companies at Companies House.

The interim financial information has been prepared on the basis of the accounting policies set out in the Report and Accounts of the Group for the year ended 31 December 2003. The Directors approved the interim report on 28 September 2004.

2. *Exceptional expenses*

The exceptional expenses relate to the restructuring of the business consequent upon the appointment of a new executive team headed by Mr Hutchings and are expected to be of a non-recurring nature. They comprise professional and consultancy fees, termination and performance fees of the outgoing manager, costs of printing circulars, listing fees for new share issues and certain expenses related to re-opening the executive office.

3. *Incentive Arrangements and Lupus employee share ownership trust ("Lesot")*

As explained in a circular to shareholders dated 21 January 2004, the Board put forward proposals whereby Mr Hutchings would join the Company as Executive Chairman and invest £2,137,500 in shares of the Company, including a subscription of £1,555,555 for new ordinary shares, and whereby new employee Incentive Arrangements would be established, comprising the lesot and an EMI scheme, under which awards of ordinary shares would be made, the purchase price of such shares being funded by contributions from the Company, if certain criteria were met. Shareholders approved these proposals at an Extraordinary General Meeting on 16 February 2004 and they were then effected.

The criterion for the award of the shares pertaining to the First Period of the Incentive Arrangements was wholly fulfilled. Consequently, on March 2004 the Company issued and allotted to the lesot 47,539,257 new ordinary shares, out of which 714,285 are available to satisfy an EMI option granted to Mr Hutchings on 17 February 2004 within the EMI scheme.

4. *Capital reorganisation*

As explained in a circular to shareholders dated 27 April 2004, the issue of shares to the lesot described above gave rise to an additional £237,696 of paid up share capital and £7,962,826 of share premium, offset by a charge to reserves of £8,200,522. There was no change to the Company's net assets, but distributable reserves were reduced. The Board therefore sought and obtained approval from shareholders and from the Court to effect a capital reduction through the cancellation of the amount standing to the credit of the Company's share premium account. The cancellation was registered on 18 June 2004.

5. *Profit and loss account*

The cost of the allotment to the lesot is being charged to current profit over the period to 31 July 2004, being the First Period of the Incentive Arrangements, at the rate of 14.125p per share. The charge to profit and loss account in the period ended 30 June 2004 was £5,468,438.

6. *Earnings per share*

Earnings per share figures are based on the weighted average of 209,819,393 ordinary shares in issue during the half-year ended 30 June 2004 (half-year to 30 June 2003: 170,652,919 shares; year to 31 December 2003: 171,772,126 shares). The number of shares in issue at 30 June 2004 was 237,696,286.

7. *Dividend*

The Directors have declared an interim dividend of 0.126p per share (2003: 0.12p) to shareholders on the register at the close of business on 8 October 2004, which will be paid on 29 October 2004.

8. *Reconciliation of equity shareholders' funds*

	Six months ended 30 June 2004 (unaudited)	Six months ended 30 June 2003 (unaudited)	Year ended 31 December 2003 (audited)
	£'000	£'000	£'000
Profit / (loss) for the financial period/year	(5,897)	268	1,120
Shares issued net of costs and debit reserve	6,699	141	140
Reinstatement of share premium	-	139	139
Dividends paid and proposed on ordinary shares	(299)	(207)	(758)
	503	341	641
Opening shareholders' funds	12,610	11,969	11,969
Closing shareholders' funds	13,113	12,310	12,610

9. *Movement on share capital and reserves*

	Share capital	Share premium account	Merger reserve	Profit & loss account	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January 2004	864	4,709	10,389	(3,352)	12,610
Share issue 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 period	-	-	-	(5,897)	(5,897)
Lesot cost included in loss for the period	-	-	-	5,468	5,468
Dividend	-	-	-	(299)	(299)
At 30 June 2004	1,188	-	10,389	1,536	13,113

10. *Reconciliation of operating (loss)/profit to net cash flow
from operating activities*

	Six months ended 30 June 2004 (unaudited)	Six months ended 30 June 2003 (unaudited)	Year ended 31 December 2003 (audited)
	£'000	£'000	£'000
Operating (loss)/profit	(5,910)	827	2,189
Depreciation	27	26	52
Amortisation of goodwill	370	370	740
Movement in stock and work in progress	(11)	14	(51)
Movement in debtors	1,017	133	(1,006)
Movement in creditors	(503)	(891)	(635)
Net cash flow from operating activities	(5,010)	479	1,289

Directors and advisers

Directors	Greg Hutchings Denis Mulhall Konrad Legg Frederic Hoad Roland Tate	<i>Executive Chairman</i> <i>Executive</i> <i>Senior Non-executive</i> <i>Non-executive</i> <i>Non-executive</i>
Secretary	Cavendish Administration Limited	
Company number	2806007	
Registered office	Crusader House 145-157 St John Street London EC1V 4RU	
Auditors	Ernst & Young LLP 1 More London Place London SE1 2AF	
Registrar	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU	
Stockbroker	Marshall Securities Limited Crusader House 145-157 St John Street London EC1V 4RE	

The interim report will be sent to shareholders and copies will be made available to the public at the registered office of the Company and at the Company's website www.lupuscapital.co.uk.

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