

## REPORT AND ACCOUNTS 2003

## CONTENTS

Directors and advisers	2
Chairman's statement	3
Directors' report	6
Corporate governance statement	9
Directors' remuneration report	11
Independent auditors' report	13
Consolidated profit and loss account	15
Consolidated statement of total recognised gains and losses	15
Consolidated balance sheet	16
Company balance sheet	17
Consolidated cash flow statement	18
Reconciliation of net cash flow to movement in net funds/(debt)	18
Reconciliation of equity shareholders' funds	19
Notes to the accounts	20
Notice of annual general meeting	35



**DIRECTORS AND ADVISERS**

**Directors** Greg Hutchings *Executive Chairman*  
Denis Mulhall *Executive*  
Konrad Legg *Senior non-executive*  
Frederic Hoad *Non-executive*  
Roland Tate *Non-executive*

**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

**Legal advisers** Lawrence Graham  
190 Strand  
London WC2R 1JN

## CHAIRMAN'S STATEMENT

...the last year  
was a very  
constructive  
time of change  
for your  
Company.

**Dear Shareholder,**

I am pleased to report that the last year was a very constructive time of change for your Company. Earlier this calendar year I was appointed executive chairman and Denis Mulhall also joined the board as an executive director. We would like to thank Konrad Legg, your previous non-executive chairman, as well as Fred Hoad and Roland Tate, for all their good work and we are grateful to them for remaining non-executive directors on the Board.

**Results for the year**

Our financial results for the year to 31 December 2003 were good.

Adjusted pre-tax profits were £2,848,000 (2002: £1,637,000) before goodwill, exceptional items and the final investment activity loss. After tax, this translates into earnings per share of 1.20p (2002: £0.67p) out of which we are paying a total full year dividend of 0.37p net (2002: 0.62p). Gall Thomson Environmental, our main subsidiary, performed well despite the slow down in orders due to the conflict in Iraq.

Pre-tax profits for the year were £1,908,000 (2002: loss £1,361,000), after £740,000 of goodwill and the final loss on investment activities of £200,000, which translates into earnings per share of 0.65p (2002: loss 0.89p).

**Dividend**

The Board is recommending a final dividend of 0.25p per share (2002: 0.50p per share) making the total for the year ending 31 December 2003 of 0.37p per share (2002: 0.62p per share). As shareholders are aware the structure and strategy of the Company have changed significantly. The Board has rebased the dividend, which is expected to be paid in July, back to the level of the year before last. As explained in note 25 the Company is to seek shareholder and Court approval regarding a capital reorganisation to enable this payment.

**Adjusted pre tax  
profits...£2,848,000  
...translates into  
earnings per  
share 1.20p  
...dividends of 0.37p**

**Employees**

I would like to thank, on behalf of all shareholders, all our employees for the hard work and dedication shown over what has been a difficult and changing few years.

**Background**

In January and February 2004 I personally invested £2,137,500 in the shares of the Company as I felt it was an excellent base from which to build a major industrial enterprise. Denis Mulhall, with whom I worked at Tomkins PLC, has also invested £252,000 personally. We chose Lupus for a number of reasons:

- The existing non-executives and their advisors had reorganised and rationalised the Group, leaving it free of any debts;
- As can be seen from the 2003 results, Lupus produced good financial results and continues to demonstrate underlying reliability of earnings;
- Gall Thomson Environmental has growth potential;
- The reliable cash generation provides a sound base for paying dividends; and
- Unlike many listed companies, there is no pension deficit as only defined contributions schemes are in use.

**We expect to inject our management skills, operating systems, financial control mechanisms...**

**Strategy**

Our strategy is to build shareholder value through the acquisition of undervalued or under-managed businesses, 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 and potential long-term growth configurations installed, we would expect to realise a gain through a variety of exit mechanisms.

Our strategy is very similar to that which we developed at Tomkins PLC, with one key exception. Institutional investors in the public markets are not sympathetic to public conglomerate organisations; they have, however, even though with very diverse interests, favoured private equity structures. We intend to follow private equity

principles with investment exits by demergers or sale and cash returns to shareholders when appropriate.

The speed and management experience we possess together with the flexibility of being able to offer an ongoing interest should give us a competitive edge over private equity competitors. In addition, we have proven management skills and systems, as well as the application of 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. Our key requirements are asset based, positive cash flow, UK-centric, under-valued or under-managed, but not loss making, companies. 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.

**Current status**

Shareholders will know that Lupus Capital plc is listed on the London Stock Exchange and classified for historical reasons under "Speciality and Other Finance". We intend to remain with this until such time as the composition of the Group changes, when a more appropriate sector will be selected. As of the end

**Our approach to sectors will be very disciplined and with a clear focus.**

of March 2004 our market capitalisation was approximately £40 million. Gall Thomson Environmental Ltd., which is our main operating company, will be retained within the Group.

#### **Business of Gall Thomson Environmental**

Gall Thomson Environmental Ltd. is the world's leading supplier of marine breakaway couplings. Its subsidiary, KLAW Products Ltd., 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 to prevent environmental pollution and damage to pumping and transfer equipment. Gall Thomson Environmental 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 for the major oil producers to order. 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 huge environmental and financial consequences of risking less established products gives Gall Thomson Environmental a significant advantage and strong market share.

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

#### **Outlook**

Gall Thomson Environmental has started 2004 with a

steady order book and looks forward to continued success. There are opportunities in most areas of the world due to an increase in world 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 Environmental business in the short and long term.

**We have a clear strategy, a sound balance sheet, good operating activities**

KLAW has started the year well and has become CE markings approved. During 2002 and 2003 new products were developed, which, together with the existing range, are expected to generate higher sales. Additional personnel are being employed to increase market penetration.

The important structural changes in the Group have now taken place. We have a clear strategy, a sound balance sheet, good operating activities and an enthusiastic entrepreneurial management team ambitious to drive Lupus Capital plc forward. I am confident that we have the right platform to deliver further value for shareholders.

#### **Greg Hutchings**

*Executive Chairman*

22 April 2004

## DIRECTORS' REPORT

The directors present their annual report and the Group accounts for the year ended 31 December 2003.

### Principal activities, review of the business and future developments

The Company is a holding company. The principal activities of its main operating subsidiaries are the manufacture, supply and distribution of goods and services to the oil and gas industries. The Company's strategy is to build shareholder value through the acquisition of undervalued businesses and the application of proven management skills and systems.

The statement by the Chairman set out on pages 3 to 5 contains details of the progress of the Group during the year together with an indication of future developments.

### Results and dividends

The Group profit for the year after taxation amounted to £1,120,000 (2002: loss £1,512,000). The directors are recommending the payment of a final dividend of 0.25p per share (2002 0.50p per share) conditional upon the proposed cancellation of share premium account referred to above becoming effective, absorbing £551,000 (2002: £853,000). The aggregate ordinary dividend for the year amounts to 0.37p per share (2002: 0.62p per share). The profit for the year of £362,000 (2002: loss £2,570,000) has been transferred to reserves.

### Directors

The following directors have held office during the last financial year and in the subsequent period to the date of this report:

#### *Executives*

**Greg Hutchings** (aged 57) became a director and Executive Chairman immediately following the Extraordinary General Meeting on 16 February 2004, in accordance with the proposals set out in the circular to shareholders dated 21 January 2004.

Mr Hutchings joined Tomkins plc in 1983 and held the post of Chief Executive or Chairman from January 1984 until he stepped down in October 2000. Over the sixteen year period to 30 April 2000 Tomkins plc annual profit before tax and exceptional items rose from £1.6 million to £473.6 million with uninterrupted growth, year on year, in earnings per share. Compound growth in earnings per

share over this period was around 26 per cent per annum and compound growth of dividends per share was over 24 per cent per annum. In the year to 30 April 2000 Tomkins plc earnings per share and dividends increased by 15 per cent.

**Denis Mulhall** (aged 52) was appointed a director on 23 February 2004. From 1988 to 1993 Mr Mulhall worked alongside Mr Hutchings at Tomkins plc. He left Tomkins plc to join Berisford plc, firstly as Chief Financial Officer and then Chief Operating Officer, seeing the transformation of the company from a shell to a market capitalisation of £700 million. Recently he was Chief Financial Officer at Oxford GlycoSciences Plc.

#### *Non-executives*

**Konrad Legg** (aged 60) was Non-Executive Chairman of the Company up to 16 February 2004 and senior non-executive director subsequently. He is a non-executive director of various companies, including Rowe Evans Investments PLC and Willington PLC. He spent the majority of his career building up Plantation & General Investments PLC, a tropical agriculture company, which he left in 1997. He has experience of dealing with the requirements of listed companies and with smaller industrial and trading companies (both as director and part owner).

**Frederic Hoad** (aged 64) is currently a non-executive director of a number of private companies and Aviva plc subsidiaries. Before his retirement in 1996, he spent 28 years at Commercial Union, where, amongst a number of senior positions, he was head of Corporate Finance, head of Overseas Division Finance and head of Private Equity Investment.

**Roland Tate** (aged 47) is Director of Corporate Finance at RMT, a regional independent firm of business advisers based in Newcastle. After a period working in the oil and gas sector, he spent eight years as an executive and director at three private equity investment organisations and was appointed a non-executive director of several venture capital backed businesses. In 1997 he joined PricewaterhouseCoopers and subsequently KPMG as a Corporate Finance Director, where he gained considerable experience in mergers and acquisitions. He is a Fellow of the Securities Institute.

The non-executive directors are entirely independent. There were no contracts subsisting during or at the end of the year in which a director was or is materially interested. The Company maintains a policy of insurance against directors' and officers' liabilities.

#### Re-election of directors

In accordance with the Articles, Mr Hutchings and Mr Mulhall will retire at the Annual General Meeting to be held on 27 May 2004, being the first AGM following their appointment and, being eligible, will seek re-election.

Mr Hoad retires by rotation and, being eligible, will seek re-election.

#### Directors' interests

The directors' interests in the share capital (all beneficially held) of the Company were as follows:

	22 Apr 2004 Ordinary shares	31 Dec 2003 Ordinary shares	31 Dec 2002 Ordinary shares
Greg Hutchings	23,750,000	-	-
Denis Mulhall	2,800,000	-	-
Konrad Legg	875,000	400,000	200,000
Frederic Hoad	325,000	100,000	-
Roland Tate	161,196	83,752	1,000

On 26 March 2004 the Company allotted 47,539,257 new ordinary shares to 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 potential beneficiaries of the LESOT include the family of Greg Hutchings, Executive Chairman of the Company. Under the terms of the incentive arrangements any shares appointed to the benefit of any employee's family in respect of this award and any award in the second period of the arrangements will revert to the LESOT if that employee ceases to be employed by the Company on or before 31 December 2005, or if later, within 12 months following the allotment of shares in respect of the second period and no shares shall be appointed to be held for the family of any employee if, at

the date of the appointment, the employee concerned is not employed by the Company.

#### Management

Throughout the year ended 31 December 2003, the Board contracted to Progressive Value Management Limited ("the Manager") the executive function of the Group. The Manager was appointed under a contract for an initial period of 15 months from 28 November 2002 and thereafter subject to 3 months notice. The Manager was entitled to remuneration comprising a basic fee of £260,000 per year and, in appropriate circumstances, realisation fees and an equity appreciation fee. No realisation fees or equity appreciation fees were paid in the year ended 31 December 2003.

On 16 February 2004, the management agreement was terminated upon the appointment of Mr Hutchings to the position of Executive Chairman. Mr Hutchings subscribed for and purchased shares in the Company at 9p per share and the Manager was paid a performance fee based on an exit price of 9p per share.

#### Substantial shareholders

In addition to the holdings of certain of the directors and of the LESOT described above, at the date of this report the Company had been notified of the following interests comprising 3% or more of its issued share capital:

	Ordinary shares	%
Undervalued Assets Trust plc (Scottish Value Management Ltd)	7,366,133	3.1

#### Creditors payment policy

Group operating companies are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted. It is Group policy that payments to suppliers are made in accordance with all relevant terms and conditions. Creditor days for the Company have been calculated at 31 days.

#### Safety, health and the environment

The Board recognises that the highest standards in safety, health and environmental issues are an essential part of sound business practice. The Board is committed to improving the impact on the environment from any of

its operations and to incorporating the principles of sustainable development.

**Going concern**

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and accordingly they have adopted the going concern basis in preparing the accounts.

**Auditors**

A resolution to reappoint Ernst & Young LLP as the Company's auditors will be put to the members at the Annual General Meeting.

By order of the Board



**Cavendish Administration Limited**

*Company Secretary*

22 April 2004



## CORPORATE GOVERNANCE STATEMENT

The directors acknowledge the importance of the Principles set out in The Combined Code issued in 1998 by the Committee on Corporate Governance chaired by Sir Ronald Hampel and have put in place a framework for corporate governance which it believes is appropriate for the Company, as follows:

### **The Board of Directors**

During the year ended 31 December 2003 and up to 16 February 2004, the Board comprised an independent Non-Executive Chairman and two independent non-executive directors. The composition of the Board was such that it was not considered necessary to nominate a senior non-executive director. After 16 February 2004, the Board has comprised an Executive Chairman, an executive director and three independent non-executive directors; Mr Legg has been designated the senior non-executive director.

The Board, with only two executive directors, having carefully considered the position, structure and strategy of the Group, believes that the nature of the Group with its focus on identifying, acquiring and reinvigorating businesses makes it appropriate for the role of chairman to carry executive responsibility.

The Board meets regularly and is responsible for strategy, performance and the framework of internal controls. The Board has a formal schedule of matters specifically reserved to it for decision. To enable the Board to discharge its duties, all directors receive appropriate and timely information. The Company Secretary distributes briefing papers to all directors in advance of Board meetings. All directors have access to the advice and services of the corporate Company Secretary, which is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The appointment and removal of the Company Secretary is a matter for the Board as a whole. In addition, procedures are in place to enable the directors to obtain independent professional advice in the furtherance of their duties, if necessary, at the Company's expense.

All directors are subject to re-election by the shareholders at Annual General Meetings at a maximum

interval of three years. The Articles of Association provide that directors appointed by the Board will be subject to re-election at the first AGM thereafter.

### **Board Committees**

The Board has formed an Audit and Corporate Governance Committee, a Remuneration Committee and a Nominations Committee, each comprised of all independent, non-executive directors. The existence of the committees ensures that time is allocated on a formal basis to consider relevant issues.

#### *Audit and Corporate Governance Committee*

The Audit and Corporate Governance Committee meets at least twice a year and considers the appointment and fees of the external auditors and discusses the scope of the audit and its findings. The Committee is also responsible for monitoring compliance with accounting and legal requirements and for reviewing the annual and interim financial statements. This committee is chaired by Mr Legg.

#### *Remuneration Committee*

The Remuneration Committee considers and approves the remuneration and benefits (if any) of the directors. The directors' remuneration report is set out on page 11 and 12. The Committee also determines the remuneration of the directors of Gall Thomson and of the service providers contracted to perform executive functions for the Group. This committee is chaired by Mr Hoad.

#### *Nominations Committee*

The Nominations Committee identifies and nominates candidates for the office of director of the Company. It meets as and when required and is chaired by Mr Tate.

### **Internal control**

The directors acknowledge that they are responsible for the Group's system of internal controls and for reviewing the effectiveness of those controls.

Procedures have been developed to safeguard assets against unauthorised use or disposition and to maintain proper accounting records to provide reliable financial information both for internal use and for publication. In

accordance with the guidance of the Turnbull Committee on internal control, the procedures are regularly reviewed in the light of an ongoing process to identify, evaluate and manage the significant risks faced by the Company. The process has been in place for the full year under review and up to the date of the approval of the annual report and financial statements. The procedures are designed to manage rather than eliminate risk and can only provide reasonable and not absolute assurance against material misstatement or loss.

During the year ended 31 December 2003 the Board contractually delegated to external agencies the central management, accounting and company secretarial requirements of the Group. Each of these contracts was entered into after full and proper consideration of the quality and cost of services offered. The Board reviewed and assessed the effectiveness of the internal control framework established by the manager and the administrator to provide reasonable assurance on the effectiveness of internal controls. The management contract has since been cancelled upon the appointment of the Executive Chairman. The Board, including the executive directors, will review the internal control framework on an ongoing basis.

#### **Relations with shareholders**

Communications with shareholders are given high priority and there is a regular dialogue with institutional shareholders.

The Board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation. Details of resolutions to be proposed at the Annual General Meeting on 27 May 2004 can be found in the Notice of the Meeting on page 35.

#### **Statement by directors on compliance with the provisions of The Combined Code**

The Company has been in compliance with the provisions of The Combined Code and the guidance of the Turnbull Committee throughout the year to 31 December 2003, except as follows:

- the directors, who during that year were all non-executive, were appointed without a specific period of office being set, however, all directors are subject

to re-election at a maximum interval of three years; new letters of appointment have been issued to directors on 16 February 2004, which provide for a notice period of one month;

- there was no senior non-executive director, since in the opinion of the Board the Board's structure, comprising only three independent non-executives, was such that the identification of a senior non-executive other than the Chairman was not required; on 16 February 2004, Mr Legg was appointed senior non-executive director.

#### **Directors' responsibilities for the financial statements**

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 of the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## DIRECTORS' REMUNERATION REPORT

This report has been prepared in accordance with the requirements of Schedule 7A to the Companies Act 1985. An ordinary resolution for the approval of this report will be put forward at the forthcoming Annual General Meeting.

*Information not subject to audit*

### Remuneration Committee and advisers

As explained on page 9, the Remuneration Committee of the Board comprises all independent non-executive directors of the Company. During the year ended 31 December 2003 the Committee therefore comprised the complete Board. Since the appointment of the Executive Chairman on 16 February 2004, it has comprised all the non-executive directors and is chaired by Mr Hoad. It is responsible for determining and reviewing the terms of appointment and the remuneration of the directors of the Company. The Remuneration Committee may utilise independent advice when it considers it appropriate. No such advice was taken during the year ended 31 December 2003.

### Remuneration policy

The remuneration policy for the year ended 31 December 2003 was to pay only such moderate fees as were commensurate with the Company's then policy of carrying out an orderly disposal of assets.

Since 31 December 2003, the Committee has recommended the appointment of Mr Hutchings as Executive Chairman, taking effect from 16 February 2004, at a salary consistent with those responsibilities and the appointment of Mr Mulhall as an executive director, taking effect from 23 February 2004, at a salary consistent with his responsibilities.

The Remuneration Committee reviewed the fees of the non-executive directors in the light of the changes to the management structure effected on 16 February 2004 and resolved that from 1 March 2004 the fees of Mr Legg should be £22,000 per year and those of Mr Hoad and Mr Tate each £18,000 per year.

The policy for future years will be to pay remuneration to directors at a level consistent with their responsibilities and with the scope of the Group. A long term incentive programme was approved by

shareholders at an EGM held on 16 February 2004. Further detail is outlined in note 25.

### Service Agreements

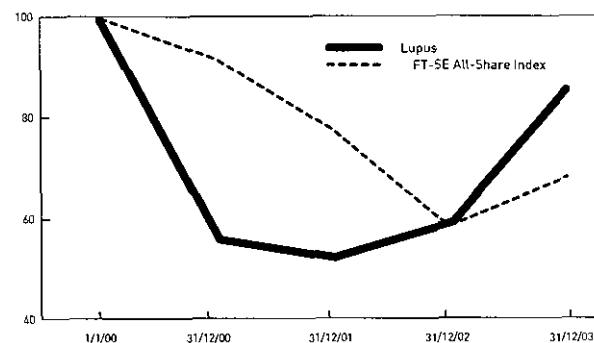
No director had a service contract with the Company during the year ended 31 December 2003.

Following the approval by shareholders on 16 February 2004 of the proposals described in the circular dated 21 January 2004, a service agreement between the Company and Mr Hutchings became effective. Under the service agreement Mr Hutchings is entitled to receive an annual salary of £150,000, to membership of a private medical expenses arrangement and permanent health insurance cover. Mr Hutchings is entitled to participate from time to time in any bonus arrangements the Board may establish. The agreement is terminable on not less than 12 months' notice by either party.

Mr Mulhall was appointed a director on 23 February 2004. Under the terms of his service agreement Mr Mulhall is entitled to receive an annual salary of £75,000, to membership of a private medical expenses arrangement and permanent health insurance cover. Mr Mulhall is entitled to participate from time to time in any bonus arrangements the Board may establish. The agreement is terminable on not less than 12 months' notice by either party. The non-executive directors have letters of appointment, which, since 16 February 2004, provide a notice period of one month. All directors are subject to re-election by shareholders at a maximum interval of three years.

### Performance

Performance of Lupus Capital plc shares, with dividends reinvested, compared to the FT-SE All-share Index



DIRECTORS' REMUNERATION REPORT *continued**Information subject to audit***Remuneration**

During the year ended 31 December 2003, the then Chairman was entitled to receive fees of £25,000 per year

and the other non-executive directors £15,000 each per year. The remuneration payable in respect of the year ended 31 December 2003 was as follows:

	Fees £	Bonus £	Expense allowance £	Benefits £	Compensation for loss of office £	Total 2003 £	Total 2002 £
Konrad Legg <sup>(1)</sup>	25,000	-	-	-	-	25,000	2,083
Frederic Hoad <sup>(1)</sup>	15,000	-	-	-	-	15,000	1,250
Roland Tate <sup>(1)</sup>	15,000	-	-	-	-	15,000	1,250
Charles Ryder <sup>(2)</sup>	-	-	-	-	-	-	295,494
James Orr <sup>(2)</sup>	-	-	-	-	-	-	291,546
Oliver Stocken <sup>(2)</sup>	-	-	-	-	-	-	18,178
Peter Cawdron <sup>(2)</sup>	-	-	-	-	-	-	13,750
Peter So <sup>(2)</sup>	-	-	-	-	-	-	13,750
<b>Total</b>	<b>55,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>55,000</b>	<b>637,301</b>

*Notes:*

(1) Appointed 28 November 2002

(2) Resigned/removed from office 28 November 2002

The fees of Mr Legg are payable to Tudeley Holdings Limited, those of Mr Hoad to Hoad & Co (Consultants) Limited and those of Mr Tate to RMT.

**Share options, long term incentive schemes and bonuses**

No current director held any share options at 31 December 2003, or during the year ended 31 December 2003, and there were no long-term incentive schemes for directors in effect at that date. The options that were held by former directors at 31 December 2002 were exercised during June 2003 in respect of a total of 800,000 options at 6p; the remaining options lapsed. The market value at the time of exercise was 7.625p, giving rise to an unrealised gain at that time of £13,000.

Since 31 December 2003, a new incentive scheme and an employee benefit trust have been put into place, in order to encourage the growth of the business. The details of these were described in the circular to shareholders dated 21 January 2004 and are disclosed in note 25 to the financial statements. They were

approved by shareholders at the Extraordinary General Meeting on 16 February 2004.

The service agreements of the executive directors include provision for possible cash bonus scheme arrangements. Any such schemes will be performance-related and the level of performance bonus will be determined by the remuneration committee in accordance with generally accepted practice. To date, no such arrangements have been established.

**Pensions**

During 2003 there were no defined benefit pension entitlements and no pension payments were made in respect of the current directors.

By order of the Board



**Cavendish Administration Limited**  
Company Secretary

22 April 2004

# INDEPENDENT AUDITORS' REPORT

to the members of Lupus Capital plc

We have audited the Group's financial statements for the year ended 31 December 2003, which comprise the consolidated profit and loss account, consolidated statement of total recognised gains and losses, consolidated balance sheet, company balance sheet, consolidated cash flow statement, reconciliation of equity shareholders' funds and the related notes 1 to 25. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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 are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards, as set out in the statement of directors' responsibilities in relation to the accounts.

Our responsibility is to audit the financial statements and those parts of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and those parts of the Directors' Remuneration Report to be audited are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors'

report is not consistent with the accounts, if 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 or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of The Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement and the Corporate Governance Statement, the Directors and Advisers and the Notice of the Annual General Meeting. 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 audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards 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 and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

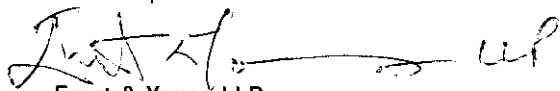
INDEPENDENT AUDITORS' REPORT *continued*

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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' remuneration report to be audited.

**Opinion**

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP

*Registered Auditor*

London

22 April 2004

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2003

Notes	2003 £'000	2002 £'000	
2	<b>Turnover</b>	6,551	6,638
	Cost of sales	(1,940)	(1,935)
	<b>Gross profit</b>	<b>4,611</b>	<b>4,703</b>
2	Administrative expenses – excluding exceptional items and goodwill amortisation	(1,682)	(2,679)
2	Administrative expenses – exceptional items	-	(1,148)
2	Administrative expenses – goodwill amortisation	(740)	(741)
	Administrative expenses	(2,422)	(4,568)
2	<b>Operating profit</b>	<b>2,189</b>	<b>135</b>
	(Loss)/profit on disposal of fixed asset investments	(200)	213
	Income from investments	-	273
	Amounts written off fixed asset investments	-	(1,595)
4	Interest receivable and similar income	161	155
5	Interest payable and similar charges	(242)	(542)
	<b>Profit/(loss) on ordinary activities before taxation</b>	<b>1,908</b>	<b>(1,361)</b>
6	Taxation	(788)	(151)
	<b>Profit/(loss) on ordinary activities for the year</b>	<b>1,120</b>	<b>(1,512)</b>
8	Ordinary dividends	(758)	(1,058)
	<b>Retained profit/(loss) for the year</b>	<b>362</b>	<b>(2,570)</b>
9	Earnings / (loss) per share	0.65p	(0.89p)
9	Earnings per share before exceptional items, goodwill and investment activity	1.20p	0.67p

## CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There were no recognised gains and losses in each year other than the profit of £1,120,000 (2002: loss £1,512,000) for the financial year.

All results relate to continuing operations.

# CONSOLIDATED BALANCE SHEET

As at 31 December 2003

Notes	2003 £'000	2002 £'000	
	<b>Fixed assets</b>		
10	Intangible assets	11,421	12,161
11	Tangible assets	415	463
12	Investments	-	3,822
		<b>11,836</b>	<b>16,446</b>
	<b>Current assets</b>		
13	Stocks and work-in-progress	251	200
14	Debtors	2,871	2,096
	Cash at bank and in hand	97	-
		<b>3,219</b>	<b>2,296</b>
15	<b>Creditors: amounts falling due within one year</b>	<b>(2,360)</b>	<b>(6,693)</b>
	<b>Net current assets/(liabilities)</b>	<b>859</b>	<b>(4,397)</b>
	<b>Total assets less current liabilities</b>	<b>12,695</b>	<b>12,049</b>
16	<b>Creditors: amounts falling due after more than one year</b>	<b>(85)</b>	<b>(80)</b>
	<b>Net assets</b>	<b>12,610</b>	<b>11,969</b>
	<b>Capital and reserves</b>		
19	Called up share capital	864	853
20	Share premium account	4,709	4,441
20	Merger reserve	10,389	10,389
20	Profit and loss account	(3,352)	(3,714)
	<b>Equity shareholders' funds</b>	<b>12,610</b>	<b>11,969</b>



# COMPANY BALANCE SHEET

As at 31 December 2003

Notes	2003 £'000	2002 £'000	
	<b>Fixed assets</b>		
12	Investments	25,100	8,711
		25,100	8,711
	<b>Current assets</b>		
14	Debtors	39	13,675
	Cash at bank and in hand	2,782	1,064
		2,821	14,739
15	<b>Creditors: amounts falling due within one year</b>	<b>(4,519)</b>	<b>(879)</b>
	<b>Net current (liabilities)/assets</b>	<b>(1,698)</b>	<b>13,860</b>
	<b>Total assets less current liabilities</b>	<b>23,402</b>	<b>22,571</b>
16	<b>Creditors: amounts falling due after more than one year</b>	<b>(7,876)</b>	<b>(7,876)</b>
	<b>Net assets</b>	<b>15,526</b>	<b>14,695</b>
	<b>Capital and reserves</b>		
19	Called up share capital	864	853
20	Share premium account	4,709	4,441
20	Merger reserve	8,920	8,920
20	Profit and loss account	1,033	481
	<b>Equity shareholders' funds</b>	<b>15,526</b>	<b>14,695</b>

The financial statements were approved by the Board on 22 April 2004.

Greg Hutchings  
Executive Chairman



Konrad Legg  
Senior non-executive director



# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2003

Notes	2003 £'000	2002 £'000
21(a) <b>Net cash inflow from operating activities</b>	<b>1,289</b>	<b>2,112</b>
<b>Returns on investments and servicing of finance</b>		
Interest received	161	155
Interest paid	(273)	(531)
Dividends received	56	258
	<b>(56)</b>	<b>(118)</b>
<b>Taxation</b>		
UK corporation tax paid	(146)	(544)
<b>Capital expenditure and financial investment</b>		
Sale of tangible fixed assets	4	-
Purchase of tangible fixed assets	(8)	(16)
Sale of fixed asset investments	3,622	3,051
Purchase of fixed asset investments	-	(1,070)
	<b>3,618</b>	<b>1,965</b>
<b>Equity dividends paid</b>	<b>(1,060)</b>	<b>(630)</b>
<b>Net cash inflow before financing</b>	<b>3,645</b>	<b>2,785</b>
<b>Financing</b>		
20 Issue of shares net of costs	279	25
21(b) <b>Increase in cash</b>	<b>3,924</b>	<b>2,810</b>

## RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/(DEBT)

For the year ended 31 December 2003

Notes	2003 £'000	2002 £'000
Increase in cash	3,924	2,810
Change in net debt from cash flows	3,924	2,810
Net debt at 1 January	(3,827)	(6,637)
21(b) <b>Net funds / (debt) at 31 December</b>	<b>97</b>	<b>(3,827)</b>

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2003

Notes	2003 £'000	2002 £'000
21(a) <b>Net cash inflow from operating activities</b>	<b>1,289</b>	<b>2,112</b>
<b>Returns on investments and servicing of finance</b>		
Interest received	161	155
Interest paid	(273)	(531)
Dividends received	56	258
	<b>(56)</b>	<b>(118)</b>
<b>Taxation</b>		
UK corporation tax paid	(146)	(544)
<b>Capital expenditure and financial investment</b>		
Sale of tangible fixed assets	4	-
Purchase of tangible fixed assets	(8)	(16)
Sale of fixed asset investments	3,622	3,051
Purchase of fixed asset investments	-	(1,070)
	<b>3,618</b>	<b>1,965</b>
<b>Equity dividends paid</b>	<b>(1,060)</b>	<b>(630)</b>
<b>Net cash inflow before financing</b>	<b>3,645</b>	<b>2,785</b>
<b>Financing</b>		
20 Issue of shares net of costs	279	25
21(b) <b>Increase in cash</b>	<b>3,924</b>	<b>2,810</b>

## RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/(DEBT)

For the year ended 31 December 2003

Notes	2003 £'000	2002 £'000
Increase in cash	3,924	2,810
Change in net debt from cash flows	3,924	2,810
Net debt at 1 January	(3,827)	(6,637)
21(b) <b>Net funds / (debt) at 31 December</b>	<b>97</b>	<b>(3,827)</b>

**RECONCILIATION OF EQUITY SHAREHOLDERS' FUNDS**

for the year ended 31 December 2003

	2003 £'000	2002 £'000
Profit/(loss) for the financial year	1,120	(1,512)
Shares issued net of cost	140	25
Reinstatement of share premium previously written off	139	-
Dividends paid and proposed on ordinary shares	(758)	(1,058)
	641	(2,545)
Opening shareholders' funds	11,969	14,514
Closing shareholders' funds	12,610	11,969

## NOTES TO THE ACCOUNTS

### 1. ACCOUNTING POLICIES

#### 1.1 *Going concern basis*

The financial statements for 31 December 2002 were prepared on an orderly realisation basis. Following the change of strategy announced by the directors the financial statements for 31 December 2003 have been prepared on a going concern basis.

#### 1.2 *Accounting convention*

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost convention.

#### 1.3 *Basis of consolidation*

The Group financial statements consolidate those of the Company and its subsidiary undertakings (see note 12) drawn up to 31 December each year.

#### 1.4 *Goodwill*

Goodwill arising on consolidation, representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired is capitalised and amortised over its useful economic life of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

#### 1.5 *Turnover*

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

#### 1.6 *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	15%
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.

#### 1.7 *Leasing*

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

#### 1.8 *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.

### 1.9 *Pensions*

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

### 1.10 *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.

### 1.11 *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.

**2. TURNOVER AND OPERATING PROFIT**

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

	2003 £'000	2002 £'000
Turnover	6,551	6,638
Cost of sales	(1,940)	(1,935)
Gross profit	4,611	4,703
Administrative expenses including goodwill amortisation	(2,422)	(4,568)
Operating profit	2,189	135
Add back: goodwill amortisation	740	741
Operating profit before goodwill amortisation	2,929	876

**Turnover by destination**

	2003 £'000	2002 £'000
United Kingdom	1,246	1,517
Other European countries	1,646	2,117
North America	1,082	403
South America	517	807
Africa	492	445
Middle East	306	73
Asia Pacific	1,262	1,202
Scandinavia	-	74
Total	6,551	6,638

**Operating profit is stated after charging**

	2003 £'000	2002 £'000
Depreciation of tangible assets - owned assets	52	74
Amortisation of goodwill	740	741
Operating lease rentals - land and buildings	221	221
Operating lease rentals - other	-	32
Auditors' remuneration - audit services	36	39
Auditors' remuneration - other services	58	47
Foreign exchange loss	50	23

### Segmental analysis

For the purposes of the segmental analysis, results and net assets are divided between investment activities and oil services, which are deemed to be continuing activities.

	Investment activities 2003 £'000	Oil services 2003 £'000	Total 2003 £'000	Investment activities 2002 £'000	Oil services 2002 £'000	Total 2002 £'000
<b>Group turnover</b>	-	6,551	6,551	-	6,638	6,638
<b>PROFIT</b>						
Segment operating profit/(loss)	-	2,929	2,929	(661)	2,685	2,024
Goodwill amortisation	-	(740)	(740)	-	(741)	(741)
Exceptional group overheads	-	-	-	-	-	(1,148)
Sub-total	-	2,189	2,189	(661)	1,944	135
(Loss)/profit on disposal of fixed asset investments	(200)	-	(200)	213	-	213
Amounts written off fixed asset investments	-	-	-	(1,595)	-	(1,595)
Dividend income	-	-	-	273	-	273
	(200)	2,189	1,989	(1,770)	1,944	(974)
Net interest payable			(81)			(387)
<b>Profit/(loss) before tax</b>			1,908			(1,361)

	Investment activities 2003 £'000	Oil services 2003 £'000	Total 2003 £'000	Investment activities 2002 £'000	Oil services 2002 £'000	Total 2002 £'000
<b>Net assets</b>						
Segment analysis	-	13,742	13,742	3,927	13,455	17,382
Group cash balances/(borrowings)			97			(3,827)
Proposed dividend			(551)			(853)
Unallocated head office net liabilities			(678)			(733)
<b>Total net assets</b>			12,610			11,969

The segmental information for 2002 has been restated for the allocation of group overheads to each activity; in 2002 all group overheads were treated as non allocated costs.



**3. EMPLOYEES****Number of Employees**

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

	2003 Number	2002 Number
Administration	12	19
Operations	16	16
	<b>28</b>	<b>35</b>

**Employment costs**

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

	2003 €'000	2002 €'000
Wages and salaries	1,147	1,902
Redundancy costs	-	491
Social security costs	136	212
Other pension costs	87	195
	<b>1,370</b>	<b>2,800</b>

The Company made no contributions towards the personal pension arrangements of directors or employees in the year ended 31 December 2003, other than had been accrued in the accounts for the year ended 31 December 2002. Contributions to defined contribution pension schemes were paid during the year by Gall Thomson Environmental and were charged to the profit and loss account.

Full details of directors' remuneration are contained in the audited part of the Directors' Remuneration Report on page 12.

**4. INTEREST RECEIVABLE AND SIMILAR INCOME**

	2003 €'000	2002 €'000
Bank interest receivable	161	155

**5. INTEREST PAYABLE AND SIMILAR CHARGES**

	2003 €'000	2002 €'000
On bank loans and overdrafts	242	542

## 6. TAXATION

### (a) Analysis of charge in year

	2003 £'000	2002 £'000
Taxation based on the result for the year:		
UK Corporation tax on income for the year	846	175
Adjustment in respect of prior year	(58)	(24)
<b>Total current tax</b>	<b>788</b>	<b>151</b>

### (b) Factors affecting tax charge for the year

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

	2003 £'000	2002 £'000
Profit/(loss) on ordinary activities before taxation	1,908	(1,361)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002: 30%)	572	(408)
Effects of:		
Expenses not deductible for tax purposes and non-taxable income:		
Increase in provision against listed investments	-	478
Goodwill amortisation	222	222
Dividends received	-	(82)
Other items	15	29
Capital allowances in advance of depreciation	(9)	6
Other timing differences	(14)	-
Loss on sale of investment	60	-
Utilisation of tax losses	-	(64)
Marginal rate relief	-	(6)
Adjustments to tax charge in respect of previous periods	(58)	(24)
<b>Current tax for the year</b>	<b>788</b>	<b>151</b>

### (c) Factors that may affect future tax charges

There are estimated tax losses of £11,296,000 (2002: £7,863,000) within the Group, comprising capital losses of £6,760,000 and other tax losses of £4,536,000. 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:

	2003 £'000	2002 £'000
Depreciation in advance of capital allowances	-	(6)
Tax losses	(1,361)	(1,297)
Capital losses	(2,028)	(1,062)
Other short term timing differences	-	(14)
	<b>(3,389)</b>	<b>(2,379)</b>

**7. PROFIT ATTRIBUTABLE TO THE MEMBERS OF THE PARENT COMPANY**

As permitted by section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these accounts. The profit dealt with in the accounts of the parent company was £1,310,000 (2002: loss £2,194,000).

**8. DIVIDENDS**

	2003 £'000	2002 £'000
Ordinary dividends:		
Proposed equity dividend at 0.25p per share (2002: 0.50p)	551	853
Interim equity dividend at 0.12p per share (2002: 0.12p)	207	205
	<b>758</b>	<b>1,058</b>

**9. 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 171,772,126 ordinary shares of 0.5p (2002: weighted average 170,302,702).

An additional EPS figure is provided to show the earnings before exceptional items, goodwill and the impact of the Group's listed investments which were disposed of following the change of board in November 2002. The calculation of adjusted earnings per share is based on adjusted profit which is set out below and on the weighted average number of shares in issue during the year 171,772,126 ordinary shares of 0.5p (2002: weighted average 170,302,702).

	2003 £'000	2002 £'000
Profit/loss on ordinary activities after taxation	1,120	(1,512)
Administration costs – exceptional items	–	1,148
Goodwill amortisation	740	741
Impact of ceasing investment activities:		
- Loss/(profit) on disposal of fixed asset investments	200	(213)
- Income from investments	–	(273)
- Amounts written off fixed asset investments	–	1,595
- Taxation effects of the above	–	(344)
	<b>2,060</b>	<b>1,142</b>

## 10. INTANGIBLE FIXED ASSETS

Intangible fixed assets comprise goodwill arising on consolidation of Gall Thomson Environmental and Octroi Group.

	Goodwill arising on consolidation £'000
<b>Cost</b>	
At 1 January 2003 and at 31 December 2003	<b>14,393</b>
<b>Amortisation</b>	
At 1 January 2003	2,232
Charge for the year	740
<b>At 31 December 2003</b>	<b>2,972</b>
<b>Net book value</b>	
<b>At 31 December 2003</b>	<b>11,421</b>
At 1 January 2003	12,161

## 11. TANGIBLE FIXED ASSETS Group

	Freehold land and buildings £'000	Plant and machinery £'000	Motor vehicles £'000	Leasehold improvements, fixtures and fittings £'000	Total £'000
<b>Cost</b>					
At 1 January 2003	207	376	8	105	696
Additions	-	8	-	-	8
Transfers	-	42	-	(42)	-
Disposals	-	(2)	-	(63)	(65)
<b>At 31 December 2003</b>	<b>207</b>	<b>424</b>	<b>8</b>	<b>-</b>	<b>639</b>
<b>Depreciation</b>					
At 1 January 2003	29	126	8	70	233
Charge for the year	5	47	-	-	52
Transfers	-	11	-	(11)	-
Elimination on disposals	-	(2)	-	(59)	(61)
<b>At 31 December 2003</b>	<b>34</b>	<b>182</b>	<b>8</b>	<b>-</b>	<b>224</b>
<b>Net book value</b>					
<b>At 31 December 2003</b>	<b>173</b>	<b>242</b>	<b>-</b>	<b>-</b>	<b>415</b>
At 1 January 2003	178	250	-	35	463

## 12. FIXED ASSET INVESTMENTS

	Group Listed investments €'000	Company Investments in subsidiaries €'000
<b>Cost</b>		
At 1 January 2003	6,842	8,711
Transfer from subsidiary	-	17,000
Disposals	(6,842)	-
<b>At 31 December 2003</b>	<b>-</b>	<b>25,711</b>
<b>Provisions</b>		
At 1 January 2003	3,020	-
Additions	-	611
Elimination on disposal	(3,020)	-
<b>At 31 December 2003</b>	<b>-</b>	<b>611</b>
<b>Net book value</b>		
<b>At 31 December 2003</b>	<b>-</b>	<b>25,100</b>
At 1 January 2003	3,822	8,711

In the opinion of the directors, the aggregate value of the Company's investments in subsidiary undertakings is not less than the amount included in the balance sheet.

**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.

## 13. STOCKS AND WORK-IN-PROGRESS

Group	2003 €'000	2002 €'000
Raw materials and consumables	132	93
Work-in-progress	105	100
Finished goods	14	7
	<b>251</b>	<b>200</b>

## 14. DEBTORS

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Trade debtors	2,683	1,608	-	-
Amounts due from subsidiary undertakings	-	-	-	13,609
Corporation tax recoverable	-	175	39	-
Other debtors	90	107	-	66
Dividends receivable	-	56	-	-
Prepayments and accrued income	98	150	-	-
	<b>2,871</b>	<b>2,096</b>	<b>39</b>	<b>13,675</b>

## 15. CREDITORS: amounts falling due within one year

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Bank overdrafts	-	3,827	-	-
Trade creditors	313	353	-	-
Amounts owed to group undertakings	-	-	3,968	26
Corporation tax	468	-	-	-
Other taxes and social security costs	39	72	-	-
Proposed dividend	551	853	551	853
Other creditors	-	2	-	-
Accruals and deferred income	989	1,586	-	-
	<b>2,360</b>	<b>6,693</b>	<b>4,519</b>	<b>879</b>

The bank overdrafts are secured by a fixed and floating charge over the assets of the Group.

## 16. CREDITORS: amounts falling due after more than one year

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Other creditors	85	80	-	-
Loan notes owed to group undertakings	-	-	7,876	7,876
	<b>85</b>	<b>80</b>	<b>7,876</b>	<b>7,876</b>

**17. BORROWINGS**

The Group had a £6 million overdraft facility, which was decreased to £2 million on 4 August 2003. This facility was renewed on 22 December 2003 and again on 1 February 2004. It expired on 29 February 2004.

**18. FINANCIAL INSTRUMENTS: RISK PROFILE**

The Group's principal financial instruments have comprised bank loans, cash and short-term deposits and listed investments. During the year ended 31 December 2003, all listed investments were sold, finance leases and hire purchase arrangements were discontinued and the bank loan was paid off. 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.

**Liquidity risk**

The Group's objective during the year ended 31 December 2003 was to reduce borrowings, while maintaining short-term, flexible, borrowing arrangements in the short term. This objective was achieved. 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 has been fully repaid, as described in note 17 above. The balance outstanding at 31 December 2003 was £nil (2002: £3,827,000).

**Interest rate risk of financial assets**

The Board periodically reviews any exposure the Group may have to interest rate fluctuations.

The interest rate profile of the financial assets of the Group as at 31 December was as follows:

	Financial assets on which no interest is earned £'000
<b>2003</b>	
Assets denominated in Sterling	-
	-
<b>2002</b>	
Assets denominated in Sterling	3,822
	3,822

The financial assets on which no interest is earned comprised quoted investments in equity shares that neither pay interest nor have a maturity date. The fair value of the quoted investments within financial assets on which no interest is earned was £nil in respect of fixed asset investments (2002: £3,804,000 in respect of fixed asset investments).

**Foreign currency risk**

The Group's subsidiary, Gall Thomson Environmental, conducts part of its business in US dollars. At 31 December 2003, Gall Thomson Environmental held the following balances denominated in US dollars:

	2003 £'000	2002 £'000
Debtors	510	28
Cash	309	210
Creditors	(155)	-

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

**19. SHARE CAPITAL**

	2003 £'000	Company	2002 £'000
<b>Authorised:</b>			
300,000,000 Ordinary shares of 0.5 pence each	1,500		1,500
<b>Allotted, called up and fully paid:</b>			
172,873,085 (2002: 170,523,085) Ordinary shares of 0.5 pence each	864		853

**Allotments during the year were as follows:**

	Aggregate nominal value £'000	Consideration £'000
<b>Exercise of share options:</b>		
2,350,000 ordinary shares of 0.5 pence each at 6.0 pence each	11	140

**Contingent rights to the allotment of shares**

At 31 December 2003 there were no contingent rights to the allotment of shares, as options previously granted had been exercised or had lapsed.



**20. MOVEMENTS ON SHARE CAPITAL AND RESERVES**

Group	Share capital £'000	Share premium account £'000	Merger reserve £'000	Profit and loss account £'000
At 1 January 2003	853	4,441	10,389	(3,714)
Shares issued net of costs	11	129	-	-
Reinstatement of share premium previously written off	-	139	-	-
Profit for the year	-	-	-	1,120
Dividends	-	-	-	(758)
<b>At 31 December 2003</b>	<b>864</b>	<b>4,709</b>	<b>10,389</b>	<b>(3,352)</b>

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. The reinstatement of share premium relates to recovery of VAT on share issue costs previously written off to the share premium account.

Company	Share capital £'000	Share premium account £'000	Merger reserve £'000	Profit and loss account £'000
At 1 January 2003	853	4,441	8,920	481
Shares issued net of costs	11	129	-	-
Reinstatement of share premium previously written off	-	139	-	-
Profit for the year	-	-	-	1,310
Dividends	-	-	-	(758)
<b>At 31 December 2003</b>	<b>864</b>	<b>4,709</b>	<b>8,920</b>	<b>1,033</b>

## 21. NOTES TO THE STATEMENT OF CASH FLOWS

### (a) Reconciliation of operating profit to net cash inflow from operating activities

	2003 £'000	2002 £'000
Operating profit	2,189	135
Depreciation	52	74
Amortisation of goodwill	740	741
Movement in stock and work-in-progress	(51)	(28)
Movement in debtors	(1,006)	115
Movement in creditors	(635)	1,031
Provision against carrying value of fixed assets	-	44
	<b>1,289</b>	<b>2,112</b>

### (b) Analysis of net cash/(debt)

	1 January 2003 £'000	Cash flow £'000	31 December 2003 £'000
Overdrafts	(3,827)	3,827	-
Cash balances	-	97	97
Net cash/debt	(3,827)	3,924	97

## 22. CONTINGENT LIABILITIES

The Company'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 2003, the Group had overdraft facilities available to it of £2 million, none of which was utilised.

## 23. FINANCIAL COMMITMENTS

At 31 December 2003 the Company had annual commitments under non-cancellable operating leases as follows:

Group	Land and buildings		Other	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Expiry date:				
Within one year	-	-	3	27
Between two and five years	76	76	-	-
Over five years	128	128	-	-

**24. RELATED PARTY TRANSACTIONS**

Details of the management contract can be found in the Directors' Report on page 7. Fees payable to the manager were £267,406 (2002: £28,833) and to the administrator/company secretary £35,426, (2002: £3,208) both in respect of the year to 31 December 2003. At 31 December 2003, the amount due to the manager was £43,333 (2002: £28,833) and to the administrator/company secretary £5,833 (2002: £3,208).

Marshall Securities Limited, which was appointed as the Company's broker on 28 November 2002, is an associated company of the manager and the administrator/company secretary. Fees payable to Marshall were £12,000 in respect of the year to 31 December 2003.

**25. POST BALANCE SHEET DATE EVENTS**

As resolved at an Extraordinary General Meeting of the Company on 16 February 2004, 17,283,944 ordinary shares, which do not rank for dividends declared in respect of the financial year ended 31 December 2003, were allotted to Mr Hutchings on that date. Progressive Value Management Limited was given notice on that date and paid a fee of £625,800 in accordance with its contract.

On 26 March 2004 the Company allotted 47,539,257 ordinary shares to 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. These shares rank for the proposed final dividend in respect of the financial year ended 31 December 2003. 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 potential beneficiaries of the LESOT include the family of Greg Hutchings, executive chairman of the Company. Under the terms of the incentive arrangements any shares appointed to the benefit of any employee's family in respect of this award and any award in the second period of the arrangements will revert to the LESOT if that employee ceases to be employed by the Company on or before 31 December 2005, or if later, within 12 months following the allotment of shares in respect of the second period and no shares shall be appointed to be held for the family of any employee if, at the date of the appointment, the employee concerned is not employed by the Company.

The issue of the shares to the LESOT will give 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 is no change to the net assets of the Company as a result of the share issue. However, there is a reduction of £8,200,522 in the distributable reserves which will impede the Company's ability to pay dividends in the future. In the circular dated 21 January 2004 it was noted that the award of shares under the incentive arrangements might impact distributable reserves and that the Board would take appropriate action in respect of such impact. The Company is posting a circular to shareholders convening an extraordinary general meeting to approve the cancellation of the entire share premium account to create a reserve to offset the deficit on distributable reserves. The cancellation is also conditional on the approval of the Court.

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Lupus Capital plc will be held at the offices of Lawrence Graham, 190 Strand, London WC2R 1JN, on 27 May 2004 at 11.00 a.m. for the following purposes:

## ORDINARY BUSINESS

1. To receive and adopt the accounts for the year ended 31 December 2003 together with the reports of the directors and auditors thereon.
2. Subject to, and conditional upon, the proposed cancellation of the share premium account of the Company becoming effective, to declare a final dividend of 0.25p per share.
3. To reappoint Mr Hutchings as a director who retires pursuant to the Articles of Association of the Company and offers himself for re-election.
4. To reappoint Mr Mulhall as a director who retires pursuant to the Articles of Association of the Company and offers himself for re-election.
5. To reappoint Mr Hoad as a director who retires by rotation and offers himself for re-election.
6. To reappoint Ernst & Young LLP as auditors of the Company and to authorise the directors to set their remuneration.
7. To approve the Directors' Remuneration Report.

By order of the Board

Registered Office:  
Crusader House  
145-157 St John Street  
London EC1V 4RU

**Cavendish Administration Limited**

Company Secretary

22 April 2004

## Notes:

1. A member of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
2. To be valid, forms of proxy and any power of attorney or other authority under which it is signed must be lodged with the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not less than 48 hours before the time fixed for the meeting. A form of proxy is enclosed with this notice for use.
3. Completion and return of a proxy form does not preclude a member from attending and voting at the meeting.
4. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered on the register of members in order to have the right to attend and vote at the Annual General Meeting is 6.00 p.m. on 25 May 2004. Changes to entries on the register of members after that time will be disregarded in determining the right of any person to attend or vote at the meeting.
5. The register of directors' interests in the share capital of the Company is available for inspection at the Company's registered office during normal business hours from the date of this notice until the date of the Annual General Meeting and will be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to and during the meeting.