2806007

Lupus Capital plc
Annual Report and Accounts

Year Ended 31 December 2004

LUPUS

Chairman's Statement

- £2,974,000 adjusted pre-tax profits
- 4.4% increase on prior year

Dear Shareholder,
The financial year ending 31 December 2004 was an eventful one for your company. In early 2004, I personally invested several million pounds in the shares of Lupus. This was quickly followed by the appointment of Denis Mulhall as a director who, also, made a significant investment into Lupus share ownership. Operational management was reorganised, incentive schemes installed and a mergers and acquisitions function added. The balance sheet and share premium account were restructured by means of a capital reorganisation in order to allow the continuation of the payment of dividends. All these were achieved through a series of Extraordinary General Meetings supported by full documentation for the approval of shareholders.

Our trading results have been good, however acquisition progress has been frustrating. We have been involved in numerous potential purchases and bids, but none so far have been consummated. While it has been tempting to succumb to short term opportunities for the sake of being seen to be active, we have managed to resist buying anything that would not be in the long term interests of shareholders. Patience and value have to be our watchwords if we are determined to build up Lupus into a major industrial concern. We continue to be diligent and resolute on making value producing acquisitions.

I would like to thank our non-executive directors, Mr Fred Hoad (our lead non-executive director), Mr Roland Tate and Mr Konrad Legg (who retired from the Board on 17 January 2005) for all their wise advice and patience in dealing with the many complicated issues.

Results for the year
Our financial results for the year to 31 December 2004 were good.

Adjusted pre-tax profits were £2,974,000 (2003: £2,848,000) before goodwill, the lesot charge and exceptional items. After tax, this translates into earnings per share of 0.94p (2003: 1.20p) out of which we are paying a total full year dividend of 0.39p net (2003: 0.37p). Gall Thomson Environmental Limited, our main subsidiary, performed well increasing profits by 4.0%.

The reported Group pre-tax result for the year was a £5,790,000 loss (2003: profit £1,908,000), after taking £740,000 of goodwill, exceptional charges of £1,309,000 and a £6,715,000 non-cash lesot charge. After tax, this translates into a loss per share of 2.82p (2003: profit 0.65p).

Dividend
The cash generation of your company is excellent and the Board is recommending a full year dividend increase of just over 5%. This means a final dividend of 0.264p per share (2003: 0.25p per share) making the total for the year ending 31 December 2004 of 0.39p (2003: 0.37p per share).

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 transforming few years.

Background
I together with Denis Mulhall, with whom I worked at Tomkins plc, made a significant personal investment into Lupus in order to develop it into a much bigger international company. We chose Lupus for a number of reasons:

- The existing non-executives and their advisers had reorganised and rationalised the Group, leaving it free of any debts;
- As can be seen from the financial results, Lupus produces good figures and continues to demonstrate underlying reliability of earnings;
- Gall Thomson Environmental Limited 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.

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.

Chairman's Statement continued

...defined strategy, a sound balance sheet, good operating activities...

...very disciplined with a clear focus...

The speed and 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. 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, 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 of March 2005 our market capitalisation was approximately £31.5m. Gall Thomson Environmental Limited, which is our main operating company, will be retained within the Group.

- £1,552,000 cash generated
- dividends increase 5.4%

Business of Gall Thomson Environmental
Gall Thomson Environmental Limited is the world's leading supplier of marine breakaway couplings. Its subsidiary, KLAW Products Limited, 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 Limited 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 huge environmental and financial consequences of risking less established products gives Gall Thomson Environmental Limited a significant advantage and strong market share.

The principal activity of KLAW Products Limited 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 Limited is a reliable business 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 Limited business in the short and long term. KLAW Products Limited has started the year well. During recent years new products have been developed, which, together with the existing range and having become CE markings approved, are generating higher sales and increasing market penetration.

The foundations of the Group are strong. 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 we have the right platform to deliver value for shareholders.

Greg Hutchings
Chairman
26 May 2005

Directors and Advisers

Directors	Greg Hutchings (Executive Chairman) Denis Mulhall (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	Grant Thornton UK LLP Grant Thornton House Melton Street London NW1 2EP
Registrar	Capita IRG Plc 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

Directors' Report

Directors' report

The directors present their annual report and the Group accounts for the year ended 31 December 2004.

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 1 to 3 contains details of the progress of the Group during the year together with an indication of future developments.

Results and dividends

The Group loss for the year after accounting for the establishment of the lesot and after taxation amounted to £6,328,000 (2003: profit £1,120,000). The directors are recommending the payment of a final dividend of 0.264p per share (2003 0.25p per share) absorbing £627,000 (2003: £551,000). The aggregate ordinary dividend for the year amounts to 0.39p per share (2003: 0.37p per share). The net loss for the year of £7,255,000 (2003: profit £362,000) has been transferred to reserves.

The Board

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 58) 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 53) 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

Frederic Hoad (aged 65) 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 48) is a director of Tiger Corporate Finance, 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 became a corporate financier, working first at PricewaterhouseCoopers, then KPMG and subsequently RMT, as a Corporate Finance Director, gaining considerable experience in mergers and acquisitions. He is a Fellow of the Securities and Investments Institute.

Konrad Legg (aged 61) resigned from the Board on 17 January 2005. He had been non-executive Chairman of the Company up to 16 February 2004 and senior non-executive director subsequently.

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.

A description of the Board's method of operation, its work during the year and that of its committees, is given in the report on Corporate Governance on pages 7 to 8.

Re-election of directors

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

Directors' Report

Directors' interests

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

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

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 or his 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.

Auditors

Ernst & Young LLP resigned as auditors to the Company and Group on 7 December 2004. Grant Thornton UK LLP were appointed auditors on 15 December 2004 to fill the casual vacancy arising in accordance with section 388(1) of the Companies Act 1985. Special notice having been given in accordance with section 388(3), an ordinary resolution to re-appoint Grant Thornton UK LLP as auditors will be proposed at the Annual General Meeting; this is item 4 in the Notice of Meeting.

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 Group have been calculated at 22 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.

By order of the Board

Cavendish Administration Limited
Company Secretary
26 May 2005

Corporate governance

The directors acknowledge the importance of the Principles set out in the Combined Code, as issued in revised form in 2003 by the Financial Reporting Council, and have put in place a framework for corporate governance which it believes is appropriate for the Company, as follows:

The Board

Board composition

Prior to 16 February 2004, the Board comprised an independent non-executive Chairman, Mr Legg, and two independent non-executive directors, Mr Hoad and Mr Tate. On 16 February 2004, Mr Hutchings was appointed Executive Chairman and on 23 February 2004 Mr Mulhall became an executive director. Mr Legg ceased to be Chairman and became one of three independent non-executive directors.

The composition of the Board prior to 16 February 2004 was such that that it was not considered necessary at that time to nominate a senior non-executive director. Mr Legg was designated the senior non-executive director from 16 February 2004 and remained so through the remainder of the year ended 31 December 2004.

Since 1 January 2005, Mr Legg has resigned from the Board and Mr Hoad has succeeded him as senior non-executive director.

Both Mr Hutchings and Mr Mulhall are engaged full-time on the Company's business and have no outside interests that conflict with their responsibilities to the Company. Mr Hutchings is a governor of the Museum of London. Mr Mulhall is non-executive chairman of RingProp plc, an AIM listed company. All non-executive directors are independent.

How the Board operates

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. Responsibility for the day-to-day operational management of Gall Thomson Environmental Limited is delegated to the directors of that company. 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.

Board meetings

During the year ended 31 December 2004, there were sixteen meetings of the Board, five of which took place before the appointments of Mr Hutchings and Mr Mulhall. Participation in the meetings was as follows: Mr Legg, thirteen meetings; Mr Hoad, eleven meetings; Mr Tate, eleven meetings; Mr Hutchings, nine meetings; Mr Mulhall, ten meetings.

Evaluation of performance and re-election of directors

Since there had been two restructurings of the Board during the past twenty-five months, both approved by shareholders, it was not possible to carry out a formal internal evaluation of the Board during the period under review. A procedure for carrying out such reviews in future years has been discussed and approved.

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.

Remuneration

A report on directors' remuneration is included on pages 9 and 10.

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 was chaired by Mr Legg during the year ended 31 December 2004. At the date of this report it is chaired by Mr Hoad.

During the year ended 31 December 2004 the Committee held two meetings. Mr Legg, Mr Hoad and Mr Tate all attended both meetings; Mr Hutchings and Mr Mulhall were each in attendance at one meeting.

The Audit Committee also reviews any non-audit services provided by the auditor. Such services have been, and are, limited to the provision of tax compliance work and tax advice. The Committee considers that such services can be provided most efficiently and economically by the same firm as that conducting the audit. The Committee is satisfied that the provision of such services does not in any way prejudice the objectivity and independence of the auditor. It is proposed that the same policy should be applied in respect of Grant Thornton UK LLP.

The Committee has not recommended the establishment of an internal audit function, because the Group has at present only one active subsidiary (together with its subsidiary) outside London,

Corporate Governance

whose operations are closely monitored by the executive directors.

Remuneration Committee
The Remuneration Committee considers and approves the remuneration and benefits (if any) of the directors. The Committee also determines the remuneration of the directors of Gall Thomson Environmental Limited and of the service providers contracted to perform executive functions for the Group.

The membership and work of the Committee during the year ended 31 December 2004 is described in detail in the Directors' Remuneration Report on page 9.

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.

The Board as a whole, which prior to Mr Hutchings' joining was composed entirely of non-executives, dealt with the introduction of Mr Hutchings to the Board and related issues that formed the content of the EGM of the Company held on 16 February 2004. Those meetings are included in the total of Board meetings described above. The Committee met once on 17 February 2004 to consider the appointment of Mr Mulhall, with Mr Tate, Mr Legg and Mr Hutchings present.

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. The Board, including the executive directors, reviews the internal control framework on an ongoing basis.

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.

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 7 July 2005 can be found in the Notice of the Meeting on on the inside back cover.

The Company has set up a website **www.lupuscapital.co.uk** which shareholders, investors and other interested parties may access. The website permits users to download copies of published financial reports, press releases and Stock Exchange announcements.

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 throughout the year to 31 December 2004, except as follows:

Prior to 16 February 2004, the directors, who at that time were all non-executive, were appointed without a specific period of office being set. New letters of appointment were issued to directors in February 2004, which provide for a notice period of twelve months for executive directors and one month for non-executives.

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.

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

The Remuneration Committee of the Board comprises all independent non-executive directors of the Company. Prior to 16 February 2004 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.

During the year ended 31 December 2004, the Committee met three times. Mr Hoad and Mr Legg both attended all three meetings; Mr Tate attended two meetings.

The Remuneration Committee may utilise independent advice when it considers it appropriate. Such advice was taken during the year ended 31 December 2004 in respect of the establishment of the incentive arrangements described below.

Remuneration policy

Prior to 16 February 2004, the remuneration policy was to pay only such moderate fees as were commensurate with the Company's then policy of carrying out an orderly disposal of assets.

On 16 February 2004 Mr Hutchings was appointed Executive Chairman at a salary consistent with those responsibilities.

Mr Mulhall was appointed an executive director on 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 19.

Service Agreements

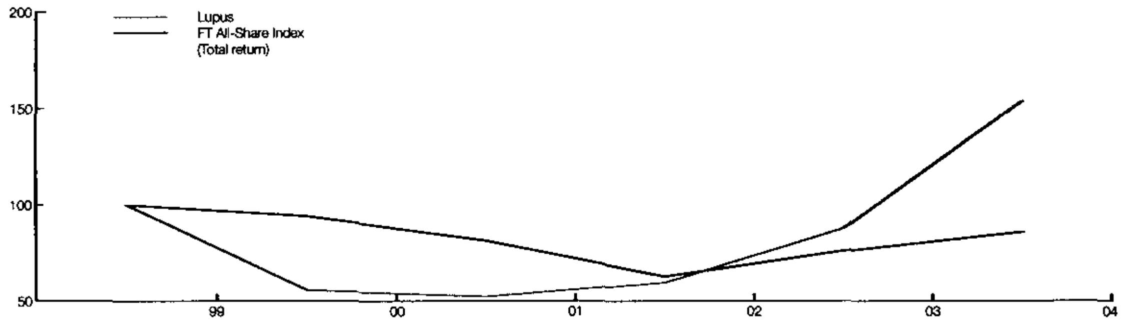
Prior to 16 February 2004, no director had a service contract with the Company. Following the approval by shareholders on 16 February 2004 of the proposals described in the circular dated 21 January 2004, a service agreement between the Company and Mr Hutchings became effective. Under the service agreement 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.

Directors' remuneration report

Performance

The chart below compares the performance of the Company's shares, with dividends reinvested, with that of the FTSE All-Share Index (Total Return). This index has been selected as providing the best comparison available to the dividend-inclusive performance of a company of the size and type of Lupus Capital plc.



Information subject to audit

Remuneration

The remuneration payable in respect of the year ended 31 December 2004 was as follows:

	Fees £	Benefits £	**Total 2004 £**	Total 2003 £
Konrad Legg	22,500	—	**22,500**	25,000
Frederic Hoad	17,500	—	**17,500**	15,000
Roland Tate	17,500	—	**17,500**	15,000
Greg Hutchings[1]	131,034	558	**131,592**	—
Denis Mulhall[2]	65,517	349	**65,866**	—
Total	254,051	907	**254,958**	55,000

Notes:
1 Appointed 16 February 2004
2 Appointed 23 February 2004

The fees of Mr Legg were 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 1 January 2004 and there were no long-term incentive schemes for directors in effect at that date.

Since 1 January 2004, a new incentive scheme and an employee benefit trust have been put into place, in order to provide incentives for the executive directors and employees to achieve value for shareholders. The details of these were described in the circular to shareholders dated 21 January 2004 and are disclosed in note 19 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 2004 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
26 May 2005

Report of the independent auditors to the members of Lupus Capital plc

We have audited the financial statements of Lupus Capital plc for the year ended 31 December 2004, which comprise the consolidated profit and loss account, the balance sheets, consolidated cash flow statement, reconciliation of equity shareholders' funds and the related notes 1 to 23. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether 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. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, 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 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 nine provisions of The Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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 only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, 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.

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 the Group at 31 December 2004 and of the profit of the Group for the year then ended

- 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.

Grant Thornton UK LLP

Grant Thornton UK LLP
Chartered Accountants and Registered Auditors
London
26 May 2005

Consolidated profit and loss account

For the year ended 31 December 2004

	Note	2004 £'000	2003 £'000
Turnover	2	**6,607**	6,551
Cost of sales		**(1,838)**	(1,940)
Gross profit		**4,769**	4,611
Administrative expenses			
- excluding lesot charge, exceptional expenses and goodwill amortisation	2	**(1,822)**	(1,682)
- lesot charge	2	**(6,715)**	—
- exceptional restructuring costs	2	**(1,309)**	—
- *goodwill amortisation*	2	**(740)**	(740)
Total administrative expenses		**(10,586)**	(2,422)
Operating (loss)/profit	2	**(5,817)**	2,189
Loss on disposal of fixed asset investments		**—**	(200)
Interest receivable and similar income	4	**251**	161
Interest payable and similar charges	5	**(224)**	(242)
(Loss)/profit on ordinary activities before taxation		**(5,790)**	1,908
Taxation	6	**(538)**	(788)
(Loss)/profit on ordinary activities for the year		**(6,328)**	1,120
Ordinary dividends	8	**(927)**	(758)
Retained (loss)/profit for the year		**(7,255)**	362
(Loss)/earnings per share	9	**(2.82)p**	0.65p
Earnings per share before lesot charge, exceptional items, and goodwill amortisation	9	***0.94p***	1.20p

There were no recognised gains and losses other than the loss for the year.
All results relate to continuing operations.

Consolidated balance sheet

As at 31 December 2004

	Note	2004 £'000	2003 £'000
Fixed assets			
Intangible assets	10	**10,681**	11,421
Tangible assets	11	**396**	415
		11,077	11,836
Current assets			
Stocks and work-in-progress	13	**251**	251
Debtors	14	**2,323**	2,871
Cash at bank and in hand		**1,649**	97
		4,223	3,219
Creditors: amounts falling due within one year	15	**(1,999)**	(2,360)
Net current assets		**2,224**	859
Total assets less current liabilities		**13,301**	12,695
Creditors: amounts falling due after more than one year	16	**—**	(85)
Net assets		**13,301**	12,610
Capital and reserves			
Called up share capital	19	**1,188**	864
Share premium account	20	**—**	4,709
Merger reserve	20	**10,389**	10,389
Lesot reserve	20	**(8,201)**	—
Profit and loss account	20	**9,925**	(3,352)
Equity shareholders' funds		**13,301**	12,610

Company Balance Sheet

As at 31 December 2004

	Note	2004 £'000	2003 £'000
Fixed assets			
Investments	12	**25,100**	25,100
		25,100	25,100
Current assets			
Debtors	14	**5**	39
Cash at bank and in hand		**4,050**	2,782
		4,055	2,821
Creditors: amounts falling due within one year	15	**(4,175)**	(4,519)
Net current liabilities		**(120)**	(1,698)
Total assets less current liabilities		**24,980**	23,402
Creditors: amounts falling due after more than one year	16	**(7,876)**	(7,876)
Net assets		**17,104**	15,526
Capital and reserves			
Called up share capital	19	**1,188**	864
Share premium account	20	**—**	4,709
Merger reserve	20	**8,920**	8,920
Lesot reserve	20	**(8,201)**	—
Profit and loss account	20	**15,197**	1,033
Equity shareholders' funds		**17,104**	15,526

The financial statements were approved by the Board on 26 May 2005.

Greg Hutchings
Chairman

Frederic Hoad
Senior non-executive director

Consolidated cash flow statement

For the year ended 31 December 2004

	Note	2004 £'000	2003 £'000
Net cash (outflow)/inflow from operating activities	21(a)	**(5,049)**	1,289
Returns on investments and servicing of finance			
Interest received		**252**	161
Interest paid		**(221)**	(273)
Dividends received		**—**	56
		31	(56)
Taxation			
UK corporation tax paid		**(489)**	(146)
Capital expenditure and financial investment			
Sale of tangible fixed assets		**—**	4
Purchase of tangible fixed assets		**(36)**	(8)
Sale of fixed asset investments		**—**	3,622
		(36)	3,618
Equity dividends paid		**(851)**	(1,060)
Net cash inflow before financing		**(6,394)**	3,645
Financing			
Issue of shares net of costs	20	**7,946**	279
Increase in cash	21(b)	**1,552**	3,924

Reconciliation of net cash flow to movement in net funds/(debt)

For the year ended 31 December 2004

	Note	2004 £'000	2003 £'000
Increase in cash		**1,552**	3,924
Change in net funds/(debt) from cash flows		**1,552**	3,924
Net funds/(debt) at 1 January		**97**	(3,827)
Net funds at 31 December	21(b)	**1,649**	97

Reconciliation of equity shareholders' funds

For the year ended 31 December 2004

	2004 £'000	2003 £'000
(Loss)/profit for the financial year	**(6,328)**	1,120
Shares issued net of costs	**7,946**	279
Dividends paid and proposed on ordinary shares	**(927)**	(758)
	691	641
Opening shareholders' funds	**12,610**	11,969
Closing shareholders' funds	**13,301**	12,610

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 under the historical cost convention.

For accounting periods commencing on or after 1 January 2005, all listed companies within the European Union will be required to report their consolidated results under International Financial Reporting Standards (IFRS). The new standards will first affect the Group's reporting for the year ending 31 December 2005, commencing with the interim results for the six months ending 30 June 2005. The principal changes will be the format of the primary financial statements (profit and loss account, balance sheets and cash flow statement) and there may be additional disclosures within the notes. The Board is in the process of developing the new reporting format, which is likely to affect principally the treatment of goodwill, share options deferred and dividends payable.

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 Limited. 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.

Notes to the accounts

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 Limited and its subsidiary, stated net of VAT. All turnover is based in the United Kingdom and is related to oil services.

	2004 £'000	2003 £'000
Turnover	**6,607**	6,551
Cost of sales	**(1,838)**	(1,940)
Gross profit	**4,769**	4,611
Administrative expenses including goodwill amortisation	**(3,871)**	(2,422)
Operating profit	**898**	2,189
Add back: goodwill amortisation	**740**	740
Operating profit before goodwill amortisation	**1,638**	2,929

Turnover by destination

	2004 £'000	2003 £'000
United Kingdom	**622**	1,246
Other European countries	**2,049**	1,646
North America	**594**	1,082
South America	**141**	517
Africa	**161**	492
Middle East	**1,971**	306
Asia Pacific	**1,069**	1,262
Total	**6,607**	6,551

Operating profit is stated after charging

	2004 £'000	2003 £'000
Depreciation of tangible assets - owned assets	**55**	52
Amortisation of goodwill	**740**	740
Operating lease rentals - land and buildings	**84**	221
Auditors' remuneration - audit services	**19**	36
Auditors' remuneration - other services	**8**	58
Foreign exchange loss	**29**	50

Segmental analysis

All profits, losses and net assets in the year ended 31 December 2004 were attributable to oil services, which are deemed to be continuing activities. All profits, losses and net assets in the year ended 31 December 2003 were attributable to oil services, with the exception of a loss of £200,000 on the disposal of fixed asset investments.

Exceptional expenses

The exceptional costs associated with the change of strategy and introduction of new executive management to the Group in February 2004 were as follows: legal fees £112,000; costs of establishing the lesot £99,000; corporate finance fees £308,000; management fees including performance fee and termination fee £732,000; printing costs, listing fees and other miscellaneous costs £58,000.

The auditors' remuneration in 2004 was payable to Grant Thornton UK LLP. Additionally in 2004 amounts were paid to Ernst & Young LLP, the previous auditors, of £12,000 and £74,000 for audit and other services respectively.

3. Employees

Number of employees

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

	2004 Number	2003 Number
Administration	**16**	12
Operations	**16**	16
	32	28

Employment costs

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

	2004 £'000	2003 £'000
Wages and salaries	**1,310**	1,147
Social Security costs	**158**	136
Other pension costs	**83**	87
	1,551	1,370

The allotment of shares to the Iesot, described in note 19 below, gave rise to a charge of £6,715,000 to the profit and loss account in the year.

The Company made no contributions towards the personal pension arrangements of directors or employees in the year ended 31 December 2004. Contributions to defined contribution pension schemes were paid during the year by Gall Thomson Environmental Limited 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 10.

4. Interest receivable and similar income

	2004 £'000	2003 £'000
Bank interest receivable	**251**	161

5. Interest payable and similar charges

	2004 £'000	2003 £'000
On bank loans and overdrafts	**224**	242

6. Taxation

a) **Analysis of the tax charge in the year:**

	2004 £'000	2003 £'000
Taxation based on the result for the year:		
UK Corporation tax on profits for the year	**480**	846
Adjustment in respect of prior year	**59**	(58)
Total current tax	**539**	788
Origination and reversal of timing differences		
Current year	**(1)**	–
Prior year	**—**	–
Total deferred tax	**(1)**	–
Tax on profit on ordinary activities	**538**	788

Notes to the accounts

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

	2004 £'000	2003 £'000
(Loss)/profit on ordinary activities before taxation	**(5,790)**	1,908
Rate of corporation tax in the UK of 30% (2003: 30%)	**(1,737)**	572
Effects of:		
Expenses not deductible for tax purposes		
Charge in respect of transfer of shares to Iesot	**2,014**	—
Legal charges in respect of share issues	**63**	—
Goodwill amortisation	**210**	210
Other items	**14**	27
Capital allowances in advance of depreciation	**(2)**	(9)
Other timing differences	**(69)**	(14)
Loss on sale of investment	**—**	60
CT rate difference	**(8)**	—
Offset of Advanced Corporation Tax	**(5)**	—
Adjustment in respect of prior periods	**59**	(58)
Current tax for the year	**539**	788

c). Factors that may affect future tax charges:

There are estimated tax losses of £11,954,000 (2003: £11,296,000) within the Group, comprising capital losses of £6,760,000 and other tax losses of £5,194,000. As the future use of these losses is uncertain, in accordance with the Group's accounting policy no deferred tax asset has been recognised in respect of them.

The amounts of deferred tax not recognised are as follows:

	2004 £'000	2003 £'000
Tax losses	**1,558**	1,361
Capital losses	**2,028**	2,028
	3,586	3,389

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 loss dealt with in the accounts of the parent company was £6,368,000 (2003: profit £1,310,000).

8. Dividends

	2004 £'000	2003 £'000
Ordinary dividend:		
Proposed final dividend at 0.264p per share (2003: 0.25p)	**627**	551
Interim dividend at 0.126p per share (2003: 0.12p)	**300**	207
	927	758

9. **(Loss)/earnings per share**
The calculation of basic (loss)/earnings per share is based on the (loss)/profit after taxation for the financial year and on a weighted average number of shares in issue during the year of 224,306,337 ordinary shares of 0.5p (2003: weighted average 171,772,126).

An additional EPS figure is provided to show the earnings before the lesot charge, goodwill and the non-recurring costs arising from the restructuring of the board in February 2004. 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 of 224,306,337 ordinary shares of 0.5p (2003: weighted average 171,772,126).

	2004 £'000	2003 £'000
(Loss)/profit on ordinary activities after taxation	**(6,328)**	1,120
Lesot charge	**6,715**	—
Administration costs – exceptional items	**1,309**	—
Tax effect of exceptional items	**(329)**	—
Goodwill amortisation	**740**	740
Impact of ceasing investment activities:		
- loss on disposal of fixed asset investments	—	200
	2,107	2,060

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

	Goodwill arising on consolidation £'000
Cost	
At 1 January 2004 and at 31 December 2004	*14,393*
Amortisation	
At 1 January 2004	2,972
Charge for the year	740
At 31 December 2004	3,712
Net book value	
At 31 December 2004	10,681
At 1 January 2004	11,421

11. **Tangible fixed assets**

Group	Freehold Land and buildings £'000	Plant and machinery £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 January 2004	207	424	8	639
Additions	—	36	—	36
At 31 December 2004	**207**	**460**	**8**	**675**
Depreciation				
At 1 January 2004	34	182	8	224
Charge for the year	5	50	—	55
At 31 December 2004	**39**	**232**	**8**	**279**
Net book value				
At 31 December 2004	**168**	**228**	**—**	**396**
At 1 January 2004	173	242	—	415

Notes to the accounts

12. Fixed asset investments

Company	Investments in subsidiaries £'000
Cost	
At 1 January 2004 and 31 December 2004	**25,711**
Provisions	
At 1 January 2004 and 31 December 2004	**611**
Net book value	
At 31 December 2004	**25,100**
At 1 January 2004	25,100

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	**2004 £'000**	2003 £'000
Raw materials and consumables	**121**	132
Work-in-progress	**116**	105
Finished goods	**14**	14
	251	251

14. Debtors

	Group 2004 £'000	2003 £'000	**Company 2004 £'000**	2003 £'000
Trade debtors	**2,114**	2,683	**—**	—
Amounts due from subsidiary undertakings	**—**	—	**5**	—
Corporation tax recoverable	**—**	—	**—**	39
Other debtors	**90**	90	**—**	—
Prepayments and accrued income	**119**	98	**—**	—
	2,323	2,871	**5**	39

15. Creditors: amounts falling due within one year

	Group 2004 £'000	2003 £'000	**Company 2004 £'000**	2003 £'000
Trade creditors	**224**	313	**—**	—
Amounts owed to group undertakings	**—**	—	**3,548**	3,968
Corporation tax	**518**	468	**—**	—
Other taxes and social security costs	**51**	39	**—**	—
Proposed dividend	**627**	551	**627**	551
Accruals and deferred income	**579**	989	**—**	—
	1,999	2,360	**4,175**	4,519

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

	Group 2004 £'000	2003 £'000	Company 2004 £'000	2003 £'000
Other creditors	—	85	—	—
Loan notes owed to group undertakings	—	—	**7,876**	7,876
	—	85	**7,876**	7,876

17 *Borrowings*

At 1 January 2004, the Group had a loan facility of £2 million. That facility was renewed on 1 February 2004, but was allowed to expire on 29 February 2004. The Group negotiated a new facility of £100,000; no use has been made of gearing during 2004 to sustain the Group's operations.

18. Financial instruments: risk profile

The Group's principal financial instruments have comprised bank loans, finance leases and hire purchase contracts, 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

During the year ended 31 December 2004 the Group operated without borrowings. The Board continues to keep the liquidity position under review.

Interest rate risk profile of financial liabilities

The Group had an overdraft facility, but this was not used for borrowing purposes, as described in note 17 above. No balance was outstanding at 31 December 2004 (2003: £Nil).

Interest rate risk of financial assets

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

No financial assets on which interest was not earned were held during the year ended 31 December 2004, the Group having sold during 2003 its quoted investments in equity shares that neither pay interest nor have a maturity date.

Foreign currency risk

The Group's subsidiary, Gall Thomson Environmental, conducts part of its business in US dollars. At 31 December 2004, Gall Thomson Environmental held the following balances denominated in US dollars:

	2004 £'000	2003 £'000
Debtors	**398**	510
Cash	**36**	309
Creditors	**(26)**	(155)

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

Notes to the accounts

19. Share capital

Company

	2004 £'000	2003 £'000
Authorised:		
500,000,000 (2003: 300,000,000) Ordinary shares of 0.5 pence each	**2,500**	1,500
Allotted, called up and fully paid:		
237,696,286 (2003: 172,873,085) Ordinary shares of 0.5 pence each	**1,188**	864

Allotments during the year were as follows:

	Aggregate nominal value £'000	Consideration £'000
Shares issued:		
17,283,944 shares at 9.0 p each for cash	**86**	1,555
47,539,257 shares at 17.25 p each to Lesot	**238**	8,201
Ordinary shares of 0.5 pence each	**324**	9,756

As resolved at an Extraordinary General Meeting of the Company on 16 February 2004, 17,283,944 ordinary shares, which did not rank for dividends declared in respect of the financial year ended 31 December 2003, were allotted to Mr Hutchings, and paid for by Mr Hutchings under the subscription agreement, on that date.

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 did rank for the 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. Out of these shares, 714,285 are available to satisfy an option granted to Mr Hutchings on 17 February 2004 within the EMI scheme.

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

Contingent rights to the allotment of shares
At 31 December 2004 there were 714,285 contingent rights to the allotment of shares, in respect of options granted to Mr Hutchings under the EMI scheme. As described above, shares are held by the lesot that are available to satisfy these contingent rights.

20 Movements on share capital and reserves

Group

	Share capital £'000	Share Premium account £'000	Merger reserve £'000	Lesot Reserve £'000	Profit and loss Account £'000
At 1 January 2004	864	4,709	10,389	—	(3,352)
Shares issued net of costs	86	1,145	—	—	—
Lesot share issue	238	7,963	—	(8,201)	—
Capital reorganisation	—	(13,817)	—	—	13,817
Loss for the year	—	—	—	—	(6,328)
Lesot cost included in loss for the year	—	—	—	—	6,715
Dividends	—	—	—	—	(927)
At 31 December 2004	**1,188**	**—**	**10,389**	**(8,201)**	**9,925**

The shares held by the lesot are held at the discretion of the trustees of the lesot for the benefit of Mr Hutchings's family. However, the Company retains the right until 31 December 2005 to ask the trustees to reverse this allocation if Mr Hutchings should cease to be an employee of the Company. The cost of these shares is identified separately in the reserves to reflect this residual element of control on the part of the Company.

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.

Company

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Lesot Reserve £'000	Profit and loss Account £'000
At 1 January 2004	864	4,709	8,920	—	1,033
Shares issued net of costs	86	1,145	—	—	—
Lesot share issue	238	7,963	—	(8,201)	—
Capital reorganisation	—	(13,817)	—	—	13,817
Loss for the year	—	—	—	—	(5,441)
Lesot cost included in loss for the year	—	—	—	—	6,715
Dividends	—	—	—	—	(927)
At 31 December 2004	**1,188**	**—**	**8,920**	**(8,201)**	**15,197**

21 Notes to the statement of cash flows

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

	2004 £'000	2003 £'000
Operating (loss)/profit	**(5,817)**	2,189
Depreciation	**55**	52
Amortisation of goodwill	**740**	740
Movement in stocks and work-in-progress	**—**	(51)
Movement in debtors	**548**	(1,006)
Movement in creditors	**(575)**	(635)
	(5,049)	1,289

(b) Analysis of net cash / (debt)

	1 January 2004 £'000	***Cash flow* £'000**	**31 December 2004 £'000**
Cash balances	97	**1,552**	**1,649**
Net cash	97	**1,552**	**1,649**

Notes to the accounts

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 2004, the Group had overdraft facilities available to it of £100,000, none of which was utilised.

23 Financial commitments
At 31 December 2004 the Group had annual commitments under non-cancellable operating leases as follows:

Group	Land and buildings		Other	
	2004	2003	**2004**	2003
	£'000	£'000	**£'000**	£'000
Expiry date:				
Within one year	**—**	–	**—**	3
Between one and five years	**84**	76	**—**	–
Over five years	**—**	128	**—**	–

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 7 July 2005 at 3.00 pm, for the following purposes:

Ordinary business

1. To receive and adopt the accounts for the year ended 31 December 2004 together with the reports of the directors and auditors thereon.
2. To declare a final dividend.
3. To reappoint Mr Tate as a director who retires by rotation and offers himself for re-election.
4. To reappoint Grant Thornton UK LLP as auditors of the Company and to authorise the directors to set their remuneration.
5. To approve the Directors' Remuneration Report.

By order of the Board

Cavendish Administration Limited
Company Secretary

26 May 2005

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

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 3.00pm on 5 July 2005 being 48 hours prior to the time fixed for the meeting or, if the meeting is adjourned, such time being not more than 48 hours prior to the time fixed for the adjourned meeting. 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.

Designed and produced by **CarrKamasa** Design

Form of proxy

Lupus Capital plc

I/We ____________________

of ____________________

(BLOCK CAPITALS PLEASE)

being (a) member(s) of Lupus Capital plc appoint the chairman of the meeting or

(see note 1) of ____________________

as my/our proxy to attend and vote for me/us and on my/our behalf at the annual general meeting of the Company to be held at the offices of Lawrence Graham, 190 Strand, London WC2R 1JN on 7 July 2005 at 3.00 pm and at any adjournment thereof.

Please indicate with an X in the spaces provided how you wish your votes to be cast on the resolutions specified.

Resolution		For	Against	Abstain
1.	To receive and adopt the directors' report, the annual accounts and the auditors' report for the year ended 31 December 2004.			
2.	To declare a final dividend.			
3.	To re-appoint Mr Tate as a director			
4.	To re-appoint Grant Thornton LLP as auditors to the Company and to authorise the directors to set their remuneration.			
5.	To approve the Directors' Remuneration Report			

Subject to any voting instructions so given the proxy will vote, or may abstain from voting, on any resolution as he may think fit.

Signature ....Dated this.................... day of 2005

NOTES
1. If you so desire you may delete the words 'chairman of the meeting' and insert the name of your own choice of proxy, who need not be a member of the Company. Please initial such alteration.
2. The proxy form must be lodged at the Company's registrars, Capita IRG Plc, not less than 48 hours before the time fixed for the meeting. In default the proxy cannot be treated as valid.
3. A corporation must execute the proxy under its common seal or under the hand of an officer or attorney duly authorised.
4. If this proxy form is executed under a power of attorney or other authority, such power of attorney or other authority or a notarially certified copy thereof must be lodged with the Registrars with the proxy form.
5. In the case of joint holders the vote of the senior shall be accepted to the exclusion of the other joint holders, seniority being determined by the order in which the names stand in the register in respect of the joint holding.

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BUSINESS REPLY SERVICE
Licence No. MB122

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Capita Registrars (Proxies)
P.O. Box 25
BECKENHAM
Kent
BR3 4BR

First fold

Third fold
and tuck in flap opposite

Lupus Capital plc
85 Buckingham gate
London
SW1E 6PD

020 7976 8000
020 7976 8014
www.lupuscapital.co.uk