

08

Lupus Capital

Lupus Capital aims to build shareholder value through the acquisition of industrial assets with the potential for development and the application of proven management skills and systems in order to achieve greater profitability.

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Interim highlights

- > Underlying pre tax profits £14.5 million (2007: £10.1 million)
- > Adjusted earnings per share - up 4.4% to 7.56p
- > Interim dividend maintained at 2.06p per share
- > Good cash generation with net debt reported of £112.4 million
- > US sales decreased by 15% on like for like with non-US up by 2%

Our Strategy

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

Outlook for 2008

The last few months of the year are undoubtedly going to be difficult and uncertain. We are confident that once markets improve we will emerge stronger and more profitable.

Chairman's statement
Greg Hutchings

Dear Shareholder,

New product development as well as the benefits from the integration, improvements and synergies of our Laird acquisition have enabled us to increase our earnings per share by over 4%.

I am pleased to report that your company continued to grow during the six months to 30th June 2008 despite the economic travails of the banking crisis, U.S. housing market slump, raw material cost escalations and the apparent start of a European business decline.

Controlling our costs, growing market shares at the expense of weaker competitors, close customer relationships, new product development as well as the benefits from the integration, improvements and synergies of our Laird acquisition have enabled us to increase our earnings per share by over 4%.

I would like to thank all our employees for their dedication and commitment during this severely debilitating economic climate, enabling Lupus to continue to achieve its objectives.

Pre tax profits on an adjusted basis were £14.5m which compares to £10.1m for the same period in 2007. Sales were £137.0m up from £79.0m. 2008 figures include a full six months contribution from Laird rather than two months in 2007.

Adjusted earnings per share¹ of 7.56p were up 4.4% which is a creditable increase from 7.24p in the six months to June 2007.

The directors have declared an interim dividend of 2.06p per share which is at a maintained level as the interim dividends paid for 2007 half year.

Shareholders will be paid on 10th November 2008 for those shares registered at the close of business on 10th October 2008.

In the event that you prefer to receive shares instead of a cash dividend, a notice from our Registrars, Capita, is enclosed that will allow you to do this. Please either complete the form or, for further details, call Capita direct on 0871 664 0381 (calls cost 10p per minute plus network extras) or email shares@capitaregistrars.com.

¹ before amortisation of acquired intangible assets, deferred tax on amortisation of acquired intangible assets, exceptional items, unwinding of discount on provisions and the associated tax effect.

We are confident that once markets improve we will emerge stronger and more profitable.

Below is given a short overview of the performance of each of Lupus Capital's businesses.

- **Gall Thomson**, our manufacturer of breakaway couplings, continued to enjoy buoyant markets in the first six months of 2008 and yet again delivered a record performance both in sales, profits and cash generation.
- **Building Products** division is a manufacturer of items such as seals, locks, balances, handles, doors and hinges for the U.S. and European door and window industry. Our sales are approximately 60% to the refurbishment/remodelling (RMI) market which is a steadier and less volatile source of custom than the 40% which we trade to the new build market.

Costs have been aggressively attacked. Employee numbers have been reduced by over 10% affecting office staff and the production workforce; in addition temporary labour has been flexed. Raw material input prices, particularly steel and polypropylene, as well as freight, have increased dramatically and we have been successful in passing some of these on. A number of facilities have been closed, with further manufacturing relocated to China and a new low cost factory in Mexico has been established to deal with work transferred from higher cost U.S. plants.

In the U.S. the new build housing market was substantially down and the RMI sector marginally lower on the previous period. However, we have been able to achieve market share increases and limit our sales decline to only 15% lower than 2007 first half like for like. In our non U.S. markets we have started to see slowing conditions

particularly in Spain, and the UK although Eastern Europe is holding up well. Overall though sales were marginally up by 2%.

Continuing inventory and working capital controls have enabled us to generate cash despite the seasonal increase in business activity. Rigorous examination of capital expenditure has limited all but essential cash outflows. After some major first half expenditure including a £5.7m share buyback, as well as the £12.5m interest free deferred acquisition cost due to Laird, our net debt position as at 30 June 2008 stood at £112.4m. In addition, during the period we repaid £8.5m of debt to our banks.

The last few months of the year are undoubtedly going to be difficult and uncertain. Sales and order books appear to be changing from historically relatively predictable patterns to more volatile fluctuations. Raw material prices need constant attention and costs have to be reduced. Our share price regrettably has been hit hard by both the general stockmarket conditions and sentiment regarding the housing industry. However, we are confident that once markets improve we will emerge stronger and more profitable.



Greg Hutchings
Chairman
30 September 2008

Group income statement

	Note	Six months ended 30 June 2008 (unaudited) £'000	Six months ended 30 June 2007 (unaudited) £'000	Year ended 31 December 2007 (audited) £'000
Revenue	3	137,020	79,028	216,859
Cost of sales		(89,503)	(48,365)	(142,675)
Gross profit		47,517	30,663	74,184
Administrative expenses		(33,619)	(20,808)	(51,461)
Operating profit	3	13,898	9,855	22,723
Analysed as:				
Operating profit before exceptional items and amortisation of intangible assets		18,791	12,357	31,857
Exceptional items		—	—	(1,385)
Amortisation of intangible assets		(4,893)	(2,502)	(7,749)
Operating profit		13,898	9,855	22,723
Finance income	4	968	479	1,888
Finance costs	4	(5,703)	(2,772)	(9,241)
Net finance costs		(4,735)	(2,293)	(7,353)
Profit before taxation		9,163	7,562	15,370
Income tax expense	5	(2,932)	(2,671)	(3,128)
Profit for the year from continuing operations		6,231	4,891	12,242
Earnings per share				
– Basic and diluted EPS from continuing operations	6	4.79p	5.33p	10.68p
Non GAAP measure				
Adjusted¹ profit before taxation		14,459	10,064	25,021
Earnings per share				
– Adjusted ¹ basic and diluted EPS from continuing operations	6	7.56p	7.24p	14.82p

¹before amortisation of acquired intangible assets, deferred tax on amortisation of acquired intangible assets, exceptional items, unwinding of discount on provisions and the associated tax effect.

Group statement of recognised income and expense

	Note	Six months ended 30 June 2008 (unaudited) £'000	Six months ended 30 June 2007 (unaudited) £'000	Year ended 31 December 2007 (audited) £'000
Actuarial losses on defined benefit plans		—	—	(159)
Exchange differences on retranslation of foreign operations		1,515	679	(148)
Effective portion of changes in value of cash flow hedges		(113)	—	(1,546)
Tax on items recognised directly in equity		—	—	54
Income and expense recognised directly in equity		1,402	679	(1,799)
Profit for the period		6,231	4,891	12,242
Total recognised income and expense for the period -attributable to equity shareholders of the company	8	7,633	5,570	10,443

Group balance sheet

Note	At 30 June 2008 (unaudited) £'000	At 30 June 2007 (unaudited) £'000	At 31 December 2007 (audited) £'000
Assets			
Non-current assets			
Intangible assets	302,066	317,727	306,345
Property, plant and equipment	35,886	35,590	36,325
Deferred tax	10,828	8,060	6,611
Derivative financial instruments	—	1,118	—
	348,780	362,495	349,281
Current assets			
Inventories	35,007	33,410	35,261
Trade and other receivables	42,620	49,717	36,755
Cash and cash equivalents	31,034	30,815	46,969
	108,661	113,942	118,985
Total assets	457,441	476,437	468,266
Liabilities			
Current liabilities			
Current tax payable	(6,545)	(6,444)	(3,743)
Trade and other payables	(45,411)	(59,559)	(57,974)
Finance lease obligations	(188)	(106)	(188)
Interest bearing loans and borrowings	(21,676)	(11,024)	(16,694)
	(73,820)	(77,133)	(78,599)
Non-current liabilities			
Finance lease obligations	(135)	(204)	(214)
Deferred tax	(30,163)	(30,967)	(25,315)
Interest bearing loans and borrowings	(121,272)	(138,687)	(129,865)
Employee benefit liability	(3,245)	(3,320)	(3,497)
Provisions	(17,873)	(21,615)	(20,892)
Derivative financial instruments	(1,659)	—	(1,546)
Other creditors	(142)	(110)	(1,206)
	(174,489)	(194,903)	(182,535)
Total liabilities	(248,309)	(272,036)	(261,134)
Net assets	209,132	204,401	207,132
Equity			
Capital and reserves attributable to equity shareholders of the company			
Called up share capital	8 6,864	6,861	6,861
Share premium	8 101	45	45
Other reserves	8 10,389	10,389	10,389
Hedging reserve	8 (1,659)	1,118	(1,546)
Translation reserve	8 (286)	(974)	(1,801)
Retained earnings	8 193,723	186,962	193,184
Total equity	209,132	204,401	207,132

Group cash flow statement

	Six months ended 30 June 2008 (unaudited) £'000	Six months ended 30 June 2007 (unaudited) £'000	Year ended 31 December 2007 (audited) £'000
Cash flows from operating activities			
Operating profit	13,898	9,855	22,723
Depreciation	2,911	1,831	4,702
Amortisation	4,893	2,502	7,749
Loss on sale of property, plant and equipment	—	—	(12)
Movement in inventories	(722)	2,363	1,173
Movement in trade and other receivables	(5,886)	(2,778)	11,665
Movement in trade and other payables	(292)	5,655	3,267
Movement in provisions	(1,048)	—	1,110
Income tax paid	(1,527)	(1,993)	(6,492)
Net cash inflow from operating activities	12,227	17,435	45,885
Investing activities			
Payments to acquire property, plant and equipment	(2,630)	(1,159)	(3,918)
Proceeds from sales of property, plant and equipment	329	7	—
Acquisition of subsidiary, net of cash acquired	(12,500)	(238,231)	(239,397)
Interest received	989	479	1,867
Net cash outflow from investing activities	(13,812)	(238,904)	(241,448)
Financing activities			
Proceeds from share issue, net of costs	59	131,270	131,536
Purchase of treasury shares	(5,692)	—	(1,075)
Equity dividends paid	—	(2,983)	(3,753)
New borrowings	5,012	119,667	119,064
Interest paid	(5,607)	(2,773)	(7,172)
Repayment of short term borrowings	(8,514)	(2,500)	(5,000)
Repayment of capital element of finance leases	(79)	(78)	(88)
Net cash (outflow)/inflow from financing	(14,821)	242,603	233,512
(Decrease)/increase in cash and cash equivalents	(16,406)	21,134	37,949
Effect of exchange rate on cash and cash equivalents	471	(57)	(718)
Cash and cash equivalents at the beginning of the period	46,969	9,738	9,738
Cash and cash equivalents at the period end	31,034	30,815	46,969

Notes to the Interim Report

1. Status of the interim financial statements

The Group's interim financial statements for the six months ended 30 June 2008 were authorised for issue by the directors on 30 September 2008. The consolidated interim financial information, which is unaudited, does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The statutory accounts for the year ended 31 December 2007 have been reported on by the Group's auditors, received an unqualified audit report and have been filed with the registrar of companies at Companies House.

2. Accounting policies

The interim financial information has been prepared on the basis of the recognition and measurement requirements of International Financial Reporting Standards (IFRS), which were the accounting policies used in the Report and Accounts for the Group for the year ended 31 December 2007. The accounting policies are unchanged from those used in the last annual accounts.

3. Segmental analysis

	Oil services			Building products			Total		
	6 months to 30 June 2008 £'000	6 months to 30 June 2007 £'000	12 months to 31 Dec 2007 £'000	6 months to 30 June 2008 £'000	6 months to 30 June 2007 £'000	12 months to 31 Dec 2007 £'000	6 months to 30 June 2008 £'000	6 months to 30 June 2007 £'000	12 months to 31 Dec 2007 £'000
Continuing operations									
Revenue	6,294	6,182	11,342	130,726	72,846	205,517	137,020	79,028	216,859
Operating profit	2,606	2,065	5,557	11,292	7,790	17,166	13,898	9,855	22,723
Net finance costs							(4,735)	(2,293)	(7,353)
Profit before income tax							9,163	7,562	15,370
Income tax expense							(2,932)	(2,671)	(3,128)
Profit for the period							6,231	4,891	12,242

4. Finance income and costs

	Six months ended 30 June 2008 £'000	Six months ended 30 June 2007 £'000	Year ended 31 December 2007 £'000
Finance income			
Bank interest receivable	968	479	1,845
Fair value gains on financial instruments	—	—	43
	968	479	1,888
Finance costs			
Interest payable on bank loans and overdraft	(5,045)	(2,679)	(8,303)
Finance charges payable under finance lease and hire purchase contracts	(13)	(11)	(23)
Amortisation of borrowing costs	(182)	(82)	(264)
Unwinding of discount on provisions	(403)	—	(517)
Other finance costs	(60)	—	(134)
	(5,703)	(2,772)	(9,241)
Net finance costs	(4,735)	(2,293)	(7,353)

5. Taxation

	Six months ended 30 June 2008 £'000	Six months ended 30 June 2007 £'000	Year ended 31 December 2007 £'000
Current income tax:			
Current income tax charge	3,618	2,645	6,786
Adjustments in respect of prior periods	(52)	—	278
Total current income tax	3,566	2,645	7,064
Deferred tax:			
Effect of change in rates	—	—	(2,013)
Origination and reversal of timing differences	(560)	26	(1,964)
Other items	(74)	—	41
Total deferred tax	(634)	26	(3,936)
Income tax expense in the income statement	2,932	2,671	3,128

Notes to the Interim Report continued

6. Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary equity shareholders by the weighted average of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. There were no potentially dilutive shares.

	Six months ended 30 June 2008 000's	Six months ended 30 June 2007 000's	Year ended 31 December 2007 000's
Weighted average number of shares (excluding treasury shares)	137,281	91,711	114,648
Weighted average number of treasury shares	(7,174)	—	(39)
Weighted average number of shares	130,107	91,711	114,609

Earnings per share from continuing operations before exceptional items and intangible asset amortisation

The Group presents as exceptional items on the face of the income statement those material items of income and expense, which because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the period, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

To this end, adjusted underlying basic and diluted earnings per share is also presented as an additional measure and using the weighted average number of ordinary shares for both basic and diluted amounts as per the table above. Net profit from continuing operations before exceptional items is derived as follows:

	Six months ended 30 June 2008 £'000	Six months ended 30 June 2007 £'000	Year ended 31 December 2007 £'000
Profit for the period from continuing operations	6,231	4,891	12,242
Exceptional items	—	—	1,385
Amortisation of acquired intangible assets and unwinding discount on provisions	5,296	2,502	8,266
Tax effect of exceptional costs and amortisation of intangible assets	(1,695)	(751)	(2,895)
Deferred tax adjustment relating to the rate of corporation changing from 30% to 28%	—	—	(2,013)
Adjusted underlying profit after tax	9,832	6,642	16,985
Adjusted underlying basic and diluted earnings per share	7.56p	7.24p	14.82p

7. Dividends

	Six months ended 30 June 2008 £'000	Six months ended 30 June 2007 £'000	Year ended 31 December 2007 £'000
Dividends paid in the period were as follows:			
Final dividend for 2006 at 3.34p per share	—	2,059	2,059
Special interim dividend for 2007 at 1.50p per share	—	925	925
Interim dividend for 2007 at 0.56p per share	—	—	769
	—	2,984	3,735
Dividends not reflected in the financial statements:			
Proposed interim dividend for the year 2008 at 2.06p per share (2007: 0.56p)	2,675	769	—
Proposed final dividend for the year 2007 at 3.51 p per share	4,557	—	4,557

8. Reconciliation of movements in equity

	Share capital £'000	Share premium account £'000	Other reserves £'000	Hedging reserve £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2007	3,083	45	10,389	—	(1,653)	58,117	69,981
Shares issued net of costs	3,778	—	—	—	—	126,938	130,716
Derivative financial instruments	—	—	—	1,118	—	—	1,118
Total recognised income and expense for the period	—	—	—	—	679	4,891	5,570
Dividends paid	—	—	—	—	—	(2,984)	(2,984)
At 30 June 2007	6,861	45	10,389	1,118	(974)	186,962	204,401
Shares issued net of costs	—	—	—	—	—	820	820
Total recognised income and expense for the period	—	—	—	(2,664)	(827)	7,246	3,755
Dividends paid	—	—	—	—	—	(769)	(769)
Share buyback	—	—	—	—	—	(1,075)	(1,075)
At 31 December 2007	6,861	45	10,389	(1,546)	(1,801)	193,184	207,132
Shares issued net of costs	3	56	—	—	—	—	59
Total recognised income and expense for the period	—	—	—	(113)	1,515	6,231	7,633
Share buyback	—	—	—	—	—	(5,692)	(5,692)
At 30 June 2008	6,864	101	10,389	(1,659)	(286)	193,723	209,132

Directors and advisers

Directors	Greg Hutchings (Executive Chairman) Denis Mulhall (Executive) Frederic Hoad (Non-executive) Michael Jackson (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 Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Nominated adviser	Collins Stewart

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



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