
Lupus Capital plc
Interim Report 2006

For the six months ended 30 June 2006

Chairman's statement

Dear Shareholder,

The period that we are reporting on has been a very exciting and successful time for your company. Gall Thomson has produced record results, we have acquired and absorbed Schlegel and Lupus Capital has achieved excellent growth in sales, profits, dividends and cash generation, which, together with a strong balance sheet, enables future development.

Pre-tax profits for the six months to 30 June 2006 were £3,880,000 (compared to the pre-tax profit of £871,000 last year). Sales were £23,684,000 up from £3,137,000. These results led to earnings per share of 0.570p, up by almost 3 times, from 0.210p last half year. The figures for the period are not directly comparable as they include a major acquisition and have been prepared on the basis of the requirements of UK GAAP. The comparative figures for the same period in 2005 and for the year ended 31 December 2005 have been restated to conform to UK GAAP, as explained in the notes to the accounts.

The directors have declared a second interim dividend of 0.049p per share. Together with the first interim of 0.114p paid in April 2006, this brings the total interim payments up to 0.163p per share (2005: 0.132p per share) which is an increase of over 23%. The second interim will be paid on 27 October 2006 to shareholders on the register at the close of business on 6 October 2006.

The £84 million acquisition of Schlegel, a leader in the manufacture and marketing of door and window seals, was completed on 4 April 2006. This has broadened the sphere of operations of Lupus Capital plc and management has reviewed the risk profile of the enlarged group. In the three months of our half year the integration has proceeded smoothly.

A number of fresh **operational** initiatives have been introduced, such as the reassignment of production between plants, efficiency and scrap initiatives and additional workforce recruitment at lower cost levels. In **sales and marketing** new customers have been won, exports to Eastern Europe have increased, prices have been raised to reflect higher raw material costs and there has been a refocusing on higher margin customers and products. Under **finance**, working capital controls have been emphasised and financial analysis has initiated targets to recoup transportation and production costs. The incumbent **management** team is enthusiastic and more motivated to continue to develop the business.

Sales were up over 10 per cent year on year with the US and Germany particularly strong thanks to new products, market share gains and a good overall global market both in new build and refurbishment.

Profit growth resulted from these increased sales, productivity and cost controls, which led to excellent cash generation after capital expenditure and working capital requirements.

Raw Material input costs continue to rise – these are mostly being passed on to our customers. The weakness of the dollar has had only a limited impact on the translation of profits.

Gall Thomson, our manufacturer of marine and industrial breakaway couplings for the oil and other heavy industries, for the first half year to 30 June 2006 had record order books, produced growing profits over last year and continued to deliver commendable cash generation. Its market remains buoyant.

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.

We anticipate that Lupus will produce double digit earnings per share growth due firstly, to the performance of our strong existing business, secondly, to the well-priced acquisition and thirdly, to the reinvigorated Schlegel providing a profit increase over the previous year.

We have a well constructed strategy, a sturdy balance sheet, healthy operating activities, robust cash generation and an eager entrepreneurial management team who enjoy the challenge of continuing to develop Lupus Capital plc.



Greg Hutchings
Chairman

28 September 2006

Consolidated profit and loss account

| | Notes | Six months ended 30 June 2006 (unaudited) £'000 | Six months ended 30 June 2005 (unaudited) (restated) £'000 | Year ended 31 December 2005 (unaudited) (restated) £'000 |
|---------------------------------------------------------------|-------|----------------------------------------------------------|------------------------------------------------------------------------|----------------------------------------------------------------------|
| Revenue | 4 | 23,684 | 3,137 | 7,479 |
| Operating profit | 4 | 4,389 | 832 | 2,345 |
| Interest and similar items | | (509) | 39 | 90 |
| Profit before taxation | | 3,880 | 871 | 2,435 |
| Taxation | | (1,476) | (373) | (1,025) |
| Profit attributable to shareholders of the company | | 2,404 | 498 | 1,410 |
| Earnings per share – basic and diluted | 5 | 0.57p | 0.21p | 0.59p |

Consolidated balance sheet

| | Notes | At 30 June 2006 (unaudited) £'000 | At 30 June 2005 (unaudited) (restated) £'000 | At 31 December 2005 (unaudited) (restated) £'000 |
|----------------------------------------------|-------|--------------------------------------------|----------------------------------------------------------|--------------------------------------------------------------|
| Non-current assets | | | | |
| Goodwill | 7 | 82,602 | 10,311 | 9,940 |
| Tangible non-current assets | | 14,261 | 434 | 443 |
| | | 96,863 | 10,745 | 10,383 |
| Current assets | | | | |
| Inventories | | 8,521 | 371 | 331 |
| Receivables | | 18,477 | 2,016 | 2,965 |
| Cash | | 4,288 | 2,410 | 2,654 |
| | | 31,286 | 4,797 | 5,950 |
| Current liabilities | | | | |
| | 8 | (20,343) | (1,101) | (1,915) |
| Net current assets | | 10,943 | 3,696 | 4,035 |
| Total assets less current liabilities | | | | |
| Non-current liabilities | 8 | (40,678) | (15) | (21) |
| Net assets | | 67,128 | 14,426 | 14,397 |
| Capital and reserves | | | | |
| Share capital | 9 | 3,081 | 1,188 | 1,188 |
| Merger reserve | | 10,389 | 10,389 | 10,389 |
| Lesot reserve | | — | (8,201) | — |
| Retained earnings | 9 | 53,658 | 11,050 | 2,820 |
| | | 67,128 | 14,426 | 14,397 |

Consolidated statement of recognised gains and losses

| | Notes | Six months ended 30 June 2006 (unaudited) £'000 | Six months ended 30 June 2005 (unaudited) £'000 | Year ended 31 December 2005 (unaudited) £'000 |
|----------------------------------------|-------|----------------------------------------------------------|----------------------------------------------------------|--------------------------------------------------------|
| Opening balance - as previously stated | | 15,878 | 14,668 | 14,668 |
| Restatement | 3 | (1,481) | (740) | (740) |
| Opening balance - as restated | 3 | 14,397 | 13,928 | 13,928 |
| Profit for the financial period/year | | 2,404 | 498 | 1,410 |
| Shares issued net of costs | 9 | 51,593 | — | — |
| Translation adjustment | | (334) | — | — |
| Dividends paid | 6 | (932) | — | (941) |
| Closing balance | | 67,128 | 14,426 | 14,397 |

Consolidated cash flow statement

| | Six months ended 30 June 2006 (unaudited) £'000 | Six months ended 30 June 2005 (unaudited) (restated) £'000 | Year ended 31 December 2005 (unaudited) (restated) £'000 |
|----------------------------------------------|----------------------------------------------------------|------------------------------------------------------------------------|----------------------------------------------------------------------|
| Cash flows from operating activities | | | |
| Operating profit | 4,389 | 832 | 2,345 |
| Depreciation | 544 | 7 | 58 |
| Amortisation of goodwill | 22 | 370 | 741 |
| Movement in inventories | 1,339 | (120) | (80) |
| Movement in receivables | (1,462) | 306 | (642) |
| Movement in payables | 303 | (120) | 342 |
| Interest received | 179 | 155 | 316 |
| Interest paid | (688) | (117) | (226) |
| Corporation tax paid | (709) | (507) | (806) |
| Net cash from operating activities | 3,917 | 806 | 2,048 |
| Investing activities | | | |
| Acquisition, net of cash acquired | (47,223) | — | — |
| Schlegel debt repaid upon acquisition | (40,281) | — | — |
| Property, plant and equipment | (400) | (45) | (105) |
| Net cash from investing activities | (87,904) | (45) | (105) |
| Financing | | | |
| Issue of shares net of costs | 51,593 | — | — |
| Capital element of financial leases | (40) | — | 3 |
| Bank loan | 35,000 | — | — |
| Equity dividends paid | (932) | — | (941) |
| Net cash from financing activities | 85,621 | — | (938) |
| Increase in cash and cash equivalents | 1,634 | 761 | 1,005 |

Notes

1. Status of the financial statements

These financial statements are not the Company's statutory accounts for the purposes of Section 240 of the Companies Act 1985. They are unaudited. The Company's statutory accounts for the year ended 31 December 2005, prepared in accordance with IFRS, received an unqualified audit report and have been filed with the registrar of companies at Companies House.

The directors approved the interim report on 28 September 2006.

2. Accounting policies

The interim financial information has been prepared in accordance with United Kingdom Generally Accepted Accounting Principles (UK GAAP), which are the accounting policies to be used in the Report and Accounts of the Group for the year ended 31 December 2006.

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

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

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

3. Restatements

The restatements required by the changes in accounting policy, as set out in note 2 above, are as follows:

(a) Profit after taxation

| | Six months ended 30 June 2005 (unaudited) £'000 | Year ended 31 December 2005 (unaudited) £'000 |
|------------------------------------------------------------------------------|----------------------------------------------------------|--------------------------------------------------------|
| Profit/(loss) for the financial period/year, as previously stated under IFRS | 868 | 2,151 |
| Amortisation of goodwill | (370) | (741) |
| As reported under UK GAAP | 498 | 1,410 |

(b) Net assets

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

4. Revenue and operating profit

The group's income and profit for the period included three months' results for the Schlegel business acquired on 4 April 2006. The analysis of the operating results is as follows:

| | Schlegel (3 months) £'000 | Pre-existing Lupus Group (6 months) £'000 | Total £'000 |
|-------------------------|---------------------------------|----------------------------------------------------|----------------|
| Revenue | 19,746 | 3,938 | 23,684 |
| Cost of sales | (7,381) | (1,307) | (8,688) |
| Gross profit | 12,365 | 2,631 | 14,996 |
| Administrative expenses | (9,297) | (1,310) | (10,607) |
| Operating profit | 3,068 | 1,321 | 4,389 |

5. Earnings per share

Earnings per share figures are based on the weighted average of 421,753,113 ordinary shares in issue during the half-year ended 30 June 2006 (half-year to 30 June 2005 and year to 31 December 2005: 237,696,286 shares). The number of shares in issue at 30 June 2006 was 616,267,715 (30 June 2005: 237,696,286 shares).

Notes

6. Dividends

The final dividend for the year ended 31 December 2005 of 0.278p per share (2004: 0.264p per share) was paid to shareholders on 22 June 2006 and absorbed £661,000.

A special interim dividend of 0.114p per share was paid on 21 April 2006. The directors have today, 28 September 2006, declared a further interim dividend of 0.049p per share, making total interim payments of 0.163p per share (2005: 0.132p). This second interim dividend will be payable on 27 October 2006 to shareholders on the register at the close of business on 6 October 2006. The two interims together will absorb £573,000 (2005: £314,000).

The dividends paid or payable and those proposed are summarised below:

| | Six months ended 30 June 2006 | Six months ended 30 June 2005 | Year ended 31 December 2005 |
|---------------------------------------------------------|----------------------------------|----------------------------------|-----------------------------------|
| (a) dividends reflected in the financial statements | | | |
| Dividends paid/payable per share | 0.392p | — | 0.396p |
| (b) dividends not reflected in the financial statements | | | |
| Final dividend proposed per share | — | 0.264p | 0.278p |
| Interim dividend proposed per share | 0.049p | 0.132p | — |

7. Goodwill

The building products business of Schlegel was acquired on 4 April 2006 for £84 million. These interim results include a provisional assessment of fair value of the assets and liabilities and consequently of the goodwill.

8. Liabilities

Current liabilities include the £5,000,000 loan and non-current liabilities include the non-current loan of £30,000,000 described under note 9 below. No drawings have been made under the revolving loan facility. Net debt stood at £31,289,000.

9. Funding of the acquisition of Schlegel

The acquisition of Schlegel was financed by:

(i) Raising £53 million by way of a placing and open offer of 378,571,429 ordinary shares in Lupus at an issue price of 14p per share. The shares were issued through a subsidiary in such manner that the entire premium on the issue became available as a credit to distributable reserves.

(ii) A new debt facility provided by Bank of Scotland comprising a term loan of £35,000,000 (of which £5,000,000 is current and £30,000,000 long-term) and a multicurrency revolving loan facility of £10,000,000.

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

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Auditors

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Melton Street
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Registrar

Capita Registrars
The Registry
34 Beckenham Road
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Kent BR3 4TU

Nominated adviser

HSBC

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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