

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action to take you are recommended to seek your own financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent adviser authorised pursuant to the Financial Services and Markets Act 2000.

If you have sold or transferred all of your Existing Ordinary Shares prior to the Record Date, please forward this document, together with the accompanying documents, as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. However, the distribution of this document and/or any accompanying documents into a jurisdiction other than the United Kingdom may be restricted by law or regulation and therefore such documents should not be distributed, forwarded to or transmitted in or into the United States, Australia, Canada or Japan, nor in or into any other jurisdiction where the extension or availability of the Placing or the Open Offer would breach any applicable law or regulation.

If you have sold or transferred part of your holding of Existing Ordinary Shares prior to the Record Date, you are advised to consult your stockbroker, bank or other agent through whom the sale or transfer was effected and refer to the instructions regarding split applications set out in the accompanying Application Form, where relevant.

This document is a prospectus in accordance with the Prospectus Rules and pursuant to section 85(5)(b) of the Financial Services and Markets Act 2000 (as amended) has been drawn up in accordance with the Prospectus Rules and the AIM Rules. This document has been approved by the FSA and a copy of it has been delivered for filing to the FSA as required by the Prospectus Rules.

Application will be made to the London Stock Exchange for the Enlarged Share Capital to be admitted to trading on AIM. It is expected that Admission will become effective and dealings for normal settlement in the Enlarged Share Capital will commence on 4 April 2006. The Enlarged Share Capital will not be dealt in, or on, any other recognised investment exchange and no other such application will be made.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.

Lupus and the Directors of Lupus, whose names and functions appear on page 15, accept responsibility for the information contained in this document. To the best of the knowledge of Lupus and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts, and contains no omission likely to affect its import.

The whole of this document should be read. In particular, your attention is drawn to the section headed Risk Factors in Part 2 of this document.

Lupus Capital plc

(incorporated and registered in England and Wales with registered number 02806007)

Proposed acquisition of Schlegel

Proposed Firm Placing of 299,339,334 New Ordinary Shares and Open Offer of up to 79,232,095 New Ordinary Shares at 14 pence per New Ordinary Share

Admission of the Enlarged Share Capital to trading on AIM

Notice of Extraordinary General Meeting

Nominated Adviser and Broker

HSBC Bank plc

The New Ordinary Shares will rank in full for all dividends and other distributions declared on the ordinary share capital of Lupus after their date of issue and will rank *pari passu* in all respects with all other Ordinary Shares in issue on Admission.

A notice convening an Extraordinary General Meeting of Lupus to be held at the offices of Slaughter and May, One Bunhill Row, London EC1Y 8YY, at 11.00 a.m. on 29 March 2006 is set out at the end of this document. The enclosed Form of Proxy for use at the Extraordinary General Meeting should be completed and returned to Capita Registrars at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU as soon as possible and to be valid must arrive not later than 48 hours before the time fixed for the Extraordinary General Meeting. Completion and return of a Form of Proxy will not preclude Shareholders from attending and voting in person at the Extraordinary General Meeting should they so wish.

The latest time and date for acceptance and payment in full under the Open Offer is 11.00 a.m. on 27 March 2006. The procedure for application and payment is set out in paragraph 3 of Part 6 of this document and, where relevant, in the accompanying Application Form.

HSBC, which is authorised and regulated in the United Kingdom by the FSA, is acting as Lupus' nominated adviser in connection with the matters set out in this document. HSBC's responsibilities in its role as Lupus' nominated adviser under the AIM Rules are owed solely to the London Stock Exchange and are not owed to Lupus or to any Director or to any other person in respect of his or its decision to acquire shares in Lupus in reliance on any part of this document. No representation or warranty, express or implied, is made by HSBC as to any of the contents of this document in connection with the proposed Placing and the Open Offer. HSBC is acting exclusively for Lupus and for no one else in relation to the Acquisition, the Placing and the Open Offer and will not be responsible to anyone other than Lupus for providing the protections afforded to clients of HSBC nor for giving advice in relation to the Acquisition, the Placing, the Open Offer or any other matter referred to in this document.

The Ordinary Shares have not been, and will not be, registered under the Securities Act or under the securities laws of any State of the United States. The relevant clearances have not been, and will not be, obtained from the Securities Commission of any province or territory of Canada. No document in relation to the Transaction has been, or will be, lodged with, or registered by, the Australian Securities and Investment Commission, and no registration has been, or will be, filed with the Japanese Ministry of Finance in relation to the Transaction, the Existing Ordinary Shares or the New Ordinary Shares. Accordingly, subject to certain exceptions, the New Ordinary Shares may not be offered, sold or transferred in the United States, Canada, Australia or Japan.

This document does not constitute an offer to sell or a solicitation of any offer to buy the New Ordinary Shares in the United States unless an exemption from the registration requirements of the Securities Act and applicable State securities laws is available. This document does not constitute an offer to sell or a solicitation of any offer to buy the New Ordinary Shares in Canada, Australia or Japan or any jurisdiction in which it would not be permissible to make an offer of the New Ordinary Shares.

It is the responsibility of any person receiving a copy of this document outside the United Kingdom to satisfy himself as to the full observance of the laws and regulatory requirements of the relevant territory in connection therewith, including obtaining any governmental or other consents which may be required or observing any other formalities required to be observed in such territory and paying any other issue, transfer or other taxes due in such other territory.

Persons (including, without limitation, nominees and trustees) receiving this document should not, in connection with the Transaction, distribute or send it into any jurisdiction when to do so would, or might contravene local securities laws or regulations. Any person who does forward this document into any such jurisdictions should draw the recipient's attention to the contents of paragraph 7 of Part 6 of this document.

This document includes "forward-looking statements" which include all statements other than statements of historical facts, including, without limitation, those regarding Lupus' financial position, business strategy, plans and objectives of management for future operations and any statements preceded by, followed by or that include forward-looking terminology such as the words "targets", "believes", "estimates", "expects", "aims", "intends", "can", "may", "anticipates", "would", "should", "could" or similar expressions or the negative thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond Lupus' control that could cause the actual results, performance or achievements of Lupus to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding Lupus' present and future business strategies and the environment in which Lupus will operate in the future. Among the important factors that could cause Lupus' actual results, performance or achievements to differ materially from those in forward-looking statements are those factors in the section entitled "Risk Factors" and elsewhere in this document. These forward-looking statements speak only as at the date of this document. Lupus expressly disclaims any obligation or undertaking to disseminate any updates or revisions in relation to any forward-looking statements contained herein to reflect any change in Lupus' expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based, save as required by FSMA, the Prospectus Rules, the Disclosure Rules and the Listing Rules. As a result of these factors, the events described in the forward-looking statements in this document may not occur.

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PART 1 SUMMARY

Any investment decision relating to the Placing and the Open Offer should be based on consideration of this document as a whole. This summary should be read as an introduction to this Prospectus only. Where a claim relating to the information contained in this document is brought before a court where English is not the language in which proceedings are conducted, a plaintiff investor might, under the national legislation of the EEA States, have to bear the costs of translating this document before legal proceedings are initiated. Civil liability attaches to those persons who are responsible for this summary, including any translation to this summary, but only if this summary is misleading, inaccurate or inconsistent when read together with the other parts of this document.

1. INTRODUCTION

It was announced on 3 March 2006 that Lupus, through the Purchasing Subsidiaries, would acquire the shares, assets and liabilities comprising the business of Schlegel from UniPoly Holdings Limited and Schlegel Limited (a wholly owned subsidiary of UniPoly Holdings Limited) for approximately £84 million in cash. The cash consideration payable in relation to the Acquisition will be funded through the Placing, the Open Offer and the New Debt Facility.

For the year ended 31 December 2005, Schlegel had sales of £69.3 million and generated profit before interest and tax of £10.0 million, after management services fees of £0.7 million.

The Acquisition is categorised as a reverse takeover for Lupus under the Listing Rules and as such requires the consent of Existing Shareholders to be sought at the EGM to be held on 29 March 2006 at 11.00 a.m.

2. BACKGROUND TO AND REASONS FOR THE TRANSACTION

Schlegel is a profitable and cash generative business with an international manufacturing capability that makes good margins and operates in a sector that the Lupus management team know well. The Schlegel brand is recognised throughout the industry and the business has substantial market shares in its key markets.

Schlegel represents a very strong fit with Lupus' strategy of acquiring asset based, positive cash flow, companies operating in industrial manufacturing, processes or services. Lupus will look to use Schlegel as a platform for growth and will work with Schlegel's management to drive operational improvements through the business, to pursue organic growth opportunities and to make add-on acquisitions where they will add value. Lupus expects that Schlegel will form the foundations of a more substantial building products group.

3. SUMMARY OF THE TERMS OF THE ACQUISITION

On 3 March 2006, Lupus, Schlegel Acquisition Holdings Limited, Schlegel Acquisition Holdings USA, Inc., Schlegel UK (2006) Limited and Schlegel Australia (2006) Pty Limited (wholly owned subsidiaries of Lupus) entered into the Acquisition Agreement with UniPoly and Schlegel UK for the purchase of Schlegel from the Vendors.

The consideration payable under the terms of the Acquisition is £84 million on a debt free/cash free basis. All existing third party debt is being repaid on acquisition and cash balances held in Schlegel as at 28 February 2006 will be paid over to UniPoly at Completion. The amount of £84 million will be (i) increased by any net cash in the bank accounts of Schlegel as at 28 February 2006; (ii) increased by interest for the period between signing and completion at 5 per cent. per annum; and (iii) decreased to the extent that the net trading working capital of Schlegel as at 28 February 2006 is less than £14.8 million. The total consideration is not expected to exceed £86 million.

The Acquisition Agreement is conditional upon (*inter alia*) the satisfaction of the following conditions:

- 3.1 the waiting period under any applicable antitrust regulations having terminated or expired;
- 3.2 certain of the conditions relating to obtaining the financing to complete the Acquisition being satisfied (these include some of the conditions relating to the Placing, Open Offer and New Debt Facility); and
- 3.3 the release by the Vendors of their letters of credit specified in the Acquisition Agreement.

The Acquisition is expected to close on or about 4 April 2006, subject to all the relevant conditions being satisfied.

4. PROPOSED ADMISSION TO AIM

Because the Acquisition is a reverse takeover, Lupus is applying for the cancellation of the listing of the Existing Ordinary Shares from the Official List on completion of the Acquisition and will simultaneously apply for the Enlarged Share Capital to be listed on AIM.

As it has only been possible to prepare one year of financial information for Schlegel and due to the fact that Schlegel prepares its financial statements under UK GAAP rather than IFRS, the Directors do not believe that it would be possible to complete the Acquisition and list the Enlarged Group on the Official List.

It is expected that Admission will become effective and dealings on AIM will commence on 4 April 2006.

5. FINANCIAL EFFECTS OF THE TRANSACTION

The Acquisition will have a transforming impact on the financial position of Lupus. The Directors believe that, taking into account the impact of the Placing and Open Offer, the Acquisition will be earnings enhancing for the Enlarged Group in 2006. This statement should not be interpreted to mean that future earnings of the Enlarged Group will necessarily match or exceed the Group's historical published earnings.

Instead of receiving cash as consideration for the issue of New Ordinary Shares, at the conclusion of the Placing and Open Offer Lupus will issue the New Ordinary Shares in consideration for the transfer to it by HSBC of certain issued ordinary and the entire issued redeemable preference share capital of Newco, which will result in Lupus owning the entire issued share capital of Newco whose only assets will be its cash reserves. Lupus will be able to utilise this amount by redeeming the redeemable preference shares it holds in Newco and, during any interim period prior to redemption, by procuring that Newco lends the amount to Lupus. The structure of the Placing and Open Offer is expected to have the effect of creating distributable reserves equal to the net proceeds of the Placing and Open Offer less the par value of the New Ordinary Shares issued by Lupus. It should be possible for Lupus to declare dividends from these reserves in the future, provided that Lupus has sufficient cash resources to fund such dividends, the distributable reserves have not otherwise been reduced, and the Directors consider it appropriate to declare such dividends.

6. FINANCING THE ACQUISITION

Lupus announced today that it has conditionally raised £53 million gross (£49 million net of all expenses in relation to the Transaction) by way of the Placing subject to clawback in respect of Conditional Placing Shares acquired by Existing Shareholders pursuant to the Open Offer. Lupus will use the New Debt Facility and the net funds of the Placing and Open Offer to finance the Acquisition. The Placing and Open Offer have been underwritten by HSBC.

7. SUMMARY OF THE TERMS OF THE PLACING AND OPEN OFFER

Lupus is proposing to raise up to approximately £53 million in total pursuant to the Placing and Open Offer. The Issue Price of 14 pence per New Ordinary Share represents no discount to the closing middle market price for an Existing Ordinary Share of 14 pence at Suspension.

The Placing Shares have been conditionally placed at the Issue Price with institutional and certain other investors pursuant to the Placing. The Conditional Placing Shares have been placed subject to clawback in respect of Open Offer Shares acquired by Existing Shareholders.

Qualifying Holders are being given the opportunity under the Open Offer to acquire up to 79,232,095 Open Offer Shares in total at the Issue Price *pro rata* to their holdings of Existing Ordinary Shares on the basis of 1 Open Offer Share for every 3 Existing Ordinary Shares held as at the Record Date and so in proportion for any other number of Existing Ordinary Shares then held. Qualifying Holders may also acquire additional Open Offer Shares under the Excess Application Facility.

8. SUMMARY FINANCIAL INFORMATION

Investors should read the whole of this document and not rely solely on the summary financial information below.

8.1 Summary historical financial information on Lupus

Presented below is summary historical financial information for Lupus as at and for the three years ended 31 December 2005 prepared in accordance with UK GAAP. The historical financial information

is extracted without material adjustment from the financial information set out in Section C, Part 8 of this document.

	Year ended 31 December		
	2005 £'000	2004 £'000	2003 £'000
Turnover	7,479	6,607	6,551
Profit/(loss) on ordinary activities before taxation ..	2,435	(5,790)	1,908
Profit/(loss) on ordinary activities for the year	1,410	(6,328)	1,120
Fixed assets	10,383	11,077	11,836
Current assets	5,950	4,223	3,219
Creditors: amounts falling due within one year	(1,915)	(1,372)	(1,809)
Total assets less current liabilities	14,418	13,928	13,246
Creditors: amounts falling due after more than one year	(21)	–	(85)
Total net assets	14,397	13,928	13,161

8.2 Summary historical financial information on Schlegel

As Schlegel has only traded as a separate entity since 1 January 2005, it is only possible to produce historical financial information for Schlegel for the year ended 31 December 2005 and the accountants' report on Schlegel has been modified accordingly. The Directors believe that this modification is significant, as Shareholders will be basing their decision to approve the Acquisition and/or invest in Ordinary Shares on a shorter period of audited financial information than would normally be available.

However, notwithstanding the limited financial information available for Schlegel, the Directors are recommending the Acquisition.

Presented below is summary historical financial information for Schlegel as at 31 December 2004 and 31 December 2005 and for the year ended 31 December 2005 prepared in accordance with UK GAAP. The historical financial information is extracted without material adjustment from the financial information set out in Section E, Part 7 of this document.

	Year ended 31 December 2005 £'000
Turnover	69,293
Operating profit	10,003
Profit on ordinary activities before taxation	3,801
Profit for the financial year	2,588

	Year ended 31 December	
	2005 £'000	2004 £'000
Fixed assets	14,826	13,185
Current assets	25,117	22,462
Creditors: amounts falling due within one year	(11,712)	(11,085)
Total assets less current liabilities	28,231	24,562
Creditors: amounts falling due after more than one year	(40,275)	(36,302)
Provision for liabilities and charges	(599)	(625)
Pension and post retirement benefits liabilities	(5,799)	(4,882)
Total net liabilities	(18,442)	(17,247)

8.3 Summary unaudited actual and pro forma financial information

Presented below is summary audited actual financial information for Lupus, and unaudited *pro forma* financial information for the Enlarged Group, in each case as at 31 December 2005. The *pro forma* information is presented under UK GAAP and illustrates the effect of the Placing and Open Offer and the proposed Acquisition as if such transactions had occurred on 31 December 2005.

The summary *pro forma* financial information has been extracted without material adjustment from Part 9 of this document. Investors should read the whole of this document and not rely solely on the summary information below.

	As at 31 December 2005	
	Lupus Actual £'000	Enlarged Group Pro forma £'000
Fixed assets	10,383	89,155
Current assets	5,950	31,811
Creditors: amounts falling due within one year	(1,915)	(18,582)
Total assets less current liabilities	14,418	102,384
Creditors: amounts falling due after more than one year	(21)	(30,354)
Provisions for liabilities and charges	–	(599)
Pensions liability	–	(5,799)
Total net assets	14,397	65,632

9. DIVIDENDS

Lupus has announced its intention to pay a special interim dividend of 0.114 pence per Ordinary Share in respect of the quarter ending 31 March 2006 to Shareholders on the register on 31 March 2006. This special interim dividend will be paid to Shareholders on 21 April 2006.

Lupus also announced its intention to pay a final dividend for the year ended 31 December 2005 of 0.278p per Ordinary Share to Shareholders on the register on 31 March 2006. This final dividend will be paid to Shareholders following the AGM of Lupus, which is expected to be held in May 2006.

Lupus expects, in the absence of unforeseen circumstances, to declare dividends (including the special interim dividend) for the financial year ending 31 December 2006 totalling 0.455 pence. This is equivalent to a dividend yield of 3.25 per cent. at the Issue Price. It is the intention of the Board to maintain a progressive dividend policy in the future.

10. RISK FACTORS

Investors should consider carefully the risks and uncertainties outlined in this document. These risks and uncertainties are not the only ones facing the Enlarged Group. If any or a combination of these risks actually occurs, the price of the Ordinary Shares could decline and investors may lose all or part of their investment.

10.1 Risk Factors Specific to the Enlarged Group

- The Enlarged Group may face significant competition, both actual and potential, including competition from global competitors which have large capital resources in the provision of similar goods and services to those which will be provided by the Enlarged Group.
- The ability of Schlegel to pass on raw material price rises to customers may impact the Enlarged Group's future profitability.
- Any decline in Schlegel's reputation or any event which causes a negative impact to Schlegel's brand may damage the Enlarged Group's business and its future profitability.
- If Schlegel is unable to innovate and develop new products or there is a downturn in any of the building sector markets to which Schlegel supplies its products, this may impact the ongoing competitiveness and profitability of the Enlarged Group.
- The loss of any major customer may impact the Enlarged Group's future profitability.

- Any difficulties in integrating Schlegel into Lupus' operations and realising the benefits expected from the integration could impact the Enlarged Group's future profitability.
- The loss of the services of the executive Directors, members of senior management and other key employees could damage the Enlarged Group's business.
- If the Enlarged Group cannot successfully identify, acquire, integrate and develop targets for expansion of its business, it could impact its ability to establish itself in new markets and geographies and/or to expand its product offerings.
- Acquisitions by the Enlarged Group may involve the use of significant amounts of cash, dilutive issues of equity securities and the incurrence of debt, each of which could materially and adversely affect its business, results of operations, financial condition and/ or the market price of Ordinary Shares.
- Vendors of companies or businesses that Lupus wishes to purchase in the future may not be prepared to accept shares traded on AIM or may not be prepared to accept Ordinary Shares at the quoted market price.
- The Enlarged Group's failure to meet any growth or development challenges could have a material adverse effect on its results of operations.
- The conversion from UK GAAP to IFRS may have an impact on the Enlarged Group's financial results, and may adversely affect the capital position or the reported profitability of the Enlarged Group.
- Shareholders will be basing any decision to approve the Acquisition and/or to invest in Ordinary Shares on the limited financial information available on Schlegel.
- The Schlegel Group operates defined benefit pension and post retirement medical schemes in the US. The defined benefit pension scheme is in deficit and the post retirement medical schemes are unfunded arrangements. Changes in the actuarial assumptions of these schemes and, with respect to the defined benefit pension scheme, the market value of the assets, would affect the results of the Enlarged Group.
- Any change in Lupus' tax status or in taxation legislation or accounting practice could affect Lupus' ability to provide returns to its Shareholders or alter the post-tax returns to its Shareholders.
- In the event of any environmental incident, the resulting liabilities could have an adverse impact on the Enlarged Group.
- The inability of Lupus' subsidiaries to pay dividends so that Lupus can meet its cash requirements could have a material adverse effect on its business and its ability to pay dividends.
- The market price of Ordinary Shares may fluctuate significantly. In addition, any future share offerings may adversely affect the market price of outstanding Ordinary Shares.

10.2 General Risk Factors

- The value of Ordinary Shares and income therefrom may fluctuate significantly.
- Any equity financing for Lupus may be dilutive to Shareholders, and debt financing, if available, may involve restrictions on financing and operating activities.
- An investment in securities traded on AIM is perceived to involve a higher risk than those listed on the Official List.
- The Enlarged Group is exposed to the risk arising from movements in foreign exchange.
- The Enlarged Group will be exposed to additional risks related to operating in foreign countries.
- If the Transaction does not proceed, Lupus will have incurred costs which will need to be paid in any event. In addition, Lupus may not be able to identify and acquire alternative suitable targets for expansion of its business.

11. INFORMATION ON SCHLEGEL

Schlegel is a leader in the manufacturing and marketing of door seals and sold over 500 million metres of window seals in the year ended 31 December 2005. Schlegel's core manufacturing competencies are continuously moulded urethane foam, narrow fabric textiles, and extruded plastics. Schlegel is a leading producer of urethane foam (compression seals) and woven pile (sliding seals) for the window and door market and sells its products in more than 75 countries from seven manufacturing plants located around the world.

Schlegel also manufactures related products such as cleaning brushes and static control devices for copiers and printers, specialty automotive products such as sunroof seals and truck spray suppressants, tractor seat trim and sway bar bushes. Schlegel has over 5,000 customers.

12. INFORMATION ON LUPUS

Lupus is a holding company listed on the Official List. Lupus has a declared strategy:

- to build shareholder value through the acquisition of industrial assets with the potential for development;
- to apply the executive team's management skills and systems to improve profitability; and
- to use a variety of funding mechanics and exit strategies to enhance shareholder value.

Lupus owns one operating subsidiary, Gall Thomson, a supplier of marine breakaway couplings.

13. ADDITIONAL INFORMATION

13.1 Share capital

Following the Placing and the Open Offer, the issued share capital of Lupus will be £3,081,339 divided into 616,267,715 Ordinary Shares.

Following Admission the rights attaching to the New Ordinary Shares will be identical to the rights attaching to the Existing Ordinary Shares.

13.2 Major Shareholders

As far as is known to Lupus by virtue of the notifications made to it pursuant to the Act, the only substantial Shareholders who, directly or indirectly, are interested in three per cent. or more of the issued ordinary share capital of Lupus as at 6 March 2006 (being the latest practicable day prior to the publication of this document) are the LESOT, Undervalued Assets Trust plc and Greg Hutchings.

The Directors are not aware (i) of any persons who, directly or indirectly, jointly or severally, exercise or could exercise control over Lupus, nor (ii) of any arrangements the operation of which may at a subsequent date result in a change of control of Lupus.

13.3 Working capital statement

Lupus is of the opinion that, having regard to the existing facilities available to the Group, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months following the date of this document.

13.4 Significant changes

There have been no significant changes in the financial or trading position of the Lupus Group since 31 December 2005. There have been no significant changes in the financial or trading position of Schlegel since 31 December 2005.

13.5 Documents on display

Copies of various documents will be available for inspection free of charge at the registered office of Lupus and the offices of Slaughter and May during usual business hours on any weekday (Saturdays and public holidays excepted) up to and including the date of Admission.

PART 2

RISK FACTORS

A. RISK FACTORS SPECIFIC TO THE ENLARGED GROUP

1. The Enlarged Group's industry is highly competitive

The Enlarged Group may face significant competition, both actual and potential, including competition from global competitors which have large capital resources, in the provision of similar goods and services to those which will be provided by the Enlarged Group. Competition in the industry is based upon: range and quality of services offered; geographical reach; reputation and client relationships. The Directors believe that, in view of its range of services, geographical spread, strategic focus and reputation, the Enlarged Group can compete effectively with other large competitors, but there is no assurance that the Enlarged Group will be able to compete successfully in such a market place.

2. Ability to pass on increased raw material prices to customers

A significant proportion of the raw materials purchased by Schlegel are oil derivatives, used in the manufacture of compression seals. As a result of recent oil price rises, Schlegel has suffered significant raw material cost inflation since 2004. Whilst the impact of these increases on Schlegel's profitability has led to an evaluation of purchasing strategy and hedging policy, the ability of Schlegel to pass on raw material price rises to customers may impact the Enlarged Group's future profitability.

3. Other Schlegel specific risk factors

3.1 *Reputation and Brand*

The future success of the Enlarged Group will, in part, be dependent on Schlegel's reputation and brand, which is recognised throughout the industry. Any decline in Schlegel's reputation or any event which causes a negative impact to Schlegel's brand may damage the Enlarged Group's business and its future profitability.

3.2 *Product innovation and development and the decline in key building sector markets*

The building sector, to which Schlegel supplies the majority of its core products, is both a cyclical and competitive market. Schlegel's primary objectives are to increase market share and profitability, by growing the business through technological innovations, expanding into new geographical markets, entering new product segments and seeking new applications for existing products in new markets. If Schlegel is unable to innovate and develop new products or there is a downturn in any of the building sector markets to which Schlegel supplies its products, this may impact the ongoing competitiveness and profitability of the Enlarged Group.

4. Loss of major customers

The success of the Enlarged Group will, to some extent, be dependent on the continuation of satisfactory commercial relationships with the major customers of the Enlarged Group. There can be no guarantee that these relationships will continue satisfactorily in the future.

5. Integration of Schlegel operations

There can be no assurance that Lupus will be able to integrate Schlegel into the Group and realise the benefits expected from the Acquisition successfully. The integration of Schlegel will require the dedication of management resources that may temporarily distract management's attention from the day-to-day business of the Enlarged Group. The difficulties of the integration of Schlegel may also be increased by the geographical separation of the Schlegel businesses and employees.

6. Dependence on key executives and personnel

The Enlarged Group's future success is substantially dependent on the continued services and performance of its executive Directors and senior management and its ability to continue to attract and retain highly skilled and qualified personnel. Although measures are in place and are under review to reward and retain key individuals and to protect the Enlarged Group from the impact of staff turnover, the Directors cannot give assurances that members of the senior management team and the executive Directors will continue to remain with the Enlarged Group. The loss of the services of the executive Directors, members of senior management and other key employees could damage the Enlarged Group's business.

7. Growth and expansion risks

7.1 *Availability of suitable acquisition targets*

The Enlarged Group may not be able to identify and acquire suitable targets for expansion of its business. If the Enlarged Group cannot successfully identify, acquire, integrate and develop targets for expansion of its business, it could impact the Enlarged Group's ability to establish itself in new markets and geographies and/or to expand its product offerings. This could have a material adverse effect on the Enlarged Group's business and profitability. In addition, the Enlarged Group may not be able to make acquisitions on suitable terms, which may limit the potential for creation of shareholder value.

7.2 *Risk of potential future acquisitions*

In the future, as part of its growth strategy, the Enlarged Group may acquire other companies or businesses. Acquisitions by the Enlarged Group may involve the use of significant amounts of cash, dilutive issues of equity securities and the incurrence of debt, each of which could materially and adversely affect the Enlarged Group's business, results of operations, financial condition and/or the market price of Ordinary Shares. In addition, acquisitions involve numerous risks, including difficulties in the assimilation of the operations of any acquired business or company, the diversion of management's attention from other business concerns and the inheritance of liabilities. While Lupus has made no other commitments or agreements with respect to any acquisition, if such an acquisition does occur there can be no assurance that the Enlarged Group's business, results of operations or financial condition would not be materially and adversely affected thereby.

7.3 *Acceptability of Ordinary Shares as consideration*

Although Lupus may wish to issue Ordinary Shares to satisfy all or part of any consideration payable on future acquisitions, vendors of suitable companies or businesses may not be prepared to accept shares traded on AIM or may not be prepared to accept Ordinary Shares at the quoted market price.

7.4 *Management of growth and development*

If the Enlarged Group is to meet its strategic goals, it is likely to experience rapid growth. To manage this growth, the Enlarged Group is likely to have to expand its management and financial controls, which may strain its management and operational resources. The Enlarged Group's failure to meet any growth or development challenges could have a material adverse effect on its results of operations.

8. Financial risks

8.1 *Basis of accounting*

Lupus currently prepares its financial statements in accordance with IFRS. Section C of Part 8 of this document contains historical financial information for Lupus for the three years ending 31 December 2005 prepared in accordance with UK GAAP together with a reconciliation to IFRS for the year ended 31 December 2005. The Enlarged Group will report under UK GAAP for the year ended 31 December 2006, as Schlegel, which will represent the majority of the Enlarged Group, currently prepares its accounts in accordance with UK GAAP. It is a requirement under the AIM Rules that companies will have to comply with IFRS for each financial year commencing on or after 1 January 2007. The Enlarged Group will therefore have to adopt IFRS for each accounting period commencing on or after 1 January 2007 and will need to provide comparable data in accordance with IFRS for the financial year ending 31 December 2006. The conversion from UK GAAP to IFRS may have an impact on the Enlarged Group's financial results, and may adversely affect the capital position or the reported profitability of the Enlarged Group.

8.2 *Lack of stand alone financial track record for Schlegel prior to 1 January 2005*

As described in Section B of Part 7 of this document, it is not possible for historic financial information for Schlegel to be accurately or reliably derived prior to 1 January 2005. Shareholders will therefore be basing any decision to approve the Acquisition and/or to invest in Ordinary Shares on the limited financial information available on Schlegel.

8.3 *Pensions*

The Schlegel Group operates defined benefit pension and post retirement medical schemes in the US. They are closed to new entrants. The Pension Scheme is in deficit and the post retirement medical schemes are unfunded arrangements. The net FRS 17 pension and post retirement benefits liabilities were £5.8 million as at 31 December 2005. Changes in the actuarial assumptions of these schemes and, with respect to the defined benefit pension scheme, the market value of the assets, would affect the results and profitability of the Enlarged Group.

9. **Taxation risks**

Any change in Lupus' tax status or in taxation legislation or accounting practice could affect Lupus' ability to provide returns to its Shareholders or alter the post-tax returns to its Shareholders.

Any change in the taxation legislation or accounting practice relating to employee benefit trusts and employee management incentive schemes could affect the effectiveness of the Share Incentive Arrangements.

Paragraph 15 of Part 5 of this document contains some information relating to the tax treatment of shares which trade on AIM, which information is also set out in Part 11 (United Kingdom Taxation). Lupus cannot guarantee that its shares will continue to trade on AIM, rather than a "recognised stock exchange" such as the London Stock Exchange, or that it will not in future have other securities in issue which trade on such an exchange.

10. **Environmental**

The Enlarged Group will be subject to environmental and safety laws and regulations, including those relating to the use of, disposal of, clean up of, and human exposure to, hazardous materials. The cost of compliance with these and similar future regulations, could be substantial. Schlegel uses hazardous materials as part of its manufacturing process. The risk of accidental contamination or injury from such materials cannot be eliminated. In the event of such an incident, the resulting liabilities could have an adverse impact on the Enlarged Group.

11. **Dividends**

Lupus is a holding company and will not conduct business of its own. Dividends from direct and indirect subsidiaries are expected to be Lupus' sole source of funds to pay expenses and dividends, if any. The inability of Lupus' direct and indirect subsidiaries to pay dividends in an amount sufficient to enable Lupus to meet its cash requirements at the holding company level could have a material adverse effect on its business and its ability to pay dividends.

12. **Placing and Open Offer**

12.1 *Fluctuations in Market Price*

Following Admission, the market price of Ordinary Shares could be subject to significant fluctuations due to a change in sentiment in the stock market regarding the Ordinary Shares or securities similar to them or in response to various facts and events, including any regulatory changes affecting the Enlarged Group's operations, variation in the Enlarged Group's half yearly or yearly operating results and business developments of the Enlarged Group or its competitors. The market price of Ordinary Shares could decline significantly at any time as a result of any issue of further Ordinary Shares by Lupus, or by any sales of Ordinary Shares by certain Shareholders, or the expectation or belief that issues or sales of such shares may occur. Further, the trading price of the Ordinary Shares may be subject to wide fluctuations in response to many factors, including those referred to in this Part 2, as well as variations in the operating results of the Enlarged Group, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, stock market fluctuations and general economic conditions or changes in political sentiment, each of which may adversely affect the market price of Ordinary Shares, regardless of the Enlarged Group's actual performance or conditions in its key markets.

12.2 *Possible future share offerings*

Lupus may offer additional shares in the future, which may adversely affect the market price of the outstanding Ordinary Shares. Lupus has no current plans for a subsequent offering of its shares or of rights or invitations to subscribe for shares. However, it is possible that Lupus may decide to offer additional shares in the future. An additional offering of shares by Lupus, significant sales of shares by major Shareholders or the public perception that an offering may occur, could have an adverse effect on the market price of Lupus' outstanding Ordinary Shares.

B. GENERAL RISK FACTORS

13. Investment risks

The price at which investors may realise their holding of Ordinary Shares and the timing of any disposal of them may be influenced by various factors, some of which are specific to the Enlarged Group and others of which are extraneous. These factors could include the performance of the Enlarged Group's operations, large purchases or sales of shares in the Enlarged Group, liquidity or absence of liquidity in the Ordinary Shares, legislative or regulatory changes relating to the businesses of the Enlarged Group and general economic conditions. The value of Ordinary Shares and income therefrom may fluctuate significantly. There can be no assurance that an investor will recover the amount originally invested in Lupus.

14. Future fundraisings

Whilst the Directors have no current plans for raising additional capital following Admission and are of the opinion that the working capital available to the Group is, taking into account the existing facilities available to the Group, sufficient for its present requirements, it is possible that Lupus may need to raise extra capital in the future in order to develop the Group's business following the expiry of the period as set out in paragraph 15 of Part 12. It is difficult for the Directors to predict accurately the timing and amount of the Group's capital requirements for extraordinary items. If the plans or assumptions set out in the Lupus' business plan change or prove to be inaccurate, or if Lupus makes any material acquisitions, Lupus may require further financing. Any additional equity financing may be dilutive to Shareholders, and debt financing, if available, may involve restrictions on financing and operating activities. If Lupus is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion.

15. Securities traded on AIM

The Ordinary Shares will be traded on AIM rather than the Official List. An investment in securities traded on AIM is perceived to involve a higher risk than those listed on the Official List. The market price of the Ordinary Shares may be subject to wide fluctuations in response to many factors, including variations in the operating results of Lupus, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, general economic conditions, overall market or sector sentiment, political or regulatory conditions, legislative changes in Lupus' sector, and other events and factors outside of Lupus' control. Stock markets have from time to time experienced severe price and volume fluctuations, a recurrence of which could adversely affect the market price of the Ordinary Shares. Prospective investors should be aware that the value of the Ordinary Shares could go down as well as up, and investors may therefore not recover their original investment especially as the market in Ordinary Shares may have limited liquidity. Admission to AIM should not be taken as implying that there will be a liquid market for Ordinary Shares.

16. Foreign Exchange

The Enlarged Group is exposed to the risk arising from movements in foreign exchange. In particular, movements between the US dollar and the pound and the euro and the pound, could have a material adverse impact on the Enlarged Group's results. The Enlarged Group operates on a global basis and is therefore also exposed to translational foreign exchange risk against the pound.

17. Overseas activities

The Enlarged Group will be exposed to additional risks related to operating in foreign countries. The Enlarged Group will have sizeable operations in the USA. These risks may include export controls and/or other regulatory restrictions, the impact of foreign taxes and other applicable foreign regulation, an inability to repatriate earnings on overseas sales, difficulty in collecting debts, economic weakness or political instability in foreign economies or markets and difficulties in managing overseas activities.

18. Risk if the Acquisition does not proceed

If the Acquisition does not proceed, Lupus will have incurred costs which will need to be paid in any event. In addition, Lupus may not be able to identify and acquire alternative suitable targets for expansion of its business.

PART 3
EXPECTED TIMETABLE

	<i>2006</i>
Record Date for the Open Offer	1 March
Announcement of the Acquisition, Placing and Open Offer	3 March
Open Offer Entitlements credited to stock accounts in CREST of Qualifying CREST Holders	7 March
Recommended latest time for requesting withdrawal of Open Offer Entitlements from CREST	3.00 p.m. on 20 March
Latest time for depositing Open Offer Entitlements into CREST	3.00 p.m. on 22 March
Latest time and date for splitting of Non-CREST Application Forms (to satisfy <i>bona fide</i> market claims only)	3.00 p.m. on 23 March
Latest time and date for receipt of Forms of Proxy	11.00 a.m. on 27 March
Latest time and date for acceptance of the Open Offer and receipt of completed Non-CREST Application Forms or CREST Excess Application Forms and payment in full under the Open Offer or settlement of relevant CREST instruction	11.00 a.m. on 27 March
Extraordinary General Meeting	11.00 a.m. on 29 March
Record date for the special interim dividend and for Lupus' final dividend for the year ended 31 December 2005	31 March
Completion of the Acquisition	4 April
Cancellation of the listing of the Existing Ordinary Shares on the Official List	8.00 a.m. on 4 April
Date of Admission and commencement of dealings on AIM	8.00 a.m. on 4 April
New Ordinary Shares credited to CREST stock accounts	8.00 a.m. on 4 April
Date of despatch of definitive share certificates for New Ordinary Shares	week commencing 10 April
Payment of special interim dividend	21 April

Notes:

- (1) References to times in this document are to London time (unless otherwise stated).
- (2) If any of the above times or dates should change, the revised times and/or dates will be notified by an announcement on RNS. In particular, pursuant to the Placing Agreement, Lupus and HSBC have agreed that if a supplementary prospectus is issued by Lupus two Business Days or fewer prior to the date specified in the expected timetable above as the latest time and date for acceptance of the Open Offer, such date shall be extended to the date which is three Business Days after the date of issue of the supplementary prospectus.
- (3) The timing of the events in the above timetable following the Extraordinary General Meeting and in the rest of this document is indicative only and conditional upon the approval of the Resolutions by Shareholders at the Extraordinary General Meeting.

ADMISSION STATISTICS

Price per Ordinary Share ⁽¹⁾	14 pence
Number of Existing Ordinary Shares	237,696,286
Issue Price	14 pence
Number of New Ordinary Shares to be issued pursuant to the Firm Placing	299,339,334
Maximum number of New Ordinary Shares available under the Open Offer (of which 54,373,895 will be conditionally placed subject to clawback)	79,232,095
Number of Ordinary Shares in issue following the Placing and the Open Offer	616,267,715
Percentage of Enlarged Share Capital represented by the New Ordinary Shares	61
Market capitalisation of Lupus following the Placing and the Open Offer (at the Issue Price)	86,277,480

(1) Closing mid-market price on the London Stock Exchange on 2 February 2006, the date prior to the Suspension.

PART 4

DIRECTORS AND ADVISERS

Lupus Capital plc

Directors

Greg Hutchings, *Executive Chairman*
Denis Mulhall, *Executive Director*
Frederic Hoad, *Senior Non-executive Director*
Roland Tate, *Non-executive Director*

Company Secretary

Cavendish Administration Limited

Registered Office

Crusader House
145-157 St John Street
London EC1V 4RU
Tel: 020 7976 8000

Nominated Adviser and Broker

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8 Canada Square
London E14 5HQ

Bankers

HSBC Bank plc
8 Canada Square
London E14 5HQ

The Governor and Company of The Bank of Scotland
55 Temple Row
Birmingham B2 5LS

English Legal Adviser to Lupus

Slaughter and May
One Bunhill Row,
London EC1Y 8YY

US Legal Adviser to Lupus

Skadden, Arps, Slate, Meagher & Flom LLP
4 Times Square
New York
New York 10036

Lupus' Auditors and Reporting Accountants on Lupus

Grant Thornton UK LLP
Grant Thornton House
Melton Street
London NW1 2EP

Schlegel's Auditors and Reporting Accountants on Schlegel

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Registrars

Capita Registrars
The Registry
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Beckenham
Kent, BR3 4TU

Receiving Agent

Capita Registrars
Corporate Actions
PO Box 166
The Registry
34 Beckenham Road
Beckenham
Kent, BR3 4TH

Website

www.lupuscapital.co.uk

PART 5

LETTER FROM THE CHAIRMAN OF LUPUS CAPITAL PLC

(incorporated and registered in England and Wales with registered number 02806007)

Directors:

Greg Hutchings
Denis Mulhall
Frederic Hoad
Roland Tate

Registered Office:

Lupus Capital plc
Crusader House
146-157 St. John Street
London
EC1V 4RU

6 March 2006

To all Lupus Shareholders

Dear Shareholder,

Proposed acquisition of Schlegel

Placing of 299,339,334 New Ordinary Shares at 14 pence per New Ordinary Share

Open Offer of up to 79,232,095 New Ordinary Shares at 14 pence per New Ordinary Share

Admission of the Enlarged Share Capital to trading on AIM

1. Introduction

It was announced on 3 March 2006 that Lupus, through the Purchasing Subsidiaries, would acquire the shares, assets and liabilities comprising the business of Schlegel from UniPoly Holdings Limited and Schlegel Limited (a wholly owned subsidiary of UniPoly Holdings Limited) for approximately £84 million in cash. The cash consideration payable in relation to the Acquisition will be funded through the Placing, the Open Offer and the New Debt Facility. A summary of the terms and conditions of the New Debt Facility is set out in paragraph 11 of Part 12.

For the year ended 31 December 2005, Schlegel had sales of £69.3 million and generated profit before interest and tax of £10.0 million, after management services fees of £0.7 million.

The Acquisition is categorised as a reverse takeover for Lupus under the Listing Rules and as such requires the consent of the Existing Shareholders to be sought under Resolution 1 (as set out in the Notice of EGM) at the EGM to be held on 29 March 2006 at 11.00 a.m. As the Acquisition is a reverse takeover, Lupus is applying for the cancellation of the listing of its Existing Ordinary Shares from the Official List on completion of the Acquisition and will simultaneously apply for the Enlarged Share Capital to be listed on AIM. To complete the Acquisition and implement the Placing and the Open Offer, it will also be necessary to give the Directors the required powers and authorities to allot the New Ordinary Shares.

The Acquisition is conditional, *inter alia*, on Resolutions 1 to 5 being passed at the EGM and Admission taking place.

Further to the announcement made by Lupus on 3 February 2006, the Ordinary Shares were suspended from trading with effect from 7.30 a.m. on 3 February 2006. The Directors believe that the Ordinary Shares will remain suspended until the cancellation of the listing of the Existing Ordinary Shares from the Official List on completion of the Acquisition, which is currently expected to occur on or about 4 April 2006.

The purpose of this document is, *inter alia*, to provide you with the details of the Transaction and to explain why the Board considers the Acquisition to be in the best interests of Lupus and its Shareholders as a whole and why the Board recommends that you vote in favour of the Resolutions (notice of which is set out at the end of this document). A summary of the principal terms of the Acquisition is set out in Part 10 of this document.

2. Background to and reasons for the Transaction

Schlegel is a profitable and cash generative business with an international manufacturing capability that makes good margins and operates in a sector that the Lupus management team know well. The Schlegel brand is recognised throughout the industry and the business has substantial market shares in its key markets.

Schlegel represents a very strong fit with Lupus' strategy of acquiring asset based, positive cash flow companies operating in industrial manufacturing, processes or services. Lupus will look to use Schlegel as a platform for growth and will work with Schlegel's management to drive operational improvements through the business, to pursue organic growth opportunities and to make add-on acquisitions where they will add value. Lupus expects that Schlegel will form the foundations of a more substantial building products group.

3. Information on Schlegel

Schlegel is a leader in the manufacturing and marketing of door seals and sold over 500 million metres of window seals in the year ended 31 December 2005. Schlegel's core manufacturing competencies are continuously moulded urethane foam, narrow fabric textiles, and extruded plastics. Schlegel is a leading producer of urethane foam (compression seals) and woven pile (sliding seals) for the window and door market and sells its products in more than 75 countries from seven manufacturing plants located around the world.

Schlegel also manufactures related products such as cleaning brushes and static control devices for copiers and printers, specialty automotive products such as sunroof seals and truck spray suppressants, tractor seat trim and sway bar bushes. Schlegel currently has over 5,000 customers.

For the year ended 31 December 2005, Schlegel had sales of £69.293 million and generated profit before tax of £3.801 million and profit before interest, tax, depreciation (£2.152 million) and amortisation (£0.0 million) of £12.155 million. The value of the gross assets of Schlegel as at 31 December 2005 was £39.943 million.

Part 7 of this document sets out further information on Schlegel.

4. Information on Lupus

Lupus is a holding company listed on the Official List. Lupus has a declared strategy:

- to build shareholder value through the acquisition of industrial assets with the potential for development;
- to apply the executive team's management skills and systems to improve profitability; and
- to use a variety of funding mechanics and exit strategies to enhance shareholder value.

Lupus owns one operating subsidiary, Gall Thomson, the world's leading supplier of marine breakaway couplings.

On 3 March 2006, Lupus announced its results for the year ended 31 December 2005 prepared in accordance with IFRS, as required for companies quoted on the Official List. Sales in the year were £7.479 million (2004: £6.607 million) an increase of 13.2 per cent. Pre tax profits before goodwill, the LESOT charge and exceptional items were up 6.8 per cent. at £3.176 million (2004: £2.974 million). Lupus also announced its intention to declare an increased final dividend of 0.278p per share (2004: 0.264p), an increase of 5.3 per cent.

Part 8 of this document sets out further information on Lupus.

5. Principal terms and conditions of the Acquisition

On 3 March 2006, Lupus, Schlegel Acquisition Corporation, Schlegel Acquisition Holdings Limited, Schlegel Australia (2006) Pty Limited and Schlegel UK (2006) Limited (wholly owned subsidiaries of Lupus) entered into the Acquisition Agreement with UniPoly and Schlegel UK for the purchase of Schlegel from the Vendors.

The consideration payable under the terms of the Acquisition is £84 million on a debt free/cash free basis. All existing third party debt is being repaid on acquisition and cash balances held in Schlegel as at 28 February 2006 will be paid over to UniPoly at Completion. The amount of £84 million will be (i) increased by any net cash in the bank accounts of Schlegel as at 28 February 2006; (ii) increased by interest for the period between signing and completion at 5 per cent. per annum; and (iii) decreased to the extent that the net trading working capital of Schlegel as at 28 February 2006 is less than £14.8 million. The total consideration is not expected to exceed £86 million.

The Acquisition Agreement is conditional upon (*inter alia*) the satisfaction of the following conditions:

- 5.1 the waiting period under any applicable antitrust regulations having terminated or expired;
- 5.2 certain of the conditions relating to obtaining the financing to complete the Acquisition being satisfied (these include some of the conditions relating to the Placing, Open Offer and New Debt Facility); and
- 5.3 the release by the Vendors of their letters of credit specified in the Acquisition Agreement.

The Acquisition is expected to close on or about 4 April 2006, subject to all the relevant conditions being satisfied.

Part 10 of this document sets out further information on the principal terms and conditions of the Acquisition.

6. Historical financial information on Schlegel

Under the Listing Rules and Prospectus Rules, audited historical financial information covering the latest three financial years and an audit report in respect of each year would normally be required for Schlegel. For the reasons set out in Section B of Part 7, it is only possible to produce historical financial information for Schlegel for the year ended 31 December 2005 and the accountants' report on Schlegel, contained in Section D of Part 7, has therefore been modified as no comparative information has been presented. The Directors believe that this modification is significant, as Shareholders will be basing their decision to approve the Acquisition and/or invest in Ordinary Shares on a shorter period of audited financial information than would normally be available.

The Directors believe that, in spite of the limited financial information available for Schlegel, the Acquisition is in the best interests of Shareholders as a whole. Their recommendation is set out in paragraph 20 of this Part 5. Schlegel is a profitable and cash generative business with a international manufacturing capability that makes good margins and operates in a sector that the Lupus management team know well. The Schlegel brand is recognised throughout the industry and the business has substantial market shares in its key markets. Whilst Schlegel and Schlegel EMI have only recently been established as separate divisions of the Schlegel Group, the Schlegel Group has operated since its formation in the 1880s.

7. Details of the Placing and Open Offer

Lupus is proposing to raise up to approximately £53 million in total pursuant to the Placing and Open Offer. The Issue Price of 14 pence per New Ordinary Share represents no discount to the closing middle market price for an Existing Ordinary Share of 14 pence at Suspension.

Pursuant to the Placing Agreement, HSBC has conditionally placed the Placing Shares with institutional and other certain investors, with the Conditional Placing Shares subject to clawback in respect of Open Offer Shares acquired by Existing Shareholders at the Issue Price. The Placing and Open Offer have been underwritten by HSBC. A summary of the principal terms of the Placing Agreement is set out in paragraph 11 of Part 12 of this document.

The Open Offer provides Qualifying Holders with the opportunity to apply to acquire any number of Open Offer Shares at the Issue Price. Qualifying Holders have a guaranteed minimum entitlement on the following basis:

1 Open Offer Share for every 3 Existing Ordinary Shares

registered in their names at the close of business on the Record Date and so in proportion for any greater number of shares so registered. Entitlements to apply to acquire Open Offer Shares will be rounded down to the nearest whole number. Fractions of New Ordinary Shares will be disregarded in the calculation of the Qualifying Holder's Basic Entitlement.

The Excess Application Facility enables Qualifying Holders to apply to acquire any whole number of Open Offer Shares in excess of their Basic Entitlement which, in the case of Qualifying non-CREST Holders, is equal to the number of Open Offer Entitlements as shown on their Non-CREST Application Form or, in the case of Qualifying CREST Holders, is equal to the number of Open Offer Entitlements standing to the credit of their stock account in CREST. Qualifying Holders with holdings of Existing Ordinary Shares in both certificated and uncertificated form will be treated as having separate holdings for the purpose of calculating their Basic Entitlements under the Open Offer.

Qualifying Non-CREST Holders who wish to apply to acquire more than their Basic Entitlement should complete Box 3 on the Non-CREST Application Form. Qualifying CREST Holders who wish to apply to acquire more than their Basic Entitlement should complete the CREST Excess Application Form.

Excess applications may be scaled down in such manner as the Directors determine, in their absolute discretion. It is intended that excess applications will be satisfied *pro rata* (or as nearly as practicable) to the relevant holder's Basic Entitlement. The aggregate number of New Ordinary Shares available for acquisition under the Open Offer will not exceed 79,232,095.

Application has been made for the Open Offer Entitlements for Qualifying CREST Holders to be admitted to CREST. It is expected that the Open Offer Entitlements will be admitted to CREST on 7 March 2006. The Open Offer Entitlements will also be enabled for settlement in CREST on 7 March 2006. Applications through the CREST system will only be made by the Qualifying Holder originally entitled or by a person entitled by virtue of a *bona fide* market claim.

Shareholders should note that the Open Offer is not a rights issue. Qualifying CREST Holders should note that, although the Open Offer Entitlements will be admitted to CREST and be enabled for settlement, applications in respect of entitlements under the Open Offer may only be made by the Qualifying Holder originally entitled or by a person entitled by virtue of a *bona fide* market claim raised by CRESTCo's Claims Processing Unit. Qualifying non-CREST Holders should note that the Non-CREST Application Form is not a negotiable document and cannot be traded. Qualifying Holders should be aware that in the Open Offer, unlike in a rights issue, any Open Offer Shares not applied for will not be sold in the market or placed for the benefit of Qualifying Holders who do not apply under the Open Offer.

For Qualifying non-CREST Holders, completed Non-CREST Application Forms, accompanied by full payment, should be returned by post or by hand (during normal business hours only) to Capita Registrars, Corporate Actions at PO Box 166, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TH so as to arrive as soon as possible and in any event no later than 11.00 a.m. on 27 March 2006. For Qualifying CREST Holders, the relevant CREST instruction must have settled by no later than 11.00 a.m. on 27 March 2006 and, if they wish to apply for Excess Shares, Qualifying CREST Holders should return their completed CREST Excess Application Form by post or hand (during normal business hours only) to Capita Registrars, Corporate Actions at PO Box 166, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TH by 11.00 a.m. on 27 March 2006.

The Placing and Open Offer are conditional on the Placing Agreement becoming or being declared unconditional in all respects and not being terminated before 8.00 a.m. on 4 April 2006 (or such later time and/or date, being not later than 8.00 a.m. on 18 April 2006, as HSBC and Lupus may agree). Details of the Placing Agreement are set out in paragraph 11 of Part 12 of this document. The principal conditions to the Placing Agreement are:

- the passing of Resolutions 1 to 5; and
- Admission having become effective by no later than 8.00 a.m. on 4 April 2006 or such later time and/or date as Lupus and HSBC may agree (but, in any event, not later than 8.00 a.m. on 18 April 2006).

If Resolutions 1 to 5 are not passed, or the Acquisition is not completed, the Existing Ordinary Shares will remain listed on the Official List, the New Ordinary Shares will not be issued under the Placing or the Open Offer and all monies received by the receiving agent, Capita Registrars, will be returned to the applicants (at the applicants' risk and without interest) as soon as possible thereafter. Any Open Offer Entitlements admitted to CREST will thereafter be disabled.

The New Ordinary Shares will, following allotment and issue, rank *pari passu* in all respects with Existing Ordinary Shares and will rank in full for all dividends and other distributions declared in respect of the ordinary share capital of Lupus.

8. Proposed Admission to AIM of the Enlarged Share Capital

Background to the proposed transfer to AIM

Lupus is currently listed on the Official List. The Acquisition is classified by the UKLA as a reverse takeover and, accordingly, Lupus is applying for the cancellation of the listing of its Existing Ordinary Shares from the Official List on completion of the Acquisition. As a condition to granting Lupus

exclusivity, the Vendors required Lupus to commit to an announcement of the Acquisition immediately following completion of the 2005 year-end audit process, and to completion of the Acquisition as soon as possible thereafter.

The Directors believe that it would not be possible to complete the Acquisition and list the Enlarged Group on the Official List for the following reasons:

- Admission to the Official List requires the compilation of a three year track record and, while Schlegel has existed and traded for a number of years, for the reasons set out in Section B of Part 7, it has not proved possible to recreate separate historical financial information for Schlegel for any historic period prior to 1 January 2005.
- An application for admission to the Official List would require Schlegel and Lupus to prepare financial statements under IFRS. As a business owned by a private company, Schlegel currently prepares accounts under UK GAAP and no work has been undertaken by the Vendors or Schlegel to prepare Schlegel accounts under IFRS.

For these reasons, the Directors consider that the Acquisition can only be completed by re-listing the Enlarged Group on AIM following completion of the Acquisition.

The London Stock Exchange has indicated to Lupus' advisers that the Enlarged Group, which will prepare its consolidated financial statements for the year ending 31 December 2006 under UK GAAP, will be eligible for listing on AIM.

The Board believes that the listing of the Enlarged Group on AIM is in the best interests of Shareholders as a whole. The Board believes that listing Lupus on AIM will lead to lower ongoing costs associated with being a public company and a simplification of administration requirements. It will also enable Lupus to agree and execute transactions more quickly, should acquisition and development opportunities arise in the future.

The listing on AIM will allow Lupus to complete the acquisition of Schlegel, while offering greater flexibility and reduced costs in the future. The Board remains committed to the highest standards of corporate governance.

Shareholders should note that, while an AIM listing is appropriate for the Enlarged Group at present, should the Enlarged Group's circumstances change in the future and the Enlarged Group become eligible for listing on the Official List, Lupus may decide to apply for admission to the Official List.

The AIM Market

AIM was launched in June 1995 as the London Stock Exchange's market specifically designed for smaller growing companies, with a more flexible regulatory regime. More than 2,200 companies have been admitted to AIM since its inception and over £24 billion has been raised collectively on the AIM market.

The obligations of an AIM company are similar to those of a company on the Official List, with certain exceptions, the most significant of which are set out below:

- Under the AIM Rules a nominated adviser is required at all times and has ongoing responsibilities to both Lupus and the London Stock Exchange. On admission to AIM, HSBC will be appointed as Lupus' Nominated Adviser. HSBC and Marshall Securities will act as Lupus' joint brokers.
- For AIM companies, prior shareholder approval is only required for reverse takeovers and disposals that result in a fundamental change of business (transactions that exceed 75 per cent. of various size tests, such as the ratio of consideration to the market capitalisation of the AIM company). Under the Listing Rules, a broader range of transactions require prior shareholder approval.
- There is no requirement for an AIM company to have a minimum number of shares to be maintained in public hands. On the Official List a minimum of 25 per cent. of a company's issued share capital should be maintained in public hands at all times.
- There is no requirement under the AIM Rules for listing particulars or admission documents for further issues of securities, except as otherwise required by law.
- The Combined Code does not apply directly to AIM companies.

Liquidity on AIM is currently provided by market makers who are member firms of the London Stock Exchange and are obliged to quote a share price between 8.00 am and 4.30 pm on business days.

Listing and Settlement

Application will be made to the London Stock Exchange for all of the Enlarged Share Capital to be admitted to trading on AIM. It is expected that Admission will become effective and dealings in the Enlarged Share Capital will commence on 4 April 2006. The Enlarged Share Capital will have ISIN number GB0002424041.

The Articles permit Lupus to issue shares in uncertificated form. CREST is a computerised paperless share transfer and settlement system which allows shares and other securities, including depository interests, to be held in electronic rather than paper form. Application has been made by Lupus' Registrars and transfer agent for Ordinary Shares in issue at Admission to be admitted to CREST. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within CREST if relevant Shareholders so wish.

CREST is a voluntary system and Shareholders who wish to retain certificates will be able to do so.

It is expected that share certificates will be dispatched by the Registrars in respect of the Placing Shares and Offer Shares no later than the week commencing 10 April 2006, and New Ordinary Shares will be delivered into CREST on 4 April 2006.

If Resolutions 1 to 5 are not passed, or the Acquisition is not completed, the Existing Ordinary Shares will remain on the Official List.

9. Financial effects of the Transaction on Lupus

The Acquisition will have a transforming impact on the financial position of Lupus. The Directors believe that, taking into account the impact of the Placing and Open Offer, the Acquisition will be earnings enhancing to the Enlarged Group in 2006. This statement should not be interpreted to mean that future earnings of the Enlarged Group will necessarily match or exceed the Group's historical published earnings.

In addition to funding the Acquisition, the Placing and Open Offer have been structured in a way that is expected to have the effect of creating distributable reserves equal to the net proceeds of the Placing and Open Offer less the par value of the New Ordinary Shares issued by Lupus. Lupus and HSBC have agreed to subscribe for ordinary shares in Newco. HSBC will then apply monies that they receive from Qualifying Shareholders applying to acquire New Ordinary Shares under the Placing and Open Offer, after deducting commissions, to subscribe for redeemable preference shares in Newco. Lupus will allot and issue the New Ordinary Shares to those persons entitled thereto in consideration of HSBC transferring its holding of redeemable preference shares in Newco and its holding of ordinary shares in Newco to Lupus. Accordingly, instead of receiving cash as consideration for the issue of the New Ordinary Shares, at the conclusion of the Placing and Open Offer, Lupus will own the entire issued share capital of Newco whose only asset will be its cash reserves, which will represent an amount equivalent to the net proceeds of the Placing and Open Offer. Lupus will be able to utilise this amount by redeeming the redeemable preference shares it holds in Newco and, during any interim period prior to redemption, by procuring that Newco lends the amount to Lupus. The structure of the Placing and Open Offer is expected to have the effect of creating distributable reserves equal to the proceeds of the Placing and Open Offer less the par value of the New Ordinary Shares issued by Lupus. It should be possible for Lupus to declare dividends from the distributable reserves created in the future, provided that Lupus has sufficient cash resources to fund such dividends, the distributable reserves have not otherwise been reduced, and the Directors consider it appropriate to declare such dividends.

An unaudited UK GAAP pro forma net assets statement showing the financial effects of the Transaction on Lupus is set out in Part 9 of this document.

10. Trends in current trading and prospects

Schlegel

In mainland Europe the new year has started promisingly. In the UK, there was a slight slowdown in the first months of 2006 for foam orders in the vinyl sector, which is expected to continue in the second quarter.

North America opened with strong copier shipments but urethane foam and woven pile have been slightly slower to recover after Christmas and New Year.

Schlegel expects the market for door and window seals to continue to expand in 2006 and Schlegel's management believes that the business is well placed to take advantage of opportunities as they arise.

Lupus

Gall Thomson's trading in 2006 to date has been good and the business has a healthy order book. Gall Thomson expects that there will be good prospects for the offshore oil and gas market over the coming year. This is being driven by the continuing expansion in the use of sub-sea production technologies, the move into deep water areas and the exploitation of marginal fields.

KLAW has continued to extend its product range and has increased its marketing efforts to penetrate the industrial couplings market.

11. Risk Factors

Shareholders should consider fully the risk factors associated with the Transaction. Your attention is drawn to the risk factors set out in Part 2 of this document.

12. Directors, Employees and Key Personnel of the Enlarged Group

The average numbers of people employed by Lupus in the financial years ended 31 December 2003, 2004 and 2005 were 28, 32 and 32 respectively. All of these employees were employed in the UK. For a breakdown of these employees by main category of activity please see note 4 to the historical financial information for Lupus as set out in Section C of Part 8 of this document.

The average number of people employed by Schlegel for the financial year ended 31 December 2005 was 664. For a breakdown of these employees by main category of activity and geographical location, please see note 7 to the historical financial information for Schlegel as set out in Section E of Part 7 of this document.

Following completion of the Acquisition, the senior management of Schlegel, under the leadership of the current CEO, Ian Pawson, will remain with Schlegel.

The existing employment rights, including pension rights, of employees of both Lupus and Schlegel will be fully safeguarded.

Biographical details of the Directors are set out in paragraph 5 of Part 12 of this document.

13. Share Incentive Arrangements

Lupus operates Share Incentive Arrangements through an employee benefit trust, the LESOT, and an enterprise management incentive scheme, the EMI Scheme. These arrangements are designed to provide incentives for eligible participants to achieve value for Shareholders. All full time employees of Lupus (including executive Directors) are eligible to participate in the Share Incentive Arrangements.

No further awards can currently be made under the Share Incentive Arrangements until at least 30 days following the preliminary announcement of the results of Lupus for the year ending 31 December 2007.

In light of the Acquisition and its timing, the Remuneration Committee wishes to include the Schlegel management team in the Group's existing Share Incentive Arrangements. The Remuneration Committee has recommended that, conditional on the Acquisition being completed, the dates of the Third Period in the subscription agreement between Lupus and LESOT and in the option agreement between Lupus and Greg Hutchings (subject to the written consent of Greg Hutchings) be amended to the period of the three financial years ending on 31 December 2008, with the Trustees of the LESOT being permitted to subscribe for Ordinary Shares until 31 August 2009. All other aspects of the Share Incentive Arrangements will remain unchanged. In accordance with the Listing Rules, these amendments to the Share Incentive Arrangements will be subject to approval by Shareholders and it is proposed that a resolution will be put forward accordingly at the AGM of Lupus, which is expected to be held in May 2006.

Further details of the Share Incentive Arrangements and proposed changes are set out in paragraph 13 of Part 12 of this document.

14. Dividend policy

The Placing Shares and the Open Offer Shares will, following allotment and issue, rank *pari passu* in all respects with Existing Ordinary Shares and will rank in full for all dividends and other distributions declared in respect of the ordinary share capital of Lupus.

Lupus has announced its intention to pay a special interim dividend of 0.114 pence per Ordinary Share in respect of the quarter ending 31 March 2006 to Shareholders on the register on 31 March 2006. This special interim dividend will be paid to Shareholders on 21 April 2006.

Lupus has also announced its intention to pay a final dividend for the year ended 31 December 2005 of 0.278p per Ordinary Share to Shareholders on the register on 31 March 2006. This final dividend will be paid to Shareholders following the AGM of Lupus, which is expected to be held in May 2006.

Lupus expects, in the absence of unforeseen circumstances, to declare dividends (including the special interim dividend) for the financial year ending 31 December 2006 totalling 0.455 pence. This is equivalent to a dividend yield of 3.25 per cent. at the Issue Price. It is the intention of the Board to maintain a progressive dividend policy in the future.

15. Taxation

Taxation treatment of AIM shares

Shares which trade on AIM are deemed to be unlisted for certain UK tax purposes. Accordingly, following Admission, individuals who hold Ordinary Shares may become eligible to benefit from business property relief for inheritance tax purposes and/or business asset taper relief for capital gains tax purposes in circumstances where they might otherwise not be eligible. Shareholders should however note that business property relief would cease to be available if the Ordinary Shares were to revert to trading on a “recognised stock exchange” (such as the London Stock Exchange) and that the treatment of the Ordinary Shares for taper relief purposes would be affected if the Ordinary Shares or any other securities of Lupus traded on such an exchange.

Shareholders should also note that it is not possible for individuals to hold shares traded in AIM in PEPs or ISAs. It is understood that, following Admission, Shareholders with such plans or accounts will, under current HM Revenue & Customs practice, have 30 days to decide whether to transfer their Ordinary Shares into their own name, or to sell the holding and retain the proceeds within the PEP or ISA. For Shareholders who elect to transfer their Ordinary Shares into their own name, the base cost of those Ordinary Shares for the purposes of UK taxation of chargeable gains following the transfer will be equal to their market value on the date on which such transfer is made. For some Shareholders who make such a transfer, this may mean that the base cost of their Ordinary Shares will be lower than the price that they originally paid for those Ordinary Shares.

Further information regarding certain limited aspects of the taxation of Shareholders is set out in Part 11 of this document. That information and the details set out above are, however, intended only as a general guide to the position under current UK taxation law. Shareholders who are in any doubt as to their tax position, or who are subject to tax in any other jurisdiction, should consult an appropriate independent professional adviser without delay.

16. Extraordinary General Meeting

The Notice of EGM convening the Extraordinary General Meeting at 11.00 a.m. on 29 March 2006 is set out at the end of this document. At the EGM the following Resolutions, conditional in each case upon Admission, will be proposed:

Resolution 1

To approve the Acquisition pursuant to and upon the terms of a sale and purchase agreement dated 3 March 2006, entered into between the Purchasing Subsidiaries, UniPoly Holdings Limited and Schlegel Limited. This Resolution is conditional on Resolutions 2, 3, 4 and 5 being passed.

Resolution 2

To increase the authorised share capital of Lupus to £4.125 million, a percentage increase of 65 per cent.

Resolution 3

To authorise the Directors pursuant to section 80 of the Act to allot relevant securities up to an aggregate amount of 587,303,714 New Ordinary Shares so as to enable allotment of the Placing Shares, the Open Offer Shares and to allot certain other securities in the future. This Resolution is conditional on Resolutions 1, 2, 4 and 5 being passed.

Resolution 4

To disapply the pre-emption rights of Shareholders conferred by section 89 of the Act for the purposes of the Placing and Open Offer, and otherwise generally up to a maximum aggregate nominal amount of 205,422,571 New Ordinary Shares. This Resolution is conditional on Resolutions 1, 2, 3 and 5 being passed.

Resolution 5

To approve the application by Lupus for the cancellation of the listing of the Existing Ordinary Shares on the Official List and the admission of the Enlarged Share Capital to listing on AIM. This Resolution is conditional on Resolutions 1, 2, 3 and 4 being passed.

In order to be passed, Resolutions 1, 2 and 3 require a simple majority of the Shareholders of Lupus, voting in person or, on a poll, to vote in favour of the Resolution at the EGM.

In order to be passed, Resolutions 4 and 5 as special resolutions, require a majority of not less than 75 per cent. of the Shareholders of Lupus voting in person or, on a poll, by proxy in favour of the Resolution at the EGM.

The authorised share capital of Lupus is being increased to enable allotment of the New Ordinary Shares and to enable the allotment of further Ordinary Shares in the future.

Following Completion 208,732,285 Ordinary Shares will remain authorised but unissued (representing approximately 25.3 per cent. of the authorised share capital of Lupus). The Directors have no present intention to allot the remaining Ordinary Shares pursuant to the authority granted to them at the EGM but consider the remaining number of unissued Ordinary Shares to provide a desirable margin to retain flexibility in the future.

17. Action to be taken

Extraordinary General Meeting

A Form of Proxy for use at the EGM accompanies this document. Whether or not Shareholders intend to be present at the EGM they are requested to complete, sign and return the Form of Proxy in accordance with the instructions thereon to Capita Registrars at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU as soon as possible, but in any event so as to arrive by no later than 11.00 a.m. on 29 March 2006. Completion and return of the Form of Proxy does not preclude a Shareholder from attending the EGM and voting in person if they wish to do so.

If you are Qualifying non-CREST Holder you will have received a Non-CREST Application Form which gives details of your Basic Entitlement under the Open Offer (as shown by the number of the Open Offer Entitlements allocated to you). If you wish to apply for Open Offer Shares under the Open Offer, you should complete the enclosed Non-CREST Application Form in accordance with the procedure for application set out in paragraph 3 Part 6 of this document and on the Non-CREST Application Form itself.

If you are a Qualifying CREST Holder, no Non-CREST Application Form is enclosed and you will receive a credit to your appropriate stock account in CREST in respect of the Open Offer Entitlements representing your Basic Entitlement under the Open Offer. You should refer to the procedure for application set out in paragraph 3 of Part 6 of this document. If you wish to apply for Open Offer Shares in excess of your Basic Entitlement you should also complete the CREST Excess Application Form in accordance with the procedure for application set out in paragraph 3 of Part 6 of this document and on the CREST Excess Application Form itself.

The latest time for applications under the Open Offer to be received is 11.00 a.m. on 27 March 2006. The procedure for application and payment depends on whether, at the time at which application and payment is made, you have a Non-CREST Application Form in respect of your entitlement under the Open Offer or have Open Offer Entitlements credited to your stock account in CREST in respect of such entitlement.

If you are in any doubt as to the action you should take, you should immediately seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other professional adviser authorised under the Financial Services and Markets Act 2000.

18. Further information

You should read the whole of this document and not just rely on the information contained in this letter. In particular, you should consider carefully the risk factors set out in Part 2 of this document.

19. Intentions of the Directors and the LESOT in relation to the Open Offer

Greg Hutchings owns 23,750,000 Existing Ordinary Shares in Lupus, representing approximately 10.0 per cent. of Existing Ordinary Shares, and intends to apply to acquire his entire Open Offer Entitlement amounting to 7,916,666 Open Offer Shares and costing £1,108,333 at the Issue Price.

In order to increase his net shareholding in Lupus he intends to borrow the money to purchase his Open Offer Entitlement with an expectation of repaying the loan on the disposal of some Ordinary Shares at a later date.

The LESOT owns 47,539,257 Existing Ordinary Shares in Lupus and intends to apply to acquire its entire Open Offer Entitlement amounting to 15,846,419 Open Offer Shares and costing £2,218,499 at the Issue Price.

In order to increase its net shareholding in Lupus, the LESOT intends to borrow the money to purchase its Open Offer Entitlement with an expectation of repaying the loan on the disposal of some Ordinary Shares at a later date.

Denis Mulhall owns 2,800,000 Existing Ordinary Shares in Lupus and intends to apply to acquire his entire Open Offer Entitlement of 933,333 New Ordinary Shares, as well as 866,667 Firm Placing Shares. In total, under the Placing and Open Offer, he is subscribing for £252,000 at the Issue Price.

Frederic Hoad owns 325,000 Existing Ordinary Shares in Lupus and intends to apply to acquire his entire Open Offer Entitlement of 108,333 New Ordinary Shares, as well as 100,000 Firm Placing Shares. In total, under the Placing and Open Offer, he is subscribing for £29,167 at the Issue Price.

Roland Tate owns 160,348 Existing Ordinary Shares in Lupus and intends to apply to acquire his entire Open Offer Entitlement of 53,449 New Ordinary Shares, as well as 53,571 Firm Placing Shares. In total, under the Placing and Open Offer, he is subscribing for £14,983 at the Issue Price.

20. Recommendation

The Board, which has been so advised by HSBC, consider that the Transaction is in the best interests of Lupus' Shareholders as a whole. In providing this advice, HSBC has taken into account the Directors' commercial assessment of the Transaction. Accordingly, the Board recommends that you vote in favour of the Resolutions to be proposed at the EGM as the Directors intend to do in respect of their own beneficial shareholdings, amounting to 27,035,348 Ordinary Shares representing approximately 11.4 per cent. of the issued share capital of Lupus. In addition, the trustees of the LESOT have indicated that they intend to vote in favour of the Resolutions in respect of their holding of 47,539,257 Ordinary Shares representing approximately 20.0 per cent. of the issued share capital of Lupus.

Yours sincerely

Greg Hutchings
Chairman

PART 6
LETTER FROM HSBC BANK PLC RELATING TO THE OPEN OFFER

HSBC Bank plc
8 Canada Square
London E14 5HQ

6 March 2006

To: Qualifying Holders

Dear Shareholder,

Open Offer of up to 79,232,095 Open Offer Shares at 14p per Ordinary Share

1. Introduction

Pursuant to the Placing Agreement, HSBC has conditionally placed firm the Firm Placing Shares on the terms and subject to the conditions set out in the Placing Agreement. In order to give Qualifying Holders the opportunity to acquire Open Offer Shares at the Issue Price, HSBC, on behalf of Lupus, is by way of this letter, and the Application Form which accompanies this document, making the Open Offer of up to 79,232,095 Open Offer Shares, of which 54,373,895 have also been conditionally placed subject to clawback to meet demand under the Open Offer. A summary of the main terms of the Placing Agreement is set out in paragraph 11 of Part 12 of this document. The Placing and Open Offer has been underwritten by HSBC.

The number of Open Offer Shares available for acquisition by Qualifying Holders under the Open Offer has been limited to 20.9 per cent. of the New Ordinary Shares in view of the Directors' continuing desire to attract new institutional and other investors to Lupus.

In addition to funding the Acquisition, the Placing and Open Offer have been structured in a way that is expected to have the effect of creating distributable reserves equal to the net proceeds of the Placing and Open Offer less the par value of the New Ordinary Shares issued by Lupus. Lupus and HSBC have agreed to subscribe for ordinary shares in Newco. HSBC will then apply monies that they receive from Qualifying Shareholders acquiring New Ordinary Shares under the Placing and Open Offer, after deducting commissions, to subscribe for redeemable preference shares in Newco. Lupus will allot and issue the New Ordinary Shares to those persons entitled thereto in consideration of HSBC transferring its holding of redeemable preference shares in Newco and its holding of ordinary shares in Newco to Lupus. Accordingly, instead of receiving cash as consideration for the issue of the New Ordinary Shares, at the conclusion of the Placing and Open Offer, Lupus will own the entire issued share capital of Newco whose only asset will be its cash reserves, which will represent an amount equivalent to the net proceeds of the Placing and Open Offer. Lupus will be able to utilise this amount by redeeming the redeemable preference shares it holds in Newco and, during any interim period prior to redemption, by procuring that Newco lends the amount to Lupus. The structure of the Placing and Open Offer is expected to have the effect of creating distributable reserves equal to the proceeds of the Placing and Open Offer less the par value of the New Ordinary Shares issued by Lupus. It should be possible for Lupus to declare dividends from the distributable reserves created in the future, provided that Lupus has sufficient cash resources to fund such dividends, the distributable reserves have not otherwise been reduced, and the Directors consider it appropriate to declare such dividends.

2. The Open Offer

As agent for and on behalf of Lupus, HSBC hereby invites Qualifying Holders, on the terms and subject to the conditions set out in this letter and, where relevant, in the accompanying Application Form, to apply to acquire up to 79,232,095 Open Offer Shares in aggregate at 14p per share (payable in full in cash on application and free of all expenses). Each Qualifying Holder may apply to acquire any number of Open Offer Shares up to their *pro rata* entitlement which shall be calculated on the following basis:

1 Open Offer Share for every 3 Existing Ordinary Shares

registered in their name at the close of business on the Record Date and so in proportion for any greater or lesser number of Existing Ordinary Shares then held. Entitlements will be rounded down to the nearest whole number and any fractional entitlements to Open Offer Shares will be disregarded in calculating Qualifying Holders' *pro rata* entitlements and will be aggregated and made available to Qualifying Holders under the Excess Application Facility. Qualifying Holders may apply to acquire less than their Basic Entitlement should they so wish. **In addition, Qualifying Holders may also apply to acquire Excess Shares using the Excess Application Facility.**

Qualifying Holders with holdings of Existing Ordinary Shares in both certificated and uncertificated form, or with holdings under different designations, will be treated as having separate holdings for the purpose of calculating *pro rata* entitlements under the Open Offer.

The action to be taken in relation to the Open Offer depends on whether, at the time at which the application and payment is made, Qualifying Holders have a Non-CREST Application Form in respect of their entitlement under the Open Offer or have Open Offer Entitlements credited to their stock account in CREST in respect of such entitlement. Qualifying non-CREST Holders should refer to paragraphs 3.1(A) to (E) of this Part 6. Qualifying CREST Holders should refer to paragraphs 3.2(A) to (K) of this Part 6 and also to the CREST Manual for further information on the CREST procedures referred to below.

The Placing Shares have been conditionally placed by HSBC as broker to Lupus with institutional and other investors at the Issue Price but the Conditional Placing Shares are subject to recall to satisfy valid applications under the Open Offer.

Qualifying Holders should be aware that the Open Offer is not a rights issue. Qualifying CREST Holders should note that although the Open Offer Entitlements will be admitted to CREST and be enabled for settlement, applications in respect of entitlements under the Open Offer may only be made by the Qualifying Holder originally entitled or by a person entitled by virtue of a *bona fide* market claim raised by CRESTCo's claims processing unit. Qualifying non-CREST Holders should note that the Non-CREST Application Form is not a negotiable document and cannot be traded. Open Offer Shares not applied for under the Open Offer will not be tradeable or sold in the market for the benefit of Qualifying Holders who do not apply under the Open Offer. Any Open Offer Shares which are not applied for under the Open Offer will be taken up by institutional investors with whom they have been conditionally placed pursuant to the Placing.

The Placing and the Open Offer are subject to, *inter alia*, the satisfaction of the following conditions on or before 8.00 a.m. on 4 April 2006 or such later time and/or date (not, subject to the terms of the Placing Agreement as summarised in paragraph 11 of Part 12 of this document, being later than 18 April 2006) as Lupus and HSBC may agree:

- (i) the passing of Resolutions 1 to 5;
- (ii) Admission having become effective by no later than 8.00 a.m. on 4 April 2006 (or such later time and/or date, being, subject to the terms of the Placing Agreement as summarised in paragraph 11 of Part 12 of this document, not later than 8.00 a.m. on 18 April 2006 as Lupus and HSBC may agree).

Application will be made for the New Ordinary Shares (including the Open Offer Shares) to be admitted to trading on AIM. Admission is expected to occur on 4 April 2006, when dealings in the New Ordinary Shares (including the Open Offer Shares) are expected to begin.

Overseas Holders are referred to the section entitled "Overseas Holders" set out in paragraph 7 below.

The Existing Ordinary Shares are in registered form and, up until suspension, were listed on the Official List and were and are not trading on any other exchange. The Open Offer Shares will also be in registered form, will be issued credited as fully paid and will rank *pari passu* in all respects with the Existing Ordinary Shares, including the entitlement to receive dividends. The Open Offer Shares will be issued only pursuant to the Placing and Open Offer and will not otherwise be marketed or made available in whole or in part to the public.

Based on the Issue Price and after taking account of the expenses of the Placing and Open Offer, the net proceeds of the Placing and Open Offer will amount to approximately £51.7 million.

If the Placing and the Open Offer do not become unconditional, the Existing Ordinary Shares will remain listed on the Official List, no Open Offer Shares or Placing Shares will be issued, and all monies received by the Receiving Agent will be returned to applicants, without interest, as soon as practicable.

3. Procedure for Application and Payment

The action to be taken by Qualifying Holders in relation to the Open Offer depends on whether, at the relevant time, a Qualifying Holder has a Non-CREST Application Form in respect of their entitlement under the Open Offer or is a Qualifying CREST Holder.

CREST sponsored members should refer to their CREST sponsor, as only their CREST sponsor will be able to take the necessary action specified below to apply under the Open Offer in respect of the Open Offer Entitlements of such members held in CREST. CREST members who wish to apply under the Open Offer in respect of their Open Offer Entitlements in CREST should refer to the CREST Manual for further information on the CREST procedures referred to below.

Subject to the provisions of paragraph 9 of this letter entitled "Settlement and dealings", Qualifying Holders who hold their Existing Ordinary Shares in certificated form will be allotted Open Offer Shares in certificated form to the extent that their entitlement to the Open Offer Shares arises as a result of holding Existing Ordinary Shares in certificated form. Qualifying Holders who hold part of their Existing Ordinary Shares in uncertificated form will be allotted Open Offer Shares in uncertificated form to the extent that their entitlement to the Open Offer Shares arises as a result of holding Existing Ordinary Shares in uncertificated form.

If for any reason it becomes necessary to adjust the expected timetable as set out in this document, Lupus will make an appropriate announcement to a regulatory information service giving details of the revised dates.

If you do not wish to apply to acquire Open Offer Shares, you should not complete and return either Application Form. You are, however, encouraged to vote at the EGM by completing and returning the Form of Proxy.

3.1 *If you have a Non-CREST Application Form in respect of your entitlement under the Open Offer*

(A) *General*

Qualifying non-CREST Holders will have received a Non-CREST Application Form enclosed with this document. The Non-CREST Application Form shows the number of Existing Ordinary Shares registered in their name at the close of business on the Record Date. It also shows the maximum number of Open Offer Shares for which they are entitled to apply under the Open Offer, as shown by the total number of Open Offer Entitlements allocated to them. Qualifying non-CREST Holders may apply for less than their maximum entitlement should you wish to do so. Qualifying non-CREST Holders may also apply for Excess Shares under the Excess Application Facility. Qualifying non-CREST Holders may also hold such a Non-CREST Application Form by virtue of a *bona fide* market claim.

The instructions and other terms set out in the Non-CREST Application Form form part of the terms of the Open Offer.

(B) *Market claims*

Applications to acquire Open Offer Shares may only be made on the Non-CREST Application Form and may only be made by the Qualifying non-CREST Holder named in it or by a person entitled by virtue of a *bona fide* market claim in relation to a purchase of Existing Ordinary Shares through the market prior to the date upon which the Existing Ordinary Shares were marked "ex" the entitlement to participate in the Open Offer, being 6 March 2006. Non-CREST Application Forms may be split, but only to satisfy *bona fide* market claims, up to 3.00 p.m. on 23 March 2006. The Non-CREST Application Form is not a negotiable document and cannot be separately traded. A Qualifying non-CREST Holder who has sold or otherwise transferred all or part of his holding of Existing Ordinary Shares prior to 6 March 2006, being the date upon which the Existing Ordinary Shares were marked "ex" the entitlement to participate in the Open Offer, should consult his broker or other professional

adviser as soon as possible, as the invitation to acquire Open Offer Shares under the Open Offer may be a benefit which may be claimed by the transferee from his counterparty. Qualifying non-CREST Holders who have sold all or part of their registered holdings should, if the market claim is to be settled outside CREST, complete Box 10 on the Non-CREST Application Form and immediately send it to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. The Non-CREST Application Form should not, however, subject to certain exceptions, be forwarded to or transmitted in or into the United States, Australia, Canada or Japan.

If the market claim is to be settled outside CREST, the beneficiary of the claim should follow the procedures set out in the accompanying Non-CREST Application Form. If the market claim is to be settled in CREST, the beneficiary of the claim should follow the procedures set out in paragraph 3.2(F) below.

(C) *Excess Applications*

Qualifying Holders may apply to acquire Excess Shares using the Excess Application Facility, should they wish. Qualifying non-CREST Holders wishing to apply for Excess Shares may do so by completing Box 3 of the Non-CREST Application Form. The total number of Open Offer Shares will not be increased in response to such excess applications. Excess applications will therefore only be satisfied to the extent that other Qualifying Holders do not apply for their Basic Entitlements in full or where fractional entitlements have been aggregated and made available under the Excess Application Facility. Excess Shares will be allocated in response to excess applications in the absolute discretion of Lupus. To the extent that applications from Qualifying Holders exceed 79,232,095 Ordinary Shares, all applications under the Excess Application Facility shall be scaled back in such manner as Lupus shall in its absolute discretion determine. It is intended that excess applications will be satisfied *pro rata* (or as nearly as practicable) to the relevant Qualifying Holder's Basic Entitlement. Excess monies in respect of scaled down applications will be returned to the applicant (at the applicant's risk) without interest within 14 days following 4 April 2006 by way of cheque or CREST payment, as appropriate.

(D) *Application procedures*

Qualifying non-CREST Holders wishing to apply to acquire all or any of the Open Offer Shares to which they are entitled should complete the Non-CREST Application Form in accordance with the instructions printed on it. Completed Non-CREST Application Forms should be posted in the accompanying reply paid envelope or delivered by hand (during normal business hours only) to Capita Registrars, Corporate Actions, PO Box 166, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TH, with a cheque or banker's draft drawn in sterling on a bank or building society in the UK which is either a member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which has arranged for its cheques or banker's drafts to be cleared through the facilities provided for members of any of those companies. Such cheques or banker's drafts must bear the appropriate sort code in the top right-hand corner and must be for the full amount payable on application. Applications must be received by Capita Registrars (at the address detailed above) no later than 11.00 a.m. on 27 March 2006, after which time Non-CREST Application Forms will not be valid. Once submitted, applications are irrevocable. If a Non-CREST Application Form is being sent by post in the UK, Qualifying Holders are recommended to allow at least four working days for delivery. Cheques should be made payable to "Capita IRG Plc re: HSBC-Lupus Capital plc Open Offer" and crossed "A/C Payee Only". It is a condition of application that cheques will be honoured on first presentation and Lupus may in its absolute discretion elect not to treat as valid any application in respect of which a cheque is not so honoured. HSBC and Lupus may, in their sole discretion but shall not be obliged to, treat a Non-CREST Application Form as valid and binding on the person by whom or on whose behalf it is lodged, even if not completed in accordance with the relevant instructions or not accompanied by a valid power of attorney where required, or if it otherwise does not strictly comply with the terms and conditions of the Open Offer. HSBC and Lupus further

reserve the right (but shall not be obliged) to accept either Application Forms received after 11.00 a.m. on 27 March 2006 but not later than 8.00 a.m. on 4 April 2006 with the envelope bearing a legible postmark not later than 11.00 a.m. on 27 March 2006 or applications in respect of which remittances are received before 8.00 a.m. on 4 April 2006 from authorised persons (as defined in the FSMA) specifying the Open Offer Shares applied for and undertaking to lodge the Non-CREST Application Form in due course but, in any event, within two business days. Multiple applications will not be accepted.

Cheques and banker's drafts are liable to be presented for payment upon receipt. If they are presented before the conditions of the Open Offer are fulfilled, the application monies will be kept in a separate bank account until the conditions are fully met. If the conditions of the Open Offer are not fulfilled on or before 8.00 a.m. on 4 April 2006, or such later date as Lupus and HSBC may agree (being no later than 8.00 a.m. on 18 April 2006), the Open Offer will lapse and all application monies will be returned without interest by crossed cheque in favour of the first named applicant through the post **at the risk of the applicant(s)** as soon as is practicable after that date. Interest earned on monies held in the separate bank account will be retained for the benefit of HSBC.

Cheques, which must be drawn on the personal account where you have sole or joint title to the funds, should be made payable to Capital IRG Plc re: Lupus Capital Plc. Third party cheques, other than building society cheques or bankers' drafts, where the building society or bank has confirmed that you have title to the underlying funds, will not be accepted. Payments must be made by cheque or bankers' draft in pounds sterling drawn on a branch in the United Kingdom of a bank or building society which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which has arranged for its cheques to be cleared through the facilities provided for the members of any of those companies and must bear the appropriate sort code in the top right-hand corner. Cheques may be cashed immediately upon receipt. Post-dated cheques will not be accepted.

(E) *Effect of application*

All documents and remittances sent by post by or to an applicant (or as the applicant may direct) will be sent at the applicant's own risk. By completing and delivering a Non-CREST Application Form the applicant:

- (i) agrees that all applications and contracts resulting there from, under the Open Offer shall be governed by and construed in accordance with, the laws of England;
- (ii) confirms that in making the application the applicant is not relying on any information or representation other than that contained in this document, and the applicant accordingly agrees that no person responsible solely or jointly for this document or any part thereof shall have any liability for any such information or representation not so contained; and
- (iii) represents and warrants that if the applicant received some or all of their Open Offer Entitlements from a person other than Lupus, the applicant is entitled to apply under the Open Offer in relation to such Open Offer Entitlements by virtue of a *bona fide* market claim.

All enquiries in connection with the procedure for application and completion of the Non-CREST Application Form should be addressed to Capita Registrars, Corporate Actions at PO Box 166, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TH (Telephone 0870 162 3121, or if calling from overseas +44 20 8639 2157). Please note Capita Registrars cannot provide financial advice on the merits of the Open Offer or as to whether applicants should take up their entitlement.

Qualifying Holders who do not wish to apply for the Open Offer Shares under the Open Offer, should take no action and should not complete or return the Non-CREST Application Form. Qualifying Holders are, however, encouraged to vote at the Extraordinary General Meeting by completing and returning the enclosed Form of Proxy.

3.2 ***If you have Open Offer Entitlements credited to your stock account in CREST in respect of your entitlement under the Open Offer***

(A) *General*

Subject as provided in paragraph 7 of this Part 6 in relation to certain Overseas Holders, each Qualifying CREST Holder will receive a credit to his stock account in CREST of his Open Offer Entitlements equal to the maximum number of Open Offer Shares for which he is entitled to apply to acquire under the Open Offer.

The CREST stock account to be credited will be an account under the participant ID and member account ID that apply to the Existing Ordinary Shares held on the Record Date by the Qualifying CREST Holder in respect of which the Open Offer Entitlements have been allocated. If for any reason the Open Offer Entitlements cannot be admitted to CREST by, or the stock accounts for Qualifying CREST Holders cannot be credited by, 3.00 p.m. or such later time as Lupus may decide on 7 March 2006, a Non-CREST Application Form will be sent to each Qualifying CREST Holder in substitution for the Open Offer Entitlements credited to his stock account in CREST. In these circumstances the expected timetable as set out in this document will be adjusted as appropriate and the provisions of this document applicable to Qualifying non-CREST Holders with Non-CREST Application Forms will apply to Qualifying CREST Holders who receive Non-CREST Application Forms.

CREST members who wish to apply to acquire some or all of their entitlements to Open Offer Shares should refer to the CREST Manual for further information on the CREST procedures referred to below. Should you need advice with regard to these procedures, please contact Capita Registrars on telephone number 0870 162 3121, or, if calling from overseas, +44 20 8639 2157. If you are a CREST sponsored member you should consult your CREST sponsor if you wish to apply for Open Offer Shares as only your CREST sponsor will be able to take the necessary action to make this application in CREST.

(B) *Market claims*

The Open Offer Entitlements will constitute a separate security for the purposes of CREST. Although Open Offer Entitlements will be admitted to CREST and be enabled for settlement, applications in respect of Open Offer Entitlements may only be made by the Qualifying Holder originally entitled or by a person entitled by virtue of a *bona fide* market claim transaction. Transactions identified by the CREST Claims Processing Unit as “cum” the Open Offer entitlement will generate an appropriate market claim transaction and the relevant Open Offer Entitlement(s) will thereafter be transferred accordingly.

(C) *Excess Applications*

Qualifying Holders may apply to acquire Excess Shares using the Excess Application Facility, should they wish. Qualifying CREST Holders wishing to apply to acquire Excess Shares may do so by completing the CREST Excess Application Form. The total number of Open Offer Shares will not be increased in response to such excess applications. Excess applications will therefore only be satisfied to the extent that other Qualifying Holders do not apply for their Basic Entitlements in full or where fractional entitlements have been aggregated and made available under the Excess Application Facility. Excess Shares will be allocated in response to excess applications in the absolute discretion of Lupus. To the extent that applications from Qualifying Holders exceed 79,232,095 Ordinary Shares, all applications under the Excess Application Facility will be scaled back in such manner as Lupus shall in its absolute discretion determine. It is intended that excess applications will be satisfied pro rata (or as nearly as practicable) to the relevant Qualifying Holder’s Basic Entitlement. Excess monies in respect of scaled down applications will be returned to the applicant (at the applicant’s risk) without interest within 14 days following 4 April 2006 by way of cheque or CREST payment, as appropriate.

Completed CREST Excess Application Forms should be posted in the accompanying reply paid envelope or delivered by hand (during normal business hours only) to Capita Registrars, Corporate Actions at PO Box 166, The Registry, 34 Beckenham Road, Beckenham,

Kent BR3 4TH, with a cheque or banker's draft drawn in sterling on a bank or building society in the UK which is either a member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which has arranged for its cheques or banker's drafts to be cleared through the facilities provided for members of any of those companies. Such cheques or banker's drafts must bear the appropriate sort code in the top right-hand corner and must be for the full amount payable on application. Applications must be received by Capita Registrars (at the address detailed above) no later than 11.00 a.m. on 27 March 2006, after which time CREST Excess Application Forms will not be valid.

All enquiries in connection with the procedure for application and completion of the CREST Excess Application Form should be addressed to Capita Registrars, Corporate Actions at PO Box 166, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TH (Telephone 0870 162 3121, or if calling from overseas +44 20 8639 2157). Please note Capita Registrars cannot provide financial advice on the merits of the Open Offer or as to whether applicants should take up their entitlement.

(D) *USE Instructions*

CREST members who wish to apply for Open Offer Shares in respect of all or some of their Open Offer Entitlements in CREST must send (or, if they are CREST sponsored members, procure that their CREST sponsor sends) an Unmatched Stock Event ("USE") instruction to CRESTCo which, on its settlement, will have the following effect:

- (i) the crediting of a stock account of Capita Registrars under the participant ID and member account ID specified below, with a number of Open Offer Entitlements corresponding to the number of Open Offer Shares applied for; and
- (ii) the creation of a CREST payment, in accordance with the CREST payment arrangements in favour of the payment bank of Capita Registrars in respect of the amount specified in the USE instruction which must be the full amount payable on application for the number of Open Offer Shares referred to in (i) above.

(E) *Content of USE instruction*

The USE instruction must be properly authenticated in accordance with CRESTCo's specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

- (i) the number of Open Offer Shares for which application is being made (and hence the number of the Open Offer Entitlement(s) being delivered to Capita Registrars);
- (ii) the ISIN of the Open Offer Entitlement. This is GB00B0ZF5V57;
- (iii) the participant ID of the accepting CREST member;
- (iv) the member account ID of the accepting CREST member from which the Open Offer Entitlements are to be debited;
- (v) the participant ID of Capita Registrars in its capacity as a CREST receiving agent. This is 7RA33;
- (vi) the member account ID of Capita Registrars in its capacity as a CREST receiving agent. This is LUPUS;
- (vii) the amount payable by means of a CREST payment on settlement of the USE instruction. This must be the full amount payable on application for the number of Open Offer Shares referred to in (i) above;
- (viii) the intended settlement date. This must be on or before 11.00 a.m. on 27 March 2006; and
- (ix) the Corporate Action Number for the Open Offer. This will be available by viewing the relevant corporate action details in CREST,

In order for an application under the Open Offer to be valid, the USE instruction must comply with the requirements as to authentication and contents set out above and must settle on or before 11.00 a.m. on 27 March 2006.

In order to assist prompt settlement of the USE instruction, CREST members (or their sponsors, where applicable) may consider adding the following non-mandatory fields to the USE instruction: (i) a contact name and telephone number (in the free format shared note field); and (ii) a priority of at least 80.

CREST members and, in the case of CREST sponsored members, their CREST sponsors, should note that the last time at which a USE instruction may settle on 27 March 2006 in order to be valid is 11.00 a.m. on that day.

In the event that the Placing and Open Offer do not become unconditional by 8.00 a.m. on 4 April 2006 or such later time and date as Lupus and HSBC shall agree (being no later than 8.00 a.m. on 18 April 2006), the Placing and Open Offer will lapse, the Open Offer Entitlements admitted to CREST will be disabled and Capita Registrars will refund the amount paid by a Qualifying CREST Holder by way of a CREST payment, without interest, within 14 days thereafter. The interest earned on such monies will be retained for the benefit of HSBC.

(F) *Deposit of Open Offer Entitlements into, and withdrawal from, CREST*

A Qualifying non-CREST Holder's entitlement under the Open Offer as shown by the number of Open Offer Entitlements set out in his Non-CREST Application Form may be deposited into CREST (either into the account of the Qualifying Holder named in the Non-CREST Application Form or into filename of a person entitled by virtue of a *bona fide* market claim). Similarly, Open Offer Entitlements held in CREST may be withdrawn from CREST so that the entitlement under the Open Offer is reflected in a Non-CREST Application Form. Normal CREST procedures (including timings) apply in relation to any such deposit or withdrawal, subject (in the case of a deposit into CREST) as set out in the Non-CREST Application Form.

A holder of a Non-CREST Application Form who is proposing to deposit the entitlement set out in such form into CREST is recommended to ensure that the deposit procedures are implemented in sufficient time to enable the person holding or acquiring the Open Offer Entitlements following their deposit into CREST to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 27 March 2006.

In particular, having regard to normal processing times in CREST and on the part of Capita Registrars, the recommended latest time for depositing a Non-CREST Application Form with the CREST Courier and Sorting Service, where the person entitled wishes to hold the entitlement under the Open Offer set out in such Non-CREST Application Form as Open Offer Entitlements in CREST, is 3.00 p.m. on 22 March 2006, and the recommended latest time for receipt by CRESTCo of a dematerialised instruction requesting withdrawal of Open Offer Entitlements from CREST is 11.00 a.m. on 20 March 2006, in either case so as to enable the person acquiring or (as appropriate) holding the Open Offer Entitlements following the deposit or withdrawal (whether as shown in a Non-CREST Application Form or held in CREST) to take all necessary steps in connection with applying in respect of the Open Offer Entitlements prior to 11.00 a.m. on 27 March 2006.

Delivery of a Non-CREST Application Form with the CREST deposit form duly completed whether in respect of a deposit into the account of the Qualifying Holder named in the Non-CREST Application Form or into the name of another person, shall constitute a representation and warranty to Lupus and Capita Registrars by the relevant CREST member(s) that it/they is/are not in breach of the provisions of the notes under the paragraph headed "Instructions for depositing entitlements under the Open Offer into CREST" on page 2 of the Non-CREST Application Form, and a declaration to Lupus and Capita Registrars from the relevant CREST member(s) that it/they is/are not citizen(s) or resident(s) of the United States, Australia, Canada or Japan and, where such deposit is made by a beneficiary

of a market claim, a representation and warranty that the relevant CREST member(s) is/are entitled to apply under the Open Offer by virtue of a *bona fide* market claim.

(G) *Validity of application*

A USE instruction complying with the requirements as to authentication and contents set out above which settles by no later than 11.00 a.m. on 27 March 2006 will constitute a valid application under the Open Offer.

(H) *CREST procedures and timings*

CREST members and (where applicable) their CREST sponsors should note that CRESTCo does not make available special procedures, in CREST, for any particular corporate action. Normal system timings and limitations will therefore apply in relation to the input of a USE instruction and its settlement in connection with the Open Offer. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST sponsored member, to procure that his CREST sponsor takes) such action as shall be necessary to ensure that a valid application is made as stated above by 11.00 a.m. on 27 March 2006. In this connection CREST members and (where applicable) their CREST sponsors are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

(I) *Incorrect or incomplete applications*

If a USE instruction includes a CREST payment for an incorrect sum, Lupus through Capita Registrars reserves the right:

- (i) to reject the application in full and refund the payment to the CREST member in question;
- (ii) in the case that an insufficient sum is paid, to treat the application as a valid application for such lesser whole number of Open Offer Shares as would be able to be applied for with that payment at the Issue Price, refunding any unutilised sum to the CREST member in question; and
- (iii) in the case that an excess sum is paid, to treat the application as a valid application for all the Open Offer Shares referred to in the USE instruction, refunding any unutilised sum to the CREST member in question.

(J) *Effect of valid application*

A CREST member who makes or is treated as making a valid application in accordance with the above procedures will thereby:

- (i) pay the amount payable on application in accordance with the above procedures by means of a CREST payment in accordance with the CREST payment arrangements (it being acknowledged that the payment to Capita Registrars' payment bank in accordance with the CREST payment arrangements shall, to the extent of the payment, discharge in full the obligation of the CREST member to pay to Lupus the amount payable on application);
- (ii) request that the Open Offer Shares to which he will become entitled be issued to him on the terms set out in this document and subject to the memorandum and articles of association of Lupus;
- (iii) agree that all applications and contracts resulting therefrom under the Open Offer shall be governed by, and construed in accordance with, the laws of England;
- (iv) represent and warrant that he is not applying on behalf of any Shareholder, who is a citizen or resident or which is a corporation, partnership or other entity created or organised in or under any laws of the United States, Australia, Canada or Japan and he is not applying with a view to reoffering, reselling, transferring or delivering any of the Open Offer Shares which are the subject of this application to, or for the benefit of, a Shareholder who is a citizen or resident or which is a corporation, partnership or

other entity created or organised in or under any laws of the United States, Australia, Canada or Japan except where proof satisfactory to Lupus has been provided to Lupus that he is able to accept the invitation by Lupus free of any requirement which it (in its absolute discretion) regards as unduly burdensome, nor acting on behalf of any such person on a nondiscretionary basis nor (a) person(s) otherwise prevented by legal or regulatory restrictions from applying for Open Offer Shares under the Open Offer;

- (v) represent and warrant that he is not and nor is he applying as nominee or agent for, a person who is or may be liable to notify and account for tax under the Stamp Duty Reserve Tax Regulations 1986 at any of the increased rates referred to in Section 93 (depository receipts) or Section 96 (clearance services) of the Finance Act 1986;
- (vi) confirm that in making such application he is not relying on any information in relation to Lupus other than that contained in this document and agrees that no person responsible solely or jointly for this document or any part thereof or involved in the preparation thereof, shall have any liability for any such other information and further agree that having had the opportunity to read this document, he will be deemed to have had notice of all the information concerning Lupus contained therein; and
- (vii) represent and warrant that he is the Qualifying Holder originally entitled to the Open Offer Entitlements or that he has received such Open Offer Entitlements by virtue of a *bona fide* market claim.

(K) *Company's discretion as to the rejection and validity of applications*

Lupus may in its sole discretion:

- (i) treat as valid (and binding on the CREST member concerned) an application which does not comply in all respects with the requirements as to validity set out or referred to in this Part 6;
- (ii) accept an alternative properly authenticated dematerialised instruction from a CREST member or (where applicable) a CREST sponsor as constituting a valid application in substitution for or in addition to a USE instruction and subject to such further terms and conditions as Lupus may determine;
- (iii) treat a properly authenticated dematerialised instruction (in this sub-paragraph the "first instruction") as not constituting a valid application if, at the time at which Capita Registrars receives a properly authenticated dematerialised instruction giving details of the first instruction or thereafter, either Lupus or Capita Registrars have received actual notice from CRESTCo of any of the matters specified in Regulation 35(5)(a) of the CREST Regulations in relation to the first instruction. These matters include notice that any information contained in the first instruction was incorrect or notice of lack of authority to send the first instruction; and
- (iv) accept an alternative instruction or notification from a CREST member or CREST sponsored member or (where applicable) a CREST sponsor, or extend the time for settlement of a USE instruction or any alternative instruction or notification, in the event that, for reasons or due to circumstances outside the control of any CREST member or CREST sponsored member or (where applicable) CREST sponsor, the CREST member or CREST sponsored member is unable validly to apply for Open Offer Shares by means of the above procedures. In normal circumstances, this discretion is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or any part of CREST) or on the part of the facilities and/or systems operated by Capita Registrars in connection with CREST.

4. Money laundering regulations

4.1 Holders of Application Forms

If the value of the Open Offer Shares applied for by a Qualifying Holder is £10,000 or more (or is one of a series of linked applications, the aggregate value of which exceeds that amount), the

Money Laundering Regulations 2003 will apply. Lupus, HSBC or Capita Registrars on their behalf, may in their absolute discretion require verification of identity from persons lodging the Application Forms and making payment by way of cheque or banker's draft drawn on an account in the name of a person or persons other than the applicant, to ensure compliance with all applicable money laundering regulations. For UK applicants, verification of identity may be sought from your bankers or from another reputable institution or professional adviser. Failure to provide the necessary evidence of identity may result in applications being treated as invalid or in delaying acceptance of an application. If by 11.00 a.m. on 27 March 2006, Lupus or Capita Registrars have not received evidence satisfactory to them, Lupus may, in its absolute discretion, reject the application, in which event application monies will be returned without interest and at the applicant's risk to the account of the drawee bank from which such monies were originally debited.

Cheques, which must be drawn on the personal account where you have sole or joint title to the funds, should be made payable to "Capita IRG Plc re: HSBC-Lupus Capital plc Open Offer". Third party cheques, other than building society cheques or bankers' drafts, where the building society or bank has confirmed that you have title to the underlying funds, will not be accepted. Payments must be made by cheque or bankers' draft in pounds sterling drawn on a branch in the United Kingdom of a bank or building society which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which has arranged for its cheques to be cleared through the facilities provided for the members of any of those companies and must bear the appropriate sort code in the top right-hand corner. Cheques may be cashed immediately upon receipt. Post-dated cheques will not be accepted.

If applicants are making an application as agent for one or more persons and are not a UK or EC regulated person or institution, then, irrespective of the value of the application, Capita Registrars is obliged to take reasonable measures to establish the identity of the person or persons on whose behalf the application is being made.

By lodging an Application Form, each Qualifying Holder undertakes to provide such evidence of its identity at the time of lodging the Application Form or, at the absolute discretion of Lupus and HSBC, at such specified time thereafter as may be requested to ensure compliance with the Money Laundering Regulations 2003.

Capita Registrars is entitled, in its absolute discretion, to determine whether verification of identity requirements apply to any applicant and whether such requirements have been satisfied. Neither Capita Registrars nor Lupus nor HSBC shall be responsible or liable to any person for any loss or damage suffered as a result of the exercise of their discretion hereunder.

4.2 *Open Offer Entitlements in CREST*

If you hold your Open Offer Entitlements in CREST and apply for Open Offer Shares in respect of all or some of your Open Offer Entitlements as agent for one or more persons and you are not a UK or EU regulated person or institution (e.g. a UK financial institution), then, irrespective of the value of the application, Capita Registrars is obliged to take reasonable measures to establish the identity of the person or persons on whose behalf you are making the application. You must therefore contact Capita Registrars before sending any USE or other instruction so that appropriate measures may be taken.

Submission of a USE instruction which on its settlement constitutes a valid application as described above constitutes a warranty and undertaking by the applicant to provide promptly to Capita Registrars such information as may be specified by Capita Registrars as being required for the purposes of the Money Laundering Regulations 2003. Pending the provision of evidence satisfactory to Capita Registrars as to identity, Capita Registrars may in its absolute discretion take, or omit to take, such action as it may determine to prevent or delay issue of the Open Offer Shares concerned. If satisfactory evidence of identity has not been provided within a reasonable time, then the application for the Open Offer Shares represented by the USE instruction will not be valid. This is without prejudice to the right of Lupus to take proceedings to recover any loss suffered by it as a result of failure to provide satisfactory evidence.

If you have any doubt as to the procedure for acceptance and payment, you should contact Capita Registrars on telephone number 0870 162 3121. This helpline will not provide any investment advice concerning the merits of the Open Offer or whether or not you should make an application under the Open Offer. If you are in any doubt as to whether or not you should apply for any Open Offer Shares you should consult your independent financial adviser immediately.

5. No public offering outside the United Kingdom

Neither Lupus nor HSBC has taken or will take any action in any jurisdiction that would permit a public offering of New Ordinary Shares in any jurisdiction where action for the purpose is required, other than in the United Kingdom.

6. Withdrawal Rights

Persons wishing to exercise statutory withdrawal rights after the issue by Lupus of a prospectus supplementing the Prospectus must do so by lodging a written notice of withdrawal (which shall not include a notice sent by facsimile or any other form of electronic communication) which must include the full name and address of the person wishing to exercise statutory withdrawal rights and, if such person is a CREST member, the participant ID and the member account ID of such CREST member, with Capita Registrars IRG Plc, Corporate Actions at The Registry, PO Box 166, 34 Beckenham Road, Beckenham, Kent BR3 4TH so as to be received no later than two Business Days after the date on which the supplementary prospectus is published. Notice of withdrawal given by any other means or which is deposited with Capita Registrars after expiry of such period will not constitute a valid withdrawal, provided that Lupus will not permit the exercise of withdrawal rights after payment by the relevant Shareholder for the Open Offer Shares applied for in full and the allotment of New Ordinary Shares to such Shareholder becoming unconditional. In such event, Shareholders are advised to seek independent legal advice.

7. Overseas Holders

7.1 General

The making of the Open Offer to Qualifying Holders who are resident in, or citizens of, or which are corporations, partnerships or other entities created or organised under the laws of, countries other than the United Kingdom may be affected by the laws or regulatory requirements of the relevant jurisdictions. Such Overseas Holders should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to accept the Open Offer and/or apply for Open Offer Shares.

As a result of restrictions applicable to any holder of Existing Ordinary Shares with registered or mailing addresses in the United States, Canada, Australia or Japan, their territories or possessions, Application Forms are not being sent to any such holders of Existing Ordinary Shares.

No person receiving a copy of this document and/or an Application Form and/or a credit of Open Offer Entitlements to a stock account in CREST in any territory other than the United Kingdom, may treat the same as constituting an invitation or offer to him to subscribe, nor should he in any event use such Application Form or credit of Open Offer Entitlements to a stock account in CREST, unless, in the relevant territory, such an invitation or offer could lawfully be made to him or the Application Forms or credit of Open Offer Entitlements to a stock account in CREST could lawfully be used without contravention of any registration or regulation or other legal requirements. No Open Offer Entitlements may be credited to the stock account in CREST of certain Overseas Holders unless they can prove to the satisfaction of Lupus that such action would not result in contravention of any applicable legal requirements. Receipt of this document and/or an Application Form or the crediting of Open Offer Entitlements to a stock account in CREST will not constitute an offer in those territories in which it would be unlawful to make such an offer and, in such circumstances, this document and/or the Application Form will be treated as confidential, sent for information purposes only and for the purpose of giving notice of the EGM and should not be copied or distributed.

It is the responsibility of any Overseas Holder receiving a copy of this document and/or either of the Application Forms and/or receiving a credit of Open Offer Entitlements to a stock account in CREST and wishing to take up the Open Offer to satisfy himself as to the full observance of the laws and regulatory requirements of the relevant territory in connection therewith, including

obtaining all governmental or other consents which may be required, observing all other requisite formalities that need to be observed in such territory, and paying all issue, transfer or other taxes payable in such territory. If you are in any doubt as to your position you should consult your independent professional advisers.

Persons (including, without limitation, nominees and trustees) receiving Application Forms and/or receiving a credit of Open Offer Entitlements to a stock account in CREST should not, in connection with the Open Offer, distribute or send the Application Form or transfer the Open Offer Entitlements into any jurisdiction where to do so would or might contravene local securities laws or regulations. If Application Forms and/or credit of Open Offer Entitlements to a stock account in CREST is received by a person in any such jurisdiction or by the agent or nominee of such a person, he must not seek to apply for Open Offer Shares except pursuant to an express agreement with Lupus. Any person who does forward Application Forms or transfer the Open Offer Entitlements into any such jurisdiction, whether pursuant to a contractual or legal obligation or otherwise, should draw the attention of the recipient to the contents of this paragraph 7.

Lupus and HSBC reserve the right (but shall not be obliged) to reject a purported application for Open Offer Shares under the Open Offer in a particular case if they believe doing so may violate applicable legal or regulatory requirements. The provisions of this paragraph 7 and/or any other terms of the Open Offer relating to Overseas Holders may be waived, varied or modified as regards (a) specific holders of Existing Ordinary Shares or (b) on a general basis by Lupus and HSBC in their absolute discretion (and on such terms and conditions as they may think fit). All payments under the Open Offer must be made in pounds sterling.

7.2 *United States*

For the purposes of this document a “US person” means a citizen or resident of the United States, a corporation, partnership or other entity created or organised in or under the laws of the United States and an estate or trust the income of which is subject to United States federal income taxation regardless of its source; provided, however, that the term “US person” does not include a branch or agency of a US bank or insurance company that is operating outside the United States for valid business reasons as a locally regulated branch or agency engaged in the banking or insurance business and not solely for the purpose of investing in securities not registered under the United States Securities Act of 1933 as amended (“the US Securities Act”).

The Open Offer Shares and the Application Forms have not been, and will not be, registered under the US Securities Act or under the securities laws of any jurisdiction or state of the United States. Accordingly, except in a transaction which is exempt under the legislation, the Open Offer Shares and the Application Forms and/or Open Offer Entitlements may not be directly or indirectly offered, sold, renounced, transferred, taken up or delivered, directly or indirectly, in or into the United States or to or for the benefit of US persons (as defined under Regulation S of the US Securities Act). This document shall not constitute an offer to sell or the solicitation of an offer to buy any of the Open Offer Shares in the United States.

Envelopes containing either Application Form should not be postmarked in the United States or otherwise despatched from the United States. Persons will be deemed to have made an invalid application if they submit an Application Form in an envelope postmarked in the United States or have provided an address in the United States for registration, or do not make the representation and warranty set out in the Application Form to the effect that such person is not in the United States, is not a US person and is not acting for the account or benefit of a US person. The Open Offer is not therefore being made in the United States or to or for the account or benefit of a US person and holders of Existing Ordinary Shares at the Record Date with registered addresses in the United States will not be Qualifying Holders and Application Forms will not be sent to such persons.

7.3 *Canada*

No exemptions in connection with the Open Offer have been or will be obtained from any securities commission or similar regulatory authority in Canada. Accordingly, the Open Offer Shares are not being offered, nor may they be offered or sold, directly or indirectly, in Canada, its territories and possessions and any areas subject to its jurisdiction (“Canada”) or to persons resident in Canada.

No prospectus in relation to the Open Offer Shares will be filed with and no relief from applicable securities law requirements will be obtained from the applicable regulatory authority of any province or territory of Canada.

Holders of Existing Ordinary Shares with registered addresses in Canada will not be Qualifying Holders and no Application Forms will be sent to such persons, nor will Open Offer Entitlements be credited to the stock accounts of such persons.

Persons (including without limitation, nominees and trustees) receiving an Application Form and/or Open Offer Entitlements should not distribute, send or transfer it or them to persons resident in Canada. Lupus reserves the right to reject an Application Form from persons whom it believes are residents of Canada or persons who are acquiring Open Offer Shares for resale into Canada.

7.4 *Australia*

No Application Form, advertisement or other offering material in relation to the Open Offer or the Open Offer Shares has been or will be distributed, directly or indirectly, in or into the Commonwealth of Australia, its states, territories or possessions (“Australia”), nor will Open Offer Entitlements be credited to the stock accounts of such persons. No prospectus in relation to the Open Offer Shares has been or will be lodged with or registered by the Australian Securities and Investments Commission. The Open Offer is not being made in Australia. The Open Offer Shares will not be available for subscription or purchase by any resident of Australia (including corporations and other entities organised under the laws of Australia, but not including a permanent establishment of any such corporation or entity located outside Australia).

Holders of Existing Ordinary Shares with registered addresses in Australia will not be Qualifying Holders and no Application Forms will be sent to, nor will Open Offer Entitlements be credited to the stock accounts of, such persons.

7.5 *Japan*

The relevant clearances have not been, and will not be, obtained from the Ministry of Finance of Japan and no circular in relation to the New Ordinary Shares has been or will be lodged with or registered by the Ministry of Finance of Japan. The New Ordinary Shares may not therefore, subject to certain exceptions, be offered or sold, directly or indirectly, in or into Japan. Accordingly, Non-CREST Application Forms are not being sent to, and no Open Offer Entitlements will be credited to a stock account in CREST of, any Shareholder with a registered address in Japan.

8. *Taxation*

General information relating to UK taxation with regard to Admission and the Placing and Open Offer is summarised in Part 11 of this document. A Shareholder who is in any doubt as to his or her tax position, or is subject to tax in a jurisdiction other than in the UK, should consult a professional tax adviser.

9. *Settlement and dealings*

The result of the Open Offer is expected to be announced on 4 April March 2006. Application has been made to the London Stock Exchange for the Enlarged Share Capital (including the Open Offer Shares) to be admitted to AIM. Subject to the Placing and Open Offer becoming unconditional in all respects (save only as to Admission), it is expected that Admission will become effective and that dealings in the Open Offer Shares will commence on 4 April 2006. The earliest date for settlement of such dealings will be 4 April 2006. Lupus’ Existing Ordinary Shares are already admitted to CREST. Accordingly, no further application for admission to CREST is required for the New Ordinary Shares, all of which, when issued and fully paid, may be held and transferred by means of CREST.

Application has been made for the Open Offer Entitlements to be admitted to CREST. The conditions to such admission having already been met, the Open Offer Entitlements are expected to be admitted to CREST with effect from 7 March 2006. Open Offer Entitlements held in CREST are expected to be disabled in all respects after 11.00 a.m. on 27 March 2006 (the latest date for applications under the Open Offer). If the conditions to the Open Offer described above are satisfied, Open Offer Shares will be issued in uncertificated form to those persons who submitted a valid application for Open Offer Shares by utilising the CREST application procedures and whose applications have been accepted by Lupus on the day on

which such conditions are satisfied (expected to be 4 April 2006). On this day, Capita Registrars will instruct CRESTCo to credit the appropriate stock accounts of such persons with such persons' entitlements to Open Offer Shares with effect from Admission (expected to be 4 April 2006). The stock accounts to be credited will be accounts under the same participant IDs and member account IDs in respect of which the USE instruction was given.

Subject to the conditions of the Open Offer being satisfied or waived, all Open Offer Shares to be issued in uncertificated form are expected to be credited to the appropriate CREST stock account by 4 April 2006. Notwithstanding any other provision of this document, Lupus reserves the right to send Qualifying CREST Holders a Non-CREST Application Form instead of crediting the relevant stock account with Open Offer Entitlements, and/or to issue any Open Offer Shares in certificated form. In normal circumstances this right is only likely to be exercised in the event of any interruption, failure or breakdown of CREST for any part of CREST), or on the part of the facilities and/or systems operated by Capita Registrars in connection with CREST, This right may also be exercised if the correct details (such as participant ID and member account ID details) are not provided as requested on the Non-CREST Application Form.

For Qualifying non-CREST Holders who have applied by using a Non-CREST Application Form, share certificates for the Open Offer Shares validly applied for are expected to be despatched by post during the week commencing 10 April 2006. No temporary documents of title will be issued. Pending despatch of definitive share certificates, transfers of the Open Offer Shares by Qualifying non-CREST Holders will be certified against the register. All documents or remittances sent by or to an applicant (or his agent as appropriate) will (in the latter case) be sent through the post and will (in both cases) be at the risk of the applicant. Qualifying Holders whose Ordinary Shares are held in CREST should note that they will be sent no confirmation of the credit of the Open Offer Shares to their CREST stock account nor any other written communication by Lupus in respect of the issue of the Open Offer Shares.

10. Further information

Your attention is drawn to Part 2, Part 5 and Parts 7 to 12 of this document containing information relating to the Placing and Open Offer and the Enlarged Group.

Yours faithfully

Nick Donald

For and on behalf of

HSBC Bank plc

PART 7
INFORMATION ON SCHLEGEL

A. HISTORY AND DEVELOPMENT OF SCHLEGEL

1. History

Schlegel was founded in the 1880s as a privately held company to manufacture woven “surrey fringe” for horse-drawn buggies. When the automobile replaced the buggy early in the 20th century, Schlegel switched to the manufacture of decorative interior trim. During World War II, Schlegel used the narrow fabric weaving technology developed in making automotive products to manufacture parachute harnesses and web belting. In the immediate post-War years, when aluminium windows made their appearance in the North American market, this capability provided the basis for the sliding seal business.

Expansion continued in the 1960s with acquisitions in Britain, Germany, and Australia. A new textile manufacturing plant was built in Belgium to serve the European building products market. Further expansion occurred during the 1970s as new factories were established to serve the European markets.

During this period, Schlegel’s technical capabilities expanded in response to the needs of the largest North American window manufacturers when Schlegel developed the capability to mould the complex urethane foam shapes required for compression seals continuously.

As the dry toner copier industry evolved, it required an effective way to remove toner from the selenium-coated surface of transfer drums. Schlegel developed the woven Teflon fabric brush that provided the basis for Schlegel’s current line of copier products. Through time, Schlegel’s product line grew to include specialty cleaning fabrics and static eliminators.

Schlegel was acquired by BTR plc (“BTR”) in 1989 and the automotive business was transferred into BTR’s automotive division, which was later sold to CVC and now trades as Metzeler Automotive Profile Systems (“Metzeler”). Schlegel has no business relationship with Metzeler, which still retains some rights to the use of the Schlegel brand name in Canada for sales of products. In a reciprocal arrangement Schlegel is precluded from using its own brand name in Canada. As a result of this transaction, Schlegel relocated its sliding seal plant from Oklahoma to Texas.

Schlegel was acquired from BTR as part of the UniPoly management buy-out in 1997 and is presently wholly owned by UniPoly. With effect from 31 December 2004 UniPoly separated Schlegel EMI from the business of Schlegel and established Schlegel EMI as a separate division of UniPoly. Lupus is not acquiring Schlegel EMI from UniPoly.

2. Schlegel’s International Presence

Schlegel is headquartered at Henlow in the United Kingdom with a corporate office in Rochester (New York State). Schlegel has manufacturing plants in Henlow, Rochester, Graham (Texas), Germany, Spain, Belgium, and Australia.

Schlegel has distribution and sales offices in Singapore, Brazil, New Zealand and Italy. Schlegel also employs sales people in Poland, Russia, France and Canada.

3. Products

Schlegel’s core business is the manufacture of weatherseal products to eliminate the flow of air and water around windows or doors. To achieve this successfully, both compression seals and sliding seals must satisfy key criteria:

- Conform to irregularities between the mating surfaces of the window or door and the frame
- Seal effectively under wind loads
- Perform at prevailing temperatures
- Continue to seal after multiple cycles

3.1 *Compression Seals*

A compression seal is a sealing device used typically in hinged door and window applications, such that upon closure of the aperture, the seal is compressed or squeezed by the closing action.

Schlegel compression seals are manufactured by one of two methods. High performance urethane seal (QLon® and Aquamac™) is produced by a proprietary continuous moulding process. This process enables the formation of complex geometric shapes with varying foam hardness. The resulting product provides the advantage that the seal retention and door or window closing force characteristics are engineered into the seal profile whilst providing excellent compression set properties. Less sophisticated seal products are produced by an extrusion process, typically of polypropylene and PVC, which exhibit limited compression set properties thus limiting the effective seal life.

3.2 *Sliding Seals*

Schlegel first developed woven pile (sliding) weatherseal products just after World War II as the first sliding aluminium windows were being introduced into the market. In addition to meeting the four criteria listed above, sliding seals have to allow the window to operate easily so that both the frame and sash stay in close proximity when the window is opened or closed.

The earliest woven pile sliding seals were simply brush-type products using a wool yarn that was inserted into a groove in the window extrusion. Over time, polypropylene yarn was substituted for wool and polypropylene also replaced resin as the backing material. These changes improved the life of the seal and made it easier to install in the window.

A further innovation came with the addition of a plastic fin down the centre of the seal. Finned sliding seals resulted in a substantial improvement in air and water performance and could be adopted by the manufacturer with no change in window design. Additional derivatives of both types of pile have been designed to meet specific customer applications. These include adding additional fins and adjusting the shape of the backing.

3.3 *Copier Products*

The narrow fabric weaving capability used in the sliding seal business also provided the basis for Schlegel's diversification into the copier products business. In the xerographic process, dry toner particles are attracted to the electrically charged surface of the selenium-coated image transfer drum. As paper passes under the drum, some of the toner is fused to the paper by heat, thus making a copy of the original. The excess toner must then be removed from the drum before the next copy can be made. The cleaning process employed tended to remove the selenium coating from the drum and shortened its useful life. The Schlegel product used by printer and copier manufacturers comprises woven conductive yarn formed onto a cylindrical brush.

Schlegel has also used its technology to provide solutions to other technical problems facing the manufacturers of copiers and printers developing static dissipaters and more recently an optical sensor-cleaning device and inkjet over spray shield for computer printers using Schlegel's pile technology.

3.4 *Hardware Products*

In certain markets, particularly the UK and Australia, Schlegel sells hardware as a complementary product to its core seals business, including window and door locking mechanisms and associated fittings which are often sold to the same customers. In the UK, sliding patio door hardware includes door roller sets, handles and multi point high security locks. In Australasia friction stays (hinge mechanisms) for casement windows form part of Schlegel's product range. Increasingly, hardware is sourced in the Far East from specialist producers, typically to a Schlegel design.

3.5 *Automotive Products and Specialty Textiles*

These product lines include knitted plastic skirting fitted to heavy trucks and trailers and used to suppress road spray; extruded seals for automobile sunroofs; automotive suspension bushings; and specialty seals for aircraft applications.

4. Business And Growth Strategies

Schlegel's primary objectives are to increase market share and profitability, by growing the business through technological innovations; expanding into new geographic markets; entering new product segments; seeking new applications for existing products in new markets; and winning additional business from new and existing customers.

Schlegel's strategy is focused on leveraging its core technology and preserving customer focus in the face of product-focused competition and maintaining leadership in its core markets by executing clear strategies. One such strategy is the differentiation of Schlegel's products through superior product performance and customer service. Schlegel has also increased the efficiency of its manufacturing processes. Schlegel's management believes that there may also be opportunities to make a number of small bolt-on acquisitions, which would put sales and volume through Schlegel's existing manufacturing systems.

4.1 *Technological Innovation*

Schlegel consistently develops both innovative products and applications for its products to meet evolving customer demands. Some examples of technical innovation by Schlegel include:

(i) *Welded Foam Window Seals*

In Europe, sales growth in foam window seals has been driven by an innovative development inserting the gasket as the vinyl window section is extruded, and subsequently welding the gasket concurrently with the window section, eliminating the labour intensive gasket insertion process after window assembly. Three European window makers have adopted this process.

(ii) *Pre Masked Seals for Wooden Doors and Windows*

To meet the demands to paint, varnish and finish wooden door and frame assemblies, Schlegel developed premasked versions of the QLon® and Aquamac™ seals for the French wood frame market. The same technology is applied to European extruded seals by co-extruding a peelable plastic mask with the seal. Recently the QLon® premasked range was engineered to meet the North American entrance door market specifications.

(iii) *North American Casement Window Seals*

A leading North American window maker, in a joint seal development programme with Schlegel, specified QLon® exclusively for the new window range launched in February 2005, marking a breakthrough into the North American casement window market.

(iv) *Inkjet Printer Components*

Schlegel was approached by a leader in the computer printer market to develop an optical sensor cleaning device and inkjet over spray shield for their newly launched high volume retail printer platforms. Utilising Schlegel yarn and filament technology, Schlegel completed the development and following the launch of the first two new platforms, Schlegel has been specified for the second-generation 2005/06 platforms as well. Typically each computer printer will contain between two and three Schlegel parts.

4.2 *Growth through Differentiation*

Schlegel aims to win market share by demonstrating superiority in both product performance and customer service levels. Many Schlegel foam seal products are guaranteed for life, which differentiates Schlegel from most of its competitors. Schlegel's management has also focused on differentiating the product through excellence in customer service, targeting an on-time delivery rate above 93 per cent. throughout its operations.

4.3 *Geographic Growth*

Schlegel assesses market trends in order to identify opportunities to enter new geographic markets. Schlegel has recently focused on supplying seals for doors and windows to be sold in less mature markets, where there has been recent economic growth. These markets include Eastern Europe and South and Central America.

In Italy, where high-end internal doors utilise seals for sound and light insulation, management believes that Schlegel is currently the only manufacturer that offers an effective sealing solution. Of particular note is Schlegel seals' performance in extremely cold climates with strong sales growth in 2005 in Eastern Europe and Scandinavia.

4.4 *Expand into New Segments*

Schlegel has used its weaving technology, required in the manufacture of sliding seals, to enter and subsequently become one of the leading suppliers of cleaning brushes to the North American and European copier manufacturers. The manufacturers' initial approach was to use expensive active static dissipation devices. Schlegel sponsored a scientific study of the problem and reached the conclusion that adequate static dissipation could be achieved with brushes using conductive filaments.

Schlegel will continue to seek out opportunities to utilise core competencies and technology to win market share in new segments.

5. Operations And Facilities

Schlegel's manufacturing activities are located across a number of countries to maximise efficiencies through regional plants. Schlegel's management benchmark performance metrics across manufacturing sites and encourages sharing of methodologies and experiences across identical technologies. Schlegel seeks to improve manufacturing capabilities so as to expand production capacity. In addition, Schlegel has utilised economies of scale to secure purchasing benefits in raw materials, commodities, and consumables.

Schlegel currently operates in 10 countries through seven manufacturing plants. These regional plants have been established in countries and territories where Schlegel's products match market needs and regulation. Local plant managers, supported by local finance teams, lead each of the regional plants.

Schlegel's key plants in the United Kingdom, North America, Germany and Belgium, are ISO 9000 certified.

6. Sales And Marketing

Schlegel sales structure is local, underpinned with both product and market champions spanning territories and continents, leveraging their skill and industry knowledge to win business across national boundaries. The senior regional management teams have an average tenure of over 19 years in the sealing systems industry. This experience is complemented by the sales directors for North America and Europe/Rest of the World who are relatively new to the industry bringing a new focus to the sales team.

Schlegel's management believes having local sales people close to the customer differentiates Schlegel from its competition. Customer service teams are local to each territory, looking after existing customers and ensuring adherence to the customers' delivery needs. All levels of management, including senior management and local operations managers, are involved in sales and marketing in support of the local sales team.

7. Competitive Environment

Most competitors in the weatherseal industry focus on either compression seals or sliding seals, but not both. Schlegel has the advantage of operating in both markets internationally.

7.1 *Compression Seals*

Schlegel is a leading producer of compression seals for the window and door market. In North America Schlegel holds a leading position in the foam compression door seal market and has three main competitors (Loxcreen; Schlegel Canada; and Holm Industries). Until recently, Schlegel has had little presence in the North American window seal market which is dominated by a number of companies supplying plastic window seals. In early 2005, Schlegel secured a substantial amount of business from a leading North American window manufacturer and Schlegel expects to develop its presence in this market further over the next two years.

In the European market, because of the local nature of both the regulatory environment and the types of doors and windows, competition is generally different in each country. Specifically, in

addition to Schlegel, there are a number of local companies capable of supplying door and window manufacturers with extrusions, and a number of manufacturers of PVC extruded windows who co-extrude the seal themselves. Schlegel has a strong position in both the door and the window markets, being a leading supplier of urethane foam seals in Europe and also offering a range of plastic extrusions.

7.2 *Sliding Seals*

Schlegel is a leading producer of seals for the sliding window and sliding seal market. In North America, Schlegel faces competition from Ultrafab, and other smaller competitors.

In Europe, Schlegel is a leading supplier in the sliding window and door market, with total sales originating in Europe for the year ended 31 December 2005 of £33.703 million, along with a small number of Europe-wide competitors.

8. **Customers**

Schlegel currently has over 5,000 active customers spanning more than 67 countries. The largest customer represents 3.3 per cent. of revenues and the top 43 customers account for 40 per cent. of Schlegel's revenues. The customer retention rate exceeded 98 per cent. in 2005 for customer accounts representing more than 0.1 per cent. of revenue. The management of Schlegel believes the reason for this retention rate is the high focus placed on timely delivery and the differentiated performance of many of Schlegel's products.

Over certain seal products, Schlegel offers a lifetime guarantee. In the last five years Schlegel has received no material claims against this lifetime guarantee.

Schlegel typically supplies the largest and, management believes, the most innovative and influential window and door makers in the territories in which Schlegel operates. Schlegel's key customers encompass some of the world's leading window and door companies: including JELD-WEN, Thermatru, Masonite, Royal, Andersen, Marvin, Silverline, Endura and Pella in North America; Veka in Germany; JELD-WEN, Masco-Duraflex, Gti, Plasmco, Anglian and Veka in the U.K.; LaPeyre and Groupe Bruno Petit in France; Deceunink in Belgium; Deha2000, Soal6 and Technal in Spain; VBH in Russia; and 3Elle and Effebequattro in Italy. Within other sectors, customers include Xerox, HP, Webasto, Oce, UPS and Trelleborg.

9. **Suppliers**

The primary materials used in the manufacturing of seals are polyol and polypropylene, which can be sourced from a number of suppliers. In order to achieve greater leverage with suppliers, material procurement is internationally negotiated by a purchasing team managed by an experienced procurement professional at the corporate level. If the need for raw materials cannot be met by current suppliers, the management of Schlegel believes that it has the ability to purchase these materials from various other suppliers with minimal business interruption.

A significant proportion of the raw materials purchased by Schlegel are oil derivatives and, as a result, Schlegel suffered significant raw material cost inflation during the second half of 2004 and 2005. The impact of these price increases has led to an evaluation of purchasing strategy and hedging policy by Schlegel's management.

Additionally, during the period of high prices, Schlegel developed recycling programs that will have an ongoing benefit in reducing waste and reducing the quantity of raw materials required. Where appropriate, Schlegel makes use of recycling opportunities particularly with regard to the polypropylene used in pile manufacture.

10. **Regulatory Environment**

Schlegel utilises certain hazardous chemicals in its manufacturing processes and complies with applicable environmental laws in the operation, improvement and expansion of Schlegel's facilities. The plants are subject to both third party ad hoc checks and regular governmental audits. Schlegel employees regularly submit to health audits for exposure to hazardous substances in accordance with local country legislation.

11. Former Schlegel Businesses

11.1 *Schlegel EMI*

In the 1980s, Schlegel developed clad urethane foam profiles using conductive fabrics to protect sensitive electronic devices such as computers and telecommunications equipment from electromagnetic interference. Recently, the business has been run as a completely separate division of Schlegel with its own management team and facilities. Schlegel EMI has operated as a separate division since 1 January 2005. Schlegel EMI will continue to carry the Schlegel® brand name for use with electronic materials only. There are supply, service and legal agreements between Schlegel and Schlegel EMI.

11.2 *Schlegel Japan*

UniPoly closed Schlegel Japan in March 2005. In addition to building products, this business was also involved in the automotive industry and Schlegel EMI. Following an evaluation, it was decided that because of the cost of operating in Japan, greater profit could be made through the use of a major distributor and the disposal of non-core businesses. Schlegel products are now sold into Japan via a distributor.

12. Industry Overview

Over the past 25 years, demand for improved energy efficiencies and reduced maintenance requirements and manufacturing costs have driven a general shift in the types of material from which windows and doors are constructed. Figures published in the Freedonia Report indicate that vinyl is becoming the predominant window framing material, replacing aluminium and wood, while in the entry door market, composite materials are challenging wood and steel. Moreover, the energy performance of entry doors and windows is regulated in North America and many European markets. Due to differences in regulation from country to country, entry door and seal combinations need to be adapted to meet regional specifications.

Where information in this industry overview has been sourced from a third party, it has been accurately reproduced and, so far as Lupus is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The third party information in this industry overview has been principally sourced from the Freedonia Report and the Ducker Research.

12.1 *Window And Door Market Overview*

(A) *North America*

Between 2006 and 2009 the market demand for residential windows in North America is forecast by the Freedonia Report to grow to 68.9 million units per annum.

(B) *Europe*

The Freedonia Report has forecast that European window and door demand will grow three per cent. per annum between 2006 and 2009, and that total sales in 2009 will be \$32.5 billion.

12.2 *Weatherseal Market Overview*

Weatherseal products are an integral part of exterior window and door systems, protecting the dwelling against the outside environment (water, wind, heat and cold) yet allowing the window or door to operate easily.

Weatherseals fall into the following two broad categories, depending on the type of door or window being sealed:

- compression seals (foam and extruded plastic); and
- sliding seals (woven pile).

Compression seals are used to seal hinged windows and doors which are predominantly found in colder climates where energy conservation through insulation and draft proofing are increasingly important. In both Europe and North America, compression seals are manufactured through the utilisation of continuous foam moulding as well as plastic and rubber extrusion technologies. Pile

seal sliding windows and doors are used most extensively in warm climates. Schlegel manufactures sliding seals through a narrow fabric weaving process, which requires capital-intensive specialised equipment and highly skilled weavers.

In contrast to the North American compression weatherseal market, Ethylene Propylene Diene Monomer (EPDM) rubber seals are used in a large number of European windows and doors. EPDM rubber is a general-purpose synthetic rubber used extensively in automotive door and truck seal applications. Schlegel does not compete in the commodity rubber weatherseals market.

Summary of the weatherseal market by type, material and application:

Type	Product	Application
Compression	Foam and Extruded Plastics	Casement and Awning windows (wood, vinyl, aluminium) Hinged entry doors Storm Windows and Doors
Sliding	Woven Pile	Horizontal Windows (vinyl and aluminium) Glass Doors Storm Windows and Doors

(A) *Sales Channels and Distribution*

Weatherseals are typically sold directly to major customers through the manufacturer's sales force, while indirect channels, sales agents and stocking distributors serve smaller accounts. The relative importance of each channel is a function of geography, industry practice and coverage needs.

(B) *Characteristics of the Weatherseal Industry*

The weatherseal industry is relatively mature and is characterised by a number of key features, including predictable demand and significant barriers to entry.

- *Predictable Demand*

Weatherseal demand is determined by the numbers of windows and doors used in new construction and renovation. Although the nature of the industry is cyclical, the levels of building activity are predictable and are not typically susceptible to extreme variations in demand. In the residential sector, new construction, renovation and remodelling are dependent on the condition of the general economy and the level of interest rates. As changes in these factors occur more-or-less slowly over time, management believes it is possible to anticipate major changes in demand for windows and doors and, as a result, forecast demand for weatherseal with reasonable confidence over the near term.

- *Barrier to Entry and Maturity of Industry*

There are two significant barriers to entry in the weatherseal business. First, although the technology involved in the production of weatherseals is well-understood, a substantial amount of "know-how" in urethane moulding, in the case of compression seals, and in weaving, in the case of sliding seals, is necessary for efficient operations. Specifically, entry into high performance compression seal manufacturing demands compliance with a variety of environmental legislation, regulation and local hazardous chemical-related planning approvals, while entry into sliding seal manufacturing demands capital intensive specialised narrow loom weaving equipment and highly skilled weavers.

Second, is the ability to sell the product. Any new entrant in the market would have to become established in the market as a credible supplier versus well-known and established firms. Because the leading weatherseal companies have operated in the industry on average for over thirty years, Schlegel's management believes it is difficult for new entrants to penetrate the market.

13. Industry Trends

Where information in this industry trends discussion has been sourced from a third party, it has been accurately reproduced and, so far as Lupus is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

13.1 Residential Demand Segments

Demand for residential windows and doors are driven by two primary end-markets: renovation and new construction. The Ducker Research, published in 2004, stated that the renovation market is slightly larger than new construction in North America, representing approximately 53 per cent. window unit sales versus 47 per cent. for the new construction market.

In a recent study, Freedonia has forecast that worldwide demand for windows and doors will expand 4.7 per cent. per year through to 2009. Advances will, according to the study, be driven by an acceleration in economic growth, ongoing development efforts and rising personal income levels around the globe.

(A) North American Residential Construction Market

Activity in the window and door industry is correlated to trends underlying the broader construction cycle. In North America, housing starts increased from 1.6 million units in 2002 to 2.0 million units in 2005. Going forward, although rising interest rates are expected to cause a mild slowdown in North American new residential construction, housing starts are expected to remain at a high level by historical standards.

(B) European Construction Market

European window and door demand grew, according to the Freedonia Report, by three per cent. between 2000 and 2004 despite softness in the German market. Demand is expected to rise slightly between 2004 and 2007 as softness in the Spanish, French, and Italian markets offset growth in the U.K. and a small recovery in Germany. Nonetheless the Freedonia Report predicts total North American demand to exceed the level of window and door demand in Europe until at least 2009.

13.2 Regulation

While the quantity of weatherseal products used is dependent on the level of construction and remodelling activity, product performance and quality is driven by the need to satisfy regional government air and water leakage and thermal performance standards in both North America and Europe. These standards can lead to the demand for differentiated seals, as window and door manufacturers seek to comply with the local regulations in the most cost efficient manner.

13.3 Product Dependency

Although weatherseals are an integral part of every exterior window and door, very few window and door manufacturers produce their own seals. Instead, most manufacturers choose to outsource the production of the weatherseals to specialised manufacturers such as Schlegel. This is largely due to the cost and expertise required to manufacture high quality weatherseal.

13.4 Technology

Window design has changed significantly over the past 25 years in response to energy conservation requirements driven by global warming awareness, fuel price increases, customer preferences and other factors. Specifically, energy concerns have led to the use of insulating units instead of single pane glass and the use of aluminium as a framing material has declined relative to vinyl and wood. As new window and door products are being developed, engineers and designers seek more effective sealing solutions to meet energy conservation regulations and reduce production costs, as well as to differentiate their products from those of competitors.

13.5 Copier And Printer Products

The specialised technology and skill used to manufacture weatherseals can be applied to products in other industries, including certain components used in copier and printer products. The copier and

printer products business is based on the needs of the large OEM manufacturers located in North America, primarily Xerox, and European manufacturers such as Océ and Xerox. Demand for products such as cleaning brushes is determined by the production volume of new machines and the need for replacement parts to support machines in the field. Since field support is under the control of the manufacturers, both requirements are satisfied by direct sales to the OEMs.

B. BACKGROUND TO THE HISTORICAL FINANCIAL INFORMATION ON SCHLEGEL

The Listing Rules and Prospectus Rules require audited historical financial information covering the latest three financial years and an audit report in respect of each year would normally be required for Schlegel. For the reasons set out below, it is only possible to produce historical financial information for Schlegel for the year ended 31 December 2005 and the accountants' report on Schlegel, contained in Section E of this Part 7, has therefore been modified as no comparative financial information has been presented. The Directors believe that this modification is significant, as Shareholders will be basing their decision to approve the Acquisition and/or invest in Ordinary Shares on a shorter period of audited financial information than would normally be available.

However, for the reasons set out below, the Directors believe that, in spite of the limited financial information available for Schlegel, the Acquisition is in the best interests of Shareholders as a whole. Their recommendation is set out in paragraph 20 of Part 5 of this document. Schlegel is a profitable and cash generative business with a international manufacturing capability that makes good margins and operates in a sector that the Lupus management team know well. The Schlegel brand is recognised throughout the industry and the business has substantial market shares in its key markets. Whilst Schlegel and Schlegel EMI have only recently been established as separate divisions, the Schlegel Group has operated since its formation in the 1880s.

Schlegel is the larger of the two divisions with the Schlegel Group, the other being Schlegel EMI. The Schlegel Group has operations in various countries around the world. In most of these countries, only Schlegel or the Schlegel EMI business operates. However, in the USA, the largest single country of operation, which accounts for approximately 45 per cent. of Schlegel sales, and in Belgium, which accounts for approximately 11 per cent. of Schlegel sales, the two divisions have historically been operated as one combined unit with no separation of manufacturing operations or financial reporting.

Prior to 31 December 2004, Schlegel EMI and Schlegel operated as one combined unit with each business sharing operating resources, premises, support services, staff and management. There was no separation of financial results beyond sales, and in particular the net assets and cashflows of the separate businesses were not tracked, neither was there any allocation of the pool of overhead costs. The businesses were, in effect, so closely entwined that their results are not reasonably separable to provide a true picture of the separate businesses prior to 31 December 2004.

During 2004, work commenced to separate the two divisions operationally in the USA and Belgium. From 31 December 2004, the two divisions were operated as stand alone units with separate accounting records capable of independent audit. Following separation, the primary manufacturing process was retained by Schlegel, which now supplies Schlegel EMI on an arms length basis. Both businesses conduct secondary manufacturing and finishing processes, but they have distinct product lines and very little customer overlap.

The manufacturing process is largely the same for both businesses and the raw materials employed are also largely the same. As outlined above, prior to 31 December 2004, operations in the USA and Belgium were run as a single entity with no differentiation in manufacturing process. Furthermore, in the USA and Belgium the workforce and management of the Schlegel Group operated as a single pool with very few employees specific to one division or the other.

As a result of the above, it is not possible to recreate separate historical financial information for the separate businesses for any historic period prior to 31 December 2004. For this reason, the only financial information available for Schlegel as a separate entity is for the financial year ended 31 December 2005.

C. OPERATING AND FINANCIAL REVIEW FOR SCHLEGEL

The financial information in this Operating and Financial Review has been extracted without material adjustment from the historical financial information on Schlegel as set out in Section E of this Part 7, with the exception of the analysis of third party sales which has been extracted from Schlegel's underlying accounting records and is unaudited. The financial information in this Operating and Financial Review has been prepared in accordance with UK GAAP. Investors should read the whole of this prospectus and should not just rely on the summary information contained in this Operating and Financial Review.

Overview

Total turnover for the year ended 31 December 2005 was £69.3 million. Turnover excluding sales to Schlegel EMI was £67.9 million, an increase of 9.2 per cent. on the prior year. Sales growth was driven by the core construction products especially in the North America door seal market.

Operating profits of £10.0 million and the operating margin of 14.4 per cent. were both negatively impacted by the large increase in the cost of oil derived raw materials (polyol, polypropylene and LD polyethylene). Management actions to pass on the increased costs through sales price increases at the end of the year and productivity improvements restored margins.

Sales

Turnover by product line was as follows:

	2005 £'000	2004 £'000	2003 £'000
Compression Seals	34,316	28,746	29,051
Sliding Seals	17,403	16,272	15,553
Hardware	4,859	5,475	5,810
Other	3,291	3,341	3,527
Construction Products	59,869	53,834	53,941
Copier brushes	5,428	5,746	5,507
Automotive products	2,620	2,617	2,519
Technical Products	8,048	8,363	8,026
Third Party Sales	67,917	62,197	61,967
Sales to EMI	1,376		
Total Sales	69,293		

Note: All third party sales information contained in the above table has been extracted from Schlegel's underlying accounting records and is unaudited.

Construction Products

Sales of construction products grew 11.2 per cent. to £59.9 million when compared with the £53.8 million achieved in 2004. Sales growth was driven by the core products of urethane foam door and window seals (Compression Seals) and woven pile window seals (Sliding Seals). In North America, there was a gain in market share in the prime door seal market from competitors. In the UK, market share increased in the vinyl window seal market partly due to a growth in sales of Duraflex and Plastmo. In Eastern Europe and Scandinavia there was continued strong performance, with sales growth of 16 per cent. and 20 per cent. on the prior year. The harsh climates in those regions demand the high performance window seals that Schlegel produces and that few competitors can match.

Pile woven seals, predominantly focused on the sliding window and door markets in warmer climates, maintained a 10.3 per cent. and 9 per cent. growth trend in Europe and North America respectively. This continued growth is particularly encouraging in light of competition from the Far East. Schlegel's management believes that the breadth of the Schlegel pile product range is important to the continued growth and has been instrumental in securing this growth.

Growth in hardware sales was restricted to Australasia, where Schlegel took advantage of an opportunity with Far Eastern sourced friction stays and associated hardware for the timber window market.

During 2005, production capacity increased in Spain by transferring six manufacturing looms from the North American and Australian factories. A further six are expected to be transferred in the first half of 2006, which is expected to increase European capacity by 20 per cent., and assist in the reduction of the long lead times currently experienced in this high margin segment of the Schlegel pile business. In March 2005 a new yarn making plant was installed in Spain to contribute to a reduction in the operation cost base and improvements in efficiency.

Technical Products

Copier sales were affected by reduced Original Equipment Manufacturer demand. Overall copier sales were impacted by around 5.5 per cent. compared to 2004, despite Hewlett Packard (retail inkjet printer parts) business with Schlegel growing by around 33 per cent. in 2005. Automotive sales were static. However areas of growth included Webasto (North American sunroof seals) and Flexible Products (Daimler Chrysler, Ford and GM sway bar bushing). More sway bar business was won, with two model launches planned for 2006.

Operating Profit

Operating profit for the year was as follows:

	2005 £'000
Sales	
Third party	67,917
Schlegel EMI	1,376
	<u>69,293</u>
Raw materials and consumables	(22,394)
Changes in stock of finished goods and work in progress	(1,527)
Employee costs	(19,689)
Depreciation	(2,152)
Other operating charges	(13,528)
Operating profit	<u><u>10,003</u></u>

Operating profit before management service fees of £0.686 million was £10.689 million.

Raw material costs, in particular for Polyol (the main urethane foam constituent), increased markedly in the first half of 2005 followed by further increases in Polypropylene and TDI. The price of Polyol further increased after the US hurricane disasters as prime chemical and resin production capacity remained closed. This raised the supply prices in some cases in excess of 50 per cent. by the early fourth quarter of 2005. The overall impact of the prime oil derived materials (Polyol, Polypropylene, TDI and Polyethylene) impacted costs and operating profits by around £1 million. The dramatic commodity price increases necessitated significant selling price increases and management therefore imposed a 10 per cent. *force majeure* price increase across all the impacted products (being urethane seals and woven pile). By January 2006, a 7 per cent. overall selling price increase had been achieved in mitigation of the cost push effects.

A process of benchmarking the three Schlegel urethane door and window seal foam manufacturing plants succeeded in driving down manufacturing costs – primarily through improved labour productivity. Schlegel UK achieved an 11 per cent. improvement on the reported 2004 levels and, in the final quarter of 2005, Schlegel USA also increased the reported outputs per man hour up by 36 per cent. since the first quarter. Management has targeted further improvements to labour productivity aimed at keeping the Schlegel manufacturing cost base lower than the competition.

New Business and Developments

The growth in sales in North America door seal market was achieved through focusing on gaining on the major accounts from key competitors, winning large accounts such as Masonite, JeldWen, Rochman, Affco, Sierra Pacific and a range of smaller accounts.

The new product development for Hewlett Packard (HP) inkjet printers, launched in the second half of 2004, was successful and rolled out across the new HP platforms in 2005.

In the UK market, Duraflex and Plastmo contributed an additional £1 million of sales as they converted exclusively to the refined manufacturing process of rolled in welded gasket technology used by window and door fabricators.

PowerPile, a new non-woven pile window and door seal, was developed and trialled with potential customers. This product, manufactured in Rochester, is targeted at the competitor products offered by UltraFab and enters a market which Schlegel's management believe is worth over £12 million per annum. Sales of this new product have already started in Italy, with North American produced products anticipated for delivery during the second quarter of 2006.

Currently, North American door seal customers purchase door sweeps, a door bottom seal typically made of extruded PVC, from two of Schlegel's competitors. Schlegel has now sourced this product in China, at a significant cost advantage, and is now well positioned to enter this market. Price will be a deciding factor and first off tools doorseals are already on test with potential customers.

Current Trading Conditions

In mainland Europe the new year has started promisingly. In the UK, there was a slight slowdown in the first months of 2006 for foam orders in the vinyl sector, which is expected to continue in the second quarter. North America opened with strong copier shipments but urethane foam and woven pile have been slightly slower to recover after Christmas and New Year.

Raw materials costs have hardened with Polypropylene and LD polyethylene commodity prices increasing and, in particular, an increase in the price for liner (LD polyethylene) prices from a key supplier which has entered Chapter 11. The European businesses have been able to purchase Polypropylene at five per cent. above year-end levels for the first nine weeks of 2006, despite LME polypropylene prices rising 20 per cent. in the same period.

Key Event – Labour relations

A revised union contract for the Rochester plant was recently signed and runs until November 2008. The negotiations were successful from Schlegel's perspective.

Capital resources

As at 31 December 2005, Schlegel had bank loans amounting to £39.7 million, as set out in note 16 to the historical financial information on Schlegel in Section E of this Part 7. In addition, as at 31 December 2005, Schlegel had cash balances of £1.9 million and bank overdrafts of £0.5 million as set out in Section E of this Part 7.

All existing Schlegel third party debt is being repaid on acquisition, and cash balances held in Schlegel as at 28 February 2006 will be paid over to UniPoly at Completion.

The net cash inflow from operating activities was £9.0 million for the year ended 31 December 2005. The decrease in cash in the year ended 31 December 2005 was principally due to cash outflows in respect of interest, taxation, capital expenditure and the invested capital transferred to the Unipoly Group. Schlegel's principal sources of liquidity have been cash from its operating activities, and funding from the bank loans and overdrafts described above. During the year ended 31 December 2005, Schlegel's capital resources were managed by UniPoly. Following Completion the capital resources of the Enlarged Group will be managed by Lupus, as described in paragraph 4 of Section C of Part 7.

Capitalisation and indebtedness for Schlegel

The financial information in the following tables has been extracted without material adjustment from the historical financial information on Schlegel set out in Section E of this Part 7.

The following table shows the capitalisation and indebtedness of Schlegel as at 31 December 2005:

	2005 £'000 Audited
Total current debt	
Guaranteed	639
	<u>639</u>
Total non current debt	
Guaranteed	40,170
Deficit on Invested Capital	(18,442)
	<u>(18,442)</u>

Deficit on Invested Capital

It is not meaningful to show share capital or an analysis of reserves for Schlegel. The net liabilities are represented by the cumulative investment of the UniPoly Group in Schlegel which is shown as “Deficit on Investment Capital”. All non-trading transactions between Schlegel and other companies in the UniPoly Group have been reflected in the “Deficit on Invested Capital”.

The Deficit on Invested Capital comprises:

- a) Loans due to and from other UniPoly Group companies.
- b) Share capital and reserves of Schlegel.

Guarantees

Bank loans and other borrowings are secured on the assets of the whole UniPoly Group. The principal operating companies within the UniPoly Group have also provided cross-guarantees to the Unipoly Group’s Bankers in support of all the loans and borrowings.

The following table shows the net financial indebtedness as at 31 December 2005:

	2005 £'000 Audited
Cash	1,887
Liquidity	1,887
Current bank debt	(482)
Current finance lease	(157)
Current financial debt	<u>(639)</u>
Net current financial indebtedness	1,248
Non-current bank loans	(39,675)
Non-current finance lease	(495)
Non-current financial indebtedness	<u>(40,170)</u>
Net financial indebtedness	<u>(38,922)</u>

D. MODIFIED ACCOUNTANTS' REPORT ON SCHLEGEL



PricewaterhouseCoopers LLP

1 Embankment Place
London WC2N 6RH

The Directors
Lupus Capital plc
85 Buckingham Gate
London
SW1E 6PD

HSBC Bank plc (the "Nominated Adviser")
8 Canada Square
London E14 5HQ

6 March 2006

Dear Sirs

The Schlegel Group

We report on the financial information set out on pages 57 to 74. This financial information has been prepared for inclusion in the prospectus dated 6 March of Lupus Capital plc (the "Prospectus") on the basis of the accounting policies set out in note 2.

This report is required by Item 20.1 of Annex I of the Prospectus Rules of the Financial Services Authority and is given for the purpose of complying with that item and for no other purpose.

Responsibilities

The Directors of Lupus Capital plc are responsible for preparing the financial information on the basis of preparation set out in note 1 to the financial information and in accordance with United Kingdom Generally Accepted Accounting Principles ("UK GAAP").

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the Prospectus, and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

As discussed in note 1 to the financial information, Schlegel has not prepared comparative information for the reported 12 months period as a result of the difficulties in separating the EMI and BPD businesses prior to 31 December 2004. Accordingly, the financial information does not comply with the requirements of FRS 28 (Corresponding Amounts).

In our opinion, except for the omission of financial information noted in the preceding paragraph, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Schlegel Group as at 31 December 2004 and 31 December 2005 and of its profits, cash flows and recognised gains and losses for the year ended 31 December 2005 in accordance with the basis of preparation set out in note 1 and in accordance with UK GAAP as described in note 2 and has been prepared in a form that is consistent with the accounting policies adopted in Lupus Capital plc's latest annual accounts.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f), we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex I and item 1.2 of Annex III of the PD Regulation.

Yours faithfully,

PricewaterhouseCoopers LLP

E. HISTORICAL FINANCIAL INFORMATION ON SCHLEGEL

Combined Profit & Loss Account

For the year ended 31 December 2005

	Note	£'000
Turnover		69,293
Raw materials and consumables		(22,394)
Changes in stock of finished goods and work in progress		(1,527)
Employee costs	7	(19,689)
Depreciation		(2,152)
Other operating charges		(13,528)
Total operating costs		<u>(59,290)</u>
Operating profit		10,003
Interest payable and similar charges	5	(6,435)
Other interest receivable and similar income	5	410
Other finance charge	5	(177)
Profit on ordinary activities before taxation	4	3,801
Tax on profit on ordinary activities	6	(1,213)
Profit for the financial year		<u>2,588</u>
Ordinary dividends paid to UniPoly Holdings Limited		(300)
Retained profit for year		<u><u>2,288</u></u>

The above results all arise from continuing operations. There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

The financial information above may not be representative of future results. For example certain future operating costs, interest costs, tax charges and dividends may be significantly different from those that resulted from being wholly owned by UniPoly Holdings Limited.

Combined Statement of Total Recognised Gains and Losses

For the year ended 31 December 2005

	Note	£'000
Profit for the financial year		2,588
Foreign exchange movements offset in reserves	18	1,143
Actuarial loss recognised in the pension scheme	22	(1,030)
Total recognised gains relating to the year		<u><u>2,701</u></u>

Combined Balance Sheet

For the year ended 31 December 2005

	Note	2005 £'000	2004 £'000
Fixed Assets			
Tangible assets	8	14,826	13,185
Current Assets			
Stocks	9	9,722	7,372
Debtors	10	13,508	11,270
Cash at Bank and in hand		1,887	3,820
Total Current Assets		25,117	22,462
Creditors – Amounts falling due within one year	11	(11,712)	(11,085)
Net Current Assets		13,405	11,377
Total Assets less Current Liabilities		28,231	24,562
Creditors – Amounts falling due after more than one year	12	(40,275)	(36,302)
Provision for Liabilities and Charges	14	(599)	(625)
Pension and Post Retirement Benefits Liabilities	15	(5,799)	(4,882)
Net Liabilities		(18,442)	(17,247)
Deficit on Invested Capital	18	(18,442)	(17,247)

Combined Cash Flow Statement

For the year ended 31 December 2005

	Note	£'000	£'000
Net cash inflow from operating activities			8,960
Returns on investments and servicing of finance:			
Interest received		21	
Interest paid		(3,025)	
Interest element of finance lease payments		(23)	
			(3,027)
Taxation paid			(1,703)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(2,521)	
Sale of tangible fixed assets		140	
			(2,381)
Equity dividends paid			(300)
Financing			
Repayments of capital element of finance lease		(157)	
Invested capital transferred from Schlegel Building Products Group		(3,596)	
			(3,753)
Decrease in cash	19		(2,204)

Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities	£'000	£'000
Operating Profit		10,003
Profit on disposal of tangible fixed assets		(35)
Depreciation		2,152
Movement in working capital:		
Increase in stocks	(1,937)	
Increase in debtors	(1,651)	
Increase in creditors	635	
	<hr/>	
Net working capital change		(2,953)
Decrease in provisions		(207)
		<hr/>
Net cash inflow from operating activities		<u>8,960</u>

Notes to the Financial Information

1. *Basis of Preparation*

Schlegel Building Products Group (BPD) is the larger of the two divisions within the Schlegel Group the other being Schlegel Electronic Materials (EMI). The principal businesses within BPD are:

Legal Entities	Country of operation	Immediate parent	Note
<i>Trading companies</i>			
BPD Division of Schlegel Systems Inc	USA	UniPoly Schlegel Holdings Inc	1
Schlegel Pty Limited	Australia	UniPoly Holdings Ltd	1
Schlegel GmbH	Germany	UniPoly Holdings Ltd	1
Schlegel BVBA	Belgium	UniPoly Holdings Ltd	1
Schlegel SrL	Italy	Schlegel Limited	1
Schlegel Taliana SL	Spain	Schlegel Limited	1
Schlegel Limited	UK	UniPoly Holdings Ltd	2
<i> Holding companies</i>			
UniPoly Schlegel Holdings Inc	USA	UniPoly Holdings Ltd	1

1. Legal entities which are to be transferred, all 100 per cent. owned.
2. The structure of the transaction is that only the assets and liabilities of Schlegel Limited are to be purchased rather than the legal entity.

These businesses have not previously constituted a legal group and hence consolidated historical financial information does not exist. Accordingly, the combined financial information for BPD included in this report has been prepared by aggregating financial information for the above businesses taken from the applicable individual financial returns prepared for consolidation purposes within the UniPoly Holdings Group. It has been combined using the principles of merger accounting. Adjustments have been made to eliminate all significant transactions and balances between companies within BPD and to reflect items previously recorded only at a UniPoly Holdings Group level.

It is not meaningful to show share capital or an analysis of reserves for BPD. The net liabilities are represented by the cumulative investment of the UniPoly Holdings Group in BPD which is shown as "Deficit on Invested Capital". All non-trading transactions between BPD and other companies in the UniPoly Holdings Group have been reflected in the "Deficit on Invested Capital".

The Deficit on Invested Capital comprises:

- a) Loans due to and from other UniPoly Holdings Group companies.
- b) Share capital and reserves of BPD.

Prior to 31 December 2004, the EMI and BPD businesses were operated as one combined unit, the Schlegel Division, with each business sharing operating resources, premises, support services, staff and management. There was no separation of financial results beyond Sales, in particular the Net Assets and Cash flows of the separate businesses were not tracked, neither was there any reporting of the allocation of the pool of overhead costs. The businesses were, in effect, so closely entwined that their results are not reasonably separable to provide a true picture of the financial performance of the separate businesses prior to 31 December 2004.

This impacted the Schlegel Division's operations in the USA (Schlegel Systems Inc) and Schlegel BVBA in Belgium (Schlegel Belgium BVBA) which operated as a 'dual division' units with both BPD and EMI elements within one location. From 31 December 2004, the two divisions were operated as stand alone units with separate accounting records capable of independent audit.

With effect from 31 December 2004, the Belgian divisions were legally separated into two autonomous and separate legal entities – with the Schlegel Belgium BVBA unit conducting only BPD business. The Belgian BPD business does not supply any raw materials or intermediate products to the new Schlegel EMI business in Belgium.

In the USA, the two divisions were legally separated into two separate and autonomous units on 2 March 2006. The EMI unit continues to trade with BPD, as the EMI unit procures its supplies of its required raw material (Foam) and Intermediate (profile) products from BPD. This trading is subject to an arm's length supply agreement and therefore BPD regards EMI as a third party customer.

As a result of the difficulties set out above, it is not possible to recreate separate historical financial information for the BPD businesses prior to 31 December 2004. Other than in the Balance Sheet, these financial statements do not contain any comparative information for the reported 12 month period.

Accordingly the combined information has been prepared as at 31 December 2005 and 2004 and for the year ended 31 December 2005 but corresponding amounts for the profit and loss account, cash flow statement, statement of total recognised gains losses and related notes, have not been prepared as required in accordance with FRS 28 "Corresponding Amounts".

The combined financial information reflects overheads (including management charges), interest receipts and payments (including those on funding balances with other companies in the UniPoly Holdings Group), and tax charges actually incurred in the year by the companies within BPD. Accordingly:

- as the combined financial information has not been adjusted for any differences which may exist between amounts charged to BPD companies for services provided by other UniPoly Holdings Group companies and the costs which would have been incurred by BPD had it not been part of the UniPoly Holdings Group, the overheads reflected in the combined financial information may not be representative of future results;
- interest payable and receivable shown in the combined financial information includes interest payable and receivable on that part of UniPoly Holding's investment in BPD that has historically taken the form of intra-group funding balances, whereas future net interest costs will depend on the new capital structure of BPD;
- the tax charge included in the combined financial information reflects the aggregate of the tax charges actually incurred by those companies making up BPD. These tax charges reflect benefits, reliefs or charges which arose as a result of membership of UniPoly Holdings tax group. Also, tax liabilities which may arise from the separation of BPD from UniPoly Holdings tax groups have not been reflected in the combined financial information. The tax position shown by the combined financial information is therefore not necessarily representative of the tax position of BPD under separate ownership.

In addition the combined balance sheet includes the amount of third party debt that will be assigned to Lupus Capital plc on acquisition. The remaining third party debt will be assigned to UniPoly Holdings Limited and has therefore been included within the Deficit on Invested Capital in BPD in the balance sheet.

2. *Accounting Policies*

Accounting Convention

The combined financial information for the year ended 31 December 2005 has been prepared under the historical cost convention and is prepared in accordance with applicable accounting standards in the United Kingdom (UK GAAP), except for the departure in respect of FRS 28 "Corresponding Amounts" as set out in the basis of preparation note above.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to BPD's combined financial information set out herein. The financial statements have been prepared on a going concern basis on the assumption that the transaction as detailed in the Prospectus dated 6 March of Lupus Capital Plc proceeds.

Turnover

Turnover represents amounts receivable for goods provided in the normal course of business, net of trade discounts, VAT and other sales-related taxes. Revenue is recognised in the profit and loss account on the delivery of products to customers.

Tangible fixed assets

Tangible fixed assets other than finance leases are stated at cost less depreciation. Depreciation is provided on all such 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 economic life, at the following annual rate:

Freehold land	Not depreciated
Freehold buildings	2% - 5% per annum
Plant and machinery	7.5% - 35% per annum

Leases

Assets held under finance leases and other similar contracts which confer rights and obligations similar to those attached to owned assets are capitalised as tangible fixed assets and are depreciated to their residual value over the shorter of the lease term and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

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

Impairment of assets

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. An impairment loss is recognised in the profit and loss account to the extent that the carrying value cannot be recovered either by selling the asset or by the discounted future earnings from operating the assets.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimated selling prices, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Taxation

Current tax, including United Kingdom corporation tax and foreign tax, is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in the future or a right to pay less taxation in the future. An asset is only recognised to the extent that the transfer of economic benefits in the future is more likely than not. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets and liabilities have not been discounted.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate.

The results of overseas operations are translated into sterling at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets, on the results of overseas operations are reported

in the Statement of total recognised gains and losses. All other exchange differences are included in the profit and loss account.

Exchange differences on monetary liabilities in respect of third party debt are included and disclosed separately as part of interest payable and similar charges. Exchange differences on other monetary assets and liabilities are included in arriving at operating profit.

Retirement benefits

In accordance with FRS 17 “Retirement benefits”, the operating and financing costs of pensions are charged to the profit and loss account in the period in which they arise and are recognised separately. The costs of past service benefit enhancements, settlements and curtailments are also recognised in the period in which they arise. The difference between actual and expected returns on assets during the year, including changes in the actuarial assumptions, are recognised in the statement of total recognised gains and losses. Pension and post retirement benefit costs are assessed in accordance with the advice of independent qualified actuaries.

For defined contribution schemes, the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits are the contributions actually due in the period.

Financial Instruments

BPD’s multi-national operations expose it to a variety of financial risks.

- a) Foreign exchange risk
BPD has operations in the US, Continental Europe and Australia. BPD is exposed to foreign exchange risks primarily with respect to US Dollars, the Euro and the Australian Dollar.
- b) Interest rate risk
BPD has interest bearing assets and interest bearing liabilities. These assets and liabilities are principally at floating rates based on Libor.
- c) Credit risk
BPD has no significant concentrations of credit risk. BPD implements policies that require appropriate credit checks on potential customers before sales commence. The amount of exposure to any individual counterparty is subject to a limit, which is periodically reassessed.
- d) Liquidity risk
BPD actively maintains a mixture of long-term and short-term committed facilities that are designed to ensure that BPD has sufficient available funds for operations.

Research and development

Research and development expenditure is written off as incurred.

3. *Segment Information*

BPD operates in the following geographical markets which are defined by turnover by origin.

	Turnover (including inter- segment) £'000	Inter- segment turnover £'000	Turnover by origin £'000	Turnover by destination £'000	Profit on ordinary activities before taxation £'000
Geographical analysis					
United Kingdom	12,593	(2,613)	9,980	9,948	2,334
Continental Europe	24,976	(1,253)	23,723	22,771	3,211
Rest of World	35,740	(150)	35,590	36,574	4,458
	<u>73,309</u>	<u>(4,016)</u>	<u>69,293</u>	<u>69,293</u>	<u>10,003</u>
Interest payable and similar charges					(6,435)
Other interest receivable and similar income					410
Other finance charge					(177)
					<u>3,801</u>
					Net Liabilities
					2005
					£'000
United Kingdom				2,506	1,494
Continental Europe				9,354	6,788
Rest of World				8,620	7,119
				<u>20,480</u>	<u>15,401</u>
Unallocated liabilities				(38,922)	(32,648)
				<u>(18,442)</u>	<u>(17,247)</u>

Unallocated liabilities consist of the amounts included in net debt as per Note 19.

BPD has a single class of business.

4. *Profit on Ordinary Activities before Taxation*

	£'000
Profit on ordinary activities before taxation is stated after charging:	
Depreciation of tangible fixed assets – owned assets	2,101
– under finance leases	51
Profit on disposal of tangible fixed assets	(35)
Operating lease rentals – Plant and machinery	147
– Land and buildings	992
Management service charge due to related undertakings	686
Other management recharges due from related undertakings	(470)
Research and development	324
Exchange differences	3,347
Auditors' remuneration for audit services (including expenses)	220
	<u>220</u>

Amounts paid to the Auditors for non-audit services was £21,000.

5. Finance Costs

	£'000
<i>Interest payable and similar charges:</i>	
Bank loans and overdraft interest	2,938
Finance lease interest payable	23
Exchange movement	3,474
	<u>6,435</u>
<i>Other interest receivable and similar income:</i>	
Bank interest receivable	(21)
Interest receivable from related undertakings	(389)
	<u>(410)</u>
<i>Other finance charge</i>	
Expected return on pension scheme assets	(549)
Interest on pension scheme liabilities	726
	<u>177</u>

Included within bank loans and overdraft interest is interest payable on third party debt that will be assigned to Lupus Capital plc on acquisition and interest payable on third party debt included within Deficit on Invested Capital which will be assigned to UniPoly Holdings Limited.

6. Tax on Profit on Ordinary Activities

	£'000
Tax charge	
United Kingdom – Corporation tax at 30%	–
Overseas – Corporation tax	1,221
Deferred taxation	22
Over provision in respect of prior years: Corporation tax	
Current tax	(30)
Deferred tax	–
Total taxation charge	<u>1,213</u>

The tax charge included in the combined financial information reflects the aggregate of the tax charges actually incurred by those companies making up BPD. These tax charges reflect benefits, reliefs or charges which arose as a result of membership of UniPoly Holdings tax group. The tax position shown by the combined financial information is therefore not necessarily representative of the tax position of BPD under separate ownership.

The Tax assessed for the period differs from the Standard Rate of Corporation Tax in the United Kingdom (30%). The differences are explained below:

	£'000
Profit on ordinary activities before tax	<u>3,801</u>
Profit on ordinary activities multiplied by standard UK rate (30%)	1,140
Effects of:	
Expenses not deductible for tax purposes	(4)
Retranslation of foreign currency loans	1,670
Accelerated capital allowances and other timing differences	(1,053)
Differences on overseas tax rates	173
Adjustment in respect of prior periods	(30)
Group relief not paid for	(705)
Current tax charge	<u>1,191</u>

7. *Employee Costs*

The average monthly number of employees was made up as follows:

	Number
Sales and Marketing	63
Manufacturing	503
Research and Development	33
Administrative	65
	<u>664</u>
United Kingdom	82
Continental Europe	225
Rest of World	357
	<u>664</u>
	£'000
Their aggregate remuneration comprised:	
Wages and salaries	17,288
Social security costs	2,045
Other pension costs	356
	<u>19,689</u>

No disclosure of directors' emoluments is provided in this report as none of the current directors of any of the businesses in BPD is expected to be a director of Lupus Capital Plc following the proposed acquisition.

8. *Tangible Fixed Assets*

	Land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 January 2005	2,795	33,447	36,242
Additions	2	3,328	3,330
Disposals	–	(278)	(278)
Exchange movements	(32)	1,222	1,190
At 31 December 2005	<u>2,765</u>	<u>37,719</u>	<u>40,484</u>
Depreciation			
At 1 January 2005	760	22,297	23,057
Charge for the year	108	2,044	2,152
Disposals	–	(173)	(173)
Exchange movements	9	613	622
At 31 December 2005	<u>877</u>	<u>24,781</u>	<u>25,658</u>
Net book value			
At 31 December 2005	<u>1,888</u>	<u>12,938</u>	<u>14,826</u>
At 1 January 2005	<u>2,035</u>	<u>11,150</u>	<u>13,185</u>
		2005 £'000	2004 £'000
The net book value of Land and Buildings comprises:			
Freehold		<u>1,888</u>	<u>2,035</u>

8. Tangible Fixed Assets – continued

Included in the amounts for plant and machinery are the following amounts related to assets held under finance lease:

	£'000
Cost	
At 1 January 2005	–
Additions	809
	<hr/>
At 31 December 2005	809
	<hr/> <hr/>
Depreciation	
At 1 January 2005	–
Charge for the year	51
	<hr/>
At 31 December 2005	51
	<hr/> <hr/>
Net book value	
At 31 December 2005	758
	<hr/> <hr/>
At 1 January 2005	–
	<hr/> <hr/>

9. Stocks

	2005 £'000	2004 £'000
Raw materials and consumables	3,671	2,848
Work in progress	859	448
Finished goods and goods for resale	5,192	4,076
	<hr/>	<hr/>
	9,722	7,372
	<hr/> <hr/>	<hr/> <hr/>

There is no material difference between the balance sheet value of stocks and their replacement cost.

10. Debtors

	2005 £'000	2004 £'000
Amounts falling due within one year:		
Trade debtors	10,908	8,245
Amounts due from related undertakings	1,190	1,049
Corporation tax	180	–
Deferred tax asset	328	346
Other debtors	756	1,527
Prepayments and accrued income	123	94
	<hr/>	<hr/>
	13,485	11,261
	<hr/> <hr/>	<hr/> <hr/>
Amounts falling due after one year:		
Prepayments and accrued income	23	9
	<hr/>	<hr/>
	13,508	11,270
	<hr/> <hr/>	<hr/> <hr/>

11. Creditors – Amounts falling due within one year

	Note	2005 £'000	2004 £'000
Bank overdraft	19	482	267
Obligations under finance Leases	13	157	–
Trade creditors		6,844	6,540
Corporation tax		532	877
Other tax and social security payable		452	383
Other creditors		309	530
Accruals and deferred income		2,936	2,488
		<u>11,712</u>	<u>11,085</u>

12. Creditors – Amounts falling due after more than one year

	Note	2005 £'000	2004 £'000
Bank Loans	16, 19	39,675	36,201
Obligations under finance Leases	13	495	–
Other creditors		105	101
		<u>40,275</u>	<u>36,302</u>

13. Obligations under finance leases

	2005 £'000	2004 £'000
Amounts Payable:		
Within one year	180	–
In two to five years	564	–
Less: finance charges allocated to future periods	(92)	–
	<u>652</u>	<u>–</u>

14. Provisions for Liabilities and Charges

	Deferred Taxation £'000
At 1 January 2005	625
Utilised	(4)
Exchange movements	(22)
At 31 December 2005	<u>599</u>

In addition, deferred tax of £18,000 has been provided in relation to the movement on deferred tax assets.

Deferred taxation provided in the financial statements and the total potential (asset)/liability including the amounts for which provision has been made are as follows:

	Amount provided/ (recognised)	
	2005 £'000	2004 £'000
Deferred tax assets	(328)	(346)
Deferred tax liabilities	599	625
	<u>271</u>	<u>279</u>

14. *Provisions for Liabilities and Charges – continued*

	2005		2004	
	Amount provided £'000	Amount not provided £'000	Amount provided £'000	Amount not provided £'000
<i>Group:</i>				
Accelerated Capital Allowances .	318	(7,877)	333	(8,226)
Other Timing Differences	(47)	(2,202)	(54)	(2,385)
Losses	–	(2,518)	–	(2,452)
	<u>271</u>	<u>(12,597)</u>	<u>279</u>	<u>(13,063)</u>

15. *Pension and Post Retirement Benefit Liabilities*

	2005 £'000
At 1 January 2005	4,882
Current service cost	433
Contributions	(646)
Settlement and Curtailment gains	(77)
Other finance charge	177
Actuarial loss	1,030
At 31 December 2005	<u>5,799</u>

Details of the Pension and Post Retirement Benefit obligations are given in Note 22.

16. *Bank Loans*

	2005 £'000	2004 £'000
<i>Secured:</i>		
Between one and two years	39,675	–
Between two and five years	–	36,201
	<u>39,675</u>	<u>36,201</u>

At 31 December 2005, BPD has undrawn committed borrowings of £nil (2004: £nil).

Security

Bank loans and other borrowings are secured on the assets of the whole UniPoly Group. The principal operating companies within the UniPoly Group have also provided cross-guarantees to the Group's Bankers in support of all the loans and borrowings (see Note 21).

17. *Financial Instruments*

Interest rate profile of financial liabilities

The interest rate profile of the financial liabilities of the group as at 31 December 2005 was as follows:

	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Total £'000
<i>2005</i>			
Sterling	151	–	151
US dollar	34,979	–	34,979
Euro	5,027	652	5,679
	<u>40,157</u>	<u>652</u>	<u>40,809</u>
<i>2004</i>			
Sterling	151	–	151
US dollar	31,432	–	31,432
Euro	4,885	–	4,885
	<u>36,468</u>	<u>–</u>	<u>36,468</u>

The Sterling, Euro and US Dollar denominated floating rate bank loan borrowings, bear interest at rates based on Libor.

For the purposes of the interest rate profile, short term debtor and creditors have been excluded.

The weighted average interest rate on the fixed rate financial liabilities is 2.9%, and weighted average interest period is 4 years.

Currency risk

The currency risk profile of the financial liabilities of the group as 31 December 2005 was as follows:

Functional currency of group operations

	US Dollar £'000
<i>2005</i>	
Sterling	151
Euro	4,654
	<u>4,805</u>
<i>2004</i>	
Sterling	151
Euro	4,811
	<u>4,962</u>

There are no financial assets held by BPD companies in currencies other than their local currency.

Fair Value

There are no material differences between the book values and the fair values of BPD's financial liabilities.

18. Reconciliation of movements in Deficit on Invested Capital

	£'000
At 1 January 2005	(17,247)
Profit for the financial year	2,588
Ordinary dividends paid to UniPoly Holdings Limited	(300)
Actuarial loss recognised in the pension scheme	(1,030)
Exchange movements	1,143
Repayment of invested capital to UniPoly Group	(3,596)
	<hr/>
At 31 December 2005	(18,442)
	<hr/> <hr/>

Deficit on Invested Capital principally comprises share capital and reserves of Schlegel Building Products Group companies, except for Schlegel Limited where only certain assets and liabilities are being acquired, and intra-group funding balances with UniPoly Holdings Group.

19. Notes to the Cash Flow Statement

a) *Reconciliation of net cash flow to movement in net debt*

	£'000
Decrease in cash	(2,204)
Repayments of capital element of finance leases	157
	<hr/>
Change in net debt resulting from cash flows	(2,047)
New finance leases	(809)
Exchange movements	(3,418)
	<hr/>
Movement in net debt	(6,274)
Net debt at 1 January 2005	(32,648)
	<hr/>
Net debt at 31 December 2005	(38,922)
	<hr/> <hr/>

b) *Analysis of net debt*

	At 1 January 2005 £'000	Cash Flow £'000	Foreign Exchange £'000	New Finance Leases £'000	At 31 December 2005 £'000
Cash at bank and in hand ..	3,820	(2,003)	70	–	1,887
Bank overdraft	(267)	(201)	(14)	–	(482)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	3,553	(2,204)	56	–	1,405
Finance leases due within					
1 year	–	157	–	(314)	(157)
Non current bank loans	(36,201)	–	(3,474)	–	(39,675)
Finance leases due after					
1 year	–	–	–	(495)	(495)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	(32,648)	(2,047)	(3,418)	(809)	(38,922)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

20. *Operating Lease Commitments*

	Property £ million	Vehicles, Plant and Equipment £ million	Total £ million
Annual commitments under non-cancellable operating leases expiring:			
<i>As at 31 December 2005</i>			
Within one year	–	58	58
Within two to five years	–	96	96
After five years	858	–	858
	<u>858</u>	<u>154</u>	<u>1,012</u>
<i>As at 31 December 2004</i>			
Within one year	–	37	37
Within two to five years	–	144	144
After five years	801	–	801
	<u>801</u>	<u>181</u>	<u>982</u>

21. *Capital and Other Financial Commitments*

	2005 £'000	2004 £'000
Financial Guarantees	1,625	1,478
Contracts placed for future capital expenditure not provided for	40	132

Financial Guarantees principally relate to Letters of Credit provided to Insurance Scheme providers, mostly in respect of workers compensation insurance in the USA.

22. *Pension schemes and post retirement benefit schemes*

BPD operates a number of defined benefit pension schemes and post-retirement healthcare scheme, and a number of employees are members of defined contribution pension schemes.

Full actuarial valuations of the Group's defined benefit schemes are carried out every year by qualified independent actuaries. For the purposes of these annual updates, scheme assets are included at market value and scheme liabilities are measured on an actuarial basis using the projected unit method; these liabilities are discounted at the current rate of return on a high quality corporate bond of equivalent currency and term. The post-retirement benefit surplus or deficit is included on the Group's balance sheet, net of the related amount of deferred tax. Surpluses are only included to the extent that they are recoverable through reduced contributions in the future or through refunds from the schemes. The current service cost and any past service costs are included in the profit and loss account within operating expenses and the expected return on the schemes' assets, net of the impact of the unwinding of the discount on scheme liabilities, is included within other finance income. Actuarial gains and losses, including differences between the expected and actual return on scheme assets, are recognised, net of the related deferred tax, in the statement of total recognised gains and losses.

The costs of the Group's defined contribution pension schemes are charged to the profit and loss account in the period in which they fall due. The contributions paid to these arrangements over the period amounted to £90,000. Amounts included in pension liabilities as at 31 December 2005 are £3,000 (2004: £4,000).

22. *Pension schemes and post retirement benefit schemes – continued*

The major assumptions used by the actuary were;

	31 December 2005		31 December 2004	
	US %	Australia %	US %	Australia %
Rate of increase in salaries	n/a	n/a	n/a	4.0
Rate of increase in pensions in payment	–	n/a	–	n/a
Discount Rate	5.75	n/a	6.0	5.0
Health care cost trend*	10.0–5.0	n/a	8.0–5.0	n/a

*The level of healthcare contributions are capped and adopting a higher trend rate does not materially affect the liability

The assets in the Plans and the expected rates of return were:

	31 December 2005				31 December 2004			
	%	US £'000	%	Australia £'000	%	US £'000	%	Australia £'000
Equities	9.25	4,658	n/a	–	9.0	4,112	n/a	–
Bonds	5.2	1,802	n/a	–	6.0	1,502	5.2	1,253
Others	3.1	169	n/a	–	3.8	260	n/a	–
		<u>6,629</u>		<u>–</u>		<u>5,874</u>		<u>1,253</u>

The following amounts on 31 December 2005 and 31 December 2004 were measured in accordance with the requirements of FRS 17:

	31 December 2005		31 December 2004	
	US £'000	Australia £'000	US £'000	Australia £'000
Total market value of assets . . .	6,629	–	5,874	1,253
Present value of scheme liabilities	(12,425)	–	(10,711)	(1,210)
Deficit in plan	(5,796)	–	(4,837)	43
Related deferred tax	–	–	–	(13)
Net pension (liability)/asset	<u>(5,796)</u>	<u>–</u>	<u>(4,837)</u>	<u>30</u>

	2005	
	US £'000	Australia £'000
Operating profit		
Current service cost	246	97
Past service costs	–	–
Settlements & curtailments due to sale of business	–	–
Other Settlements & curtailments	(131)	54
Total operating charge	<u>115</u>	<u>151</u>
Other finance (charge)/income		
Expected return on Plan assets	484	65
Interest on Plan liabilities	(666)	(60)
Net (cost)/return	<u>(182)</u>	<u>5</u>
Statement of total recognised gains/losses		
Actual less expected return on Plan assets	(172)	–
Experience gains and losses on Plan liabilities	(22)	–
Change in assumptions underlying Plan liabilities	(208)	(46)
Experience (loss)/gain arising from exchange rate fluctuations . . .	(585)	3
Actuarial losses	<u>(987)</u>	<u>(43)</u>

22. *Pension schemes and post retirement benefit schemes – continued*

	2005	2004
	US £'000	Australia £'000
Movement in deficit during period		
(Deficit)/surplus in Plan at start of period	(4,921)	43
Movements in period:		
Current service cost	(246)	(97)
Contributions	409	146
Settlement and Curtailment gains/(losses)	131	(54)
Other finance (charge)/income	(182)	5
Actuarial losses	(987)	(43)
Deficit in Plan at end of period	<u>(5,796)</u>	<u>–</u>
Details of experience gains/losses for period		
Difference between actual and expected return on assets:		
Amount (£'000)	(172)	–
Percentage of Plan assets	(2.6%)	n/a
Experience gains and losses on scheme liabilities: Amount (£'000)		
Percentage of the present value of the Plan liabilities	(0.2%)	n/a
Total amount recognised in statement of total		
recognised gains and losses: Amount (£'000)	(987)	(43)
Percentage of the present value of the Plan liabilities	<u>(7.9%)</u>	<u>n/a</u>

23. *Related Party*

During the year ended 31 December 2005, amounts included in turnover relating to sales to related undertakings in the UniPoly Group of Companies were £1,376,000. BPD also paid management services fees of £686,000, and dividends of £300,000 to related undertakings in the UniPoly Group of Companies and received interest of £389,000 and other management recharges of £470,000.

Balances included in debtors arising from trading and other activities due from related parties were £1,190,000, (2004: 1,049,000).

Balances included in invested capital due from related parties were £10,797,000, (2004: 8,793,000). Deficit on Invested Capital also includes third party debt in the US which will be assigned to UniPoly Holdings Limited of £12,567,000 (2004: £13,167,000).

24. *Principal Undertakings*

The principal subsidiaries included in the financial information were as follows:

Subsidiary	Country of incorporation and operation	Principal activity
Schlegel BVBA	Belgium	} Manufacture of weather and environmental seals for domestic, building and automotive business, electrostatic interference and copier products
Schlegel Pty Limited	Australia	
Schlegel SrL	Italy	
Schlegel Taliana SL	Spain	
Schlegel GmbH	Germany	

The financial information also includes the trade and certain assets and liabilities of Schlegel Limited and Schlegel Systems Inc. (USA).

PART 8

INFORMATION ON LUPUS

A. HISTORY AND DEVELOPMENT OF LUPUS

1. Overview

Lupus has been quoted on the Official List since 1999. In early 2004, Greg Hutchings made a significant investment in Ordinary Shares and was appointed as Executive Chairman. Denis Mulhall was appointed as an executive Director shortly afterwards and also made a significant investment in Ordinary Shares. Since then, operational management has been reorganised, incentive schemes installed and a mergers and acquisitions function added. The balance sheet and share premium account of Lupus were restructured in June 2004 by means of a capital reorganisation in order to permit dividend payments.

Since the appointment of the current management team in February 2004, the strategy of Lupus has been:

- To build shareholder value through the acquisition of industrial assets with the potential for development.
- To apply the executive team's management skills and systems to improve profitability.
- To use a variety of funding mechanics and exit strategies to enhance shareholder value.

Lupus adopts a very disciplined and clear focus in its approach to target acquisition opportunities. The key requirements are that targets are asset backed, not loss making and have positive cash flow. Lupus chooses to operate in markets where the technology is low risk (although not necessarily low-tech) rather than markets exposed to quick innovation and sudden obsolescence.

Lupus has one main operating company, Gall Thomson Environmental Limited, which is a supplier of marine breakaway couplings. Its subsidiary, KLAW Products Limited, is a supplier of industrial couplings including quick release couplings and breakaway couplings.

2. Existing Business

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 Gall Thomson couplings are designed and made to order for the major oil producers. Stock and working capital levels are thus easily visible.

The excellence of the couplings and their technology together with the huge environmental and financial consequences of risking less established products gives Gall Thomson a significant advantage.

The principal activity of KLAW 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.

B. OPERATING AND FINANCIAL REVIEW FOR LUPUS

The financial information in this Operating and Financial Review has been extracted without material adjustment from the historical financial information on Lupus set out in Section C of Part 8 of this document or from Lupus' underlying accounting records in the case of Adjusted Profit, which is unaudited.

Lupus' unaudited preliminary results announcement for the year ended 31 December 2005 have been prepared in accordance with IFRS, as required for companies quoted on the Official List. Providing that the Acquisition completes, in 2006 Lupus will report in accordance with UK GAAP. This is necessary as the financial records of Schlegel have been kept in accordance with UK GAAP. In Lupus' view it is unlikely that the work necessary to convert Schlegel to IFRS reporting will be completed by the time of the publication of the Enlarged Group's interim results. Consequently, to ensure that a common reporting regime is applied, the Enlarged Group will report its 2006 results in accordance with the UK GAAP. The historical financial information in Section C of Part 8 of this document has been prepared on the basis of UK GAAP and the Accountants' Report on Lupus in Section D of Part 8 of this document relates to the UK GAAP information.

The financial information in this Operating and Financial Review has been prepared in accordance with UK GAAP. Your attention is drawn to the reconciliation between IFRS and UK GAAP contained on page 97 of this document.

Investors should read the whole of this prospectus and should not just rely on the summary information contained in this Operating and Financial Review.

1. Selected Financial Information

	Year ended 31 December		
	2005 £'000	2004 £'000	2003 £'000
Turnover	7,479	6,607	6,551
Profit before goodwill, amortisation, LESOT charge, exceptional items, loss on disposal of fixed asset investment and taxation ("Adjusted Profit")	3,176	2,974	2,848
Goodwill amortisation	(741)	(740)	(740)
LESOT charge	–	(6,715)	–
Exceptional items	–	(1,309)	–
Loss on disposal of fixed asset investment	–	–	(200)
Profit/(loss) on ordinary activities before tax	2,435	(5,790)	1,908
Taxation	(1,025)	(538)	(788)
Profit/(loss) on ordinary activities for year	1,410	(6,328)	1,120
	Year ended 31 December		
	Pence	Pence	Pence
Earnings/(loss) per share	0.59	(2.82)	0.65
Equity dividends paid per share	0.40	0.36	0.61
	Year ended 31 December		
	£'000	£'000	£'000
Total assets	16,333	15,300	15,055
Total non-current assets	10,383	11,077	11,836
Total shareholders' funds	14,397	13,928	13,161

The Adjusted Profit figure is unaudited and is explained below under reconciliation of Adjusted Profit to profit/(loss) before taxation.

2. Financial Performance

Turnover

Turnover for 2005 increased by 13.2 per cent. to £7.479 million (2004: £6.607 million). This increase in turnover is mainly due to faster growing sales of KLAW products which reflects the broader marketing of these products at trade shows and exhibitions. The turnover in 2004 recorded an increase of almost 1 per cent. over the previous year (2003: £6.551 million).

An analysis of turnover by geographic market is set out below:

	Year ended 31 December		
	2005 £'000	2004 £'000	2003 £'000
United Kingdom	990	622	1,246
Other European countries	3,839	2,049	1,646
North America	908	594	1,082
South America	388	141	517
Africa	39	161	492
Middle East	706	1,971	306
Asia Pacific	609	1,069	1,262
Total	<u>7,479</u>	<u>6,607</u>	<u>6,551</u>

Gall Thomson provides products for the major oil companies and their subcontractors on a project by project basis across the world. Gall Thomson submits bids or quotations for many projects. Certain projects may be deferred for a considerable time and some projects may be cancelled. Once a bid has been awarded, Gall Thomson will be put on notice as to when the product is likely to be required.

These major projects may take several years to complete and may be delayed. The timing of the delivery of Gall Thomson's product to the customer, and consequently the timing of Lupus' sales, depends on the stage of completion of the project. While on a contract-by-contract basis sales may be volatile, Lupus' sales history has demonstrated that on an overall basis aggregate sales have been steady.

The KLAW products are less related to major projects and have a broader more everyday application than those of Gall Thomson. They are not subject to the vagaries of major development programs to the same extent, and consequently have a more regular demand pattern. In the longer term it is intended to continue the development of the KLAW business while maintaining the excellence of the Gall Thomson service to the oil industry. The KLAW business development will be driven by trade promotions and exhibitions.

Consequently, sales into a particular region will be volatile from year to year given the stage of completion of the projects being undertaken and the capital nature of the products being sold. This is evident from the data shown above.

Profitability

Lupus measures its performance by reference to the profit of the continuing business activity before goodwill, LESOT charge, exceptional items and taxation ("Adjusted Profit"). Below is a reconciliation of unaudited Adjusted Profit to profit/(loss) before taxation.

Reconciliation of unaudited Adjusted Profit to profit/(loss) before taxation

	2005 £'000	2004 £'000	2003 £'000
Profit/(loss) before taxation	2,435	(5,790)	1,908
Lesot charge	–	6,715	–
Exceptional items	–	1,309	–
Goodwill amortisation	741	740	740
Loss on disposal of fixed asset investment	–	–	200
	<u>3,176</u>	<u>2,974</u>	<u>2,848</u>

Adjusted Profit in 2005 increased by 6.8 per cent. to £3.176 million (2004: £2.974 million). This improvement was achieved through a strong performance in sales, particularly at KLAW Products Limited.

The strong increase in sales at KLAW had the impact of varying the group gross margin. Administrative costs (excluding LESOT charge, exceptional expenses and goodwill amortisation) increased in 2005 by £0.358 million, which were partly offset by interest receipts which were higher by £0.063 million

In 2004 Adjusted Profit increased by 4.4 per cent. to £2.974 million (2003: £2.848 million). The gross margin percentage in 2004 increased over 2003. Administrative costs were also higher in 2004 compared to 2003 by £0.14 million. This was mainly offset by an improvement in interest which turned to income of £0.027 million in 2004 compared to an expense of £0.081 million in 2003.

Other significant items impacting the results

In 2005 there were no significant items impacting the reported results.

During 2004, a number of exceptional and one off charges were recognised by the group. These are outlined below:

- On 26 March 2004 Lupus allotted 47,539,257 ordinary shares to the trustees of the LESOT under the employee incentive arrangements described in a circular dated 21 January 2004 and approved by Shareholders on 16 February 2004. The issue of these shares gave rise to a charge of £6.715 million. In the same year exceptional expenses of £1.309 million were incurred. These were costs associated with the change of strategy and introduction of the new executive management to the Lupus Group.
- In 2003 a one-off charge of £0.2 million was incurred relating to a loss on disposal of a fixed asset investment.

Amortisation and impairment of goodwill and intangible assets

In each of the three years ended 31 December 2005 a goodwill amortisation charge of £0.74 million was recorded.

Interest

The net interest income or expense reflects the increase in the cash position of the Company with net interest expense in 2003 of £0.081 million, interest income in 2004 of £0.027 million and in 2005 of £0.09 million.

Taxation

The tax charge for 2005 was £1.025 million reflecting an effective underlying rate of 42.1 per cent. In 2004 although a loss was reported, there was a tax charge of £0.538 million. This was due to a number of items not being allowed for tax purposes namely the LESOT charge and goodwill amortisation. In 2003 the tax charge was £0.788 million which reflected an effective underlying rate of 41.3 per cent. The cause of this apparent high rate in 2005 and 2003 was mainly due to the non-allowable nature of goodwill amortisation.

Equity dividends paid per share

The high level of dividend paid in 2003 reflects the final 2002 dividend of 0.50 pence which was paid in accordance with the Board's then commitment to return cash to Shareholders. This was during the period when the strategy was to sell Lupus' investment assets, winding it down and distributing the cash to Shareholders. Since the change in management in 2004, that strategy has been revised and the dividend policy amended accordingly.

Total assets

The change in total assets from 2003 to 2004 is caused by the goodwill amortisation of £0.740 million offset by an increase in current assets of £1.004 million, including a decrease in debtors of £0.548 million and an increase in cash of £1.552 million. The movement from 2004 to 2005 is caused by the goodwill amortisation of £0.741 million and an increase in current assets of £1.727 million. Cash increased by £1.005 million over this period.

Total non-current assets

Total non current assets decreased over the three years ended 31 December 2005 principally due to the goodwill amortisation.

Total shareholders' funds

Total shareholders' funds increased in 2004 by £0.767 million as a result of the loss for the year of £6.328 million and the dividends paid of £0.851 million being more than offset by the shares issued net of

costs £7.946 million. In 2005 the shareholders' funds increased by £0.469 million due to the profit for the year of £1.410 million partly offset by the dividends paid to shareholders of £0.941 million.

Share capital

In 2002 and 2004 there were significant changes to the board structure and membership. These resulted in certain changes to the share capital of Lupus.

Changes to the share capital of Lupus in the three years to 31 December 2005 included:

- In 2003 certain former directors who resigned from the Board towards the end of 2002 exercised their outstanding share options and 2,350,000 Ordinary Shares were allotted in this regard.
- On 16 February 2004 17,283,944 Ordinary Shares were allotted to Mr. Hutchings and paid for by Mr. Hutchings under the subscription agreement at that date. This related to the change in executive management referred to earlier.
- On 26 March 2004 Lupus allotted 47,539,257 Ordinary Shares to the Trustees of the LESOT under the Share Incentive Arrangements described in the circular dated 21 January 2004 and approved by Shareholders on 16 February 2004.

3. Lupus Accounting

Accounting convention

In 2003 and 2004 the financial statements were prepared in accordance with UK GAAP. In 2005, the unaudited preliminary results announcement has been prepared in accordance with IFRS.

As an AIM listed company, for the year ending 31 December 2006, the Enlarged Group will prepare financial statements under UK GAAP with a reconciliation to IFRS.

Therefore the historical financial information set out in Section C of this Part 8 has been prepared in accordance with UK GAAP with a reconciliation back to IFRS.

Accounting policies

Details of Lupus' accounting policies are set out in Section C of Part 8.

4. Capital Resources and Treasury and Risk Management

Capital resources

On Completion, Lupus will have new debt facilities comprising a £35 million term loan and a £10 million working capital facility.

The Lupus Group will meet its ongoing commitments out of operating cashflows and will also be able to utilise the £10 million working capital facility and its cash balances to meet such commitments, if required.

Further details concerning the New Debt Facility are set out in paragraph 11 of Part 12 of this document.

Lupus currently has an overdraft facility in place of £100,000, however the facility has remained unutilised during the last two years. The overdraft facility has been kept in place to give the Lupus Group maximum flexibility, but is not considered to be required for the ongoing funding of the business.

The Lupus Group's operating cashflows are derived from its operating subsidiaries. There are no material legal or economic restrictions on the ability of the Lupus Group's subsidiaries to transfer funds to Lupus in the form of cash dividends, loans or advances.

There is no discernible seasonality for Lupus' business.

Treasury and risk management

Currently, Lupus has various financial instruments such as trade debtors and trade creditors that arise directly from its operations. No trading in financial instruments is undertaken. Further information on the risk profile of Lupus' financial instruments is provided in note 17 to the Lupus historical financial information set out in Section C of this Part 8.

As set out in paragraph 5 below under Capitalisation and Indebtedness, Lupus has been in a cash surplus since 31 December 2003 and therefore the analysis of gearing is not relevant.

The Board reviews and agrees policies for managing each financial instrument risk.

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

Lupus' subsidiary, Gall Thomson, conducts part of its business in US dollars. Gall Thomson buys forward the value of the orders awarded in order to lock in the exchange rate at that time.

Cash flow

	Year ended 31 December		
	2005 £'000	2004 £'000	2003 £'000
Net cash inflow from operating activities	2,764	(5,049)	1,289
Returns on investments and servicing of finance			
Interest received	316	252	161
Interest paid	(226)	(221)	(273)
Dividends received	–	–	56
	90	31	(56)
Taxation			
UK corporate tax paid	(806)	(489)	(146)
Capital expenditure and financial investment			
Sale of tangible fixed assets	–	–	4
Purchase of tangible fixed assets	(105)	(36)	(8)
Sale of fixed asset investments	–	–	3,622
	(105)	(36)	3,618
Equity dividends paid	(941)	(851)	(1,060)
Net cash flow before financing	1,002	(6,394)	3,645
Financing			
Issue of shares net of costs	–	7,946	279
Capital element of finance lease	3	–	–
Increase in cash	1,005	1,552	3,924

In 2004 the reported profit was reduced due to the LESOT charge. The financing section of the cashflow statement records as a cash inflow the issue of shares related to the LESOT allotment. There was no change to the net assets of Lupus as a result of the share issue.

In 2003 the proceeds of fixed asset sales in that year underpinned the cash generation.

5. Capitalisation and Indebtedness

Lupus had no indebtedness as at 31 December 2005.

As at 31 December 2005, Lupus had an unused overdraft or guarantee facility of £100,000, which falls due for renewal on 31 October 2006. This facility was not subject to guarantees provided by third parties.

The following table sets out the capitalisation of Lupus as at 31 December 2005:

	2005 £'000
Shareholders' equity	
Called up share capital	1,188
Merger reserve	10,389
Profit and loss account	2,820
	<u>14,397</u>

Net financial receivable

The following table sets out the net financial receivable of Lupus in the short to medium-long term as at 31 December 2005:

	As at 31 December 2005 £'000
Cash	2,654
Liquidity	2,654
Other current financial debt	(3)
Current financial debt	(3)
Net current financial receivable	2,651
Net financial receivable	2,651

As at 31 December 2005, Lupus was party to a cross corporate guarantee for bank overdrafts and loans of all group undertakings, which are included within set off arrangements. None of the bank overdraft or loan facility was utilised as at 31 December 2005. Lupus had no other contingent liabilities as at 31 December 2005.

The above information has been extracted from the historical financial information set out in Section C of Part 8 of this document.

C. HISTORICAL FINANCIAL INFORMATION ON LUPUS

1. Consolidated profit and loss accounts

	Note	Year ended 31 December		
		2005 £'000	2004 £'000	2003 £'000
Turnover	3	7,479	6,607	6,551
Cost of sales		(2,213)	(1,838)	(1,940)
Gross profit		<u>5,266</u>	<u>4,769</u>	<u>4,611</u>
Administrative expenses				
– excluding lesot charge, exceptional expenses and goodwill amortisation	3	(2,180)	(1,822)	(1,682)
– lesot charge	3	–	(6,715)	–
– exceptional restructuring costs	3	–	(1,309)	–
– goodwill amortisation	3	(741)	(740)	(740)
Total administrative expenses		<u>(2,921)</u>	<u>(10,586)</u>	<u>(2,422)</u>
Operating profit/(loss)	3	<u>2,345</u>	<u>(5,817)</u>	<u>2,189</u>
Loss on disposal of fixed asset investments		–	–	(200)
Interest receivable and similar income	5	316	251	161
Interest payable and similar charges	6	(226)	(224)	(242)
Profit/(loss) on ordinary activities before taxation		<u>2,435</u>	<u>(5,790)</u>	<u>1,908</u>
Taxation	7	(1,025)	(538)	(788)
Profit/(loss) on ordinary activities for the year		<u><u>1,410</u></u>	<u><u>(6,328)</u></u>	<u><u>1,120</u></u>
Earnings/(loss) per share – basic and diluted	9	0.59p	(2.82)p	0.65p

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

All results relate to continuing operations.

2. Consolidated balance sheets

		As at 31 December		
	Note	2005 £'000	2004 £'000	2003 £'000
Fixed assets				
Intangible assets	10	9,940	10,681	11,421
Tangible assets	11	443	396	415
		<u>10,383</u>	<u>11,077</u>	<u>11,836</u>
Current assets				
Stocks and work-in-progress	12	331	251	251
Debtors	13	2,965	2,323	2,871
Cash at bank and in hand	20(b)	2,654	1,649	97
		<u>5,950</u>	<u>4,223</u>	<u>3,219</u>
Creditors: amounts falling due within one year	14	<u>(1,915)</u>	<u>(1,372)</u>	<u>(1,809)</u>
Net current assets		<u>4,035</u>	<u>2,851</u>	<u>1,410</u>
Total assets less current liabilities		14,418	13,928	13,246
Creditors: amounts falling due after more than one year	15	<u>(21)</u>	<u>–</u>	<u>(85)</u>
Net assets		<u>14,397</u>	<u>13,928</u>	<u>13,161</u>
Capital and reserves				
Called up share capital	18	1,188	1,188	864
Share premium account	19	–	–	4,709
Merger reserve	19	10,389	10,389	10,389
Lesot reserve	19	–	(8,201)	–
Profit and loss account	19	2,820	10,552	(2,801)
Equity shareholders' funds		<u>14,397</u>	<u>13,928</u>	<u>13,161</u>

3. Consolidated cash flow statements

	Note	Year ended 31 December		
		2005 £'000	2004 £'000	2003 £'000
Net cash inflow/(outflow) from operating activities	20(a)	2,764	(5,049)	1,289
Returns on investments and servicing of finance				
Interest received		316	252	161
Interest paid		(226)	(221)	(273)
Dividends received		–	–	56
		<u>90</u>	<u>31</u>	<u>(56)</u>
Taxation				
UK corporation tax paid		(806)	(489)	(146)
Capital expenditure and financial investment				
Sale of tangible fixed assets		–	–	4
Purchase of tangible fixed assets		(105)	(36)	(8)
Sale of fixed asset investments		–	–	3,622
		<u>(105)</u>	<u>(36)</u>	<u>3,618</u>
Equity dividends paid		<u>(941)</u>	<u>(851)</u>	<u>(1,060)</u>
Net cash inflow before financing		1,002	(6,394)	3,645
Financing				
Issue of shares net of costs		–	7,946	279
Capital element of finance leases		3	–	–
Increase in cash	20(b)	<u>1,005</u>	<u>1,552</u>	<u>3,924</u>

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

	Note	Year ended 31 December		
		2005 £'000	2004 £'000	2003 £'000
Increase in cash		1,005	1,552	3,924
Capital element of finance leases		(3)	–	–
Change in net funds/(debt) from cash flows		<u>1,002</u>	<u>1,552</u>	<u>3,924</u>
Net funds/(debt) at 1 January		1,649	97	(3,827)
Net funds at 31 December	20(b)	<u>2,651</u>	<u>1,649</u>	<u>97</u>

5. Reconciliation of equity shareholders' funds

	Year ended 31 December		
	2005 £'000	2004 £'000	2003 £'000
Profit/(loss) for the financial year	1,410	(6,328)	1,120
Shares issued net of costs	–	7,946	279
Equity dividends paid on ordinary shares	(941)	(851)	(1,060)
Net addition to shareholders' funds	<u>469</u>	<u>767</u>	<u>339</u>
Opening shareholders' funds	13,928	13,161	12,822
Closing shareholders' funds	<u>14,397</u>	<u>13,928</u>	<u>13,161</u>

6. Notes to the historical financial information

1. *Basis of preparation*

Lupus Capital plc (“Lupus” or the “Company”) and its subsidiaries (the “Group”) operate in the oil services industry. Lupus is a company incorporated in England and Wales under the Companies Act 1985.

The historical financial information, which has been prepared in accordance with UK GAAP, is based on the audited statutory accounts for the two years ended 31 December 2004 and on the unaudited preliminary results announcement for the year ended 31 December 2005. The unaudited preliminary results announcement for the year ended 31 December 2005 was prepared in accordance with International Financial Reporting Standards (IFRS) and a reconciliation of those results with the historical financial information is provided in note 23. The statutory accounts for the years ended 31 December 2004 and 31 December 2003 were prepared in accordance with applicable UK standards (UK GAAP) and the historical financial information for those years has been prepared on the same basis, amended as necessary for the effects of new UK standards. A reconciliation of the historical financial information to the statutory accounts for those years is provided in note 24.

2. *Accounting policies*

2.1 *Going concern basis*

The historical financial information has been prepared on the going concern basis.

2.2 *Accounting convention*

The historical financial information has been prepared in accordance with UK GAAP.

2.3 *Basis of consolidation*

The historical financial information consolidates that of the Company and its subsidiary undertakings (see note 10) drawn up to 31 December each year.

2.4 *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.

2.5 *Turnover*

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

2.6 *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.

2.7 *Leasing*

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

2.8 *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.

2.9 *Pensions*

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

2.10 *Deferred taxation*

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more tax, with the following exceptions:

Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

2.11 *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.

2.12 *Financial instruments*

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Trade payables are stated at their nominal amount.

2.13 *Share-based employee remuneration*

All share-based payment arrangements are recognised in the historical financial information. The Group operates an equity-settled share-based remuneration plan for remuneration of its employees.

All employee services received in exchange for the grant of any share-based remuneration are measured at their fair values. These are indirectly determined by reference to the fair value of the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to additional paid-in capital, net of deferred tax where applicable. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Upon exercise of share options, the proceeds received net of any directly attributable costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as share premium.

3. *Turnover and operating profit*

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

	Year ended 31 December		
	2005 £'000	2004 £'000	2003 £'000
Turnover	7,479	6,607	6,551
Cost of sales	(2,213)	(1,838)	(1,940)
Gross profit	5,266	4,769	4,611
Administrative expenses	(2,921)	(10,586)	(2,422)
Operating profit	2,345	(5,817)	2,189
Add back: goodwill amortisation	741	740	740
Operating profit before goodwill amortisation	3,086	(5,077)	2,929

Turnover by destination

	2005 £'000	2004 £'000	2003 £'000
United Kingdom	990	622	1,246
Other European countries	3,839	2,049	1,646
North America	908	594	1,082
South America	388	141	517
Africa	39	161	492
Middle East	706	1,971	306
Asia Pacific	609	1,069	1,262
Total	7,479	6,607	6,551

Operating profit is stated after charging

	2005 £'000	2004 £'000	2003 £'000
Depreciation of tangible assets – owned assets	58	55	52
Amortisation of goodwill	741	740	740
Operating lease rentals – land and buildings	86	84	221
Auditors' remuneration – audit services	36	19	36
Auditors' remuneration – other services	14	8	58
Foreign exchange (profit)/loss	(39)	29	50

Segmental analysis

All profits, losses and net assets in the year ended 31 December 2005 and 31 December 2004 were attributable to oil services, which are deemed to be continuing activities. Those for the year ended 31 December 2003 were substantially attributable to oil services, except that the group's remaining fixed asset investments were sold.

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.

4. *Employees*

Number of employees

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

	2005	2004	2003
	Number	Number	Number
Administration	15	16	12
Operations	18	16	16
	<u>33</u>	<u>32</u>	<u>28</u>

Employment costs

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

	2005	2004	2003
	£'000	£'000	£'000
Wages and salaries	1,565	1,310	1,147
Social Security costs	192	158	136
Other pension costs	85	83	87
	<u>1,842</u>	<u>1,551</u>	<u>1,370</u>

The allotment of shares to the lesot, described in note 18 below, gave rise to a charge of £6,715,000 to the profit and loss account in the year ended 31 December 2004 (2005: Nil 2003: Nil).

The Company made no contributions towards the personal pension arrangements of directors or employees in the years ended 31 December 2005, 31 December 2004 or 31 December 2003 other than had been accrued in the accounts for the year ended 31 December 2002. Contributions to defined contribution pension schemes were paid during those years by Gall Thomson Environmental Limited and were charged to the profit and loss account.

Directors' remuneration

The remuneration payable to directors in respect of the years ended 31 December was as follows:

	Fees	Benefits	Total 2003
	£	£	£
2003			
Konrad Legg	25,000	–	25,000
Frederic Hoad	15,000	–	15,000
Roland Tate	15,000	–	15,000
Total	<u>55,000</u>	<u>–</u>	<u>55,000</u>

	Fees	Benefits	Total 2004
	£	£	£
2004			
Konrad Legg	22,500	–	22,500
Frederic Hoad	17,500	–	17,500
Roland Tate	17,500	–	17,500
Greg Hutchings	131,034	558	131,592
Denis Mulhall	65,517	349	65,866
Total	<u>254,051</u>	<u>907</u>	<u>254,958</u>

	Fees	Benefits	Total 2005
	£	£	£
2005			
Konrad Legg	917	–	917
Frederic Hoad	18,000	–	18,000
Roland Tate	18,000	–	18,000
Greg Hutchings	150,000	837	150,837
Denis Mulhall	75,000	523	75,523
Total	<u>261,917</u>	<u>1,360</u>	<u>263,277</u>

5. *Interest receivable and similar income*

	Year ended 31 December		
	2005	2004	2003
	£'000	£'000	£'000
Bank interest receivable	316	251	161

6. *Interest payable and similar charges*

	Year ended 31 December		
	2005	2004	2003
	£'000	£'000	£'000
On bank loans and overdrafts	226	224	242

7. *Taxation*

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

	Year ended 31 December		
	2005	2004	2003
	£'000	£'000	£'000
Taxation based on the result for the year:			
UK Corporation tax on profits			
for the year	1,006	480	846
Adjustment in respect of prior year	–	59	(58)
Total current tax	1,006	539	788
Origination and reversal of timing differences			
Current year	19	(1)	–
Prior year	–	–	–
Total deferred tax	19	(1)	–
Tax on profit on ordinary activities	1,025	538	788

(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 per cent.). The differences are explained below:

	Year ended 31 December		
	2005	2004	2003
	£'000	£'000	£'000
Profit/(loss) on ordinary activities			
before taxation	2,435	(5,790)	1,908
Rate of corporation tax in the UK of 30% (2004 and 2003: 30%)	731	(1,737)	572
Effects of:			
Expenses not deductible for tax purposes			
Charge in respect of transfer of shares to lesot	–	2,014	–
Legal charges in respect of share issues	–	63	–
Goodwill amortisation	210	210	210
Other items	53	14	27
Capital allowances in advance of depreciation	12	(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	1,006	539	788

(c) *Factors that may affect future tax charges:*

At 31 December 2005, there are estimated tax losses of £11,954,000 (2004: £11,954,000, 2003: £11,296,000) within the Group, comprising capital losses of £6,760,000 (2004 and 2003: £6,760,000) and other tax losses of £5,194,000 (2004: £5,194,000, 2003: £4,537,000). 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:

	Year ended 31 December		
	2005	2004	2003
	£'000	£'000	£'000
Tax losses	1,558	1,558	1,361
Capital losses	2,028	2,028	2,028
	<u>3,586</u>	<u>3,586</u>	<u>3,389</u>

8. *Equity dividends*

	Year ended 31 December		
	2005	2004	2003
	£'000	£'000	£'000
Dividends reflected in the historical financial information:			
Final dividend for the year 2004 at 0.264p per share (2003: 0.25p 2002: 0.50p)	627	551	853
Interim dividend at 0.132p per share (2004: 0.126p 2003: 0.12p)	314	300	207
	<u>941</u>	<u>851</u>	<u>1,060</u>
Dividends not reflected in the historical financial information:			
Proposed final dividend for the year 2005 at 0.278p per share (2004: 0.264p 2003: 0.25p)	661	627	551

9. *Earnings/(loss) per share*

The calculation of basic earnings/(loss) per share is based on the profit/(loss) after taxation for each financial year and on a weighted average number of ordinary shares of 0.5p in issue during those years (2005: weighted average 237,696,286, 2004: 224,306,337, 2003: 171,772,126).

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 2003, 1 January 2004, 1 January 2005 and 31 December 2005	14,393
Amortisation	
At 1 January 2003	2,232
Charge for the year 2003	740
At 1 January 2004	2,972
Charge for the year 2004	740
At 1 January 2005	3,712
Charge for the year 2005	741
At 31 December 2005	4,453
Net book value:	
At 31 December 2005	9,940
At 1 January 2005	10,681
At 1 January 2004	11,421

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

11. *Tangible fixed assets*

Group	Freehold Fixtures, fittings, Land and plant and buildings machinery			Total £'000
	£'000	£'000	Motor vehicles £'000	
Cost				
At 1 January 2003	207	481	8	696
Additions	–	8	–	8
Disposals	–	(65)	–	(65)
At 1 January 2004	207	424	8	639
Additions	–	36	–	36
At 1 January 2005	207	460	8	675
Additions	85	17	3	105
At 31 December 2005	292	477	11	780
Depreciation				
At 1 January 2003	29	196	8	233
Charge for the year 2003	5	47	–	52
Disposals	–	(61)	–	(61)
At 1 January 2004	34	182	8	224
Charge for the year 2004	5	50	–	55
At 1 January 2005	39	232	8	279
Charge for the year 2005	6	52	–	58
At 31 December 2005	45	284	8	337
Net book value				
At 31 December 2005	247	193	3	443
At 1 January 2005	168	228	–	396
At 1 January 2004	173	242	–	415

12. *Stocks and work-in-progress*

Group	As at 31 December		
	2005 £'000	2004 £'000	2003 £'000
Raw materials and consumables	194	121	132
Work-in-progress	125	116	105
Finished goods	12	14	14
	331	251	251

13. *Debtors*

	As at 31 December		
	2005 £'000	2004 £'000	2003 £'000
Trade debtors	2,812	2,114	2,683
Other debtors	91	90	90
Prepayments and accrued income	62	119	98
	2,965	2,323	2,871

14. ***Creditors: amounts falling due within one year***

	As at 31 December		
	2005 £'000	2004 £'000	2003 £'000
Trade creditors	307	224	313
Finance lease obligations	1	–	–
Corporation tax	718	518	468
Other taxes and social security costs	102	51	39
Accruals and deferred income	787	579	989
	<u>1,915</u>	<u>1,372</u>	<u>1,809</u>

15. ***Creditors: amounts falling due after more than one year***

	As at 31 December		
	2005 £'000	2004 £'000	2003 £'000
Finance lease obligations	2	–	–
Deferred taxation	19	–	–
Other creditors	–	–	85
	<u>21</u>	<u>–</u>	<u>85</u>

16. ***Borrowings***

The Group has an overdraft facility of £100,000, which falls due for renewal on 31 October 2006. No use has been made of gearing during the years ended 31 December 2005 or 31 December 2004 to sustain the Group's operations; during the year ended 31 December 2003, the Group's overdrawn balance was progressively repaid and eliminated.

17. ***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. 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. The disclosures in this note exclude information relating to short-term debtors and creditors, except relating to credit risk and foreign currency risk.

Credit risk

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the Balance Sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

The credit risk on liquid funds is limited because the counterparties are reputable international banks.

Liquidity risk

During the years ended 31 December 2005 and 31 December 2004 the Group operated without borrowings. The Group's net debt was repaid during the year ended 31 December 2003. 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 16 above. No balance was outstanding at 31 December 2005 (2004: £Nil, 2003: £Nil).

Interest rate risk of financial assets

The Board periodically reviews any exposure the Group may have to interest rate fluctuations. The weighted average interest rate received on deposited funds was 4.07 per cent. during the year.

No financial assets on which interest was not earned were held during the years ended 31 December 2005 or 31 December 2004; during the year ended 31 December 2003 quoted investments in equity shares that did not earn interest were progressively sold and eliminated from the Group's balance sheet.

Foreign currency risk

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

	2005 £'000	2004 £'000	2003 £'000
Debtors	436	398	510
Cash	45	36	309
Creditors	(30)	(26)	(155)

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

Fair values

The directors consider there to be no material difference between the book value and fair value of the Group's financial instruments in either financial year.

18. *Share capital*

	As at 31 December		
	2005 £'000	2004 £'000	2003 £,000
Authorised:			
500,000,000 (2004: 500,000,000 2003: 300,000,000)			
Ordinary shares of 0.5 pence each	2,500	2,500	1,500
	<u>2,500</u>	<u>2,500</u>	<u>1,500</u>
Allotted, called up and fully paid:			
237,696,286 (2004: 237,696,286 2003: 172,873,085)			
Ordinary shares of 0.5 pence each	1,188	1,188	864
	<u>1,188</u>	<u>1,188</u>	<u>864</u>

Share issues in 2003

The Company allotted 2,350,000 shares during June 2003 at 6p per share to meet the exercise of options by former directors and senior employees. This issue of shares gave rise to an additional £11,750 of paid up capital and £129,250 of share premium. At 31 December 2003 there were no contingent rights to the allotment of shares, as all options previously granted had been exercised or had lapsed.

Share issues in 2004

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 at 9p per share to Mr Hutchings, and paid for by Mr Hutchings under the subscription agreement, on that date.

This issue of shares gave rise to an additional £86,420 of paid up share capital and £1,145,000 of share premium net of costs.

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.

The Company requested the trustees of the lesot to hold the shares for the benefit of the family of Greg Hutchings, executive chairman of the Company. On 31 December 2005 that request became unconditional, since Mr Hutchings was still employed by the Company at that date.

Contingent rights to the allotment of shares

At 31 December 2005 there were 714,285 contingent rights to the allotment of shares, in respect of options granted to Mr Hutchings under the EMI scheme. The shares held by the lesot are available to satisfy these contingent rights.

The options may be exercised up to the tenth anniversary of the grant on 17 February 2004 at an option price per share of nil, subject to the Terms and Conditions of the incentive arrangements described in the circular dated 21 February 2004 and approved by shareholders on 16 February 2004.

19. *Movements on share capital and reserves*

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Lesot Reserve £'000	Profit and loss Account £'000
At 1 January 2003	853	4,441	10,389	–	(2,861)
Shares issued net of costs . . .	11	129	–	–	–
Reinstatement of share premium previously written off	–	139	–	–	–
Profit for the year	–	–	–	–	1,120
Dividends	–	–	–	–	(1,060)
At 1 January 2004	864	4,709	10,389	–	(2,801)
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	–	–	–	–	(851)
At 1 January 2005	1,188	–	10,389	(8,201)	10,552
Lesot share issue	–	–	–	8,201	(8,201)
Profit for the year	–	–	–	–	1,140
Dividends paid	–	–	–	–	(941)
At 31 December 2005	1,188	–	10,389	–	2,820

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. The Company retained the right until 31 December 2005 to ask the trustees

to reverse this allocation if Mr Hutchings should have ceased to be an employee of the Company. The cost of these shares is no longer identified separately in the reserves, reflecting the fact that this residual element of control on the part of the Company has ceased to be effective.

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.

20. **Notes to the consolidated statements of cash flows**

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

	Year ended 31 December		
	2005 £'000	2004 £'000	2003 £'000
Operating profit/(loss)	2,345	(5,817)	2,189
Depreciation	58	55	52
Amortisation of goodwill	741	740	740
Movement in stock and work-in-progress	(80)	–	(51)
Movement in debtors	(642)	548	(1,006)
Movement in creditors	342	(575)	(635)
	<u>2,764</u>	<u>(5,049)</u>	<u>1,289</u>

(b) *Analysis of net cash*

	1 January 2003 £'000	Cash flow £'000	31 December 2003 £'000
	Overdrafts	(3,827)	3,827
Cash balances	–	97	97
Net cash	<u>(3,827)</u>	<u>3,924</u>	<u>97</u>
	1 January 2004 £'000	Cash flow £'000	31 December 2004 £'000
Cash balances	97	1,552	1,649
	<u>97</u>	<u>1,552</u>	<u>1,649</u>
	1 January 2005 £'000	Cash flow £'000	31 December 2005 £'000
Cash balances	1,649	1,005	2,654
Finance lease obligations	–	(3)	(3)
Net cash	<u>1,649</u>	<u>1,002</u>	<u>2,651</u>

21. **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 2005, the Group had overdraft facilities available to it of £100,000 (2004: £100,000, 2003: £2,000,000), none of which was utilised.

22. **Financial commitments**

The Group had annual commitments under non-cancellable operating leases as at 31 December as follows:

	Land and buildings			Other		
	2005 £'000	2004 £'000	2003 £'000	2005 £'000	2004 £'000	2003 £'000
Expiry date:						
Within one year	62	–	–	–	–	3
Between one and five years	8	84	76	–	–	–
Over five years	–	–	128	–	–	–
	<u>70</u>	<u>84</u>	<u>204</u>	<u>–</u>	<u>–</u>	<u>3</u>

23. **Reconciliation of UK GAAP to IFRS**

The Group has produced its preliminary results for the year ended 31 December 2005 prepared in accordance with IFRS. The relevant differences between those preliminary results and the historical financial information prepared under UK GAAP are set out in the tables below:

(a) *Consolidated profit and loss account*

	UK GAAP £'000	IFRS £'000	Difference £'000	Explanation
Turnover	7,479	7,479	–	
Gross profit	5,266	5,266	–	
Administration expenses	(2,921)	(2,180)	741	Amortisation of goodwill not charged under IFRS
Operating profit	2,345	3,086	741	
Interest receivable/payable	90	90	–	
Profit before taxation	2,435	3,176	741	
Taxation	(1,025)	(1,025)	–	
Profit for the year	1,410	2,151	741	
Dividends paid	(941)	(941)	–	
Retained profit for the year	469	1,210	741	

(b) *Consolidated balance sheet*

	UK GAAP £'000	IFRS £'000	Difference £'000	Explanation
Fixed assets	10,383	11,864	1,481	Goodwill not amortised under IFRS in 2004 or 2005
Current assets	5,950	5,950	–	
Current liabilities	(1,915)	(1,915)	–	
Total assets less current liabilities ...	14,418	15,899	1,481	
Non-current liabilities	(21)	(21)	–	
Net assets	14,397	15,878	1,481	
Share capital	1,188	1,188	–	
Merger reserve	10,389	10,389	–	
Profit and loss account	2,820	4,301	1,481	
Shareholders' funds	14,397	15,878	1,481	

24. **Reconciliation of historical financial information to the statutory accounts**

As stated in the Basis of Preparation in note 1, the statutory accounts for the years ended 31 December 2004 and 31 December 2003 were prepared in accordance with applicable UK standards and the historical financial information for those years has been prepared on the same basis, amended as necessary for the effects of new UK standards. In the year ended 31 December 2005, the Group adopted FRS 20 “Share-based Payment”, FRS 21 “Events after Balance Sheet Date” and FRS 25 “Financial Instruments: Disclosure and Presentation”. In accordance with

FRS 21, dividends payable are no longer recorded as liabilities until a legal requirement to pay them has arisen. The payment of the final dividend for the years ended 31 December 2004 and 31 December 2003 did not become a legal obligation of Lupus until the following year. Therefore this dividend is added back to the net assets and shareholders' funds shown in the statutory accounts as at 31 December 2004 and 31 December 2003.

The restatements made as a result of this change in accounting policy are as follows:

(a) *Transfer (from)/to profit and loss reserves*

	Year ended 31 December	
	2004	2003
	£'000	£'000
Amount transferred (from)/to profit and loss reserves, as published in the statutory accounts	(7,255)	362
Proposed dividend written back	627	551
Final dividend for prior year, paid in the following year	(551)	(853)
As restated	<u>(7,179)</u>	<u>60</u>

(b) *Net assets*

	As at 31 December	
	2004	2003
	£'000	£'000
Net assets, as published in the statutory accounts	13,301	12,610
Proposed dividends written back	627	551
As restated	<u>13,928</u>	<u>13,161</u>

There was no material impact on the historical financial information for the years ended 31 December 2004 and 31 December 2003 arising from the adoption of FRS 20 and FRS 25.

D. ACCOUNTANTS' REPORT ON LUPUS

Grant Thornton Corporate Finance The Directors
Grant Thornton UK LLP Lupus Capital plc
Chartered Accountants Crusader House
UK member of 145-157 St John Street
Grant Thornton International London EC1 4RU



6 March 2006

Dear Sirs

LUPUS CAPITAL PLC

We report on the historical financial information of Lupus Capital plc for the three years ended 31 December 2005 set out on pages 82 to 98. This historical financial information has been prepared for inclusion in the Prospectus dated 6 March 2006 of Lupus Capital plc on the basis of the accounting policies set out on pages 85 to 87. This report is required by item 20.1 of Annex 1 of the Prospectus Rules and is given for the purpose of complying with that item and for no other purpose.

RESPONSIBILITIES

The Directors of Lupus Capital plc are responsible for preparing the historical financial information on the basis of preparation set out on page 85 and in accordance with United Kingdom Generally Accepted Accounting Principles ("UK GAAP").

It is our responsibility to form an opinion on the historical financial information as to whether the financial information gives a true and fair view, for the purposes of the Prospectus, and to report our opinion to you.

BASIS OF OPINION

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the historical financial information. It also included an assessment of the significant estimates and judgements made by those responsible for the preparation of the historical financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 historical financial information is free from material misstatement, whether caused by fraud or other irregularity or error.

OPINION

In our opinion, the historical financial information gives, for the purposes of the Prospectus dated 6 March 2006, a true and fair view of the state of affairs of Lupus Capital plc as at the dates stated and of its results, cash flows and changes in equity for the periods then ended in accordance with the basis of preparation set out on page 85 to the historical financial information and in accordance with UK GAAP.

DECLARATION

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex I and item 1.2 of Annex III of the PD Regulation.

Yours faithfully

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PART 9

UNAUDITED UK GAAP PRO FORMA FINANCIAL INFORMATION RELATING TO LUPUS CAPITAL PLC AND ACCOUNTANTS' REPORT RELATING TO THE UNAUDITED UK GAAP PRO FORMA FINANCIAL INFORMATION

Set out below is an unaudited UK GAAP *pro forma* statement of net assets of the Group which has been prepared to show the effect on Lupus of the proposed acquisition of Schlegel and the proposed Placing and Open Offer (assuming full proceeds from the proposed Placing and Open Offer) as if they had taken place on 31 December 2005. The unaudited UK GAAP *pro forma* statement of net assets has been prepared on the basis of the notes set out below, for illustrative purposes only. By its nature, this UK GAAP *pro forma* statement of net assets addresses a hypothetical situation and therefore does not represent the actual financial position of the Enlarged Group.

	Lupus as at 31 December 2005 (Note 1) £'000	Adjustments Schlegel as at 31 December 2005 (Note 2) £'000	Other Adjustments £'000	Enlarged Group pro forma net assets £'000
Fixed assets				
Intangible assets	9,940	–	63,946	73,886
Tangible assets	443	14,826	–	15,269
	10,383	14,826	63,946	89,155
Current assets				
Stocks and work-in-progress	331	9,722	–	10,053
Debtors	2,965	13,508	–	16,473
Cash at bank and in hand	2,654	1,887	744	5,285
	5,950	25,117	744	31,811
Creditors: amounts falling due within one year	(1,915)	(11,712)	(4,955)	(18,582)
Net current assets	4,035	13,405	(4,211)	13,229
Total assets less current liabilities	14,418	28,231	59,735	102,384
Creditors: amounts falling due after more than one year	(21)	(40,275)	9,942	(30,354)
Provisions for liabilities and charges	–	(599)	–	(599)
Pension liability	–	(5,799)	–	(5,799)
Net assets/(liabilities)	14,397	(18,442)	69,677	65,632

Notes:

1. The net assets of Lupus and Schlegel have been extracted without material adjustment from the audited historical financial information in Parts 7 and 8 respectively. These have been adjusted in accordance with the notes set out below.
2. The basis of applying the accounting policies of Lupus and Schlegel in the *pro forma* statement of net assets is in accordance with the accounting policies to be adopted in the financial statements for Lupus' next financial year.
3. Goodwill arising on the acquisition has been calculated below. No fair value adjustment has been made in the calculation of goodwill:

	£'000
Acquisition value	84,000
Less: Working capital adjustment (see note 8)	(1,496)
Add: Acquisition costs	2,675
Less: Net assets of Schlegel	(21,233)
Goodwill	63,946

Net assets of Schlegel are equal to net liabilities as at 31 December 2005 of £18.442 million plus Schlegel's outstanding debt of £39.675 million which will be repaid on completion.

4.	Adjustment for cash at bank and in hand:	
		£'000
	Proceeds of the Placing and Open Offer	53,000
	Add: New Debt	35,000
	Less: Cash paid for acquisition	(82,986)
	Less: Total transaction costs	(4,000)
	Less: Special dividend	(270)
	Cash at bank and in hand	<u>744</u>

5.	Adjustment for creditors:	
		£'000
	Creditors falling due within one year	5,000
	Debt arrangement costs	(45)
		<u>(4,955)</u>
	Creditors falling due after more than one year	30,000
	Debt arrangement costs	(267)
	Less: Vendor debt repaid on Acquisition – see Note 7	(39,675)
		<u>(9,942)</u>

In addition to the debt facility, a working capital facility of £10.0 million is available.

The adjustment for creditors makes adjustment for the New Debt Facility and the repayment of the third party debt of Schlegel on Completion, as described in Note 7 below.

6. No adjustment has been made to reflect the trading or other transactions of Lupus or Schlegel since 31 December 2005.

7. The acquisition is being completed on a debt free/cash free basis, and, therefore, Schlegel's outstanding third-party debt of £39.675 million will be repaid on completion. In addition, under the terms of the Acquisition Agreement, a minimum level of Schlegel's net trading working capital as at 28 February 2006 of £14.8 million will be guaranteed by the Vendor. Adjustment to the purchase price will be made on the basis that for every pound sterling by which the net trading working capital of Schlegel at that date is below £14.8 million the purchase price will be reduced by an equivalent amount. The *pro forma* adjustments above that reflect this repayment of debt and the minimum trade working capital to be acquired are based on Schlegel's balance sheet as at 31 December 2005.

The *pro forma* trade working capital adjustment of £1.496 million included in note 3 is calculated below:

		£'000
	Minimum net trading working capital	14,800
	Less: Trade debtors	(10,908)
	Less: Stocks	(9,722)
	Add: Trade creditors	6,844
	Add: Overdrafts at 31 December 2005	482
		<u>1,496</u>

8. Adjustment has been made for the special dividend of 0.114p per Existing Share, amounting to £0.27 million, declared on 3 March 2006.

9. There are no deferred tax impacts to the above adjustments.

10. This *pro forma* financial information does not constitute financial statements within the meaning of Section 240 of the Companies Act.

11. Total transaction costs are stated exclusive of VAT payable, if any.

The Directors
Lupus Capital plc
85 Buckingham Gate
London
SW1E 6PD

HSBC Bank plc
8 Canada Square
London E14 5HQ

6 March 2006

Dear Sirs

Lupus Capital plc (the “Company”)

We report on the pro forma financial information set out in this Part 9 of the Company’s prospectus dated 6 March 2006 which has been prepared on the basis described on pages 100 and 101, for illustrative purposes only, to provide information about how the proposed equity offering and acquisition of the Schlegel BPD business might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ending 31 December 2005. This report is required by item 7 of Annex II of the PD Regulation and is given for the purpose of complying with that PD Regulation and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company to prepare the pro forma financial information in accordance with item 20.2 of Annex I of the PD Regulation.

It is our responsibility to form an opinion, as required by item 7 of Annex II of the PD Regulation on the pro forma financial information as to the proper compilation of the pro forma financial information and to report our opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of the Company.

We planned and performed our work so as to obtain all the information and explanations we considered necessary in order to provide us with reasonable assurance that the pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Opinion

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of the Company.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f), we are responsible for this report as part of the prospectus and we declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with item 1.2 of Annex I and item 1.2 of Annex III of the PD Regulation.

Yours faithfully,

PricewaterhouseCoopers LLP

Chartered Accountants

PART 10

SUMMARY OF THE TERMS OF THE TRANSACTION

1. Date and Parties

The Acquisition Agreement is dated 3 March 2006, and is between UniPoly and Schlegel UK (together the “Vendors”) and Schlegel Acquisition Holdings USA, Inc., Schlegel Acquisition Holdings Limited, Schlegel Australia (2006) Pty Limited and Schlegel UK (2006) Limited (together the “Buyers”) and Lupus. The Buyers are wholly owned subsidiaries of Lupus.

2. Acquisition and Purchase Price

Lupus, through its wholly owned subsidiaries, is acquiring Schlegel from UniPoly and Schlegel UK on a cash free/debt free basis. All existing third party debt is being repaid on acquisition and cash balances held in Schlegel as at the date of signing of the Acquisition Agreement will be paid over to UniPoly at Completion. In consideration for the Acquisition, Lupus will pay the Vendors a total price of £84 million, (i) increased by interest for the period between signing and completion at 5 per cent. per annum; (ii) increased by an amount equal to the cash and cash equivalents in the bank accounts of the Transferred Subsidiaries as at 28 February 2006; (iii) decreased to the extent that the net trading working capital of Schlegel as at 28 February 2006 is less than £14.8 million, on the basis that for every pound sterling by which the net trading working capital of Schlegel at that date is below £14.8 million, the purchase price will be reduced by an equivalent amount; and (iv) the assumption by the Buyers of certain liabilities. The total consideration is not expected to exceed £86 million.

3. Conditions and Closing

The Acquisition Agreement is conditional upon (*inter alia*) the satisfaction of the following conditions:

- 3.1 the waiting period under applicable antitrust regulations, if any, having terminated or expired;
- 3.2 certain of the conditions relating to obtaining the financing to complete the Acquisition being satisfied (these include some of the conditions relating to the Placing, Open Offer and New Debt Facility); and
- 3.3 the release by the Vendors of their letters of credit specified in the Acquisition Agreement.

The Acquisition is expected to close on or about 4 April 2006, subject to all the relevant conditions being satisfied.

4. Representations, Warranties and Indemnities

The Acquisition Agreement contains customary representations and warranties for an acquisition of this type. Many of the warranties given by the Vendors are qualified by stating that the event to which that warranty relates has not had a “Material Adverse Effect” on Schlegel. For more information on what constitutes a Material Adverse Effect, please see paragraph 9 of this Part 10.

The Vendors have indemnified the Buyers for any breach of any representations, warranties, covenants or agreement of the Vendors, as well as for (i) certain liabilities excluded from the purchase of Schlegel; (ii) certain indemnification obligations of the Transferred Subsidiaries; (iii) certain liabilities for tax for which the Vendors are liable under the Acquisition Agreement; (iv) liabilities arising as a consequence of the improper allocation of the purchase price; and (v) all costs and expenses incurred by indemnified parties enforcing rights under the Acquisition Agreement.

5. Covenants

The Acquisition Agreement contains a number of customary covenants in respect of the Vendors’ conduct of the business of Schlegel prior to completion of the Acquisition. In particular, the Vendors covenant to procure that the business of Schlegel will be carried on in the ordinary course and that certain specified actions will not be taken by the Vendors without the previous consent of the Buyers. The Vendors have also agreed to refrain from competing with Schlegel and from soliciting or hiring any employees of Schlegel without the Buyers’ consent for a period of five years from completion of the Acquisition.

6. Non-solicitation

The Vendors have entered into certain non-solicitation arrangements to prevent them from seeking other potential purchasers of Schlegel.

7. Termination

The Acquisition Agreement can be terminated if (a) prohibited by a governmental body; (b) by either party if the other party breaches a representation, warranty, covenant or agreement and does not remedy that breach within 30 days of receiving notice of that breach; (c) by either party if that party's conditions precedent become impossible; (d) by either party if the closing has not occurred within 8 weeks of the execution of the Acquisition Agreement (or such later date as the parties may agree upon) unless that party is in material breach of the Acquisition Agreement.

8. Limitations on Liability

Save in respect of breaches relating to representations or warranties relating to working capital and tax, the Vendors will only indemnify the Buyers for amounts which are individually in excess of £50,000 and which in aggregate are in excess of £750,000.

In respect of breaches relating to losses for taxes, the Vendors will only indemnify the Buyers for amounts which in aggregate are in excess of £250,000 plus the Schlegel tax reserve as at 31 December 2005. This threshold does not apply to losses for taxes for any taxable period ending during 2005 or for any subsequent taxable period.

There is a total cap on indemnification claims of £15,000,000. The Vendors will purchase warranty insurance in order to support their indemnification obligations.

9. Material Adverse Effects

A Material Adverse Effect is any circumstance, change in or effect on Schlegel that is reasonably likely to be materially adverse to the financial condition, results of operations, earnings, business and/or assets of Schlegel.

The following are specifically excluded from being Material Adverse Effects:

- 9.1 any circumstance, change in or effect on Schlegel in respect of the events covered by the representations, warranties and covenants of the Vendors and the obtaining of governmental consents if less than £250,000;
- 9.2 any circumstance, change in or effect on Schlegel under which a claim for termination of the Acquisition Agreement could be made if less than £2,700,000;
- 9.3 changes relating to general business and economic conditions which do not disproportionately affect Schlegel;
- 9.4 the adoption of new, or the modification or termination of existing, legal requirements;
- 9.5 the occurrence of any event of terrorism, natural disaster or other calamity or crisis adversely impacting financial, political or economic conditions;
- 9.6 any change resulting from the announcement or expectation of the Acquisition; and
- 9.7 any change resulting from the compliance by any Vendor with the terms of, or the taking of any action contemplated or permitted by, the Acquisition Agreement.

PART 11
UNITED KINGDOM TAXATION

The following statements are intended as a general guide only to the position under current UK taxation legislation and H.M. Revenue & Customs practice as at the date of this document. They only apply to Shareholders who are resident, or in the case of individuals, ordinarily resident for UK tax purposes in (and only in) the UK (except insofar as express reference is made to the treatment of non-UK residents), who hold their Ordinary Shares as an investment and who are the absolute beneficial owners of them. They do not apply to certain categories of Shareholder, such as insurance companies, collective investment schemes, dealers in securities and Shareholders who have (or are deemed to have) acquired their Ordinary Shares by reason of or in connection with an office or employment. They relate only to certain limited aspects of the taxation treatment of Shareholders.

Special tax provisions may apply to Shareholders who have acquired or who acquire Shares pursuant to the Share Incentive Arrangements.

Any person who is any doubt about his/her own tax position, or who is resident in or subject to tax in a jurisdiction other than the UK, should consult an appropriate independent professional adviser without delay. In particular, Shareholders should consult their own professional advisers in relation to the tax consequences for them of holding shares listed on AIM.

1. Chargeable gains

1.1 *New Ordinary Shares acquired pursuant to the Open Offer*

For the purposes of UK taxation of chargeable gains, a Shareholder should not be treated as making a disposal of all or part of his Existing Ordinary Shares by reason of taking up his entitlement under the Open Offer or the issue to that Shareholder of New Ordinary Shares pursuant to the Open Offer.

Although the position is not entirely clear, it is expected that H.M. Revenue & Customs will in practice treat the Open Offer as giving rise to a reorganisation of the share capital of Lupus for the purposes of UK taxation of chargeable gains. On that basis, the Shareholder's Existing Ordinary Shares and the New Ordinary Shares should, subject to the point set out immediately below, be treated as the same asset for the purposes of UK taxation of chargeable gains and the cost of New Ordinary Shares allotted pursuant to the Open Offer should generally be added to the base cost of the Shareholder's Existing Ordinary Shares. However, reorganisation treatment (assuming it applies) will only apply in respect of those Open Offer Shares allotted to a Shareholder as a result of that Shareholder taking up some or all of his/her Basic Entitlement and will not apply in respect of any Excess Shares allotted to that Shareholder. Any Excess Shares allotted to a Shareholder will be treated for the purposes of UK taxation of chargeable gains as a separate asset. The price paid for the Excess Shares will constitute their base cost for those purposes and the Excess Shares will be subject to the normal rules relating to indexation, pooling and taper relief.

If the Open Offer is not treated as giving rise to a reorganisation, none of the New Ordinary Shares allotted to a Shareholder pursuant to the Open Offer will be treated as the same asset as the Shareholder's Existing Ordinary Shares. In these circumstances, the price paid by the Shareholder will constitute the base cost for the purposes of UK taxation of chargeable gains of all the New Ordinary Shares allotted to that Shareholder (including any Excess Shares) and all of the Shareholder's New Ordinary Shares will be subject to the normal rules relating to indexation, pooling and taper relief.

In either case, a subsequent disposal of New Ordinary Shares by a Shareholder may, depending on the Shareholder's circumstances, and subject to any available exemption or relief, give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of chargeable gains.

In respect of individual Shareholders, indexation allowance ceased to accrue after April 1998 and has been replaced by taper relief. Taper relief operates by reducing the gain realised on the disposal of assets by a percentage amount which is dependent on the period of ownership of the relevant asset and whether that asset qualifies as a business asset for taper relief purposes.

A Shareholder who is neither resident nor, in the case of an individual, ordinarily resident in the UK will not be liable for UK tax on chargeable gains realised on a disposal of his/her New Ordinary Shares unless such Shareholder carries on:

- (A) (in the case of a non-corporate Shareholder) a trade, profession or vocation in the UK through a branch or agency and has used, held or acquired the New Ordinary Shares for the purposes of such trade, profession or vocation or such branch or agency; or
- (B) (in the case of a corporate Shareholder) a trade in the UK through a permanent establishment and has used, held or acquired the New Ordinary Shares in or for the purposes of the trade or for the purposes of such permanent establishment.

However, a Shareholder who is an individual and who is only temporarily resident outside the UK for UK tax purposes at the date of a disposal of the New Ordinary Shares may be liable to UK tax on chargeable gains on becoming resident or ordinarily resident in the UK again, in respect of disposals made while he was temporarily resident outside the UK, subject to any available exemption or relief.

1.2 *New Ordinary Shares acquired pursuant to the Placing*

The issue of New Ordinary Shares pursuant to the Placing will not constitute a reorganisation of share capital for the purposes of the taxation of chargeable gains. Accordingly, any such New Ordinary Shares will be treated as the acquisition of a new asset and will be subject to the normal rules on indexation, pooling and taper relief.

2. **Dividends**

Lupus is not currently required to withhold at source any amount in respect of UK tax from any dividend it pays.

An individual Shareholder will be entitled to a tax credit in respect of any dividend received from Lupus and will be taxable on the aggregate of the dividend received and the tax credit (the “gross dividend”). The value of the tax credit is currently one ninth of the dividend received (or 10 per cent. of the gross dividend). The gross dividend is treated as the top slice of the individual’s income. The tax credit will, however, be treated as discharging the individual’s liability to income tax in respect of the gross dividend, unless and except to the extent that the gross dividend falls above the threshold for the higher rate of income tax. In such a case the individual’s tax liability will, to that extent, be calculated at the higher rate on dividends (currently 32.5 per cent.), applied to the gross dividend, but will be reduced by the related tax credit. So, for example, a dividend of £90 will carry a tax credit of £10 and the income tax payable on the dividend by an individual liable to income tax at the higher rate in respect of the whole amount of the dividend would be £32.50 (32.5 per cent. of £100), leaving a net tax charge of £22.50 after subtracting the tax credit of £10.

Subject to certain exceptions, a Shareholder which is a company is not taxable on a dividend paid by Lupus and received by that Shareholder and is not generally able to claim payment of the tax credit attaching to the dividend.

There will be no payment of the tax credit or any part of it to an individual whose liability to income tax on the gross dividend is less than the related tax credit and Shareholders who are not liable to UK tax on dividends, including pension funds and charities, will not be entitled to claim any payment of the tax credit in respect of dividends paid by Lupus.

In most cases, a Shareholder who is not resident in the UK for UK tax purposes will not be entitled to claim any part of a tax credit in respect of a dividend received from Lupus. Shareholders who are not resident in the UK for UK tax purposes should consult their own tax advisers concerning their liability to tax on dividends received, their entitlement to claim any part of the tax credit, and, if so entitled, the procedure for doing so.

3. **Stamp duty and stamp duty reserve tax (“SDRT”)**

No liability to stamp duty or SDRT will generally arise on the allotment and issue of New Ordinary Shares by Lupus pursuant to the Placing and the Open Offer, except in the case of New Ordinary Shares issued

to issuers of depositary receipts or providers of clearance services (as to which see the description provided below). Lupus will not be paying any stamp duty or SDRT that may so arise (in particular, pursuant to the provisions of sections 67, 70, 93 or 96 of the Finance Act 1986).

Any subsequent dealings in New Ordinary Shares will normally be subject to stamp duty or SDRT. The transfer on sale of New Ordinary Shares will usually be liable to *ad valorem* stamp duty, at the rate of 0.5 per cent. (rounded up, if necessary, to the next multiple of £5) of the amount or value of the consideration paid. Stamp duty will normally be paid by the purchaser or transferee of the New Ordinary Shares. An unconditional agreement to transfer New Ordinary Shares will normally give rise to a charge to SDRT, at the rate of 0.5 per cent. of the amount or value of the consideration payable for such shares, but such liability will be cancelled, or any SDRT paid refunded, if the agreement is completed by a duly stamped instrument of transfer within six years of the date of the agreement or, if the agreement was conditional, the date on which the agreement became unconditional. Any SDRT imposed will in principle be imposed on the purchaser or transferee of the New Ordinary Shares.

Under the CREST system for paperless share transfers, no stamp duty or SDRT will arise on a transfer of shares into the system, unless the transfer into CREST is itself for consideration in money or money's worth, in which case a liability to SDRT will arise, usually at the rate of 0.5 per cent. of the amount or value of consideration given. Transfers of shares within CREST are generally liable to SDRT (at the rate of 0.5 per cent. of the amount or value of the consideration payable) rather than stamp duty, and SDRT on relevant transactions settled within the system or reported through it for regulatory purposes will be collected and accounted for to H.M. Revenue & Customs by CRESTCo.

Where New Ordinary Shares are issued or transferred to issuers of depositary receipts or providers of clearance services (or their nominees or agents), stamp duty or SDRT (as appropriate) may be payable (in the case of stamp duty) at the rate of 1.5 per cent. (rounded up, if necessary, to the next multiple of £5) of the amount or value of the consideration provided or (in the case of SDRT) at the rate of 1.5 per cent. of the amount or value of the consideration payable (if in money or money's worth) or the value of the New Ordinary Shares. Where such stamp duty or SDRT is payable, the charge will be passed on to the Shareholder to whom the New Ordinary Shares would otherwise have been issued or transferred.

The above statements are intended to be a general guide to the current stamp duty and SDRT position and are not comprehensive. In particular, certain categories of person may, although not primarily liable for the tax, be required to make a notification in respect of it and account for it; special rules apply to agreements made by market intermediaries and to certain sale and repurchase and stock borrowing arrangements; and agreements to transfer shares to charities will not give rise to stamp duty or SDRT.

4. Tax treatment of AIM shares

Shares which trade on AIM are deemed to be unlisted for certain UK tax purposes. Accordingly, following Admission, individuals who hold Ordinary Shares may become eligible to benefit from business property relief for inheritance tax purposes and/or business asset taper relief for capital gains tax purposes in circumstances where they might otherwise not be eligible. Shareholders should however note that business property relief would cease to be available if the Ordinary Shares were to revert to trading on a "recognised stock exchange" (such as the London Stock Exchange) and that the treatment of the Ordinary Shares for taper relief purposes would be affected if the Ordinary Shares or any other securities of the Company traded on such an exchange.

Shareholders should also note that it is not possible for individuals to hold shares traded in AIM in PEPs or ISAs. It is understood that, following Admission, Shareholders with such plans or accounts will, under current HM Revenue & Customs practice, have 30 days to decide whether to transfer their Ordinary Shares into their own name, or to sell the holding and retain the proceeds within the PEP or ISA. For Shareholders who elect to transfer their Ordinary Shares into their own name, the base cost of those Ordinary Shares for the purposes of UK taxation of chargeable gains following the transfer will be equal to their market value on the date on which such transfer is made. For some Shareholders who make such a transfer, this may mean that the base cost of their Ordinary Shares will be lower than the price that they originally paid for those Ordinary Shares.

PART 12

ADDITIONAL INFORMATION

1. Responsibility Statements

- 1.1 Lupus and the Directors, whose names appear on page 15 of this document, accept responsibility for the information contained in this document. To the best of their knowledge (having taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

2. Incorporation and registration

- 2.1 Lupus was incorporated and registered in England and Wales on 1 April 1993 under the Companies Act as a private company with limited liability with the name Ichnolite Limited and with registered number 2806007. It changed its name to Dean & Bowes (Homes) Limited on 24 May 1993 and was re-registered as a public limited company on 7 March 1995. Lupus changed its name to Dean Corporation Plc on 13 April 1995 and on 8 December 1998 it changed its name to Environmental Property Services Plc. On 4 June 1999 Lupus changed its name to Lupus Capital Plc.
- 2.2 The principal legislation under which Lupus operates is the Companies Act and regulations made under the Companies Act.
- 2.3 The registered office of Lupus and the business address of the Directors is at Crusader House, 145-157 St John Street, London, EC1 4RU.
- 2.4 Lupus is the holding company of the Lupus Group.

The principal operating subsidiaries of Lupus are:

Name of subsidiary	Country of residence	% of issued share capital held by Lupus	Principal activities
Gall Thompson Environmental Ltd	UK	100	Supplier of marine breakaway couplings
KLAW Products Ltd	UK	100*	Supplier of industrial couplings, including quick release couplings and breakaway couplings
Lupus Capital Management Ltd	UK	100	Receives the management fees from Gall Thompson and pays the expenses of the Group's London headquarters
Octroi Group Ltd	UK	100	Investment holding company with residual financial inputs and outputs

* KLAW Products Ltd is a wholly-owned subsidiary of Gall Thompson Environmental Ltd.

3. Share capital of Lupus

- 3.1 The following table sets out the authorised, issued and fully paid share capital of Lupus as at 6 March 2006 (being the latest practicable date prior to publication of this document) and as it is expected to be immediately following the Placing and the Open Offer, assuming they acquire their entire Basic Entitlement:

	As at 6 March 2006		Following Placing and Open Offer	
	Number	Nominal Value (£)	Number	Nominal Value (£)
Authorised Ordinary Shares	500,000,000	2,500,000	825,000,000	4,125,000
Issued and fully paid				
Ordinary Shares	237,696,286	1,188,481.43	616,267,715	3,081,338.57

- 3.2 In the three years ended 31 December 2003, 31 December 2004 and 31 December 2005 and for the period between 1 January 2006 and 6 March 2006 (the latest practicable date prior to the publication of this document) the following changes have occurred to Lupus' issued share capital:
- (a) on 26 March 2004, Lupus allotted 47,539,257 Ordinary Shares at 17.25 pence per Ordinary Share to the LESOT under the terms of the EMI Scheme;
 - (b) on 16 February 2004, Lupus allotted 17,283,944 Ordinary Shares at 9 pence per Ordinary Share to Greg Hutchings as part of his investment in Lupus on being appointed as Executive Chairman of Lupus; and
 - (c) between 19 June 2003 and 27 June 2003, Lupus allotted 2,350,000 Ordinary Shares at 6 pence per Ordinary Share on exercise of options under the terms of the share option scheme which was in place prior to the EMI Scheme. This allotment brought that share option scheme to an end.

No discounts or other special terms have been granted in respect of the issues of shares, and all of the shares are fully paid.

3.3 Between 1 January 2005 and 31 December 2005, no Ordinary Shares were issued.

3.4 Save as disclosed above and in paragraph 3.6 below:

- 3.4.1 no shares or loan capital of Lupus or its subsidiaries have been issued or agreed to be issued or are proposed to be issued fully or partly paid, either for cash or for a consideration other than cash;
- 3.4.2 no shares or loan capital of Lupus or its subsidiaries are under option or agreed conditionally or unconditionally to be put under option; and
- 3.4.3 no commissions, discounts, brokerages or other special terms have been granted by Lupus or its subsidiaries in connection with the issue or sale of any of its share or loan capital.

3.5 At an Annual General Meeting of Lupus held on 16 February 2004 the following special resolutions were passed:

- 3.5.1 the Directors were generally and unconditionally authorised for the purposes of section 80 of the Companies Act to exercise all powers of Lupus to allot relevant securities (within the meaning of section 80 of the Companies Act) up to an aggregate nominal amount of £1,266,928.38, provided that this authority shall expire (unless previously varied, revoked or renewed by Lupus in general meeting) on 15 February 2009, save that Lupus may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired; and
- 3.5.2 the Directors were empowered pursuant to section 95 of the Companies Act to allot equity securities (within the meaning of section 94 of the Companies Act) of Lupus for cash pursuant to the authority conferred by the special resolution set out in paragraph 3.5.1 above as if section 89(1) of the Companies Act did not apply to such allotments provided that this power is limited to:
 - 3.5.2.1 the allotment of 17,283,944 ordinary shares of 0.5p each in Lupus pursuant to the subscription as defined in the circular to the shareholders of Lupus dated 21 January 2004 published by Lupus;
 - 3.5.2.2 the allotment of equity securities for the purposes of, or in connection with, an offer of such equity securities by way of rights to the holders of ordinary shares in proportion (as nearly as may be practicable) to the respective numbers of ordinary shares held by them, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements or any legal or practical problems under the laws of, or the requirements of any recognised regulatory body or stock exchange in, any territory or otherwise however; and

3.5.2.3 the allotment of equity securities otherwise than pursuant to sub-paragraphs 3.5.2.1 and 3.5.2.2 above, up to an aggregate nominal amount of £47,539.25;

such power to expire on 15 February 2009 save that Lupus may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such power expires and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

3.6 Details of the Resolutions to be proposed at the EGM in connection with the Transaction are as follows:

Resolution 1

An ordinary resolution is being proposed to approve the Acquisition by way of the acquisition by Lupus, through the Purchasing Subsidiaries, of all the issued and outstanding shares of capital stock of the UniPoly Subsidiaries, all the issued and outstanding shares of capital stock of the Schlegel UK Subsidiaries and the Transferred Assets pursuant to and upon the terms of a conditional agreement dated 3 March 2006, entered into between the Vendors and the Purchasing Subsidiaries. To be passed, an ordinary resolution requires a simple majority of the votes cast. Resolution 1 is conditional on the passing of Resolutions 2, 3, 4 and 5.

Resolution 2

Lupus may not increase its authorised share capital unless authorised by its members under the Companies Act. An ordinary resolution is being proposed to approve an increase of Lupus' authorised share capital by 325,000,000 ordinary shares of 0.5p each, an increase of 65 per cent. If Resolution 2 is approved, the authorised share capital of Lupus would be increased to 825,000,000 Ordinary Shares. To be passed, an ordinary resolution requires a simple majority of the votes cast. Resolution 2 is conditional on the passing of Resolutions 1, 3, 4 and 5. The authorised share capital of Lupus is being increased to enable allotment of the New Ordinary Shares and to enable the allotment of further Ordinary Shares in the future.

Resolutions 3 and 4

The Directors may not allot new shares in Lupus unless authorised by its members under the Companies Act. The Directors were authorised generally at the annual general meeting on 16 February 2004 to allot up to an aggregate nominal amount of £1,266,928.38 and Resolution 3 seeks to substitute this authority with a new authority to allot. If approved, the new authority will be effective for five years until 29 March 2011 and will enable the Directors to allot new shares as follows:

- (i) up to a maximum of 378,571,429 Ordinary Shares (£1,892,857.145 nominal value) in connection with the Transaction; and
- (ii) otherwise up to 208,732,285 Ordinary Shares (£1,043,661.425 nominal value), approximately equal to 33 per cent. of the Enlarged Share Capital of Lupus.

The Directors are seeking to take the general authority in Resolution 3, which would otherwise be obtained at the next Annual General Meeting, in order to reflect the new Enlarged Share Capital following the Transaction. Resolution 3 is conditional on the passing of Resolutions 1, 2, 4 and 5.

If the Directors wish to use the general authority to allot shares for cash conferred on them under Resolution 3, the Companies Act states that the new shares must be offered first to Existing Shareholders in proportion to their existing shareholdings. An offer of this type is called a "rights issue" or an "open offer" and the shareholder's entitlement to be offered the new shares is known as a "pre-emption right".

For legal, regulatory and practical reasons, however, it might not be possible for new shares allotted by means of a rights issue or open offer to be offered to certain shareholders, particularly those resident overseas. Further, it might in some circumstances be in Lupus' interests for the Directors to be able to allot some shares for cash without having to offer them first to existing shareholders. To enable this to be done shareholders must first waive their pre-emption rights. Pre-emption rights were

generally disappplied at the annual general meeting on 16 February 2004 up to an aggregate nominal amount of £1,266,928.38, and this authority expires on 15 February 2009.

Accordingly, Resolution 4 seeks to modify the pre-emption rights of the Shareholders by way of special resolution, as follows:

- Resolution 4 seeks to waive the Existing Shareholders' pre-emption rights for the purpose of the Placing and Open Offer and otherwise generally, up to a maximum aggregate nominal amount of £1,027,112.86 which is equivalent to approximately 33.33 per cent. of the Enlarged Share Capital of Lupus expected to be in issue immediately after Completion of the Placing and Open Offer. If granted, this authority will enable the Directors to allot new shares for cash without further reference to Shareholders; and
- Sub-paragraph (i) of Resolution 4 seeks authority for the Directors to make arrangements which may be necessary to deal with any legal, regulatory or practical problems arising from a rights issue or open offer.

To be passed, a special resolution requires at least 75 per cent. of the votes cast. The proposed authority will, if granted, expire at the conclusion of the Annual General Meeting of Lupus to be held in 2007. Resolution 4 is conditional on the passing of Resolutions 1, 2, 3 and 5.

Resolution 5

As the Acquisition is classified by the UKLA as a reverse takeover, a special resolution is being proposed to approve the application by Lupus for the cancellation of the listing of the Existing Ordinary Shares on the Official List and the admission of the Enlarged Share Capital to listing on AIM. To be passed, a special resolution requires at least 75 per cent. of the votes cast. This Resolution is conditional on Resolutions 1, 2, 3 and 4 being passed.

4. Summary of the Memorandum and Articles of Association

The Memorandum of Association of Lupus provides that its principal object is to carry on business of a holding company and a general commercial company. The objects of Lupus are set out in full in Clause 4 of its Memorandum of Association which is available for inspection as described in Section 20 below.

The Articles of Lupus which were adopted by special resolution of Lupus dated 6 March 1995 and amended by special resolution dated 14 November 1997 contain, *inter alia*, provisions to the following effect:

4.1 *Modification of rights*

4.1.1 Whenever the capital of the Lupus is divided into different classes of shares or groups, the special rights attached to any class or group may be modified or abrogated, unless otherwise provided by the terms of the issue of the shares of that class or group, either with the consent in writing of the holders of three-quarters of the issued shares of that class or group or with the sanction of any extraordinary resolution passed at a separate general meeting of the holders (but not otherwise). The consent or resolution shall be binding upon all the holders of shares of the class or group.

4.1.2 The special rights conferred upon the holders of any shares or class or group of shares issued with preferred or other rights shall not, unless otherwise expressly provided by the conditions of issue, be deemed to be modified by the creation or issue of further shares ranking *pari passu* with them.

4.2 *Shares*

4.2.1 Subject to the provisions of the Statutes and restrictions contained in Lupus' Articles and to any direction to the contrary given by Lupus in general meeting, the Directors may allot, grant options over, or otherwise dispose of shares or rights to subscribe for, or to convert any security into, shares to such persons and on such terms as they think fit, but no share shall be issued at a discount.

4.3 *Uncertified shares*

4.3.1 Unless otherwise determined by the Directors and permitted by the Regulations, no person shall be entitled to receive a certificate in respect of any share for so long as the title to that

share is evidenced otherwise than by a certificate and for so long as transfers of that share may be made otherwise than by a written instrument by virtue of the Regulations.

4.3.2 Conversion of Certified Shares into Uncertified Shares, and vice versa, may be made in such manner as the Directors may think fit.

4.4 *Transfer of shares*

4.4.1 A member may transfer all or any of his Uncertified Shares in accordance with and subject to the Regulations and facilities and the requirements of the Relevant System concerned and, subject thereto, in accordance with any arrangements made by the Directors (pursuant to paragraph 4.3.1 above).

4.4.2 A member may transfer all or any of his Certified Shares by instrument of transfer in writing in any usual form or in another form approved by the Directors, and the instrument shall be executed by or on behalf of the transferor and, in the case of a partly paid share, by the transferee.

4.5 *Untraced shareholders*

4.5.1 Lupus may sell (in such manner and for such price as the Directors think fit) the shares of a member or the shares to which a person is entitled by virtue of transmission on death or bankruptcy if:

4.5.1.1 during the period of 12 years prior to the date of the publication of the advertisements referred to in paragraph 4.5.1.2 below (or, if published on different dates, the first date), being a period during which at least three dividends have been payable, all warrants and cheques in respect of the shares in question sent in the manner authorised by these Articles have remained uncashed; and

4.5.1.2 Lupus on or after expiry of the period of 12 years has inserted advertisements in both a national daily newspaper and a newspaper circulating in the area in which the last known address of the member or the address at which service of notices may be effected is located, giving notice of its intention to sell the shares and has informed the London Stock Exchange of such intention; and

4.5.1.3 during the period of 12 years and the period of three months following the publication of the advertisements, or following the later publication of the two advertisements are published on different dates, Lupus has received no indication either of the whereabouts or of the existence of the member or person; and

4.5.1.4 notice has been given to the London Stock Exchange of its intention to make the sale.

4.6 *Increase of capital*

4.6.1 Lupus in general meeting may by ordinary resolution increase its capital by such sum, to be divided into shares of such amounts, as the resolution prescribes.

4.7 *Purchase of own shares*

4.7.1 In accordance with the provisions of the Statutes, Lupus may purchase its own shares (including any redeemable shares).

4.8 *Alteration of capital*

4.8.1 Lupus may by ordinary resolution

4.8.1.1 consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;

4.8.1.2 cancel any shares which, at the date of the passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the nominal amount of the shares cancelled, subject to the provisions of sections 146–149 of the Companies Act; and

4.8.1.3 sub-divide all or any of its shares of smaller amount than is fixed by the Memorandum of Association and the resolution may determine that, as between the holders of the shares resulting from the sub-division, one or more of the shares

may have any such preferred or other special rights over, or may have such deferred rights, or be subject to any such restriction as compared with the others as Lupus has power to attach to unissued or new shares.

- 4.8.2 Lupus may by special resolution reduce its share capital and any capital redemption reserve fund or any share premium account in any manner subject to any conditions and consents required by law.

4.9 ***General meetings***

4.9.1 A general meeting shall be held in each year at such time (within a period of not more than 15 months after the holding of the last preceding general meeting) and place as may be determined by the Directors. The general meetings referred to in this paragraph shall be called annual general meetings. All general meetings other than annual general meetings shall be called extraordinary general meetings.

4.9.2 The Directors may convene an extraordinary general meeting whenever they think fit. On the requisition of members in accordance with the Statutes, the Directors shall convene an extraordinary general meeting. Whenever the Directors convene an extraordinary general meeting on the requisition of members, they shall convene it for a date not more than 6 weeks after the date when the requisition is deposited at the registered office of Lupus (unless the requisitions consent in writing to a later date being fixed).

4.10 ***Notice of general meetings***

4.10.1 Unless consent to short notice is obtained, in the case of the annual general meeting or of a meeting convened to pass a special resolution at least 21 clear days' notice and in other cases at least 14 days' notice must be given (exclusive in each case of the day on which the notice is served or deemed to be served and of the day for which the notice is given). The notice shall specify the place, the day and the hour of the meeting (and in the case of an annual general meeting shall specify the meeting as such) and state with reasonable prominence that a member entitled to attend and vote is entitled to appoint a proxy, who need not also be a member, to attend and vote instead of him. In the case of special business, the notice must specify the general nature of the business (and, in the case of a meeting convened for passing a special or extraordinary resolution, the intention to propose the resolution as a special or extraordinary resolution as the case may be).

4.11 ***Proceedings at general meetings***

4.11.1 All business shall be deemed special that is transacted at an extraordinary general meeting, and also all business that is transacted at an annual general meeting, with the exception of declaring dividends, the reading and consideration and adoption of the accounts and balance sheets and the ordinary report of the Directors and auditors of Lupus and other documents required to be annexed to the balance sheet, the re-election of Directors retiring, the voting of remuneration or extra remuneration to the Directors, the appointment of and the fixing of the remuneration of the auditors of Lupus and the grant, renewal, limitation, extension or variation of any authority of or to the Board, under section 80 of the Act, to allot securities.

4.11.2 No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business. Except as otherwise provided, two members present in person or by proxy and entitled to vote shall be a quorum for all purposes.

4.11.3 At a general meeting a resolution put to the vote shall be decided on a show of hands unless, before or on the declaration of the result of the show of hands, a poll is demanded by the chairman or by at least three members present in person or by proxy and entitled to vote or by a member or members entitled to vote and holding or representing by proxy at least one-tenth part of the total voting rights of all the members having the right to vote at the meeting or by a member or members holding shares conferring a right to vote at the meeting on which an aggregate sum has been paid in equal to not less than one-tenth of the total sum paid up on all the shares conferring that right. Unless a poll is demanded as above, a declaration by the chairman that a resolution has been carried, or carried unanimously, or

by a particular majority, or lost, and an entry to that effect in the minute book shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against the resolution.

4.12 *Votes of members*

- 4.12.1 Subject to any special rights or restrictions as to voting attached to any shares, on a show of hands every member who is present shall have one vote and on a poll every member who is present in person or by proxy shall have one vote for every share of which he is the holder.
- 4.12.2 If a member, or a person appearing to be interested in shares held by a member, has been duly served with a notice under section 212 of the Companies Act 1985 and is in default for the prescribed period in supplying to Lupus the required information, the Directors may at any time direct that, in respect of the shares in relation to which the default occurred, the member is not entitled to vote.

4.13 *Directors*

- 4.13.1 Unless otherwise determined by ordinary resolution, the number of Directors shall not be subject to any maximum but must not be less than two.
- 4.13.2 The Directors shall be paid out of funds of Lupus by way of remuneration for their services such sums as Lupus by ordinary resolution determines.
- 4.13.3 Subject to the provisions of the Articles, Lupus may by ordinary resolution elect a person to be a Director.
- 4.13.4 No shareholding qualification for Directors is required.
- 4.13.5 Each Director may attend and speak at any general meeting of Lupus.
- 4.13.6 A Director may hold any other office or place of profit with Lupus (except that of auditor) in conjunction with his office of Director for such period and upon such terms as the Board determines, and may be paid such extra remuneration for it.
- 4.13.7 A Director may act by himself or his firm in a professional capacity for Lupus (otherwise than as an auditor) and he or his firm shall be entitled to remuneration for professional services as if he were not a Director.
- 4.13.8 A Director may be or become a director or other officer of, or otherwise interested in, a company promoted by Lupus or in which Lupus is interested, and shall not be liable to account to Lupus or the members for any remuneration, profit or other benefit received by him as a director or officer of or from his interest in that company. The Board may cause the voting power conferred by the shares in another company to be held or owned by Lupus to be exercised in such manner as it thinks fit.
- 4.13.9 Subject to statute and to the following two paragraphs, no Director shall be disqualified by his office from contracting with Lupus, either with regard to his tenure of any office or place of profit or as vendor or purchaser or in any other manner. No contract or arrangement in which a Director is interested shall be liable to be avoided. The Director shall not be liable to account to Lupus or the members for any remuneration, profit or other benefits realised by the contract or arrangement by reason of his holding that office or of the resulting fiduciary relationship.
- 4.13.10 A Director who, to his knowledge is interested, whether directly or indirectly, in a contract or arrangement or proposed contract or arrangement with Lupus must declare the nature of his interest at the meeting of the Board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists or, in any other case, at the first meeting of the Board after he knows that he is or has become interested.
- 4.13.11 A general notice to the Board given by a Director to the effect that he is a member of a specified company or firm and is to be regarded as interested in any contract or arrangement

which may after the date of the notice be made with Lupus or firm shall be a sufficient declaration of his interest in relation any contract or arrangement made with Lupus or firm.

- 4.13.12 Except as otherwise provided in the Articles, a Director must not vote on (or be counted in the quorum in respect of) any resolution of the Board concerning a contract or arrangement or other proposal in which he is to his knowledge, directly or indirectly, materially interested. If he does, his vote shall not be counted.

4.14 ***Power of Directors***

4.14.1 The business of Lupus shall be managed by the Directors who may exercise all such powers of Lupus as are not by the Statutes or by the Articles required to be exercised by Lupus in general meeting, but subject to any regulation of the Articles, to the provisions of the Statutes, and to such regulations, which are not inconsistent with those regulations or provisions, as may be prescribed by extraordinary resolution of Lupus in general meeting.

4.14.2 No regulation made by Lupus in general meeting shall invalidate any prior act of the Directors which would have been valid if the regulation had not been made.

4.15 ***Borrowing***

4.15.1 The Directors may exercise all the powers of Lupus to borrow money, and to mortgage or charge all or any part of its undertaking, property and assets, including its uncalled capital and, subject to the Statutes, to issue debentures and other securities, whether outright or as collateral security, for any debt, liability or obligations of Lupus or of any third party.

4.15.2 The Board must restrict the borrowings of Lupus and exercise all voting and other rights or powers of control exercisable by Lupus in relation to its subsidiaries so as to secure (but as regards subsidiaries only in so far as, by the exercise of the rights or power of control, the Board can secure) that the aggregate principal amount outstanding of all borrowings by the Lupus Group (exclusive of borrowings owing by one member of the Lupus Group to another member) does not, without the previous sanction of an ordinary resolution, exceed the greater of:

4.15.2.1 £2,000,000; or

4.15.2.2 an amount equal to three times the aggregate of the amount paid up or credited as paid up on the issued share capital of Lupus and the amount standing to the credit of the reserves (including any share premium account, capital redemption reserve and credit balance on profit and loss account all as shown by the latest audited balance sheet but after deducing any debit balance on profit and loss account (except to the extent that the deduction has already been made) and making adjustments to reflect any variation in the amount of the paid up share capital, share premium account or capital redemption reserve since the date of the audited balance sheet.

4.15.2.3 A certificate or report by the auditors of Lupus as to the amount of the adjusted capital and reserves or the amount of any borrowings or to the effect that the limit imposed by the paragraph above has not been or will not be exceeded at any particular time or times shall be conclusive for the purposes of the paragraph above.

4.16 ***Executive Directors***

4.16.1 The Directors may appoint one or more of their number to an executive office including the office of chairman, vice-chairman, managing Director, joint managing Director, assistant managing Director or manager or any other salaried office for such period and on such terms as they think fit.

4.16.2 A Director holding office pursuant to the paragraph above shall receive such remuneration (whether by way of salary, commission or participation in profits, or partly in one way and partly in another) as the Directors determine. The remuneration shall, unless otherwise agreed, be additional to such remuneration (if any) as is payable to him as a Director.

4.16.1 The Directors may entrust to and confer upon a Director holding executive office any of the powers exercisable by them as Directors upon such terms and conditions and with such restrictions as they think fit, and either collaterally with or to the exclusion of their own powers, and may revoke, withdraw or vary any of the powers.

4.17 ***Rotation of Directors***

4.17.1 At every annual general meeting one-third of the other Directors or, if their number is not a multiple of three, then the number nearest to but not exceeding one-third shall retire from office. A Director retiring at a meeting shall retain office until the close of the meeting.

4.17.2 The Directors to retire on each occasion shall be those who have been longer in office since their last election but, as between persons who became or were re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

4.17.3 A retiring Director shall be eligible for re-election.

4.17.4 Lupus in general meeting may increase or reduce the number of Directors and may determine in what rotation the increased or reduced number is to go out of office.

4.17.5 Lupus may, by ordinary resolution of which special notice has been given in accordance with s. 379 of the Companies Act, remove any Director (including a managing Director or other executive Director, but without prejudice to any claim for damages under any contract) before the expiration of his period of office and may by an ordinary resolution appoint another person in his place.

4.18 ***Proceedings***

4.18.1 The Directors may meet together for the dispatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes and in case of an equality of votes the chairman shall have a second or casting vote. A Director may at any time, and the Secretary on the requisition of a Director shall, summon a Board meeting.

4.18.2 The quorum necessary for the transaction of the business of the Directors may be fixed by the Directors and, unless fixed at any other number, shall be two.

4.18.3 A meeting of the Directors at which a quorum is present shall be competent to exercise all powers and discretions exercisable by the Directors.

4.18.4 The Directors may delegate any of their powers to committees consisting of such number or members of their body as they think fit and may revoke a delegation and discharge a committee in whole or in part. A committee shall in the exercise of the powers delegated to it to conform to any regulations that are imposed by the Directors.

4.18.5 A resolution in writing, signed by all or a majority of the Directors entitled to notice of a meeting of the Directors or by all of the members of a committee, shall be as valid as if it had been passed at a Board meeting or a meeting of the committee duly called and constituted. The resolution may consist of several documents in the like form each signed by one or more of the Directors or members of the committee.

4.18.6 The Directors shall cause minutes to be made in books provided for the purpose:

4.18.6.1 of all appointments of officers made by the Directors;

4.18.6.2 of the names of all the Directors present at each Board meeting and meeting of a committee of Directors;

4.18.6.3 of all resolutions and proceedings at meetings of Lupus and of any class of members of Lupus and of the Directors and of any committee of Directors.

4.18.7 All actions done by any Board meeting, or meeting of a committee of Directors, or by a person acting as a Director, shall as regards all persons dealing in good faith with Lupus, notwithstanding that there was some defect in the appointment of any Director, or of the person acting as a Director, or that they or any of them were disqualified, or had vacated

office or were not entitled to vote, be as valid as if each of them had been duly appointed, and was qualified and had continued to be a Director and had been entitled to vote.

4.19 *Secretary*

4.19.1 The Secretary shall be appointed by the Directors at such remuneration and upon such terms as they think fit. The Secretary may be removed by the Directors.

4.20 *Dividends*

4.20.1 The profits of Lupus available for dividend and resolved to be distributed shall be applied in the payment of dividends to the members in accordance with their respective rights and priorities. Lupus in general meeting may declare dividends accordingly.

4.20.2 No dividend shall be payable except out of the profits of Lupus (including profits set aside to any reserve fund) or in excess of the amount recommended by the Directors.

4.20.3 The Directors must transfer to share premium account as required by the Statutes sums equal to the amount or value of any premiums at which any shares of Lupus are issued.

4.20.4 The Directors may pay such interim dividends as appear to them to be justified by the profits of Lupus. If the capital of Lupus is divided into different classes of shares the Directors may pay interim dividends in respect of those shares which confer on the holders deferred or non-preferred rights as well as in respect of those shares which confer on the holders preferential or special rights with regard to dividends.

4.21 *Scrip dividends*

4.21.1 The Directors may, if authorised by an ordinary resolution, offer any holders of ordinary shares one or more of the following options:

4.21.1.1 instead of taking the net cash amount due to them in respect of all or any part (to be determined by the Directors) of any dividend declared or payable on any ordinary shares held by them, either to invest the cash in subscribing for unissued ordinary shares, payable in full or by instalments, or in paying up in full or by instalments any unpaid or partly paid ordinary shares held by them; or

4.21.1.2 instead of taking the net cash amount due to them in respect of all or any part (to be determined by the Directors) of any dividend declared or payable on any ordinary shares held by them, to elect to receive new ordinary shares credited as fully paid; or

4.21.1.3 to forego their entitlement to all or any part (to be determined by the Directors) of any dividend declared or payable on any ordinary shares held by them and to take instead fully paid bonus ordinary shares; or

4.21.1.4 any other option in respect of all or any part (to be determined by the Directors) of any dividend on any ordinary shares held by them as the Directors determine.

4.22 *Reserves*

4.22.1 The Directors may, before recommending any dividend, set aside out of the profits of Lupus such sums as they think proper as a reserve which shall, at the discretion of the Directors, be applicable for any purpose to which the profits of Lupus may be properly applied. Pending application the sum reserved may either be employed in the business of Lupus or be invested in such investments (other than shares of Lupus) as the Directors think fit.

4.23 *Capitalisation of profits and reserves*

4.23.1 Subject to section 80 and Part VIII of the Companies Act, Lupus in general meeting may, upon the recommendation of the Directors, resolve that it is desirable to capitalise an amount standing to the credit of any of Lupus' reserve accounts or to the credit of the profit and loss account or otherwise available for distribution, and accordingly that it is set free for distribution among the members who would have been entitled to it if distributed by way of dividend and in the same proportions on condition that it is not paid in cash but is applied either in or towards paying up any amount unpaid on shares held by the members or paying

up in full unissued shares or Debentures of Lupus to be allotted and distributed, credited as fully paid up, to and among those members in those proportions, or partly in the one way and partly in the other. The Directors shall give effect to the resolution.

4.24 *Notices*

- 4.24.1 Any notice or document may be served by Lupus on any member either personally or by sending it through the post in a prepaid letter addressed to him at his registered address as appearing in the register of members. A member is entitled to receive notices from Lupus notwithstanding that his registered address as appearing in the register of members is outside the United Kingdom. In the case of joint holders of a share, notices shall be given to that one of the joint holders whose name stands first in the register of members and notice given to him shall be sufficient notice to all the joint holders.
- 4.24.2 Any notice or other document, if served by post, shall be deemed to have been served at the expiration of 24 hours after the time when the letter containing it is posted. In proving service it shall be sufficient to prove that the letter containing the notice or document was properly addressed, stamped and posted.
- 4.24.3 If by reason of the suspension or curtailment of postal services within the United Kingdom Lupus is unable effectively to convene a general meeting by notice sent through the post, it may be convened by notice advertised in at least two leading daily newspapers with appropriate circulation, of which one is a leading London daily newspaper. The notice shall be deemed to have been duly served on all members entitled to it at noon on the day when the advertisement appears. Lupus shall send confirmatory copies of the notice by post if at least 48 hours prior to the meeting the posting of notices to addressees within the United Kingdom again becomes practicable.
- 4.24.4 A notice required to be given by Lupus to members and not expressly provided for by the Articles shall be sufficiently given if given by advertisement. A notice required to be or which may be given by advertisement shall be advertised once in one national daily newspaper and shall be taken as given on the day on which the advertisement appears.

4.25 *Winding up*

- 4.25.1 On a winding up of Lupus, the balance of the assets available for distribution, after deduction of any provision made under s. 719 of the Companies Act and subject to any special rights attaching to any class of shares, shall be applied in repaying to the members of the Lupus the amounts paid up on the shares held by them. Any surplus assets will belong to the holders of any ordinary shares then in issue according to the numbers of shares held by them, or if no ordinary shares are then in issue, to the holders of any unclassified shares then in issue according to the numbers of shares held by them.
- 4.25.2 If Lupus is wound up (whether the liquidation is voluntary, under supervision or by the court) the liquidator may, with the authority of an extraordinary resolution, divide among the members in specie or kind the whole or any part of the assets of Lupus, whether or not the assets consist of property of one kind or of properties of different kinds. He may for that purpose set such value as he deems fair upon any one or more class or classes of property and may determine how the division is carried out as between the members or different classes of members.

4.26 *Indemnity*

- 4.26.1 Except so far as the provisions of this paragraph are avoided by any provisions of the Statutes, the Directors, executive Directors, auditors of Lupus, Secretary and other officers of Lupus, and their respective executors or administrators, shall to the extent permitted by the Statutes be indemnified out of the assets of Lupus against all actions, costs, charges, losses, damages and expenses which they may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices, unless incurred through their own willful neglect or default. None of them shall be answerable for the acts, neglects or defaults of any other of them, or for joining in any receipt for the sake of conformity, or for any bankers or other persons with whom any

moneys or assets of Lupus are lodged or deposited for safe custody, or for the insufficiency or deficiency of any security upon which any moneys of Lupus are placed out or invested, or for any other loss or damage which happens in the execution of their offices, unless resulting from their own willful neglect or default. Subject to the provisions of the Companies Act, the Directors may purchase and maintain insurance at the expense of Lupus for the benefit of any director or other officer or auditor of Lupus against any liability which may attach to him or loss or expenditure which he may incur in relation to anything done or alleged to have been done or omitted to be done by him as a director, officer or auditor.

5. Directors of Lupus

5.1 The Directors and their functions are set out on page 15 of this document. The Directors are:

5.1.1 *Greg Hutchings, Executive Chairman*

Greg Hutchings joined Tomkins plc in 1983 and held the post of Chief Executive and Chairman from January 1984 until he stepped down in October 2000. Over the 16 year period to 30 April 2000 Tomkins' 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 the period was around 26 per cent per annum. In the year to 30 April 2000 Tomkins' earnings per share and dividends increased by 15 per cent.

5.1.2 *Denis Mulhall, Executive Director*

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

5.1.3 *Frederic Hoad, Senior Non-executive Director*

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, among a number of senior positions, he was head of Corporate Finance and head of Overseas Division finance and head of Private Equity Investment. He is the senior non-executive director.

5.1.4 *Roland Tate, Non-executive director*

Roland Tate MA is Managing Director of Tiger Corporate Finance Ltd., an independent corporate finance house which he formed in 2005 following a period as Director of Corporate Finance at RMT, a regional independent firm of business advisers based in Newcastle. After a period of working the oil and gas sector, he spent eight years as an executive and director at three private equity investment organisations and was appointed non-executive director of several venture capital backed businesses. In 1995 he joined PricewaterhouseCoopers and subsequently KPMG as a Corporate Finance Director, where he gained considerable experience in mergers and acquisitions. He is a fellow of the Securities and Investment Institute.

5.2 It is intended that following Completion, Greg Hutchings, Denis Mulhall, Frederic Hoad and Roland Tate will all remain as Directors.

5.3 In addition to their directorships of Lupus, the Directors hold or have held the following directorships and are or were members of the following partnerships within the past five years:

Director	Current directorships/partnerships	Previous directorships/partnerships
Mr Hutchings	Museum of London	Tomkins Plc Royal National Theatre

Director	Current directorships/partnerships	Previous directorships/partnerships
Mr Mulhall	RingProp Plc	Berisford Plc Metzler Automotive Profile Systems (SARL) Ltd Oxford Glycosciences Plc
Mr Hoad	Commercial Union Capital Ltd Cube Airfinance Ltd GN & Sons Ltd Hoad & Co (Consultants) Ltd Dorking Lawn Tennis and Squash Club Ltd	Commercial Union (BES) Investment Management Ltd Commercial Union Equipment Finance Ltd Commercial Union Leasing Ltd Jonhoad Ltd Mercock Ltd Select Industries Management Co. Limited Coal Developments (Queensland) Ltd
Mr Tate	Tiger Corporate Finance Ltd	Cloth Market Partners Ltd

5.4 None of the Directors has in the five years prior to the date of this document:

5.4.1 had any convictions in relation to fraudulent offences;

5.4.2 been declared bankrupt or been subject to any individual voluntary arrangement or been associated with any bankruptcy, receivership or liquidation in his capacity as member of the administrative, management or supervisory bodies or member of senior management of a company; or

5.4.3 been subject to any official public incrimination and/or sanctioned by any statutory or regulatory authorities (including designated professional bodies) or been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

5.5 The business address of each of the Directors is Crusader House, 145-157 St John Street, London, EC1 4RU.

6. Directors' service agreements and emoluments

6.1 *Executive Directors*

Each of the executive Directors listed below entered into a new service agreement with Lupus on the contract date, and is entitled to the annual remuneration, set out below.

Executive Director	Original date of appointment as Director	Contract date	Term	Notice Period	Maximum contractual termination payment	Salary £	Bonus £
Mr Hutchings	16.02.04	16.02.04	Rolling	1 year	1 year's salary and associated contractual benefits	150,000	–
Mr Mulhall	23.02.04	23.02.04	Rolling	1 year	1 year's salary and associated contractual benefits	75,000	–

The service agreements are for an indefinite period, terminable by either party on not less than twelve months' written notice.

The service agreements contain clauses providing for garden leave and the payment of basic salary and benefits in lieu of notice. Apart from the option on Lupus to pay an amount for compensation for loss of office in lieu of notice upon termination, there are no contractual payments to be made on termination.

Each executive Director's salary is fixed at the annual rate set out in the table above unless some higher salary is agreed between the executive Director and the Board. In addition, the executive Directors are entitled to participate from time to time in any bonus arrangements which the Board determines to establish. As at 6 March 2006 (the latest practicable date prior to the publication of this document) there has been no increase in the salaries of the executive Directors. None of the executive Directors received any bonus in the year ended 31 December 2005.

Each of the executive Directors is entitled to out-of-pocket expenses and 25 working days' holiday each year. Lupus does not have a pension scheme which is applicable to the employment of the executive Directors. Lupus provides the executive Directors and their dependents with membership of a private medical expenses arrangement. Lupus maintains and bears the cost of permanent health insurance cover for the executive Directors.

6.2 *Non-Executive Directors*

Each of the non-executive Directors is engaged under the terms of a letter of appointment under which he is required to perform the usual duties of a non-executive director. The letters of appointment contain confidentiality obligations.

Details of the principal terms of the letters of appointment for the non-executive Directors are set out below.

Non-Executive Director	Original date of appointment as Director	Expiry date of current letter of appointment	Notice Period	Contractual termination payment	Period served as Director as at 31 December 2005	Fees £
Mr Hoad	28.11.02	15.02.07	1 month	Accrued fees and expenses	3 years 1 month	18,000
Mr Tate	28.11.02	15.02.07	1 month	Accrued fees and expenses	3 years 1 month	18,000

6.3 *Directors' emoluments*

The aggregate emoluments (including benefits in kind and pensions) paid or granted to the Directors (executive and non-executive) in the year ended 31 December 2005 were £263,277.

7. **Directors' Shareholdings and other interests**

7.1 *Lupus*

The interests of each of the Directors and those of any person connected with them within the meaning of section 346 of the Companies Act (each a "Connected Person"), all of which are beneficial unless otherwise stated, in the share capital of Lupus which (a) have been notified to Lupus pursuant to section 324 or section 328 of the Companies Act or (b) are required to be entered in the register maintained under section 325 of the Companies Act or (c) are interests of Connected Persons which would, if the Connected Person were a Director, be required to be disclosed under (a) or (b) above, insofar as the latter are known to, or could with reasonable diligence be ascertained by, that Director are as at 6 March 2006 (being the latest practicable date prior to the publication of this document) and will, immediately following the Acquisition and Placing and the Open Offer (assuming full allocation of the New Ordinary Shares), be as follows:

	As at 6 March 2006			Following Admission ⁽²⁾		
	No. of Ordinary Shares	% of ordinary share capital	Options and Awards	No. of ordinary shares	Enlarged Share Capital	Options and Awards
Directors						
Mr Hutchings ⁽¹⁾	23,750,000	10.0	714,285 ⁽³⁾	31,666,666	5.1	714,285
Mr Mulhall	2,800,000	1.2	0	4,600,000	0.7	0
Mr Hoad	325,000	0.1	0	533,333	0.1	0
Mr Tate	160,348	0.1	0	267,368	0.1	0
Total	<u>27,036,196</u>	<u>11.4</u>	<u>0</u>	<u>37,067,367</u>	<u>6.0</u>	<u>0</u>

(1) Mr Hutchings and his family have also been allocated unconditionally under the Share Incentive Arrangements 47,539,257 Ordinary Shares which are held by the LESOT. Please see the table in paragraph 9.1 of this Part 12 for details on these Ordinary Shares.

(2) These figures have been calculated on the basis that each director acquires all of the Open Offer Shares that he has indicated he will apply for.

(3) These options are granted under the EMI Scheme and the shares held by the LESOT are available to satisfy any exercise of these options.

The interests of the Directors together represent approximately 11.4 per cent. of the issued share capital of Lupus as at 6 March 2006 (being the latest practicable date prior to publication of this document). The interests of the Directors are expected to represent approximately 6 per cent. of the Enlarged Share Capital of Lupus after the Acquisition, Placing and the Open Offer.

Save as disclosed above, none of the Directors has any interest in the share or loan capital of Lupus and there is no person to whom any capital of any member of the Lupus Group is under option or agreed unconditionally to be put under option.

7.2 No Director has, or has had, an interest in any transaction which is or was unusual in its nature or conditions or which is or was significant to the business of the Enlarged Group and which was effected by Lupus in the current or immediately preceding financial year or during an earlier financial year and which remains in any respect outstanding or unperformed.

7.3 No outstanding loans or guarantees have been granted or provided to or for the benefit of any Director by Lupus or any of its subsidiaries.

7.4 There are no family relationships between any Directors or any persons disclosed under section 7.1 above.

7.5 There are no potential conflicts of interest between any of the duties of the Directors to Lupus, the Lupus Group or the Enlarged Group and their private interests and/or other duties.

7.6 There are no restrictions on Directors in respect of the disposal of their Ordinary Shares:

8. Related party transactions

The only related party transaction entered into by Lupus during the financial years ended 31 December 2003, 2004 and 2005 and during the period between 1 January 2006 and 6 March 2006 (the latest practicable date prior to the publication of this document) was the subscription by the LESOT on 26 March 2004 for 47,539,257 Ordinary Shares in cash at a price of 17.25p per share using funds contributed to the LESOT by Lupus under the Share Incentive Arrangements.

9. Substantial Shareholdings

9.1 *Lupus*

As at 6 March 2006 (being the latest practicable date prior to publication of this document), in so far as is known to Lupus, the name of any person, other than a Director, who, directly or indirectly, was and/or is anticipated to be interested in three per cent or more of Lupus' share capital, and the amount of such person's interest and their expected interest following Admission and assuming full allocation of the New Ordinary Shares are set out below.

Shareholder	As at 6 March 2006		Following Admission ⁽¹⁾	
	Number of Ordinary Shares	Percentage of issued share capital	No of Ordinary Shares	Percentage of Enlarged Share Capital
The LESOT	47,539,257	20.00	63,385,676	10.3
Undervalued Assets Trust plc . .	7,366,133	3.10	9,821,511	1.6

(1) These figures are calculated on the basis that the Shareholders apply to acquire their full Basic Entitlement and do not apply for any Excess Shares.

- 9.2 The Shareholders referred to in section 9.1 above do not have different voting rights.
- 9.3 Lupus is not aware of any person who does or could following the Placing and the Open Offer, directly or indirectly, jointly or severally, exercise control over Lupus.
- 9.4 There are no arrangements or understandings with major shareholders, customers, suppliers or others, pursuant to which a Director was selected as a Director.

10. Corporate Governance

The Board acknowledges 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 Lupus, as follows:

10.1 *Board composition*

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

Since 1 January 2005, Mr Hoad has been the senior non-executive Director on the Board. All non-executive Directors are independent.

10.2 *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 and it is intended that Schlegel will be managed in a similar manner.

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 the regular formal 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 Lupus' expense.

10.3 *Evaluation of performance and re-election of Directors*

A procedure for carrying out formal internal evaluations of the Board 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.

10.4 *Board committees*

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

10.5 *Audit and Corporate Governance Committee*

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

The Committee also reviews any non-audit services provided by the auditors. 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 auditors.

To date the Committee has not recommended the establishment of an internal audit function, because the Lupus Group has at present only one active subsidiary (together with its subsidiary) outside London, whose operations are closely monitored by the executive Directors. However, following the completion of the Transaction, this policy will be kept under active review.

10.6 *Remuneration Committee*

The Remuneration Committee considers and approves the remuneration and benefits (if any) of the Directors.

The Remuneration Committee of the Board comprises all the independent non-executive Directors of Lupus. It meets as and when required and is chaired by Mr Hoad.

10.7 *Nominations Committee*

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

10.8 *Internal control*

The Directors acknowledge that they are responsible for the Lupus 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 Lupus. 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.

10.9 *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. Lupus 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.

10.10 *Statement by Directors on compliance with the provisions of the Combined Code*

Lupus complies with the provisions of the Combined Code except as follows:

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

11. Material Contracts

11.1 *Lupus*

The following contracts are all of the contracts (not being contracts entered into in the ordinary course of business) entered into by any member of the Lupus Group (i) within the two years immediately preceding the date of this document and are, or may be, material to the Lupus Group; or (ii) at any time and contain any provision under which any member of the Lupus Group has any obligation or entitlement which is or may be, material to the Lupus Group as at the date of this document.

(A) *Placing Agreement*

An agreement dated 3 March 2006 and made between Lupus (1) and HSBC (2) whereby, subject to the conditions stated below, HSBC, as agent for Lupus, has agreed to make the Open Offer to the Qualifying Shareholders and to use its reasonable endeavours to procure places to acquire New Ordinary Shares (other than Open Offer Shares which are acquired pursuant to the Open Offer) at the Issue Price and, to the extent it fails to procure such places, to acquire any remaining New Ordinary Shares at the Issue Price. The Placing Agreement also contains an obligation on HSBC to underwrite fully the Placing and the Open Offer upon the terms and subject to the conditions of the Placing Agreement. The fees for such underwriting are included in the commission set out below.

The Placing Agreement is conditional, *inter alia*, on;

- (i) the passing of the Resolution 1;
- (ii) Admission having become effective by no later than 8.00 a.m. on 4 April 2006 (or such later time and/or date (being no later than 8.00 a.m. on 18 April 2006) as Lupus and HSBC may agree; and
- (iii) HSBC not terminating the Placing Agreement, in accordance with its terms, at any time prior to Admission.

Lupus has agreed to pay HSBC a fee, equal to 1 per cent. of the amount paid by Lupus, through the Purchasing Subsidiaries, to the Vendors in consideration for the Acquisition, in respect of the transactions contemplated by the Placing Agreement.

Lupus has also agreed to pay HSBC, subject to Admission taking place, a commission (which includes an underwriting commission) equal to 2.5 per cent. of the aggregate value at the Issue Price of the New Ordinary Shares. In addition, Lupus has agreed to pay HSBC, subject to Admission taking place, a commission equal to 0.5 per cent. of the aggregate value of the Conditional Placing Shares. The Placing Agreement contains warranties given by Lupus and the Directors and indemnities given by Lupus, in favour of HSBC, which are customary for this type of agreement. In addition, between the date of the Placing Agreement and Admission HSBC may in certain circumstances, including where there is a material breach of warranty or a material adverse change in the financial markets, terminate the Placing Agreement or fix a new date as the latest date by which all conditions in the Placing Agreement must have been satisfied or waived.

(B) *Nominated adviser and broker agreement*

On 3 March 2006, Lupus and HSBC entered into a nominated adviser and broker agreement under which HSBC set out the services to be provided by it in connection with its role as Lupus's nominated adviser and broker. Under the agreement Lupus agrees to pay HSBC an annual retainer of £40,000 (plus VAT) for its services and gives certain undertakings and indemnities in favour of HSBC which are customary in agreements of this kind. The agreement may be terminated by either party giving one month's written notice to the other.

(C) *Acquisition Agreement*

Please see Part 10 for a full description of the terms of the Acquisition Agreement.

(D) *New Debt Facility*

This is an agreement dated 3 March 2006 and made between Schlegel Acquisition Holdings Limited as original borrower and as original guarantor, Lupus, Schlegel UK (2006) Limited and Schlegel Acquisition Holdings USA, Inc. as original guarantors and HSBC Bank plc and The Governor and Company of the Bank of Scotland as mandated lead arrangers and original lenders and The Governor and Company of The Bank of Scotland as agent pursuant to which a multicurrency term loan facility in an aggregate amount of £35,000,000 and a multicurrency revolving loan facility in an aggregate amount of £10,000,000 (together with the term loan facility, the “**Facilities**”) are made available to Schlegel Acquisition Holdings Limited (the “**Facility Agreement**”). The proceeds of the term loan facility will be used to fund part of the Acquisition and to pay the fees, costs and expenses associated with the Acquisition. The proceeds of the revolving loan facility will be put towards the general corporate and working capital purposes of Schlegel Acquisition Holdings Limited and its group. Certain conditions precedent customary to this type of agreement must be met for funding to occur under the Facilities including the granting by Lupus of a charge over its shares in Schlegel Acquisition Holdings Limited.

Following completion of the Acquisition, Schlegel Australia, Schlegel Belgium, Schlegel US, Schlegel Germany, Schlegel Italy and Schlegel Spain will become obligors under the Facilities and guarantee some or all of the obligations of the borrowers under the Facility Agreement. The scope and extent of the guarantees provided depends on applicable law in the jurisdiction of incorporation of the guaranteeing entities. Future members of Schlegel Acquisition Holdings Limited’s group would be required under the terms of the Facility Agreement to accede as guarantors under the Facility Agreement.

The rate of interest for borrowings under the Facilities for each interest period is the percentage rate per annum which is the aggregate of the margin, LIBOR (or, in relation to any loan in euro, EURIBOR) and any mandatory cost. The margin will initially be 0.95 per cent. per annum and will vary during the term of the Facility Agreement in line with ratio of consolidated total net borrowings to consolidated EBITDA. The Facility Agreement requires the borrowers to pay quarterly, a commitment fee of 40 per cent. of the then applicable margin on the preceding quarter’s unused portion of the Facilities. The Facility Agreement also requires the borrowers and Lupus to pay other fees based on the amount of the Facilities.

The termination date for the facilities is 60 months after the date of the Facility Agreement. The Facility Agreement contains representations, undertakings and events of default which are customary for this type of agreement.

(E) *Subscription and Transfer Agreement and Option Agreement*

In connection with the Placing and Open Offer, Lupus, HSBC and Newco have entered into two agreements dated 3 March 2006 in respect of the subscription and transfer of ordinary shares and redeemable preference shares in Newco.

- (a) Under the Option Agreement, Lupus has agreed to subscribe for 88 ordinary shares in Newco with a nominal value of £1 each and HSBC has agreed to subscribe for 10 ordinary shares in Newco with a nominal value of £1 each and enter into put and call options in respect of the ordinary shares in Newco subscribed for by HSBC that are exercisable if the Placing and Open Offer do not proceed;
- (b) Under the Subscription and Transfer Agreement, HSBC will apply monies that it receives as principal from Qualifying Shareholders and Placees applying to acquire New Ordinary Shares under the Placing and Open Offer to subscribe for redeemable preference shares in Newco to an aggregate value equal to such Placing and Open Offer monies, after deduction of the amount of the commissions as set out above in the summary of the Placing Agreement, together with any relevant amounts in respect of any New Ordinary Shares acquired by HSBC or for which

HSBC have procured acquirers pursuant to the Placing Agreement (after deducting relevant commissions and/or expenses); and

- (c) Lupus will allot and issue the New Ordinary Shares to those persons entitled thereto in consideration of HSBC transferring its holding of redeemable preference shares and ordinary shares in Newco to Lupus.

Accordingly, instead of receiving cash as consideration for the issue of the New Ordinary Shares, at the conclusion of the Placing and Open Offer Lupus will own the entire issued ordinary and redeemable preference share capital of Newco whose only assets will be its cash reserves, which will represent an amount equivalent to the net proceeds of the Placing and Open Offer. Lupus will be able to utilise this amount equivalent to the Placing and Open Offer proceeds by exercising its right of redemption over the redeemable preference shares it holds in Newco and, during any interim period prior to redemption, by procuring that Newco lends the amount to Lupus (or one of the Lupus' subsidiaries).

11.2 *Schlegel*

The following contracts are all of the contracts (not being contracts entered into in the ordinary course of business) entered into by any of the Transferred Subsidiaries or which are being acquired as part of the Transferred Assets (i) within the two years immediately preceding the date of this document and are, or may be, material to Schlegel; or (ii) at any time and contain any provision under which any of the Transferred Subsidiaries has any obligation or entitlement which is or may be, material to Schlegel as at the date of this document.

(A) *The Schlegel EMI Separation Contracts*

The following contracts have all been entered into by various of the Transferred Subsidiaries as part of the separation of Schlegel EMI from Schlegel, as described in Section B of Part 7 of this document.

- (i) A subscription and contribution agreement made on 1 March 2006 by and between Schlegel Systems, Inc. (“SSI”) (which is a wholly owned subsidiary of Schlegel US) and Schlegel Electronic Materials Holdings, Inc. (“SEM Holdings”) (the “**Subscription and Contribution Agreement**”) pursuant to which SSI has contributed 600,000 ordinary shares (the “**SEM FE Shares**”) of Schlegel (Far East) Limited (“SEM FE”) and its business division that designs, develops, manufactures, distributes, licences, supplies, sells and/or maintains electro-magnetic interference shielding devices for use in the technology and medical sectors and carries out research in relation to such devices (the “**EMI Business**”) to SEM Holdings in consideration for the issue by SEM Holdings to SSI of 9,900 shares of Common Stock. This agreement contains mutual non-compete provisions of a ten year duration, breach of which by either party gives rise to a right of the non-breaching party to claim liquidated damages of US\$10,000,000.
- (ii) A bill of sale and assignment agreement made on 1 March 2006 by and between SSI and SEM Holdings pursuant to which SSI sold, assigned, transferred and delivered the SEM FE Shares and the assets used in the EMI Business to SEM Holdings pursuant to the Subscription and Contribution Agreement.
- (iii) An assignment and assumption agreement made on 1 March 2006 by and between SSI and SEM Holdings pursuant to which SEM Holdings has assumed certain liabilities of the EMI Business pursuant to the Subscription and Contribution Agreement.
- (iv) An assignment of intellectual property rights made on 1 March 2006 by which SSI assigned to SEM Holdings all of its right, title and interest in certain patents, trade marks, a license and other intellectual property rights used in the EMI Business pursuant to the Subscription and Contribution Agreement.
- (v) A share purchase agreement dated 2 March 2006 between SSI and UniPoly pursuant to which SSI has sold the entire issued share capital of SEM Holdings,

consisting of 10,000 shares of Common Stock, par value \$1 per share, to UniPoly for a consideration of \$3,600,000 left outstanding on intercompany account and which consideration is repayable by UniPoly on the demand of SSI at any time or times after 31 May 2006, or otherwise repayable by UniPoly at any time or times before such date.

- (vi) A supply agreement made on 2 March 2006 by and between SSI, Schlegel Electronic Materials, Inc. (“**SEM Inc**”), SEM Belgium BVBA (“**SEM Belgium**”), SEM FE and Schlegel Electronic Materials (Dongguan) Limited (“**Schlegel PRC**”) pursuant to which SSI has agreed to supply certain goods to the other parties thereto and have access to and use of the foam formulations used in the EMI Business for costs plus 15 per cent. This agreement contains mutual non-compete provisions of a ten year duration, breach of which by either party gives rise to a right of the non-breaching party to claim liquidated damages of US\$10,000,000. The agreement also contains liquidated damages provisions for failure to supply. It has a five year term subject to earlier termination by SEM Inc after twelve months with six months notice (the non-compete provisions survive termination).
- (vii) A services agreement made on 2 March 2006 by and between SSI and SEM Inc pursuant to which SSI has agreed to provide certain human resources, IT and other services to SEM Inc. for a service fee \$10,000 per month. The initial term is six months and the agreement is terminable on three months notice thereafter.
- (viii) An indemnification agreement made on 2 March 2006 by and between SSI and SEM Inc pursuant to which SEM Inc has agreed to indemnify SSI from and against any and all losses, liabilities, damages, deficiencies, penalties, judgments, assessments, fines, settlements, costs or expenses directly related to any and all claims formally filed against SSI by certain specified employees and former employees of SSI under the N. Y. Work. Comp. L s 1 et seq alleging injuries sustained while such employees were employed in the EMI Business of SSI.
- (ix) A trademark concurrent use agreement made on 2 March 2006 by and among SEM Inc, SEM Holdings, SEM Belgium, SEM FE, Schlegel PRC and SSI pursuant to which the parties have agreed certain arrangements in relation to the use of the trademark “Schlegel”.
- (x) A sublease agreement dated as of 2 March 2006 by and between SSI and SEM Inc pursuant to which SSI has sublet certain premises at 1555 Jefferson Road, Henrietta, Monroe County, New York to SEM Inc. The term of the sublease ends on 30 April 2019 but either party may terminate the sublease on twelve months’ notice to the other. The rent is 10 per cent. of the base rent under the prime lease, subject to upward adjustment.
- (xi) A guaranteed dollar promissory note issued on 2 March 2006 by SEM Inc to SSI, and backed by a Letter of Credit, pursuant to which SEM Inc has agreed to pay the aggregate sum of \$890,000 to SSI in annual instalments between 30 September 2006 and 30 September 2011 in respect of the SSI pension plan underfunding. The performance of SEM Inc’s obligations under this promissory note has been guaranteed by UniPoly.
- (xii) On 21 July 2005 Schlegel Belgium appointed a proxy to represent it at the extraordinary general meeting of SEM Belgium which was held on 27 July 2005 and at which the entire assets and liabilities associated with the activities of the EMI Business of Schlegel Belgium were contributed to SEM Belgium for shares.
- (xiii) A lease agreement dated 1 June 2005 between Schlegel Belgium and SEM Belgium pursuant to which Schlegel Belgium has sublet an office and production facility located at Rochesterlaan 4, 8470 Gistel, Belgium to SEM Belgium for a term of three years, automatically renewable for successive periods of three years, subject

to termination by either party on twelve months' notice. The rent is €3,000 per month subject to upward adjustment.

- (xiv) A share purchase agreement dated 19 August 2005 between Schlegel Belgium and UniPoly pursuant to which Schlegel Belgium sold the entire issued share capital of SEM Belgium, consisting of 509,823 shares of 1 euro each, to UniPoly for a consideration of £351,778.40 which sum was left outstanding on the terms of a loan note issued by UniPoly to Schlegel Belgium on 19 August 2005.

12. Litigation

12.1 *Lupus Group*

There are no and have not been any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Lupus is aware), during a period covering at least the previous 12 months which may have, or have had in the recent past significant effect on Lupus and/or the Lupus Group's financial position or profitability.

12.2 *Schlegel*

There are no and have not been any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Lupus is aware), during a period covering at least the previous 12 months which may have, or have had in the recent past significant effect on Schlegel and/or Schlegel's financial position or profitability.

13. Share Incentive Arrangements

13.1 *Introduction*

Under the Share Incentive Arrangements, options have been granted over Ordinary Shares. The Share Incentive Arrangements were adopted on 16 February 2004 and do not qualify for approval by HM Revenue & Customs. The Share Incentive Arrangements are implemented by means of the LESOT and the EMI Scheme.

13.2 *The LESOT*

The LESOT is an employee benefit trust established to benefit all the employees of Lupus and its subsidiaries from time to time and certain of their relatives. The Trustee is an independent third party trustee whose obligations and responsibilities are to hold the trust assets for the benefit of the beneficiaries, but who is likely to take into account recommendations made by the remuneration committee of the Board when determining the allocation of the trust assets.

13.3 *The EMI Scheme*

The EMI Scheme allows Lupus' employees (including executive Directors) to acquire shares in Lupus in a tax approved efficient manner.

13.3.1 *Eligibility*

To participate in the EMI Scheme, an employee must be employed by Lupus, or a 75 per cent. subsidiary of Lupus, and commit at least 25 hours per week (or 75 per cent. of his working time) to the business of Lupus, or a group company of Lupus. An employee is only eligible to participate in the EMI Scheme if he owns less than, or is not able to control more than, 30 per cent. of the Ordinary Share capital of Lupus, or of a group company of Lupus, whether individually or through his associates.

13.3.2 *Limits*

A participating employee may not hold unexercised EMI Scheme options over shares in Lupus with a total value exceeding £100,000 (the value being calculated at the date the option is granted). If a participant has received options granted under an Inland Revenue approved discretionary share option scheme, then such options will be included within the calculation of the £100,000 limit. The EMI Scheme has an overall limit of £3 million on the total value of shares in Lupus that may be subject to unexercised EMI Scheme options at any one time (calculated at the date of grant).

13.4 *The Share Incentive Arrangements*

The rules of the Share Incentive Arrangements are contained in the trust deed of the LESOT, a subscription agreement between Lupus and the LESOT and the rules of the EMI Scheme.

The Share Incentive Arrangements provide potential awards of Ordinary Shares under the LESOT and into the EMI Scheme. The number of options granted to employees under the EMI Scheme will be at the discretion of the Board. The allocation of shares to beneficiaries within the LESOT will be at the discretion of the trustees of the LESOT, although they may consider recommendations from the remuneration committee of the Board.

13.4.1 *Timing of Allotments*

The Share Incentive Arrangements cover the three financial years ending 31 December 2007, and the Trustees may subscribe for Ordinary Shares until 31 August 2008. Shares are allotted under the Share Incentive Arrangements as soon as practicable after receipt by Lupus of a Subscription Notice and satisfaction of the conditions to the Share Incentive Arrangements. Lupus will make contributions to the LESOT sufficient to enable the LESOT to subscribe for the relevant number of shares and will use all reasonable efforts to ensure that such shares are admitted to listing on the Official List.

The Trustees may not serve a subscription notice pursuant to the Share Incentive Arrangements earlier than 30 business days after the preliminary announcement of the results of Lupus for the year ending 31 December 2007 nor later than 31 August 2008.

13.4.2 *Share awards*

The number of shares to be issued under the Share Incentive Arrangements will be 95,000,000 multiplied by a factor relating to share price performance and by a factor relating to compound growth in adjusted earnings per share. The share price factor is based on share price achievement against the range 18p to 30p, taking the average mid market price of an Ordinary Share over 30 business days prior to a subscription notice being served by the Trustees. The price range may be adjusted at the discretion of the remuneration committee of the Board to take account of the price at which substantial issues of new equity may have been made since 16 January 2004. The earnings per share factor is based on achievement of compound annual increase in adjusted earnings per share against the range 10 per cent. to 25 per cent. in the three years ending 31 December 2006. If either factor is achieved as to less than 100 per cent, multiplying the factors together will reduce the number of Ordinary Shares to be issued significantly.

The aggregate number of shares to be issued under the EMI Scheme and the LESOT (including shares to satisfy options granted under the EMI Scheme) cannot exceed such number as, when aggregated with shares previously issued under the Share Incentive Arrangements or issued under any other employee incentive share schemes since 16 January 2004, is equivalent to 10 per cent. of Lupus' issued share capital immediately prior to the issue of shares in respect of the Share Incentive Arrangements, and any issue of Ordinary Shares pursuant to the Share Incentive Arrangements will be scaled back accordingly.

13.4.3 *Adjustments*

The number of shares to be allotted under the Share Incentive Arrangements are subject to such adjustments, if any, as the Board may propose and the auditors of Lupus shall confirm as being fair, to reflect the terms of any capital adjustments or other share issue.

The remuneration committee of the Board may make such adjustments to the implementation of the Share Incentive Arrangements as they may consider appropriate and the auditors of Lupus shall confirm as being fair.

13.5 *Proposed change to the Share Incentive Arrangements*

In the light of the proposed Acquisition and its timing, the Remuneration Committee wishes to include the Schlegel management team in the Group's existing Share Incentive Arrangements. The Remuneration Committee has recommended that, conditional on the Acquisition being completed,

the dates of the Third Period in the Subscription Agreement between Lupus and the LESOT and in the Option Agreement between Lupus and Greg Hutchings (subject to the written consent of Greg Hutchings) be amended to the period of the three financial years ending 31 December 2008, with the Trustees of the LESOT being permitted to subscribe for Ordinary Shares until 31 August 2009. All other aspects of the Share Incentive Arrangements will remain unchanged. In accordance with the Listing Rules, these amendments to the Share Incentive Arrangements will be subject to approval by Shareholders and it is proposed that a resolution will be put forward accordingly at the AGM of Lupus, which is expected to be held in May 2006.

14. Property, Plant and Equipment

The following are the material tangible fixed assets of Lupus:

Property	Description	Tenure	Expiry	Current Annual Rent
85 Buckingham Gate London SW1E 6PD	Offices	Leasehold	September 2006	£76,250
Pommers Lane Great Yarmouth Norfolk NR30 3PE	Offices and Manufacturing	Freehold	n/a	n/a

The following are the material tangible fixed assets of Schlegel:

Property	Description	Tenure	Expiry	Current Annual Rent
Units 10, 11 and 11A, Henlow Industrial Estate, Henlow, UK	Manufacturing	Leasehold	August 2013	£49,839
Units 20 and 21, Unit 20 and Unit 22/22A Henlow Industrial Estate, Henlow, UK	Manufacturing	Leasehold	28 September 2011	£70,100
Units 26-28, Henlow Industrial Estate, Henlow, UK	Manufacturing	Leasehold	19 August 2018	£96,500
338 N. Cliff Drive Graham, Texas 76450 USA	Manufacturing	Leasehold	24 September 2008 (with 2 five-year renewal terms)	\$36,000
2555 Jefferson Road Rochester, New York 14623 USA	Manufacturing Warehousing Office	Leasehold	April, 2019 (with 2 five-year renewal options)	\$900,263
Bredowstrasse 33 22113 Hamburg Germany	Manufacturing Warehousing Office	Leasehold	14 January 2009	€269,952
Rochesterlaan 4 Gistel 8470 Belgium	Manufacturing Warehousing Office	Freehold	Freehold	None
Pol. Ind.Sta. Margarida c/.l'Anoia 9	Manufacturing Warehousing Office	Leasehold	30 September 2007	€287,844
44-48 Riverside Road Chipping Norton NSW 2170 Australia	Manufacturing	Leasehold	23 December 2016 (with 2 five-year renewal options)	AUD 400,000

15. Working Capital

Lupus is of the opinion that, having regard to the existing facilities available to the Group, the Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of publication of this document.

16. Significant Change

16.1 *Lupus*

There has been no significant change in the financial or trading position of the Lupus Group since 31 December 2005, being the date to which the accounts in Part 8 of this document have been made up.

16.2 *Schlegel*

There has been no significant change in the financial or trading position of Schlegel since 31 December 2005, being the date to which the accounts in Part 7 of this document have been made up.

17. Auditors

The auditors of Lupus are Grant Thornton UK LLP, Chartered Accountants, whose address is Grant Thornton House, Melton Street, London, NW1 2EP. Grant Thornton is a member of the Institute of Chartered Accountants in England and Wales. Grant Thornton has audited the accounts of Lupus and its subsidiaries for the two years ended 31 December 2005. Ernst & Young LLP, Chartered Accountants, whose address is 1 More London Place, London SE1 2AF audited the accounts of Lupus and its subsidiaries for the year ended 31 December 2003. Grant Thornton and Ernst & Young have made reports under section 235 of the Companies Act in respect of each set of statutory accounts that they audited and each such report was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act.

18. Consents

PricewaterhouseCoopers LLP, as reporting accountant on Schlegel, has given and has not withdrawn its written consent to the inclusion in this document of its reports in the form and context in which they appear and has authorised the contents of its report for the purposes of Rule 5.5.3(2)(4) of the Prospectus Rules.

Grant Thornton UK LLP, as reporting accountant on Lupus, has given and has not withdrawn its written consent to the inclusion in this document of its reports in the form and context in which they appear and has authorised the contents of its report for the purposes of Rule 5.5.3(2)(4) of the Prospectus Rules.

HSBC has given and not withdrawn its written consent to the inclusion in this document of its name and references to it in the form and context in which they appear.

19. General

The total expenses relating to the Transaction, including the fees of the UK Listing Authority and the London Stock Exchange, professional fees and expenses and the costs of printing and distribution of documents are estimated to be approximately £4.0 million (exclusive of VAT). Each of Lupus and UniPoly are, under the terms of the Acquisition Agreement, responsible for their own fees and expenses.

20. Documents available for inspection

Copies of the following documents may be inspected at the registered office of Lupus and at the offices of Slaughter and May at One Bunhill Row, London EC1Y 8YY during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of publication of this document until Admission:

- 20.1 this document;
- 20.2 the memorandum of association of Lupus and the articles of association of Lupus;
- 20.3 the rules of the Share Incentive Schemes referred to in section 13 above;
- 20.4 this historical information on Schlegel set out in Section E of Part 7 of this document;

- 20.5 the audited consolidated accounts of the Lupus Group for the three years ended 31 December 2005;
- 20.6 the report from PricewaterhouseCoopers set out in Section D of Part 7 of this document;
- 20.7 the report from Grant Thornton set out in Section D of Part 8 of this document;
- 20.8 the unaudited *pro forma* combined financial information on the Enlarged Group and report from PricewaterhouseCoopers referred to in Part 9; and
- 20.9 the Acquisition Agreement.

Dated: 6 March 2006

DEFINITIONS

The following definitions are used throughout this document except where the context requires otherwise:

“Acquisition”	the acquisition by Lupus, through the Purchasing Subsidiaries, from the Vendors, of the Transferred Assets and entire issued share capital of the Transferred Subsidiaries
“Acquisition Agreement”	the conditional agreement for the Acquisition dated 3 March between UniPoly, Schlegel UK, Lupus and the Purchasing Subsidiaries
“Acquisition Resolution”	Resolution 1, as set out below
“Adjusted Profit”	Profit before goodwill, LESOT charge, exceptional items and taxation
“Admission”	the admission of the Existing Ordinary Shares and the New Ordinary Shares to be issued on Completion to listing on AIM and to trading on the London Stock Exchange
“AGM”	annual general meeting
“AIM”	The Alternative Investment Market
“AIM Rules”	The rules published by the London Stock Exchange governing admission to, and the operation of, AIM, as amended from time to time
“Ancillary Agreements”	the agreements ancillary to the Acquisition and Placing Agreements
“Application Forms”	the CREST Excess Application Form and the Non-CREST Application Form
“Articles”	the articles of association of Lupus
“Basic Entitlement”	the basic <i>pro rata</i> entitlement of Qualifying Holders to acquire 1 Open Offer Share for every 3 Existing Ordinary Shares held on the Record Date
“Board” or “Directors”	the existing directors of Lupus whose names appear in Part 4 of this document
“Business”	the worldwide business conducted by Schlegel UK and the Transferred Subsidiaries, consisting of the research, development, manufacturing, marketing, assembly and sale of weatherstripping products, including foam-based compression seals and pile-based sliding seals for the global window and door market, and other engineered products based on continuously molded urethane foam, narrow fabric textiles and extruded plastics, including cleaning brushes, static control devices for copiers and printers, specialty automotive products (e.g. sunroof seals, truck spray suppressants and tractor seat trim), sandwich bag seals and aircraft components, hardware products including hinge mechanisms, window and door locking mechanisms and associated fittings and the furnishing of advisory and consulting services in connection therewith
“Business Day”	a day (other than a Saturday or Sunday) on which banks are open for general business in London
“Capita Registrars”	a trading division of Capita IRG Plc
“Certificated Share” or “certificated share”	a share or other security which is not in an uncertificated form

“Combined Code”	The Combined Code on Corporate Governance
“Companies Act” or “Act”	the Companies Act 1985, as amended by the Companies Act 1989
“Completion”	completion of the Acquisition and the Placing and Open Offer in accordance with the terms of the Placing and Acquisition Agreements
“Conditional Placing Shares”	the 54,373,895 New Ordinary Shares being placed subject to clawback in respect of any Open Offer Shares applied for pursuant to the Placing Agreement
“CREST”	the system for the paperless settlement of trades and the holding of uncertificated securities operated electronically by CRESTCo in accordance with the Uncertificated Securities Regulations 2001 (SI No. 2001/3755)
“CRESTCo”	CRESTCo Limited, the operator of CREST
“CREST Excess Application Form”	the excess CREST application form relating to excess applications for Open Offer Shares issued to Qualifying CREST Holders and enclosed, where applicable, with this document
“Crest Manual”	the rules governing the operation of CREST, consisting of the CREST Reference Manual, CREST International Manual, CREST Central Counterparty Service Manual, CREST Rules, Registrars Service Standards, Settlement Discipline Rules, CCSS Operations Manual, Daily Timetable, CREST Application Procedure and CREST Glossary of Terms (all as defined in the CREST Glossary of Terms promulgated by CRESTCo on 15 July 1996 and as amended since)
“Ducker Research”	the research produced by Ducker Worldwide, a worldwide provider of market information, as reported on in the June/July 2004 edition of Window and Door Magazine
“EMI Scheme”	the Lupus Capital PLC 2004 enterprise management incentive scheme
“Enlarged Group”	the Lupus Group as enlarged by Schlegel
“Enlarged Share Capital”	the issued ordinary share capital of Lupus immediately following completion of the Placing and the Open Offer including the Existing Ordinary Shares and the New Ordinary Shares
“Excess Application Facility”	the arrangement pursuant to which Qualifying Holders may apply for additional Open Offer Shares in excess of their Basic Entitlement in accordance with the terms and conditions of the Open Offer
“Excess Shares”	Open Offer Shares applied for by Qualifying Holders under the Excess Application Facility
“Existing Ordinary Shares”	the Ordinary Shares in issue as at the date of this document
“Existing Shareholders”	the holders of the Existing Ordinary Shares
“Extraordinary General Meeting” or “EGM”	the extraordinary general meeting to be held at the offices of Slaughter and May, One Bunhill Row, London EC1Y 8YY at 11.00 a.m on 29 March 2006, notice of which is set out at the end of this document

“Firm Placing Shares”	the 299,339,334 New Ordinary Shares being placed firm pursuant to the Placing Agreement
“Form of Proxy”	the form of proxy accompanying this document to be used by the Shareholders in respect of the EGM
“Freedonia Report”	“World Windows and Doors”, an industry study by The Freedonia Group Inc., a Cleveland based market research company, published on 1 October 2005
“FSA”	Financial Services Authority
“FSMA”	the Financial Services and Markets Act 2000
“Gall Thomson”	Gall Thomson Environmental Limited, incorporated in England and Wales under the Act with registered number 2852924
“Grant Thornton”	Grant Thornton UK LLP, a limited liability partnership registered in England and Wales with registered number OC307742
“HSBC”	HSBC Bank plc, a company incorporated in England and Wales under the Act with registered number 14259
“IFRS”	International Financial Reporting Standards
“Issue Price”	14 pence per New Ordinary Share
“KLAW”	KLAW Products Limited, a company incorporated in England and Wales under the Act with registered number 316007
“LESOT”	the Lupus Employee Share Ownership Trust
“Listing Rules”	the Listing Rules of the FSA
“London Stock Exchange”	London Stock Exchange plc
“Lupus”	Lupus Capital plc, a company incorporated in England and Wales under the Act and domiciled in the UK with registered number 2806007
“Lupus Group” or “the Group”	Lupus and its subsidiaries, or any one or more of them as the context requires
“Newco”	Lupus Capital (Jersey) Limited, a company incorporated under the laws of Jersey
“New Debt Facility”	an agreement dated 3 March 2006 for a term loan facility of £35,000,000 and a multicurrency revolving loan facility of £10,000,000
“New Ordinary Shares”	the new ordinary shares of 0.5p each to be issued by Lupus under the Open Offer and Placing
“Non-CREST Application Form”	the application form relating to applications for Open Offer Shares issued to Qualifying non-CREST Holders and enclosed, where applicable, with this document
“Notice”	The notice of the Extraordinary General Meeting of Lupus to be held for the purpose of considering and, if thought fit, passing the Resolutions
“Official List”	the Official List of the UK Listing Authority
“Open Offer”	the conditional invitation made to Qualifying Shareholders to apply to acquire the Open Offer Shares, as described in Part 6 of this document and in the Application Forms
“Open Offer Entitlements”	an entitlement to apply to acquire Open Offer Shares, allocated to a Qualifying Holder pursuant to the Open Offer

“Open Offer Shares”	up to 79,232,095 New Ordinary Shares being made available to Qualifying Shareholders under the Open Offer
“Ordinary Shares”	ordinary shares of 0.5p each in the capital of Lupus
“Overseas Shareholders” or “Overseas Holders”	Shareholders with registered addresses in, or who are citizens, residents or nationals of, jurisdictions outside the UK
“Placing”	the proposed placing of shares in Lupus described in further detail in Part 6 of this document
“Placing Agreement”	the conditional agreement between Lupus and HSBC dated 3 March 2006 in connection with the Placing and Open Offer, further details of which are set out in paragraph 11 of Part 12 of this document
“Placing Shares”	the Firm Placing Shares and the Conditional Placing Shares
“PricewaterhouseCoopers”	PricewaterhouseCoopers LLP, a limited liability partnership registered in England and Wales with registered number OC303525
“Prospectus” or “this document”	this prospectus, prepared in accordance with the Listing Rules and the Prospectus Rules
“Prospectus Rules”	the Prospectus Rules of the Financial Services Authority
“Purchasing Subsidiaries”	Schlegel UK (2006) Limited, Schlegel Acquisition Holdings USA, Inc., Schlegel Australia (2006) Pty Limited and Schlegel Acquisition Holdings Limited, all wholly owned subsidiaries of Lupus
“Qualifying Holders” or “Qualifying Shareholders”	Shareholders whose names appear on the register of members of Lupus on the Record Date
“Record Date”	1 March 2006
“Registrars”	Capita Registrars, the registrars of Lupus
“Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)
“Relevant System”	the computer-based system and procedures which enable title to units of a security to be evidenced and transferred without a written instrument and which facilitate supplementary and incidental matters in accordance with the Regulations
“Resolutions”	the ordinary resolutions and special resolutions to be proposed at the EGM
“Resolution 1”	the ordinary resolution to be proposed at the EGM to approve the implementation by Lupus of the Acquisition as set out in the Notice
“Resolution 2”	the ordinary resolution to be proposed at the EGM to increase the authorised share capital of Lupus as set out in the Notice
“Resolution 3”	the ordinary resolution to be proposed at the EGM to authorise the Directors to exercise the powers of Lupus to allot relevant securities as set out in the Notice
“Resolution 4”	the special resolution to be proposed at the EGM to empower the Directors to allot equity securities as if section 89(1) of the Companies Act did not apply to any such allotment as set out in the Notice

“Resolution 5”	the special resolution to be proposed at the EGM to approve Lupus applying for cancellation of the listing of the Existing Ordinary Shares on the Official List and for the Enlarged Share Capital to be listed on AIM
“RNS”	the Regulatory News Service of the London Stock Exchange
“Schlegel”	the Transferred Assets and entire issued share capital of the Transferred Subsidiaries
“Schlegel Acquisition Holdings USA, Inc.”	Schlegel Acquisition Holdings USA, Inc., a company incorporated under the laws of Delaware and a wholly owned subsidiary of Lupus
“Schlegel Acquisition Holdings Limited”	Schlegel Acquisition Holdings Limited a company incorporated in England and Wales with registered number 5686572
“Schlegel Australia”	Schlegel Pty, a company incorporated under the laws of Australia
“Schlegel Australia (2006) Pty Limited”	Schlegel Australia (2006) Pty Limited, a company incorporated under the laws of Australia
“Schlegel Belgium”	Schlegel BVBA, a company incorporated under the laws of Belgium
“Schlegel EMI”	the electromagnetic interferences business which is owned by UniPoly and which presently forms the Schlegel Group together with Schlegel
“Schlegel Engineering”	Schlegel UK Engineering Limited, a company incorporated in England and Wales
“Schlegel Germany”	Schlegel GmbH, a company incorporated under the laws of Germany
“Schlegel Italy”	Schlegel SRL, a company incorporated under the laws of Italy
“Schlegel Spain”	Schlegel Taliana SL, a company incorporated under the laws of Spain
“Schlegel UK”	Schlegel Limited, a company incorporated in England and Wales
“Schlegel UK (2006) Limited”	Schlegel UK (2006) Limited, a company incorporated in England and Wales with registered number 5686601
“Schlegel UK Subsidiaries”	Schlegel Italy, Schlegel Spain, Schlegel (UK) Engineering Limited and Schlegel (UK) Limited, or any one or more of them as the context requires
“Schlegel US”	UniPoly Schlegel Holdings, Inc, a company incorporated under the laws of Delaware
“Secretary”	the secretary of Lupus
“Securities Act”	the US Securities Act of 1933, as amended
“Shareholders”	the holders of Ordinary Shares in Lupus
“Share Incentive Arrangements”	the LESOT and the EMI Scheme (including the option agreement between Lupus and Greg Hutchings granted under the EMI Scheme) and the subscription agreement between the Trustees and Lupus
“Shares”	shares in the capital of Lupus

“Statutes”	the Companies Act and every other Act or statutory instrument concerning limited companies and affecting Lupus
“Suspension”	the suspension of trading of the Ordinary Shares on the London Stock Exchange with effect from 7.30 a.m. on 3 February 2006
“Transaction”	the Acquisition, Placing and Open Offer and the Resolutions
“Transferred Assets”	all of Schlegel UK’s property and assets related to, or used, or held in connection with the Business as conducted by Schlegel UK on the date of completion of the Acquisition Agreement, real, personal or mixed, tangible and intangible, of every kind and description, wherever located
“Transferred Subsidiaries”	the UniPoly Subsidiaries and Schlegel UK Subsidiaries, or any one or more of them as the context requires
“Trustee”	Walbrook Trustees (Guernsey) Limited
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“UK GAAP”	generally accepted accounting principles in the UK
“UK Listing Authority” or “UKLA”	the Financial Services Authority acting in its capacity as the competent authority for the purpose of Part VI of the Financial Services and Markets Act 2000
“Uncertificated Share” or “uncertificated share”	a share or other security which is in an uncertificated form
“UniPoly”	UniPoly Holdings Limited, a company incorporated in England and Wales
“UniPoly Subsidiaries”	Schlegel US, Schlegel Germany, Schlegel Belgium and Schlegel Australia, or any one or more of them as the context requires
“US”, “USA” or “United States”	the United States of America, its territories and possessions, any state of the United States and the District of Columbia and all other areas subject to its jurisdiction
“USE”	unmatched stock event
“US GAAP”	generally accepted accounting principles in the US
“Vendors”	UniPoly and Schlegel UK

Lupus Capital plc

(the "Company")

NOTICE OF EXTRAORDINARY GENERAL MEETING

(Registered in England and Wales – No. 02806007)

NOTICE IS HEREBY GIVEN that an EXTRAORDINARY GENERAL MEETING of Lupus will be held at the offices of Slaughter and May, One Bunhill Row, London EC1Y 8YY at 11.00 a.m. on 29 March 2006 for the purpose of considering and, if thought fit, passing the following resolutions, of which Resolutions 1 to 3 will be proposed as ordinary resolutions and Resolution 4 will be proposed as a special resolution:

ORDINARY RESOLUTIONS

1. THAT, subject to and conditional upon Resolutions 2, 3, 4 and 5 set out in the notice convening this Extraordinary General Meeting having been passed and subject to and conditional upon Admission (as such term is defined in the prospectus of Lupus dated 6 March 2006 (the "Prospectus")) becoming effective, the implementation by Lupus of the Acquisition (as defined in the Prospectus) be approved.
2. THAT the authorised share capital of Lupus be and is hereby increased from £2,500,000 to £4,125,000 by the creation of 325,000,000 ordinary shares of 0.5 pence each in the capital of Lupus
3. THAT, subject to and conditional upon Resolutions 1, 2, 4 and 5 set out in the notice convening this Extraordinary General Meeting having been passed and subject to and conditional upon Admission becoming effective, the Board be and it is hereby generally and unconditionally authorised in substitution for all subsisting authorities, to exercise all powers of Lupus to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985):
 - (i) up to an aggregate amount of 378,571,429 Ordinary Shares (£1,892,857.145 nominal value) in connection with the Placing and Open Offer (as such term is defined in the Prospectus);
 - (ii) otherwise than pursuant to section (i) above up to an aggregate of 208,732,285 Ordinary Shares (£1,093,661.425 nominal value),

which authority shall expire on 29 March 2011 (unless previously revoked or varied by Lupus in general meeting) save that Lupus may before such expiry make any offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

SPECIAL RESOLUTIONS

4. THAT, subject to and conditional upon Resolutions 1, 2, 3 and 5 set out in the notice convening this Extraordinary General Meeting having been passed and subject to and conditional upon Admission becoming effective, the Board be and it is hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the Companies Act 1985) for cash pursuant to the authority conferred by Resolution 3 above and/or where such allotment constitutes an allotment of equity securities by virtue of Section 94(3A) of the Companies Act 1985, as if sub-section (1) of Section 89 of the Companies Act 1985 did not apply to any such allotment, PROVIDED THAT this power shall be limited to the allotment of equity securities:
 - (i) in connection with a rights issue, open offer or any other pre-emptive offer in favour of ordinary shareholders (excluding any shareholder holding shares as treasury shares) and in favour of holders (excluding any holder holding shares as treasury shares) of any other class of equity security in accordance with the rights attached to such class where the equity securities respectively attributable to the interests of such persons on a fixed record date are proportionate (as nearly as may be) to the respective numbers of equity securities held by them or are otherwise allotted in accordance with the rights attaching to such equity securities

(subject in either case to such exclusions or other arrangements as the Board may deem necessary or expedient to deal with fractional entitlements or legal or practical problems arising in any overseas territory, the requirements of any regulatory body or stock exchange or any other matter whatsoever);

- (ii) in connection with the Placing and the Open Offer; and
- (iii) the allotment (otherwise than pursuant to sections (i) and (ii) above) of equity securities up to an aggregate nominal amount of £1,027,112.86;

and shall expire at the conclusion of the Annual General Meeting of Lupus to be held in 2007, save that Lupus may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

5. THAT, subject to and conditional upon Resolutions 1, 2, 3 and 4 set out in the notice convening this Extraordinary General Meeting having been passed, and subject to the Acquisition becoming unconditional (save only for Admission), the Company be authorised to apply for the cancellation of the listing of all of its ordinary share capital on the Official List of the United Kingdom Listing Authority and application be made for the entire share capital of the Company to be admitted to listing on the Alternative Investment Market and to trading on the London Stock Exchange.

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

Dated 6 March 2006

By Order of the Board
Secretary

Cavendish Administration Limited
Company Secretary

Notes:

- (1) A member entitled to attend and vote at the above-mentioned Extraordinary General Meeting may appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of Lupus.
- (2) A pre-paid form of proxy is enclosed. To be valid, the Form of Proxy (together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such authority) must be deposited at the offices of Lupus' registrars, Capita Registrars at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU by not later than 11.00 a.m. on 27 March 2006.
- (3) Completing and returning the Form of Proxy will not preclude a member from attending in person at the meeting and voting should he wish to do so.
- (4) In the case of a corporation, the Form of Proxy must be executed under its common seal or the hand of an officer or attorney duly appointed.
- (5) CREST members who wish to appoint a proxy or proxies by utilising the CREST proxy voting service may do so for the Extraordinary General Meeting to be held on 29 March 2006 and any adjournments(s) thereof by utilising the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such Instructions, as described in the CREST Manual. The message must be transmitted so as to be received by our Registrars, Capita Registrars, by not later than 48 hours before the time appointed for holding the Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications' Host) from which the Registrars are able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

CREST Members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

Lupus may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, only those shareholders registered in the register of members of Lupus at 11.00 a.m on 27 March 2006 (or, in the event that this meeting is adjourned, in the register of members 48 hours before the time of any adjourned Meeting), shall be entitled to attend or to vote at this Meeting in respect of the number of shares registered in their names at that time. Changes to entries on the register of members after 11.00 a.m. on 27 March 2006 (or, in the event that this Meeting is adjourned, 48 hours before the time of any adjourned meeting), shall be disregarded in determining the rights of any person to attend or vote at the Meeting.

