Lupus Capital
Annual Report & Accounts

08

LUPUS CAPITAL

Lupus Capital

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

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

2008 Highlights

- *EBITDA* up to £42.870 million (2007: £36.559 million)*
- *Pre-tax profits* up to £27.685 million (2007: £25.021 million)*
- *EPS* up to 14.83p (2007: 14.82p)*
- *Strong cash generation*
- *Substantial cost reduction achieved*

Sales

£266.6m

Underlying operating profit

£36.6m

*before amortisation of intangible assets, deferred tax on amortistion of intangible assets, exceptional items, unwinding of discount on provisions, amortisation of borrowing costs and the associated tax effect.

Outlook for 2009

Our businesses both in the US and Europe face unprecedented market conditions which may continue to deteriorate for a while longer. We are confident that we have excellent management teams who will be reacting to these market forces and maximising profitability and cash generation.

Chairman's statement
Greg Hutchings

Dear Shareholder,
Despite these unprecedented conditions, and as a result of our management teams' rapid reactions, Lupus is pleased to be able to report that results for the 12 months to 31 December 2008 are excellent - earnings per share up marginally on 2007 - in comparison to our competitors and bearing in mind the financial and economic turmoil during the period.

We started the 2008 year well and in good shape but as the global economic crisis developed almost all our US businesses were affected by progressively dramatically lower demand and this has continued right into 2009. Our non-US businesses, apart from our oil services company, started to experience the slow down in sales and orders later in the 2008 year.

Despite these unprecedented conditions, and as a result of our management teams' rapid reactions, Lupus is pleased to be able to report that results for the 12 months to 31 December 2008 are excellent – earnings per share up marginally on 2007 - in comparison to our competitors and bearing in mind the financial and economic turmoil during the period.

The majority of Lupus' businesses are manufacturers and suppliers to the door and window sector mainly for the refurbishment, and less so, for the new build markets (where US housing starts slumped to an annualised 0.466 million units from a high of 2.265 million in January 2006*) in the USA and Europe. The Company's main products are locks, seals, hinges, handles, doors and balances.

Results for the year

To help understand the audited results, adjusted measures of underlying profit before tax and earnings per share have been used as defined.

Sales, including a full 12 months of the acquisition of LSS (8 months in 2007) were £266.559 million (2007: £216.859 million). Underlying earnings before interest, tax, depreciation and amortisation were up £6.311 million to £42.870 million (2007: £36.559 million) and pre-tax profits increased by £2.664 million to £27.685 million (2007: £25.021 million).

We are proud to say that reported underlying earnings per share marginally increased to 14.83p (2007: 14.82p) (see note 10).

* US Census Bureau

Net Indebtedness

In relation to our group debt, the US dollar to pound exchange rate changed rapidly last year by over 25% from $2.1 to around $1.5 to the pound. We comfortably met all our interest and debt repayments during 2008. However, the group's net debt increased significantly in sterling terms when translated at the year end exchange rate and this increase, upon translation, was greater than that of the group's proportionate dollar earnings measured in sterling at the average exchange rate of the year. This issue, which is relevant to the debt taken on for the LSS division acquisition, brought us to enter into discussions with our bankers. Further to the Company's announcement on 1 April, we are continuing to negotiate our debt facilities and banking covenants to more appropriate levels through 2009 and beyond. It is anticipated that these discussions will be successfully concluded and will likely result in certain exceptional costs for arrangement fees etc arising this year. Revised banking facilities will also reflect current market conditions.

Our audited accounts show borrowings at an exchange rate of $1.45 to £1 at 31 December 2008 resulting in the Company's net debt position of £145.321 million. This included approximately $224 million borrowings designated in US dollars. If the exchange rate on 31 December 2008 had been the same as at 31 December 2007 our equivalent net debt in Sterling would have been £90.532 million (after accounting for the one-off payment to Laird PLC in 2008) (2007: £99.992 million) i.e. a £9.460 million (9.5%) reduction in our borrowings.
For information, US dollar earnings have been translated at $1.86 to £1 being the average rate for the 2008 year.

Dividend

A growing dividend was one of our objectives, however, with the economic crisis causing a decline in trading profits, the adverse US dollar exchange rate and restrictions placed on us by our bankers, we are unable to pay a final dividend.

The interim half year dividend of 2.06p per share was paid on 4 November 2008.
This now represents the total dividend for the year and will mean a significant decline from the 5.57p per share from all those paid for the 2007 year. We anticipate dividends will be resumed as soon as practically allowed.

Group 2008 Performance

Throughout 2008 the US market declined significantly. Then in Europe, starting with Spain, followed later by the UK and finally the rest of Europe, our customers cut back on orders.

Both in advance of, and in response to, these conditions we have taken very decisive actions to cut our costs accordingly. Staff and shop floor personnel have been reduced and temporary labour let go. Overheads such as freight, energy and commissions have been flexed/ lowered and factories consolidated or rationalised. Short time working practices have been instigated and wages, in countries where National Governmental Legislation allows, frozen. Cash has been generated from working capital reductions (although reduced credit insurance terms have limited this) and capital expenditure sanctioned only if necessary. Fragile customers are sold to on a cash only basis where appropriate (although regrettably we have had some bad debts). Input costs were brought down: raw materials such as steel and polypropylene have been renegotiated as well as component price decreases given by some suppliers, or resourced elsewhere. These numerous actions have ameliorated 2008 profit reductions in comparison to 2007.

Gall Thomson Environmental, which manufactures products primarily for the oil and gas sector, has had another excellent performance. At the year-end order books were solid both in marine and industrial breakaway couplings.

Exceptional costs of £5.987 million have been incurred during 2008. These include restructuring and redundancy costs as well as asset write-downs.

All our businesses have generated good cash flow during 2008 enabling us to service our interest costs and to meet our debt obligations as they fell due. As sales levels declined local management acted promptly and decisively to reduce working capital accordingly.

Outlook

The general economic climate for 2009 is still very uncertain. The oil and gas services sector remains positive, despite the recent declines in the oil price. The US housing environment continues to decline and the European building components market is following the US trends, albeit delayed. These business conditions require continuous monitoring and control of our cost base.

Given the uncertainty in our building products end markets, the Board believes that predicting the 2009 outcome is difficult. Our businesses both in the US and Europe face unprecedented market conditions which may continue to deteriorate for a while longer. We are confident that we have excellent management teams who will be reacting to these market forces and maximising profitability and cash generation.

Greg Hutchings
Chairman
29 April 2009

Group business review
Overview

Key performance indicators

Oil services	2008 £'000	2007 £'000	Growth %
Sales	**12,286**	11,342	8%
Adjusted operating profit[1]	**5,878**	5,557	6%
Margin	**47.8%**	49.0%	

Building products	2008 £'000	2007 £'000	Growth %
Sales	**254,273**	205,517	24%
Adjusted operating profit[1]	**30,741**	26,300	17%
Margin	**12.1%**	12.8%	

[1]Adjusted operating profit is operating profit excluding exceptional items and amortisation of intangible assets.

Business of Gall Thomson Environmental Limited

Gall Thomson is the world's leading supplier of marine breakaway couplings. Its subsidiary, KLAW is a supplier of industrial couplings including quick release couplings and breakaway couplings.

A Gall Thomson marine breakaway coupling is used in the oil and gas industry to enable a loading line to part safely and then to shut off the product supply in the event of a vessel moving off station during the loading or discharging of oil and gas products, whether at offshore moorings or jetty terminals. The purpose of the breakaway coupling is firstly to stop environmental pollution and secondly to prevent damage to pumping and transfer equipment. Gall Thomson also supplies the quick release Welin Lambie camlock coupling which is used in the hose and loading arm system for the transfer of oil and gas products.

The greater number of our couplings are designed and made to order for the major oil producers. Stock and working capital levels are thus easily visible. There is also an increasing demand for refurbishment of our products which have been in use for many years and exposed to the elements.

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

The principal activity of KLAW, which has continued to develop over the year, is that of the manufacture, assembly and distribution of industrial quick release couplings for activities such as refining, exploration and construction. They are also used in the transportation of product by road and rail.

GTE, who operate mainly in the offshore industry, has benefited from a strong oil price that had encouraged the major oil producers to commence new projects worldwide. In addition, the drive towards environmental improvements continues to have a positive effect. Approximately 90% of turnover was derived from exported sales spanning the world from Europe to Asia, America to the Middle East and Africa. Nearly all sales are made in Pounds Sterling so we have limited exposure to a fluctuating Dollar.

Business of Schlegel Building Products

Schlegel is a leader in the manufacture and marketing of door and window seals, primarily for the worldwide housing market, which currently has around 450 employees, more than 4,000 customers and sells over 475 million metres of seals in a year. Core manufacturing competencies are continuously moulded urethane foam, narrow fabric textiles, and extruded plastics. As a leading producer of urethane foam (compression seals) and woven pile (sliding seals) for the window and door markets, its seals are sold in more than 75 countries from six manufacturing plants located around the world. In addition, Schlegel supply both manufactured and assembled door and window locking mechanisms to a number of their key seal customers.

Also manufactured are related products for the non-housing markets such as cleaning brushes, static control devices for copiers and printers, speciality automotive products as in sunroof seals and truck spray suppressants, tractor seat trim and sway bar brushes.

Business of LSS

LSS is a leader in the design, development, manufacture and distribution of innovative products and solutions. These aim to improve performance and thermal efficiency, and enhance protection and security, for homes and buildings within the residential building and home improvement markets. Its wide range of products includes window and door hardware, composite doors, steel reinforcement products, window seals and uPVC products. These products are marketed under different brand names and supplied to customers in the UK, Continental Europe, the US and Asia. As at 31 March 2009 LSS employed 1,475 people worldwide.

Within the UK, LSS is a leading provider of window and door hardware to the retail and wholesale markets and a manufacturer of composite doors primarily to the social housing market. Other products include window balances, sash window refurbishment and steel reinforcement products.

In the US, LSS trades as the Amesbury Group. Amesbury is the leading US supplier of window balances and also manufactures uPVC profiles, foam and pile window seals. Other products include door hardware and die cast components.

LSS has manufacturing and distribution operations in the UK and the US, along with manufacturing facilities in Mexico and China which, together with partner suppliers, are used as a base to produce components at low cost for supply to the UK and US. Sales, albeit at low levels, of Chinese manufactured products to the Continental European and Asian markets have also commenced.

Oil services

Sales increased in 2008 by 8% to £12.286 million, benefiting from a strong oil price during the year. Operating margins remained high at 47.8% of sales, which delivered an increase of 6% in adjusted operating profit to £5.878 million.

Building products

Sales in the Building Products sector of £254,273 million in 2008 increased by 24%, reflecting a full 12 month contribution from LSS (8 months in 2007). Despite the unprecedented conditions in the building products markets, decisive actions by management to downsize and cut costs successfully supported the operating margins at 12%. This delivered an increase of 17% in adjusted operating profit to £30.741 million.

Strategy

Our strategy is to build shareholder value through the acquisition of industrial assets with the potential for development using a spectrum of funding instruments, where with the application of our management skills and systems we can achieve greater profitability. Once they have been improved, potential long-term growth configurations installed, and a critical mass built, we would expect to realise a gain through a variety of exit mechanisms.

Institutional investors are not sympathetic to public conglomerate organisations; they have, however, even though with very diverse interests, favoured private equity structures. We intend to follow the private equity principle of timed investment exits when critical mass and creation of shareholder value have been achieved by demergers, IPO's or sales, followed by cash returns to shareholders when appropriate.

The speed of our decision making and the management experience we possess together with the flexibility of being able to offer an on-going interest should give us a competitive edge over private equity competitors when negotiating transactions. In addition, we have proven management skills and systems, as well as the application of standard financial modelling.

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

We choose to operate in stable markets where the technology is low-risk rather than markets exposed to quick innovation and sudden obsolescence. We prefer to sell high quantities of inexpensive items or fulfil a high volume of contracts as opposed to a small number of very significant cost constituents.

We expect to inject our management skills, operating systems, financial control mechanisms and strategy experience to improve profitability and financial efficiency.

Our industrial focus and business experience of acquiring, stabilising, controlling, investing in and developing businesses, together with a strong existing operation gives Lupus Capital plc exciting prospects.

Summary

Gall Thomson is a reliable business and looks forward to maintaining its success. There are opportunities in most areas of the world due to an increase in global floating production systems, as well as the traditional Single Point Mooring business. The drive to exploration in deeper waters (greater than 1,000 metres), which require off loading techniques as opposed to pipeline infrastructure, provides a sound basis for the Gall Thomson business in the short and long term. KLAW continues to grow as a result of entering new markets with successfully developed innovative products.

Both LSS and Schlegel operate within the worldwide housing market, which over the long term is likely to continue to grow due to increased populations and more single housing requirements. In addition, environmental regulations for energy conservation, of which seals are an integral part, are becoming more and more critical to both developed and developing countries. These factors should ensure a growing long term future.

We have a defined strategy, good operating activities generating cash and an enthusiastic entrepreneurial management team ambitious to drive Lupus Capital plc forward. Your Board is confident that Lupus has the right platform to deliver value for shareholders.

Principal risks and uncertainties

Lupus Capital plc operates globally in varied markets and is affected by a number of risks inherent in its activities, not all of which are within its control. This section highlights specific areas where we are particularly sensitive to business risk. Our financial condition or results of operations could be materially adversely affected by any of these risks. Additional risks not currently known to us, or risks that we currently regard as immaterial, could also have a material adverse effect on our financial condition or the results of operations.

Group business review
Overview

Our strategy is to build shareholder value through the acquisition of industrial assets with the potential for development using a spectrum of funding instruments, where with the application of our management skills and systems we can achieve greater profitability.

Each business considers strategic, operational, commercial, and financial risks and identifies risk mitigation actions. At a Group level a review of risks and exposures in each business is also performed with the likelihood of the identified risks occurring and their potential financial impact considered by the Group's senior management. Mitigating actions are identified for each risk and the effects of these actions are also reviewed and monitored quarterly for the most significant risks.

The principal risks and uncertainties faced by the Group, which could cause the Group's actual results to vary materially from historic and expected results, are set out below:

1. Risks arising from illiquid credit markets

Despite the efforts of national governments, restrictions on the availability of credit continue and many companies are finding it difficult to obtain or renew borrowing facilities on commercially acceptable terms.
We finance our business principally through equity and bank and other borrowings.

Further to the Company's announcement on 1 April, we are continuing to negotiate our debt facilites and banking covenants to more appropriate levels through 2009 and beyond. It is anticipated that these discussions will be successfully concluded and will likely result in certain exceptional costs for arrangement fees etc arising this year. Revised banking facilities will also reflect current market conditions which will result in an increase in funding costs.

Failure to obtain sufficient funding to meet our liquidity requirements may result in lost business opportunities or the curtailment of capital spending and other important strategic programmes. Illiquid credit markets may also restrict the Group's ability to finance the acquisition of businesses.

2. The Group's industry is highly competitive

The 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 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 Group can compete effectively with its competitors, but there is no assurance that the Group will be able to compete successfully in such a market place.

3. Overall growth and demand for products

The overall growth and demand for products sold into the Group's markets is influenced by the level of customers' commercial activity, which in turn is affected by the general economic climate, market conditions and consumer confidence generally. This demand can be unpredictable and the Group at times has a low visibility of future orders from its customers. Growth in the demand for such products is dependent on a number of factors including the macroeconomic environment, the rate of change in the regulatory environment and in industry consolidation, the adoption of new technologies and customer spending patterns. During any economic downturn, customers are liable to cancel, reduce or postpone anticipated orders. Any downturn may also lead customers and competitors to

apply pressure to prices and this pressure can lead to lasting changes in terms of pricing policies, delivery capabilities and market expectations. Any period of economic downturn could lead to some or all of these consequences which in turn could have a material adverse impact on the results of operations and business of the Group.
Any continued slowdown in the US residential construction market could adversely affect the demand for the Group's products. While the Group does have certain businesses that are not highly correlated with new residential construction in the US, it is not certain that the revenue and income from these businesses would mitigate any decline in the Group's results due to the weakening of residential housing activity in the US.

4. The Group is subject to political, economic and regulatory factors in the various countries in which it operates, any of which could impact on its operating or financial results
Changes in regulatory requirements, tariffs and other trade barriers, price or exchange controls, composition or changes in taxation or other governmental policies in the countries in which the Group conducts business could limit its operations and make the repatriation of profits difficult. In addition, the uncertainty of the legal environment in some regions could limit the Group's ability to enforce its rights. The Group has sourcing operations in Asia, in particular, it has manufacturing operations in Ningbo, China as well as sourcing operations from third party suppliers in China. The Group expects that sales to emerging markets will be an increasing portion of total sales as its customers target those markets. Having manufacturing operations in China does involve certain risks for the Group. The economy of China differs from the economies of most developed countries in many respects, including:

- government involvement;
- level of development;
- growth rate;
- control of foreign exchange; and
- allocation of resources.

While China's economy has experienced significant growth in the past 20 years, such growth has been concentrated in certain geographic areas and economic sectors. The People's Republic of China ("PRC") government has implemented various measures to encourage economic growth and to allocate resources. Some of these measures benefit China's overall economy, but may also have a negative effect on the Group's presence in China.

The PRC government continues to play a significant role in regulating industrial development by imposing industrial policies. It also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Any changes in the economic and social conditions in China, in the policies of the PRC government or in the laws and regulations of China, could affect China's overall economic growth. Such developments could have a material adverse effect on the Group's operations in China.

5. Intellectual property rights may be difficult to protect and the Group may unknowingly infringe the intellectual property rights of others
While the Group has been granted a number of patents and other patent applications are currently pending, there can be no assurance that any of these patents will not be challenged, invalidated or circumvented, or that any rights granted under these patents will in fact provide competitive advantages to the Group.

The Group utilises a combination of trade secrets, confidentiality policies, non disclosure and other contractual arrangements in addition to relying on patent, copyright and trademark laws to protect its intellectual property rights.

However, these measures may not be adequate to prevent or deter infringement or other misappropriation. Moreover, the Group may not be able to detect unauthorised use or take appropriate and timely steps to establish and enforce its proprietary rights. Existing laws of some countries in which the Group conducts business may offer only limited protection of the Group's intellectual property rights, if at all. Failure of the courts and, or administrative agencies to enforce the Group's intellectual property rights effectively may have a material adverse effect on the Group.

Third parties have asserted, and, in the future may assert, claims against the Group alleging that the Group infringes their intellectual property rights. Defending such claims may be expensive, time consuming and divert the efforts of management and/or technical personnel. As a result of litigation, the Group could be required to pay damages and other compensation, develop non-infringing products or technology or enter into royalty or licensing agreements. However, the Group cannot be certain that any such licences, if

Group business review
Overview

available at all, will be available to the Group on commercially reasonable terms.

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

7. Dependence on key executives and personnel
The 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 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 Group. The loss of the services of the executive Directors, members of senior management and other key employees could damage the Group's business.

8. Growth and expansion risks
8.1. Availability of suitable acquisition targets
The Group may not be able to identify and acquire suitable targets for expansion of its business. If the Group cannot successfully identify, acquire, integrate and develop targets for expansion of its business, it could impact the 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 Group's business and profitability. In addition, the Group may not be able to make acquisitions on suitable terms, which may limit the potential for creation of shareholder value.

8.2. Risk of potential future acquisitions
In the future, as part of its growth strategy, the Group may acquire other companies or businesses. Acquisitions by the 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 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 Capital 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 Group's business, results of operations or financial condition would not be materially and adversely affected thereby.

8.3. Acceptability of Ordinary Shares as consideration
Although Lupus Capital 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.

8.4. Management of growth and development
If the Group is to meet its strategic goals, it is likely to experience rapid growth. To manage this growth, the Group is likely to have to expand its management and financial controls, which may strain its management and operational resources. The Group's expansion of its management and financial controls are likely to result in the incurring of additional costs, although the precise amount of such costs is not readily quantifiable at present. The Group's failure to meet any growth or development challenges could have a material adverse effect on its results of operations.

9. Exposure to increases in the price of commodities and raw materials and supply chain failure
The raw materials used in the Group's businesses include commodities that experience price volatility (such as oil derivatives, steel, aluminum and zinc) caused by changes in supply and demand, commodity market fluctuations and changes in governmental attitudes. Competing manufacturers can be affected differently by these factors. If the Group is unable to implement measures to mitigate increased costs relating to increases in commodity and raw material prices, or to increase the price of its products to customers, its operating profits might be materially adversely affected.

The Group's ability to deliver according to market demands depends in large part on obtaining timely and adequate supplies of components and raw materials on competitive terms. Failure by any of the Group's suppliers could interrupt its product supply, and would significantly limit the Group's sales and could increase its costs. If the Group fails to anticipate customer demand properly, an over or undersupply of raw materials components and production capacity could occur. In addition, a particular component may be available only from a limited number of suppliers. Suppliers may from time to time extend lead times, limit supplies or increase prices due to capacity constraints or other factors, which could adversely affect the Group's ability to deliver its products and solutions on a timely basis.

Despite the Group's efforts to select its suppliers and manage supplier relationships, a component supplier may fail to meet the Group's supplier requirements, such as, most notably, the Group's and its customers' product quality, safety and other corresponding standards. Moreover, a supplier may experience delays or disruption to its manufacturing, or experience financial difficulties. Any of these events could delay the successful delivery of products and solutions, which meet the Group's and its customers' quality, safety and other corresponding requirements, or otherwise adversely affect the Group's sales and results of operations. Also, the Group's reputation and brand value may be affected due to real or merely alleged failure in its products and solutions.

10. Taxation risks
Any change in Lupus Capital's tax status or in taxation legislation or accounting practice could affect Lupus Capital's 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. Lupus Capital cannot guarantee that its shares will continue to trade on AIM, rather than on 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. In addition, a change in taxation legislation could affect the tax regime that currently applies in respect of shares admitted to trading on AIM.

11. Environmental
The 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. The Group's operating businesses use hazardous materials as part of their manufacturing processes. 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 Group.

12. Dividends
Lupus Capital is a holding company and will not conduct business of its own. Dividends from direct and indirect subsidiaries are expected to be Lupus Capital's sole source of funds to pay expenses and dividends, if any. The inability of Lupus Capital's direct and indirect subsidiaries to pay dividends in an amount sufficient to enable Lupus Capital 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.

13. Foreign exchange
The 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 Group's results. The Group operates on a global basis and is therefore also exposed to translational foreign exchange risk against the pound. Given the Group's manufacturing operations in Ningbo, China and its sourcing operations from third party Chinese suppliers, a part of the Group's revenue and expenses will inevitably be denominated in Renminbi. The value of the Renminbi against the US dollar and other currencies fluctuates and is affected by, among other things, changes in China's political and economic conditions. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and US dollars, has been based on rates set by the People's Bank of China.

The exchange rate may become volatile and the Renminbi may be devalued against the US dollar or other currencies, or the Renminbi may be permitted to enter into a full or limited free float, which may result in an appreciation in the value of the Renminbi against the US dollar, any of which could have an uncertain effect on Group operations in China.

14. Overseas activities
The Group will be exposed to additional risks related to operating in foreign countries. 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.

Directors and advisers

Advisers

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2806007

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Website
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Executives

Greg Hutchings
Executive Chairman
Greg Hutchings (aged 62) became a director and Executive Chairman on 16 February 2004.

Mr Hutchings joined Tomkins plc in 1983 and held the post of Chief Executive or Chairman from January 1984 until he stepped down in October 2000. Over the sixteen year period to 30 April 2000 Tomkins plc annual profit before tax and exceptional items rose from £1.6 million to £473.6 million with uninterrupted growth, year on year, in earnings per share. Compound growth in earnings per share over this period was around 26 per cent per annum and compound growth of dividends per share was over 24 per cent per annum. In the year to 30 April 2000 Tomkins plc earnings per share and dividends increased by 15 per cent.

Denis Mulhall
Executive Director
Denis Mulhall (aged 57) was appointed a director on 23 February 2004. From 1988 to 1993 Mr Mulhall worked alongside Mr Hutchings at Tomkins plc. He left Tomkins plc to join Berisford plc, firstly as Chief Financial Officer and then Chief Operating Officer, seeing the transformation of the company from a shell to a market capitalisation of £700 million. Subsequently he was Chief Financial Officer at Oxford GlycoSciences Plc.

Non-executives

Frederic Hoad
Non-executive Director
Frederic Hoad (aged 69) has previously been a non-executive director of a number of private companies and of Aviva plc subsidiaries. Before his retirement in 1996, he spent 28 years at Commercial Union, where, amongst a number of senior positions, he was head of Corporate Finance, head of Overseas Division Finance and head of Private Equity Investment.

Michael Jackson
Non-executive Director
Michael Jackson MA FCA (aged 59) founded Elderstreet Investments Limited in 1990 and is its executive chairman. For the past 25 years, he has specialised in raising finance and investing in the smaller companies sector. Michael is former chairman of PartyGaming plc, Computer Software Group, Planit Holdings and until August 2006 was chairman of FTSE100 company, The Sage Group plc where he was a board director for 23 years and saw the company rise from a market cap of less than £5m to its current valuation of over £3bn. He is also a director and investor in many other quoted and unquoted companies including Intelligent Environments and Netcall. Michael studied law at Cambridge University, and quailfied as a chartered accountant with Coopers and Lybrand before spending five years in marketing for various US multinational technology companies.

Roland Tate
Non-executive Director
Roland Tate MA (Cantab) (aged 52) is Managing Director of Tiger Corporate Finance Ltd, an independent corporate finance house specialising in deal origination and equity finance which he formed in 2005 following several years with PWC and KPMG where he was Director of Corporate Finance, gaining considerable experience in mergers and acquisitions. His early career involved several years working in the chemicals, oil and gas sector at BP in both production and commercial functions followed by five years as investment manager in the venture capital sector with 3i and NVM and was appointed non-executive director of several venture capital backed businesses. From 1995 he spent 3 years as CEO of Nuventures Ltd commercialising intellectual property emanating from academia. He is a fellow of the Securities and Investment Institute.

Directors' report

The directors present their annual report and the Group accounts for the year ended 31 December 2008.

Review of the business

Principal activities

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

Business Review

The business review is set out on pages 4 to 9.

Future developments

The statement by the Chairman set out on pages 2 to 3 contains details of the progress of the Group during the year together with an indication of future developments.

Results and dividends

The Group profit for the year after taxation amounted to £6,516,000 (2007: £12,242,000).

In order to conserve the Group's cash resources, the directors do not recommend the payment of a final dividend (2007: 3.51p per share). The aggregate ordinary dividend for the year amounts to 2.06p per share (2007: 5.57p per share).

The board

The directors listed on page 10 have held office during the last financial year and in the subsequent period to the date of this report; all held office throughout the period.

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

A description of the Board's method of operation, its work during the year and that of its committees, is given in the report on Corporate Governance on pages 15 to 16.

Re-election of directors

Mr Hutchings and Mr Jackson retire by rotation and, being eligible, will seek re-election.

Directors' interests

The directors' interests in the share capital, beneficially held, of the Company are set out below.

	31 December 2008 Ordinary shares	31 December 2007 Ordinary shares
Greg Hutchings	**4,962,947**	4,962,947
Denis Mulhall	**665,000**	665,000
Frederic Hoad	**53,333**	53,333
Michael Jackson	**123,847**	85,873
Roland Tate	**110,242**	72,268

During the year ended 31 December 2008 37,974 shares were issued to Mr Jackson and 37,974 shares to Mr Tate (see the Directors' Remuneration Report and note 7 to the Group financial statements).

In addition, Mr Hutchings has non-beneficial interests in 392,000 shares.

Directors' report continued

Directors' interests continued
The trustees of the Lupus Employee Share Ownership Trust ("the lesot") hold 5,122,951 shares under the employee incentive arrangements described in the circular dated 21 January 2004 and approved by shareholders on 16 February 2004. Of these, 4,753,926 were allotted on 26 March 2004 and have been allocated for the benefit of the family of Greg Hutchings, Executive Chairman of the Company. 1,584,642 shares were purchased and allotted on 4 April 2006. On 6 July 2007 1,215,615 shares were bought by a pension account for the benefit of Greg Hutchings.

Directors' Remuneration
The Company, being quoted on AIM, is not required to comply with the Directors' Remuneration Report Regulations 2002 or the disclosure provisions of Schedule 7A of the Companies Act 1985 and the UKLA Listing Rules. Nevertheless, the Company has chosen to present a report on directors' remuneration on pages 17 to 18. The directors have also determined, on a voluntary basis, that this report should be submitted to shareholders for their approval. A resolution will be proposed at the Annual General Meeting.

Allotment of shares
Shareholders passed resolutions to authorise the directors to allot shares and, within certain limitations, to do so free from pre-emption rights at the Extraordinary General Meeting held on 11 December 2007.

The directors' authority to allot shares does not expire until 1 July 2013, whereas the disapplication of pre-emption rights is only effective until the conclusion of the Company's 2009 AGM. The directors believe that the Company's proceedings will be more transparent if they seek renewed authority to allot at the same time as they seek authority to disapply pre-emption rights.

Therefore, a resolution will be proposed at the Annual General Meeting, which will authorise the directors to allot shares (subject to specified limits) until 1 July 2014, and a special resolution will also be proposed, which will authorise the directors to disapply pre-emption rights (in certain circumstances and subject to specified limits) until the conclusion of the Company's 2010 AGM.

Purchase of the Company's own shares
Shareholders passed a resolution to authorise the Company to purchase its own shares up to a maximum of 14.99% of the Company's issued ordinary share capital at the EGM on 11 December 2007. This authority was extended by a resolution passed at the 2008 AGM to expire on the date of the 2009 AGM.

During the year ended 31 December 2008, the Company purchased 6,137,008 of its own shares. These are held by the Company in Treasury, together with 1,309,675 shares purchased in 2007.

The directors believe that it is in the best interests of the Company to obtain authority for this purpose for a further period. They will therefore propose a resolution to obtain authority to make market purchases up to the date of the AGM in 2010. The authority will be limited to 14.99% of voting shares in issue (that is, excluding shares held in Treasury). The resolution will be proposed as a special resolution, in accordance with best practice.

Auditors

In accordance with section 485 of the Companies Act 2006, an ordinary resolution to re-appoint Grant Thornton UK LLP as auditors will be proposed at the Annual General Meeting.

Substantial shareholders

In addition to the holdings of the directors and of the lesot described above, at the latest practicable date before publication of this report the Company had been notified of, or had identified, the following direct or indirect interests comprising 3% or more of its voting share capital (the issued share capital less shares held by the Company in Treasury):

	Ordinary shares	%
Aviva	16,679,196	12.85
F & C Asset Management	14,877,000	11.46
Polar Capital	7,940,604	6.12
Schroder Asset Management	6,428,850	4.95
SISU Capital	5,206,366	4.0
Invesco Asset Management	4,552,249	3.5

Creditors payment policy

Group operating companies are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted. It is Group policy that payments to suppliers are made in accordance with all relevant terms and conditions. Creditor days for the Group have been calculated at 40 days.

Financial risk management

A statement on the financial risk management objectives, policies and other matters in relation to the use of financial instruments is set out in note 19 in the notes to the Group financial statements.

Safety, health and the environment

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

Directors' report continued

Employees

The Group's excellent performance would not be possible without employees of the highest calibre with the motivation to perform to their full potential. The Group operates on a decentralised structure, reflecting the organisation of the Group. This underscores our belief that localised teams, operating under common principles, are best equipped to deal with the varying cultures, operating structures and geographic locations that exist in the Group.

Each operating entity in the Group is encouraged to implement comprehensive employment policies designed to motivate employees and to determine ways in which their knowledge and skills can best contribute towards the success of the business.

Employee involvement and communication programmes continue to be developed that are designed to provide equal opportunity to all, irrespective of sex, race, religion or colour. Each company in the Group endeavours to provide equality of opportunity in recruiting, training, promoting and developing the careers of disabled people.

Going concern

The US dollar to pound exchange rate changed rapidly last year by over 25% from $2.1 to around $1.5 to the pound. We comfortably met all our interest and debt repayments during 2008. However, the group's net debt increased significantly in sterling terms when translated at the year end exchange rate and this increase, upon translation, was greater than that of the group's proportionate dollar earnings measured in sterling at the average exchange rate of the year. This issue, which is relevant to the debt taken on for the LSS division acquisition, brought us to enter into discussions with our bankers. We are currently renegotiating our debt facilities and banking covenants to more appropriate levels through 2009 and beyond. The Board believes that, whilst there is material uncertainty over the timing and precise terms of agreement, these discussions will be successfully concluded. Until the negotiations are concluded there remains significant doubt as to their outcome however the Board believes it is appropriate to continue to adopt the going concern basis in preparing the annual report and accounts, as stated in the Basis of Preparation note on page 24.

Annual General Meeting

The notice of the Annual General Meeting will be issued in due course.

By order of the Board

Cavendish Administration Limited
Company Secretary
29 April 2009

Corporate governance

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

The Company, being quoted on AIM, is not required to comply with the provisions of the Combined Code, but has chosen to make the following voluntary disclosures:

The board

Board composition

The Board comprises two executive and three non-executive directors. Mr Hutchings was appointed Executive Chairman on 16 February 2004 and Mr Mulhall has served as an executive director since 23 February 2004. Mr Hoad and Mr Tate have served as non-executive directors since November 2002. Mr Jackson joined the Board as a non-executive director on 17 November 2006. Mr Hoad is the senior non-executive director.

Both Mr Hutchings and Mr Mulhall are engaged full-time on the Company's business and have no outside interests that conflict with their responsibilities to the Company. Mr Mulhall is non-executive director of RingProp plc and RingProp Tading Ltd, in solvent liquidation.
All non-executive directors are independent other than as shareholders.

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, the Schlegel companies and the LSS companies is delegated to the directors of those companies. To enable the Board to discharge its duties, all directors receive appropriate and timely information. The Company Secretary distributes briefing papers to all directors in advance of Board meetings. All directors have access to the advice and services of the corporate Company Secretary, which is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The appointment and removal of the Company Secretary is a matter for the Board as a whole. In addition, procedures are in place to enable the directors to obtain independent professional advice in the furtherance of their duties, if necessary, at the Company's expense.

Board meetings

During the year ended 31 December 2008, there were seven meetings of the Board. Participation in the meetings was as follows:

Mr Hoad, four meetings; Mr Hutchings, six meetings; Mr Jackson, four meetings; Mr Mulhall, six meetings; and Mr Tate, four meetings.

Re-election of directors

All directors are subject to re-election by the shareholders at Annual General Meetings at a maximum interval of three years. The Articles of Association provide that directors appointed by the Board will be subject to re-election at the first AGM thereafter.

Remuneration

A report on directors' remuneration is included on pages 17 to 18.

Board committees

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

Audit and corporate governance committee

The Audit and Corporate Governance Committee is made up of the non-executive directors and meets at least twice a year. The chairman and executive director also attend all meetings of the committee. The committee 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.

During the year ended 31 December 2008 the Committee held three meetings. All directors attended all three meetings.

The Audit Committee also reviews any non-audit services provided by the auditors. Such services have been, and are, limited to the provision of transaction support services and some tax compliance work and tax advice. The Committee is satisfied that the provision of such services does not in any way prejudice the objectivity and independence of the auditor. Professional firms other than the auditors also provide audit and non audit services including tax compliance work and tax advice.

Corporate governance continued

Remuneration committee
The Remuneration Committee considers and approves the remuneration and benefits (if any) of the directors. The Committee also determines the remuneration of the directors of the Schlegel companies, of Gall Thomson, of the LSS companies and of the service providers contracted to perform executive functions for the Group as well as long term share incentive and share option schemes for all employees.

The membership and work of the Committee during the year ended 31 December 2008 is described in detail in the Directors' Remuneration Report on pages 17 to 18.

Nominations committee
The Nominations Committee identifies and nominates candidates for the office of director of the Company. It meets as and when required and is chaired by Mr Tate. The Committee did not meet during the year ended 31 December 2008.

Internal control
The directors acknowledge that they are responsible for the Group's system of internal controls and for reviewing the effectiveness of those controls. The Board, including the executive directors, reviews the internal control framework on an ongoing basis.

Procedures have been developed to safeguard assets against unauthorised use or disposition of assets and to maintain proper accounting records to provide reliable financial information both for internal use and for publication. In accordance with the guidance of the Turnbull Committee on internal control, the procedures are regularly reviewed in the light of an ongoing process to identify, evaluate and manage the significant risks faced by the Company. The process has been in place for the full year under review and up to the date of the approval of the annual report and financial statements. The procedures are designed to manage rather than eliminate risk and can only provide reasonable and not absolute assurance against material misstatement or loss.

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

The Board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation. Information on resolutions to be proposed at the Annual General Meeting can be found in the Directors' Report.

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

Directors' responsibilities for the financial statements
The directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards adopted by the European Union. The parent company financial statements have been prepared in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In so far as the directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' remuneration report

The Company, being quoted on AIM, is not required to comply with the Directors Remuneration Report Regulations 2002 or the disclosure provisions of Schedule 7A of the Companies Act 1985 and the UKLA Listing Rules, but has chosen to make the following voluntary unaudited disclosures:

Remuneration committee and advisers

The Remuneration Committee of the Board comprises all independent non-executive directors of the Company. It is chaired by Mr Hoad and is responsible for determining and reviewing the terms of appointment and the remuneration of the directors of the Company.

During the year ended 31 December 2008, the Committee met twice. Mr Hoad and Mr Jackson attended both meetings, Mr Tate attended one meeting. Mr Hutchings and Mr Mulhall were present at one meeting as observers.

The Remuneration Committee may utilise independent advice when it considers it appropriate. No such advice was taken during the year ended 31 December 2008 with respect to salaries or cash bonuses, but an external adviser was consulted with regard to the future of the Share Incentive Scheme arrangements (see below).

Remuneration policy

The Company's policy is to pay remuneration to directors at a level consistent with their responsibilities and with the scope of the Group.

The Remuneration Committee reviewed the remuneration of both the executive and non-executive directors during the year ended 31 December 2008. The salaries of the executive directors were increased with effect from 1 May 2008, from £425,000 to £450,000 for Mr Hutchings and from £300,000 to £318,000 for Mr Mulhall. The fees of the non-executive directors remained unchanged, at £30,000 per year.

Service agreements

Under the terms of their service agreements Mr Hutchings and Mr Mulhall are entitled, in addition to their annual salaries, to membership of a private medical expenses arrangement and permanent health insurance cover. They are entitled to participate from time to time in any bonus arrangements the Board may establish. These agreements are terminable on not less than 12 months' notice by either party.

The non-executive directors have letters of appointment, which provide a notice period of one month. All directors are subject to re-election by shareholders at a maximum interval of three years.

Remuneration

The remuneration paid during the year ended 31 December 2008 is tabled below:

	Salary/ fees £'000	**Bonus for 2007 £'000**	**Benefits £'000**	**Total 2008 £'000**	Total 2007 £'000
Greg Hutchings	**442**	**60**	**7**	**509**	642
Denis Mulhall	**312**	**40**	**2**	**354**	387
Frederic Hoad	**30**	**–**	**–**	**30**	27
Michael Jackson	**30**	**–**	**–**	**30**	28
Roland Tate	**30**	**–**	**–**	**30**	27
Total	**844**	**100**	**9**	**953**	1,111

Salaries are reviewed as from 1 May every year. The bonus paid was in respect of the year ended 31 December 2007.

Directors' remuneration report continued

Payment of remuneration in shares
Mr Jackson and Mr Tate agreed on 17 November 2007 to take payment of their fees in shares of the Company. The relevant letters of agreement stated that their entitlement each to fees of £30,000, for the periods of 12 months ending on 17 November 2008 for Mr Jackson and 1 November 2008 for Mr Tate should be satisfied by the issue to them of shares, upon the same terms as had applied to their remuneration during the previous period of 12 months.

Pursuant to those agreements, 37,494 new ordinary shares were issued to Mr Jackson and to Mr Tate on 17 January 2008, by reference to the closing mid-market price of the shares on 16 January 2008. The agreements have not been renewed beyond 17 November 2008 and 1 November 2008 respectively and Mr Jackson and Mr Tate have received their fees in cash since those dates.

Share Incentive Schemes
The Remuneration Committee concluded that a new Share Incentive Scheme should be established to cover a broader range of Group staff, including a larger number of senior managers than the scheme linked to the lesot, in addition to the executive directors.

On 25 July 2008 the following options were granted to directors: to Mr Hutchings options over 4,000,000 shares, to Mr Mulhall options over 1,400,000 shares. The options are exercisable on or after 25 July 2011 at an exercise price of 38p per share.

No awards of shares were made, or options exercised, under either this Scheme or the pre-existing Scheme during the year ended 31 December 2008.

Cash bonus
The service agreements of the executive directors include provision for possible cash bonus scheme arrangements. Any such schemes will be performance-related and the level of performance bonus will be determined by the remuneration committee in accordance with generally accepted practice.

Pensions
During 2008 there were no defined benefit pension entitlements and no pension payments were made in respect of the directors.

By order of the Board

Cavendish Administration Limited
Company Secretary
29 April 2009

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

We have audited the group financial statements of Lupus Capital plc for the year ended 31 December 2008 which comprise accounting policies, the group income statement, the group balance sheet, the group cash flow statement, the group statement of recognised income and expense, and notes 1 to 27. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Lupus Capital plc for the year ended 31 December 2008.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view, and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Director's Report includes that specific information presented in the Chairman's statement that is cross referenced from the business review section of the Director's Report.

In addition we also report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. The other information comprises only the Directors' Report, Corporate Governance Statement, Directors' Remuneration Report and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Emphasis of matter

The Directors have highlighted in the basis of preparation section of the accounting policies that the company is in discussions with its bankers with a view to renegotiating its debt facilities and banking covenants to more appropriate levels through 2009 and beyond. The Board believes that, whilst there is material uncertainty over the timing and precise terms of agreement, these discussions will be successfully concluded. Until the negotiations are concluded there remains significant doubt as to their outcome however the Board believes it is appropriate to continue to adopt the going concern basis in preparing the annual report and accounts.

In forming our opinion on the financial statements, which is not qualified, we have considered and are satisfied with the disclosures made in the Accounting Policies in the Company and Group financial statements concerning the going concern basis of preparation.

Grant Thornton UK LLP
Chartered Accountants
Registered Auditor
London
29 April 2009

Group income statement

For the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Revenue	4	**266,559**	216,859
Cost of sales		**(175,666)**	(142,675)
Gross profit		**90,893**	74,184
Administrative expenses		**(70,046)**	(51,461)
Operating profit	6	**20,847**	22,723
Analysed as:			
Operating profit before exceptional items and amortisation of intangible assets		**36,619**	31,857
Exceptional items	5	**(5,987)**	(1,385)
Amortisation of intangible assets	11	**(9,785)**	(7,749)
Operating profit		**20,847**	22,723
Finance income	8	**1,687**	1,888
Finance costs	8	**(11,743)**	(9,241)
Net finance costs		**(10,056)**	(7,353)
Profit before taxation		**10,791**	15,370
Income tax expense	9	**(4,275)**	(3,128)
Profit for the year from continuing operations		**6,516**	12,242
Earnings per share			
– Basic EPS from continuing operations	10	**5.01p**	10.68p
– Diluted EPS from continuing operations	10	**4.92p**	10.68p

All results relate to continuing operations.

	Note	2008 £'000	2007 £'000
Non GAAP measure			
Adjusted[1] profit before taxation		**27,685**	25,021
Earnings per share			
– Adjusted[1] basic EPS from continuing operations	10	**14.83p**	14.82p
– Adjusted[1] diluted EPS from continuing operations	10	**14.57p**	14.82p

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

Group statement of recognised income and expense

For the year ended 31 December 2008

	Note	**2008 £'000**	2007 £'000
Actuarial losses on defined benefit plans		**(5,559)**	(159)
Exchange differences on retranslation of foreign operations		**42,620**	(148)
Effective portion of changes in value of cash flow hedges	14	**(2,392)**	(1,546)
Tax on items recognised directly in equity	9	**1,890**	54
Income and expense recognised directly in equity		**36,559**	(1,799)
Profit for the period		**6,516**	12,242
Total recognised income and expense for the period			
– attributable to equity shareholders of the Company	22	**43,075**	10,443

Group balance sheet

As at 31 December 2008

	Note	2008 £'000	2007 £'000 (restated)
ASSETS			
Non-current assets			
Intangible assets	11	**369,260**	306,796
Property, plant and equipment	12	**41,663**	36,325
Deferred tax	9	**8,297**	6,018
		419,220	349,139
Current assets			
Inventories	13	**36,857**	34,285
Trade and other receivables	15	**34,720**	36,755
Cash and cash equivalents	23	**32,407**	46,969
		103,984	118,009
TOTAL ASSETS		**523,204**	467,148
LIABILITIES			
Current liabilities			
Current tax payable		**(6,321)**	(4,329)
Trade and other payables	16	**(39,148)**	(58,225)
Finance lease obligations	17	**(231)**	(188)
Interest bearing loans and borrowings	17	**(27,857)**	(16,694)
		(73,557)	(79,436)
Non-current liabilities			
Finance lease obligations	17	**(54)**	(214)
Deferred tax	9	**(30,386)**	(25,315)
Interest bearing loans and borrowings	17	**(149,586)**	(129,865)
Employee benefit liability	20	**(7,598)**	(3,497)
Provisions	18	**(20,441)**	(18,937)
Derivative financial instruments	14	**(3,938)**	(1,546)
Other payables		**(244)**	(1,206)
		(212,247)	(180,580)
TOTAL LIABILITIES		**(285,804)**	(260,016)
NET ASSETS		**237,400**	207,132
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Called up share capital	21	**6,864**	6,861
Share premium	22	**101**	45
Other reserves	22	**10,389**	10,389
Treasury reserve	22	**(6,764)**	(1,075)
Hedging reserve	22	**(3,938)**	(1,546)
Translation reserve	22	**40,819**	(1,801)
Retained earnings	22	**189,929**	194,259
TOTAL EQUITY		**237,400**	207,132

The financial statements were approved by the Board on 29 April 2009 and signed on its behalf by:

Greg Hutchings
Chairman

Denis Mulhall
Director

Group cash flow statement

For the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Cash flows from operating activities			
Profit before tax		**10,791**	15,370
Net finance costs		**10,056**	7,353
Depreciation	6	**6,251**	4,702
Amortisation	6	**9,785**	7,749
Property, plant and equipment written off		**1,237**	–
Loss on sale of property, plant and equipment		**–**	(12)
Share based payments		**55**	–
Movement in inventories		**4,013**	1,173
Movement in trade and other receivables		**5,891**	11,665
Movement in trade and other payables		**(14,228)**	3,267
Movement in provisions		**373**	1,110
Income tax paid		**(3,351)**	(6,492)
Net cash inflow from operating activities		**30,873**	45,885
Investing activities			
Payments to acquire property, plant and equipment		**(4,484)**	(3,918)
Acquisition of subsidiary, net of cash acquired		**–**	(239,397)
Deferred consideration on previous acquisition		**(12,500)**	–
Interest received		**1,708**	1,867
Net cash outflow from investing activities		**(15,276)**	(241,448)
Financing activities			
Proceeds from share issue, net of costs		**59**	131,536
Purchase of treasury shares		**(5,689)**	(1,075)
Equity dividends paid		**(7,232)**	(3,753)
New borrowings		**5,390**	119,064
Interest paid		**(9,849)**	(7,172)
Repayment of short term borrowings		**(17,937)**	(5,000)
Repayment of capital element of finance leases		**(117)**	(88)
Net cash (outflow)/inflow from financing activities		**(35,375)**	233,512
(Decrease)/increase in cash and cash equivalents		**(19,778)**	37,949
Effect of exchange rates on cash and cash equivalents		**5,216**	(718)
Cash and cash equivalents at the beginning of the year		**46,969**	9,738
Cash and cash equivalents at the year end	23	**32,407**	46,969

Notes to the Group financial statements

1. Basis of preparation and accounting policies

The Group's principal activities are the manufacture, supply and distribution of building products and goods to the oil and gas industry. Lupus Capital plc is the Group's ultimate parent company. It is incorporated and domiciled in England and Wales at the address shown on page 10.

The Group's shares are admitted to trading on AIM, a market of the London Stock Exchange.

The Group's consolidated financial statements are prepared in accordance with the principal accounting policies adopted by the Group as set out in note 2 and International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations ("IFRIC") as adopted for use in the European Union (EU), and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The 2007 Group balance sheet has been restated in accordance with IFRS 3 Business Combinations as a result of the fair value adjustments made in respect of the LSS acquisition (see note 3).

Going concern

The financial statements have been prepared on the going concern basis, which assumes that the Group will have sufficient funds to continue in operational existence for the foreseeable future.

The US dollar to pound exchange rate changed rapidly last year by over 25% from $2.1 to around $1.5 to the pound. We comfortably met all our interest and debt repayments during 2008. However, the group's net debt increased significantly in sterling terms when translated at the year end exchange rate and this increase, upon translation, was greater than that of the group's proportionate dollar earnings measured in sterling at the average exchange rate of the year.

This issue, which is relevant to the debt taken on for the LSS division acquisition, brought us to enter into discussions with our bankers. We are currently renegotiating our debt facilities and banking covenants to more appropriate levels through 2009 and beyond. The Board believes that, whilst there is material uncertainty over the timing and precise terms of agreement, these discussions will be successfully concluded. Until the negotiations are concluded there remains significant doubt as to their outcome, however the Board believes it is appropriate to continue to adopt the going concern basis in preparing the annual report and accounts.

2. Summary of significant accounting policies

Accounting convention

The financial statements are prepared under the historic cost convention. The measurement basis and significant accounting policies are set out below:

Basis of consolidation

The historical financial information consolidates the Company and its subsidiary undertakings (see note 26) drawn up to 31 December each year. The financial statements of the subsidiaries are prepared as of the same reporting date as the parent, using consistent accounting policies.

Subsidiaries are fully consolidated from the date on which control over financial and operating policies is transferred to the Group and continue to be consolidated until the date that such control ceases.

All business combinations are accounted for using the purchase method. The cost of a business combination is measured as the aggregate of the fair values, at the acquisition date, of any assets given, liabilities incurred or assumed, including contingent liabilities, and equity instruments issued by the Group, plus any costs directly attributable to the combination. The identifiable assets and liabilities of the acquiree are measured initially at fair value at the acquisition date. The excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, including those of an intangible and tangible nature, liabilities and contingent liabilities is recognised as goodwill.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. Summary of significant accounting policies continued

Recent accounting developments

During the year, the IASB and IFRIC have issued the following standards and interpretations with effective dates after the date of these financial statements that have not yet been adopted by the company:

IAS 1 (revised)	"Presentation of Financial Statements" – effective date 1 January 2009
IAS 23 (revised)	"Borrowing Costs" – effective date 1 January 2009
IAS 27 (revised)	"Consolidated and Separate Financial Statements" – effective date 1 July 2009
IAS 32 (revised)	"Financial Instruments – Presentation" – effective date 1 January 2009
IAS 39 (revised)	"Financial Instruments: Recognition and Measurement" – effective date 1 July 2009
IFRS 1 (revised)	"First-time Adoption of International Financial Reporting Standards" – effective date 1 July 2009
IFRS 2 (revised)	"Share Based Payments" – effective date 1 January 2009
IFRS 3 (revised)	"Business Combinations" – effective date 1 July 2009
IFRS 7 (revised)	"Financial Instruments: Disclosures"
IFRS 8	"Operating Segments" – effective date 1 January 2009
IFRIC 9	"Reassessment of Embedded Derivatives" – effective for annual periods ending on or after 30 June 2009
IFRIC 13	"Customer Loyalty Programmes" – effective date, mandatory 1 January 2009
IFRIC 15	"Agreements for the Construction of Real Estate" – effective date 1 July 2009
IFRIC 16	"Hedges of a Net Investment in a Foreign Operation" – effective date 1 October 2009
IFRIC 17	"Distributions of Non-cash Assets to Owners" – effective 1 July 2009
IFRIC 18	"Transfers of Assets from Customers" – effective 1 July 2009

The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's reported results. IAS 1 (revised) will affect the presentation of the results.

Principal accounting policies

The preparation of financial statements in conformity with generally accepted accounting policies requires the directors to make judgments and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and the reported income and expense during the reporting periods.

Although the judgments and assumptions are based on the directors' best knowledge of the amount, events or actions, actual results may differ from these estimates.

The accounting policies set out below have been used to prepare the financial information.

Goodwill

Goodwill, being the difference between the fair value of consideration paid for new interests in Group companies and the fair value of the Group's share of their net identifiable assets and contingent liabilities at the date of acquisition, is capitalised. Goodwill represents consideration paid by the Group in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognised.

Goodwill is not amortised but is subject to an impairment review on an annual basis or more frequently when events or changes in circumstances indicate it might be impaired. Any impairment is charged to the income statement in the period in which it arises.

Intangible assets

On acquisition of Group companies, the Group recognises any separately identifiable intangible assets separately from goodwill, initially measuring the intangible assets at fair value.

Purchased intangible assets acquired through a business combination, including purchased brands, customer relationships, trademarks and licenses, are capitalised at fair value and amortised on a straight-line basis over their estimated useful economic lives as follows:

- Acquired brands – 5 years to indefinite;
- Customer relationships – 9 to 16 years; and
- Trade marks and licenses – 3 to 4 years.

The Group capitalises acquired computer software at cost. Computer software is amortised on a straight-line basis over its estimated useful life, up to 3 years. The carrying value of intangible assets with a finite life is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Notes to the Group financial statements

2. Summary of significant accounting policies continued

Impairment of assets

Goodwill arising on business combinations is allocated to cash-generating units (equivalent to the reported primary business segments). The recoverable amount of the cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when events or changes in circumstance indicate that it might be impaired. Goodwill that has been impaired previously cannot be reversed at a later date.

The carrying values of property, plant and equipment, and intangible assets with finite lives are reviewed for impairment when events or changes in circumstance indicate the carrying value may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss.

Where purchased intangible assets are considered by the Board of Directors to have an indefinite life, they are not amortised but are subject to an impairment review on an annual basis or more frequently if necessary. Intangible assets not yet available for use are tested for impairment annually.

An impairment review is performed by comparing the carrying value of the property, plant and equipment or intangible asset or goodwill with its recoverable amount, being the higher of the fair value less costs to sell and value in use. The fair value less costs to sell is the amount that could be obtained on disposal of the asset. The value in use is determined by discounting, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, the expected future cash flows resulting from its continued use, including those on final disposal. Impairment losses are recognised in the income statement immediately. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which it belongs. Considerable management judgment is necessary to estimate discounted future cash flows.

Accordingly, actual cash flows could vary considerably from forecast cash flows. Impairment reversals are permitted to property, plant and equipment or intangible assets (but not goodwill) to the extent that the new carrying value does not exceed the amount it would have been had no impairment loss been previously recognised.

Segment reporting

The Group's continuing operations are divided into two business segments, Oil services and Building products. The group's primary reporting format is business segments and its secondary format is geographical segments. A business segment is a component of the Group that is engaged in providing a group of related products and is subject to risks and returns that are different from those of the other segments. A geographical segment is a component of the Group that operates within a particular economic environment and is subject to risks and returns that are different from those of components operating in other economic environments.

Revenue

Revenue is recognised to the extent that it is probable that economic benefit will flow to the Group and the revenue can be reliably measured. Revenue represents amounts receivable for goods provided to customers during the year in the normal course of business, net of trade discounts, VAT and other sales-related taxes. As such revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

Cash and cash equivalent

Cash and cash equivalents include cash at bank and in hand as well as short-term highly liquid investments such as money market instruments and bank deposits. Money market instruments are financial assets carried at fair value through profit or loss.

Interest bearing bank loans and borrowings

Interest bearing bank loans and overdrafts are recorded initially at fair value less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and impairment. 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 land - not depreciated
Freehold buildings - 2% to 5%
Plant and machinery - 7.5% to 33%
Motor vehicles - 20% to 25%

The carrying values of property, plant and equipment are reviewed for impairment periodically if events or changes in circumstances indicate that the carrying value may not be recoverable. The assets' residual values, useful lives and method of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

2. Summary of significant accounting policies continued

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost includes cost of materials determined on a purchase cost basis, direct labour and an appropriate proportion of manufacturing overheads based on normal levels of activity on a first in, first out basis. Net realisable value is based on estimated selling prices, less further costs expected to be incurred to completion and disposal.

Leases

Where the group has substantially all the risks and rewards of ownership of an asset subject to a lease, the lease is treated as a finance lease. Assets held under finance leases and similar contracts which confer the rights and obligations similar to those attached to owned assets are capitalised at the inception of the lease at the fair value or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the income statement.

All other leases are treated as operating leases, and rentals payable are charged to the income statement account on a straight line basis over the lease term.

Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Pounds Sterling which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In individual companies, transactions in foreign currencies are recorded at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the exchange rate prevailing at the balance sheet date. Any resulting exchange differences are taken to the income statement, with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated income statement.

On consolidation, assets and liabilities of Group companies denominated in foreign currencies are translated into sterling at the exchange rate prevailing at the balance sheet date. Income and expense items are translated into sterling at the average rates for the year.

Exchange differences arising on the translation of opening net assets of Group companies, together with differences arising from the translation of the net results at average or actual rates to the exchange rate prevailing at the balance sheet date, are taken to equity. On disposal of a foreign entity, the deferred accumulated amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Provisions

Provisions are recognised:

- when the Group has a present legal or constructive obligation as a result of a past event;
- it is probable that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

Restructuring provisions comprise lease termination penalties and employee termination payments.

Provisions are determined at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Pensions and other post employment benefits

The Group operates a defined contribution pension and two defined benefit schemes.

The cost of providing benefits under the defined benefit schemes is determined using the projected unit credit actuarial valuation method. The operating and financing costs of the pension schemes are charged to the income statement 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 past service cost is recognised as an expense on a straight line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service costs are recognised immediately. Actuarial gains and losses are recognised immediately through the statement of recognised income and expenditure. The net surplus or deficit is presented with the other net assets on the balance sheet. The related deferred tax is shown with the other deferred tax balances.

Notes to the Group financial statements

2. Summary of significant accounting policies continued

Pensions and other post employment benefits continued

The defined benefit assets and liabilities comprise the present value of the defined benefit obligations less the past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any assets is restricted to the sum of any past service costs not yet recognised and the present value of any economic benefit available in the form of refunds from the plan or reductions in the future contributions to the plan.

Contributions to the defined contribution scheme are charged to the income statement as incurred.

Share capital

Ordinary shares are classified as equity.

Where any Group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Financial assets, liabilities and derivatives

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 and are generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest rate method, less appropriate allowances for estimated irrecoverable amounts. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the writedown is determined as the difference between the carrying amount and present value of estimated future cash flows.

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

For those instruments designated as hedges and for which hedge accounting is desired, the hedging relationship is documented at its inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective.

For the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; hedge of net investment in foreign operations where they hedge exposure to changes in fair value or future cash flows of the investment, or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable purchase.

In relation to fair value hedges which meet the conditions for special hedge accounting, any gain or loss from re-measuring the hedging instrument at fair value is recognised immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement.

In relation to cash flow hedges (forward foreign currency contracts) to hedge either highly probable anticipated purchases or firm commitments which meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in net profit or loss.

When the hedged firm commitment results in the recognition of a non-financial asset or a non-financial liability, then, at the time the asset or liability is recognised, the associated gains or losses that were previously recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognized in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to net profit or loss for the year.

Investments in foreign operations
A foreign currency exposure arises from net investments in Group entities whose functional currency differs from the Group's presentation currency. The Group uses foreign currency loans to hedge foreign currency risk. This translation risk does not give rise to a cash flow esposure. Its impact only arises from the translation of the net investment in the Group's presentation currency.

Taxation
Income tax expense represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred income tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred income tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred income tax is calculated at the tax rates enacted at the balance sheet dates and that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred income tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

Share-based payments
The Group has an equity settled share based remuneration scheme for certain employees. Where share options are awarded to employees, the fair value of the options at the date of grant is calculated using a pricing model and is charged to the income statement over the vesting period.

Non GAAP measure accounting policy
The directors believe that the "adjusted" profit and earnings per share measures provide additional useful information to shareholders on the underlying performance of the business. These measures are consistent with how business performance is measured internally.
The adjusted profit before tax measure is not recognised under IFRS and may not be comparable with "adjusted" profit measures used by other companies. The adjustments made to reported profit before tax are to include the following:

- exceptional income and charges. These are largely one-off in nature and therefore create volatility in reported earnings; and
- amortisation of intangible assets and borrowing costs and discount on provisions because of their non-cash nature and expected infrequency of the events giving rise to them.

Notes to the Group financial statements

2. Summary of significant accounting policies continued

Key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of goodwill and other intangible assets
There are a number of assumptions management have considered in performing impairment reviews of goodwill and intangible assets. In determining whether goodwill is impaired an estimation of value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value (note 11).

Provisions
Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material (note 18).

Valuation of financial instruments at fair value
Management makes a number of assumptions with regards to the models used to value financial instruments at their fair value at the year end. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument.

Intangible assets acquired in a business combination
On acquisition of Group companies, the Group recognises any separately identifiable intangible assets from goodwill, initially measuring each group of intangible assets at fair value. Groups of intangible assets will include purchased brands, customer relationships, trade marks and licenses.The determination of fair value requires the directors to estimate the useful economic life of each asset and the future cash flows expected to arise from each asset and to apply a suitable discount rate (note 11).

Inventories
Inventories are stated at the lower of cost and net realisable value, with due allowance for excess, obsolete or slow-moving items. Net realisable value is based on current assessments of future demand, market conditions and new product development initiatives. Should demand for the Group's products decline further during the next financial year as a result of the current economic downturn, additional allowances may be necessary in respect of excess or slow-moving items.

Defined benefit pension and post retirement benefit schemes
The benefit obligation is calculated using a number of assumptions including future salary increases, increases to pension benefits, mortality rates and, in the case of post-employment medical benefits, the expected rate of increase in medical costs. The present value of the benefit obligation is calculated by discounting the benefit obligation using market yields on high-quality corporate bonds at the balance sheet date. The plan assets consist largely of listed securities and their fair values are subject to fluctuation in response to changes in market conditions. Effects of changes in the actuarial assumptions underlying the benefit obligation, effects of changes in the discount rate applicable to the benefit obligation and effects of differences between the expected and actual return on the plan assets are classified as actuarial gains and losses and are recognised directly in equity. Further actuarial gains and losses will be recognised during the next financial year. An analysis of the assumptions that will be used by management to determine the cost of defined benefit plans that will be recognised in the income statement in the next financial year is presented in note 20.

Deferred tax assets
Estimation is required of temporary differences between the carrying amount of assets and liabilities and their tax base. Deferred tax liabilities are recognised for all taxable temporary differences but, where there exist deductible temporary differences, management's judgement is required as to whether a deferred tax asset should be recognised based on the availability of future taxable profits. It is possible that the deferred tax assets actually recoverable may differ from the amounts recognised if actual taxable profits differ from management's estimates.

3. Business combinations

Acquisition of Laird Security Systems Division (LSS)

On 27 April 2007, the Group acquired 100% of the equity of LSS. The acquisition was funded by the raising of £136m by way of a placing and open offer of 755.6m new ordinary shares in Lupus Capital plc at an issue price of 18p per share and by way of a new debt facility comprising a term loan of $240m.

The investment in LSS has been included in the Group balance sheet at its fair value at 31 December 2008 and at the provisional fair value at 31 December 2007, as set out in the following table:

	Provisional fair value to Group 31 December 2007 £'000	Fair value adjustments £'000	Fair value to Group 31 December 2008 £'000
Intangible assets	96,575		96,575
Tangible assets	25,108		25,108
Inventories	29,640	(976)	28,664
Trade receivables and other debtors	33,420		33,420
Deferred tax asset	13,605		13,605
Cash at bank	120		120
Current liabilities	(24,667)	(251)	(24,918)
Taxation	(2,744)	(586)	(3,330)
Non-current liabilities	(95)		(95)
Provisions for liabilities and charges	(18,391)	1,955	(16,436)
Deferred tax	(34,772)	(593)	(35,365)
Net assets	117,799	(451)	117,348
Goodwill arising on acquisition			134,749
Total Consideration			252,097

Fair values have been adjusted to reflect various changes to previous assumptions the material items of which relate to:

- inventory adjustments to reflect obsolete and slow moving items against which the directors considered there was inadequate provision at acquisition;
- adjustments have been made to onerous lease provisions that existed at acquisition as a result of better information being obtained;
- writing off overseas deferred tax assets that existed at acquisition.

Comparative figures have been restated as appropriate.

Notes to the Group financial statements

4. Segmental analysis

Primary reporting format – business segments

The following tables present revenue and profit and certain assets and liability information regarding the Group's business segments:

Year ended 31 December 2008	Oil services £'000	Building products £'000	Total £'000
Continuing operations			
Revenue	**12,286**	**254,273**	**266,559**
Operating profit	**5,878**	**14,969**	**20,847**
Net finance costs			**(10,056)**
Profit before taxation			**10,791**
Income tax expense			**(4,275)**
Profit for the year			**6,516**
Assets and liabilities			
Segment assets	**9,442**	**493,752**	**503,194**
Unallocated assets			**20,010**
Total assets			**523,204**
Segment liabilities	**(3,774)**	**(278,164)**	**(281,938)**
Unallocated liabilities			**(3,866)**
Total liabilities			**(285,804)**
Other segment information			
Capital expenditure:			
– property, plant and equipment	**24**	**4,460**	**4,484**
Cost of goods sold	**3,653**	**172,013**	**175,666**
Depreciation	**67**	**6,184**	**6,251**
Amortisation	**–**	**9,785**	**9,785**
Employee benefit liabilities	**–**	**7,598**	**7,598**
Goodwill allocation	**11,421**	**222,664**	**234,085**
Intangible asset allocation	**–**	**135,175**	**135,175**
Exceptional items (note 5)	**–**	**5,987**	**5,987**

Comparative segmental disclosure for the year ended 31 December 2007 is as follows:

Year ended 31 December 2007	Oil services £'000	Building products £'000 (restated)	Total £'000 (restated)
Continuing operations			
Revenue	11,342	205,517	216,859
Operating profit	5,557	17,166	22,723
Net finance costs			(7,353)
Profit before taxation			15,370
Income tax expense			(3,128)
Profit for the year			12,242
Assets and liabilities			
Segment assets	11,828	416,976	428,804
Unallocated assets			38,344
Total assets			467,148
Segment liabilities	(2,290)	(247,267)	(249,557)
Unallocated liabilities			(10,459)
Total liabilities			(260,016)

4. Segmental analysis continued

Comparative segmental disclosure for the year ended 31 December 2007 is as follows:

Year ended 31 December 2007	Oil services £'000	Building products £'000 (restated)	Total £'000 (restated)
Other segment information			
Capital expenditure:			
– property, plant and equipment	37	4,445	4,482
– intangible assets	–	233,771	233,771
Cost of goods sold	3,320	139,355	142,675
Depreciation	62	4,640	4,702
Amortisation	–	7,749	7,749
Employee benefit liabilities	–	3,497	3,497
Goodwill allocation	11,421	180,221	191,642
Intangible asset allocation	–	115,154	115,154
Exceptional items (note 5)	–	1,385	1,385

Secondary reporting format – Geographical segments

The following tables present revenue, expenditure and certain asset information regarding the Group's geographical segments:

Year ended 31 December 2008	**United Kingdom £'000**	**Europe £'000**	**Americas £'000**	**Rest of the world £'000**	**Total £'000**
Revenue					
Revenue from continuing operations	**105,181**	**35,070**	**109,872**	**16,436**	**266,559**
Other segment information					
Total assets	**194,578**	**22,477**	**294,504**	**11,645**	**523,204**
Capital expenditure:					
– property, plant and equipment	**1,912**	**233**	**2,107**	**232**	**4,484**

Comparative segmental disclosure for the year ended 31 December 2007 is as follows:

Year ended 31 December 2007	United Kingdom (restated) £'000	Europe £'000	Americas £'000	Rest of the world £'000	Total (restated) £'000
Revenue					
Revenue from continuing operations	79,202	32,927	99,344	5,386	216,859
Other segment information					
Total assets	76,274	19,786	362,636	8,452	467,148
Capital expenditure:					
– property, plant and equipment	1,745	372	2,278	87	4,482
– intangible assets	57,634	–	176,137	–	233,771

5. Exceptional items

	2008 £'000	2007 £'000
Reorganisation costs	**5,987**	1,236
Workers compensation	**–**	149
	5,987	1,385

Reorganisation costs reflect redundancy and restructuring costs of £3,243,000 and asset write-offs of £2,744,000, associated with downsizing some of the Group's businesses.

Notes to the Group financial statements

6. Operating profit before finance cost and tax

Operating profit is stated after charging the following;

	2008 £'000	2007 £'000
Depreciation of property, plant and equipment – owned assets	**6,062**	4,594
Depreciation of property, plant and equipment – leased assets	**189**	108
Amortisation of intangible assets	**9,785**	7,749
Operating lease rentals – land and buildings	**4,947**	3,280
Fees payable to the Company's auditors for the audit of the Group accounts	**125**	80
Fees payable to the Company's auditors or their associates for other services:		
– Audit of the Company's subsidiaries'	**383**	347
– Tax, general and other services	**258**	167
Foreign exchange (profit)/loss	**(269)**	48

In addition in 2007 £62,000 payable to the auditors in respect of corporate finance work has been included in the transaction costs of the acquisition of LSS.

7. Employees

Number of employees

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

	2008 Number	2007 Number
Administration	**358**	360
Sales	**198**	207
Operations	**1,946**	2,269
	2,502	2,836

The number of employees (including directors) of the Group as at 31 December 2008 was:

	2008 Number	2007 Number
Administration	**337**	348
Sales	**189**	204
Operations	**1,746**	2,221
	2,272	2,773

Post 31 December 2008 the number of employees (including directors) at 31 March 2009 was:

	31 March 2009 Number
Administration	317
Sales	164
Operations	1,489
	1,970

Employment costs

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

	2008 £'000	2007 £'000
Wages and salaries	**50,900**	43,167
Social Security costs	**5,675**	5,053
Pension costs – defined contribution schemes	**1,057**	1,231
Pension costs – defined benefit schemes	**464**	187
Share based payments	**55**	–
	58,151	49,638

7. Employees continued

Directors remuneration

The remuneration payable to directors was as follows:

	2008 £'000	2007 £'000
Greg Hutchings	**509**	642
Denis Mulhall	**354**	387
Frederic Hoad	**30**	27
Michael Jackson	**30**	28
Roland Tate	**30**	27
	953	1,111

The fees of Mr Hoad were paid to Hoad & Co (Consultants) Limited, those of Mr Tate were paid to Tiger Corporate Finance Limited and those of Mr Jackson to Michael Jackson Associates.

Mr Jackson and Mr Tate agreed on 17 November 2007 to take payment of their fees in shares of the Company. The relevant letters of agreement stated that their entitlement to fees each of £30,000 for the periods of 12 months commencing on 17 November 2007 and 1 November 2007 respectively, would be satisfied by the issue to them of new ordinary shares in the company upon the same terms as previously.

Pursuant to these agreements, 37,974 new ordinary shares were issued to each of Mr Jackson and Mr Tate on 17 January 2008, by reference to the closing mid-market price of the shares on 16 January 2008. The agreements have not been renewed beyond 17 November 2008 and 1 November 2008 respectively and Mr Jackson and Mr Tate have received their fees in cash since those dates.

8. Finance income and costs

	2008 £'000	2007 £'000
Finance income		
Bank interest receivable	**1,687**	1,845
Fair value gains on financial instruments - interest rate swap - cash flow hedge, transfer from equity	**–**	43
	1,687	1,888
Finance costs		
Interest payable on bank loans and overdraft	**(9,464)**	(8,303)
Fair value losses on financial instruments - interest rate swap - cash flow hedge, transfer from equity	**(1,039)**	–
Ineffective portion of changes in value of cash flow hedges	**(54)**	–
Finance charges payable under finance lease and hire purchase contracts	**(30)**	(23)
Amortisation of borrowing costs	**(364)**	(264)
Unwinding of discount on provisions	**(758)**	(517)
Other finance costs	**(34)**	(134)
	(11,743)	(9,241)
Net finance costs	**(10,056)**	(7,353)

Notes to the Group financial statements

9. Taxation

(a) Tax on profit on ordinary activities

Income tax expense in the income statement

	2008 £'000	2007 £'000
Current income tax:		
UK Corporation tax	**4,626**	2,735
Foreign tax	**1,876**	4,051
Current income tax charge	**6,502**	6,786
Adjustments in respect of prior periods	**(34)**	278
Total current income tax	**6,468**	7,064
Deferred tax:		
Effect of change in tax rates	**–**	(2,013)
Origination and reversal of temporary differences	**(2,193)**	(1,964)
Other items	**–**	41
Total deferred tax	**(2,193)**	(3,936)
Income tax expense in the income statement	**4,275**	3,128

Tax relating to items charged or credited directly to equity

	2008 £'000	2007 £'000
Deferred tax:		
Actuarial losses on pension schemes	**(1,890)**	(54)
Income tax expense in the statement of recognised income and expense	**(1,890)**	(54)

An adjustment was made in 2007 to recognize the change in the UK corporation tax rate to 28% with effect from 1 April 2008.

(b) Reconciliation of the total tax charge

The tax assessed for the year differs from the standard rate of tax in the UK of 28.5% (2007: 30.0%). The differences are explained below:

	2008 £'000	2007 £'000
Profit from continuing operations before taxation	**10,791**	15,370
Rate of corporation tax in the UK of 28.5% (2007: 30%)	**3,075**	4,611
Effects of:		
Expenses not deductible for tax purposes:	**718**	351
Overseas tax rate differences	**393**	307
Other movements	**119**	–
Deferred tax rate changes	**–**	(2,013)
Adjustment in respect of prior periods	**(30)**	(128)
Income tax expense in the income statement	**4,275**	3,128

9. Taxation continued

(c) Deferred tax

Deferred income tax at 31 December relates to the following:

	Group balance sheet 2008 £'000	Group balance sheet 2007 (restated) £'000	Group income statement 2008 £'000	Group income statement 2007 £'000
Deferred tax liability				
Fair value adjustments on acquisition	**(29,647)**	(25,128)	**(1,902)**	(4,221)
Other	**(739)**	(187)	**(276)**	6
	(30,386)	(25,315)	**(2,178)**	(4,215)
Deferred tax assets				
Post-employment benefits	**1,791**	1,303	**–**	–
Fair value adjustments on acquisition	**5,467**	4,440	**94**	180
Other	**1,039**	275	**(109)**	99
	8,297	6,018	**(15)**	279
Deferred income tax (income)/expense			**(2,193)**	(3,936)
Deferred tax liabilities net	**(22,089)**	(19,297)		
Reflected in the balance sheet as follows				
Deferred tax assets	**8,297**	6,018		
Deferred tax liabilities	**(30,386)**	(25,315)		
Deferred tax liabilities net	**(22,089)**	(19,297)		

(d) Factors that may affect future tax charges:

There are estimated tax losses of £7,939,000 (2007: £8,401,000) within the Group, comprising capital losses of £7,348,000 and other tax losses of £591,000. 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:

	2008 £'000	2007 £'000
Tax losses	**(165)**	(316)
Capital losses	**(2,057)**	(2,057)
	(2,222)	(2,373)

Notes to the Group financial statements

10. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

	2008 '000	2007 '000
Weighted average number of shares (including treasury shares)	**137,284**	114,648
Treasury shares	**(7,311)**	(39)
Weighted average number of shares - basic	**129,973**	114,609
Effect of dilutive potential ordinary shares - options	**2,348**	–
Weighted average number of shares - diluted	**132,321**	114,609

The number of shares has been restated to reflect the share consolidation in December 2007.

The actual number of shares in issue, excluding Treasury shares, at 31 December 2008 was 129,840,798.

Earnings per share from continuing operations before exceptional items

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

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

	2008 £'000	2007 £'000
Profit for the year from continuing operations	**6,516**	12,242
Exceptional costs	**5,987**	1,385
Amortisation of intangible assets and unwinding discount on provisions and amortisation of borrowing costs	**10,907**	8,266
Tax effect on exceptional costs and amortisation of intangible assets	**(4,137)**	(2,895)
Deferred tax adjustment relating to the rate of corporation tax changing from 30% to 28%	**–**	(2,013)
Adjusted underlying profit after tax	**19,273**	16,985
Adjusted underlying basic earnings per share	**14.83p**	14.82p
Adjusted underlying diluted earnings per share	**14.57p**	14.82p

11. Intangible assets

	Computer software £'000	Acquired brands £'000	Customer relations £'000	Goodwill (restated) £'000	Total (restated) £'000
Cost					
At 1 January 2007	112	8,400	19,800	54,591	82,903
Acquisition of Schlegel	–	–	–	2,302	2,302
Acquisition of LSS	341	19,813	76,421	134,749	231,324
Additions	145	–	–	–	145
At 31 December 2007	598	28,213	96,221	191,642	316,674
Exchange difference	–	6,766	28,296	42,443	77,505
At 31 December 2008	**598**	**34,979**	**124,517**	**234,085**	**394,179**
Amortisation					
At 1 January 2007	21	252	1,856	–	2,129
Amortisation for the year	16	2,526	5,207	–	7,749
At 31 December 2007	37	2,778	7,063	–	9,878
Amortisation for the year[1]	16	2,949	6,820	–	9,785
Exchange difference	–	1,449	3,807	–	5,256
At 31 December 2008	**53**	**7,176**	**17,690**	**–**	**24,919**
Net book value					
At 31 December 2008	**545**	**27,803**	**106,827**	**234,085**	**369,260**
At 31 December 2007	561	25,435	89,158	191,642	306,796

[1] Amortisation in the year of £9,785,000 is included in administrative expenses in the income statement.

Impairment tests for goodwill

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the cash generating units ("CGU") are determined from value in use calculations.

Cash flow projections are derived from financial plans approved by the board and cover a three year period. They reflect management's expectations of revenue growth, operating cost and margin for each CGU based on past experience. Cash flows beyond the first three years have been extrapolated using revenue growth rates averaging 5%. After the five year forecast period, no further growth in revenue and profit has been assumed based on a prudent view of long term growth rates. A pre-tax discount rate of 12% has been applied to cash flow projections reflecting management's view that similar risk profiles exist for each CGU.

The forecasts are most sensitive to changes in projected revenue growth rates in the first three years of the forecast period. Total future forecast revenue would have to be perpetually 3% lower than currently projected before a possible impairment charge would be indicated.

Certain brands and trade-marks with a book value of £3,370,000 (2007: £3,440,000) are considered to have an indefinite life. This applies to those brands and trademarks which, as a result of their excellent reputation with their core customer base, and being well regarded in their market places command a significant share of the markets in which they operate.

Notes to the Group financial statements

12. Property, plant and equipment

	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 January 2007	2,174	12,783	14,957
Additions	96	4,386	4,482
Acquisition of LSS	10,350	36,648	46,998
Disposals	(513)	(2,595)	(3,108)
Exchange difference	151	445	596
At 31 December 2007	12,258	51,667	63,925
Additions	922	3,562	4,484
Amounts written off	(187)	(3,749)	(3,936)
Exchange difference	2,878	14,574	17,452
At 31 December 2008	**15,871**	**66,054**	**81,925**
Accumulated depreciation			
At 1 January 2007	127	1,800	1,927
Charge for the year	421	4,281	4,702
Acquisition of LSS	1,142	20,748	21,890
Amounts written off	(86)	(970)	(1,056)
Exchange difference	10	127	137
At 31 December 2007	1,614	25,986	27,600
Charge for the year	462	5,789	6,251
Amounts written off	–	(2,699)	(2,699)
Exchange difference	410	8,700	9,110
At 31 December 2008	**2,486**	**37,776**	**40,262**
Net book value			
At 31 December 2008	**13,385**	**28,278**	**41,663**
At 31 December 2007	10,644	25,681	36,325

Depreciation in the year of £6,251,000 is included in administrative costs in the income statement.

The carrying value of plant and machinery held under finance leases and hire purchase contracts at 31 December 2008 was £850,000 (2007: £871,000).

Additions and acquisition of subsidiaries during the year ended 31 December 2008 includes £nil (2007: £187,000) of plant and equipment held under finance leases and hire purchase.

Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

13. Inventories

	2008 £'000	2007 £'000
Raw materials and consumables	**22,112**	16,972
Work-in-progress	**2,306**	2,515
Finished goods	**12,439**	14,798
	36,857	34,285

The cost of materials charged to the income statement during the year ended 31 December 2008 was £129,662,000 (2007: £101,853,000). As at 31 December 2008, inventories are stated net of an allowance for excess, obsolete or slow-moving items of £8,460,000 (2007: £6,609,000).

14. Derivative financial instruments

	2008		2007	
	Assets £'000	**Liabilities £'000**	Assets £'000	Liabilities £'000
Interest rate swaps	**–**	**(3,835)**	–	(1,486)
Interest rate cap	**–**	**(103)**	–	(60)
Cash flow hedges	**–**	**(3,938)**	–	(1,546)

The full fair value of the hedging derivatives are classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the hedged item is less than 12 months.

The notional principal amounts of the outstanding interest rate swap contracts at 31 December 2008 were £74.6 million (2006: £87.8 million).

At 31 December 2008 the fixed interest rate was 5.025% (2007: 5.025%) and the main floating rate is US Dollar LIBOR. Gains and losses recognised in the hedging reserve (Note 22) on interest rate swap and cap contracts as of 31 December 2008 will be continually released to the income statement until the repayment of the bank borrowings (Note 17).

15. Trade and other receivables

	2008 £'000	2007 £'000
Trade receivables	**29,937**	31,409
Other receivables	**1,516**	2,068
Prepayments and deferred income	**3,267**	3,278
	34,720	36,755

All amounts are short term. The carrying amounts are considered to be a reasonable approximation of fair value.

All of the Group's trade and other receivables have been reviewed for impairment. Certain trade receivables were found to be impaired and a provision of £1,586,000 (2007: £1,853,000) has been recorded. The individually impaired receivables mainly relate to customers affected by the unexpected difficult economic situation.

At 31 December 2008 trade receivables of £25,183,000 (2007: £25,295,000) were considered to be fully performing.

Trade receivables of £4,754,000 (2007: £6,114,000) were past due but not impaired as at 31 December 2008. These relate to customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2008 £'000	2007 £'000
Up to 3 months	**4,593**	5,996
After 3 months	**161**	118
	4,754	6,114

Movements in the Group provisions for impairment of trade receivables are as follows, which are included in administrative expenses in the income statement:

	2008 £'000	2007 £'000
At 1 January	**1,853**	1,555
Acquisition in year	**–**	1,012
Provision for receivables impairment	**886**	1,367
Receivables written off in year	**(858)**	(523)
Unused amounts released	**(476)**	(1,508)
Other	**181**	(50)
At 31 December	**1,586**	1,853

Notes to the Group financial statements

15. Trade and other receivables continued

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies.

	2008 £'000	2007 £'000
Pounds	**18,359**	22,306
US Dollars	**9,415**	8,614
Euros	**5,418**	4,384
Other currencies	**1,528**	1,451
	34,720	36,755

All amounts are short term. The carrying amounts are considered to be a reasonable approximation of fair value.

16. Trade and other payables

	2008 £'000	2007 £'000
Trade payables	**20,745**	25,857
Other taxes and social security costs	**2,615**	3,023
Accruals and accrued income	**15,788**	29,345
	39,148	58,225

The carring amounts of the Group's trade and other payables are denominated in the following currencies.

	2008 £'000	2007 £'000
Pounds	**20,565**	35,316
US Dollars	**11,479**	14,931
Euros	**3,939**	4,437
Other currencies	**3,165**	3,541
	39,148	58,225

17. Interest-bearing loans and borrowings

	2008 £'000	2007 £'000
Current		
Bank borrowings	**27,857**	16,694
Obligations under finance leases and hire purchase contracts	**231**	188
	28,088	16,882
Non-current		
Bank borrowings	**149,586**	129,865
Obligations under finance leases and hire purchase contracts	**54**	214
	149,640	130,079
Minimum lease payments due under finance leases are as follows:		
Less than one year	**231**	188
1 to 5 years	**54**	214
	285	402

The Group took out loans totaling £35,000,000 from Bank of Scotland and HSBC in connection with the acquisition of Schlegel, of which £30,000,000 was a long term loan and £5,000,000 short term. Repayments of £12,500,000 have been made.

A further revolving credit facility of £10,000,000 in connection with the acquisition of Schlegel was made available by the banks, but no drawings under this facility have been made at the balance sheet date.

The Group took out a 5 year loan of $240,000,000 from Bank of Scotland, Royal Bank of Scotland and HSBC during the year in connection with the acquisition of LSS. Two repayments of $12,000,000 were made during the year.

A revolving credit facility of $40,000,000 in connection with the acquisition of LSS was arranged with bankers during the year. $10,000,000 of this facility was drawn down during the year and was outstanding as at 31 December 2008.

The carrying amounts of the Group's borrowings approximate to their fair values and are denominated in the following currencies:

	2008 £'000	2007 £'000
Pounds	**22,358**	27,297
US Dollars	**155,113**	119,302
Euros	**257**	362
	177,728	146,961

Foreign currency borrowings were converted to Sterling using the following exchange rates.

	2008	2007
US Dollars	**1.4479**	1.9906
Euros	**1.0272**	1.3615

There were no defaults in interest payments in the year under the terms of the loan agreements.

Notes to the Group financial statements

18. Provisions

	Property related £'000	Restructuring £'000	Other £'000	Total £'000
At 1 January 2007	–	1,868	–	1,868
On acquisition of LSS	13,585	685	2,166	16,436
On acquisition of Schlegel	–	780	–	780
Provided during the year	22	256	2,424	2,702
Utilised during the year	(441)	(1,666)	(40)	(2,147)
Released during the year	–	(1,169)	–	(1,169)
Unwinding of discount	517	–	–	517
Exchange differences	–	(50)	–	(50)
At 31 December 2007	13,683	704	4,550	18,937
Provided during the year	905	3,701	50	4,656
Utilised during the year	(1,786)	(1,268)	(252)	(3,306)
Released during the year	(336)	(76)	(568)	(980)
Unwinding of discount	758	–	–	758
Exchange differences	235	141	–	376
At 31 December 2008	**13,459**	**3,202**	**3,780**	**20,441**

The property related provisions represent the estimated net present value of future costs for lease rentals, dilapidations and other property costs for facilities that are surplus to business requirements. The leases have terms of up to 10 years to expiry.

The restructuring provisions relate mainly to costs of integrating LSS and Schlegel businesses and the closure of certain US facilities, which were committed to on acquisition.

Other provisions mainly comprise product liability and inventory related provisions.

19. Financial instruments: risk profile

The Group's principal financial instruments comprise bank loans, finance leases and hire purchase contracts, and cash and short-term deposits. The Group has various other financial instruments such as trade receivables and trade payables that arise directly from its operations. No trading in financial instruments is undertaken.

The Board reviews and agrees policies for managing each financial instrument risk and they are summarised below.

Liquidity and credit risk

The Group maintains sufficient cash and marketable securities and the availability of funding through an adequate amount of credit facilities. Management monitors rolling forecasts of the Group's liquidity on the basis of expected cash flow. The Group manages liquidity risk by the pooling of cash resources and depositing funds available for investment in approved financial instruments with financial institutions. Counterparty risk with respect to cash and cash equivalents is managed by only investing in banks and financial instruments with independently assessed credit ratings of at least AA- as published by Standard and Poors. Individual risk limits are assessed by management based on the external ratings. Management does not expect any losses from the non-performance by these counterparties.

Credit risk is also attributable to the Group's exposure to trade receivables due from wholesale customers.

Management assesses the credit quality of customers taking into account their financial position, past experience and other factors. In order to mitigate credit risk the Group utilises credit insurance in those areas of its operations where such insurance is available. In areas where such insurance is not available, management monitors the utilisation of credit limits by customers, identified either individually or by group, and incorporates this information in credit risk controls.

Trade receivables are presented in the balance sheet net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

19. Financial instruments: risk profile continued

The Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

	2008 £'000	2007 £'000
Classes of financial assets – carrying amounts		
Cash and cash equivalents	**32,407**	46,969
Trade and other receivables	**34,720**	36,755
At 31 December	**67,127**	83,724

Management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

None of the assets are secured by collateral or other credit enhancements.

During the year ended 31 December 2008 the Group operated within its borrowing facilities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

	Less than l year £'000	Between 1 and 2 yrs £'000	Between 2 and 5yrs £'000	Total £'000
Borrowings	28,088	30,588	119,052	177,728
Derivative financial instruments	–	3,938	–	3,938
Trade and other payables	39,148	244	–	39,392
At 31 December 2008	**67,236**	**34,770**	**119,052**	**221,058**
Borrowings	16,882	16,901	113,178	146,961
Derivative financial instruments	–	–	1,546	1,546
Trade and other payables	58,225	1,166	40	59,431
At 31 December 2007	75,107	18,067	114,764	207,938

Interest rate risk

Interest rate risk profile of financial liabilities

The Group has an overdraft facility, but this was not used for borrowing purposes.

The interest rate profile of the Group's borrowings as at the 31 December 2008 was as follows:

	Floating rate Liabilities £'000	Fixed rate liabilities £'000	Total £'000
Pounds	22,358	–	22,358
US Dollars	155,085	28	155,113
Euros	–	257	257
At 31 December 2008	**177,443**	**285**	**177,728**
Pounds	27,283	14	27,297
US Dollars	119,276	26	119,302
Euros	–	362	362
At 31 December 2007	146,559	402	146,961

The interest rate on the floating rate bank loans are linked to LIBOR. The Group has taken out an interest rate swap agreement. This agreement is effective from 4 October 2006 and covered the period until 4 October 2008 and the economic effect of this swap agreement was to fix the interest rate for the borrowings for the Schlegel acquisition.

The Group took out a further swap agreement which was effective from 12 June 2007 and covers the period until 30 September 2010 and the economic effect was to partially fix the interest rate for the borrowings for the LSSD acquisition.

The Group entered into an interest rate cap transaction which was effective from 12 June 2007 and covers the period until 30 September 2010. The economic effect was to cap the rate at which interest is payable on 50% of the $240m loan facility at 5.5%.

Notes to the Group financial statements

19. Financial instruments: risk profile continued

At 31 December 2008	Floating rate borrowings £'000	Covered by interest rate swaps £'000	Swap fixed rate %
Pounds	–	–	–
US Dollars	155,085	77,543	5.025
	155,085	**77,543**	
At 31 December 2007			
Pounds	27,283	27,283	5.270
US Dollars	119,276	59,638	5.025
	146,559	**86,921**	

The weighted average interest rate on the fixed financial liabilities is 5.025% and weighted average interest period is 5 years.

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 4.25% during the year (2007: 4.8%).

Foreign currency risk
The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar, the Euro, the Renminbi and the Australian Dollar. Foreign exchange risk arises from future commercial and financing transactions, recognised assets and liabilities denominated in a currency that is not the Group's functional currency and net investments in overseas entities.

The Group has a number of overseas subsidiaries, whose net assets are subject to currency translation risk. The Group borrows in local currencies as appropriate, to minimise the impact of this risk on the balance sheet.

Overseas subsidiaries are responsible for managing transactional foreign exchange risk arising from future commercial and financing transactions and recognised assets and liabilities in currencies other than their functional currency, usually by using forward currency contracts.

Foreign currency exchange rate sensitivity
The Group receives approximately 40% of its revenues and incurs approximately 39% of its costs in USD. The Group is therefore sensitive to movements in the USD against GBP. Each five cent movement in the USD to GBP exchange rate has circa £0.6 million impact on operating profits. Offsetting this will be reductions to USD interest and US tax liabilities. This analysis assumes all other variables, including interest rates, remain constant.

The group receives approximately 13% of its revenues and incurs approximately 13% of its costs in Euros. Each five cent movement in the euro to GBP exchange rate has a circa £0.2 million impact on operating profits. Offsetting this will be reductions to euro tax liabilities. This analysis assumes all other variables, including interest rates, remain constant.

Additionally the group incurs approximately 7% of its costs in Renminbi. Each Rmb 0.05 movement in the Renminbi to GBP exchange rate has a circa £0.1 million impact on operating profits. This analysis assumes all other variables, including interest rates, remain constant.

The impact of movements in other exchange rates is immaterial.

19. Financial instruments: risk profile continued

Interest rate sensitivity continued

Foreign currency financial assets and liabilities, translated into sterling at the closing rate, are as follows:

	USD £'000	Euros £'000	Other £'000	Total £'000
Short term exposure				
Financial assets	**24,633**	**9,482**	**3,202**	**37,317**
Financial liabilities	**(37,788)**	**(4,403)**	**(3,089)**	**(45,280)**
At 31 December 2008	**(13,155)**	**5,079**	**113**	**(7,963)**
Long term-exposure				
Financial assets	**–**	**–**	**–**	**–**
Financial liabilities	**(137,134)**	**(223)**	**–**	**(137,357)**
At 31 December 2008	**(137,134)**	**(223)**	**–**	**(137,357)**

	USD £'000	Euros £'000	Other £'000	Total £'000
Short term exposure				
Financial assets	29,063	7,469	3,443	39,975
Financial liabilities	(29,438)	(3,567)	(3,003)	(36,008)
At 31 December 2007	(375)	3,902	440	3,967
Long term-exposure				
Financial assets	–	–	–	–
Financial liabilities	(113,235)	(186)	(15)	(113,436)
At 31 December 2007	(113,235)	(186)	(15)	(113,436)

20. Pensions and other post-employment benefit plans

20.1 Defined contribution pension schemes

The Group operates a number of defined contribution pension schemes, the assets of which are held externally to the Group in separate trustee administered funds. The costs of the Group's defined contribution pension schemes are charged to the income statement in the period in which they fall due. The Group had unpaid pension contributions of £19,000 (2007: £15,000) included within employee benefit liabilities.

20.2 Defined benefit pension and post retirement benefit schemes

The Group's principal defined benefit pension scheme and post-retirement healthcare scheme is operated in the USA. An actuarial valuation was last performed as at 31 December 2008. When revalued, scheme assets are included at market value and scheme liabilities are measured on an actuarial basis using the net periodic benefit cost; these liabilities are discounted at the current rate of return on a high quality corporate bond of equivalent currency and term. 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 income statement 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 income and expense.

The pension scheme is closed to new entrants; as a result the service costs to the Group will rise in future years. The expected level of contributions to the defined benefit scheme and post retirement healthcare scheme in the year to December 2009 is £910,000.

Other defined benefit pension schemes had liabilities of £269,000 (2007: £224,000).

Notes to the Group financial statements

20. Pensions and other post-employment benefit plans continued

20.2 Defined benefit pension and post retirement benefit schemes continued

Amounts recognised in the income statement in respect of the defined benefit pension and post retirement benefit schemes:

	2008 £'000	2007 £'000
Included in operating profit		
Current service cost	**208**	187
Included in finance income and costs		
Interest cost	**734**	601
Expected return on plan assets	**(718)**	(562)
	16	39

The major assumptions used by the actuary were;

	31 December 2008	31 December 2007
Rate of increase in salaries	**n/a**	n/a
Rate of increase in pensions in payment	**0.0%**	0.0%
Discount Rate	**7.0%**	6.0%
Health care cost trend[1]	**9.0%-5%**	9.0%-5%

[1]The level of healthcare contributions are capped and adopting a higher trend rate does not materially affect the liability.

Amounts recognised in the statement of recognised income and expense in respect of the defined benefit pension and post retirement benefit schemes:

	2008 £'000	2007 £'000
Actual return on plan assets	**(1,674)**	227
Expected return on plan assets	**(718)**	(562)
Experience loss	**(2,392)**	(335)
Experience (loss)/gain on liabilities	**(799)**	182
Net loss before exchange	**(3,191)**	(153)
Foreign exchange differences	**(478)**	48
Amounts recognised during the year	**(3,669)**	(105)

Changes in the present value of the benefit obligation were as follows:

	2008 £'000	2007 £'000
Change in defined benefit obligation		
Defined benefit obligation at the beginning of year	**10,503**	10,552
Current service cost	**208**	187
Interest cost	**734**	601
Actuarial loss/(gain)	**799**	(182)
Benefits paid	**(660)**	(490)
Foreign exchange	**4,238**	(165)
Defined benefit obligation at end of year	**15,822**	10,503

Changes in the fair value of plan assets were as follows:

	2008 £'000	2007 £'000
Change in plan assets		
Fair value of plan assets at beginning of year	**7,245**	7,277
Actual return on plan assets	**(1,674)**	227
Employer contributions	**1,200**	348
Benefits paid	**(660)**	(490)
Foreign exchange	**2,395**	(117)
Fair value of plan assets at end of year	**8,506**	7,245

20. Pensions and other post-employment benefit plans continued

20.2 Defined benefit pension and post retirement benefit schemes continued

The fair value of plan assets by asset category was as follows:

	2008 £'000	2007 £'000
Plan assets by category		
Equity securities	**5,268**	5,039
Debt securities	**2,448**	2,116
Real estate	**790**	–
Other	**–**	90
Total	**8,506**	7,245

21. Share capital

	Ordinary shares of 5p each	
	Number of shares[1] '000	£'000
At 1 January 2007	**61,656**	**3,083**
Shares issued	**75,556**	**3,778**
31 December 2007	**137,212**	**6,861**
Shares issued	**75**	**3**
31 December 2008	**137,287**	**6,864**

[1]Restated to reflect the share consolidation in December 2007.

The total authorised number of ordinary shares is 180,000,000 (2007: 180,000,000) with a par value of 5p per share (2007: 5p per share). All issued shares are fully paid.

Issue of shares in connection with the acquisition of LSS
The acquisition of LSS was completed on 27 April 2007. The acquisition was funded by the raising of £136 million by way of a placing and open offer of 755,555,556 ordinary shares with a nominal value of 0.5p in the Company at an issue price of 18 pence per share and by a new debt facility comprising a term loan of $240,000,000 and a multicurrency revolving loan facility of $40,000,000. The Company's authorized share capital was increased from £4,125,000 to £9,000,000 by shareholders at the extraordinary general meeting held on 19 April 2007 to authorise the LSS transaction.

Share consolidation
At the extraordinary general meeting of the Company held on 11 December 2007, shareholders approved a consolidation of the share capital of the Company from 1,372,115,334 ordinary shares of 0.5 pence into 137,211,533 ordinary shares of 5 pence. The authorised share capital was consolidated from 1,800,000,000 ordinary shares of 0.5 pence to 180,000,000 ordinary shares of 5 pence.

Share-based payments
In 2008 the Remuneration Committee concluded that a new Share Incentive Scheme should be established to cover a broader range of Group staff, including a larger number of senior managers than the scheme linked to the lesot, in addition to the executive directors.

On 25 July 2008, options over 6,475,000 ordinary shares were granted to the Company's Executive Directors and the Group's most senior employees with an exercise price of 38p. The options are exercisable on or after 25 July 2011. At 31 December 2008, options over 6,475,000 ordinary shares were outstanding (2007: nil) with an exercise price of 38p.

Notes to the Group financial statements

21. Share capital continued

Fair value assumptions and calculations

The table below summarises the share-based payment awards that were made in 2008 together with the models and assumptions that have been used to calculate the fair values. The fair value expense has been based on the fair value of the instrument granted, as calculated using appropriate derivative pricing models.

Valuation model	Black Scholes
Date of grant	25 July 2008
Number granted	6,475,000
Fair value (pence)	8p
Share price (pence)	38p
Expected volatility (per cent. p.a.)	35%
Expected dividends (per cent. p.a.)	1.5%
Contractual life	3 years
Vesting conditions	3 years service

The table below shows the movement in the number and Weighted Average Exercise Prices ("WAEP") of options outstanding during 2007 and 2008:

	Number of options £'000	WAEP £'000
At 1 January 2007 and 1 January 2008	–	–
Granted	6,475,000	38,00p
Lapsed	–	–
Exercised	–	–
31 December 2008	**6,475,000**	**38.00p**

The total charge to the income statement for share-based payments, all of which related to equity-settled transactions, was £55,000 (2007: nil).

Employee share ownership trust

5,122,951 ordinary shares of 5p each are held by the trustees of the Lupus Employee Share Ownership Trust ("the Iesot") under the employee incentive arrangements described in the circular dated 21 January 2004 and approved by shareholders on 16 February 2004. These shares are held for the benefit of the family of Greg Hutchings, executive chairman of the Company.

At 1 January 2007 the Iesot held 63,385,676 ordinary shares of 0.5 pence. The Iesot did not subscribe for further ordinary shares in the placing and open offer in connection with the acquisition of LSS and no shares were issued under this scheme in either 2006 or 2007. During the year ended 31 December 2008 12,156,157 ordinary shares of 0.5 pence were bought by an Alliance Trust pension scheme which is for the benefit of Greg Hutchings. The remaining 51,229,519 shares were then subject to consolidation.

Contingent rights to the allotment of shares

At 31 December 2008 there were 71,429 contingent rights to the allotment of shares, in respect of options granted to Mr Hutchings under the EMI scheme. The shares held by the Iesot are available to satisfy these contingent rights.

Issue of shares to directors in payment of fees

On 17 January 2008, 37,974 shares were issued to Mr Jackson in payment of his director's fees (£30,000) for the year commencing 17 November 2007 and 37,974 shares were issued to Mr Tate, in payment of his directors fees (£30,000) for the year commencing 1 November 2007.

22. Reconciliation of movements in equity

	Share capital £'000	Share premium £'000	Other reserves £'000	Treasury reserve £'000	Hedging reserve £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2007	3,083	45	10,389	–	–	(1,653)	58,117	69,981
Shares issued net of costs	3,778	–	–	–	–	–	127,758	131,536
Total recognised income and expense for the year	–	–	–	–	(1,546)	(148)	12,137	10,443
Dividends paid	–	–	–	–	–	–	(3,753)	(3,753)
Share buyback	–	–		(1,075)	–	–	–	(1,075)
At 31 December 2007	6,861	45	10,389	(1,075)	(1,546)	(1,801)	194,259	207,132
Shares issued net of costs	3	56	–	–	–	–	–	59
Total recognised income and expense for the year	–	–	–	–	(2,392)	42,620	2,847	43,075
Dividends paid	–	–	–	–	–	–	(7,232)	(7,232)
Share buyback	–	–	–	(5,689)	–	–	–	(5,689)
Share based payments	–	–	–	–	–	–	55	55
At 31 December 2008	**6,864**	**101**	**10,389**	**(6,764)**	**(3,938)**	**40,819**	**189,929**	**237,400**

	2007 £'000	2006 £'000
Dividends paid in the year were as follows:		
Final dividend for 2006 at 3.34p per share	**–**	2,059
Interim dividend for 2007 at 1.50p per share	**–**	925
Special interim dividend for 2007 at 0.56p per share	**–**	769
Final dividend for 2007 at 3.51p per share	**4,557**	–
Interim dividend for 2008 at 2.06p per share	**2,675**	–
	7,232	3,753
Dividends not reflected in the financial statements:		
Proposed final dividend for the year 2007 at 3.51p per share	**–**	4,557

All dividends have been adjusted for the share consolidation as described in note 21.

The other reserves are non-distributable capital reserves which arose on the acquisition of the Octroi Group and the Gall Thomson Group.

Purchase of own shares

At the extraordinary general meeting of the Company held on 11 December 2008, shareholders authorised the Company to make market purchases of its own ordinary shares up to a maximum of 20,568,008 ordinary shares, representing 14.99% of the ordinary shares in issue.

Up to 31 December 2008 purchases were made of 7,446,683 ordinary shares, which are being held in Treasury. The Company's voting ordinary share capital at 31 December 2008 was therefore 129,840,798 shares. The aggregate cost of these purchases was £6,764,000 (2007: £1,075,000).

Since 31 December 2008, the Company has made no further purchases of ordinary shares.

Notes to the Group financial statements

23. Cash and short term equivalents

	£'000
At 1 January 2007	9,738
Cash flow	37,231
At 31 December 2007	46,969
Cash flow	(14,562)
At 31 December 2008	**32,407**

24. Contingent liabilities

	2008 £'000	2007 £'000
Financial guarantees	**1,900**	1,574
Performance bonds	**9**	9
Contracts for future expenditure	**–**	31
	1,909	1,614

The Group had guarantees amounting to £1,900,000 (2007: £1,574,000). These guarantees principally relate to letters of credit provided by banks in respect of workmens' compensation claims on which no losses are anticipated.

25. Financial commitments

The Group has entered into commercial leases on certain properties. There are no restrictions placed upon the lessee by entering into these leases.

The present value of future minimum rentals payable under non-cancellable operating leases are as follows:

	Land and buildings	
	2008 £'000	2007 £'000
Not later than one year	**3,980**	3,577
After one year but not more than five years	**11,925**	10,436
Over five years	**9,489**	9,360

	Other	
	2008 £'000	2007 £'000
Not later than one year	**650**	521
After one year but not more than five years	**798**	667
Over five years	**16**	136

26. Investments in subsidiaries

Details of the principal subsidiaries of the Group, all of which are wholly owned, are as follows:

	Country of incorporation	Nature of business
Gall Thomson Environmental Limited	UK	Oil services
KLAW Products Limited*	UK	Industrial couplings
Octroi Group Limited	UK	Investment company
Lupus Capital Management Limited	UK	Management services
Schlegel Acquisition Holdings Limited	UK	Holding company
Schlegel UK (2006) Limited*	UK	Building products
Schlegel Systems Inc	USA	Building products
Schlegel Australia Pty Limited*	Australia	Building products
Schlegel Gmbh*	Germany	Building products
Schlegel Belgium BVBA*	Belgium	Building products
Schlegel SRL*	Italy	Building products
Schlegel Taliana SL*	Spain	Building products
Jasper Acquisition Holdings Limited	UK	Holding company
Jasper Acquisition Limited*	UK	Holding company
Amesbury Acquisition Holdings (No 2) Inc*	USA	Holding company
Amesbury Industries Inc*	USA	Building products
Amesbury Finance Holdings LLC*	USA	Holding company
Lupus Investments Unlimited Company*	UK	Investment company
Amesbury Door Hardware Inc (SD)*	USA	Building products
Amesbury Group Inc*	USA	Holding company
Amesbury Group Plastic Profiles Inc*	USA	Building products
Bandlock Corporation Inc*	USA	Building products
Balance Systems Inc*	USA	Building products
Fastek Products Inc*	USA	Building products
LSSD UK Limited*	UK	Holding company
Balance UK Limited*	UK	Building products
ERA Products Limited*	UK	Building products
EWS (Manufacturing) Limited*	UK	Building products
Intron Limited*	UK	Building products
LSH (UK) Limited*	UK	Building products
Linear Limited*	UK	Building products
Lindman Group Limited*	UK	Building products
Securidor Holdings Limited*	UK	Building products
Ventrolla Limited*	UK	Building products

*held by a subsidiary

27. Related party transactions

Directors

During the financial year, no contracts of significance were entered into by the Group or any of it's subsidiaries in which the directors had a material interest.

Key management compensation

Compensation for Directors who have the sole responsibility for planning, directing and controlling the Group is disclosed in note 7.

Inter-company transactions with subsidiary undertakings

There were no transactions of the Company during the year with subsidiary companies.

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

We have audited the parent company financial statements of Lupus Capital plc for the year ended 31 December 2008 which comprise the principal accounting policies, the balance sheet and notes 1 to 12. The parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Lupus Capital plc for the year ended 31 December 2008.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, and the parent company financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view, whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information in the Directors' Report includes specific information presented in the Chairman's Statement that is cross referred from the Business Review section of the Directors' Report. In addition we also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Corporate Governance Statement, Directors' Report, Directors' Remuneration Report and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and that part of the Directors' Renumeration Report to be audited.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Emphasis of matter

The Directors have highlighted in the basis of preparation section of the accounting policies that the company is in discussions with its bankers with a view to renegotiating its debt facilities and banking covenants to more appropriate levels through 2009 and beyond. The Board believes that, whilst there is material uncertainty over the timing and precise terms of agreement, these discussions will be successfully concluded. Until the negotiations are concluded there remains significant doubt as to their outcome however the Board believes it is appropriate to continue to adopt the going concern basis in preparing the annual report and accounts.

In forming our opinion on the financial statements, which is not qualified, we have considered and are satisfied with the disclosures made in the Accounting Policies in the Company and Group financial statements concerning the going concern basis of preparation.

Grant Thornton UK LLP
Chartered Accountants
Registered Auditor London
29 April 2009

Company balance sheet

As at 31 December 2008

	Note	2008 £'000	2007 £'000
Fixed assets			
Investments	4	**185,151**	185,140
		185,151	185,140
Current assets			
Debtors	6	**7,048**	8,773
Cash at bank and in hand		**13,129**	14,572
		20,177	23,345
LIABILITIES			
Creditors: Amounts falling due within one year	7	**(4,909)**	(4,620)
NET CURRENT ASSETS		**15,268**	18,725
TOTAL ASSETS LESS CURRENT LIABILITIES		**200,419**	203,865
Creditors: Amounts falling due after more than one year	8	**(7,876)**	(7,876)
NET ASSETS		**192,543**	195,989
EQUITY			
Shareholders' funds			
Called up share capital	11	**6,864**	6,861
Share premium	11	**101**	45
Other reserves	11	**8,920**	8,920
Treasury reserve	11	**(6,764)**	(1,075)
Retained earnings	11	**183,422**	181,238
TOTAL EQUITY		**192,543**	195,989

The financial statements were approved by the Board on 29 April 2009.

Greg Hutchings
Chairman

Denis Mulhall
Director

Notes to the Company financial statements

1. Accounting policies

Going concern

The financial statements have been prepared on the going concern basis, which assumes that the Company will have sufficient funds to continue in operational existence for the foreseeable future.

The US dollar to pound exchange rate changed rapidly last year by over 25% from $2.1 to around $1.5 to the pound. We comfortably met all our interest and debt repayments during 2008. However, the group's net debt increased significantly in sterling terms when translated at the year end exchange rate and this increase, upon translation, was greater than that of the group's proportionate dollar earnings measured in sterling at the average exchange rate of the year.

This issue, which is relevant to the debt taken on for the LSS division acquisition, brought us to enter into discussions with our bankers. We are currently renegotiating our debt facilities and banking covenants to more appropriate levels through 2009 and beyond. The Board believes that, whilst there is material uncertainty over the timing and precise terms of agreement, these discussions will be successfully concluded. Until the negotiations are concluded there remains significant doubt as to their outcome, however the Board believes it is appropriate to continue to adopt the going concern basis in preparing the annual report and accounts.

Accounting convention

The separate financial statements of the company are presented as required by the Companies Act 1985. As permitted by that act, the financial statements have been prepared in accordance with applicable UK accounting standards (UK GAAP).

There was no material impact on the accounts of prior years arising from the adoption of the new standards.

All other accounting policies remain unchanged from those used in the last annual accounts.

Investments

Investments in subsidiaries are stated at cost less any permanent diminution of value.

Financial instruments

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

Trade debtors are stated at their nominal value as reduced by appropriate allowances for estimated recoverable amounts.

Trade creditors are stated at their nominal amount.

Bank borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received. All borrowing costs are expensed as incurred, on accruals basis, to the Company profit and loss account using the effective interest rate method.

Share-based payments

The Company has applied the requirements of FRS 20 Share-based Payments. The Company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Notes to the Company financial statements

2. Profit attributable to the shareholders of the Company

The Company is an investment holding company. It receives dividend income from subsidiaries and bank interest. It pays loan interest to a subsidiary. Almost all administrative expenses are paid by the Company's subsidiary, Lupus Capital Management Limited, including the whole amount of relevant auditor's remuneration and operating lease costs.

As permitted by section 230 of the Companies Act 1985, the Company's profit and loss account has not been included in these accounts. The profit on ordinary activities attributable to shareholders of the Company dealt with in these accounts was £9,405,000 (2007: £221,000)

3. Employees

Other than the directors, there were no employees of the Company during the year (2007: nil). Directors' emoluments are set out in the Directors' Remuneration Report in the Group's accounts.

4. Fixed asset investments

	£'000
Cost	
At 1 January 2007	74,711
Additions	111,040
At 31 December 2007	185,751
Capital injection	11
At 31 December 2008	**185,762**
Impairment	
At 1 January and 31 December 2007	611
Charge for the year	–
At 31 December 2008	**611**
Net book value	
At 31 December 2008	**185,151**
At 31 December 2007	185,140

The capital injection relates to the IFRS 2 charge for share options granted to employees of subsidiary companies. For more information on the Company share options see note 21 in the Group accounts.

5. Investments in subsidiaries

Details of the principal subsidiaries of the Company, all of which are wholly owned, are as follows:

	Country of incorporation	Nature of business
Gall Thomson Environmental Limited	UK	Oil services
Octroi Group Limited	UK	Investment company
Lupus Capital Management Limited	UK	Management services
Schlegel Acquisition Holdings Limited	UK	Holding company
Jasper Acquisition Holdings Limited	UK	Holding company

6. Debtors

	2008 £'000	2007 £'000
Other debtors	**–**	5
Amount due from subsidiary undertaking	**7,048**	8,768
	7,048	8,773

The amounts due from subsidiary undertakings are repayable on demand but are unlikely to be repaid within one year.

7. Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Trade creditors	**110**	117
Amounts owed to Group undertakings	**4,542**	4,376
Corporation tax	**257**	127
	4,909	4,620

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

	2008 £'000	2007 £'000
Loan notes owed to Group undertakings	**7,876**	7,876

9. Borrowing

An overdraft facility of £100,000 is available to the Company. It falls due annually for renewal in October of each year.

10. Share capital

The share capital of the Company is as set out in note 21 of the Group accounts.

11. Reconciliation of movements in shareholder funds

	Share capital £'000	Share premium account £'000	Other reserves £'000	Treasury reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2007	3,083	45	8,920	–	57,012	69,060
Shares issued net of costs	3,778	–	–	–	127,758	131,536
Profit for the year	–	–	–	–	221	221
Dividends paid	–	–	–	–	(3,753)	(3,753)
Share buyback	–	–	–	(1,075)	–	(1,075)
At 31 December 2007	6,861	45	8,920	(1,075)	181,238	195,989
Shares issued net of costs	3	56	–	–	–	59
Profit for the year	–	–	–	–	9,361	9,361
Dividends paid	–	–	–	–	(7,232)	(7,232)
Share buyback	–	–	–	(5,689)	–	(5,689)
Share based payments	–	–	–	–	55	55
At 31 December 2008	**6,864**	**101**	**8,920**	**(6,764)**	**183,422**	**192,543**

Details of the share-based payments are given in note 21 of the Grroup accounts.

Notes to the Company financial statements

12. Financial commitments

At 31 December 2008 the Company had future annual lease commitments under non-cancellable operating leases as stated below. These commitments are met on the Company's behalf by Lupus Capital Management Limited.

	Land and buildings	
	2008 £'000	2007 £'000
Expiry date		
Within one year	**–**	32
Between two and five years	**213**	–

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