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Report & Accounts 1999

Lupus Capital plc

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Corporate Statement

The strategy of Lupus is to invest in, or acquire, small and medium sized public companies which are facing strategic barriers to development whether of a corporate or commercial nature. Lupus intends to generate significant returns by providing and, where necessary, implementing strategic plans for these companies, including appropriate exit routes.

Lupus Capital plc was formerly known as Environmental Property Services plc.

Directors and advisers

Directors	Oliver Stocken	(Non-executive Chairman)
	Charles Ryder	(Chief Executive)
	James Orr	(Finance Director)
	Peter Cawdron	(Non-executive)
	Peter So	(Non-executive)
Secretary	James Orr	
Company number	2806007	
Registered office	Broadwalk House 5 Appold Street London EC2A 2HA	
Auditors	Ernst & Young Rolls House 7 Rolls Buildings Fetter Lane London EC4A 1NH	
Registrar	IRG plc Balfour House 390-398 High Road Ilford Essex IG1 1NP	
Stockbroker	Sutherlands Limited Dashwood House 69 Old Broad Street London EC2M 1NX	
Legal advisers	Ashurst Morris Crisp Broadwalk House 5 Appold Street London EC2A 2HA	

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Strategy

As a result of the total transformation which took place in 1999, details of which are set out below, Lupus Capital plc ("Lupus" or "the Company") adopted a new strategy during the course of the year.

The strategy of Lupus is to invest in, or acquire, small and medium sized public companies which are facing strategic barriers to development whether of a corporate or commercial nature. Lupus intends to generate significant returns by providing and, where necessary, implementing strategic plans for these companies, including appropriate exit routes. Lupus will therefore create value by providing a service to shareholders and company boards, as well as to acquisitive well-run international companies looking to expand and to diversify their businesses.

Year of transformation

Lupus underwent great change in 1999.

In February, an investor group led by Charles Ryder and James Orr acquired a 29.6% stake in the Company, then known as Environmental Property Services plc ("EPS"), and a number of Board and management changes ensued. In April, when the results for the year ended 31 December 1998 were released, the Company announced its new strategy, the proposal to change its name to Lupus Capital plc, and the potential sale of its underlying businesses which were all involved in property services.

Shareholders confirmed the change of name at the Annual General Meeting held on 4 June 1999.

On 26 July 1999, the Company announced that it had agreed to sell all of its property services operations to Environmental Property Services Holdings Limited ("EPS Holdings"), an MBO vehicle led by David Anderson, Managing Director of these operations. The sale consideration, as adjusted for Completion Accounts, amounted to £7.99 million, comprising a cash payment to Lupus of £6.46 million and the assumption of deferred liabilities of £1.53 million. A profit of £125,000 was realised on the disposal.

On 26 July 1999, Lupus also announced the sale of its 29.5% holding in Superframe Group Plc for a net cash consideration of £491,500.

The sale of the property services operations was completed on 13 August 1999 following approval of the sale by shareholders and left the Company principally with cash, certain quoted investments, freehold properties and some sundry debtors and creditors. Most importantly, the sale left Lupus in a position to pursue its new strategy.

In line with this strategy, Lupus announced on 29 November 1999 offers for Gall Thomson Environmental plc ("Gall Thomson"), a listed company, and for Octroi Group PLC ("Octroi"), a de-listed investment company whose principal assets were cash and a 46% interest in Gall Thomson. At the time of the announcement, the value of the offers amounted to £18.26 million. Gall Thomson's principal activities are the supply of marine and industrial couplings and, through its subsidiary in Houston, Texas, the supply, sale and rental of specialist marine navigation and survey equipment to the oil and gas industry. Offers for these companies were declared unconditional in all respects on 22 December 1999.

Results

Given the sale of the property services operations in August, the Group's results for the year to 31 December 1999 very largely relate to businesses which are no longer part of it. These businesses are referred to in the accounts as discontinued operations.

During the year total sales, all of which were from the discontinued operations, were £16.96 million (1998: £38.50 million). The Group recorded a loss before taxation of £0.69 million (1998: profit of £1.04 million).

At 31 December 1999 net assets were £15.85 million representing 9.35p per ordinary share including those shares subsequently issued in relation to the aquisitions of Gall Thomson and Octroi (1998: £4.30 million representing 5.69p per ordinary share). Net cash amounted to £3.71 million, including £1.95 million held by Gall Thomson (1998: net debt of £1.21 million).

Dividends

The Board has decided that dividends should relate to the success of the various investments made by the Group although, certainly in the short to medium term, the emphasis will be on using cash generated from successful investments for investment in new opportunities.

Given the fundamental transformation of the Group, and more particularly, the adoption of its new strategy, the Board is therefore recommending a final cash dividend for the year of 0.2 pence (net) per share, representing a total cash dividend of 0.3 pence (net). This compares to 0.3 pence paid at the final stage in 1998 and a total cash dividend for the year of 0.65 pence, such dividend almost entirely relating to a period before the demerger in December 1998 of the most profitable part of the Group and also before the change of strategy during the course of 1999. Subject to approval at the AGM, the final dividend will be paid on 1 June 2000 to shareholders on the register at the close of business on 8 May 2000. The ex-dividend date will be 2 May 2000.

Events since the year end

In line with its strategy, Lupus announced on 17 February 2000 that it intended to put up for sale a small part of the Gall Thomson business, Survey Equipment Services, Inc. ("SES"), which rents, sells and supplies specialist marine survey and navigation equipment to the oil and gas industry from its base in Houston, Texas. SES is totally separate from Gall Thomson's main marine breakaway couplings business and, in Lupus's view, would benefit from being part of a larger business.

Lupus also announced that Gall Thomson has acquired a business and the relevant assets from Steel Services (Great Yarmouth) Limited, together with related property assets, for a cash consideration of £450,000 to which will be added an agreed valuation for stocks and work-in-progress estimated to be approximately £50,000. This business and the assets are principally dedicated to the manufacture of Gall Thomson's marine breakaway couplings and are inextricably linked to the business. Lupus believes that the acquisition provides significant added value to Gall Thomson both in terms of immediate financial performance and longer-term strategic value.

Current trading

In terms of the operations currently owned by Lupus, Gall Thomson's major business, the supply of marine breakaway couplings, has made a very satisfactory start to the year and the prospects for the business are encouraging. In part, this results from the sustained period of higher oil prices which, in turn, is being reflected in that business's order books.

Lupus continues to give active consideration to a number of further acquisitions or investments in small and medium sized public companies which are facing strategic barriers to development.

The Board looks forward to the future with confidence.

Oliver Stocken
Chairman

Charles Ryder
Chief Executive

22 March 2000

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Introduction

The Gall Thomson Group comprises the marine and industrial coupling business (which is based in the UK and is built around the Gall Thomson marine breakaway coupling operations) and Survey Equipment Services, Inc. which rents, sells and supplies marine survey and navigation equipment to the oil and gas services industry from its base in Houston, Texas.

Description of the marine and industrial coupling business

The coupling business comprises Gall Thomson and KLAW Products Limited ("KLAW").

Gall Thomson is the leading supplier of marine breakaway couplings for oil and gas industry applications. A breakaway coupling is used to enable a loading line to part safely and then to shut off 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 off-loading terminals. In short, it prevents environmental pollution and damage to pumping and transfer equipment.

The customers of Gall Thomson are contractors, constructors and operators of floating offshore storage and production facilities and off-loading terminals, particularly major construction companies and oil and gas companies, together with suppliers of hose strings. Gall Thomson's products are sold to customers throughout the world. The Gall Thomson marine breakaway coupling is recognised by Lloyd's Register of Shipping and other classification societies.

Gall Thomson has a strong market position in the supply of marine breakaway couplings. Each coupling has to be specified for the particular installation in relation to factors such as line configuration, loading pressure and velocity and the nature of the product to be transferred.

Gall Thomson is based at its premises in Great Yarmouth. It markets the couplings both directly and through agents. As described on page 4 and below, Gall Thomson recently acquired the sub-contractor which has been responsible for manufacture and testing under Gall Thomson's direct supervision. In addition to selling the couplings, Gall Thomson supplies parts and carries out periodic refurbishment for some customers. As a result of its recent acquisition, Gall Thomson now has a total of sixteen full-time and three part-time employees.

In September 1997 Gall Thomson acquired the business, assets and goodwill of the camlock coupling business of Welin Lambie Limited. Camlock couplings are used in hose and loading arm systems for the transfer of oil and gas products.

In June 1999 Gall Thomson acquired KLAW which manufactures, assembles and distributes industrial quick release couplings, breakaway couplings, dry break couplings and swivel joints to the gas and oil industries.

In February 2000, Gall Thomson acquired a business and the relevant assets from Steel Services (Great Yarmouth) Limited, which are principally dedicated to the manufacture of Gall Thomson's marine breakaway couplings and are inextricably linked to the business.

Description of Survey Equipment Services, Inc. ("SES")

SES was founded in 1981. In 1990 SES implemented a strategy to concentrate on the rental, sale and supply of marine survey and navigation equipment.

SES supplies a wide range of marine navigation, hydrographic survey and global positioning systems equipment for hire, sale or lease purchase from its base in Houston, Texas. Customers mainly comprise hydrographic, seismic and marine construction survey companies.

SES operates in the North American market for the rental of specialist marine navigation and survey equipment. Rental equipment is utilised for a period of twelve to eighteen months before being sold. Equipment is maintained and serviced in-house by trained graduate engineers who have offshore experience.

SES has an established team of four full-time employees and one part-time employee.

The directors acknowledge the importance of the Principles set out in The Combined Code issued by the Committee on Corporate Governance. These have been applied during the year as follows:-

The Board of Directors

The year to 31 December 1999 has seen a planned transformation of the Board which was completed with the appointment of a non-executive Chairman with effect from 18 October 1999. Since that date, the Board has comprised a non-executive Chairman, a Chief Executive, a Finance Director and two independent non-executive directors. Stephen Dean, a non-executive director retired from the Board on 4 June 1999 and David Anderson, Managing Director, resigned from the Board on 13 August 1999 following completion of the sale of the property services operations to a management buy out team which he led. In addition, Peter Holmes resigned as a director on 16 February 1999.

The Board now includes a non-executive Chairman and non-executive directors of sufficient calibre and number to bring independent judgement on the key issues facing the Group.

The Board meets regularly and is responsible for strategy, performance, approval of major capital projects and the framework of internal controls. The Board has a formal schedule of matters specifically reserved to it for decision. To enable the Board to discharge its duties, all directors receive appropriate and timely information. Briefing papers are distributed by the Company Secretary to all directors in advance of Board meetings. All directors have access to the advice and services of the Company Secretary who 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.

A nominations committee is not considered appropriate because of the small size of the Board, but all appointments or potential appointments are fully discussed by all Board members. All new directors and senior management are given a comprehensive introduction to the Group's business, including, as appropriate, visits to the principal sites and meetings with senior management. Any training necessary will be provided at the Company's expense.

All the directors are subject to re-election by the shareholders at Annual General Meetings. The Articles of Association provide that directors will be subject to re-election at the first opportunity after their appointment and the Board will voluntarily submit to re-election at intervals of three years.

Audit Committee

The Audit Committee currently consists of the non-executive Chairman and the two non-executive directors under the Chairmanship of Peter Cawdron. When appropriate, meetings are also attended by relevant executive directors. The Audit Committee meets at least twice a year and considers the appointment and fees of the external auditors and discusses the scope of the audit and its findings. The Committee is also responsible for monitoring compliance with accounting and legal requirements and for reviewing the annual and interim financial statements prior to their submission for approval by the Board.

Remuneration Committee

The Remuneration Committee currently comprises the non-executive Chairman and the two non-executive directors, under the Chairmanship of Oliver Stocken. The Committee's role is to consider and approve the remuneration and benefits of the executive directors. The report on directors' remuneration is set out on page 9.

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Internal control

The Board is responsible for establishing and maintaining the Group's system of internal financial control and places importance on maintaining a strong control environment. The key procedures which the directors have established with a view to providing effective internal financial control are as follows:-

- The Group's organisational structure has clear lines of responsibility.
- The Group prepares a comprehensive annual budget that is approved by the Board. Monthly results are reported against the budget and variances are closely monitored by the finance departments and the directors.
- The Board is responsible for identifying the major business risks faced by the Group and for determining the appropriate courses of action to manage those risks.
- The Board reviews and approves potential acquisitions and disposals having been provided with detailed presentations.

The directors recognise, however, that such a system of internal financial control can only provide reasonable, not absolute, assurance against material misstatement or loss. The directors have reviewed the effectiveness of the system of internal financial control as it operated during the year to 31 December 1999.

The Stock Exchange has deemed that a company has complied with provision D.2.1 relating to the wider aspects of internal control if it has continued to review and report on the effectiveness of its system of internal financial controls. The Board has continued to do this. The Board expects to establish the procedures necessary to implement the guidance (Internal Control: Guidance for Directors on the Combined Code) during the coming year.

Relations with shareholders

Communications with shareholders are given high priority. There is a regular dialogue with institutional shareholders including presentations after the Company's preliminary announcement of the year end results and at the half year.

The Board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation. The Company aims to ensure that chairmen of the audit and remuneration committees are available at Annual General Meetings to answer questions. Details of resolutions to be proposed at the Annual General Meeting on 9 May 2000 can be found in the Notice of the Meeting on page 40.

Statement by directors on compliance with the Provisions of the Combined Code

The Company has been in compliance with the provisions of The Combined Code throughout the year to 31 December 1999, with the exception that, on a temporary basis, before the completion of the transformation of the Board with the appointment of a non-executive Chairman in October, the Company had an executive Chairman and no Chief Executive.

Directors' responsibilities for the financial statements

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements.

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

The directors confirm that they have complied with the above requirements in preparing these financial statements.

Going concern

After making enquiries, the directors have reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

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The Remuneration Committee is responsible for determining and reviewing the terms of appointment and the remuneration of executive directors. The Committee also reviews the decisions of the Chief Executive on the remuneration of the other senior executives to ensure that reasonable and consistent criteria are applied to the management and review of all senior executive benefits packages. The Committee takes external advice, as appropriate, on remuneration issues and takes cognisance of major surveys covering all aspects of the pay and benefits of directors and senior executives in many companies.

The Committee aims to provide base salaries and benefits which are competitive in the relevant external market and which take account of company and individual performance thus enhancing the Group's ability to recruit and to retain individuals of the calibre required for its continuing business success. It is the policy of the Committee to provide financial incentives and to reward superior performance over the medium and long term by creating opportunities to enable senior executives to earn cash bonuses and share-related payments which result from achievement of stretching performance targets.

The Remuneration Committee currently consists of the non-executive Chairman and the two non-executive directors under the Chairmanship of Oliver Stocken.

Service contracts

Following their appointment to the Board on 16 February 1999, Charles Ryder and James Orr both entered into 12 month rolling service contracts with effect from 4 June 1999. Stephen Dean and Peter Holmes resigned as executive directors on 16 February 1999. David Anderson resigned as Managing Director on 13 August 1999.

The remuneration package consists of a basic salary, benefits (comprising car, fuel, private health, permanent disability insurance and life insurance) and performance related bonus arrangements (see below).

No other directors have service contracts with the Company.

Pensions

Pension contributions are paid on a money purchase basis towards the personal pension arrangements of the executive directors. These arrangements are continually reviewed to ensure that they are appropriate. There is no intention to set up an occupational pension scheme.

Non-executive directors

The fees of the non-executive directors are set by the Board.

Stephen Dean resigned as executive Chairman on 16 February 1999 and became a non-executive director. He then retired from the Board on 4 June 1999. Peter Cawdron was appointed as a non-executive director on 16 February 1999.

Oliver Stocken was appointed as non-executive Chairman with effect from 18 October 1999.

Bonus arrangements

On their appointment to the Board on 16 February 1999, Charles Ryder and James Orr were provided with an interim incentive scheme. This scheme ceased with immediate effect upon the Remuneration Committee giving effect to a new senior management incentive scheme which had been adopted at the Annual General Meeting on 4 June 1999.

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Directors' remuneration

	Salary and fees £	Bonus £	Benefits £	Pension contributions £	Total 1999 £	Total 1998 £
Executives						
Charles Ryder	**82,435**	**47,250**	**8,258**	**17,500**	**155,443**	-
James Orr	**82,784**	**47,250**	**7,942**	**17,500**	**155,476**	-
Stephen Dean	-	-	**1,415**	**12,440**	**13,855**	193,700
David Anderson	**62,500**	-	**125**	**10,000**	**72,625**	100,332
Peter Holmes	**11,370**	-	**594**	**916**	**12,880**	60,132
Lyndon Chapman	-	-	-	-	-	444
Non-executives						
Oliver Stocken	**4,055**	-	-	-	**4,055**	-
Peter Cawdron	**13,080**	-	-	-	**13,080**	-
Peter So	**16,469**	-	-	-	**16,469**	17,693
Norman Sanders	-	-	-	-	-	13,750
Total 1999	**272,693**	**94,500**	**18,334**	**58,356**	**443,883**	n/a
Total 1998	239,609	40,000	18,446	87,996	n/a	386,051

The value of benefits received during the year relates principally to the provision of company cars, life assurance and medical expenses cover. Stephen Dean was the highest paid director in 1998. His total remuneration included pension contributions of £70,500. In addition, compensation for loss of office of £24,065 was paid to Stephen Dean and £30,000 to Peter Holmes in 1999.

Share options

The Company believes that share ownership by executive directors and senior executives strengthens the links between their personal interests and those of investors.

At 31 December 1999 options were outstanding under the terms of the share option schemes to subscribe for ordinary shares as follows:

	At 31 Dec 98	Number granted	Number exercised	At 31 Dec 99	Exercise price	Date from which exercisable	Expiry date
Charles Ryder	-	1,075,000	-	**1,075,000**	11.0p	20.04.01	19.10.06
James Orr	-	1,075,000	-	**1,075,000**	11.0p	20.04.01	19.10.06
David Anderson	1,750,000	-	1,750,000†	-	7.5p	11.06.00	11.12.05
Peter Holmes	1,250,000	-	1,250,000†	-	7.5p	11.06.00	11.12.05

†At the dates on which David Anderson and Peter Holmes exercised, the Company's share price was 12.50p and 9.75p per share respectively. Accordingly, David Anderson was able to realise a gain of £87,500 and Peter Holmes a gain of £28,125.

The closing mid-market price of the Company's shares on 31 December 1999 was 13p per share and the high and low prices during the year were 15.25p and 7.00p respectively. The average share price over the 10 business days prior to the date of grant of options during the year was 11.9p.

Options outstanding to directors have not changed since the year end.

Directors' interests

The directors' interests in the ordinary shares of the Company are set out in the director's report on page 12 and details of the options outstanding are set out above.

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Oliver Stocken

Non-executive Chairman
Aged 58

Oliver Stocken was appointed to the Board in October 1999 as non-executive Chairman. He was group finance director of Barclays PLC from May 1993 to September 1999, prior to which he held a number of senior management positions in Barclays and Barclays de Zoete Wedd. He is also a non-executive director of 3i Group plc, Bunzl plc, MEPC plc, Pilkington plc, The Rank Group plc and Rutland Trust PLC.

Charles Ryder

Chief Executive
Aged 46

Charles Ryder was an investment banker for ten years being a director of Barclays Merchant Bank Limited and Barclays de Zoete Wedd Limited and working in both the UK and the US. In 1988 he led a management buy-in to Celestion Industries plc (renamed Magellan Industries plc), a publicly quoted industrial conglomerate, and became Chief Executive. Magellan was successfully sold in 1994. He was briefly Chief Executive of Fii Group plc. He co-founded Lupus Associates in 1997 and co-led an investor group, which acquired a 29.6 per cent. stake in the Company, then known as Environmental Property Services plc, in February 1999.

James Orr

Finance Director
Aged 49

James Orr was at KPMG from 1972 to 1995 and qualified as a Chartered Accountant in 1975, becoming a Partner in London in 1989. His professional experience included a range of international assignments, together with UK quoted and private corporate clients. He then undertook a consultancy project for a Swiss multinational and a series of projects in the UK before co-founding Lupus Associates in 1997. He then co-led an investor group which acquired a 29.6 per cent. stake in the Company, then known as Environmental Property Services plc, in February 1999.

Peter Cawdron

Non-executive
Aged 56

Peter Cawdron was employed at Grand Metropolitan plc from 1983 to 1997, becoming a Director in 1993. Prior to that, he spent six years in the United States with a major advertising agency as Finance Director, preceded by seven years in investment banking at Warburg Dillon Read. He qualified as a Chartered Accountant in 1966 at KPMG. He is also a non-executive director of a number of other companies including ARM Holdings plc, Capita Group plc, Christian Salvesen plc, Compass Group plc, Express Dairies plc and Johnston Press plc.

Peter So

Non-executive
Aged 47

Peter So is an associate member of The Chartered Institute of Management Accountants and The Chartered Institute of Bankers (England). He has extensive experience in international finance having worked with financial institutions both in London and Hong Kong. He is currently a non-executive director of several listed companies, two in the UK, one in Hong Kong and one in Norway.

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The directors present their annual report and the Group accounts for the year ended 31 December 1999.

Principal activities, review of the business and future developments

The principal activity of the Group during the first part of the period was property related services which included the provision of building services and property maintenance. These operations were sold on 13 August 1999 allowing the Group to focus on its strategy to invest in, or acquire, small and medium sized public companies which are facing strategic barriers to development whether of a corporate or commercial nature.
The statement by the Chairman and the Chief Executive set out on pages 3 and 4 contains details of the Group's progress during the year together with an indication of future developments.

Results and dividends

The Group loss for the year after taxation amounted to £671,000 (1998: a profit of £653,000). The directors are recommending the payment of a final dividend of £340,000, being 0.2 pence per share making the aggregate ordinary dividend for the year 0.3 pence per share, £419,000 (1998: £470,000).

Directors

The following directors have held office during the period since 1 January 1999:

Charles Ryder	(Appointed 16 February 1999)
James Orr	(Appointed 16 February 1999)
Peter Cawdron	(Appointed 16 February 1999)
Oliver Stocken	(Appointed 18 October 1999)
Peter So	
Peter Holmes	(Resigned 16 February 1999)
Stephen Dean	(Resigned 4 June 1999)
David Anderson	(Resigned 13 August 1999)

Directors' shareholdings

The directors at 31 December 1999 and their interests in the share capital (all beneficially held) of the Company at the dates stated were as follows:

At 31 December:	1999 Ordinary shares	1998 Ordinary shares	1999 Options	1998 Options
Charles Ryder	**1,020,408**	n/a	**1,075,000**	n/a
James Orr	**1,020,408**	n/a	**1,075,000**	n/a
Oliver Stocken	**306,122**	n/a	–	n/a
Peter Cawdron	**204,082**	n/a	–	n/a
Peter So	**1,020,000**	–	–	–

There have been no movements in the above directors' interests in the period from the year end to 22 March 2000.

Substantial shareholders

At 22 March 2000 the Company has been notified of the following other interests in its issued share capital pursuant to Part VI of the Companies Act 1985:

	Ordinary shares	%
Bank of England Pension Fund	12,183,890	7.18
Jupiter Global UK Smaller Companies Fund	8,808,027	5.19
Northern Ireland Local Government Officer's Superannuation Scheme	6,066,666	3.58

Derivatives and other financial instruments

The Group's principal financial instruments comprise bank loans, finance leases and hire purchase contracts, cash and short-term deposits. The main purpose of these financial

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instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, that arise directly from its operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. Foreign currency risk is minimal due to the immaterial level of foreign currency assets and liabilities. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged since the beginning of 1998.

Interest Rate Risk

The Group borrows in desired currencies at floating rates of interest and periodically reviews the Group's exposure to interest fluctuations.

Liquidity Risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, bank loans and, where appropriate, finance leases and hire purchase contracts.

In view of the substantial changes to the Group's strategy during 1999, the Group's policy has been to maintain short-term, flexible borrowing arrangements. A medium-term policy is being developed to ensure that a mixture of term borrowing and overdraft facilities is secured to match the Group's strategic objectives.

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 Company have been calculated at 50 days.

Safety, health and the environment

The Board recognises that the highest standards in safety, health and environmental issues are an essential part of sound business practice.

All potential acquisitions will be assessed for risks in these areas and acquired companies will be brought into line with the Group's standards as soon as practicable.

The Board is committed to reducing any adverse environmental impacts from any of its operations and to incorporating the principles of sustainable development.

Year 2000

As is well known, many computers and digital storage systems express dates using only the last two digits of the year and thus required modification or replacement to accommodate the year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue.

Head office systems are year 2000 compliant. The use of computers in our current businesses is minor and the risks and uncertainties associated with the year 2000 problem are not considered to be material.

Auditors

A resolution to reappoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

By order of the Board

James G. Orr

James Orr
Company Secretary
22 March 2000

To the members of Lupus Capital plc

We have audited the accounts on pages 15 to 39 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 20 and 21.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report. As described on pages 7 and 8, this includes responsibility for preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and by our profession's ethical guidance.
We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law or the Listing rules regarding directors' remuneration and transactions with the Group is not disclosed.
We review whether the corporate governance statement on page 7 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statement on internal control cover all risks and controls, or form an opinion on the effectiveness of either the Group's corporate governance procedures or risk and control procedures.
We read the other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 1999 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Registered Auditor, London

22 March 2000

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	Note	1999 £000	1998 £000
Turnover			
Discontinued operations	2	**16,964**	38,497
Cost of sales	2	**(13,510)**	(32,597)
Gross profit		**3,454**	5,900
Administrative expenses	2	**(4,244)**	(4,707)
Other operating income	2	**32**	95
Operating (loss)/profit			
Continuing operations		**(1,154)**	(816)
Discontinued operations		**396**	2,104
	2	**(758)**	1,288
Discontinued operations:			
Loss on disposal of tangible fixed assets		**(40)**	–
Profit on sale of operations		**125**	–
Fundamental restructuring cost		**–**	(158)
		(673)	1,130
Interest receivable and similar income		**197**	66
Interest payable and similar charges	4	**(211)**	(155)
(Loss)/profit on ordinary activities before taxation		**(687)**	1,041
Tax on (loss)/profit on ordinary activities	5	**16**	(388)
(Loss)/profit for the financial year		**(671)**	653
Ordinary dividends	7	**(419)**	(470)
Dividend in specie	7	**–**	(1,755)
Retained loss for the financial year		**(1,090)**	(1,572)
(Loss)/earnings per share	8	**(0.86p)**	0.94p
Diluted (loss)/earnings per share	8	**(0.86p)**	0.93p

There were no recognised gains and losses in each year other than the (loss)/profit for the financial year.

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Group balance sheet
At 31 December 1999

	Note	1999		1998	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	9		**(882)**		3,719
Tangible assets	10		**3**		1,070
Investments	11		**–**		484
			(879)		5,273
Current assets					
Stocks and work-in-progress	12	**–**		2,464	
Debtors	13	**653**		6,544	
Investments	14	**19,637**		–	
Cash at bank and in hand		**3,262**		864	
		23,552		9,872	
Creditors: amounts falling due within one year	15	**(6,821)**		(7,864)	
Net current assets			**16,731**		2,008
Total assets less current liabilities			**15,852**		7,281
Creditors: amounts falling due after more than one year	16		**–**		(2,981)
			15,852		4,300
Capital and reserves					
Called up share capital	20		**725**		378
Share premium account	21		**4,543**		4,410
Shares to be issued	21		**2,961**		–
Merger reserve	21		**7,552**		–
Profit and loss account	21		**71**		(488)
Equity shareholders' funds			**15,852**		4,300

Company balance sheet
At 31 December 1999

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	Note	£000	1999 £000	£000	1998 £000
Fixed assets					
Tangible assets	10		**3**		27
Investments	11		**8,670**		6,949
			8,673		6,976
Current assets					
Debtors	13	**21,026**		2,373	
Cash at bank and in hand		**197**		333	
		21,223		2,706	
Creditors: amounts falling due within one year	15	**(6,093)**		(1,690)	
Net current assets			**15,130**		1,016
Total assets less current liabilities			**23,803**		7,992
Creditors: amounts falling due after more than one year	16		**(7,876)**		(2,535)
			15,927		5,457
Capital and reserves					
Called up share capital	20		**725**		378
Share premium account	21		**4,543**		4,410
Shares to be issued	21		**2,961**		–
Merger reserve	21		**7,552**		–
Special reserve	21		–		197
Profit and loss account	21		**146**		472
Equity shareholders' funds			**15,927**		5,457

The accounts were approved by the Board on 22 March 2000.

Charles Ryder
Director

James Orr
Director

Group statement of cash flows
For the year ended 31 December 1999

	Note		1999		1998
		£000	**£000**	£000	£000
Net cash (outflow)/inflow from operating activities	22(a)		**(1,441)**		1,379
Returns on investments and servicing of finance					
Interest received		**185**		62	
Interest paid		**(155)**		(164)	
Interest element of finance lease rental payments		**(55)**		–	
Dividends received		**8**		–	
			(17)		(102)
Taxation					
UK corporation tax paid			**(143)**		(273)
Capital expenditure and financial investment					
Receipts from sale of tangible fixed assets		**174**		135	
Payments to acquire tangible fixed assets		**(66)**		(130)	
Receipts from sale of investments		**491**		297	
Payments to acquire investments		**(1,276)**		(437)	
			(677)		(135)
Acquisitions and disposals					
Purchase of subsidiary undertakings		**(6,528)**		(2,769)	
Disposal of subsidiary undertakings		**7,180**		–	
Net cash acquired with subsidiary undertakings		**3,064**		–	
Net overdrafts in disposed operations		**2,191**		1,063	
Payments to acquire intangible fixed assets		**–**		(122)	
			5,907		(1,828)
Equity dividends paid			**(306)**		(519)
Net cash inflow/(outflow) before financing			**3,323**		(1,478)
Financing					
Issue of shares net of costs		**281**		95	
New long-term loans		**1,500**		1,000	
Repayment of long-term loans		**(1,678)**		(425)	
Repayment of capital element of finance leases		**(161)**		(34)	
Acquisition of dividend rights of former preference shareholders of Octroi Group Limited		**(867)**		–	
			(925)		636
Increase/(decrease) in cash			**2,398**		(842)

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

	Note	1999 £000	1998 £000
Increase/(decrease) in cash		**2,398**	(842)
Cash inflow from increase in loans		**(1,500)**	(1,000)
Cash outflow from repayment of loans		**1,678**	425
Repayment of capital element of finance leases		**161**	34
Change in net funds from cash flows		**2,737**	(1,383)
Acquisitions and disposals		**395**	(199)
New finance leases		**(155)**	(36)
Movements in net funds		**2,977**	(1,618)
Net (debt)/funds at 1 January		**(1,215)**	403
Net funds/(debt) at 31 December	22(b)	**1,762**	(1,215)

Reconciliation of shareholders' funds

	1999 £000	1998 £000
(Loss)/profit for the financial year	**(671)**	653
Net movement on share issues	**10,993**	620
Goodwill reinstated on disposal of subsidiaries	**1,649**	-
Dividends paid and proposed on equity shares	**(419)**	(470)
Demerger dividend in specie	**-**	(1,755)
Net movement in shareholders' funds	**11,552**	(952)
Opening shareholders' funds	**4,300**	5,252
Closing shareholders' funds	**15,852**	4,300

1. Accounting policies

1.1 Accounting convention
The financial statements have been prepared in accordance with applicable accounting standards under the historical cost convention.

1.2 Basis of consolidation
The Group financial statements consolidate those of the Company and its subsidiary undertakings (see note 11) drawn up to 31 December 1999. The results of subsidiary undertakings, held other than for subsequent resale, acquired or disposed of during the year are included from the date of acquisition or up until the date of disposal. Intra-group transactions are eliminated in full. Assets and liabilities at the date of acquisition are recorded at their fair values reflecting their condition at that date.
Subsidiaries held exclusively with a view for subsequent resale are recorded as current asset investments.

1.3 Goodwill
Positive goodwill arising on consolidation, representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired was, until December 1997, written off to reserves. Such goodwill arising on acquisitions since 1 January 1998 has been capitalised and amortised over its useful economic life up to a presumed maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.
Negative goodwill on consolidation, arising where the fair values of the identifiable net assets acquired exceed the fair value of consideration given, is capitalised and amortised through the profit and loss account in the period in which the non-monetary assets acquired are recovered. In the case of fixed assets, this is the period over which they are depreciated and, in the case of current assets, the period over which they are sold or otherwise realised.

1.4 Turnover
Turnover represents the value of work done for customers during the year excluding VAT. Profit was recognised on work-in-progress contracts of the discontinued activities, where the final outcome could be assessed with reasonable certainty, by including in the profit and loss account turnover and related costs as contract activity progressed. Turnover is calculated as that proportion of total contract value which costs to date bear to total expected costs for that contract.

1.5 Tangible fixed assets and depreciation
Tangible fixed assets are stated at cost less depreciation. Depreciation is provided 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, as follows:

Freehold buildings	2%
Fixtures, fittings and equipment	15% to 25%
Plant and machinery	15%
Motor vehicles	20% to 25%

The carrying values of tangible fixed assets are reviewed for impairment periodically if events or changes in circumstances indicate that the carrying value may not be recoverable.

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1. Accounting policies (continued)

1.6 Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The interest elements of leasing payments made under them are charged to the profit and loss account over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

1.7 Investments

Fixed asset investments are investments in the shares of undertakings which are held on a long-term basis for the purpose of securing a contribution to the Group's business, other than subsidiary or associated undertakings. These other participating interests are stated at cost less any permanent diminution in value. Fixed asset investments are reviewed for impairment periodically if events or changes in circumstances indicate that the carrying value may not be recoverable.

Current asset investments are valued at the lower of cost and net realisable value.

1.8 Stocks and work-in-progress

Stocks and work-in-progress were valued at the lower of cost and net realisable value. Cost is determined on a purchase cost basis. Work-in-progress includes materials and labour costs and an appropriate proportion of overheads incurred on uncompleted contracts at the year end. Profit is recognised on long term contracts as noted above.

1.9 Pensions

The Company operates a defined contribution pension scheme. Contributions paid during the year are charged to the profit and loss account.

1.10 Deferred taxation

Deferred taxation is provided using the liability method on all timing differences, to the extent that they are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse. Advance corporation tax which is expected to be recoverable in the future is deducted from the deferred taxation balance.

Deferred taxation assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

2. Turnover and operating profit

Turnover is attributable to the discontinued property-related activities for the period to the date of disposal of those activities on 13 August 1999. All of the property-related activities were undertaken within the UK. The discontinued activities in 1998 comprise Dean Homes Limited and Speymill Tripp Limited which were demerged by dividend in specie on 8 December 1998.

Analysis of continuing and discontinued activities:

1999	**1999 Continuing operations £000**	**1999 Discontinued operations £000**		**1999 Total operations £000**
Turnover	–	**16,964**		**16,964**
Cost of sales	–	**(13,510)**		**(13,510)**
Gross profit	–	**3,454**		**3,454**
Administrative expenses	**(1,161)**	**(3,083)**		**(4,244)**
Other operating income	**7**	**25**		**32**
Operating (loss) / profit	**(1,154)**	**396**		**(758)**

1998	1998 Continuing operations £000	1998 Operations discontinued in 1999 £000	1998 Operations discontinued in 1998 £000	1998 Total operations £000
Turnover	–	18,034	20,463	38,497
Cost of sales	–	(15,241)	(17,356)	(32,597)
Gross profit	–	2,793	3,107	5,900
Administrative expenses	(816)	(1,650)	(2,241)	(4,707)
Other operating income	–	95	–	95
Operating (loss) / profit	(816)	1,238	866	1,288

Operating (loss) / profit is stated after charging / (crediting):

	1999 £000	1998 £000
Depreciation of tangible assets – owned assets	**90**	104
Depreciation of tangible assets – leased assets	**14**	19
Amortisation of goodwill	**116**	32
Operating lease rentals – land and buildings	**61**	98
Operating lease rentals – other	**106**	169
Auditors' remuneration – audit services	**27**	55
Auditors' remuneration – other services	**30**	13
Profit on disposal of fixed assets	**7**	–
Rents receivable	**(32)**	(42)

In addition to the amounts shown above, the auditors also received fees of £17,000 in respect of the audit of Gall Thomson Environmental Limited and £386,000 (1998: £173,000) in respect of the acquisitions and disposals in the year.

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3. Employees

Number of employees

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

	1999 Number	1998 Number
Administration	60	69
Operations	93	106
	153	175

Employment costs

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

	1999 £000	1998 £000
Wages and salaries	4,149	4,091
Social Security costs	454	404
Other pension costs	453	131
	5,056	4,626

Details for each director of remuneration, pension entitlement and interest in share options are set out on page 10.

4. Interest payable

	1999 £000	1998 £000
On bank loans and overdrafts	156	128
Hire purchase and finance lease interest	55	27
	211	155

5. Taxation

	1999 £000	1998 £000
Taxation based on result for the year:		
Corporation tax	–	389
Adjustment in respect of prior year	(16)	1
Deferred taxation	–	(2)
	(16)	388

The tax effect in the profit and loss accounts relating to exceptional items recognised below operating profit is £nil (1998: £nil).

6. Profit attributable to the members of the parent company

As permitted by section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these accounts. The loss dealt with in the accounts of the parent company was £104,000 (1998: profit £839,000).

7. Dividends

	1999 £000	1998 £000
Ordinary dividend:		
Proposed equity dividend at 0.2p per share (1998: 0.3p)	**340**	226
Interim equity dividend at 0.1p per share (1998: 0.35p)	**79**	244
	419	470
Dividend in specie:		
Demerger of Dean Homes Limited and Speymill Tripp Limited	**–**	1,755

8. Earnings per share

The calculation of basic earnings per share is based on the loss after taxation for the financial year and on a weighted average number of shares in issue during the year of 77,707,599 ordinary shares of 0.5p (1998 weighted average 69,578,565).

The diluted earnings per share is based on the loss after taxation for the financial year and on 77,707,599 ordinary shares (1998: 70,289,832) calculated as follows:

	1999 No.	1998 No.
Basic weighted average number of shares	**77,707,599**	69,578,565
Dilutive potential ordinary shares:		
Employee share options	**–**	711,267
	77,707,599	70,289,832

9. Intangible fixed assets

Intangible fixed assets comprise goodwill arising on consolidation of Octroi Group Limited (formerly Octroi Group PLC) which was acquired during the year (goodwill in respect of acquisitions made in prior years was realised on the disposal of the property services activities) as follows:

	Goodwill arising on consolidation £000	Purchased goodwill £000	Total £000
Cost			
At 1 January 1999	3,628	123	3,751
Disposal of property services activities	(3,628)	(123)	(3,751)
Arising on acquisition of Octroi Group Limited	(882)	-	(882)
At 31 December 1999	**(882)**	-	**(882)**
Amortisation			
At 1 January 1999	28	4	32
Charge for the year	112	4	116
Disposal of property services activities	(140)	(8)	(148)
At 31 December 1999	-	-	-
Net book value			
At 31 December 1999	**(882)**	-	**(882)**
At 1 January 1999	3,600	119	3,719

This goodwill arose as follows:

	1999 £000	1998 £000
Goodwill arising on consolidation:		
Octroi Group Limited	**(882)**	-
IPM Engineering Limited	-	2,522
RLH Group Limited	-	680
Castellain Limited	-	329
H Page Engineering Limited	-	97
	(882)	3,628

Details of acquisitions made during the year are set out in note 23.

10. Tangible fixed assets

The Group	Freehold land and buildings £000	Plant and machinery £000	Motor vehicles £000	Fixtures and fittings £000	Total £000
Cost					
At 1 January 1999	206	209	930	846	2,191
Additions	–	–	167	55	222
Disposals	(206)	–	(102)	(2)	(310)
Disposal of subsidiaries	–	(209)	(995)	(896)	(2,100)
At 31 December 1999	–	–	–	3	3
Depreciation					
At 1 January 1999	6	167	375	573	1,121
Charge for the year	–	18	55	31	104
Elimination on disposals	(6)	–	(55)	-	(61)
Disposal of subsidiaries	–	(185)	(375)	(604)	(1,164)
At 31 December 1999	–	–	–	–	–
Net book value					
At 31 December 1999	–	–	–	3	3
At 1 January 1999	200	42	555	273	1,070

The figures above include assets held under finance leases as follows:

Net book value					
At 31 December 1999	–	–	–	–	–
At 1 January 1999	–	–	448	–	448

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10. Tangible fixed assets (continued)

The Company

	Motor vehicles £000	Fixtures and fittings £000	Total £000
Cost			
At 1 January 1999	52	2	54
Additions	–	3	3
Disposals	(52)	(2)	(54)
At 31 December 1999	**–**	**3**	**3**
Depreciation			
At 1 January 1999	26	1	27
Charge for the year	2	–	2
Elimination on disposals	(28)	(1)	(29)
At 31 December 1999	**–**	**–**	**–**
Net book value			
At 31 December 1999	**–**	**3**	**3**
At 1 January 1999	26	1	27

The figures above include assets held under finance leases as follows:

	Motor vehicles £000	Fixtures and fittings £000	Total £000
Net book value			
At 31 December 1999	**–**	**–**	**–**
At 1 January 1999	26	–	26

11. Fixed asset investments

	Shares in subsidiary undertakings £000	Listed investments £000	Total £000
The Group			
At 1 January 1999	–	484	484
Disposals	–	(484)	(484
At 31 December 1999	–	–	–
The Company			
At 1 January 1999	6,465	484	6,94
Additions	8,670	–	8,67
Disposals	(6,465)	(484)	(6,94
At 31 December 1999	**8,670**	–	**8,67**

In the opinion of the directors, the aggregate value of the Company's investment in subsidiary undertakings is not less than the amount included in the balance sheet.
At 31 December 1998 the Group held a single investment of 2,340,362 shares representing 29.5% of the ordinary share capital of Superframe Group Plc. The investment in Superframe was disposed of during the year for £491,500.

Investments in subsidiaries
The Company holds investments in the following companies:

	Class of shares	Proportion held	Nature busine
Gall Thomson Environmental Limited†	Ordinary	100%	servic
Survey Equipment Services, Inc.†	Ordinary	100%	Equipme sales ren
KLAW Products Limited†	Ordinary	100%	Indust coupli
Octroi Group Limited*	Ordinary Preference	100% 100%	Investm comp
Lupus Equities Limited *	Ordinary	100%	Investm comp
Lupus Capital Management Limited *	Ordinary	100%	Dorm
Lupus Capital Finance Limited *	Ordinary	100%	Dorm

† held as a current asset investment
* directly held subsidiaries

Survey Equipment Services, Inc. is incorporated in the United States of America.
It is the directors' intention to dispose of the holding in Gall Thomson Environm Limited within the next twelve months.

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12. Stocks and work-in-progress

	The Group		The Company	
	1999	1998	**1999**	1998
	£000	£000	**£000**	£000
Raw materials and consumables	**–**	99	**–**	–
Work-in-progress	**–**	2,365	**–**	–
	–	2,464	**–**	–

13. Debtors

	The Group		The Company	
	1999	1998	**1999**	1998
	£000	£000	**£000**	£000
Trade debtors	**–**	3,803	**–**	216
Amounts recoverable on contracts	**–**	1,736	**–**	–
Amounts due from subsidiary undertakings	**–**	–	**20,585**	1,526
Advance corporation tax	**76**	94	**76**	91
Other debtors	**554**	749	**349**	505
Dividend receivable	**6**	–	**–**	6
Prepayments and accrued income	**17**	162	**16**	29
	653	6,544	**21,026**	2,373

The advance corporation tax shown above is due after more than one year.

14. Current asset investments

	Group	Company
	£000	**£000**
At 1 January 1999	–	–
Acquisition of Gall Thomson Environmental Limited	18,450	–
Acquisition of listed investments	1,187	–
At 31 December 1999	**19,637**	**–**

Details of the balance sheet of Gall Thomson Environmental Limited at the date of acquisition are set out in note 23.

The listed investments relate to sundry investments in public companies listed on the London Stock Exchange and are held at the lower of cost and net realisable value at the balance sheet date. No listed investment represents more than 2.99% of the share capital of the company concerned.

15. Creditors: amounts falling due within one year

	The Group		The Company	
	1999	1998	**1999**	1998
	£000	£000	**£000**	£000
Bank loans and overdrafts	**1,500**	400	**1,500**	400
Net obligations under finance leases	**-**	253	**-**	33
Trade creditors	**702**	4,828	**576**	210
Corporation tax	**1**	307	**-**	131
Other taxes and social security costs	**20**	767	**18**	14
Proposed dividend	**339**	226	**339**	227
Other creditors	**3,641**	519	**3,058**	472
Accruals and deferred income	**618**	564	**602**	203
	6,821	7,864	**6,093**	1,690

The bank overdrafts and loans are secured by a fixed and floating charge over the assets of the Company.

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

	The Group		The Company	
	1999	1998	**1999**	1998
	£000	£000	**£000**	£000
Loan notes issued as part consideration for Gall Thomson Environmental Limited	**-**	-	**7,876**	-
Bank loans and mortgages	**-**	1,278	**-**	1,100
Net obligations under finance leases	**-**	148	**-**	-
Other creditors	**-**	1,555	**-**	1,435
	-	2,981	**7,876**	2,535

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17. Borrowings

	The Group		The Company	
	1999	1998	**1999**	1998
	£000	£000	**£000**	£000
Repayable within one year:				
Bank and other borrowings	**1,500**	400	**1,500**	400
Finance leases	–	253	–	33
Repayable after one and within two years:				
Bank and other borrowings	–	400	–	400
Finance leases	–	97	–	-
Repayable after two and within five years:				
Bank and other borrowings	–	700	–	700
Finance leases	–	51	–	–
Repayable after five years:				
Bank and other borrowings	–	178	–	–
	1,500	2,079	**1,500**	1,533
Borrowings repayable after five years comprise:				
Repayable by instalments				
Bank loans and other borrowings	–	178	–	–

The undrawn, committed facilities available to the Group at 31 December 1999, all of which expire within one year amounted to £2,500,000 (1998: £nil). The total value of borrowings of the Group repayable by instalments any part of which falls due after five years is £nil (1998: £178,000).

18. Deferred taxation

There are no deferred taxation liabilities provided in the accounts (1998: £nil). The amounts of unprovided deferred tax liabilities are as follows:

	The Group		The Company	
	1999	1998	**1999**	1998
	£000	£000	**£000**	£000
Unprovided deferred taxation in respect of accelerated capital allowances	–	25	–	–

19. Financial instruments

A comment on the Group's objectives and policies for the role of derivatives and other financial instruments in creating and changing the risks of the Group in its activities can be found on pages 12 and 13. The disclosures below exclude short term debtors and creditors.

Interest rate risk profile of financial liabilities

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

	Fixed rate financial liabilities	Floating rate financial liabilities	Total
1999	**£000**	**£000**	**£000**
Liabilities denominated in Sterling	**–**	**1,500**	**1,500**
1998	£000	£000	£000
Liabilities denominated in Sterling	401	1,678	2,079

The fixed rate financial liabilities represent finance lease liabilities of the group, all of which either terminated within 1999 or were disposed of as part of the property services activities. Accordingly, disclosure of weighted average interest rates and period of borrowing is not material to the understanding of the Group's continuing operations. Details of the maturity profile of the Group's financial liabilities and of the undrawn, committed facilities available to it are set out in note 17.

Interest rate risk of financial assets

The interest rate profile of the financial assets of the Group as at 31 December was as follows:

	Financial assets on which no interest is earned	Floating rate financial assets	Total
1999	**£000**	**£000**	**£000**
Assets denominated in Sterling	**19,637**	**3,261**	**22,898**
Assets denominated in US dollars	**–**	**1**	**1**
Total	**19,637**	**3,262**	**22,899**
1998	£000	£000	£000
Assets denominated in Sterling	484	864	1,348

Floating rate financial assets comprise cash balances held in corporate deposit accounts at call. The financial assets on which no interest is earned comprise investments in equity shares (£18,450,000 investment in Gall Thomson Environmental Limited and £1,187,000 investment in other quoted investments; 1998: £484,000 investment in other quoted investments) that neither pay interest nor have a maturity date. There is no material difference between the book value and fair value of fixed and floating rate financial assets and liabilities. The fair value of the other quoted investments within financial assets on which no interest is earned was £1,239,000 (1998: £398,000).

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20. Share capital

The Company

	1999 £000	1998 £000
Authorised:		
210,000,000 (1998: 100,000,000) Ordinary shares of 0.5 pence each	**1,050**	500
Allotted, called up and fully paid		
144,942,227 (1998: 75,523,785) Ordinary shares of 0.5 pence each	**725**	378
Share capital to be issued		
24,674,985 (1998: nil) Ordinary shares of 0.5 pence each, at a fair value of 12p each	**2,961**	-

Allotments during the year were as follows:

	Aggregate nominal value £000	Consideration £000
Exercise of options	19	281
Acquisition consideration for:		
Gall Thomson Environmental Limited	257	6,16
Octroi Group Limited	71	1,71
	347	8,16

Contingent rights to the allotment of shares

At 31 December 1999 options over 3,300,000 ordinary shares which are exercisabl between 20 April 2001 and 19 October 2006 at an exercise price of 11p and options ove 250,000 ordinary shares which are exercisable between 17 April 1999 and 16 October 200 at an exercise price of 13.5p were outstanding. During the year three former employee from the property services operations exercised options over an aggregate 3,750,00 shares. As a result 3,750,000 ordinary shares with an aggregate nominal value of £18,75 were allotted for a total consideration of £281,300.

Post balance sheet allotment

Between the year end and 13 March 2000, the share capital to be issued, amounting 24,674,985 ordinary shares, was allotted as final consideration for the acquisitions Gall Thomson Environmental Limited and Octroi Group Limited.

21. Movements on reserves

The Group

	Share capital £000	Share premium account £000	Shares to be issued £000	Merger reserve £000	Profit and loss account £000
Balance at 1 January 1999	378	4,410	–	–	(488)
Shares issued	347	262	–	7,552	–
Shares to be issued	–	–	2,961	–	–
Costs of shares issued	–	(129)	–	–	–
Loss for the financial year	–	–	–	–	(671)
Goodwill reinstated on disposal of subsidiaries	–	–	–	–	1,649
Dividends	–	–	–	–	(419)
Balance at 31 December 1999	**725**	**4,543**	**2,961**	**7,552**	**71**

The Company

	Share capital £000	Share premium account £000	Shares to be issued £000	Merger reserve £000	Special reserve £000	Profit and loss account £000
Balance at 1 January 1999	378	4,410	–	–	197	472
Transfer between reserves	–	–	–	–	(197)	197
Shares issued	347	262	–	7,552	–	–
Shares to be issued	–	–	2,961	–	–	–
Costs of shares issued	–	(129)	–	–	–	–
Loss for the financial year	–	–	–	–	–	(104)
Dividends	–	–	–	–	–	(419)
Balance at 31 December 1999	**725**	**4,543**	**2,961**	**7,552**	**–**	**146**

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22. Notes to the statement of cash flows

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

	1999 £000	1998 £000
Operating (loss) / profit	**(758)**	1,288
Depreciation	**104**	123
Amortisation of goodwill	**116**	32
Movement in stock and work-in-progress	**(742)**	(1,064)
Movement in debtors	**639**	(2,994)
Movement in creditors	**(882)**	4,219
Loss on disposals of fixed assets	**-**	4
Profit on disposals of investments	**(7)**	(71)
Fundamental reorganisation costs	**-**	(158)
Revaluation of investments	**89**	-
	(1,441)	1,379

(b) Analysis of net (debt)/funds

	1 January 1999 £000	Cash flow £000	Acquisitions £000	Disposals £000	31 December 1999 £000
Cash at bank	864	(2,857)	3,064	2,191	**3,262**
Overdrafts	-	-	-	-	**-**
	864	(2,857)	3,064	2,191	**3,262**
Finance leases	(401)	6	-	395	**-**
Dividend rights	-	(876)	876	-	**-**
Debt due within one year	(400)	(1,100)	-	-	**(1,500)**
Debt due after one year	(1,278)	1,278	-	-	**-**
Net (debt) / funds	(1,215)	(3,549)	3,940	2,586	**1,762**

23. Acquisition and disposal of subsidiary undertakings

On 22 December 1999 the Company declared as unconditional the offers to acquire the whole of the issued share capitals of Gall Thomson Environmental Limited (formerly Gall Thomson Environmental plc) and of Octroi Group Limited (formerly Octroi Group PLC). Subsequent to the year-end the Company achieved acceptances in excess of the required limits to enable the Company compulsorily to purchase the remaining minority interests in those companies. These procedures have been completed. The effect of these acquisitions on the cash flows of the Group are summarised below with details of individual acquisitions following.

	Cash consideration paid £000	Net (cash)/ overdraft acquired £000	Total £000
Gall Thomson Environmental Limited	1,117	–	1,117
Octroi Group Limited	5,411	(3,064)	2,347
Total	6,528	(3,064)	3,464

As Gall Thomson Environmental Limited is recorded as a current asset investment, its cash balance at the date of acquisition of £1.95 million has not been included in the above analysis.

Acquisition of Gall Thomson Environmental Limited

The balance sheet of Gall Thomson Environmental Limited at the date of acquisition is summarised below:

	£000
Intangible fixed assets	266
Tangible fixed assets	733
Stocks and work-in-progress	111
Debtors	2,362
Net cash	1,950
Creditors due within one year	(1,356)
Net assets	4,066

The investment in Gall Thomson Environmental Limited amounts to £18,450,000 which was discharged as follows:

	£000
Cash consideration	840
Fair value of shares issued and to be issued	8,960
Loan note issued	7,876
Costs associated with the acquisition	774
Total consideration recorded	18,450

The results for the period 23 December to 31 December 1999 are immaterial. The consolidated profit of Gall Thomson Environmental Limited for the nine months ended 31 December 1999 amounted to £616,000.

23. Acquisition and disposal of subsidiary undertakings (continued)

Acquisition of Octroi Group Limited

	Book and fair value £000
Investment in Gall Thomson Environmental Limited	7,876
Debtors	207
Net cash	3,064
Creditors due within one year	(1,595)
Net assets acquired	9,552
Goodwill arising on acquisition	(882)
	8,670

Discharged by:

	£000
Initial cash consideration	5,137
Costs associated with the acquisition	274
Cash cost of acquisition included in cash flow statement	5,411
Further cash consideration	1,248
Accrued costs associated with the acquisition	187
Total cash cost of acquisition	6,846
Fair value of shares issued and to be issued	1,881
Less: acquisition costs set against share premium account	(57)
Total consideration recorded	8,670

In addition to the cash consideration above, on acquisition Lupus paid a further £867,000 to acquire the rights to amounts due to the former preference shareholders of Octroi Group Limited. This amount is included in the fair value of net assets acquired.

Octroi Group Limited made a loss before tax of £341,000 in the period from its last financial year end (31 March 1999) to the date of acquisition (year ended 31 March 1999: £802,000). The summarised profit and loss account for the period from 1 April 1999 to the effective date of acquisition is as follows:

	£000
Turnover	-
Operating loss	(646)
Loss before tax	(341)
Taxation	(7)
Loss for the period from 1 April 1999 to 22 December 1999	(348)

The results for the period from 23 December to 31 December 1999 are immaterial.

23. Acquisition and disposal of subsidiary undertakings (continued)

Disposal of property services activities on 13 August 1999

	£000	Total £000
Fixed assets		936
Stocks and work-in-progress		3,206
Debtors		5,217
Net (overdraft)		(2,191)
Creditors		(4,790)
Finance lease liabilities		(395)
Net asset value of disposed activities		1,983
Goodwill recognised at 31 December 1998	3,719	
Less: amortisation during the year	(116)	
		3,603
Add back: goodwill previously written off directly to reserves		1,649
		7,235
Profit on disposal		125
Disposal proceeds		7,360

Discharged by:

	£000
Cash consideration received	7,808
Less: expenses of the transaction	(628)
Net cash consideration received included in cash flow statement	7,180
Add: deferred consideration liability assigned to purchaser	1,530
Less: adjustment to consideration included in creditors	(1,350)
Net proceeds	7,360

24. Contingent liabilities

The Company's banking arrangements include a cross corporate guarantee for bank borrowing for such subsidiary undertakings which are included within set-off arrangements. At 31 December 1999, the Group had borrowing facilities available to it of £4 million of which £2.5 million was undrawn.

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25. Financial commitments

At 31 December 1999 the Group had annual commitments under non-cancellable operating leases as follows:

The Group

	Land and buildings		Other	
	1999	**1998**	**1999**	**1998**
	£000	**£000**	**£000**	**£000**
Expiry date:				
Within one year	12	18	–	87
Between two and five years	–	24	20	16
Over five years	128	33	–	10

26. Transactions with directors

As described in note 23, the property services activities of the Group were disposed of during the year to Environmental Property Services Holdings Limited, a company in which David Anderson, a former director of Lupus Capital plc, has an interest. At 31 December 1999 the Company owed £1,350,000 to Environmental Property Services Holdings Limited, which is included in other creditors.

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Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Lupus Capital plc will be held at the offices of Ashurst Morris Crisp, Broadwalk House, 5 Appold Street, London EC2A 2HA on 9 May 2000 at 11.00 a.m., for the following purposes:

Ordinary business

1. To receive and consider the accounts for the year ended 31 December 1999 together with the reports of the directors and auditors thereon.
2. To declare the final dividend.
3. To reappoint Oliver Stocken as a director who retires pursuant to the Articles of Association of the Company and offers himself for re-election.
4. To reappoint Ernst & Young as auditors of the Company and to authorise the directors to set their remuneration.

Special business

To consider and, if thought fit, to pass the following resolutions of which number 5 will be proposed as an ordinary resolution and number 6 will be proposed as a special resolution:

5. That the directors be and are hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985, to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the said Act) up to an aggregate nominal amount of £201,913.94, this authority to expire at the conclusion of the Annual General Meeting of the Company in 2001 (save that the Company may before such expiry make any offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred hereby had not expired).
6. That subject to the passing of resolution 5 above, the directors be and are hereby empowered to allot equity securities (as defined in section 94(2) of the Companies Act 1985) for cash pursuant to the authority conferred by resolution 5 above as if section 89(1) of the said Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:
   - 6.1 in connection with a rights issue or a pre-emptive issue in favour of ordinary shareholders where the equity securities are proportionate (as nearly as practicable) to the respective number of ordinary shares held by such holders but subject to such exclusions or other arrangements as the directors may deem necessary or desirable in relation to fractional entitlements or legal or practical problems arising in, or pursuant to, the laws of any territory or the requirements of any regulatory body or stock exchange in any territory; and
   - 6.2 otherwise than pursuant to 6.1 above, up to an aggregate nominal amount of £42,404.30,

   and this power shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2001 save that the Company may before such expiry make any offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired.

By order of the Board
James Orr
Company Secretary
22 March 2000

Registered Office:
Broadwalk House
5 Appold Street
London EC2A 2HA

Notes:
1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and on a poll, vote instead of him. A proxy need not be a member of the Company.
2. To be valid, forms of proxy and any power of attorney or other authority under which it is signed must be lodged with the Company's registrars, IRG plc, Balfour House, 390-398 High Road, Ilford, Essex IG1 1NQ, not less than 48 hours before the time fixed for the meeting. A form of proxy is enclosed with this notice for use.
3. Completion and return of a proxy form does not preclude a member from attending and voting in person at the meeting.
4. Pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, the time by which a person must be entered on the register of members in order to have the right to attend and vote at the Annual General Meeting is 11.00 a.m. on 7 May 2000 being 48 hours prior to the time fixed for the meeting or, if the meeting is adjourned, such time being not more than 48 hours prior to the time fixed for the adjourned meeting. Changes to entries on the register of members after that time will be disregarded in determining the right of any person to attend or vote at the meeting.
5. The register of directors' interests in the share capital and debentures of the Company is available for inspection at the Company's registered office during normal business hours from the date of this notice until the date of the Annual General Meeting and will be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to and during the meeting.
6. **Resolution 5.** Your directors may only allot shares or grant rights over shares if authorised to do so by shareholders. The authority granted at the Extraordinary General Meeting held on 16 December 1999 is due to expire at this year's Annual General Meeting. Accordingly, Resolution No. 5 will be proposed as an ordinary resolution to grant a new authority to allot unissued share capital up to an aggregate nominal value of £201,913.94, representing approximately 23.81% of the total issued ordinary share capital as at 21 March 2000. If given, this authority will expire at the Annual General Meeting in 2001. Other than in respect of the Company's obligations under its employee share scheme, the directors have no present intention of issuing any of the authorised but unissued share capital of the Company.
7. **Resolution 6.** Your directors also require additional authority from shareholders to allot shares or grant rights over shares where they propose to do so for cash and otherwise than to existing shareholders pro rata to their holdings. The authority granted at the Extraordinary General Meeting held on 16 December 1999 is due to expire at this year's Annual General Meeting. Accordingly, Resolution No. 6 will be proposed as a special resolution to grant such authority. Apart from rights issues and other pre-emptive issues, the authority will be limited to the issue of shares up to an aggregate nominal value of £42,404.30 (being 5% of the issued ordinary share capital at 21 March 2000). If given, this authority will expire at the conclusion of the Annual General Meeting in 2001.

Lupus Capital plc

LUPUS

Registered Address

Broadwalk House
5 Appold Street
London
EC2A 2HA