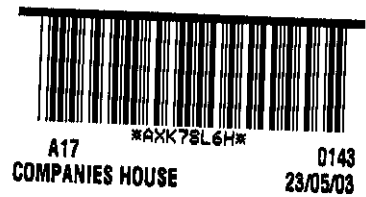


2806007

LUPUS CAPITAL plc

REPORT AND ACCOUNTS  
2002



## CONTENTS

	<i>Page</i>
Directors and Advisers	2
Chairman's Statement	3
Directors' Report	8
Corporate Governance	11
Report on Directors' Remuneration	13
Independent Auditors' Report	16
Group Profit and Loss Account	18
Group Balance Sheet	19
Company Balance Sheet	20
Group Statement of Cash Flows	21
Reconciliation of Net Cash Flow to Movement in Net Debt	22
Reconciliation of Shareholders' Funds	22
Notes to the Accounts	23
Notice of Annual General Meeting	34
Form of Proxy	37

## DIRECTORS AND ADVISERS

### DIRECTORS

Konrad Legg (Non-executive Chairman)  
Frederic Hoad (Non-executive)  
Roland Tate (Non-executive)

### SECRETARY

Cavendish Administration Limited

### COMPANY NUMBER

2806007

### REGISTERED OFFICE

85 Buckingham Gate  
London SW1E 6PD

### AUDITORS

Ernst & Young LLP  
Rolls House  
7 Rolls Buildings  
Fetter Lane  
London EC4A 1NH

### REGISTRAR

Capita IRG Plc  
Balfour House  
390-398 High Road  
Ilford  
Essex IG1 1NQ

### STOCKBROKER

Marshall Securities Limited  
Crusader House  
145-157 St John Street  
London EC1V 4RE

### LEGAL ADVISERS

Ashurst Morris Crisp  
Broadwalk House  
5 Appold Street  
London EC2A 2HA

## CHAIRMAN'S STATEMENT

The past few months have been eventful for the Company and since this is my first statement as Chairman of Lupus, I believe it is appropriate to set out details of these events before commenting on the progress which has been made.

### **Change of Board**

Last October three of the Company's institutional shareholders, being disillusioned with the Company's failure to deliver shareholder value as promised, served notice requiring an Extraordinary General Meeting to be convened. The purpose of the meeting, which took place on 28 November 2002, was to consider the removal of the then directors (other than the Chairman, Oliver Stocken) and the appointment of Fred Hoad, Roland Tate and myself as directors. The requisition set out a proposed new strategy to realise the Company's investments, minimise central costs and return cash to all shareholders.

All the resolutions were passed and implemented. Mr Stocken resigned as Chairman, as he had indicated he would do if his colleagues were removed from the Board. I was appointed as Chairman in his place and I am pleased to report to you now on the Company's results for the year ended 31 December 2002 and, in particular, on the progress which has been made since our appointment.

### **Appointment of manager**

As envisaged in the requisition, Progressive Value Management Limited ("PVML"), an investment realisation specialist, has been engaged to manage the Company's affairs and to implement the new strategy within a maximum period of two years.

### **Financial results**

The Company's results for the year ended 31 December 2002 reflect the change in strategy approved by the shareholders. For the majority of the year the former Board and management were charged with responsibility for the Company's affairs and the results are heavily influenced by the overhead structure which prevailed during that period. The Group made an operating profit, before exceptional items and goodwill amortisation, of £2,024,000 (2001: £1,568,000) on turnover of £6,638,000 (2001: £5,341,000). Charges were made of £946,000 (2001: Nil) for exceptional costs related to the closure of the London office, £202,000 (2001: Nil) for costs related to the EGM and £741,000 (2001: £741,000) for goodwill amortisation. After these charges, the Group made an operating profit of £135,000 (2001: £827,000).

In view of the Company's intended realisation of its assets, investments in listed securities have been written down to their market values at the year end or subsequent disposal proceeds. After these adjustments, which amount in aggregate to £1,595,000 (2001: £1,425,000), and after other non-operating items, the Group made a loss before taxation of £1,361,000 (2001: profit £113,000).

## CHAIRMAN'S STATEMENT

CONTINUED

The net assets of the Group at 31 December 2002 were £11,969,000 (2001: £14,514,000) representing 7.02p per share (2002: 8.53p per share). Net debt amounted to £3,827,000 (2001: £6,637,000).

### **Background to the Extraordinary General Meeting**

The Group had been running with annual central costs of £1.4 million. Given the size of the Company and the simplicity of its operations, this was a significant source of unrest among investors. Investors were also unhappy with the incentive plan for executives which rewarded successful sales of investments but did not set off realised losses. However, the main impetus for the Board changes was a growing conviction among shareholders that the former Board, despite a stated intention to do so, would not sell the Company's principal investment, Gall Thomson. Indeed, there were concerns that even if Gall Thomson were sold there would be no direct benefit to shareholders since the former Chief Executive had stated that the Company would retain the sale proceeds rather than return them to shareholders. When the former Board finally became aware of the extent of shareholder dissatisfaction they proposed a partial tender on unspecified terms and, on the eve of the extraordinary general meeting, announced receipt of an indicative offer for Gall Thomson of £14.5 million. This offer was described as "a material increase on the level of offers received for Gall Thomson during the sale process carried out during the past two years". This statement ignored the fact that the indicative offer was below the Board's stated minimum price expectation of £14.6 million and well below the price paid for Gall Thomson and the value at which the holding was being carried in the Group's books. PVML subsequently investigated the indicative offer and quickly concluded that it was unacceptable, not least because it required a significant cash balance to be left in Gall Thomson.

Significant expenses were incurred by the former Board in seeking to defeat the resolutions. Oriel Securities Limited, the Company's former financial advisers, received £50,000 for their advice and were paid compensation of £25,000 for termination of the contractual retainer arrangements recently agreed by the former Board. In total, the former Board paid £185,000 for advice in connection with the extraordinary general meeting. Although, in the opinion of the new Board, £185,000 of advisory fees was disproportionate to any benefit which the Company could have expected to achieve, we decided not to pursue any claims for refunds since we were advised that such claims were unlikely to succeed.

## CHAIRMAN'S STATEMENT

CONTINUED

### Key issues

Following their appointment the new Board and PVML identified four main issues to be addressed in order to implement the new strategy:

1. Sale of Gall Thomson, ensuring that its value and potential were preserved during the sale process;
2. Sale of the six listed investments;
3. Reduction of the Group's cost base;
4. Rationalisation of the corporate structure.

### Progress regarding the key issues

#### *Sale of Gall Thomson*

PVML has held numerous meetings with the senior management of Gall Thomson to become familiar with the business and to form an opinion of its realisable value. A number of potential purchasers came forward or were contacted following the announcement of the Company's new strategy. PVML is currently negotiating the broad outlines and conditions of the sale of Gall Thomson with various parties.

#### *Sale of the other six listed investments*

PVML analysed and evaluated the six listed investments of the Company and agreed with the Board an appropriate course of action regarding the disposal of each stake.

The most significant shareholding was in Castings. This was sold in December 2002 for £3.05 million which enabled the Company to reduce significantly the amount outstanding under its bank overdraft facility. The Company's holdings in Sinclair (William), Roxspur and European Colour were sold after the year end realising £1.14 million.

The remaining two investments are Armitage Bros. and Shiloh. Armitage Bros. announced on 20 March 2003 that it had reached agreement on the terms of a recommended cash offer of 200p per share and had received irrevocable undertakings to accept the Offer from shareholders representing 59.4% of the Company.

#### *Reduction of the Group's cost base*

Having terminated the employment contracts of all the staff, PVML closed the office at 85 Buckingham Gate, London with effect from 15 January 2003. There were more staff than might have been expected given the size of the Company's operations and the staff were relatively highly paid. With the exception of one junior member of staff, all executives had the benefit of twelve months notice and two had had their notice periods extended as recently as August 2002. Accordingly, this exercise has been costly, but it has resulted in a considerable reduction in the continuing operating expenses. So far, a reduction in overheads of £0.75 million on an annual basis has been achieved.

## CHAIRMAN'S STATEMENT

CONTINUED

The previous board entered into a five year lease of the premises in Buckingham Gate in 2001 at a rental in excess of £50 per square foot and with little flexibility for sub-letting. An agent has been appointed to negotiate the surrender of the lease or to procure a suitable assignee. The offices are in a central and prestigious location but rental levels have fallen since the Company entered into the commitment. It is therefore anticipated that further costs will be incurred in connection with the disposal of the lease and an appropriate estimate of the relevant amounts has been included in the overall provision for closure of the office.

The furniture and equipment have been disposed of at the best prices achievable. Various lease commitments for items such as photocopiers and cars have been terminated by negotiation. In general these commitments did not envisage early termination by the Company and therefore the scope for negotiation was limited.

The Company had been incurring significant expenses in terms of consultancy fees, solicitors' fees and entertaining expenses. These expenses have been dramatically curtailed since adoption of the new strategy.

A subsidiary of Lupus has a lease of a 20,000 square feet property in a business centre outside Tewkesbury in Gloucestershire which expires in 2014. The property is let for the same period to a first class tenant and is cash neutral. The Company is exploring the possibility of surrendering the lease in the context of the tenant entering into a new lease directly with the landlord.

### *Corporate structure*

Preliminary analysis has been carried out as to the best methods of restructuring the Group in order to facilitate return of cash to shareholders.

### **Business of Gall Thomson**

Gall Thomson, based in Great Yarmouth, is the world's leading supplier of marine breakaway couplings. Its subsidiary, Klaw Products Ltd, based in Trowbridge, 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 to prevent environmental pollution and damage to pumping and transfer equipment. Gall Thomson also supplies the quick release Wellin Lambie Camlock coupling which is used in the hose and loading arm system for the transfer of oil and gas products.

## CHAIRMAN'S STATEMENT

CONTINUED

Klaw Products Ltd principal activity is the manufacture, assembly and distribution of industrial quick release couplings etc to the oil and gas industries. They are also used in the transportation of product by road and rail.

In 2002, Gall Thomson recorded sales of £6.64 million (2001: £5.34 million), an increase of 24.3 %. Operating profits before Group management charges and goodwill amortisation were £3.38 million (2001: £2.71 million), an increase of 24.8%.

Gall Thomson has started 2003 with a healthy order book and looks forward to continued success. There are opportunities in most areas of the world owing to an increase in world floating production systems, as well as the traditional Single Point Mooring business. The drive to exploration in deeper waters (greater than 1,000 metres) supports the need for off loading techniques as opposed to pipeline infrastructure. This bodes well for the Gall Thomson business in the short and long term.

KLAW has started the year well with a healthy order book. During 2002 KLAW developed new products and also acquired the EU stamp. The new products, together with the existing product range, are expected to produce increased sales and new personnel are being employed to increase market penetration.

### Dividend

In accordance with its commitment to return cash to shareholders at the earliest opportunity the Board is recommending a final cash dividend of 0.5p per share (2001: 0.25p per share). Combined with an interim dividend of 0.12p, this makes a total dividend of 0.62p per share (2001: 0.36p per share) for the year, representing an increase of 72.2%. Subject to approval at the AGM, the final dividend will be paid on 21 May 2003 to shareholders on the register at the close of business on 22 April 2003.

### Current Trading

The Board is pleased with the progress which has been made and which can be anticipated in implementation of the new strategy. £4.19 million cash has already been raised from the sale of four of the six quoted investments. The cost base has been reduced and in this context I am particularly grateful for the assistance of the staff at Cavendish Administration, the new Company Secretary, whose advice has been invaluable on a number of technical and commercial issues. I would also like to thank the directors and staff of Gall Thomson for their continuing efforts and dedication, which has resulted in another record year. Clearly, the sale of Gall Thomson remains the single most important factor in achieving value for shareholders and PVML has approached this task in a methodical and committed way.

Konrad Legg

Chairman



## DIRECTORS' REPORT

The directors present their annual report and the Group accounts for the year ended 31 December 2002.

### PRINCIPAL ACTIVITIES, REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

Prior to 28 November 2002, the principal activity of the Group was to invest in, or acquire, small and medium sized public companies. The Company resolved at the Extraordinary General Meeting on 28 November 2002 to elect a new Board of Directors, with a mandate to sell the Company's investments and return the proceeds to shareholders.

The statement by the Chairman set out on pages 3 to 7 contains details of the progress of the Group during the year together with an indication of future developments.

### RESULTS AND DIVIDENDS

The Group loss for the year after taxation amounted to £1,512,000 (2001: loss £255,000). The directors are recommending the payment of a final dividend of 0.50p per share (2001: 0.25 pence per share) absorbing £853,000. The aggregate ordinary dividend for the year amounts to 0.62p per share (2001: 0.36p per share).

### PURCHASE OF OWN SHARES

A resolution is to be proposed at the Annual General Meeting to give the Company power to purchase in the market up to 14.99% of its own shares. This is item 6 in the Notice of Meeting. This will provide one possible means of returning cash to shareholders.

### ISSUE OF OWN SHARES FOR CASH

The Directors recommend that their powers to issue shares for cash, granted at the last Annual General Meeting, be renewed, enabling them to issue a limited number of Ordinary Shares (representing up to 5% of the current issued share capital of the Company) for cash on a non pre-emptive basis. The sole possible reason envisaged at the present time for utilising this power would be to meet any requirement arising from the exercise of share options.

Resolution 7 in the Notice of the Annual General Meeting will, if passed, give the Directors the general power to allot securities up to an aggregate nominal amount of 5% of the issued share capital of the Company at the date of this document.

Resolution 8 will, if passed, empower the Directors to make allotments of shares for cash other than according to the statutory pre-emption rights which require all shares issued for cash to be offered first to all existing shareholders.

### DIRECTORS

The following directors have held office during the year ended 31 December 2002:

#### *Up to 28 November 2002*

Oliver Stocken  
Charles Ryder  
James Orr  
Peter Cawdron  
Peter So

#### *From 28 November 2002*

Konrad Legg (Chairman)  
Frederic Hoad  
Roland Tate

**Konrad Legg** (aged 58) is a non-executive director of various listed companies, including Rowe Evans Investments PLC and Willington PLC. He spent the majority of his career building up

## DIRECTORS' REPORT

CONTINUED

Plantation & General Investments PLC, a tropical agriculture company, which he left in 1997. He has experience of dealing with the requirements of listed companies and with smaller industrial and trading companies (both as director and part owner).

Frederic Hoad (aged 63) is currently a non-executive director of a number of private companies and Aviva plc subsidiaries. Before his retirement in 1996, he spent 28 years at Commercial Union, where, amongst a number of senior positions, he was head of Corporate Finance, head of Overseas Division Finance and head of Private Equity Investment.

Roland Tate (aged 46) is Director of Corporate Finance at RMT, a regional independent firm of business advisers based in Newcastle. After a period working in the oil and gas sector, he spent eight years as an executive and director at three private equity investment organisations and was appointed a non-executive director of several venture capital backed businesses. In 1997 he became a corporate financier, working at PricewaterhouseCoopers and subsequently KPMG as a Corporate Finance Director, where he gained considerable experience in mergers and acquisitions.

The present 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.

The directors' interests in the share capital (all beneficially held) of the Company were as follows:

	At 31 December	
	2002	2001
	Ordinary shares	Ordinary shares
Konrad Legg	200,000	—
Frederic Hoad	—	—
Roland Tate	1,000	—

There have been no movements in the above directors' interests in the period from the year end to the date of this report.

### MANAGEMENT

The Board has contracted to Progressive Value Management Limited ("the Manager"), with effect from 28 November 2002, the executive function of disposing of Gall Thomson and of the Group's investments.

The Manager, which is regulated by the Financial Services Authority, is appointed under a contract for an initial period of 15 months and thereafter subject to 3 months notice. It is entitled to remuneration comprising a basic fee of £260,000 per year and, in appropriate circumstances, realisation fees and an equity appreciation fee.

The realisation fee is payable in arrears at the rate of 1% of the cash returned to shareholders (whether as capital or income) in the previous complete calendar month for each calendar month up to and including November 2003. The equity appreciation fee will be calculated on 28 February 2004 provided all investments have been sold or, if earlier, when the Company goes into liquidation or if the management agreement is terminated for any reason other than a breach by the Manager. The fee is 10% of any "Equity Appreciation per Share" multiplied by the number of Ordinary Shares in issue at that time. The Equity Appreciation per Share is the amount, if any, by which the aggregate of cash returned to shareholders, whether as capital or income, and the final Net Asset Value (both per share) exceed 6p.

## DIRECTORS' REPORT

CONTINUED

### COMPANY SECRETARY AND ADMINISTRATOR

Cavendish Administration Limited ("Cavendish") was appointed secretary of the Company, with responsibility for all administrative matters, on 28 November 2002. Cavendish is appointed under a contract for an initial period of 15 months and subject thereafter to 3 months notice and receives a fee of £35,000 per year, plus one-twentieth of any realisation fee paid to the Manager.

### SUBSTANTIAL SHAREHOLDERS

At the date of this report the Company had been notified of, or had identified, the following interests comprising 3% or more of its issued share capital:

	<i>Ordinary shares</i>	<i>%</i>
Schroder Investment Management Limited	13,716,666	8.0
Discovery Trust plc (ISIS Asset Management)	12,920,906	7.6
Insight Investments	11,819,518	6.9
Undervalued Assets Trust plc	7,366,133	4.3

### 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 28 days.

### SAFETY, HEALTH AND THE ENVIRONMENT

The Company's subsidiary, Gall Thomson Environmental Limited, is committed to reducing any adverse environmental impacts from any of its operations and to incorporating the principles of sustainable development.

### 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 and in normal circumstances they would continue to adopt the going concern basis in preparing the accounts.

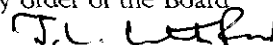
The Group accounts consolidate the results of Gall Thomson Environmental Limited and KLAW Products Limited, which have been prepared on a going concern basis. However, given the stated objective of the new Board to realise the investments, minimise central costs and return cash to all shareholders, the Group's other assets have been included on an "orderly realisation" basis. This basis differs from a going concern basis in that the investments are valued at closing mid-market values at 31 December 2002 or subsequent disposal proceeds rather than at their strategic value and in that additional provisions and accruals have been made to reflect the realisable value of fixed assets and the costs incurred to minimise ongoing central costs.

### AUDITORS

A resolution to reappoint Ernst & Young LLP as the Company's auditor will be put to the members at the Annual General Meeting.

7 April 2003

By order of the Board



Cavendish Administration Limited  
*Company Secretary*

## CORPORATE GOVERNANCE

The directors acknowledge the importance of the Principles set out in The Combined Code issued by the Committee on Corporate Governance and have put in place a framework for corporate governance which it believes is appropriate for the Company, as follows:

### THE BOARD OF DIRECTORS

The Board now comprises a non-executive Chairman and two independent non-executive directors. The composition of the Board is such that it is not considered necessary to nominate a senior non-executive director other than the Chairman.

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. 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, Cavendish Administration Limited, 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.

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 opportunity thereafter.

### BOARD COMMITTEES

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

The Audit and Corporate Governance Committee meets at least twice a year and considers the appointment and fees of the external auditors and discusses the scope of the audit and its findings. The Committee is also responsible for monitoring compliance with accounting and legal requirements and for reviewing the annual and interim financial statements.

The Remuneration Committee considers and approves the remuneration and benefits (if any) of the directors. The Report on Directors' Remuneration is set out on pages 13-15. The Committee also determines the remuneration of the directors of Gall Thomson and of the service providers contracted to perform executive functions for the Group.

The Nominations Committee identifies and nominates candidates for the office of director of the Company. It meets as and when required.

### 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.

Procedures have been developed to safeguard assets against unauthorised use or disposition and to maintain proper accounting records to provide reliable financial information both for internal use and for publication. In accordance with the guidance of the Turnbull Committee on internal control, the procedures are regularly reviewed in the light of an ongoing process to identify, evaluate and manage the significant risks faced by the Company. The procedures are designed to manage rather than eliminate

# CORPORATE GOVERNANCE

CONTINUED

risk and can only provide reasonable and not absolute assurance against material misstatement or loss.

Since 28 November 2002 the Board has contractually delegated to external agencies the central investment management and central accounting and company secretarial requirements of the Group. Each of these contracts was entered into after full and proper consideration of the quality and cost of services offered.

The Board is informed of the internal control framework established by the manager and the administrator to provide reasonable assurance on the effectiveness of internal financial controls.

Whilst a rigorous process of risk assessment is undertaken when maintaining an investment, the Group's internal control procedures cannot extend to internal matters at the Group's investee companies where these companies are not subsidiaries.

## 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. Details of resolutions to be proposed at the Annual General Meeting on 14 May 2003 can be found in the Notice of the Meeting on page 34.

## 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 and the guidance of the Turnbull Committee throughout the year to 31 December 2002, except as follows:

the directors have letters of appointment that have no specific term, however, all directors are subject to re-election at a minimum interval of three years;

there is no senior non-executive director, since in the opinion of the Board the Board's structure, comprising only three independent non-executives, is such that the identification of a senior non-executive other than the Chairman is not required.

## DIRECTORS' RESPONSIBILITIES FOR THE ACCOUNTS

Company law requires the directors to prepare accounts 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 accounts, 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 accounts.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the accounts 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 accounts.

## REPORT ON DIRECTORS' REMUNERATION

*Information not subject to audit*

### REMUNERATION COMMITTEE AND ADVISERS

As explained on page 11, the Remuneration Committee of the Board comprises all independent non-executive directors of the Company and therefore currently comprises the complete Board. It is responsible for determining and reviewing the terms of appointment and the remuneration of the directors of the Company. The Remuneration Committee may utilise independent advice when it considers it appropriate. During the year ended 31 December 2002 discussions were held with the Company's solicitor with regard to the incentive schemes.

### REMUNERATION POLICY

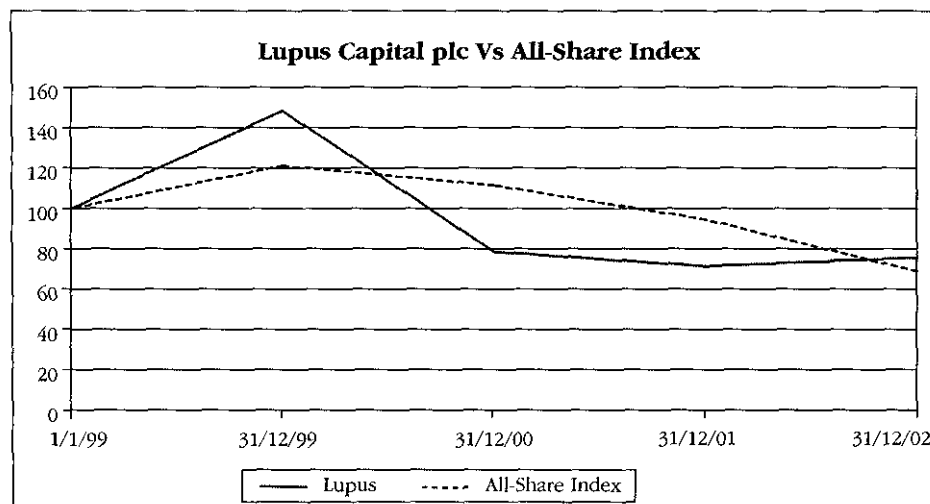
The remuneration policy since 28 November 2002 and for the year commenced on 1 January 2003 is to pay only such moderate fees as are commensurate with the Company's policy of carrying out an orderly disposal of assets. A director may receive an additional moderate payment if, in the opinion of the Remuneration Committee, he makes a particular additional contribution to that process.

### SERVICE AGREEMENTS

The 12-month rolling service contracts of Charles Ryder and James Orr were terminated by agreement on 31 December 2002.

No current director has a service contract with the Company. They have letters of appointment which do not state any specific term; however, they are subject to re-election by shareholders at a maximum interval of three years.

### PERFORMANCE



## REPORT ON DIRECTORS' REMUNERATION

CONTINUED

### *Information subject to audit*

#### REMUNERATION - CURRENT DIRECTORS

The Chairman is entitled to receive fees of £25,000 per year and the other non-executive directors £15,000 each per year. The fees payable in respect of the year ended 31 December 2002 were as follows:

	Salary and fees	Bonus	Expense allowance	Benefits	Total 2002	Total 2001
	£	£	£	£	£	£
Konrad Legg	2,083	—	—	—	2,083	—
Frederic Hoad	1,250	—	—	—	1,250	—
Roland Tate	1,250	—	—	—	1,250	—
Total	<u>4,583</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,583</u>	<u>—</u>

The fees of Mr Legg are payable to Tudeley Holdings Limited, those of Mr Hoad to Hoad & Co (Consultants) Limited and those of Mr Tate to RMT.

Having been set in the immediate past, the level of fees is not considered by the Remuneration Committee to require any adjustment at the present time.

#### REMUNERATION - FORMER DIRECTORS

Under the terms of their service contracts with the Company, the former directors were entitled to receive 12 months' payment in lieu of notice. However, these service contracts were set aside and, by their agreements with the Company dated 8 January 2003, Mr Ryder agreed to accept £93,770 and Mr Orr £94,064 (plus in both cases £24,000 paid to their pension funds) in full settlement of their claims upon the Company. These amounts have been provided in the accounts for the year ended 31 December 2002 and paid during January-March 2003.

	Salary and fees	Termin- ation payments	Bonus	Benefits	Pension contribu- tions	Total 2002	Total 2001
	£	£	£	£	£	£	£
<b>Executives</b>							
Charles Ryder	126,000	93,770	—	20,224	55,500	295,494	206,158
James Orr	126,000	94,064	—	15,982	55,500	291,546	203,038
<b>Non-executives</b>							
Oliver Stocken	18,178	—	—	—	—	18,178	20,000
Peter Cawdron	13,750	—	—	—	—	13,750	15,000
Peter So	13,750	—	—	—	—	13,750	15,000
Total 2002	<u>297,678</u>	<u>187,834</u>	<u>—</u>	<u>36,206</u>	<u>111,000</u>	<u>632,718</u>	<u>n/a</u>
Total 2001	<u>302,000</u>	<u>—</u>	<u>56,758</u>	<u>37,438</u>	<u>63,000</u>	<u>n/a</u>	<u>459,196</u>

## REPORT ON DIRECTORS' REMUNERATION

CONTINUED

The value of benefits received during the year relates principally to the provision of company cars, life assurance and medical expenses cover.

### SHARE OPTIONS

No current director holds any share options and it is no longer the policy of the Board to issue share options.

At 31 December 2002 options to subscribe for ordinary shares were outstanding in respect of the former directors as follows:

	<i>At 31 December 2001</i>	Number granted	Number exercised	<i>At 31 December 2002</i>	Exercise price	Date from which exercis- able	Expiry date
Charles Ryder	1,075,000	—	—	1,075,000	11.0p	20.04.01	19.10.06
	913,705	—	—	913,705	9.85p	10.11.01	9.05.07
	400,000	—	—	400,000	6.0p	26.09.02	25.03.08
James Orr	1,075,000	—	—	1,075,000	11.0p	20.04.01	19.10.06
	913,705	—	—	913,705	9.85p	10.11.01	9.05.07
	400,000	—	—	400,000	6.0p	26.09.02	25.03.08

The closing mid-market price of the Company's shares on 31 December 2002 was 6.75p per share and the high and low prices during the year were 7.38p and 4.50p respectively.

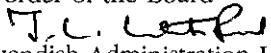
### LONG TERM INCENTIVE SCHEMES

There are no long term incentive schemes in effect in respect of any current director and it is no longer the policy of the Board to establish such schemes.

### PENSIONS

Pension contributions were paid on a money purchase basis towards the personal pension arrangements of the former executive directors. These arrangements were discontinued under the terms of the agreements dated 8 January 2003, except in respect of the final payments described above. There are no defined benefit pension entitlements. No pension payments are made in respect of the current directors.

By order of the Board

  
Cavendish Administration Limited  
Company Secretary



## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF LUPUS CAPITAL plc

We have audited the Group's accounts for the year ended 31 December 2002, which comprise the group profit and loss account, group statement of total recognised gains and losses, group balance sheet, company balance sheet, group cash flow statement, reconciliation of group shareholders' funds and the related notes 1 to 24. These accounts have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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 auditor's 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 are responsible for preparing the Annual Report, including the accounts which are required to be prepared in accordance with applicable United Kingdom law and accounting standards, as set out in the statement of directors' responsibilities in relation to the accounts.

Our responsibility is to audit the accounts and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the part of the Directors' Remuneration Report to be audited are properly prepared in accordance with the Companies Act 1985. 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 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 reflects the company's compliance with the seven provisions of The Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises the directors' report, unaudited part of the Directors' Remuneration Report, Chairman's Statement and the corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

# INDEPENDENT AUDITORS' REPORT

CONTINUED

## BASIS OF AUDIT OPINION

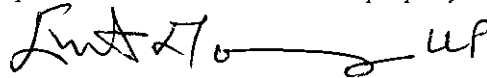
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments 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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

## 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 2002 and of the loss of the Group for the year then ended and the accounts and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

7 April 2003



Ernst & Young LLP

*Registered Auditor*

London

# GROUP PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2002

Note	2002 £000	2001 £000
TURNOVER		
2 Continuing operations	6,638	5,341
Cost of sales	(1,935)	(1,577)
GROSS PROFIT	4,703	3,764
2 Administrative expenses – excluding goodwill amortisation and exceptional items	(2,679)	(2,209)
2 Administrative expenses – exceptional items	(1,148)	—
2 Administrative expenses – goodwill amortisation	(741)	(741)
Administrative expenses	(4,568)	(2,950)
Other operating income	—	13
2 OPERATING PROFIT – Continuing operations	135	827
Profit on disposal of fixed asset investments	213	718
Income from investments	273	299
Amounts written off fixed asset investments	(1,595)	(1,425)
4 Interest receivable and similar income	155	149
5 Interest payable and similar charges	(542)	(455)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	(1,361)	113
6 Taxation	(151)	(368)
LOSS ON ORDINARY ACTIVITIES FOR THE YEAR	(1,512)	(255)
8 Ordinary dividends	(1,058)	(612)
RETAINED LOSS FOR THE FINANCIAL YEAR	(2,570)	(867)
9 Loss per share	(0.89)p	(0.15)p
Earnings before exceptional items		
9 and goodwill amortisation per share	0.22p	0.29p

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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

# GROUP BALANCE SHEET

AT 31 DECEMBER 2002

Note		2002	2001
	£000	£000	£000
	FIXED ASSETS		
10	Intangible assets	12,161	12,902
11	Tangible assets	463	565
12	Investments	3,822	7,185
		<u>16,446</u>	<u>20,652</u>
	CURRENT ASSETS		
13	Stocks and work-in-progress	200	172
14	Debtors	2,096	2,021
		<u>2,296</u>	<u>2,193</u>
15	CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	(6,693)	(8,254)
	NET CURRENT LIABILITIES	(4,397)	(6,061)
	TOTAL ASSETS LESS CURRENT LIABILITIES	12,049	14,591
16	CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	(80)	(77)
	NET ASSETS	<u>11,969</u>	<u>14,514</u>
	CAPITAL AND RESERVES		
19	Called up share capital	853	851
20	Share premium account	4,441	4,418
20	Merger reserve	10,389	10,389
20	Profit and loss account	(3,714)	(1,144)
	EQUITY SHAREHOLDERS' FUNDS	<u>11,969</u>	<u>14,514</u>

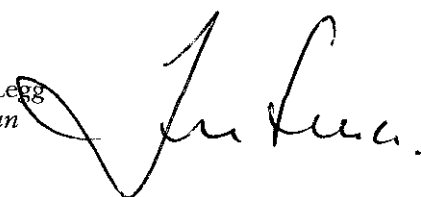
# COMPANY BALANCE SHEET

AT 31 DECEMBER 2002

Note		2002	2001
	£000	£000	£000
	FIXED ASSETS		
12	Investments	8,711	8,711
	CURRENT ASSETS		
14	Debtors	13,675	16,083
	Cash at bank and in hand	1,064	1,514
		14,739	17,597
15	CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	(879)	(510)
	NET CURRENT ASSETS	13,860	17,087
	TOTAL ASSETS LESS CURRENT LIABILITIES	22,571	25,798
16	CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	(7,876)	(7,876)
	NET ASSETS	14,695	17,922
	CAPITAL AND RESERVES		
19	Called up share capital	853	851
20	Share premium account	4,441	4,418
20	Merger reserve	8,920	10,389
20	Profit and loss account	481	2,264
	EQUITY SHAREHOLDERS' FUNDS	14,695	17,922

The financial statements were approved by the Board on 7 April 2003.

Konrad Legg  
Chairman



# GROUP STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2002

Note		2002	2001
	£000	£000	£000
21(a)	NET CASH INFLOW FROM OPERATING ACTIVITIES	2,112	875
	RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
	Interest received	155	149
	Interest paid	(531)	(418)
	Dividends received	258	299
		(118)	30
	TAXATION		
	UK corporation tax paid	(544)	(367)
	CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
	Sale of tangible fixed assets	—	3
	Purchase of tangible fixed assets	(16)	(48)
	Sale of fixed asset investments	3,051	3,230
	Purchase of fixed asset investments	(1,070)	(6,845)
	Sale of current asset investments	—	298
	Purchase of current asset investments	—	(425)
		1,965	(3,787)
	EQUITY DIVIDEND PAID	(630)	(569)
	NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING	2,785	(3,818)
	FINANCING		
19	Issue of shares net of costs	25	25
21(b)	INCREASE/(DECREASE) IN CASH	2,810	(3,793)

## RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

FOR THE YEAR ENDED 31 DECEMBER 2002

Note	2002 £000	2001 £000
Increase/(decrease) in cash	2,810	(3,793)
Change in net debt from cash flows	2,810	(3,793)
Net debt at 1 January	(6,637)	(2,844)
21(b) Net debt at 31 December	(3,827)	(6,637)

## RECONCILIATION OF SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER 2002

	2002 £000	2001 £000
Loss for the financial year	(1,512)	(255)
Net movement on share issues	25	25
Dividends paid and proposed on equity shares	(1,058)	(612)
	(2,545)	(842)
Opening shareholders' funds	14,514	15,356
Closing shareholders' funds	11,969	14,514

## NOTES TO THE ACCOUNTS

### 1. ACCOUNTING POLICIES

#### 1.1 Accounting convention

The accounts have been prepared in accordance with applicable accounting standards under the historical cost convention.

The Group accounts consolidate the results of Gall Thomson Environmental Limited and KLAW Products Limited, which have been prepared on a going concern basis. In view of the stated objective of the new Board to realise the investments, minimise central costs and return cash to all shareholders, the Group's other assets have been included on an "orderly realisation" basis. This basis differs from a going concern basis in that the investments are valued at actual disposal prices achieved after 31 December 2002 or at closing mid-market values at 31 December 2002 rather than at their strategic value and in that additional provisions and accruals have been made to reflect the realisable value of fixed assets and the costs incurred to minimise ongoing central costs.

The Company accounts have been prepared on an "orderly realisation" basis for the reason stated above.

In the previous year, both the Group and Company were prepared on a going concern basis.

#### 1.2 Basis of consolidation

The Group accounts consolidate those of the Company and its subsidiary undertakings (see note 12) drawn up to 31 December each year.

#### 1.3 Goodwill

Goodwill arising on consolidation, representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired is capitalised and amortised over its useful economic life of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

#### 1.4 Turnover

Turnover represents the value of work done for customers during the year excluding VAT.

#### 1.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided on all assets except freehold land at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis over its expected useful life, at the following annual rates:

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

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

#### 1.6 Leasing

Rentals payable under operating leases 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 listed companies. These are stated at closing mid-market values at 31 December 2002 or at actual disposal prices achieved after 31 December 2002. In the previous year, they were stated at cost less any permanent diminution in 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.

#### 1.9 Pensions

The Company made contributions towards the personal pension arrangements of directors and employees. Contributions paid during the year were charged to the profit and loss account.

#### 1.10 Deferred taxation

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



# NOTES TO THE ACCOUNTS

CONTINUED

## 1.10 Deferred taxation (continued)

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

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

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

## 1.11 Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

## 2. TURNOVER AND OPERATING PROFIT

Turnover is attributable to the operations of Gall Thomson, all of which are based in the United Kingdom, and is related to oil services. Other operating income includes realised profits on disposals of current asset investments.

	2002 Excluding exceptional items £000	2002 Exceptional items £000	2002 Total operations £000	2001 Total operations £000
Turnover	6,638	—	6,638	5,341
Cost of sales	(1,935)	—	(1,935)	(1,577)
Gross profit	4,703	—	4,703	3,764
Administrative expenses including goodwill Amortisation	(3,420)	(1,148)	(4,568)	(2,950)
Other operating income: Gain on disposal of current asset investments	—	—	—	13
Operating profit	1,283	(1,148)	135	827
Add back: goodwill amortisation	741	—	741	741
Operating profit before goodwill amortisation	2,024	(1,148)	876	1,568

The exceptional items relate to the change in strategic direction of the Company, and consist of EGM costs of £202,000, provision for termination of property leases of £325,000, other lease and contract termination costs of £94,000, legal costs £28,000 and costs of terminating employment contracts £499,000.

### Turnover by destination

	2002 £000	2001 £000
United Kingdom	1,517	744
Other European countries	2,117	1,479
North America	403	888
South America	807	95
Africa	445	385
Middle East	73	751
Asia Pacific	1,202	999
Scandinavia	74	—
Total	6,638	5,341

# NOTES TO THE ACCOUNTS

CONTINUED

Operating profit is stated after charging

	2002 £000	2001 £000
Depreciation of tangible assets – owned assets	74	86
Amortisation of goodwill	741	741
Operating lease rentals – land and buildings	221	190
Operating lease rentals – other	32	31
Auditors' remuneration – audit services	39	41
Auditors' remuneration – other services	47	77
Foreign exchange loss	23	—

## Segmental analysis

Although the group has one activity, that of investment in small and medium sized public companies, it is obliged to consolidate the results of its 100% investment in Gall Thomson, a company engaged in oil services activities. The following analysis provides a segmental analysis of turnover, profits and net assets.

	Investment activities 2002 £000	Oil services 2002 £000	Investment activities 2001 £000	Oil services 2001 £000	Total 2002 £000	Total 2001 £000
Group turnover	—	6,638	—	5,341	6,638	5,341
<b>Profit</b>						
Segment (loss)/profit:	(72)	3,385	255	2,712	3,313	2,967
Group overheads					(1,289)	(1,399)
Exceptional group overheads					(1,148)	—
Goodwill amortisation					(741)	(741)
Operating profit					135	827
Profit on disposal of fixed asset investments	213		718		213	718
Amounts written off fixed asset investments	(1,595)		(1,425)		(1,595)	(1,425)
Dividend income	273		299		273	299
	(1,181)		(153)			
Net interest					(387)	(306)
(Loss)/profit before tax					(1,361)	113
	Investment activities 2002 £000	Oil services 2002 £000	Investment activities 2001 £000	Oil services 2001 £000	Total 2002 £000	Total 2001 £000
<b>Net assets</b>						
Segment analysis	3,927	13,455	7,215	14,416	17,382	21,631
Group borrowings					(3,827)	(6,637)
Proposed dividend					(853)	(425)
Unallocated head office net liabilities					(733)	(55)
Total net assets					11,969	14,514

# NOTES TO THE ACCOUNTS

CONTINUED

## 3. EMPLOYEES

### Number of employees

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

	2002 Number	2001 Number
Administration	19	22
Operations	16	11
	<u>35</u>	<u>33</u>

### Employment costs

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

	2002 £000	2001 £000
Wages and salaries	1,902	1,552
Redundancy costs	491	—
Social Security costs	212	170
Other pension costs	195	199
	<u>2,800</u>	<u>1,921</u>

Details for each director of remuneration, pension entitlement and interest in share options are set out on pages 13 to 15.

## 4. INTEREST RECEIVABLE AND SIMILAR INCOME

	2002 £000	2001 £000
Bank interest receivable	<u>155</u>	<u>149</u>

## 5. INTEREST PAYABLE

	2002 £000	2001 £000
On bank loans and overdrafts	<u>542</u>	<u>455</u>

## 6. TAXATION

(a) Analysis of charge in year:

	2002 £000	2001 £000
Taxation based on the result for the year:		
UK Corporation tax on income for the year	175	410
Adjustment in respect of prior year	(24)	(42)
	<u>151</u>	<u>368</u>

# NOTES TO THE ACCOUNTS

CONTINUED

(b) Factors affecting tax charge for the year:

	2002 £000	2001 £000
(Loss)/profit on ordinary activities before taxation	(1,361)	113
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	(408)	34
Effects of:		
Expenses not deductible for tax purposes:		
Increase in provision against listed investments	478	428
Goodwill amortisation	222	222
Dividends received	(82)	(90)
Accounting profit on disposal of chargeable assets	—	(215)
Other items	29	69
Capital allowances in arrears/(in advance) of depreciation	6	(17)
Utilisation of tax losses	(64)	(217)
Marginal rate relief	(6)	—
Adjustments to tax charge in respect of previous periods	(24)	(42)
Capital gains	—	196
<b>Current tax for the year</b>	<b>151</b>	<b>368</b>

(c) Factors affecting future tax charges:

There are excess tax losses of £4,324,000 (2001: £5,586,000) within the Group which will be available for relief against future taxable profits of the Group. In accordance with the Group's accounting policy, no deferred tax asset has been recognised.

The amounts not recognised are as follows:

	2002 £000	2001 £000
Depreciation in advance of capital allowances	(6)	(7)
Tax losses	(1,297)	(1,676)
Capital losses	(1,062)	(884)
Other short term timing differences	(14)	—
	<b>(2,379)</b>	<b>(2,567)</b>

## 7. LOSS 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 £2,194,000 (2001: *profit* £352,000).

## 8. DIVIDENDS

	2002 £000	2001 £000
Ordinary dividend:		
Proposed equity dividend at 0.5p per share (2001: 0.25p)	853	425
Interim equity dividend at 0.12p per share (2001: 0.11p)	205	187
	<b>1,058</b>	<b>612</b>

## 9. LOSS PER SHARE

The calculation of basic loss 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 170,302,702 ordinary shares of 0.5p. (2001: *weighted average* 169,827,998).

There is no dilutive impact from share options as the exercise prices are above the average market price during the year. An additional EPS figure is provided to show the earnings before exceptional items and goodwill amortisation per share, the calculation of which is based on the loss after taxation for the financial year adjusted for the exceptional administrative expenses of £1,148,000 and the goodwill amortisation charge of £741,000 (2001: *£nil and* £741,000 *respectively*) and on the weighted average number of shares in issue during the year of 170,302,702 ordinary shares of 0.5p (2001: *weighted average* 169,827,998).

# NOTES TO THE ACCOUNTS

CONTINUED

## 10. INTANGIBLE FIXED ASSETS

Intangible fixed assets comprise goodwill arising on consolidation of Gall Thomson and Octroi Group, which were acquired during 1999.

	Goodwill arising on consolidation £000
<b>Cost</b>	
At 1 January 2002 and at 31 December 2002	14,393
<b>Amortisation</b>	
At 1 January 2002	1,491
Charge for the year	741
At 31 December 2002	2,232
<b>Net book value</b>	
At 31 December 2002	12,161
At 1 January 2002	12,902

## 11. TANGIBLE FIXED ASSETS

### Group

	Freehold land and buildings £000	Plant and machinery £000	Motor vehicles £000	Leasehold improvements, fixtures and fittings £000	Total £000
<b>Cost</b>					
At 1 January 2002	207	366	8	102	683
Additions	—	13	—	3	16
Disposals	—	(3)	—	—	(3)
At 31 December 2002	207	376	8	105	696
<b>Depreciation</b>					
At 1 January 2002	23	59	5	31	118
Charge for the year	6	43	3	22	74
Elimination on disposals	—	(3)	—	—	(3)
Provision against carrying values	—	27	—	17	44
At 31 December 2002	29	126	8	70	233
<b>Net book value</b>					
At 31 December 2002	178	250	—	35	463
At 1 January 2002	184	307	3	71	565

Following the change in management control and strategic direction after the EGM on 28 November 2002, the former head office at 85 Buckingham Gate, London has been closed. Subsequent to the year end, certain assets at the head office have been disposed of. A provision has been made to reflect the shortfall between realised amounts and book values.

# NOTES TO THE ACCOUNTS

CONTINUED

## 12. FIXED ASSET INVESTMENTS

	Group Listed Investments £000	Company Investments in subsidiaries £000
<b>Cost</b>		
At 1 January 2002	8,610	8,711
Additions	1,070	—
Disposals	(2,838)	—
<b>At 31 December 2002</b>	<b>6,842</b>	<b>8,711</b>
<b>Provisions</b>		
At 1 January 2002	1,425	—
Charge for the year	1,595	—
<b>At 31 December 2002</b>	<b>3,020</b>	<b>—</b>
<b>Net book value</b>		
<b>At 31 December 2002</b>	<b>3,822</b>	<b>8,711</b>
At 1 January 2002	7,185	8,711

The listed investments relate to sundry investments in public companies listed on the London Stock Exchange. The investments at 31 December 2002 include 10.08% of the issued ordinary share capital of European Colour plc, 13.57% of Armitage Brothers plc and 13.12% of Shiloh plc. No other investment represents more than 2.99% of the share capital of the company concerned. Following the change in management control and strategic direction of the group after the EGM held on 28 November 2002, the Company's fixed asset investments are to be liquidated and, accordingly, a provision has been made to value the investments at mid-market value on 31 December 2002, or at their actual disposal prices after 31 December 2002, rather than their medium term strategic value.

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.

### Investments in subsidiaries

Details of the principal investments in which the Group and the Company (unless indicated) holds 20% or more of the nominal value of any class of share capital are as follows:

	Class of shares	Proportion held	Nature of business
Gall Thomson Environmental Limited*	Ordinary	100%	Oil services
Octroi Group Limited	Ordinary	100%	Investment company
Lupus Equities Limited	Ordinary	100%	Investment trading company
Lupus Capital Management Limited	Ordinary	100%	Management services
KLAW Products Limited*	Ordinary	100%	Industrial couplings

\*held by a subsidiary

# NOTES TO THE ACCOUNTS

CONTINUED

## 13. STOCKS AND WORK-IN-PROGRESS

### Group

	2002 £000	2001 £000
Raw materials and consumables	93	95
Work-in-progress	100	70
Finished goods	7	7
	<u>200</u>	<u>172</u>

## 14. DEBTORS

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
Trade debtors	1,608	1,753	—	—
Amounts due from subsidiary undertakings	—	—	13,609	16,000
Corporation tax recoverable	175	—	—	—
Other debtors	107	135	66	83
Dividends receivable	56	41	—	—
Prepayments and accrued income	150	92	—	—
	<u>2,096</u>	<u>2,021</u>	<u>13,675</u>	<u>16,083</u>

## 15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
Bank overdrafts	3,827	6,637	—	—
Trade creditors	353	229	—	—
Amounts owed to group undertakings	—	—	26	85
Corporation tax	—	218	—	—
Other taxes and social security costs	72	89	—	—
Proposed dividend	853	425	853	425
Other creditors	2	125	—	—
Accruals and deferred income	1,586	531	—	—
	<u>6,693</u>	<u>8,254</u>	<u>879</u>	<u>510</u>

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

## 16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
Other creditors	80	77	—	—
Loan notes owed to group undertakings	—	—	7,876	7,876
	<u>80</u>	<u>77</u>	<u>7,876</u>	<u>7,876</u>

## 17. BORROWINGS

The Group's £8 million overdraft facility was increased to £10 million on 1 July 2002. This facility was reduced to £6 million with effect from 1 January 2003, following the disposal of the Group's investment in Castings plc.

## NOTES TO THE ACCOUNTS

CONTINUED

### 18. FINANCIAL INSTRUMENTS: RISK PROFILE

The Group's principal financial instruments comprise bank loans, cash and short-term deposits and current asset listed investments. The main purpose of these financial 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 other than current asset listed investments 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 2000. The disclosures below exclude short-term debtors and creditors.

#### 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. Throughout the year, the Group's policy has been to maintain short-term, flexible borrowing arrangements. A periodic review of the Group's medium-term requirements is undertaken to ensure that an appropriate mixture of term borrowing and overdraft facilities is secured to match the Group's strategic objectives.

#### Interest rate risk of financial liabilities

The Group has an overdraft facility, as described in note 17. The balance outstanding at 31 December 2002 was £3,827,000. Interest is payable at a rate 1.5% over the bank's base rate.

#### Interest rate risk of financial assets

The Group periodically reviews its exposure to interest rate fluctuations.

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 £000
2002	
Assets denominated in Sterling	3,822
	<u>3,822</u>
2001	
Assets denominated in Sterling	7,185
	<u>7,185</u>

The financial assets on which no interest is earned comprise quoted investments in equity shares that neither pay interest nor have a maturity date. The fair value of the quoted investments within financial assets on which no interest is earned was £3,804,000 in respect of fixed asset investments (2001: £6,580,000 in respect of fixed asset investments). The net gain from trading in current asset investments that has been included in the profit and loss account during the year is £nil (2001: £13,000).



# NOTES TO THE ACCOUNTS

CONTINUED

## 19. SHARE CAPITAL

	Company	
	2002	2001
	£000	£000
<b>Authorised:</b>		
300,000,000 (2001: 210,000,000)		
Ordinary shares of 0.5 pence each	1,500	1,050
<b>Allotted, called up and fully paid:</b>		
170,523,085 (2001: 170,083,271)		
Ordinary shares of 0.5 pence each	853	851
<b>Allotments during the year were as follows:</b>		
	Aggregate nominal value	Consideration
	£000	£000
Allotments to non-executive directors in lieu of fees:		
439,814 (208,333 on 5 April 2002 at 6.0p and 231,481 on 19 September 2002 at 5.4p)		
Ordinary shares of 0.5 pence each	2	25

### Contingent rights to the allotment of shares

At 31 December 2002 options over 3,300,000 ordinary shares which are exercisable between 20 April 2001 and 19 October 2006 at an exercise price of 11p, options over 2,817,256 ordinary shares which are exercisable between 10 November 2001 and 9 May 2007 at an exercise price of 9.85p and options over 2,350,000 ordinary shares which are exercisable between 26 September 2002 and 25 March 2008 at an exercise price of 6.0p were outstanding.

## 20. MOVEMENTS ON RESERVES

### Group

	Share capital £000	Share premium account £000	Merger reserve £000	Profit and loss account £000
At 1 January 2002	851	4,418	10,389	(1,144)
Shares issued net of costs	2	23	—	—
Loss for the year	—	—	—	(1,512)
Dividends	—	—	—	(1,058)
At 31 December 2002	853	4,441	10,389	(3,714)

### Company

	Share capital £000	Share premium account £000	Merger reserve £000	Profit and loss account £000
At 1 January 2002	851	4,418	10,389	2,264
Shares issued net of costs	2	23	—	—
Impairment provision	—	—	(1,469)	1,469
Loss for the year	—	—	—	(2,194)
Dividends	—	—	—	(1,058)
At 31 December 2002	853	4,441	8,920	481

## NOTES TO THE ACCOUNTS

CONTINUED

### 21. NOTES TO THE STATEMENT OF CASH FLOWS

#### (a) Reconciliation of operating profit to net cash inflow from operating activities

	2002 £000	2001 £000
Operating profit	135	827
Depreciation	74	86
Amortisation of goodwill	741	741
Movement in stock and work-in-progress	(28)	5
Movement in debtors	115	(686)
Movement in creditors	1,031	(85)
Profit on disposals of current asset investments	—	(13)
Provision against carrying value of fixed assets	44	—
	<u>2,112</u>	<u>875</u>

#### (b) Analysis of net debt

	1 January 2002 £000	Cash Flow £000	31 December 2002 £000
Overdrafts	(6,637)	2,810	(3,827)
Net debt	<u>(6,637)</u>	<u>2,810</u>	<u>(3,827)</u>

### 22. CONTINGENT LIABILITIES

The Company's banking arrangements include a cross corporate guarantee for bank overdrafts and borrowings of all group undertakings, which are included within set-off arrangements. At 31 December 2002, the Group had overdraft facilities available to it of £10 million, of which £6.173 million was unutilised. On 1 January 2003 the facility was reduced, at the Group's request, to £6.0 million of which £2.173 million was unutilised.

### 23. FINANCIAL COMMITMENTS

At 31 December 2002 the Company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 2002 £000	2001 £000	Other 2002 £000	2001 £000
Expiry date:				
Within one year	—	—	27	22
Between two and five years	—	—	—	2
Over five years	212	191	—	—
	<u>212</u>	<u>191</u>	<u>27</u>	<u>24</u>

### 24. RELATED PARTY TRANSACTIONS

On 28 November 2002, Progressive Value Management Limited was appointed manager and Cavendish Administration Limited was appointed company secretary and administrator. They are related parties of the Company by virtue of these contracts. Fees payable to the manager were £28,833 and to the administrator/company secretary £3,208, both in respect of the period from 28 November 2002 to 31 December 2002. These amounts were outstanding as accruals at 31 December 2002.

The manager is also entitled to realisation fees and an equity appreciation fee, subject to certain conditions.

Marshall Securities Limited, which was invited to become the Company's broker on 29 November 2002, is an associated company of the manager and the administrator/company secretary. No charge was made by Marshall in the year ended 31 December 2002.

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Lupus Capital plc will be held at Crusader House, 145-157 St John Street, London EC1V 4RU on 14 May 2003 at 9.30 a.m., for the following purposes:

### ORDINARY BUSINESS

1. To receive and consider the accounts for the year ended 31 December 2002 together with the reports of the directors and auditors thereon.
2. To declare a final dividend.
3. To reappoint Roland Tate 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 LLP as auditors of the Company and to authorise the directors to set their remuneration.
5. To approve the remuneration policy.

### SPECIAL BUSINESS:

To consider and if thought fit pass the following resolutions, of which numbers 6 and 7 will be proposed as ordinary resolutions and number 8 will be proposed as a special resolution.

6. THAT the Company be and is hereby generally authorised in accordance with section 166 of the Companies Act 1985 ("the Act") to make market purchases (within the meaning of section 163 of the Act) of Ordinary Shares of 0.5p each in the capital of the Company ("Ordinary Shares"), provided that:
  - (a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 14.99% of the number of shares in issue at the date of this document;
  - (b) the minimum price which may be paid for an Ordinary Share is 1p;
  - (c) the maximum price which may be paid for an Ordinary Share is an amount equal to 105 per cent of the average of the middle market quotations for an Ordinary Share taken from the Daily Official List of the UK Listing Authority for the 5 business days immediately preceding the day on which the Ordinary Share is purchased;
  - (d) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2004 or, if earlier, on the expiry of 12 months from the passing of this resolution, unless such authority is varied, revoked or renewed prior to such time, and
  - (e) the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority, which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary Shares pursuant to any such contract.
7. THAT, in substitution for any existing power under section 80 of the Companies Act 1985 ("the Act") but without prejudice to the exercise of any such power prior to the date hereof,

# NOTICE OF ANNUAL GENERAL MEETING

CONTINUED

the directors be and are hereby generally and unconditionally authorised pursuant to and in accordance with Section 80 of the Act to exercise all powers of the Company to allot relevant securities (within the meaning of that Section) up to an aggregate nominal amount of 5% of the aggregate nominal value of the issued share capital as at the date of this document PROVIDED THAT this authority shall expire (unless previously varied, revoked or renewed by the Company in general meeting) 15 months after the date of the passing of this resolution or at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, whichever should first occur, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

8. THAT, subject to the passing of resolution 7 and in substitution for any existing power under Section 95 of the Companies Act 1985 ("the Act") but without prejudice to the exercise of any such power prior to the date hereof, the directors be and are hereby empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of Section 94(2) of the Act) pursuant to the authority and during the period of the authority conferred by resolution 7, wholly for cash up to an aggregate nominal amount of 5% of the aggregate nominal value of the issued share capital as at the date of this document as if Section 89(1) of the Act did not apply to such allotment.

By order of the Board

Cavendish Administration Limited  
Company Secretary  
7 April 2003

Registered Office:  
85 Buckingham Gate  
London SW1E 6PD

## 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, Capita Registrars, PO Box 25, Beckenham, Kent BR3 4BR, 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 at the meeting.
4. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, 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 9.30 a.m. on 12 May 2003 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. The Combined Code (the principles of good governance and code of best practice monitored by the Financial Services Authority) states that the Board should consider whether the shareholders should be invited to approve the policy set out in the report on directors' remuneration. The Board considers it to be appropriate and in line with best practice and shareholders are asked to vote on the policy set out in the report this year. You can find the report on directors' remuneration on page 13.
7. An explanation of resolutions 6, 7 and 8 may be found on page 8.

# FORM OF PROXY

LUPUS CAPITAL PLC

I/We \_\_\_\_\_

of \_\_\_\_\_

(BLOCK CAPITALS PLEASE)

being (a) member(s) of Lupus Capital plc appoint the chairman of the meeting or (*see note 1*)

\_\_\_\_\_

of \_\_\_\_\_

as my/our proxy to attend and vote for me/us and on my/our behalf at the annual general meeting of the Company to be held at Crusader House, 145-157 St John Street, London EC1V 4RU on 14 May 2003 at 9.30 am and at any adjournment thereof.

Please indicate with an X in the spaces provided how you wish your votes to be cast on the resolutions specified.

Resolution		For	Against
1.	To receive and adopt the directors' report, the annual accounts and the auditors' report for the year ended 31 December 2002.		
2.	To declare a final dividend.		
3.	To re-elect Mr Tate as a director.		
4.	To re-appoint Ernst & Young LLP as auditors to the Company and to authorise the directors to set their remuneration.		
5.	To approve the remuneration policy.		
6.	To authorise the Company to purchase its own shares.		
7.	To authorise the directors to allot shares.		
8.	To authorise the directors to allot shares referred to in resolution 7 free from pre-emption rights.		

Subject to any voting instructions so given the proxy will vote, or may abstain from voting, on any resolution as he may think fit.

Signature \_\_\_\_\_ Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2003

## NOTES

1. If you so desire you may delete the words 'chairman of the meeting' and insert the name of your own choice of proxy, who need not be a member of the Company. Please initial such alteration.
2. The proxy form must be lodged at the Company's registrars, Capita IRG Plc, not less than 48 hours before the time fixed for the meeting. In default the proxy cannot be treated as valid.
3. A corporation must execute the proxy under its common seal or under the hand of an officer or attorney duly authorised.
4. If this proxy form is executed under a power of attorney or other authority, such power of attorney or other authority or a notarially certified copy thereof must be lodged with the Registrars with the proxy form.
5. In the case of joint holders the vote of the senior shall be accepted to the exclusion of the other joint holders, seniority being determined by the order in which the names standing the register in respect of the joint holding.



SECOND FOLD

BUSINESS REPLY SERVICES  
Licence No. MB 122



**Capita Registrars (Proxies)**  
**PO Box 25**  
**Beckenham**  
**Kent**  
**BR3 4BR**

FIRST FOLD

THIRD FOLD AND TUCK IN