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Report & Accounts 2001

Lupus Capital plc

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LUPUS

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.

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	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	ING Barings Limited City Place House 55 Basinghall Street London EC2V 5HD	
Legal advisers	Ashurst Morris Crisp Broadwalk House 5 Appold Street London EC2A 2HA	

Strategy

The strategy of Lupus Capital plc ("Lupus" or "the Group") 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 creates 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.

A brief review of the activities of each of Lupus's investments is made in its interim and full year statements, particularly in relation to companies that are wholly-owned. Additionally, each Annual Report and Accounts includes a more detailed description of wholly-owned businesses.

Implementation of strategy

Lupus's strategy is to hold, at any one time, major investments in approximately five companies. Such investments may be wholly-owned or represented by a strategic interest in up to some 25% of the issued share capital of the particular company.

Following the acquisition of Gall Thomson Environmental plc, now Gall Thomson Environmental Limited ("Gall Thomson"), in December 1999, Lupus continued to build up its portfolio of assets during the course of 2000 and 2001 and reached its optimum level of investments, in terms of numbers of companies in which it has a major interest, during the second half of 2001. Lupus is therefore now in a position to pursue the key element of its strategy, the generation of significant returns by providing and, where necessary, implementing strategic plans for these companies, including appropriate exit routes. In line with this strategy, the first realisation of Lupus's portfolio took place in 2001, namely the sale of the stake in Time Products plc as a result of an offer for the company by its management.

In addition to acquiring and divesting the holding in Time Products plc, during 2001 Lupus bought stakes in Shiloh plc, a company with a fast growing portfolio of service and supply businesses in the healthcare sector, and Castings plc, one of Europe's leading ductile and malleable ironfounders. These have supplemented the existing holdings in Armitage Brothers plc and European Colour plc.

2001 was a difficult year in both the commercial and financial markets. Uncertainty created by the evident downturn in the US economy early in the year was greatly exacerbated by the events of 11 September. The result was a very marked slowdown in corporate activity as potential buyers waited for signs of renewed economic activity and stability within the financial markets. Undoubtedly this has had a significant, short-term impact on the speed at which Lupus has been able to realise some of the investments within its portfolio.

Against this adverse climate, Lupus's investments – both Gall Thomson, which is wholly-owned, and those in which the Company has a strategic stake – have performed well or satisfactorily in 2001, with the exception of European Colour. We believe that European Colour was slow to accept the impact of macro changes in the commercial and financial markets over the last few years and that the necessary strategic plans were therefore not put into effect. However, Lupus now believes that the company will address its key strategic issues. In the meantime, the significant fall in its share price means that Lupus has decided to record a provision against its investment in European Colour.

After the uncertainties of the past 12 months, Lupus now believes that the signs are more positive for an upturn in corporate activity and it expects to be involved in a number of realisations in 2002, whilst there are many good opportunities available for subsequent re-investment.

Financial review

In the year to 31 December 2001, Lupus made an operating profit, before goodwill amortisation, of £1.57 million (2000: £1.31 million) on turnover of £5.34 million (2000: continuing operations £4.77 million). After a charge of £741,000 (2000: £750,000) for goodwill amortisation, Lupus made an operating profit in the period of £827,000 (2000: continuing operations £556,000). After an investment gain of £718,000 and an investment provision of £1.43 million (2000: nil), profit before taxation was £113,000 (2000: £527,000).

The net assets of Lupus at 31 December 2001 were £14.51 million (£15.36 million at 31 December 2000) representing 8.53p per share (9.05p per share in 2000). Net debt amounted to £6.64 million (2000: £2.84 million). As at 31 December 2001, listed fixed asset investments totalled £7.19 million (2000: £3.93 million).

Dividends

The Board is recommending a final cash dividend of 0.25p per share (2000: 0.225p). Combined with an interim dividend of 0.11p, this makes a total dividend of 0.36p (2000: 0.325p) per share for the year, representing an increase of 10.8%. Subject to approval at the AGM, the final dividend will be paid on 31 May 2002 to shareholders on the register at the close of business on 10 May 2002.

Gall Thomson

A full description of Gall Thomson's business is set out on page 8 of this report.

Gall Thomson, our only wholly-owned investment, had an outstanding year in 2001, significantly outperforming both budget and the previous year's comparative figures. Although this outstanding result relates very largely to Gall Thomson's main product, marine breakaway couplings, the smaller element of the business, industrial couplings, also did well, particularly in the second half.

In 2001, Gall Thomson recorded sales of £5.34 million (2000: £4.77 million), an increase of 11.9%. Operating profits before corporate costs were £3.01 million (2000: £2.62 million), an increase of 14.9%. Operating profits after corporate costs were £2.71 million (2000: £2.33 million), an increase of 16.3%. Gall Thomson also continues to be highly cash generative.

Gall Thomson continues to provide an excellent service to existing customers, whilst vigorously pursuing new opportunities in markets throughout the world. During 2001, over 85% of Gall Thomson's sales were outside the UK. Marine breakaway couplings were delivered to locations in existing markets such as Egypt, Indonesia, the United Arab Emirates and Venezuela as well as new ones including Bangladesh, Brunei, Iran and Tunisia.

Gall Thomson had a particularly strong year in relation to supplying marine breakaway couplings to facilities operating off Nigeria and Angola. Further significant opportunities remain in this area. Equally, the delivery of marine breakaway couplings to an oil terminal in the Black Sea is seen as confirmation of the development of sales in that region.

Gall Thomson's management team has ensured that this sales growth has been complemented by strict cost control and productivity gains, resulting in further improvements in gross margins.

Lupus believes that there are a number of factors behind Gall Thomson's success. First, in response to the sustained higher level of oil prices, major oil companies are undertaking significantly enhanced programmes of exploration and production in key development areas across all five continents. Secondly, the Gall Thomson marine breakaway coupling is the market leader in its field, to the point of being almost a generic name for marine breakaway couplings. Gall Thomson therefore benefits from the increasing use of techniques of production and shipment which specify the use of marine breakaway couplings. Indeed, a recent independent report has forecast major growth in the use of relevant floating production systems, over the next four years. Thirdly, Lupus believes that there is increasing general demand – and in some cases specific legislative requirement – for environmental safeguards such as marine breakaway couplings.

Environmental protection has become a major concern even in parts of the world which had previously not considered it to be a priority issue. Finally, Lupus believes that the attacks of 11 September in the US followed by the 'war on terror' will significantly accelerate the geographic dispersal of oil exploration and production. This should also stimulate demand for Gall Thomson's products.

Gall Thomson's industrial couplings business, KLAW, had a slow start to the year but saw a particularly strong second half. KLAW has the potential to develop a significantly greater market share in industrial couplings.

Lupus believes that Gall Thomson represents a blueprint for its relationship with wholly-owned businesses, resulting in a pattern of strong growth. In the case of Gall Thomson, Lupus's strategic skills and support have combined well with the outstanding operational capabilities of Gall Thomson's management team. Lupus has provided investment behind a focused strategy. It has also given input on certain strategic financial and commercial matters while adhering to a strict policy of non-interference in operational matters. In the two years to 31 December 2001, since Lupus acquired the company, Gall Thomson's sales have increased by 38.2% to £5.34 million and operating profits by 47.7% to £2.71 million.

Review of investments

Time Products plc ("Time Products")

In March 2001, Lupus announced that it had acquired a stake in Time Products, a distributor of watches and associated products. Time Products's portfolio included ownership of one of the largest middle market watch brands in the UK, Sekonda, as well as the distribution rights to a number of luxury watch names such as Audemars Piguet and Piaget. By 6 April 2001, Lupus had built up a stake of 1,700,000 shares in Time Products, representing 4.1% of the company. Lupus's intention had been to accumulate a significantly larger position in Time Products potentially resulting in an offer for the company but, before this was possible, an announcement was made that an offer in excess of 180p per share was being contemplated by the management. On 19 June 2001, a management buy-out team, operating as Almar PLC, confirmed an offer of 190p per share with shareholders retaining the right to the final dividend. The offer valued the issued share capital of Time Products at approximately £79.7 million.

The offer became effective in August and Lupus realised an investment gain of £718,000. In addition, Lupus retains a pro rata entitlement to any proceeds of a disposal within the next five years of Time Products's 8.5% holding in the leading Swiss watch company, Audemars Piguet, in excess of a threshold of £4.25 million. There can be no certainty that any such sale will take place and accordingly no value is attributed to this entitlement.

Time Products, with its interesting watch brand portfolio and strong cash position, is representative of the type of investment which Lupus seeks.

Armitage Brothers plc ("Armitage")

Armitage develops, manufactures and supplies pet accessories and pet foods. Lupus was attracted to Armitage by the continuing growth in consumer demand in both of these sectors and by the company's powerful portfolio of brands. These brands include: -

- Wafcol - specialist dog food
- Good Boy - dog treats
- Rotastak - small animal housing
- Algarde - aquatic accessories
- Kagesan - sand sheets for birds

Although Armitage has a very attractive range of brands in pet accessories and pet foods, it is operating within sectors that Lupus believes would greatly benefit from industry consolidation. Armitage's trading performance has been satisfactory given the particular pressures of the last year, and the company has generated cash, but Lupus believes that its market positions might well be better exploited within larger groups.

Lupus continues to maintain a close relationship with the board and senior management of Armitage discussing a range of strategic issues. Lupus believes it to be a very positive relationship.
Lupus owns 549,500 shares in Armitage, representing 13.6% of the issued share capital of the company.

European Colour plc ("European Colour")
European Colour is a speciality chemicals company comprising a holding company with two divisions providing specialist pigments and performance coatings. European Colour operates in a sector which, in recent years, has been, and Lupus believes will continue to be, subject to worldwide consolidation.
Lupus believes that European Colour was slow to accept the impact of macro changes in the commercial and financial markets over the last few years and that the necessary strategic plans were therefore not put into effect. Combined with the short-term pressures relating to the slowdown in economic activity, these long-term structural pressures have resulted in a particularly poor performance by European Colour's pigments division. This poor performance has been articulated in statements by European Colour. However, it should be noted from these statements that European Colour remains profitable and that the coatings division has been performing robustly.
Lupus has been involved in prolonged and detailed discussions about strategic matters with the board and senior management of European Colour. Last week, European Colour announced certain board changes. Lupus supports these changes and believes that the company will now address its key strategic issues.
Lupus owns 4,691,616 shares in European Colour representing 10.1% of the issued share capital of the company. However for the reasons outlined above, Lupus has decided to record a provision to reflect permanent diminution in value in its holding in European Colour.

Shiloh plc ("Shiloh")
In November, Lupus announced that it had acquired a disclosable holding in Shiloh, a company providing a number of healthcare services and supplies, with ambitions to become a leader in its field in the UK.
Shiloh was originally a cotton spinning company but, faced with the inexorable decline of its industry, it slowly built up a division relating to the supply of healthcare products. Following the disposal of its spinning business some two years ago the company became dedicated to the healthcare sector. Currently its business areas include: -

- mobility services
- sterilisation services
- incontinence pads
- theatre supplies e.g. gowns and wipes
- cotton wool
- hospital and home delivery services
- woundcare products

Shiloh has the opportunity to develop many of these product areas and services primarily with the NHS but also with Social Services and the private sector. For example, the provision of mobility aids (most notably wheelchairs) is an area of significant potential. It is currently a highly fragmented market and, following its initial acquisitions, Shiloh is already the largest provider in the UK but with only a tiny fraction of the market. Equally, there is scope for extending throughout the UK high quality sterilisation services based on the company's model operation in Scotland, Trust Sterile Services ("TSS"). This type of sterilisation service covers hospital operating theatre equipment and is an essential element in meeting increasing concern about HAIs (Hospital Acquired Infections). TSS has also been very successful in winning contracts to provide surgical instruments to hospitals.
Lupus is working closely with the board and senior management of Shiloh, discussing a range of strategic issues.
Lupus owns 598,711 shares in Shiloh representing 9.1% of the issued share capital of the company.

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Castings plc ("Castings")

In November, Lupus announced that it had acquired a disclosable holding in Castings, one of the leading ductile and malleable ironfounders in Europe.

Castings supplies customers in a range of industries including automotive, commercial vehicles, railways and construction and adds value through its increasing machining capacity. It has had an outstanding record of success in terms of profitability and cash generation – at 30 September 2001 it had built up almost £30 million of cash – but Lupus feels there is a mismatch between its stock market value and its commercial value.

Lupus is in the early stages of its discussions with the board and senior management of Castings whose success over the years does not appear to be reflected in the company's share price.

Lupus owns 2,000,000 shares in Castings representing 4.6% of the issued share capital of the company.

Current trading

Gall Thomson has made an excellent start to the year. Its order book at the beginning of January was over double that of the same time last year and it remains at a very high level. Lupus, therefore, expects Gall Thomson to have a strong first half, significantly up both on budget and last year. The outlook for the rest of the year also looks very encouraging.

Although events in 2001 significantly slowed down corporate activity, Lupus is confident that such activity will pick up in the coming months, leading to the realisation of some of Lupus's investments.

Lupus believes that there are many interesting prospects in terms of new investments and the Board continues to view the future with confidence.

Oliver Stocken
Chairman

Charles Ryder
Chief Executive

27 March 2002

Introduction

Gall Thomson is a marine and industrial coupling business which is based in the UK. Its major activity is the supply of marine breakaway couplings and this business is based in Great Yarmouth, Norfolk. The smaller industrial couplings business, operating through KLAW, is based in Trowbridge, Wiltshire.

Description of the marine and industrial coupling business

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. (A geographical breakdown of the Group's turnover is provided on page 24.)

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 markets the couplings both directly and through agents. In 2000 Gall Thomson 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.

Gall Thomson has a total of 20 full-time and 3 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 oil and gas and power generation industries.

In February 2000 Gall Thomson acquired the business and 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.

In May 2000 Gall Thomson made a small acquisition to strengthen its industrial couplings business, at a cost of £126,000.

Also in May 2000 Gall Thomson disposed of its US subsidiary, Survey Equipment Services, Inc. ("SES"). SES, which represented a small part of Gall Thomson, was involved in the supply, sale and rental of specialist marine navigation and survey equipment to the oil and gas industry. SES was sold for a cash consideration of $1.4 million.

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

Throughout the year, the Board has comprised a non-executive Chairman, a Chief Executive, a Finance Director, and two independent non-executive directors. The Board 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. Peter Cawdron has been nominated as senior non-executive director.

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, James Orr, 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 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. At every AGM one third (but not more than one third) of the remaining directors who are not subject to re-election because of a recent appointment will be subject to re-election on a rotation basis. In addition, pursuant to The Combined Code each director will be subject to re-election at least once every 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 pages 11 and 12.

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

The procedures have been in place for the year under review and up to the date of approval of this report and accounts.

No changes to internal procedures are considered appropriate as a result of events during 2001. Whilst a rigorous process of risk assessment is undertaken when making and 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. 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 Chairman 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 22 May 2002 can be found in the Notice of the Meeting on page 37.

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 2001.

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 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.

Report on directors' remuneration

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

Charles Ryder and James Orr both have 12-month rolling service contracts. Their remuneration package consists of a basic salary, benefits for car, fuel, private health, permanent disability insurance, life assurance 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. Non-executive directors are entitled to receive half of their fees by way of ordinary shares in the Company, which are issued at six-monthly intervals in arrears.

Directors' remuneration

	Salary and fees £	Bonus £	Benefits £	Pension contributions £	Total 2001 £	Total 2000 £
Executives						
Charles Ryder	**126,000**	**28,379**	**20,279**	**31,500**	**206,158**	168,692
James Orr	**126,000**	**28,379**	**17,159**	**31,500**	**203,038**	166,444
Non-executives						
Oliver Stocken	**20,000**	**-**	**-**	**-**	**20,000**	20,000
Peter Cawdron	**15,000**	**-**	**-**	**-**	**15,000**	15,000
Peter So	**15,000**	**-**	**-**	**-**	**15,000**	15,000
Total 2001	**302,000**	**56,758**	**37,438**	**63,000**	**459,196**	n/a
Total 2000	290,000	-	35,136	60,000	n/a	385,136

The bonus awards were made under the terms of the Management Incentive Scheme which was approved by shareholders at the AGM held on 4 June 1999. The bonus relates to the successful realisation of the Company's holding in Time Products plc.
The value of benefits received during the year relates principally to the provision of company cars, life assurance and medical expenses cover.

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 2001 options were outstanding under the terms of the share option schemes to subscribe for ordinary shares as follows:

	At 31 Dec 2000	Number granted	Number exercised	At 31 Dec 2001	Exercise price	Date from which exercisable	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	9.5.07
	–	400,000	–	**400,000**	6.0p	26.9.02	25.3.08
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	9.5.07
	–	400,000	–	**400,000**	6.0p	26.9.02	25.3.08

The closing mid-market price of the Company's shares on 31 December 2001 was 6.25p per share and the high and low prices during the year were 8.0p and 4.75p respectively. The average share price over the 10 business days prior to the date of grant of options during the year was 5.875p.
Options outstanding to directors have not changed since the year-end and no award will be made in relation to the year to 31 December 2001 as the performance criteria in relation to the grant of share options for the year were not met.
The Remuneration Committee has now formally adopted the following performance criteria in relation to the award of future share options to the executive directors and senior management of Lupus:

Annual increase of net asset value per share	% of annual salary to be granted in share options
10.0%	25%
12.5%	30%
15.0%	40%
20.0%	65%
25.0%	100%

Directors' interests

The directors' interests in the ordinary shares of the Company are set out in the directors' report on page 14 and details of the options outstanding are set out above.

Directors

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Oliver Stocken

Non-executive Chairman
Aged 60
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 a number of other companies including 3i Group plc, GUS plc, Novar plc, Pilkington plc, The Rank Group plc, Rutland Trust PLC and Stanhope plc.

Charles Ryder

Chief Executive
Aged 48
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 Fil 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 51
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 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 58
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 SG Warburg. He qualified as a Chartered Accountant in 1966 at Peat Marwick Mitchell. He is also a non-executive director of a number of other companies including ARM Holdings plc, Capita Group plc, Capital Radio plc, Christian Salvesen plc, Compass Group plc, Express Dairies plc and Johnston Press plc.

Peter So

Non-executive
Aged 49
Peter So is an associate member of The Chartered Institute of Management Accountants and The Institute of Financial Services. 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 other listed companies, two in the UK, three in Hong Kong and one in Norway.

Directors' report
For the year ended 31 December 2001

The directors present their annual report and the Group accounts for the year ended 31 December 2001.

Principal activities, review of the business and future developments

The principal activity of the Group 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.
The statement by the Chairman and the Chief Executive set out on pages 3 to 7 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 £255,000 (2000: profit £203,000). The directors are recommending the payment of a final dividend of £425,000, being 0.25 pence per share making the aggregate ordinary dividend for the year £612,000, being 0.36 pence per share (2000: £551,000).

Directors

The following directors have held office during the period since 1 January 2001:
Oliver Stocken
Charles Ryder
James Orr
Peter Cawdron
Peter So

Directors' shareholdings

The directors at 31 December 2001 and their interests in the share capital (all beneficially held) of the Company at the dates stated were as follows:

At 31 December:	**2001 Ordinary shares**	2000 Ordinary shares	**2001 Options**	2000 Options
Charles Ryder	**1,580,408**	1,295,408	**2,388,705**	1,988,705
James Orr	**1,580,408**	1,295,408	**2,388,705**	1,988,705
Oliver Stocken	**881,673**	695,247	**-**	-
Peter Cawdron	**343,902**	204,082	**-**	-
Peter So	**1,159,820**	1,020,000	**-**	-

There have been no movements in the above directors' interests in the period from the year end to 27 March 2002.

Substantial shareholders

At 27 March 2002 the Company had been notified of the following other interests in its issued share capital pursuant to Part VI of the Companies Act 1985:

	Ordinary shares	**%**
Clerical Medical	19,669,671	11.56
Schroder Investment Management Ltd	16,716,666	9.83
Friends Ivory & Sime	12,757,993	7.50
Scottish Value (Undervalued Asset Trust)	7,366,133	4.33

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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 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.

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

Creditors payment policy

Group operating companies are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted. It is Group policy that payments to suppliers are made in accordance with all relevant terms and conditions. Creditor days for the Group have been calculated at 41 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.

Auditors

On 28 June 2001, Ernst & Young, the Company's auditor, transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the limited liability partnerships Act 2000. The directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28 June 2001. A resolution to reappoint Ernst & Young LLP as the Company's auditor will be put to the members at the Annual General Meeting.

By order of the Board
James Orr
Company Secretary

James G. Orr

27 March 2002

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Independent auditors' report to the shareholders of Lupus Capital plc

We have audited the Group's financial statements for the year ended 31 December 2001, which comprise the consolidated profit and loss account, consolidated balance sheet, company balance sheet, consolidated cash flow statement, consolidated statement of total recognised gains and losses, reconciliation of consolidated shareholders' funds and the related notes 1 to 24. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. Our responsibility is to audit the financial statements 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 financial statements give a true and fair view and 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 financial statements, 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 financial statements. This other information comprises the directors' report, statement of the Chairman and Chief Executive, operating and financial review, corporate governance statement and the report on directors' remuneration. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2001 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 LLP

Ernst & Young LLP
Registered Auditor, London

27 March 2002

Group profit and loss account
For the year ended 31 December 2001

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	Note	2001 £000	2000 £000
Turnover			
Continuing operations	2	**5,341**	4,772
Discontinued operations	2	**-**	291
		5,341	5,063
Cost of sales		**(1,577)**	(1,768)
Gross profit		**3,764**	3,295
Administrative expenses - excluding goodwill amortisation	2	**(2,209)**	(2,159)
Administrative expenses - goodwill amortisation	2	**(741)**	(750)
Administrative expenses		**(2,950)**	(2,909)
Other operating income	2	**13**	152
Operating profit			
Continuing operations		**827**	556
Discontinued operations		**-**	(18)
	2	**827**	538
Discontinued operations:			
Loss on sale of operations		**-**	(47)
		827	491
Profit on disposal of fixed asset investments	2	**718**	-
Income from investments	2	**299**	112
Amounts written off fixed asset investments	2	**(1,425)**	-
Interest receivable and similar income	4	**149**	327
Interest payable and similar charges	5	**(455)**	(403)
Profit on ordinary activities before taxation		**113**	527
Taxation	6	**(368)**	(324)
(Loss) / profit on ordinary activities for the year		**(255)**	203
Ordinary dividends	8	**(612)**	(551)
Retained loss for the financial year		**(867)**	(348)

	Note	2001	2000
(Loss) / earnings per share	9	**(0.15)p**	0.12p
Diluted (loss) / earnings per share	9	**(0.15)p**	0.12p
Earnings before goodwill amortisation per share	9	**0.29p**	0.57p

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

Group balance sheet
At 31 December 2001

	Note	£000	2001 £000	£000	2000 £000
Fixed assets					
Intangible assets	10		**12,902**		13,643
Tangible assets	11		**565**		606
Investments	12		**7,185**		3,933
			20,652		18,182
Current assets					
Stocks and work-in-progress	13	**172**		177	
Debtors	14	**2,021**		1,349	
Investments	15	**-**		204	
		2,193		1,730	
Creditors: amounts falling due within one year	16	**(8,254)**		(4,556)	
Net current liabilities			**(6,061)**		(2,826)
Total assets less current liabilities			**14,591**		15,356
Creditors: amounts falling due after more than one year	17		**(77)**		-
Net assets			**14,514**		15,356
Capital and reserves					
Called up share capital	20		**851**		848
Share premium account	21		**4,418**		4,396
Merger reserve	21		**10,389**		10,389
Profit and loss account	21		**(1,144)**		(277)
Equity shareholders' funds			**14,514**		15,356

Company balance sheet
At 31 December 2001

	Note	£000	2001 £000	£000	2000 £000
Fixed assets					
Investments	12		**8,711**		8,711
			8,711		8,711
Current assets					
Debtors	14	**16,083**		16,943	
Cash at bank and in hand		**1,514**		939	
		17,597		17,882	
Creditors: amounts falling due within one year	16	**(510)**		(560)	
Net current assets			**17,087**		17,322
Total assets less current liabilities			**25,798**		26,033
Creditors: amounts falling due after more than one year	17		**(7,876)**		(7,876)
Net assets			**17,922**		18,157
Capital and reserves					
Called up share capital	20		**851**		848
Share premium account	21		**4,418**		4,396
Merger reserve	21		**10,389**		10,389
Profit and loss account	21		**2,264**		2,524
Equity shareholders' funds			**17,922**		18,157

The financial statements were approved by the Board on 27 March 2002.

Charles Ryder
Director

James Orr
Director

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Group statement of cash flows

For the year ended 31 December 2001

	Note		2001		2000
		£000	£000	£000	£000
Net cash inflow / (outflow) from operating activities	22(a)		875		(2,450)
Returns on investments and servicing of finance					
Interest received		149		327	
Interest paid		(418)		(403)	
Dividends received		299		112	
			30		36
Taxation					
UK corporation tax paid			(367)		(458)
Capital expenditure and financial investment					
Sale of tangible fixed assets		3		202	
Purchase of tangible fixed assets		(48)		(151)	
Sale of fixed asset investments		3,230		898	
Sale of current asset investments		298		-	
Purchase of fixed asset investments		(6,845)		-	
Purchase of current asset investments		(425)		(3,766)	
			(3,787)		(2,817)
Acquisitions and disposals					
Purchase of subsidiary undertakings		-		(738)	
Disposal of subsidiary undertakings		-		551	
Net cash in disposed operations		-		(171)	
			-		(358)
Equity dividend paid			(569)		(509)
Net cash outflow before financing			(3,818)		(6,556)
Financing					
Issue of shares net of costs	20	25		-	
New long-term loans		-		3,250	
Repayment of long-term loans		-		(4,750)	
			25		(1,500)
Decrease in cash	22(b)		(3,793)		(8,056)

Reconciliations
For the year ended 31 December 2001

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Reconciliation of net cash flow to movement in net debt

	Note	2001 £000	2000 £000
Decrease in cash		**(3,793)**	(8,056)
Cash inflow from increase in loans		**-**	(3,250)
Cash outflow from repayment of loans		**-**	4,750
Change in net (debt) / funds from cash flows		**(3,793)**	(6,556)
Net (debt) / funds at 1 January		**(2,844)**	3,712
Net debt at 31 December	22(b)	**(6,637)**	(2,844)

Reconciliation of shareholders' funds

	2001 £000	2000 £000
(Loss) / profit for the financial year	**(255)**	203
Net movement on share issues	**25**	-
Dividends paid and proposed on equity shares	**(612)**	(551)
Costs set against share premium account	**-**	(148)
	(842)	(496)
Opening shareholders' funds	**15,356**	15,852
Closing shareholders' funds	**14,514**	15,356

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 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 undertakings which are held on a long-term basis for the purpose of securing a contribution to the Group's business. These 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 short-term investments in public companies listed on the London Stock Exchange and are valued at the lower of cost and market 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. Accounting policies (continued)

1.9 Pensions

The Company makes contributions towards the personal pension arrangements of directors and employees. 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.

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 for continuing operations is attributable to the operations of Gall Thomson acquired in December 1999, all of which is based in the United Kingdom and is related to oil services. The discontinued operations in 2000 relate to marine navigation and survey equipment and services which were undertaken by Gall Thomson's subsidiary, Survey Equipment Services, Inc., based in Houston, Texas, which was disposed of in May 2000.

	2001 Continuing operations £000	2000 Continuing operations £000	2000 Discontinued operations £000	2000 Total operations £000
Turnover	**5,341**	4,772	291	5,063
Cost of sales	**(1,577)**	(1,561)	(207)	(1,768)
Gross profit	**3,764**	3,211	84	3,295
Administrative expenses including goodwill amortisation	**(2,950)**	(2,782)	(127)	(2,909)
Other operating income:				
Gain on disposal of current asset investments	**13**	67	-	67
Other items	**-**	60	25	85
Operating profit / (loss)	**827**	556	(18)	538
Add back: goodwill amortisation	**741**	750	-	750
Operating profit / (loss) before goodwill amortisation	**1,568**	1,306	(18)	1,288

Turnover by destination

	2001 Continuing operations £000	2000 Continuing operations £000	2000 Discontinued operations £000	2000 Total operations £000
United Kingdom	**744**	770	-	770
Other European countries	**1,479**	1,103	-	1,103
North America	**888**	379	291	670
South America	**95**	700	-	700
Africa	**385**	637	-	637
Middle East	**751**	818	-	818
Asia Pacific	**999**	365	-	365
Total	**5,341**	4,772	291	5,063

2. Turnover and operating profit (continued)

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

	2001 £000	2000 £000
Depreciation of tangible assets - owned assets	**86**	128
Amortisation of goodwill	**741**	750
Operating lease rentals - land and buildings	**190**	168
Operating lease rentals - other	**31**	32
Auditors' remuneration - audit services	**41**	47
Auditors' remuneration - other services	**77**	89
Rents receivable	**-**	(2)

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 2001 £000	**Oil services 2001 £000**	Investment activities 2000 £000	Oil services 2000 £000	**Total 2001 £000**	Total 2000 £000
GROUP TURNOVER	**-**	**5,341**	-	5,063	**5,341**	5,063
PROFIT						
Segment profit:	**255**	**2,712**	167	2,201	**2,967**	2,368
Group overheads					**(1,399)**	(1,080)
Goodwill amortisation					**(741)**	(750)
Operating profit					**827**	538
Discontinued operations: loss on disposal					**-**	(47)
Profit on disposal of fixed asset investments	**718**		-		**718**	-
Amounts written off fixed asset investments	**(1,425)**		-		**(1,425)**	-
Dividend income	**299**		112		**299**	112
	(153)		279			
Net interest					**(306)**	(76)
Profit before tax					**113**	527

2. Turnover and operating profit (continued)

Investment	Oil activities 2001 £000	Investment services 2001 £000	Oil activities 2000 £000	services 2000 £000	Total 2001 £000	Total 2000 £000
NET ASSETS						
Segment analysis	**7,215**	**14,416**	3,879	14,800	**21,631**	18,679
Group borrowings					**(6,637)**	(2,844)
Proposed dividend					**(425)**	(382)
Unallocated head office net liabilities					**(55)**	(97)
Total net assets					**14,514**	15,356

3. Employees

Number of employees

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

	2001 Number	2000 Number
Administration	**22**	17
Operations	**11**	17
	33	34

Employment costs

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

	2001 £000	2000 £000
Wages and salaries	**1,552**	1,358
Social Security costs	**170**	145
Other pension costs	**199**	161
	1,921	1,664

Details for each director of remuneration, pension entitlement and interest in share options are set out on pages 11 and 12.

4. Interest receivable and similar income

	2001 £000	2000 £000
Bank interest receivable	**149**	327
	149	327

5. Interest payable

	2001 £000	2000 £000
On bank loans and overdrafts	**455**	403
	455	403

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6. Taxation

	2001 £000	2000 £000
Taxation based on the result for the year:		
UK Corporation tax on income for the year	**356**	477
Irrecoverable ACT written off	**-**	61
Adjustment in respect of prior year	**12**	(54)
Double taxation relief	**-**	(147)
	368	337
Foreign tax: adjustment in respect of prior year	**-**	(13)
	368	324

7. 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 profit dealt with in the accounts of the parent company was £352,000 (2000: £2,929,000).

8. Dividends

	2001 £000	2000 £000
Ordinary dividend:		
Proposed equity dividend at 0.25p per share (2000: 0.225p)	**425**	382
Interim equity dividend at 0.11p per share (2000: 0.1p)	**187**	169
	612	551

9. (Loss) / earnings per share

The calculation of basic (loss) / earnings per share is based on the (loss) / profit after taxation for the financial year and on a weighted average number of shares in issue during the year of 169,827,998 ordinary shares of 0.5p. (2000: weighted average 167,953,570). The diluted (loss) / earnings per share is based on the (loss) / profit after taxation for the financial year and on 169,827,998 ordinary shares (2000: 167,953,570) calculated as follows:

	2001 Number	2000 Number
Basic weighted average number of shares	**169,827,998**	167,953,570
Dilutive potential ordinary shares:		
Employee share options	**-**	-
	169,827,998	167,953,570

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 goodwill amortisation per share, the calculation of which is based on the (loss) / profit after taxation for the financial year adjusted for the goodwill amortisation charge of £741,000 (2000: £750,000) and on the weighted average number of shares in issue during the year of 169,827,998 ordinary shares of 0.5p (2000: weighted average 167,953,570).

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
Cost	
At 1 January 2001 and 31 December 2001	**14,393**
Amortisation	
At 1 January 2001	750
Charge for the year	741
At 31 December 2001	**1,491**
Net book value	
At 31 December 2001	**12,902**
At 1 January 2001	13,643

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
Cost					
At 1 January 2001	207	331	8	99	645
Additions	-	45	-	3	48
Disposals	-	(10)	-	-	(10)
At 31 December 2001	**207**	**366**	**8**	**102**	**683**
Depreciation					
At 1 January 2001	11	16	3	9	39
Charge for the year	12	50	2	22	86
Elimination on disposals	-	(7)	-	-	(7)
At 31 December 2001	**23**	**59**	**5**	**31**	**118**
Net book value					
At 31 December 2001	**184**	**307**	**3**	**71**	**565**
At 1 January 2001	196	315	5	90	606

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12. Fixed asset investments

	Group Listed investments £000	Company Investments in subsidiaries £000
Cost		
At 1 January 2001	3,933	8,711
Additions	6,845	-
Transfers from current asset investments	344	-
Disposals	(2,512)	-
At 31 December 2001	**8,610**	**8,711**
Provisions		
At 1 January 2001	-	-
Charge for the year	1,425	-
At 31 December 2001	**1,425**	-
Net book value		
At 31 December 2001	**7,185**	**8,711**
At 1 January 2001	3,933	8,711

The listed investments relate to sundry investments in public companies listed on the London Stock Exchange and are held at cost less any permanent diminution in value. The investments include 10.10% of the issued ordinary share capital of European Colour plc, 13.57% of Armitage Brothers plc, 8.69% of Shiloh plc and 4.25% of Castings plc. No other investment represents more than 2.99% of the share capital of the company concerned.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

13. Stocks and work-in-progress

Group	2001 £000	2000 £000
Raw materials and consumables	**95**	81
Work-in-progress	**70**	74
Finished goods	**7**	22
	172	177

14. Debtors

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Trade debtors	**1,753**	1,159	**-**	-
Amounts due from subsidiary undertakings	**-**	-	**16,000**	16,905
Advance corporation tax	**-**	14	**-**	14
Other debtors	**135**	84	**83**	24
Dividends receivable	**41**	41	**-**	-
Prepayments and accrued income	**92**	51	**-**	-
	2,021	1,349	**16,083**	16,943

15. Current asset investments

	Listed investments £000
Group	
Cost	
At 1 January 2001	277
Additions	425
Disposals	(358)
Transfers to fixed asset investments	(344)
At 31 December 2001	-
Provisions	
At 1 January 2001	73
Elimination on disposal	(73)
At 31 December 2001	-
Net book value	
At 31 December 2001	-
At 1 January 2001	204

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 market value at the balance sheet date. No investment represents more than 2.99% of the share capital of the company concerned.

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16. Creditors: amounts falling due within one year

	Group		Company	
	2001	2000	**2001**	2000
	£000	£000	**£000**	£000
Bank overdrafts	**6,637**	2,844	**-**	-
Trade creditors	**229**	161	**-**	1
Amounts owed to group undertakings	**-**	-	**85**	175
Corporation tax	**218**	231	**-**	2
Other taxes and social security costs	**89**	41	**-**	-
Proposed dividend	**425**	382	**425**	382
Other creditors	**125**	445	**-**	-
Accruals and deferred income	**531**	452	**-**	-
	8,254	4,556	**510**	560

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

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

	Group		Company	
	2001	2000	**2001**	2000
	£000	£000	**£000**	£000
Other creditors	**77**	-	**-**	-
Loan notes owed to group undertakings	**-**	-	**7,876**	7,876
	77	-	**7,876**	7,876

18. Borrowings

The Group has an £8 million overdraft facility.

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 page 15. The disclosures below exclude short-term debtors and creditors.

Interest rate risk profile of financial liabilities
The Group has no financial liabilities.

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 £000
2001	
Assets denominated in Sterling	**7,185**
	7,185
2000	
Assets denominated in Sterling	4,137
	4,137

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 £6,580,000 in respect of fixed asset investments (2000: £4,013,000 - £3,800,000 in respect of fixed asset investments and £213,000 in respect of current 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 £13,000 (2000: £67,000).

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20. Share capital

	Company 2001 £000	Company 2000 £000
Authorised:		
210,000,000 Ordinary shares of 0.5 pence each	**1,050**	1,050
Allotted, called up and fully paid:		
170,083,271 (2000: 169,617,205) Ordinary shares of 0.5 pence each	**851**	848

Allotments during the year were as follows:

	Aggregate nominal value £000	Consideration £000
Allotments to non-executive directors in lieu of fees: 466,066 (208,333 on 27 March 2001 at 6.0p and 257,733 on 19 October 2001 at 4.85p) Ordinary shares of 0.5 pence each	**3**	**25**

Contingent rights to the allotment of shares

At 31 December 2001 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.

21. Movements on reserves

Group

	Share capital £000	Share premium account £000	Merger reserve £000	Profit and loss account £000
At 1 January 2001	848	4,396	10,389	(277)
Shares issued net of costs	3	22	-	-
Loss for the year	-	-	-	(255)
Dividends	-	-	-	(612)
At 31 December 2001	**851**	**4,418**	**10,389**	**(1,144)**

Included within the profit and loss account above, is £96,000, which represents an amount transferred to a Special Reserve within the accounts of a subsidiary company under the terms of a Court Order on a reduction in share capital of that company.

Company

	Share capital £000	Share premium account £000	Merger reserve £000	Profit and loss account £000
At 1 January 2001	848	4,396	10,389	2,524
Shares issued net of costs	3	22	-	-
Loss for the year	-	-	-	352
Dividends	-	-	-	(612)
At 31 December 2001	**851**	**4,418**	**10,389**	**2,264**

22. Notes to the statement of cash flows

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

	2001 £000	2000 £000
Operating profit	**827**	538
Depreciation	**86**	128
Amortisation of goodwill	**741**	750
Movement in stock and work-in-progress	**5**	(81)
Movement in debtors	**(686)**	1,086
Movement in creditors	**(85)**	(4,765)
Profit on disposals of current asset investments	**(13)**	(67)
Release of provision against current asset investment	**-**	(15)
Foreign exchange movement	**-**	(24)
	875	(2,450)

(b) Analysis of net debt

	1 Jan 2001 £000	Cash flow £000	31 Dec 2001 £000
Overdrafts	(2,844)	**(3,793)**	**(6,637)**
Net debt	(2,844)	**(3,793)**	**(6,637)**

23. Contingent liabilities

The Group'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 2001, the Group had overdraft facilities available to it of £8.0 million of which £1.4 million was unutilised.

24. Financial commitments

At 31 December 2001 the Group had annual commitments under non-cancellable operating leases as follows:

Group	Land and buildings		Other	
	2001	2000	**2001**	2000
	£000	£000	**£000**	£000
Expiry date:				
Within one year	**-**	-	**22**	-
Between two and five years	**-**	-	**2**	27
Over five years	**191**	206	**-**	-

Notice of Annual General Meeting

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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 22 May 2002 at 11.30 a.m., for the following purposes:

Ordinary business

1. To receive and consider the accounts for the year ended 31 December 2001 together with the reports of the directors and auditors thereon.
2. To declare a final dividend.
3. To reappoint Charles Ryder as a director who retires pursuant to the Articles of Association of the Company and offers himself for re-election.
4. To reappoint James Orr as a director who retires pursuant to the Articles of Association of the Company and offers himself for re-election.
5. To reappoint Peter So as a director who retires pursuant to the Articles of Association of the Company and offers himself for re-election.
6. To reappoint Ernst & Young LLP as auditors of the Company and to authorise the directors to set their remuneration.
7. To approve the remuneration policy.

Special business

To consider and, if thought fit, to pass the following resolutions of which numbers 8 and 9 will be proposed as ordinary resolutions and number 10 will be proposed as a special resolution:

8. That the authorised share capital of the Company be increased from £1,050,000 to £1,500,000 by the creation of an additional 90,000,000 ordinary shares of 0.5p each ranking pari passu with the existing ordinary shares of 0.5p each.

9. That the directors be and they 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 £325,808, this authority to expire at the conclusion of the Annual General Meeting of the Company in 2003 (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).

10. That subject to the passing of resolution 9 above, the directors be and they 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 9 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:

    (a) in connection with a rights issue, open offer or other 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

    (b) otherwise than pursuant to (a) above, up to an aggregate nominal amount of £42,520;

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and this power shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2003 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
27 March 2002

Registered Office:
85 Buckingham Gate
London SW1E 6PD

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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 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 11.30 a.m. on 20 May 2002 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 pages 11 and 12.
7. **Resolution 8.** It is proposed as an ordinary resolution to increase the current authorised share capital from £1,050,000 to £1,500,000, an increase of 42.9%. This will allow the Company to take the full authority, under Association of British Insurers' guidelines, for the allotment of shares for the purposes of section 80 of the Companies Act 1985.
8. **Resolution 9.** Your directors may only allot shares or grant rights over shares if authorised to do so by shareholders. The authority granted at the Annual General Meeting held on 14 May 2001 is due to expire at this year's Annual General Meeting. Accordingly, resolution 9 will be proposed as an ordinary resolution to grant a new authority to allot unissued share capital up to an aggregate nominal value of £325,808, representing approximately 38.3% of the total issued ordinary share capital as at 27 March 2002. If given, this authority will expire at the Annual General Meeting in 2003. Other than in respect of the Company's obligations under its employee share schemes, the directors have no present intention of issuing any of the authorised but unissued share capital of the Company.
9. **Resolution 10.** 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 Annual General Meeting held on 14 May 2001 is due to expire at this year's Annual General Meeting. Accordingly, resolution 10 will be proposed as a special resolution to grant such authority. Apart from rights issues, open offers and other pre-emptive issues, the authority will be limited to the issue of shares up to an aggregate nominal value of £42,520 (being 5% of the issued ordinary share capital at 27 March 2002). If given, this authority will expire at the conclusion of the Annual General Meeting in 2003.

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