

Lupus Capital
Annual Report
& Accounts

09



Outlook for 2010

2010 has started steadily with sales and orders across each of our Building Products businesses outperforming the significantly depressed prior year levels. However, the seasonal nature of our building products businesses means that the first quarter of the financial year offers little visibility of future trading trends.

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2009 Highlights

- Successful refinancing of the Group's debt facilities to 30 June 2012
- Limited fall in gross margins to 33.3 per cent. (2008: 34.1 per cent.) despite decline in constant currency sales of 17.6 per cent.
- Net debt decreased by 23.6 per cent. to £111.0 million
- Strengthened Board with appointment of new Chairman, Chief Executive Officer and Non-Executive Directors
- Group well positioned to benefit from any increase in activity levels

Sales

£241.6m

2008: £266.6m

Underlying operating profit*

£25.6m

2008: £36.6m

Underlying eps*

9.39p

2008: 14.83p

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

Chairman's and Chief Executive Officer's statement by Jamie Pike and Louis Eperjesi

2009 was a year of significant change for Lupus. As has been widely reported, in the first half of the year the Group defaulted on its loan repayments. Accordingly, the Group was required to renegotiate its debt facilities.



Jamie Pike
Chairman

During the year there were a number of changes to the composition of the Board and, since the year end, the Group has appointed a new Chief Executive Officer, Louis Eperjesi. Louis joined the Board on 22 February 2010 after a successful career at Kingspan Group plc, and has an extensive track record in the building materials and manufacturing sectors.

At the operational level, the residential housing markets for both new build and the repair, maintenance and improvement sector ("RMI") remained depressed throughout the year. Activity levels were lower across our building products businesses in the USA, UK and Rest of the World, continuing the slowdown experienced in the latter half of 2008. Gall Thomson, our oil and gas services business, nonetheless maintained its strong performance.

The businesses of Lupus are strong, profitable and cash generative, and these attributes enabled the Group to limit the decline in gross profit margins, gain market share in certain sectors and record a significant profit (albeit lower than 2008), as well as to repay a material amount of debt. While the outlook for 2010 remains uncertain, the Group's businesses are well positioned within their markets to take advantage of any increase in activity levels.



Louis Eperjesi
Chief Executive Officer

Results for the year

For the year ended 31 December 2009, compared with the prior year:

Sales

Group sales decreased by £25.0 million (9.4 per cent.) to £241.6 million (2008: £266.6 million). On a constant currency basis, this represents a fall in total sales of 17.6 per cent. compared with 2008.

Profits

Underlying earnings before interest, tax, depreciation and amortisation were £32.3 million (2008: £42.9 million).

Net finance costs increased by £2.6 million (25.7 per cent.) to £12.6 million, reflecting the increased amortisation of borrowing costs arising from the renegotiation of the new bank facilities.

Administrative expenses were reduced in aggregate by £1.5 million in the year to £68.5 million (2008: £70.0 million). During the year, the Group took a number of active steps to realign its cost base in markets where demand had fallen and was expected to remain depressed. A £3.5 million saving, representing 5.0 per cent. of 2008 administrative expenses, was achieved through operational cost reductions, offset by exchange rate movements of £3.7 million and movements in depreciation, amortisation and exceptional items.

Total bank interest costs payable in the year fell by £0.6 million to £9.9 million (2008: £10.5 million). In constant currency terms this decrease was £1.8 million, reflecting the reduction in base interest rates, despite the increase in bank margins payable as a result of the refinancing.

Underlying profit before tax reduced by £12.0 million (43.3 per cent.) to £15.7 million (2008: £27.7 million).

Amortisation of acquired intangibles increased by £1.8 million to £11.6 million, reflecting the impact of exchange rate movements on the intangible assets associated with our US and European business units.

The Group reported a loss before tax for the year of £0.6 million (2008: profit of £10.8 million).

Margins

In response to the sharp decline in volume, the Group exerted a tight grip on staffing levels and succeeded in converting some fixed overheads into variable overheads, thereby mitigating the effect on gross profit margins which fell slightly to 33.3 per cent. (2008: 34.1 per cent.). Underlying operating profit margins for the Group declined from 13.7 per cent. to 10.6 per cent. during the year, reflecting the weaker trading conditions experienced across all of our businesses.

Exceptional costs

Exceptional costs of £2.1 million (2008: £6.0 million) were incurred during the period, the majority of which (£1.2 million) related to bank and professional fees incurred as part of the bank refinancing. Also included are the costs relating to the General Meeting held on 31 October 2009.

Taxation

The tax credit of £1.1 million (2008: tax charge £4.3 million) on the loss before taxation has been augmented by £0.9 million of credit adjustments relating to prior years.

Earnings and dividends

Underlying earnings per share decreased by 36.7 per cent. to 9.39p (2008: 14.83p). Basic earnings per share decreased by 4.69p to 0.32p (2008: 5.01p).

No dividend will be paid with regard to the year 2009. As part of the refinancing, the Group has been required to undertake that dividends will not be paid until the Group and subsidiary net debt ratios have reduced.

The Board is committed to the resumption of dividend payments, once permitted by the Group's banking arrangements, and when it believes it is prudent to do so, taking into account the Group's earnings, cash flow and balance sheet position.

Financial Position

During 2009, a number of operational measures were implemented to reduce working capital, improve cash generation and reduce net debt.

Cashflow

The Group generated operating cash flow of £36.5 million (2008: £30.9 million) and reduced net working capital by £10.7 million. Operating cash conversion was 142 per cent., compared with 84 per cent. in 2008.

Net debt position

In 2009, the Group generated strong free cash and was able to repay just under £23.0 million of debt, with net debt falling by £34.3 million. £14.7 million of the reduction in gross debt related to movements in exchange rates. At 31 December 2009 the Group's net debt was £111.0 million (2008: £145.3 million) with cash balances of £25.0 million (2008: £32.4 million).

Defined benefit pension and post retirement benefit schemes

The Group's principal defined benefit ("DB") pension scheme and post retirement healthcare benefit scheme is operated in the USA. The pension scheme is closed to new entrants and post retirement healthcare benefit contributions are capped.

At 31 December 2009, the defined benefit obligation for all Group DB pension and post retirement healthcare benefit schemes was £17.4 million (2008: £15.8 million) and the schemes had plan assets of £9.9 million (2008: £8.5 million).

The Group's net deficit on the schemes was £7.5 million (2008: £7.3 million).

New Debt Facility

The Group successfully concluded the renegotiation of its banking facilities on 30 June 2009. The new facilities provide the Group with sufficient flexibility to manage and invest in its operations as required. The amendments included:

- Roll-over of the existing US\$230.0 million LSS facilities and £25.0 million Schlegel facilities, including the reduction of the revolving credit facilities to US\$14.0 million and £5.0 million respectively;
- Extension of the term of the Schlegel facilities by one year until mid 2012 to match the final maturity date of the LSS facilities;
- Significant reduction in the fixed repayment profile, with a focus on debt amortisation serviced from free available cash flow of LSS, Schlegel and Gall Thomson and full repayment at maturity, with no penalties attached to voluntary pre-payment of facilities;
- Changes to the debt and interest cover financial covenants, the inclusion of a cash flow cover covenant and removal of all other financial covenants. The new debt and interest covenants have been set at levels that are robust against various scenarios, including allowance for the possibility of a significant further reduction in activity levels;
- Increased, although not disproportionate, interest margins to reflect prevailing banking conditions at the time of negotiations. Interest margins will step down as the Group's net debt: underlying EBITDA ratio falls;
- Provision of security over the majority of the LSS and Schlegel assets, including a share pledge over Gall Thomson by Lupus; and
- Undertakings from the Group not to pay dividends until the net debt ratio has been reduced at both Group and subsidiary levels.

Fees and expenses incurred in connection with the new debt facilities were £7.4 million. Of this, £6.2 million was capitalised and will be written off over the life of the facilities. The balance of £1.2 million was expensed during the year as an exceptional cost.

Chairman's and Chief Executive Officer's statement continued

In December 2009, US\$66 million of debt was redenominated into Sterling, thereby aligning the Group's debt profile more closely with its earnings flows, and in February 2010 the Group entered into a number of interest rate swap transactions to lock-in the current low levels of market rates, providing increased certainty over the Group's future interest costs. Further details on both of these transactions are contained in Note 27 of the Group financial statements.

The revised banking covenants are more suited to the prevailing macroeconomic environment. At 31 December 2009, the Group had headroom on its banking covenants ranging from 38 per cent. to 69 per cent. and the Board remains confident that the Group will continue to operate within its banking covenants.

Group 2009 Operational Performance

During the year, the Group's management teams kept close control over staffing levels and costs in general to great effect and succeeded in converting a number of historically fixed costs to variable costs. This improvement in the operational gearing of the businesses will stand the Group in good stead in the early stages of the recovery cycle.

Group headcount was reduced from 2,272 at 31 December 2008 to 2,003 at the year end and, since 2007, Group headcount has been reduced overall by 28 per cent.. Across all the businesses, including those situated in mainland Europe, measures have been successfully put in place to flex the retained workforce in line with sales demand.

As demand has softened, management has responded quickly to the need to reduce working capital, the benefits of which are evident in the Group's operating cash conversion. Concern over customer defaults, and the continued restrictions on the availability of credit insurance, has meant that management of receivables has remained a high priority and as a consequence the Group experienced few bad debts.

Factory rationalisation has continued with a number of closures and consolidations around the world. This included the conversion of the Chinese manufacturing operation to a sourcing operation, the

relocation of the Chicago plant to Statesville, the merger of the ERA Products and LSH businesses to create ERA Security Hardware and significantly increased production levels at the Group's facility in Mexico.

Building products

The Building Products division comprises the Group's residential security solutions businesses and door and window seals operations. The division's businesses are market leaders and operate across North America, the UK, Europe and Asia.

Residential markets, our major sector of interest, were weak throughout the year. Consequently, the division recorded sales of £229.0 million (2008: £254.3 million) with underlying operating profit of £19.7 million (2008: £30.7 million).

US building products

The North American economy remained weak with housing starts at record lows and reduced RMI activity. Consumer demand was dampened by the debt crises and increasing unemployment, although partially offset by certain short term Government stimulus measures. Demand in the US began to stabilise in the final quarter of the year.

In the US sales decreased by 3.8 per cent. to £105.7 million (2008: £109.9 million). However, in constant currency terms the fall was significantly more marked at 18.4 per cent. Reported underlying operating profit was £10.8 million (2008: £15.8 million), which represented a decline of 42.7 per cent. in constant currency terms.

UK building products

The UK market, which is predominately RMI, remained poor and showed little sign of sustained recovery. Sales fell by 14.2 per cent. to £79.7 million (2008: £92.9 million) and underlying operating profit was £6.3 million (2008: £11.0 million), which represented a decline of 42.2 per cent.

RoW building products

In our European markets demand for our products was muted, particularly in Southern Europe, although order intake did improve in the latter months of the year. Our Australasian business performed robustly in the year. Sales in the year were £43.6 million (2008: £51.5 million), a fall in

constant currency terms of 25.4 per cent. and underlying operating profit was £2.6 million (2008: £4.0 million), which represented a decline of 43.0 per cent. in constant currency terms.

Gall Thomson

Gall Thomson Environmental is the world's leading supplier of marine breakaway couplings and, through its KLaw subsidiary, is a supplier of industrial couplings including quick release and breakaway couplings. Primarily serving the oil and gas services sector, the division performed strongly and has delivered another solid sales and profit performance.

In 2009 sales increased to £12.6 million (2008: £12.3 million), and underlying operating profit was £5.9 million (2008: £5.9 million). The small decrease in overall margins reflects a change in mix and some incremental investment in overhead to drive future growth.

Board

There were a number of changes to the Board during the year. The Board currently comprises three executive directors, Louis Eperjesi (Chief Executive Officer), Paul Felton-Smith (Interim Chief Financial Officer) and Denis Mulhall (Chief Operating Officer). There are three independent non-executive directors, Jamie Pike (Chairman), Les Tench and Martin Towers.

Denis Mulhall will retire as a director on 31 March 2010 and Paul Felton-Smith is expected to step down from the Board prior to the Annual General Meeting.

Louis Eperjesi, Jamie Pike, Martin Towers and Les Tench will submit themselves for re-election by the shareholders at this year's Annual General Meeting. The new Board has an excellent balance of industrial, financial and investor knowledge and looks forward to working on behalf of all shareholders to create shareholder value.

Strategy

The Board believes that there are a number of strong long term drivers for Lupus to achieve growth, including an increased need for residential housing due to shifts in population and demographic changes. Increased regulation and focus on environmental efficiency means that a number of the Group's products that provide significant environmental benefits to end users should see increased demand over time. In addition, new geographic markets for the Group's products continue to evolve, most notably in Eastern Europe and Australasia.

Gall Thomson and KLaw will look to build on their excellent reputations for offering critical environmental solutions, and their high quality product offerings in the marine and industrial sectors. Breakaway couplings have a range of potential applications, including the fast developing fields of cryogenics and LPG transfer, which offer further opportunities for growth.

In the short term, the Group will remain focussed on the continued reduction in overall debt levels through growing sales and improving the profitability of our existing businesses. We will seek to achieve this through organic growth generated by initiatives such as the introduction of new products, winning greater market share through improved customer service, and cross selling the Group's product offering to a greater number of customers, as well as our ongoing cost reduction programmes.

In time, we expect this to facilitate the Group's return to the dividend list and the possibility of targeted acquisitions.

Outlook

2010 has started steadily with sales and orders across each of our Building Products businesses outperforming the significantly depressed prior year levels. However, the seasonal nature of our building products businesses means that the first quarter of the financial year offers little visibility of future trading trends.

Gall Thomson has seen an encouraging start to the year with a steady inflow of orders.

The Board continues to monitor developments across each of the Group's businesses very closely and local management will continue their focus on controlling costs in line with demand. While the outlook for 2010 remains uncertain, the Group's businesses are well positioned within their markets to take advantage of any increase in activity levels.

We have a strong platform to take Lupus forward and to create value for all shareholders.

Jamie Pike

Non-Executive Chairman

Louis Eperjesi

Chief Executive Officer

25 March 2010

Group business review

The improvement of the operational gearing of the businesses will stand the Group in good stead in the early stages of the recovery cycle.

Business of Gall Thomson Environmental Limited

Sales increased in 2009 by 2.5% to £12.6 million. Gall Thomson had a slow start to the year but experienced a strong finish in the final quarter. Operating margins remained high at 46.9% of sales, which represents a small decrease from prior year, reflecting a slight mix change as the proportion of non-marine products grows and some incremental investment in overhead to drive future growth.

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

A Gall Thomson marine breakaway coupling is used in the oil and gas industry to enable a loading line to part safely and then to shut off the product supply in the event of a vessel moving off station during the loading or discharging of oil and gas products, whether at offshore moorings or jetty terminals. The purpose of the breakaway coupling is to prevent environmental pollution without causing damage to pumping and transfer equipment. Gall Thomson also supplies the quick release Welin Lambie camlock coupling which is used in the hose and loading arm system for the transfer of oil and gas products.

The majority of the couplings are designed and made to order for the major oil producers. There is also an increasing demand for refurbishment of the products

which have been in use for many years and exposed to the elements.

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

The principal activity of KLAW is the manufacture, assembly and distribution of industrial quick release couplings for use in the oil and gas industries in areas such as refining, exploration and construction. They are also used in the transportation of product by road and rail.

Gall Thomson's core market, the offshore oil and gas industry, has not been as badly affected by the global economic weakness experienced during the year. In addition, the continued development of the range of products offered by Klaw continues to have a positive effect. Approximately 90% of turnover was derived from export sales spanning the world from Europe to Asia, America to the Middle East and Africa. Nearly all sales are made in Pounds Sterling so there is limited exposure to foreign exchange fluctuations.

Key performance indicators

Business of Gall Thomson Environmental Limited	2009	Margin	2008	Margin
	£'000	%	£'000	%
Revenue	12,590		12,286	
Variance	2.5%			
Underlying operating profit ¹	5,900	46.9%	5,878	47.8%
Variance	0.4%			
Building products				
	2009	Margin	2008	Margin
	£'000	%	£'000	%
Revenue	229,031		254,273	
Variance	-9.9%			
Underlying operating profit ¹	20,398	8.9%	30,741	12.9%
Variance	-33.6%			

¹Underlying operating profit is operating profit excluding exceptional items and amortisation of intangible assets.

Building Products

Sales across our Building Products businesses were £229.0 million in 2009, a decrease of 10%. However on a constant currency basis sales fell by 19%. The housing markets for both new build and the repair, maintenance and improvement sector (RMI) remained depressed throughout the year. Activity levels were low across our businesses in the USA, UK and Rest of the World, continuing the slowdown experienced in the latter half of 2008.

The swift action by management to exert a tight grip on staffing levels, succeeded in converting some fixed overheads into variable overheads. This together with the continued rationalisation of the operational footprint, helped to cushion the full impact of the volume decline at the operating profit level.

Building Products UK

Building Products UK is a leader in the design, development, manufacture and distribution of innovative products and solutions aimed at improving thermal efficiency, and enhancing protection and security, for homes and buildings within the residential building and home improvement markets. Its wide range of products includes window and door hardware, composite doors, steel reinforcement products, window balances, window seals, uPVC products, continuously moulded urethane foam seals as well as sash window refurbishment.

These products are marketed under different brand names and predominantly supplied to retail and wholesale customers in the UK, with some sales to Continental Europe.

2009 sales for Building Products UK of £79.7 million were 14% below 2008 with activity levels continuing the slowdown experienced towards the end of 2008. As at 31 December 2009 Building Products UK employed 689 people and operated from 8 UK based manufacturing and distribution facilities.

Building Products US

Building Products US is a leader in the design, development, manufacture and distribution of innovative products and solutions aimed at improving thermal efficiency, and enhancing protection and security, for homes and buildings within the residential building and home improvement markets. Its wide range of products includes window and door hardware, steel reinforcement products, window balances, foam and pile window seals, uPVC products and continuously moulded urethane foam (compression seals). Building Products US trades under the Amesbury Group and Schlegel brands.

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

Building Products US achieved 2009 sales of £105.7 million, a reduction of 4% from the 2008 level. However, on a constant currency basis sales fell by 18%, with the housing markets for both new build and the repair, maintenance and improvement sector (RMI)

remaining depressed throughout the year. As at 31 December 2009 Building Products US employed 955 people and operated from 10 manufacturing and distribution facilities based in the US and Mexico.

Building Products RoW

Building Products RoW is a leader in the manufacture and marketing of door and window seals, primarily for the worldwide housing market as well as being a contract manufacturer of window and door hardware for supply to Building Products UK. Core manufacturing competencies include continuously moulded urethane foam (compression seals), narrow fabric textiles (sliding seals), plastic extruded products, metal stamping and assembly. In addition, Building Products RoW supplies both manufactured and assembled door and window locking mechanisms to a number of their key seal customers.

Also manufactured are related products for the non-housing markets such as cleaning brushes, static control devices for copiers and printers and sway bar brushes.

Building Products RoW 2009 sales of £43.6 million were 15% below 2008 and 25% below on a constant currency basis. 2009 activity levels continued at the depressed levels encountered in the latter half of 2008.

Building Products RoW, principally trading under the Schlegel brand, has 306 employees, more than 5,000 customers and sells over 650 million metres of seals a year to more than 75 countries from 5 manufacturing plants located in Europe and Australasia.

Group business review continued

Strategy

Lupus is an international manufacturing group that aims to build shareholder value through the management, development and improvement of its operating businesses.

- We operate in fundamentally attractive business sectors and markets.
- Our businesses are market leaders in highly fragmented industries and hold strategic positions in their core markets.
- The breadth of our manufacturing operations allow us lowest cost manufacturing capability aligned with proximity to end markets and customers.
- We own strong local brands with deep customer and supplier relationships.
- We target new markets with growth potential, such as Eastern Europe and the Far East.
- We look for strategic acquisitions that will strengthen our existing businesses, complement our brands and increase shareholder value.

Principal risks and uncertainties

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

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

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

1. Risks arising from illiquid credit markets

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

Failure to obtain sufficient funding to meet our liquidity requirements may result in lost business opportunities or the curtailment of capital spending and other important strategic programmes.

2. The Group's industry is highly competitive

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

3. Overall growth and demand for products

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

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

4. The Group is subject to political, economic and regulatory factors in the various countries in which it operates, any of which could impact on its operating or financial results

Changes in regulatory requirements, tariffs and other trade barriers, price or exchange controls, composition or changes in taxation or other governmental policies in the countries in which the Group conducts business could limit its operations and make the repatriation of profits difficult. In addition, the uncertainty of the legal environment in some regions could limit the Group's ability to enforce its rights. The Group has sourcing operations in Asia, in particular, in Ningbo, China as well as utilising third party suppliers in China. The Group expects that sales to emerging markets will be an increasing portion of total sales as its customers target those markets. The economy of China differs from the economies of most developed countries in many respects, including:

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

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

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

5. Intellectual property rights may be difficult to protect and the Group may unknowingly infringe the intellectual property rights of others

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

The Group utilises a combination of trade secrets, confidentiality policies, non disclosure and other contractual arrangements in addition to relying on patent, copyright and trademark laws to protect its intellectual property rights. However, these measures may not be adequate to prevent or deter infringement or other misappropriation. Moreover, the Group may not be able to detect unauthorised use or take appropriate and timely steps to establish and enforce its proprietary rights. Existing laws of some countries in which the Group conducts business may offer only limited protection of the Group's intellectual property rights, if at all. Failure of the courts and, or administrative agencies in the PRC to enforce the Group's intellectual property rights effectively may have a material adverse effect on the Group.

Third parties have asserted, and, in the future may assert, claims against the Group alleging that the Group infringes their intellectual property rights. Defending such claims may be expensive, time consuming and divert the efforts of management and/or technical personnel. As a result of litigation, the Group could be required to pay damages and other compensation, develop non-infringing products or technology or enter into royalty or licensing agreements.

However, the Group cannot be certain that any such licences, if available at all, will be available to the Group on commercially reasonable terms.

6. Loss of major customers

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

7. Dependence on key executives and personnel

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

Group business review continued

8. Growth and expansion risks

Risk of potential future acquisitions

In the future, as part of its growth strategy, the Group may acquire other companies or businesses. Acquisitions by the Group may involve the use of significant amounts of cash, dilutive issues of equity securities and the incurrence of debt, each of which could materially and adversely affect the Group's business, results of operations, financial condition and/or the market price of Ordinary Shares. In addition, acquisitions involve numerous risks, including difficulties in the assimilation of the operations of any acquired business or company, the diversion of management's attention from other business concerns and the inheritance of liabilities.

While Lupus Capital has made no other commitments or agreements with respect to any acquisition, if such an acquisition does occur there can be no assurance that the Group's business, results of operations or financial condition would not be materially and adversely affected thereby.

9. Exposure to increases in the price of commodities and raw materials and supply chain failure

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

The Group's ability to deliver according to market demands depends in large part on obtaining timely and adequate supplies of components and raw materials on competitive terms. Failure by any of the Group's suppliers could interrupt its product supply, and would significantly limit the Group's sales and increase its costs. If the Group fails to anticipate customer demand properly, an over or undersupply of raw materials components and production

capacity could occur. In addition, a particular component may be available only from a limited number of suppliers. Suppliers may from time to time extend lead times, limit supplies or increase prices due to capacity constraints or other factors, which could adversely affect the Group's ability to deliver its products and solutions on a timely basis.

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

10. Taxation risks

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

Any change in the taxation legislation or accounting practice relating to employee benefit trusts and employee management incentive schemes could affect the effectiveness of the Share Incentive Arrangements. Lupus Capital cannot guarantee that its shares will continue to trade on AIM, rather than on a "recognised stock exchange" such as the London Stock Exchange, or that it will not in future have other securities in issue which trade on such an exchange. In addition, a change in taxation legislation could affect the tax regime that currently applies in respect of shares admitted to trading on AIM.

11. Environmental

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

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

12. Overseas activities

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

13. Foreign exchange

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

Further information on liquidity and credit risk, interest rate risk and foreign currency risk is given in note 18 of the Group financial statements.

Directors and advisers

Advisers

Secretary

Cavendish Administration Limited

Company number

2806007

Registered office

Crusader House
145-157 St John Street
London, EC1V 4RU

Auditors

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

Registrar

Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent, BR3 4TU

Nominated adviser and broker

Collins Stewart Europe Limited
88 Wood Street
London, EC2V 7QR

Solicitors

Slaughter and May
One Bunhill Row
London, EC1Y 8YY

Pinsent Masons
One Park Row
Leeds, LS1 5AB

Website

www.lupuscapital.co.uk



1. Jamie Pike**Non-Executive Chairman**

Jamie Pike (aged 54) was Chief Executive of Foseco plc, an international business serving the foundry and steel making industries, until its acquisition by Cookson Group plc in April 2008.

He led the buy-out of Foseco from Burmah Castrol in 2001, which culminated in flotation on the main market in 2005. Mr Pike, who is also Chairman of RPC Group plc, MBA Polymers Inc. and the Defence Support Group, was educated at Oxford, holds an MBA from INSEAD and is a Member of the Institute of Mechanical Engineers.

His early career was as a consultant with Bain and Co and A T Kearney before joining Burmah Castrol in 1991. He rose to Chief Executive of Burmah Castrol Chemicals before leading the Foseco buy-out. He has previously been a Non-Executive Director of two FTSE 250 companies, RMC Group plc and Kelda Group plc.

2. Louis Eperjesi**Chief Executive Officer**

Louis Eperjesi (aged 48) was appointed to the Board in February 2010. Mr. Eperjesi has an extensive and successful track record in the building materials and manufacturing sectors, most recently at Kingspan Group plc, the international building products business, where he was an executive director on the main board and Divisional Managing Director of Kingspan Insulated Panels, the Group's largest division.

Prior to joining Kingspan, Mr. Eperjesi held a range of senior management positions at subsidiaries of Baxi Group plc, Redland plc, Lafarge and Caradon plc.

3. Paul Felton-Smith**Chief Financial Officer**

Paul Felton-Smith (aged 51) is an experienced Finance Director, having worked in a number of sectors. He joined the Group as an interim Chief Financial Officer on 30 June 2009. He has previously been appointed to a number of turnaround situations including roles as Chief Financial Officer of Metronet Rail, and as Finance Director of both Regent Inns and Asprey & Garrard. Mr Felton-Smith qualified as a chartered accountant with Arthur Young before spending 5 years in finance at the Burton Group. Mr Felton-Smith is Non-Executive Chairman of DNick Holdings plc.

4. Les Tench**Non-Executive Director**

Les Tench (aged 64) has considerable experience in building products, having joined CRH plc in 1992 where from 1998 until his retirement in December 2002 he was Managing Director of CRH Europe – Building Products. He was also a Non-Executive Director of the privately owned family business Shepherd Building Group Limited (Construction and Engineering, Manufacturing and Property Development) from 1994 until 2004.

Mr Tench is currently Non-Executive Chairman of SIG plc and a Non-Executive Director of Norcross plc.

5. Martin Towers**Non-Executive Director**

Martin Towers (aged 57) is currently interim Chief Executive of Spice plc. He was Group Finance Director of Kelda Group plc from 2003 until its takeover in February 2008. He is a fellow of the Institute of Chartered Accountants in England and Wales and began his career with Coopers & Lybrand (now PricewaterhouseCoopers) before moving to the retailer, Ward White Group plc. In 1990 he was appointed Group Finance Director of McCarthy & Stone plc. Subsequently, he was Group Finance Director of The Spring Ram Corporation plc and Allied Textile Companies plc. He was a Non-Executive Director of Homestyle Group plc from 2004 to 2006 and currently serves as Non-Executive Director of KCOM Group plc and RPC Group plc.

Directors' report

Review of the business

The review of the business is set out on pages 2 to 11.

Principal activities

The Company is a holding company. The principal activities of its main operating subsidiaries are the manufacture, supply and distribution of building products and of goods to the oil and gas industries.

Future developments

The statement by the Chairman and Chief Executive Officer set out on pages 2 to 5 contains details of the progress of the Group during the year together with an indication of future developments and strategy.

Results and dividends

The Group profit for the year after taxation amounted to £413,000 (2008: £6,516,000).

No dividends were paid in the financial year (2008: 2.06p per share) and the directors do not intend to declare a dividend in respect of 2009 (2008: Nil).

The board

The directors who have held office during the last financial year and in the subsequent period to the date of this report are listed in the table below.

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

A description of the Board's method of operation, its work during the year and that of its committees, is given in the report on Corporate Governance on pages 17 to 19.

Re-election of directors

Mr Pike, Mr Eperjesi, Mr Towers and Mr Tench, having been appointed by the Board since the last Annual General Meeting, will seek re-election at the Annual General Meeting. Mr Mulhall will retire from the Board on 31 March 2010 and Mr Felton-Smith is expected to step down from the Board prior to the Annual General Meeting.

Directors' interests

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

	31 December 2009 Ordinary shares	31 December 2008 Ordinary shares
Jamie Pike	260,000	N/A
Louis Eperjesi	N/A	N/A
Denis Mulhall	665,000	665,000
Paul Felton-Smith	—	N/A
Martin Towers	50,000	N/A
Leslie Tench	38,750	N/A
Frederic Hoad	N/A	53,333
Greg Hutchings	N/A	4,962,947
Michael Jackson	123,847	123,847
Roland Tate	110,242	110,242
Keith Taylor	—	N/A

Mr Eperjesi acquired 90,000 shares in the Company on 19 January 2010.

No shares were issued to directors during the year ended 31 December 2009 (2008: 37,974 shares to Mr Jackson and 37,974 shares to Mr Tate).

Auditors

In accordance with section 489 of the Companies Act 2006, an ordinary resolution to reappoint Grant Thornton UK LLP as auditors will be proposed at the Annual General Meeting; this is item 6 in the Notice of Meeting.

Directors' Remuneration

The Company, being quoted on AIM, is not required to comply with the Directors' Remuneration Report Regulations 2002 or Section 420 of the Companies Act 2006, Schedule 8 of SI 2008/410 and the UKLA Listing Rules. Nevertheless, the Company has chosen to present a report on directors' remuneration on pages 20 to 21. The directors have also determined, on a voluntary basis, that this report should be submitted to shareholders for their approval. This is resolution 8 in the Notice of Meeting.

Allotment of shares

Shareholders passed resolutions to authorise the directors to allot shares and, within certain limitations, to do so free from pre-emption rights at the Annual General Meeting held on 29 July 2009.

The directors' authority to allot shares does not expire until 1 July 2014, whereas the disapplication of pre-emption rights is only effective until the conclusion of the Company's 2010 AGM. The directors believe that the Company's proceedings will be more transparent if they seek renewed authority to allot shares at the same time as they seek authority to disapply pre-emption rights.

Therefore, the Notice of Meeting includes resolution 9, which will authorise the directors to allot shares (subject to specified limits) until 1 May 2015, and resolution 10, a special resolution, which will authorise the directors to disapply pre-emption rights (in certain circumstances and subject to specified limits) until the conclusion of the Company's 2011 AGM.

Adoption of new articles of association

It is proposed in resolution 11 to adopt new articles of association in order to update the Company's current articles of association primarily to take account of changes in English company law brought about by the Companies Act 2006, the Companies (Shareholders' Rights) Regulations 2009 and amendments to the Uncertified Securities Regulations 2001. A full explanation of these changes is included in the notes to the Notice of Meeting on pages 63 to 66. The proposed new articles of association will be published on the Company's website and will be on display at the forthcoming AGM.

Substantial shareholders

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

	Ordinary shares	%
Aviva	19,928,945	15.35
F & C Asset Management	16,158,580	12.45
Mr G Hutchings	14,300,417	11.01
Polar Capital	8,886,077	6.84
Schroder Asset Management	8,116,454	6.25
SISU Capital	5,206,366	4.01
EPIC	4,261,791	3.28

The voting interests of Mr Hutchings include 8,785,466 shares held beneficially, 392,000 shares held non-beneficially and 5,122,951 shares held by the trustees of the Lupus Employee Share Benefit Scheme (the lesot) under the employee incentive arrangements approved by shareholders on 16 February 2004. These shares were allocated for the benefit of the family of Mr Hutchings.

Directors' report continued

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 37 days.

Employees

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

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

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

Going concern

The Board believes it is appropriate to continue to adopt the going concern basis in preparing the annual report and accounts, as stated in the Basis of Preparation note on page 27.

By order of the Board

Cavendish Administration Limited

Company Secretary

25 March 2010

Company registration number: 3846926

Corporate governance

The directors acknowledge the importance of the Principles set out in the Combined Code, as issued in revised form in 2006 by the Financial Reporting Council, and have put in place a framework for corporate governance which they believe is appropriate for the Company.

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

The Board

Board composition

The Board normally comprises two executive and three non-executive directors.

During the year ended 31 December 2009 there were a number of changes to its personnel. Mr Hutchings left the Board on 30 June 2009. Mr Taylor and Mr Felton-Smith joined the Board on 30 June 2009. Mr Hoad left the Board on 29 July 2009. Mr Pike was appointed a director and as non-executive Chairman on 23 November 2009. Mr Towers and Mr Tench joined the Board as non-executive directors on 17 December 2009. Mr Towers is the senior non-executive director.

Since 31 December 2009 there have been a number of further changes. Mr Taylor, Mr Jackson and Mr Tate stepped down from the Board on 22 January 2010. Mr Eperjesi was appointed CEO on 22 February 2010. Mr Mulhall, who has served as an executive director since 23 February 2004, will retire from the Board on 31 March 2010.

Mr Eperjesi is engaged exclusively on the Company's business and has no outside interests that conflict with his responsibilities to the Company. All non-executive directors are independent.

How the board operates

The Board meets regularly and is responsible for strategy, performance and the framework of internal controls. The Board has a formal schedule of matters specifically reserved to it for decision. Responsibility for the day-to-day operational management of Gall Thomson Environmental Limited, the Schlegel companies and the LSS companies is delegated to the directors of those companies. To enable the Board to discharge its duties, all directors receive appropriate and timely information. The Company Secretary distributes briefing papers to all directors in advance of Board meetings. All directors have access to the advice and services of the Company Secretary, which is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The appointment and removal of the Company Secretary is a matter for the Board as a whole. In addition, procedures are in place to enable the directors to obtain independent professional advice in the furtherance of their duties, if necessary, at the Company's expense.

Board meetings

During the year ended 31 December 2009, there were twenty-two meetings of directors. Participation in the meetings was as follows:

Mr Hutchings, eight meetings;
Mr Hoad, ten meetings;
Mr Mulhall, eighteen meetings;
Mr Jackson, seventeen meetings (plus one meeting as a committee of one);
Mr Tate, eighteen meetings;
Mr Taylor, eleven meetings;
Mr Felton-Smith, eight meetings;
Mr Pike, four meetings;
Mr Tench, one meeting.

Re-election of directors

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

Remuneration

A report on directors' remuneration is included on pages 20 to 21.

Corporate governance continued

Board committees

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

Audit and corporate governance committee

The Audit and Corporate Governance Committee is made up of the non-executive directors.

The executive directors also attend meetings of the Committee by invitation. The Committee considers the appointment and fees of the external auditors and discusses the scope of the audit and its findings. The Committee is also responsible for monitoring compliance with accounting and legal requirements and for reviewing the annual and interim financial statements. The Committee was chaired by Mr Hoad and is now chaired by Mr Towers.

During the year ended 31 December 2009 the Committee held one meeting. Mr Hoad, Mr Tate and Mr Jackson attended the meeting.

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

Remuneration committee

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

The membership and work of the Committee during the year ended 31 December 2009 is described in detail in the Directors' Remuneration Report on pages 20 to 21.

Nominations committee

The Nominations Committee identifies and nominates candidates for the office of director of the Company. It meets as and when required and was chaired by Mr Tate during 2009. The Committee met once during the year ended 31 December 2009 and was attended by Mr Tate, Mr Hoad and Mr Mulhall. In view of the large number of Board meetings during 2009 and the significant number of matters arising that related to personnel changes, some business that would normally be conducted by this committee was carried out by the Board. The Committee is chaired by Mr Pike. Mr Pike would not chair the Committee or attend it if it were to consider the appointment of a successor Chairman.

Internal control

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

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

Relations with shareholders

Communications with shareholders are given high priority and there is a regular dialogue with institutional and other substantial 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 can be found in the Directors' Report.

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

Directors' responsibilities for the financial statements

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

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

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

In so far as the directors are aware:

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

The directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' remuneration report

The Company, being quoted on AIM, is not required to comply with the Directors Remuneration Report Regulations 2002 or the disclosure provisions of Section 420 of the Companies Act 2006, Schedule 8 of SI 2008/410 and the UKLA Listing Rules, but has chosen to make the following voluntary unaudited disclosures:

Remuneration committee and advisers

The Remuneration Committee of the Board comprises all non-executive directors of the Company. The Committee is responsible for determining and reviewing the terms of appointment and the remuneration of the directors of the Company. During 2009 the Committee was chaired by Mr Hoad up to the time of his departure, and subsequently by Mr Tate. Since 1 January 2010 the Committee has been chaired by Mr Tench.

During the year ended 31 December 2009, the Committee met four times. Mr Tate attended all four meetings, Mr Jackson attended three meetings, Mr Hoad two meetings and Mr Pike one meeting.

The Remuneration Committee has access to independent advice whenever appropriate.

Remuneration policy

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

Changes during 2009

The annual salaries of Messrs Hutchings and Mulhall, the two executive directors at the start of the year, were unchanged at £450,000 and £318,000 respectively. Mr Hutchings left the Company on 30 June 2009.

Remuneration

The remuneration payable to Directors in respect of the year ended 31 December 2009 was as follows:

	Salary/fees £'000	Bonus/ Success fee £'000	Benefits £'000	Severance Payments £'000	Total 2009 £'000	Note	Total 2008 £'000
Jamie Pike	9	—	—	—	9	E	—
Keith Taylor	322	250	—	—	572	A,B,D	—
Denis Mulhall	318	100	2	—	420	C,G	354
Paul Felton-Smith	180	160	—	—	340	A,B	—
Michael Jackson	78	—	—	—	78	E	30
Roland Tate	62	—	—	—	62	E	30
Les Tench	1	—	—	—	1	E	—
Martin Towers	1	—	—	—	1	E	—
Greg Hutchings	225	—	2	481	708	C,F	509
Frederic Hoad	70	—	—	—	70	E	30
Total	1,266	510	4	481	2,261		953

A. Contracts with service providers

On 30 June 2009 Keith Taylor and Paul Felton-Smith were appointed as Chief Executive and Chief Financial Officer respectively. Both Mr Taylor and Mr Felton-Smith worked on the basis of agreements reached with their respective service companies, Crispins Partnership Limited ("Crispins") and Lansdowne Financial Management Limited ("Lansdowne"). These agreements provided for the payment to Crispins of £2,750 (plus VAT) per full day worked by Mr Taylor and to Lansdowne of £1,750 (plus VAT) per full day worked by Mr Felton-Smith. There were no other benefits, but success fees of £250,000 would be payable to Crispins and of £160,000 to Lansdowne upon the achievement of specified targets.

B. Success fees

The first tranche of success fees, amounting to £40,000 each to Crispins and Lansdowne, were determined by the Remuneration Committee to be payable, and were paid, in September 2009. The Remuneration Committee subsequently determined, in December 2009, that the balance of these fees, amounting to £210,000 to Crispins and £120,000 to Lansdowne, had in principle become payable. They were accrued in the accounts for the year ended 31 December 2009 and were paid in January 2010.

C. Executive directors service agreements

Under the terms of their service agreements executive directors employed directly by the Company are entitled, in addition to their annual salary, to membership of a private medical expenses arrangement and permanent health insurance cover. They are also entitled to participate from time to time in any bonus arrangements the Board may establish.

The notice period provisions of Mr Mulhall's service agreement were amended during 2009 to provide a fixed term, initially of six months, subsequently extended to nine months, during which Mr Mulhall would be entitled to receive twelve months' salary and benefits if he were to leave the Company at any time (other than dismissal for cause). Consequently the cost of Mr Mulhall's severance payment was accrued in the year ended 31 December 2009.

D. Payment to Mr Taylor for work before becoming a director

Crispins invoiced the Company for £68,750 for preparatory work performed by Mr Taylor before becoming a director. This figure is not included in the table above.

E. Non-executive directors

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

The basic fees of non-executive directors remained unchanged, at £30,000 per year. On 1 July 2009 Mr Jackson became non-executive chairman and his annual fee was raised to £50,000. The exceptional level of additional work performed by the non-executive directors throughout the year (as evidenced in part by the very high number of Board meetings) was recognised by the payment of additional fees. Mr Hoad, who had effectively chaired the Board during the period when the position of the executive directorship was under debate, received a total of £55,000 of fees for his additional services. Mr Jackson was paid a total of £40,000 and Mr Tate £32,500 in fees for additional work and responsibilities beyond the normal level.

As non-executive chairman, Jamie Pike's annual fee will be £90,000. The annual fee for Martin Towers and Les Tench will be £30,000 each.

F. Compromise Agreement with Mr Hutchings

Under the terms of a Compromise Agreement between Mr Hutchings and the Company, Mr Hutchings received severance payments comprising a Termination Payment of £412,000 and a Compensation payment of £68,825. The Company undertook to continue to provide private medical insurance, life insurance and permanent health insurance, or the cash equivalent thereof, for a period of twelve months from 1 July 2009; these figures are not included in the table above.

G. Cash bonus schemes

The service agreements of Messrs Mulhall and Hutchings included provision for possible cash bonus scheme arrangements. No such bonuses were paid to either Mr Mulhall or Mr Hutchings in 2009, however Mr Mulhall was awarded a bonus of £100,000 in respect of 2009.

Share Incentive Scheme

2,000,000 options out of a total of 4,000,000 options granted to Mr Hutchings lapsed on his departure from the Group. No awards of shares were made, or options exercised, under the Share Incentive Scheme during the year ended 31 December 2009.

Pensions

During 2009 there were no defined benefit pension entitlements and no pension payments were made in respect of the directors.

By order of the Board

Cavendish Administration Limited

Company Secretary
25 March 2010

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

We have audited the group financial statements of Lupus Capital plc for the year ended 31 December 2009 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, consolidated balance sheet, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of part 16 of the Companies Act 2006. 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

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the parent company financial statements of Lupus Capital plc for the year ended 31 December 2009.

Charles Hutton-Potts BSc, FCA

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
25 March 2010

Consolidated income statement

For the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Revenue	3	241,621	266,559
Cost of sales		(161,104)	(175,666)
Gross profit		80,517	90,893
Administrative expenses		(68,527)	(70,046)
Operating profit	5	11,990	20,847
Analysed as:			
Operating profit before exceptional items and amortisation of intangible assets		25,598	36,619
Exceptional items	4	(2,055)	(5,987)
Amortisation of intangible assets	10	(11,553)	(9,785)
Operating profit		11,990	20,847
Finance income	7	450	1,687
Finance costs	7	(13,089)	(11,743)
Net finance costs		(12,639)	(10,056)
(Loss)/profit before taxation		(649)	10,791
Income tax credit/(expense)	8	1,062	(4,275)
Profit for the year		413	6,516
Earnings per share			
– Basic EPS from continuing operations	9	0.32p	5.01p
– Diluted EPS from continuing operations	9	0.32p	4.92p

All results relate to continuing operations.

	Note	2009 £'000	2008 £'000
Non GAAP measure			
Underlying¹ profit before taxation		15,718	27,685
Earnings per share			
– Underlying ¹ basic EPS from continuing operations	9	9.39p	14.83p
– Underlying ¹ diluted EPS from continuing operations	9	9.39p	14.57p

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

Consolidated statement of comprehensive income

For the year ended 31 December 2009

	2009 £'000	2008 £'000
Profit for the year	413	6,516
Actuarial losses on defined benefit plans	(1,403)	(5,559)
Exchange differences on retranslation of foreign operations	(11,892)	42,620
Effective portion of changes in value of cash flow hedges	1,449	(2,392)
Tax on items recognised directly in equity	477	1,890
Income and expense recognised directly in equity	(11,369)	36,559
Total comprehensive (expense)/income		
– attributable to equity shareholders of the Company	(10,956)	43,075

Consolidated statement of changes in equity

For the year ended 31 December 2009

	Share capital £'000	Share premium £'000	Other reserves £'000	Treasury reserve £'000	Hedging reserve £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2008	6,861	45	10,389	(1,075)	(1,546)	(1,801)	194,259	207,132
Dividends paid	—	—	—	—	—	—	(7,232)	(7,232)
Share based payments	—	—	—	—	—	—	55	55
Shares issued net of costs	3	56	—	—	—	—	—	59
Share buyback	—	—	—	(5,689)	—	—	—	(5,689)
Transactions with owners	3	56	—	(5,689)	—	—	(7,177)	(12,807)
Total comprehensive income/(expense) for the period	—	—	—	—	(2,392)	42,620	2,847	43,075
At 31 December 2008	6,864	101	10,389	(6,764)	(3,938)	40,819	189,929	237,400
Share based payments	—	—	—	—	—	—	23	23
Transactions with owners	—	—	—	—	—	—	23	23
Total comprehensive income/(expense) for the period	—	—	—	—	1,449	(11,892)	(513)	(10,956)
At 31 December 2009	6,864	101	10,389	(6,764)	(2,489)	28,927	189,439	226,467

Consolidated balance sheet

As at 31 December 2009

	Note	2009 £'000	2008 £'000
ASSETS			
Non-current assets			
Intangible assets	10	333,998	369,260
Property, plant and equipment	11	34,296	41,663
Deferred tax	8	7,792	8,297
		376,086	419,220
Current assets			
Current tax receivable		395	—
Inventories	12	26,036	36,857
Trade and other receivables	14	29,850	34,720
Cash and cash equivalents		24,955	32,407
		81,236	103,984
TOTAL ASSETS		457,322	523,204
LIABILITIES			
Current liabilities			
Current tax payable		—	(6,321)
Trade and other payables	15	(36,815)	(39,148)
Provisions	17	(3,353)	—
Finance lease obligations	16	(8)	(231)
Derivative financial instruments	13	(2,534)	—
Interest bearing loans and borrowings	16	(3,063)	(27,857)
		(45,773)	(73,557)
Non-current liabilities			
Finance lease obligations	16	(10)	(54)
Deferred tax	8	(26,091)	(30,386)
Interest bearing loans and borrowings	16	(132,887)	(149,586)
Employee benefit liability	19	(7,650)	(7,598)
Provisions	17	(17,662)	(20,441)
Derivative financial instruments	13	—	(3,938)
Other creditors		(782)	(244)
		(185,082)	(212,247)
TOTAL LIABILITIES		(230,855)	(285,804)
NET ASSETS		226,467	237,400
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Called up share capital	20	6,864	6,864
Share premium		101	101
Other reserves		10,389	10,389
Treasury reserve		(6,764)	(6,764)
Hedging reserve		(2,489)	(3,938)
Translation reserve		28,927	40,819
Retained earnings		189,439	189,929
TOTAL EQUITY		226,467	237,400

The financial statements were approved by the Board on 25 March 2010 and signed on its behalf by:

Jamie Pike

Chairman

Louis Eperjesi

Chief Executive Officer

Consolidated cash flow statement

For the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Cash flows from operating activities			
(Loss)/profit before tax		(649)	10,791
Adjustments	22	32,839	31,271
Movement in inventories		9,752	4,013
Movement in trade and other receivables		3,840	5,891
Movement in trade and other payables		(2,878)	(13,236)
Provisions utilised	17	(2,981)	(3,306)
Pension contributions		(1,317)	(1,200)
Income tax paid		(2,155)	(3,351)
Net cash inflow from operating activities		36,451	30,873
Investing activities			
Payments to acquire property, plant and equipment	11	(2,144)	(4,484)
Payments to acquire intangible assets	10	(91)	—
Deferred consideration on previous acquisition		—	(12,500)
Interest received		450	1,708
Net cash outflow from investing activities		(1,785)	(15,276)
Financing activities			
Proceeds from shares issue, net of costs		—	59
Own share purchased		—	(5,689)
Equity dividends paid		—	(7,232)
New borrowings		—	5,390
Interest paid		(10,981)	(9,849)
Refinancing costs paid		(7,405)	—
Repayment of short term borrowings		(22,780)	(17,937)
Repayment of capital element of finance leases		(242)	(117)
Net cash outflow from financing activities		(41,408)	(35,375)
Decrease in cash and cash equivalents		(6,742)	(19,778)
Effect of exchange rates on cash and cash equivalents		(710)	5,216
Cash and cash equivalents at the beginning of the year		32,407	46,969
Cash and cash equivalents at the year end		24,955	32,407

Notes to the Group financial statements

1. Basis of preparation and accounting policies

The Group's principal activities are the manufacture, supply and distribution of building products and goods to the oil and gas industry. Lupus Capital plc is the Group's ultimate parent company. It is incorporated and domiciled in England and Wales at the address shown on page 13.

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

The Group's consolidated financial statements are prepared in accordance with the principal accounting policies adopted by the Group as set out in note 2 and International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations ("IFRIC") as adopted for use in the European Union (EU), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

In the current year, the group has adopted IFRS 1 (revised) 'Presentation of Financial Statements', IFRS 7 'Financial Instruments: Disclosures' and IFRS 8 'Operating segments'. IFRS 1 (revised) brings new disclosure requirements regarding owner and non-owner changes in equity which are now required to be shown separately. These financial statements have prepared under the revised disclosure requirements which requires the presentation of a comparative balance sheet at the start of the comparative period. Management consider this is unnecessary since the 2007 balance sheet is the same as that previously published. IFRS 7 requires enhanced disclosures about fair value measurement and liquidity risk. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the group that are regularly reviewed by the board.

The forthcoming standards may affect the preparation of the Group's financial statements in the future:

IFRIC 16: Hedges;
IFRS 3: Business combinations; and
IAS 39: Financial instruments.

These standards are effective but the Group has not adopted them early.

Going concern

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

During the year, the Group successfully renegotiated the terms of its debt facilities in both its LSS and Schlegel divisions. The mandatory repayments in 2010 have been reduced from \$30m to \$2m and £10m to £1.5m in the LSS and Schlegel divisions respectively under the new facility agreement. In addition to these amounts, repayments in both divisions of 75% of excess cash generated over a 12 month period will have to be paid in the final quarter of the year. The Group's forecasts indicate that its interest and debt repayment obligations will be met during 2010.

2. Summary of significant accounting policies

Accounting convention

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

Basis of consolidation

The financial statements consolidate the Company and its subsidiary undertakings (note 25) and are drawn up to 31 December each year. The financial statements of the subsidiaries are prepared as of the same reporting date as the parent, using consistent accounting policies.

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

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

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

Notes to the Group financial statements

2. Summary of significant accounting policies continued

Recent accounting developments

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

- IFRS 9 Financial Instruments (effective 1 January 2013)
- Prepayments of a Minimum Funding Requirement – Amendments to IFRIC 14 (effective 1 January 2011)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective 1 July 2010)
- Improvements to IFRSs (Issued 16 April 2009)
- Group Cash-settled Share-based Payment Transactions – Amendment to IFRS 2 (effective 1 January 2010)
- Amendment to IFRS 1 Additional Exemptions for First-time Adopters (effective 1 January 2010)
- IAS 24 (Revised 2009) Related Party Disclosures (effective 1 January 2011)

The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's reported results.

Principal accounting policies

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

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

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

Goodwill

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

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

Intangible assets

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

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

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

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

Impairment of assets

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

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

2. Summary of significant accounting policies continued

Impairment of assets continued

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

An impairment review is performed by comparing the carrying value of the property, plant and equipment or intangible asset or goodwill with its recoverable amount, being the higher of the fair value less costs to sell and value in use. The fair value less costs to sell is the amount that could be obtained on disposal of the asset. The value in use is determined by discounting, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, the expected future cash flows resulting from its continued use, including those on final disposal. Impairment losses are recognised in the income statement immediately. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which it belongs. Considerable management judgment is necessary to estimate discounted future cash flows. Accordingly, actual cash flows could vary considerably from forecast cash flows. Impairment reversals are permitted to property, plant and equipment or intangible assets (but not goodwill) to the extent that the new carrying value does not exceed the amount it would have been had no impairment loss been previously recognised.

Segment reporting

The Group's continuing operations are divided into two business segments, Oil services and Building products, identified on the basis of internal reports about components of the Group. The group's reporting formats are products and as this is consistent with the segments reviewed by the chief operating decision maker. A product segment is a component of the Group that is engaged in providing a group of related products and is subject to risks and returns that are different from those of the other segments. IFRS 8 also requires disclosure of information on geographical areas with the groups system of internal reporting to key management personnel serving as a starting point.

Revenue

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

Cash and cash equivalents

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

Interest bearing bank loans and borrowings

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

Property, plant and equipment

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

Freehold land – not depreciated
 Freehold buildings – 2% to 5%
 Plant and machinery – 7.5% to 33%
 Motor vehicles – 20% to 25%

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

Inventories

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

Notes to the Group financial statements

2. Summary of significant accounting policies continued

Leases

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

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

Foreign currencies

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

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

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

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

Provisions

Provisions are recognised:

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

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

Pensions and other post employment benefits

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

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

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

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

2. Summary of significant accounting policies continued

Share capital

Ordinary shares are classified as equity.

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

Financial assets, liabilities and derivatives

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument and are generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

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

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

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

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

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

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

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

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

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

Investments in foreign operations

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

Notes to the Group financial statements

2. Summary of significant accounting policies continued

Deferred taxation

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

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

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

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

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

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

Exceptional items

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

Share-based payments

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

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

Non GAAP measure accounting policy

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

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

2. Summary of significant accounting policies continued

Key judgements by management

The following areas represent the key judgements made by management in order to facilitate the preparation of the Group's financial statements:

Taxation

The group is subject to taxation in numerous jurisdictions. Judgement is required in determining the world wide provision for income taxes as there are transactions for which the ultimate tax determination is uncertain.

Impairment reviews and discount rates.

The group tests intangible assets and goodwill for impairment in accordance with the stated accounting policy. The value in use calculations require the use of estimates of future activity and assessment of appropriate discount rates.

Key sources of estimation uncertainty

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

Impairment of goodwill and other intangible assets

There are a number of assumptions management have considered in performing impairment reviews of goodwill and intangible assets. In determining whether goodwill is impaired an estimation of value in use of the cash generating units to which goodwill has been allocated has been prepared. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value (note 10).

Provisions

Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the Balance Sheet date, and are discounted to present value where the effect is material (note 17).

Valuation of financial instruments at fair value

Management makes a number of assumptions with regards to the models used to value financial instruments at their fair value at the year end. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument (note 13).

Intangible assets acquired in a business combination

On acquisition of Group companies, the Group recognises any separately identifiable intangible assets from goodwill, initially measuring each group of intangible assets at fair value. Groups of intangible assets will include purchased brands, customer relationships, trade marks and licenses. The determination of fair value requires the directors to estimate the useful economic life of each asset and the future cash flows expected to arise from each asset and to apply a suitable discount rate (note 10).

Inventories

Inventories are stated at the lower of cost and net realisable value, with due allowance for excess, obsolete or slow-moving items. Net realisable value is based on current assessments of future demand, market conditions and new product development initiatives. Should demand for the Group's products decline further during the next financial year as a result of the current economic downturn, additional allowances may be necessary in respect of excess or slow-moving items (note 12).

Defined benefit pension and post retirement benefit schemes

The benefit obligation is calculated using a number of assumptions including future salary increases, increases to pension benefits, mortality rates and, in the case of post-employment medical benefits, the expected rate of increase in medical costs. The present value of the benefit obligation is calculated by discounting the benefit obligation using market yields on high-quality corporate bonds at the balance sheet date. The plan assets consist largely of listed securities and their fair values are subject to fluctuation in response to changes in market conditions. Effects of changes in the actuarial assumptions underlying the benefit obligation, effects of changes in the discount rate applicable to the benefit obligation and effects of differences between the expected and actual return on the plan assets are classified as actuarial gains and losses and are recognised directly in equity. Further actuarial gains and losses will be recognised during the next financial year. An analysis of the assumptions that will be used by management to determine the cost of defined benefit plans that will be recognised in the income statement in the next financial year is presented in note 19.

Deferred tax assets

Estimation is required of temporary differences between the carrying amount of assets and liabilities and their tax base. Deferred tax liabilities are recognised for all taxable temporary differences but, where deductible temporary differences exist, management's judgement is required as to whether a deferred tax asset should be recognised based on the availability of future taxable profits. It is possible that the deferred tax assets actually recoverable may differ from the amounts recognised if actual taxable profits differ from management's estimates (note 8).

Notes to the Group financial statements

3. Segmental analysis

Product analysis

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

Year ended 31 December 2009	United Kingdom £'000	Europe £'000	Americas £'000	Rest of the World £'000	Building products Total £'000	Oil services United Kingdom £'000	Total £'000
Revenue							
Revenue from continuing operations	79,718	30,148	105,666	13,499	229,031	12,590	241,621
Operating profit before exceptional items and amortisation of intangible assets	6,276	1,944	10,836	642	19,698	5,900	25,598
Other segment information							
Segment Assets	105,451	47,604	268,622	14,984	436,661	20,550	457,211
Unallocated assets							111
							457,322
Segment liabilities	(32,944)	(3,510)	(43,348)	(3,975)	(83,777)	(2,150)	(85,927)
Unallocated segment liabilities					(140,975)		(140,975)
Unallocated group liabilities					—		(3,953)
					(224,752)		(230,855)
Non-current assets	74,391	39,033	241,087	9,848	364,359	11,727	376,086
Capital expenditure:							
– property, plant and equipment	906	110	1,054	48	2,118	26	2,144
– intangible assets	—	—	86	5	91	—	91
Cost of goods sold					157,384	3,720	161,104
Depreciation					6,671	70	6,741
Amortisation					11,553	—	11,553
Employee benefit liabilities					7,650	—	7,650
Goodwill allocation					208,429	11,421	219,850
Intangible asset allocation					114,148	—	114,148
Exceptional items (note 4)					335	—	335
Exceptional items – unallocated (note 4)							1,720

All revenue comprises amounts earned on amounts receivable from customers. There is no single external customer from whom significant revenue is generated.

3. Segmental analysis *continued*

Product analysis *continued*

Comparative segmental disclosure for the year ended 31 December 2008 is as follows:

Year ended 31 December 2008	United Kingdom £'000	Europe £'000	Americas £'000	Rest of the World £'000	Building products Total £'000	Oil services United Kingdom £'000	Total £'000
Revenue							
Revenue from continuing operations	92,895	35,070	109,872	16,436	254,273	12,286	266,559
Operating profit before exceptional items and amortisation of intangible assets	10,961	3,663	15,760	357	30,741	5,878	36,619
Other segment information							
Segment Assets	115,899	58,051	311,074	14,657	499,681	20,723	520,404
Unallocated assets							2,800
							<u>523,204</u>
Segment liabilities	(29,894)	(5,033)	(50,054)	(4,247)	(89,228)	(1,962)	(91,190)
Unallocated segment liabilities					(185,211)		(185,211)
Unallocated group liabilities					—		(9,403)
					<u>(274,439)</u>		<u>(285,804)</u>
Non-current assets	77,513	45,573	275,363	9,021	407,470	11,750	419,220
Capital expenditure:							
– property, plant and equipment	1,888	233	2,107	232	4,460	24	4,484
– intangible assets	—	—	—	—	—	—	—
Cost of goods sold					171,965	3,701	175,666
Depreciation					6,184	67	6,251
Amortisation					9,785	—	9,785
Employee benefit liabilities					7,598	—	7,598
Goodwill allocation					222,664	11,421	234,085
Intangible asset allocation					135,175	—	135,175
Exceptional items (note 4)					5,987	—	5,987

4. Exceptional items

	2009 £'000	2008 £'000
Redundancy and restructuring costs	695	3,243
Impairment charges associated with restructuring	—	2,744
Costs associated with negotiating new debt facilities	1,232	—
Other corporate costs including EGM costs	708	—
Other	(580)	—
	<u>2,055</u>	<u>5,987</u>

Other exceptional costs mainly relate to the release of unused provisional amounts set up on the acquisition of Schlegel.

Notes to the Group financial statements

5. Operating profit

Operating profit is stated after charging the following:

	2009 £'000	2008 £'000
Depreciation of property, plant and equipment – owned assets	6,520	6,062
Depreciation of property, plant and equipment – leased assets	221	189
Amortisation of intangible assets	11,553	9,785
Operating lease rentals – land and buildings	3,924	4,947
Fees payable to the Company's auditors for the audit of the Group accounts	91	125
Fees payable to the Company's auditors or their associates for other services:		
– Audit of the Company's subsidiaries	392	383
– Tax, general and other services	70	258
Foreign exchange loss/(profit)	101	(269)

6. Employees

Number of employees

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

	2009 Number	2008 Number
Administration	236	358
Sales	170	198
Operations	1,635	1,946
	2,041	2,502

The number of employees (including directors) of the Group as at 31 December 2009 was:

	2009 Number	2008 Number
Administration	227	337
Sales	167	189
Operations	1,609	1,746
	2,003	2,272

Employment costs

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

	2009 £'000	2008 £'000
Wages and salaries	49,880	50,900
Social Security costs	5,466	5,675
Pension costs – defined contribution schemes	1,402	1,313
Pension costs – defined benefit schemes	216	208
Share based payments	23	55
	56,987	58,151

6. Employees continued**Directors' remuneration**

The remuneration payable to directors was as follows:

	2009 £'000	2008 £'000
Jamie Pike	9	—
Keith Taylor	572	—
Denis Mulhall	420	354
Paul Felton-Smith	340	—
Michael Jackson	78	30
Roland Tate	62	30
Les Tench	1	—
Martin Towers	1	—
Greg Hutchings	708	509
Frederic Hoad	70	30
Total	2,261	953

The fees of Mr Hoad were paid to Hoad & Co (Consultants) Limited, those of Mr Tate were paid to Tiger Corporate Finance Limited and those of Mr Jackson to Michael Jackson Associates. The fees of Mr Taylor were paid to Crispins Partnership Limited and those of Mr Felton-Smith were paid to Lansdowne Finance Limited.

No options were granted to any directors in the year ended 31 December 2009.

7. Finance income and costs

	2009 £'000	2008 £'000
Finance income		
Bank interest receivable	450	1,687
Finance costs		
Interest payable on bank loans and overdraft	(7,905)	(9,464)
Fair value losses on financial instruments		
– interest rate swap – cash flow hedge, transfer from equity	(1,996)	(1,039)
Bank finance costs payable	(9,901)	(10,503)
Ineffective portion of changes in value of cash flow hedges	(45)	(54)
Finance charges payable under finance lease and hire purchase contracts	(29)	(30)
Amortisation of borrowing costs	(2,125)	(364)
Unwinding of discount on provisions	(634)	(758)
Pension scheme and other finance costs	(355)	(34)
	(13,089)	(11,743)
Net finance costs	(12,639)	(10,056)

Notes to the Group financial statements

8. Taxation

(a) Tax on profit on ordinary activities

Income tax in the income statement

	2009 £'000	2008 £'000
Current income tax:		
UK Corporation tax	798	4,626
Foreign tax	905	1,876
Current income tax charge	1,703	6,502
Adjustments in respect of prior periods	(766)	(34)
Total current income tax	937	6,468
Deferred tax:		
Origination and reversal of temporary differences	(1,911)	(2,193)
Adjustments in respect of prior periods	(88)	—
Total deferred tax	(1,999)	(2,193)
Income tax (credit)/expense in the income statement	(1,062)	4,275

Tax relating to items charged or credited directly to equity

Deferred tax:

Actuarial gains and losses on pension schemes	(477)	(1,890)
Income tax expense in the statement of comprehensive income	(477)	(1,890)

(b) Reconciliation of the total tax charge

The tax assessed for the year differs from the standard rate of tax in the UK of 28% (2008: 28.5%). The differences are explained below:

	2009 £'000	2008 £'000
(Loss)/profit from continuing operations before taxation	(649)	10,791
Rate of corporation tax in the UK of 28% (2008: 28.5%)	(182)	3,075
Effects of:		
(Income not taxable)/expenses not deductible for tax purposes	(158)	718
Overseas tax rate differences	182	393
Other movements	(50)	119
Adjustment in respect of prior periods	(854)	(30)
Income tax (credit)/expense in the income statement	(1,062)	4,275

8. Taxation continued

(c) Deferred tax

Deferred income tax at 31 December relates to the following:

	Group balance sheet		Group income statement	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Deferred tax liability				
Intangible assets on acquisition	(24,527)	(29,647)	(3,230)	(1,902)
Other	(1,564)	(739)	795	(276)
	(26,091)	(30,386)	(2,435)	(2,178)
Deferred tax assets				
Post-employment benefits	1,640	1,791	—	—
Purchased goodwill	4,761	5,467	592	94
Other	1,391	1,039	(156)	(109)
	7,792	8,297	436	(15)
Deferred income tax (income)			(1,999)	(2,193)
Deferred tax liabilities net	(18,299)	(22,089)		
Reflected in the balance sheet as follows:				
Deferred tax assets	7,792	8,297		
Deferred tax liabilities	(26,091)	(30,386)		
Deferred tax liabilities net	(18,299)	(22,089)		

(d) Factors that may affect future tax charges

There are estimated tax losses of £13,296,000 (2008: £7,939,000) within the Group, comprising trading tax losses of £5,950,000 (2008: £589,000) and capital losses of £7,348,000 (2008: £7,348,000). As the future use of these losses is uncertain, in accordance with the Group's accounting policy no deferred tax asset has been recognised in respect of them.

The amounts of deferred tax not recognised are as follows:

	2009 £'000	2008 £'000
Trading tax losses	(1,666)	(165)
Capital losses	(2,057)	(2,057)
	(3,723)	(2,222)

Notes to the Group financial statements

9. Earnings per share

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

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

	2009 '000	2008 '000
Weighted average number of shares (including treasury shares)	137,287	137,284
Treasury shares	(7,447)	(7,311)
Weighted average number of shares - basic	129,840	129,973
Effect of dilutive potential ordinary shares - options	—	2,348
Weighted average number of shares - diluted	129,840	132,321

The effect of dilutive potential ordinary shares above is nil in 2009 due to the average market value of the shares being less than the option price.

Earnings per share from continuing operations before exceptional items

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

To this end, basic and diluted underlying Earnings per Share information is presented as an additional measure and using the weighted average number of ordinary shares for both basic and diluted amounts as per the table above. Underlying earnings are derived as follows:

	2009 £'000	2008 £'000
Profit for the year from continuing operations	413	6,516
Exceptional costs	2,055	5,987
Amortisation of intangible assets, unwinding discount on provisions and amortisation of borrowing costs	14,312	10,907
Tax effect on exceptional costs and amortisation of intangible assets	(4,582)	(4,137)
Underlying profit after tax	12,198	19,273
Underlying basic earnings per share	9.39p	14.83p
Underlying diluted earnings per share	9.39p	14.57p

10. Intangible assets

	Computer software £'000	Acquired brands £'000	Customer relations £'000	Goodwill £'000	Total £'000
Cost					
At 1 January 2008	598	28,213	96,221	191,642	316,674
Exchange difference	—	6,766	28,296	42,443	77,505
At 31 December 2008	598	34,979	124,517	234,085	394,179
Additions	—	91	—	—	91
Amounts written off	(307)	—	—	—	(307)
Exchange difference	(46)	(2,057)	(8,917)	(14,235)	(25,255)
At 31 December 2009	245	33,013	115,600	219,850	368,708
Amortisation					
At 1 January 2008	37	2,778	7,063	—	9,878
Amortisation for the year ¹	16	2,949	6,820	—	9,785
Exchange difference	—	1,449	3,807	—	5,256
At 31 December 2008	53	7,176	17,690	—	24,919
Amortisation for the year ¹	26	3,294	8,233	—	11,553
Exchange difference	(4)	(528)	(1,230)	—	(1,762)
At 31 December 2009	75	9,942	24,693	—	34,710
Net book value					
At 31 December 2009	170	23,071	90,907	219,850	333,998
At 31 December 2008	545	27,803	106,827	234,085	369,260

¹ Amortisation for the year is included in administrative expenses in the income statement.

Impairment tests for goodwill

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

Cash flow projections are derived from financial plans approved by the board and cover a three year period. They reflect management's expectations of revenue growth, operating cost and margin for each CGU based on past experience. Cash flows beyond the first three years have been extrapolated using revenue growth rates averaging 5%. After the five year forecast period, no further growth in revenue and profit has been assumed based on a prudent view of long term growth rates. A pre-tax discount rate of 11% has been applied to cash flow projections reflecting management's view that similar risk profiles exist for each CGU.

The forecasts are most sensitive to changes considered possible by management in projected revenue growth rates in the first three years of the forecast period. Total future forecast revenue would have to be perpetually 5% lower than currently projected before a possible impairment charge would be indicated.

Certain brands and trade-marks with a book value of £3,330,000 (2008: £3,370,000) are considered to have an indefinite life. This applies to those brands and trademarks which, as a result of their excellent reputation with their core customer base, and being well regarded in their market places command a significant share of the markets in which they operate.

Notes to the Group financial statements

11. Property, plant and equipment Group

	Freehold land and buildings £'000	Plant and Machinery £'000	Total £'000
Cost			
At 1 January 2008	12,258	51,667	63,925
Additions	922	3,562	4,484
Disposals	(187)	(3,749)	(3,936)
Exchange difference	2,878	14,574	17,452
At 31 December 2008	15,871	66,054	81,925
Additions	346	1,798	2,144
Disposals	—	(6,110)	(6,110)
Exchange difference	(1,014)	(3,873)	(4,887)
At 31 December 2009	15,203	57,869	73,072
Accumulated depreciation			
At 1 January 2008	1,614	25,986	27,600
Charge for the year	462	5,789	6,251
Disposals	—	(2,699)	(2,699)
Exchange difference	410	8,700	9,110
At 31 December 2008	2,486	37,776	40,262
Charge for the year	541	6,200	6,741
Disposals	—	(5,938)	(5,938)
Exchange difference	(138)	(2,151)	(2,289)
At 31 December 2009	2,889	35,887	38,776
Net book value			
At 31 December 2009	12,314	21,982	34,296
At 31 December 2008	13,385	28,278	41,663

Depreciation in the year of £6,741,000 is included in administrative costs in the income statement.

The carrying value of plant and machinery held under finance leases and hire purchase contracts at 31 December 2009 was £18,000 (2008: £850,000).

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

12. Inventories

	2009 £'000	2008 £'000
Raw materials and consumables	15,465	22,112
Work-in-progress	1,900	2,306
Finished goods	8,671	12,439
	26,036	36,857

The cost of materials charged to the income statement during the year ended 31 December 2009 was £116,149,000 (2008: £129,662,000). As at 31 December 2009, inventories are stated net of an allowance for excess, obsolete or slow-moving items of £7,370,000 (2008: £8,460,000).

13. Derivative financial instruments

	2009		2008	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Interest rate swaps	—	(2,489)	—	(3,835)
Interest rate cap	—	(45)	—	(103)
Cash flow hedges	—	(2,534)	—	(3,938)

The full fair value of the hedging derivatives are classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the hedged item is less than 12 months. Fair value measurements are based on quoted prices in active markets for the same instrument.

The notional principal amounts of the outstanding interest rate swap contracts at 31 December 2009 were £58.4 million (2008: £74.6 million).

At 31 December 2009 the fixed interest rate was 5.025% (2008: 5.025%) and the main floating rates is US Dollar LIBOR. Gains and losses recognised in the hedging reserve on interest rate swap and cap contracts as of 31 December 2009 will be continually released to the income statement until the repayment of the bank borrowings (Note 16).

14. Trade and other receivables

	2009 £'000	2008 £'000
Trade receivables	24,935	29,937
Other receivables	1,475	1,516
Prepayments and deferred income	3,440	3,267
	29,850	34,720

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

All of the Group's trade and other receivables have been reviewed for impairment. Certain trade receivables were found to be impaired and a provision of £1,909,000 (2008: £1,586,000) has been recorded. The individually impaired receivables mainly relate to customers affected by the unexpected difficult economic situation.

At 31 December 2009 trade receivables of £23,528,000 (2008: £25,183,000) were considered to be fully performing.

Trade receivables of £1,407,000 (2008: £4,754,000) were past due but not impaired as at 31 December 2009. These relate to customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2009 £'000	2008 £'000
Trade receivables within normal payment terms and considered to be fully performing	23,528	25,183
Trade receivables past due date and aged up to three months from invoice date	1,407	4,593
Trade receivables past due and aged three and six months after the invoice date	—	161
	24,935	29,937

Notes to the Group financial statements

14. Trade and other receivables continued

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

	2009 £'000	2008 £'000
At 1 January	1,586	1,853
Provision for receivables impairment	1,086	886
Receivables written off in year	(608)	(858)
Unused amounts released	(155)	(476)
Other	56	18
FX difference	(56)	163
At 31 December	1,909	1,586

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

	2009 £'000	2008 £'000
Pounds	14,477	18,359
US Dollars	9,091	9,415
Euros	4,684	5,418
Other currencies	1,598	1,528
	29,850	34,720

15. Trade and other payables

	2009 £'000	2008 £'000
Trade payables	18,045	20,745
Other taxes and social security costs	2,007	2,615
Accruals and accrued income	16,763	15,788
	36,815	39,148

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

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

	2009 £'000	2008 £'000
Pounds	18,727	20,565
US Dollars	11,360	11,479
Euros	3,049	3,939
Other currencies	3,679	3,165
	36,815	39,148

16. Interest-bearing loans and borrowings

	2009 £'000	2008 £'000
Current		
Bank borrowings	3,063	27,857
Obligations under finance leases and hire purchase contracts	8	231
	3,071	28,088
Non-current		
Bank borrowings	132,887	149,586
Obligations under finance leases and hire purchase contracts	10	54
	132,897	149,640
Minimum lease payments due under finance leases are as follows:		
Less than one year	8	231
1 to 5 years	10	54
	18	285

The Group took out loans totaling £35,000,000 on 4 April 2006 from Bank of Scotland and HSBC in connection with the acquisition of Schlegel, of which £30,000,000 was a long term loan and £5,000,000 short term ("Schlegel Debt"). Payments of £2,500,000 and £2,047,000 were made during the year. Repayments of £12,500,000 had been made by 31 December 2008.

The Group took out a 5 year loan of \$240,000,000 from Bank of Scotland, Royal Bank of Scotland and HSBC in connection with the acquisition of LSS on 27 April 2007 ("LSS Debt"). Three payments were made during the year totaling \$19,259,000. On 29 December 2009, \$66,000,000 of this debt was redenominated into £41,277,000.

A revolving credit facility of \$40,000,000 in connection with the acquisition of LSS was reduced to \$10,010,000 during the year. \$10,000,000 outstanding at 31 December 2008 was repaid during the year and as at 31 December 2009 none of this facility was drawn down.

All the bank borrowings are secured over the majority of the LSS and Schlegel assets. In addition the company has given the banking syndicate a share pledge over its shares in Gall Thomson.

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

	2009 £'000	2008 £'000
Pounds	57,352	22,358
US dollars	78,616	155,113
Euros	—	256
	135,968	177,727

Following the default in the loan repayment of \$15,000,000 in March 2009, the Company agreed a new facility agreement with the Banking Syndicate on 30 June 2009 with smaller fixed loan repayments coupled with variable repayments based on actual cash flow generated. There were no defaults on loan repayments under the new facility agreement.

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

Notes to the Group financial statements

17. Provisions

	Property related £'000	Restructuring £'000	Other £'000	Total £'000
At 1 January 2008	13,683	704	4,550	18,937
Provided during the year	905	3,701	50	4,656
Utilised during the year	(1,786)	(1,268)	(252)	(3,306)
Released during the year	(336)	(76)	(568)	(980)
Unwinding of discount	758	—	—	758
Exchange differences	235	141	—	376
At 31 December 2008	13,459	3,202	3,780	20,441
Provided during the year	932	361	647	1,940
Utilised during the year	(1,758)	(954)	(269)	(2,981)
Released during the year	(110)	(1,711)	(62)	(1,883)
Re-categorisation	—	—	3,100	3,100
Unwinding of discount	634	—	—	634
Exchange differences	(69)	(167)	—	(236)
At 31 December 2009	13,088	731	7,196	21,015
Current liabilities	1,562	731	1,060	3,353
Non-current liabilities	11,526	—	6,136	17,662
Total	13,088	731	7,196	21,015

The property related provisions represent the estimated net present value of future costs for lease rentals, dilapidations and other property costs for facilities that are surplus to business requirements. The leases have terms of up to 8 years to expiry.

The restructuring provisions mainly relate to the closure of the Chinese operations and planned employee numbers reduction.

Other provisions comprise product liability and inventory related provisions plus, in 2009, a provision relating to overseas taxation that has been re-categorised from current taxation.

18. Financial instruments: risk profile

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

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

Liquidity and credit risk

The Group maintains sufficient cash and marketable securities and the availability of funding through an adequate amount of credit facilities. Management monitors rolling forecasts of the Group's liquidity on the basis of expected cash flow. The Group manages liquidity risk by the pooling of cash resources and depositing funds available for investment in approved financial instruments with financial institutions. Counterparty risk with respect to cash and cash equivalents is managed by only investing in banks and financial instruments with independently assessed credit ratings of at least A-2- as published by Standard and Poors. Individual risk limits are assessed by management based on the external ratings. Management does not expect any losses from the non-performance by these counterparties.

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

Management assesses the credit quality of customers taking into account their financial position, past experience and other factors. In order to mitigate credit risk the Group utilises credit insurance in those areas of its operations where such insurance is available. In areas where such insurance is not available, management monitors the utilisation of credit limits by customers, identified either individually or by group, and incorporates this information in credit risk controls. There are no significant concentrations of credit risk due to the diverse nature of the groups client base.

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

18. Financial instruments: risk profile *continued*

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

	2009 £'000	2008 £'000
Classes of financial instruments – carrying amounts		
Cash and cash equivalents	24,955	32,407
Trade and other receivables	29,850	34,720
At 31 December	54,805	67,127

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

During the year ended 31 December 2009 the Group operated within its borrowing facilities.

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

	Less than 1 year £'000	Between 1 and 2 yrs £'000	Between 2 and 5yrs £'000	Total £'000
Borrowings	3,071	6,755	126,142	135,968
Derivative financial instruments	2,534	—	—	2,534
Trade and other payables	36,815	782	—	37,597
At 31 December 2009	42,420	7,537	126,142	176,099
Borrowings	28,088	30,588	119,052	177,728
Derivative financial instruments	—	3,938	—	3,938
Trade and other payables	39,148	244	—	39,392
At 31 December 2008	67,236	34,770	119,052	221,058

Interest rate risk**Interest rate risk profile of financial liabilities**

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

The interest rate profile of the Group's borrowings as at the 31 December 2009 was as follows:

	Floating rate liabilities £'000	Fixed rate liabilities £'000	Total £'000
Pounds	57,352	—	57,352
US Dollars	78,598	18	78,616
Euros	—	—	—
At 31 December 2009	135,950	18	135,968
Pounds	22,358	—	22,358
US Dollars	155,085	28	155,113
Euros	—	257	257
At 31 December 2008	177,443	285	177,728

The interest rate on the floating rate bank loans are linked to LIBOR.

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

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

Notes to the Group financial statements

18. Financial instruments: risk profile continued

Interest rate risk continued

	Floating rate borrowings £'000	Covered by interest rate swaps £'000	Swap fixed rate %
At 31 December 2009			
Pounds	—	—	—
US Dollars	78,598	58,388	5.025
	78,598	58,388	
At 31 December 2008			
Pounds	—	—	—
US Dollars	155,085	77,543	5.025
	155,085	77,543	

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

Interest rate risk of financial assets

The Board periodically reviews any exposure the Group may have to interest rate fluctuations. The weighted average interest rate received on deposited funds was 1.98% during the year (2008: 4.25%).

Interest rate sensitivity

The impact on finance costs in the income statement of a 50 basis point movement in base rates of interest is estimated to be a £0.5m movement in net finance costs. This impact would be reduced by the tax effect of such a change.

Foreign currency risk

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

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

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

The following foreign exchange rates have been used in these financial statements:

	2009	2008
Closing rates:		
US dollars	1.5928	1.4479
Euros	1.1113	1.0272
Average rates:		
US dollars	1.5659	1.8552
Euros	1.1230	1.2597

Foreign currency exchange rate sensitivity

The Group receives approximately 44% of its revenues and incurs approximately 43% of its costs in USD. The Group is therefore sensitive to movements in the USD against GBP. Each five cent movement in the USD to GBP exchange rate has circa £0.4 million impact on operating profits. Offsetting this will be reductions to USD interest and US tax liabilities. This analysis assumes all other variables, including interest rates, remain constant.

The group receives approximately 11% of its revenues and incurs approximately 10% of its costs in Euros. Each five cent movement in the euro to GBP exchange rate has a circa £0.2 million impact on operating profits. Offsetting this will be reductions to euro interest and euro tax liabilities. This analysis assumes all other variables, including interest rates, remain constant.

Additionally the group incurs approximately 7% of its costs in Chinese Renminbi ("RMB"). Each RMB 0.40 movement in the RMB to GBP exchange rate has a circa £0.6 million impact on operating profits.

The impact of movements in other exchange rates is immaterial.

18. Financial instruments: risk profile continued**Foreign currency risk** continued

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

	USD £'000	Euros £'000	Other £'000	Total £'000
Short term exposure				
Financial assets	15,768	7,381	2,411	25,560
Financial liabilities	(15,159)	(3,049)	(3,679)	(21,887)
At 31 December 2009	609	4,332	(1,268)	3,673
Long term-exposure				
Financial assets	—	—	—	—
Financial liabilities	(80,717)	(205)	—	(80,922)
At 31 December 2009	(80,717)	(205)	—	(80,922)
At 31 December 2008				
	USD £'000	Euros £'000	Other £'000	Total £'000
Short term exposure				
Financial assets	24,633	9,482	3,202	37,317
Financial liabilities	(37,788)	(4,403)	(3,089)	(45,280)
At 31 December 2008	(13,155)	5,079	113	(7,963)
Long term-exposure				
Financial assets	—	—	—	—
Financial liabilities	(137,134)	(223)	—	(137,357)
At 31 December 2008	(137,134)	(223)	—	(137,357)

19. Pensions and other post-employment benefit plans**19.1 Defined contribution pension schemes**

The Group operates a number of defined contribution pension schemes, the assets of which are held externally to the Group in separate trustee administered funds. The costs of the Group's defined contribution pension schemes are charged to the income statement in the period in which they fall due. The Group had unpaid pension contributions of £40,000 (2008: £19,000) included within employee benefit liabilities.

19.2 Defined benefit pension and post retirement benefit schemes

The Group's principal defined benefit pension scheme and post-retirement healthcare scheme is operated in the USA. An actuarial valuation was last performed as at 31 December 2009. When revalued, scheme assets are included at market value and scheme liabilities are measured on an actuarial basis using the net periodic benefit cost; these liabilities are discounted at the current rate of return on a high quality corporate bond of equivalent currency and term. Surpluses are only included to the extent that they are recoverable through reduced contributions in the future or through refunds from the schemes.

The current service cost and any past service costs are included in the income statement within operating expenses and the expected return on the schemes' assets, net of the impact of the unwinding of the discount on scheme liabilities, is included within other finance income and costs. Actuarial gains and losses, including differences between the expected and actual return on scheme assets, are recognised, net of the related deferred tax, in the consolidated statement of comprehensive income.

The pension scheme is closed to new entrants; as a result the service costs to the Group will rise in future years. The expected level of contributions to the defined benefit scheme and post retirement healthcare scheme in the year to December 2009 is £821,000 (2008: £910,000).

Other defined benefit pension schemes had net liabilities of £152,000 (2008: £269,000)

Notes to the Group financial statements

19. Pensions and other post-employment benefit plans continued

19.2 Defined benefit pension and post retirement benefit schemes continued

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

	2009 £'000	2008 £'000
Included in operating profit		
Current service cost	216	208
Included in finance income and costs		
Interest cost	995	734
Expected return on plan assets	(640)	(718)
	355	16

The major assumptions used by the actuary were:

	31 December 2009	31 December 2008
Rate of increase in salaries	n/a	n/a
Rate of increase in pensions in payment	0.0%	0.0%
Discount Rate	5.75%	7.0%
Health care cost trend ¹	8.5%-5%	9.0%-5%

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

The mortality assumptions employed in determining the present value of scheme liabilities under IAS 19 are in accordance with the underlying funding valuations and represented actuarial best practice in the relevant jurisdictions taking account of mortality experience and industry circumstances.

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

	2009 £'000	2008 £'000
Actual return on plan assets	1,713	(1,674)
Expected return on plan assets	(640)	(718)
Experience gain/(loss)	1,073	(2,392)
Experience loss on liabilities	(2,682)	(799)
Net loss before exchange	(1,609)	(3,191)
Exchange differences	683	(478)
Amounts recognised during the year	(926)	(3,669)

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

	2009 £'000	2008 £'000
Change in defined benefit obligation		
Defined benefit obligation at beginning of year	15,822	10,503
Current service cost	216	208
Interest cost	995	734
Actuarial gain/(loss)	2,682	799
Benefits paid	(784)	(660)
Exchange	(1,491)	4,238
Defined benefit obligation at end of year	17,440	15,822

19. Pensions and other post-employment benefit plans continued**19.2 Defined benefit pension and post retirement benefit schemes** continued

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

	2009 £'000	2008 £'000
Change in plan assets		
Fair value of plan assets at beginning of year	8,506	7,245
Actual return on plan assets	1,713	(1,674)
Employer contributions	1,317	1,200
Benefits paid	(784)	(660)
Exchange	(810)	2,395
Fair value of plan assets at end of year	9,942	8,506

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

	2009 £'000	2008 £'000
Plan assets by category		
Equity securities	6,535	5,268
Debt securities	2,864	2,448
Real estate	543	790
Total	9,942	8,506

The cumulative actuarial loss recognised in the consolidated statement of comprehensive income since acquiring the pension obligations in April 2006 is as follows:

	£'000
Recognised in 2006 financial year	405
Recognised in 2007 financial year	(105)
Recognised in 2008 financial year	(3,669)
Recognised in 2009 financial year	(926)
Cumulative actuarial loss recognised in the consolidated statement of comprehensive income	(4,295)

History of scheme assets, liabilities and actuarial gains and losses

	2009 £'000	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Fair value of plan assets at end of year	9,942	8,506	7,245	7,277	6,629
Defined benefit obligation at end of year	(17,440)	(15,822)	(10,503)	(10,552)	(12,425)
Deficit at the end of the year	(7,498)	(7,316)	(3,258)	(3,275)	(5,796)
Actual return less expected return on scheme assets	1,073	(2,392)	(335)	3	(172)
% of scheme assets	10.8%	(28.1)%	(4.6)%	0.0%	(2.6)%
Experience (loss)/gain arising on scheme obligations (present value)	(2,682)	(799)	182	65	(22)
% of scheme obligations (present value)	15.4%	5.0%	(1.7)%	(0.6)%	0.2%

Notes to the Group financial statements

20. Share capital

	Number of shares '000	Ordinary shares of 5p each £'000
At 1 January 2008	137,212	6,861
Proceeds of shares issued	75	3
31 December 2008 and 31 December 2009	137,287	6,864

The total authorised number of ordinary shares is 180,000,000 (2008: 180,000,000) with a par value of 5p per share (2008: 5p per share). All issued shares are fully paid.

Share-based payments

In 2009 the Company operated an equity settled share-based payment arrangement (the "Share Option Scheme"). This is offered to the Company's Executive Directors and the Group's most senior employees.

On 25 July 2008, options over 6,475,000 ordinary shares were granted under the Share Option Scheme to the Company's Executive Directors and the Group's most senior employees with an exercise price of 38p. The options are exercisable on or after 25 July 2011 subject to performance conditions. At 31 December 2009, options over 4,400,000 ordinary shares were outstanding (2008: 6,475,000) with an exercise price of 38p.

Fair value assumptions and calculations

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

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

The table below shows the movement in the number and Weighted Average Exercise Prices ("WAEP") of options outstanding during 2009:

	2009		2008	
	Number of options '000	WEAP	Number of options '000	WEAP
At 1 January	6,475	38.00p	—	—
Granted	—	—	6,475	38.00p
Lapsed	(2,075)	38.00p	—	—
31 December	4,400	38.00p	6,475	38.00p

Charge to income statement

The total charge to the income statement for share-based payments, all of which related to equity-settled transactions, was £23,000 (2008: £56,000).

21. Dividends

No dividends were declared or paid in 2009.

	2009 £'000	2008 £'000
Dividends paid in the year were as follows:		
Final dividend for 2007 at 3.51p per share	—	4,557
Interim dividend for 2008 at 2.06p per share	—	2,675
	—	7,232

22. Adjustments to cash flows from operating activities

The following non-cash and financing adjustments have been made to (loss)/profit before tax for the year to arrive at operating cash flow:

	2009 £'000	2008 £'000
Net finance costs	12,642	10,056
Depreciation	6,741	6,251
Amortisation	11,553	9,785
Intangible and fixed assets written off	479	1,237
Non cash adjustments	1,401	3,887
Share based payments	23	55
	32,839	31,271

23. Contingent liabilities

	2009 £'000	2008 £'000
Financial guarantees	1,253	1,900
Performance bonds	9	9
	1,262	1,909

The Group has guarantees amounting to £1,253,000 (2008: £1,900,000). These guarantees principally relate to letters of credits provided by banks in respect of workmens' compensation claims on which no losses are anticipated. These guarantees are defined as financial guarantees under IAS39 and their fair value at 31 December 2009 was £nil (2008: £nil).

24. Financial commitments

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

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

	Land and Buildings	
	2009 £'000	2008 £'000
Not later than one year	3,723	3,980
After one year but more than five years	9,709	11,925
Over five years	7,959	9,489
	Other	
	2009 £'000	2008 £'000
Not later than one year	554	650
After one year but more than five years	588	798
Over five years	2	16

Notes to the Group financial statements

25. Investments in subsidiaries

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

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

*held by a subsidiary

26. Related party transactions

Directors

During the financial year, no contracts of significance other than those disclosed within directors' remuneration were entered into by the Group or any of its subsidiaries in which the directors had a material interest.

Key management compensation

Compensation for Directors who have the sole responsibility for planning, directing and controlling the Group is disclosed in note 6.

Transactions between the Company and its subsidiaries, which are related parties are eliminated on consolidation.

27. Post Balance Sheet Events

On 10 February 2010, the Group entered into new interest swap agreements with the economic effect of fixing the USD denominated debt related to the LSS acquisition in excess of the existing swap agreement at an interest rate of 1.85% per annum. The GBP denominated debt related to the LSS acquisition was fixed at an interest rate of 2.045%. All the swap agreements cover the period from 30 March 2010 to 02 July 2012.

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

We have audited the parent company financial statements of Lupus Capital plc for the year ended 31 December 2009 which comprise the parent company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the group financial statements of Lupus Capital plc for the year ended 31 December 2009.

Charles Hutton-Potts BSc, FCA

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
25 March 2010

Company balance sheet

As at 31 December 2009

	Note	2009 £'000	2008 £'000
Fixed assets			
Investments	4	185,153	185,151
		185,153	185,151
Current assets			
Debtors	6	7,048	7,048
Cash at bank and in hand		18,398	13,129
		25,446	20,177
LIABILITIES			
Creditors: Amounts falling due within one year	7	(5,237)	(4,909)
NET CURRENT ASSETS		20,209	15,268
TOTAL ASSETS LESS CURRENT LIABILITIES		205,362	200,419
Creditors: Amounts falling due after one year	8	(7,876)	(7,876)
NET ASSETS		197,486	192,543
EQUITY			
Shareholders' equity			
Called up share capital	11	6,864	6,864
Share premium	11	101	101
Other reserves	11	8,920	8,920
Treasury reserve	11	(6,764)	(6,764)
Retained earnings	11	188,365	183,422
TOTAL EQUITY		197,486	192,543

The financial statements were approved by the Board on 25 March 2010.

Jamie Pike

Chairman

Louis Eperjesi

Chief Executive Officer

Notes to the Company financial statements

1. ACCOUNTING POLICIES

Going concern

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

During the year, the Group successfully renegotiated the terms of its debt facilities in both its LSS and Schlegel divisions. The mandatory repayments in 2010 have been reduced from \$30m to \$2m and £10m to £1.5m in the LSS and Schlegel divisions respectively under the new facility agreement. In addition to these amounts, repayments in both divisions of 75% of excess cash generated over a 12 month period be paid in the final quarter of the year. The Group forecasts that its interest and debt repayments obligations will be comfortably met during 2010.

Accounting convention

The separate financial statements of the company are presented as required by the Companies Act 2006. As permitted by that act, the financial statements have been prepared in accordance with applicable UK accounting standards (UK GAAP).

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

Investments

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

Financial instruments

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

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

Trade creditors are stated at their nominal amount.

Borrowings

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

Share-based payments

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

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

Notes to the Company financial statements

2. Profit attributable to the shareholders of the Company

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

As permitted by section 408 of the Companies Act 2006, the Company's profit and loss account has not been included in these accounts. The profit on ordinary activities attributable to shareholders of the Company dealt with in these accounts was £4,920,000 (2008: £9,405,000).

3. Employees

Other than the directors, there were no employees of the Company during the year (2008: nil). Directors' emoluments are set out in the Directors' Remuneration Report in the Group's accounts.

4. Fixed asset investments

	£'000
Cost	
At 1 January 2008	185,751
Capital injection	11
At 31 December 2008	185,762
Capital injection	2
At 31 December 2009	185,764
Impairment	
At 1 January and 31 December 2008	611
Charge for the year	—
At 31 December 2009	611
Net book value	
At 31 December 2009	185,153
At 31 December 2008	185,151

The capital injection relates to the FRS 20 charge for share options granted to employees of subsidiary companies. For more information on the Company share options see note 20 in the Group accounts.

5. Investments in subsidiaries

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

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

6. Debtors

	2009 £'000	2008 £'000
Amount due from subsidiary undertaking	7,048	7,048

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

7. Creditors: amounts falling due within one year

	2009 £'000	2008 £'000
Trade creditors	—	110
Amounts owed to Group undertakings	4,809	4,542
Corporation tax	428	257
	5,237	4,909

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

	2009 £'000	2008 £'000
Loan notes owed to Group undertakings	7,876	7,876

The loan note states that the Company must pay Octroi Group Limited, a wholly owned subsidiary, interest at a fixed rate of 2 per cent. per annum, payable half yearly in arrears.

9. Borrowing

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

10. Share capital

The share capital of the Company is as set out in note 20 of the Group accounts.

11. Reconciliation of movements in equity

	Share capital £'000	Share premium account £'000	Other reserves £'000	Treasury Reserve £'000	Profit & loss account £'000	Total £'000
At 1 January 2008	6,861	45	8,920	(1,075)	181,238	195,989
Shares issued net of costs	3	56	—	—	—	59
Profit for the year	—	—	—	—	9,361	9,361
Dividends paid	—	—	—	—	(7,232)	(7,232)
Share buyback	—	—	—	(5,689)	—	(5,689)
Share based payments	—	—	—	—	55	55
At 31 December 2008	6,864	101	8,920	(6,764)	183,422	192,543
Profit for the year	—	—	—	—	4,920	4,920
Share based payments	—	—	—	—	23	23
At 31 December 2009	6,864	101	8,920	(6,764)	188,365	197,486

Details of share based payments are given in note 20 of the Group accounts.

12. Financial commitments

At 31 December 2009 the Company had future annual lease commitments under non-cancellable operating leases as stated below. These commitments are met on the Company's behalf by Lupus Capital Management Limited.

	Land and buildings	
	2009 £'000	2008 £'000
Expiry date		
Within one year	32	32

13. Related party transactions

The Company paid interest of £158,000 to Octroi Group Limited in respect to interest charged on the loan note mentioned in note 8 to the Company financial statements.

There were no other transactions with related parties.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Lupus Capital plc (the "Company") will be held at the offices of College Hill, The Registry, Royal Mint Court, London EC3N 4QN, on 28 May 2010 at 10.30 am, for the purposes of considering the following business:

Ordinary resolutions

To consider and, if thought fit, approve the following ordinary resolutions:

1. To receive and adopt the audited financial statements for the financial year ended 31 December 2009 together with the reports of the directors and auditors.
2. To reappoint Mr Pike, who offers himself for re-election as a director, having been appointed by the board since the last Annual General Meeting.
3. To reappoint Mr Eperjesi, who offers himself for re-election as a director, having been appointed by the board since the last Annual General Meeting.
4. To reappoint Mr Towers, who offers himself for re-election as a director, having been appointed by the board since the last Annual General Meeting.
5. To reappoint Mr Tench, who offers himself for re-election as a director, having been appointed by the board since the last Annual General Meeting.
6. To reappoint Grant Thornton UK LLP as independent auditors of the Company to hold office until the conclusion of the next Annual General Meeting.
7. To authorise the directors to set the remuneration of the independent auditors.
8. To approve the Directors' Remuneration Report for the financial year ended 31 December 2009.
9. THAT the directors be and are hereby generally and unconditionally authorised (in substitution for all existing authorities) to exercise all powers of the Company to allot shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company up to an aggregate nominal amount of £2,164,013.30 (being one third of the issued share capital excluding treasury shares of the Company as at the date of the notice of this meeting) which authority shall apply until 1 May 2015 (unless previously revoked or varied by the Company in general meeting) but, during this period the Company may make offers and enter into agreements which would, or might, require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after the authority ends and the directors may allot shares or grant rights to subscribe for or convert securities into shares under any such offer or agreement as if this authority had not ended.

Special resolutions

To consider and, if thought fit, approve the following special resolutions:

10. THAT if resolution 9 is passed, the directors be and are hereby given power to allot equity securities (as defined in the Companies Act 2006 (the "Act")) for cash under the authority given by that resolution and/or sell ordinary shares held by the Company as treasury shares for cash, as if section 561 of the Act did not apply to any such allotment or sale, provided that this power shall be limited to:
 - (A) the allotment of equity securities and the sale of treasury shares for cash in connection with an offer of, or invitation to apply for, equity securities:
 - (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
 - (ii) to holders of other equity securities, as required by the rights of those securities or, as the directors otherwise consider necessary, and so that the directors may impose any limits or restrictions and make any arrangements which it considers necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter; and
 - (B) to the allotment (otherwise than under paragraph (A) above) of equity securities or sale of treasury shares up to a nominal amount of £343,218.70 (being 5% of the issued share capital of the Company as at the date of the notice of this meeting),

such power to apply until the end of next year's Annual General Meeting but, in each case, during this period the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the power ends and the directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the power had not ended.

11. THAT

- (A) the Articles of Association of the Company be amended by deleting all the provisions of the Company's Memorandum of Association which, by virtue of section 28 Companies Act 2006, are to be treated as provisions of the Company's Articles of Association; and
- (B) the Articles of Association produced to the meeting and initialled by the chairman of the meeting for the purpose of identification be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association.

By order of the Board

Cavendish Administration Limited

Company Secretary
25 March 2010

Registered Office:
145-157 St John Street
London EC1V 4RU

NOTES

Website address

1. Information regarding the meeting is available from www.lupuscapital.co.uk

Entitlement to attend and vote

2. Entitlement to attend and vote at the meeting will be determined by reference to the Company's register of members. Only those holders of Ordinary Shares registered on the Company's register of members at 6.00 pm on 26 May 2010; or, if this meeting is adjourned, at 6.00 pm on the day two days prior to the adjourned meeting, shall be entitled to attend and vote at the meeting.

Appointment of Proxies

3. Members entitled to attend, speak and vote at the meeting (in accordance with Note 2 above) are entitled to appoint one or more proxies to exercise all or any of their rights to attend, speak and vote in their place. If you wish to appoint a proxy please use the Form of Proxy enclosed with this document or follow the instructions at note 7 below if you wish to appoint a proxy through the CREST electronic proxy appointment service. In the case of joint members, only one need sign the Form of Proxy. The vote of the senior joint member will be accepted to the exclusion of the votes of the other joint members. For this purpose, seniority will be determined by the order in which the names of the members appear in the register of members in respect of the joint shareholding. The completion and return of the Form of Proxy will not stop you attending and voting in person at the meeting should you wish to do so. A proxy need not be a member of the Company. You may appoint more than one proxy provided each proxy is appointed to exercise the rights attached to a different share or shares held by you. If you choose to appoint multiple proxies use a separate copy of this form (which you may photocopy) for each proxy, and indicate after the proxy's name the number of shares in relation to which they are authorised to act (which, in aggregate, should not exceed the number of Ordinary Shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and returned in the same envelope.
4. You can appoint the Chairman of the Meeting, or any other person, as your proxy. If you wish to appoint someone other than the Chairman, cross out the words "the Chairman of the Meeting" on the Form of Proxy and insert the full name of your appointee.
5. You can instruct your proxy how to vote on each resolution by ticking the "For" and "Against" boxes as appropriate (or entering the number of shares which you are entitled to vote). If you wish to abstain from voting on any resolution please tick the box which is marked "Vote Withheld". It should be noted that a vote withheld is not a vote in law and will not be counted in the calculation of the proportion of votes "For" and "Against" a resolution. If you do not indicate on the Form of Proxy how your proxy should vote, he/she can exercise his/her discretion as to whether, and if how so how, he/she votes on each resolution, as he/she will do in respect of any other business (including amendments to resolutions) which may properly be conducted at the meeting.

A company incorporated in England and Wales or Northern Ireland should execute the Form of Proxy under its common seal or otherwise in accordance with Section 44 of the Companies Act 2006 or by signature on its behalf by a duly authorised officer or attorney whose power of attorney or other authority should be enclosed with the Form of Proxy.

Notice of Annual General Meeting continued

Appointment of Proxy using Hard Copy Form

6. The Form of Proxy and any power of attorney (or a notarially certified copy or office copy thereof) under which it is executed must be received by Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU at 10.30 am on 26 May 2010 in respect of the meeting. Any Forms of Proxy received before such time will be deemed to have been received at such time. In the case of an adjournment, the Form of Proxy must be received by Capita Registrars no later than 48 hours before the rescheduled meeting.

On completing the Form of Proxy, sign it and return it to Capita Registrars at the address shown on the reverse of the Form of Proxy. As postage has been pre-paid no stamp is required. You may, if you prefer, return the Form of Proxy in a sealed envelope to the address shown above.

Appointment of Proxies through CREST

7. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting to be held on the above date and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual (available via [www.euroclear.com/\(REST\)](http://www.euroclear.com/(REST))). The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent (ID: RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointee through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

All messages relating to the appointment of a proxy or an instruction to a previously appointed proxy, which are to be transmitted through CREST, must be lodged at 10.30 am on 15 May 2010 in respect of the meeting. Any such messages received before such time will be deemed to have been received at such time. In the case of an adjournment, all messages must be lodged with Capita Registrars no later than 48 hours before the rescheduled meeting.

Termination of proxy appointments

8. In order to revoke a proxy instruction you will need to inform the Company. Please send a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

In the case of a member which is a company, the revocation notice must be executed under its common seal or otherwise in accordance with section 44 of the Companies Act 2006 or by signature on its behalf by an officer or attorney whose power of attorney or other authority should be included with the revocation notice.

If you attempt to revoke your proxy appointment but the revocation is received after the time specified in note 2 above then, subject to the paragraph directly below, your proxy will remain valid.

Completion of a Form of Proxy will not preclude a member from attending and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will be automatically terminated.

If you submit more than one valid proxy appointment in respect of the same Ordinary Shares, the appointment received last before the latest time for receipt of proxies will take precedence.

Nominated Persons

9. If you are a person who has been nominated to enjoy information rights:

- You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights (Relevant Member) to be appointed or to have someone else appointed as a proxy for the meeting.
- If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights.
- Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps, your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.

If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in the notes to the form of proxy.

Questions at the Meeting

10. The Company will use best endeavours to answer any question you ask relating to the business being dealt with at the meeting unless:

- answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
- the answer has already been given on a website in the form of an answer to a question; or
- it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

Issued Shares and total voting rights

11. The total number of shares in issue in the Company is 137,287,481 Ordinary Shares of 5p each. Of these 7,446,683 are held in Treasury. Therefore the total number of Ordinary Shares with voting rights is 129,840,798. On a vote by a show of hands, every holder of Ordinary Shares who (being an individual) is present by a person, by proxy or (being a corporation) is present by a duly authorised representative, not being himself a member, shall have one vote. On a poll every holder of Ordinary Shares who is present in person or by proxy shall have one vote for every Ordinary Share held by him.

Adoption of new articles of association

12. It is proposed in resolution 11 to adopt new articles of association (the "New Articles") in order to update the Company's current articles of association (the "Current Articles") primarily to take account of changes in English company law brought about by the Companies Act 2006, the Companies (Shareholders' Rights) Regulations 2009 (the "Shareholders' Rights Regulations") and amendments to the Uncertificated Securities Regulations 2001.

The principal changes introduced in the New Articles are summarised below. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the Companies Act 2006, the Shareholders' Rights Regulations or the Uncertificated Securities Regulations 2001, or conform the language of the New Articles with that used in the model articles for public companies produced by the Department for Business, Innovation and Skills, have not been noted below.

A copy of the New Articles is available on the Company's website (www.lupuscapital.co.uk).

The Company's objects

a. The provisions regulating the operations of the Company are currently set out in the Company's memorandum and articles of association. The Company's memorandum presently contains, among other things, the objects clause which sets out the scope of the activities the Company is authorised to undertake. This is drafted to give a wide scope.

The Companies Act 2006 significantly reduces the constitutional significance of a company's memorandum. The Companies Act 2006 provides that a memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the company. Under the Companies Act 2006 the objects clause and all other provisions which are contained in a company's memorandum, for existing companies at 1 October 2009, are deemed to be contained in the company's articles of association but the company can remove these provisions by special resolution.

Further, the Companies Act 2006 states that unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have objects clauses. For this reason the Company is proposing to remove its objects clause together with all other provisions of its memorandum which, by virtue of the Companies Act 2006, are treated as forming part of the Company's articles of association as of 1 October 2009. Resolution 11 (A) confirms the removal of these provisions for the Company. As the effect of this resolution will be to remove the statement currently in the Company's memorandum of association regarding limited liability, the New Articles also contain an express statement regarding the limited liability of shareholders.

Notice of Annual General Meeting continued

Articles which duplicate statutory provisions

b. Provisions in the Current Articles which replicate provisions contained in the Companies Act 2006 are in the main to be removed in the New Articles. This is in line with the approach advocated by the Government that statutory provisions should not be duplicated in a company's constitution. Certain examples of such provisions include provisions as to the form of resolutions, the requirement to keep accounting records and provisions regarding the period of notice required to convene general meetings. The main changes made to reflect this approach are detailed below.

Authorised share capital and unissued shares

c. The Companies Act 2006 abolishes the requirement for a company to have an authorised share capital and the New Articles reflect this. Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the Companies Act 2006, save in respect of employee share schemes.

Form of resolution

d. The Current Articles enable members to act by written resolution. Under the Companies Act 2006 public companies can no longer pass written resolutions. These provisions have therefore been removed in the New Articles. Further, the concept of extraordinary resolutions has not been retained under the Companies Act 2006, references to extraordinary resolutions have therefore been removed.

Convening extraordinary and annual general meetings

e. The provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being removed in the New Articles because the relevant matters are provided for in the Companies Act 2006. In particular an extraordinary general meeting to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required.

Electronic and web communications

f. Provisions of the Companies Act 2006 which came into force in January 2007 enable companies to communicate with members by electronic and/or website communications. The New Articles allow communications to members in electronic form and, in addition, they also permit the Company to take advantage of the provisions relating to website communications. Before the Company can communicate with a member by means of website communication, the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to him by means of a website, and the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The Company will notify the member (either in writing, or by other permitted means) when a relevant document or information is placed on the website and a member can always request a hard copy version of the document or information.

Redeemable shares

g. Under the Companies Act 1985, if a company wished to issue redeemable shares, it had to include in its articles the terms and manner of redemption. The Companies Act 2006 enables directors to determine such matters instead provided they are so authorised by the articles. The New Articles contain such an authorisation. The Company has no plans to issue redeemable shares but if it did so the directors would need shareholders' authority to issue new shares in the usual way.

Authority to purchase own shares, consolidate and sub-divide shares, and reduce share capital

h. Under the Companies Act 1985, a company required specific enabling provisions in its articles to purchase its own shares, to consolidate or sub-divide its shares and to reduce its share capital or other undistributable reserves as well as shareholder authority to undertake the relevant action. The Current Articles include these enabling provisions. Under the Companies Act 2006 a company will only require shareholder authority to do any of these things and it will no longer be necessary for articles to contain enabling provisions. Accordingly the relevant enabling provisions have been removed in the New Articles.

Votes of members

- i. Under the Companies Act 2006 proxies are entitled to vote on a show of hands whereas under the Current Articles proxies are only entitled to vote on a poll. The time limits for the appointment or termination of a proxy appointment have been altered by the Companies Act 2006 so that the articles cannot provide that they should be received more than 48 hours before the meeting or in the case of a poll taken more than 48 hours after the meeting, more than 24 hours before the time for the taking of a poll, with weekends and bank holidays being permitted to be excluded for this purpose. The New Articles give the directors discretion, when calculating the time limits, to exclude weekends and bank holidays. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. The Shareholders' Rights Regulations have amended the Companies Act 2006 in order to enable multiple representatives appointed by the same corporate member to vote in different ways on a show of hands and a poll. The New Articles remove provisions in the Current Articles dealing with voting by corporate representatives on the basis that these are dealt with in the Companies Act 2006.

Notice of board meetings

- j. Under the Current Articles, when a director is abroad he can request that notice of directors' meetings are sent to him at a specified address and if he does not do so he is not entitled to receive notice while he is away. This provision has been removed, as modern communications mean that there may be no particular obstacle to giving notice to a director who is abroad.

Records to be kept

- k. The provision in the Current Articles requiring the Board to keep accounting records has been removed as this requirement is contained in the Companies Act 2006.

Distribution of assets otherwise than in cash

- l. The Current Articles contain provisions dealing with the distribution of assets in kind in the event of the Company going into liquidation. These provisions have been removed in the New Articles on the grounds that a provision about the powers of liquidators is a matter for insolvency law rather than the articles and that the Insolvency Act 1986 confers powers on the liquidator which would enable it to do what is envisaged by the Current Articles.

Provision for employees on cessation of business

- m. The Companies Act 2006 provides that the powers of the directors of a company to make provision for a person employed or formerly employed by the company or any of its subsidiaries in connection with the cessation or transfer to any person of the whole or part of the undertaking of the company or that subsidiary, may only be exercised by the directors if they are so authorised by the company's articles or by the company in general meeting. The New Articles provide that the directors may exercise this power.

Use of seals

- n. Under the Companies Act 1985, a company required authority in its articles to have an official seal for use abroad. Under the Companies Act 2006, such authority will no longer be required. Accordingly, the relevant authorisation has been removed in the New Articles.

The New Articles provide an alternative option for execution of documents (other than share certificates). Under the New Articles, when the seal is affixed to a document it may be signed by one director in the presence of a witness, whereas previously the requirement was for signature by either a director and the secretary or two directors or such other person or persons as the directors may approve.

Vacation of office by directors

- o. The Current Articles specify the circumstances in which a director must vacate office. The New Articles update these provisions to treat physical illness in the same manner as mental illness in line with the approach taken on mental and physical incapacity in the model articles for public companies produced by the Department for Business, Innovation and Skills.

Voting by proxies on a show of hands

- p. The Shareholders' Rights Regulations have amended the Companies Act 2006 so that it now provides that each proxy appointed by a member has one vote on a show of hands unless the proxy is appointed by more than one member in which case the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution. The New Articles remove provisions in the Current Articles dealing with proxy voting on the basis that these are dealt with in the Companies Act 2006 and contain a provision clarifying how the provision of the Companies Act 2006 giving a proxy a second vote on a show of hands should apply to discretionary authorities.

Notice of Annual General Meeting continued

Electronic conduct of meetings

- q. Amendments made to the Companies Act 2006 by the Shareholders' Rights Regulations specifically provide for the holding and conducting of electronic meetings. The Current Articles have been amended to reflect more closely the relevant provisions.

Proceedings at general meetings

- r. Under the Companies Act 2006 as amended by the Shareholders' Rights Regulations, general meetings adjourned for lack of quorum must be held at least 10 clear days after the original meeting. This is not a strict requirement for AIM listed companies but the New Articles have been amended to reflect this.

The Company has taken the opportunity to codify the powers of the directors and the chairman in relation to general meetings. The New Articles give directors flexibility in postponing meetings but this flexibility does not override applicable laws (including the requirement to hold a meeting requisitioned by shareholders within the statutory time limits). Similarly, the responsibilities of the directors and chairman to ensure appropriate arrangements for security and orderly conduct at meetings are set out in the New Articles. Whilst the Current Articles are silent on these matters the New Articles do not extend the powers of directors in this regard.

General

- s. Generally the opportunity has been taken to update the language, style and approach in line with best practice (including in some cases conforming the language of the New Articles with that used in the model articles for public companies produced by the Department for Business, Innovation and Skills) as well as take account of a number of developments in law applicable since the Current Articles were adopted.

Communication

13. Except as provided above, members who have general queries about the meeting should use the following means of communication (no other methods of communication will be accepted):

- calling Capita Registrar's shareholder helpline (lines are open from 9.00am to 5.30pm Monday to Friday, excluding public holidays):
 - (i) From UK: 0871 664 0300 (calls cost 10p per minute plus network extras);
 - (ii) From Overseas: +44 208 639 3399 (calls from outside the UK are charged at applicable international rates); or
- in writing to Capita Registrars.

14. You may not use any electronic address provided either:

- in this notice of meeting; or
- any related documents (including the Form of Proxy for this meeting)

to communicate with the Company for any purposes other than those expressly stated.

Form of proxy

Lupus Capital plc (the "Company")

I/We

(BLOCK CAPITALS PLEASE)

of

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 the offices of College Hill, The Registry, Royal Mint Court, London EC3N 4QN on 28 May 2010 at 10.30 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	Abstain
1.	To receive and adopt the audited financial statements for the year ended 31 December 2009			
2.	To re-appoint Mr Pike as a director			
3.	To re-appoint Mr Eperjesi as a director			
4.	To re-appoint Mr Towers as a director			
5.	To re-appoint Mr Tench as a director			
6.	To re-appoint Grant Thornton UK LLP as independent auditors to the Company			
7.	To authorise the directors to set the auditors' remuneration			
8.	To approve the Directors' Remuneration Report			
9.	To authorise the directors to allot securities, up to an aggregate nominal amount of £2,164,013.30			
10.	To authorise the directors to allot securities free from pre-emption rights, subject to certain specified limitations			
11.	To approve the adoption of new articles of association			

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

SignatureDated this..... day of2010

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 UK Registration Agent, Capita Registrars (Proxies), The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not less than 48 hours before the time fixed for the meeting. In default the proxy cannot be treated as valid.
3. Alternatively, in the case of CREST members, voting may be effected by using the CREST electronic proxy appointment service. CREST members who wish to utilise the CREST service may do so by following the procedures described in the CREST manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message must be transmitted so as to be received by the Company's agent, Capita Registrars (whose CREST ID is RA10) by the specified latest time for receipt of proxy appointments. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed.
4. A corporation must execute the proxy under its common seal or under the hand of an officer or attorney duly authorised.
5. 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.
6. 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 stand in the register in respect of the joint holding.

Second fold

BUSINESS REPLY SERVICE
Licence No. MB122

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Capita Registrars (Proxies)
PO Box 25
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4BR

First fold

Third fold
and tuck in flap opposite

ckd

Designed & produced by ckd
www.ckdcorp.co.uk

Lupus Capital plc
65 Buckingham Gate
London, SW1E 6AS

Phone: 020 7976 8000
Fax: 020 7976 8014
www.lupuscapital.co.uk