Cape Plc
Annual report
For the year ended 31 December 2003
Company Number 40203

CAPE PLC IS AN INTERNATIONAL INDUSTRIAL SERVICES BUSINESS.

ITS SOLE OPERATING DIVISION IS CAPE INDUSTRIAL SERVICES.

THE FUNDAMENTAL RESTRUCTURING OF THE GROUP IS NOW MATERIALLY COMPLETE.

Contents

Financial highlights

Cape Industrial Services turnover[1] up 19.1% to £228.3m (2002: £191.7m)

Cape Industrial Services operating profit[1] up 8.7% to £10.0m (2002: £9.2m)

Group turnover[1] of £231.9m (2002: £224.8m)

Group operating profit from continuing operations[1] was £3.5m (2002: £15.6m)

Group operating profit from continuing operations before compensation for industrial disease costs[1,2] up 32.7% to £7.3m (2002: £5.5m)

Year end net debt reduced to £5.4m (2002: £19.3m)

[1] including its share of continuing joint ventures
[2] before compensation for industrial disease costs of £3.8m (2002: credit of £10.1m)

Activity levels

The Board believes that CIS is well positioned to benefit from an increasing demand for its services worldwide, given its world renowned expertise, health, safety and environmental performance, and its strong client relationships.

Safety record

The Group continues to treat safety as its primary concern. In Malaysia, it was pleased to see this recognised by an award for the completion of five million man hours of work without a lost time accident on the LNG (liquefied natural gas) plant in Bintulu, Malaysia.

Debt reduction

Through careful management of its financing, the Group's year-end net debt has reduced to £5.4m (2002: £19.3m).

Growth prospects

CIS is a market leader in cryogenic insulation on LNG plants. This market is expected to grow by an average 12%[1] a year for the next three years. We continue to assess opportunities for acquiring complementary businesses.

[1] Source: Petroleum Economist

CAPE PROVIDES VITAL SERVICES FOR MAJOR GROUPS, PREDOMINANTLY IN THE ENERGY SECTOR

	Scaffolding	Insulation
Activity	The supply and erection of scaffolding to enable site operators and other contractors access to all parts of an industrial plant. This can be for routine maintenance, shutdowns, new construction or other major projects. Computer-aided design is used where appropriate.	The provision of thermal and acoustic insulation for industrial applications. Thermal insulation is provided for temperature maintenance, personnel protection, heat conservation and efficient cryogenic insulation at temperatures down to –160°C. This division also calculates heat loss and provides infra-red equipment for evaluating thermal insulation efficiency.
Typical projects	– new construction – term maintenance – plant shutdowns – plant upgrades	– new construction – repair and maintenance
Typical markets	– power generation – offshore oil and gas – refineries – pharmaceuticals and other continuous process industries	– power generation – offshore oil and gas – refineries – engineering – food and beverages – pharmaceuticals – hospitals – commercial buildings – ship building

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Cape Industrial Services

Specialist coatings	Fire protection	Refractory linings	Inspection services	Associated services
The provision of a complete range of coatings for a variety of structures including petrochemical plants, refineries and offshore installations. This provides surface protection and the prevention of corrosion on bare surfaces or those to be insulated or clad.	*The application of fire* protection to a variety of structures in environments ranging from the extreme weather conditions in the North Sea to onshore petrochemical and other installations with high exposure to fire risk.	*The lining of boilers,* furnaces, kilns and high temperature petrochemical reactors with materials to withstand temperatures in excess of 10,000°C. This activity also incorporates the business of RB Hilton, and offers design, supply and installation services.	*The provision of state-of-*the-art inspection services, including non-destructive testing, using, where necessary, rope-based access systems. Inspections are typically of piping installations, large storage tank facilities, gas holders, heat exchangers and refractory lining systems.	*In response to client* needs an ever growing range of industrial services is being offered. These include industrial cleaning, asbestos removal and fabrication of insulation and sheet metal. In addition, for offshore installations and with specialist partners, the provision of facilities management services including lifting, crane operations and janitorial services.
– new construction – repair and maintenance	– daily operations – plant shutdowns	– plant shutdowns – ongoing maintenance	– plant maintenance – plant renovation	– new construction – term maintenance – plant shutdowns – plant upgrades
– offshore oil and gas – LNG compression and export facilities – hospitals – local authorities	– offshore oil and gas – power stations – chemical plants – other industrial plants	– power generation – offshore oil and gas – refineries	– oil, gas, petrochemical and chemical – aerospace – power and utilities – construction – local authorities	– offshore oil and gas – refineries – power plants – other industrial plant

Chairman's statement and review

The Group has continued to make strong and sustainable progress over the second half of 2003

The operating profit of CIS, including its share of JVs and before head office costs and compensation for industrial disease costs, increased by 8.7% to £10.0 million

CIS experienced increased demand for its services in virtually all the regions in which the business operates

I am very pleased to report that the Group has continued to make strong and sustainable progress over the second half of 2003. The fundamental restructuring of the Group is materially complete.

Turnover for the year, including the Group share of joint ventures, was £231.9 million (2002: £224.8 million). Turnover of Cape Industrial Services ("CIS" – the sole operating business of the Group) including its share of the turnover of joint ventures increased by 19.1% to £228.3 million (2002: £191.7 million).

Group profit on ordinary activities before taxation was £5.5 million (2002: £14.6 million). Group operating profit from continuing operations, including its share of continuing joint ventures, for the year was £3.5 million (2002: £15.6 million). Group operating profit from continuing operations, before compensation for industrial disease costs of £3.8 million (2002: credit of £10.1 million), increased by 32.7% to £7.3 million (2002: £5.5 million).

Year end net debt was £5.4 million, an improvement of £13.9 million from the prior year figure of £19.3 million. Shareholders' funds increased from £24.1 million to £29.7 million.

A dividend is not being proposed.

Restructuring
Following the sale of Cape Calsil Systems ("CCS"), the Group's loss making manufacturing business unit, to Promat in August 2002, the following major events took place in 2003 as part of the Group's restructuring:

1. The claim made on behalf of 7,500 South African mineworkers for asbestos related diseases was settled, without admission of liability, to the satisfaction of all parties, bringing to an end a costly and time consuming dispute.

2. The Group Head Office in Uxbridge was closed, and its functions downsized and transferred to the CIS Head Office, which relocated to purpose built premises in Wakefield.

3. The sale of the remaining stock of CCS to Promat, the purchaser of the business, as provided for in the sale agreement was completed.

4. The sale of the former CCS manufacturing site and redundant plant and machinery at Caerphilly realised a consideration of £1.4 million and resulted in a profit of £0.7 million over book value.

5. The sale of the former CCS manufacturing site and redundant plant at Uxbridge realised a consideration of £10.0 million and resulted in a profit of £1.7 million over book value.

6. Contracts have been exchanged to sell the former CCS manufacturing site at Washington; consequently the £0.9 million impairment provision made in 2001 has been released this year. Completion took place at the end of March 2004 and resulted in a profit of £0.1 million over book value.

7. Cape PLC and certain of its subsidiaries concluded an agreement with Chester Street Insurance Holdings (formerly Iron Trades Holdings Ltd) and other Iron Trades Policy holders that limits the level of contributions to be made by the Group towards current and future shipyard claims brought against it by the parties to the agreement.

Financing

In March 2003, the Group reached an agreement with its bankers to put in place long-term borrowing facilities. The terms of these facilities reflected the difficult financial circumstances of the Group at that time, when much of the restructuring referred to above had yet to be completed. In the light of the progress made over the first half and given the considerable improvement in the Group's outlook, in August 2003 your Board took the opportunity to negotiate improved facilities with Barclays Bank PLC. The Group has had a long-standing relationship with Barclays and entered into arrangements that will run for three years from August 2003.

Group Results

Results for the year and comparatives for the prior year are summarised in the table below:

	2003 £m	2002 £m
Profit on ordinary activities before interest: continuing operations (1)	**3.5**	15.6
Adjusted for Compensation for industrial disease (2)	**3.8**	(10.1)
Profit from Continuing operations, excluding compensation for industrial disease	**7.3**	5.5
Compensation for industrial disease (2)	**(3.8)**	10.1
Profit/(loss) on ordinary activities before interest: discontinued operations (1)	**2.5**	(1.6)
Net interest payable (1)	**(1.4)**	(1.7)
Other finance income (1)	**0.9**	2.3
Profit on ordinary activities before taxation (1)	**5.5**	14.6

Source
(1) Consolidated profit and loss account
(2) Notes to the accounts, Note 1. Segmental analysis
(a) Business analysis

Cape Industrial Services

Total operating profit: Group and share of joint ventures for the year was £4.3 million (2002: £17.3 million).

The operating profit of CIS, including its share of joint ventures, increased by 8.7% to £10.0 million (2002: £9.2 million). The operating profit of CIS is before head office costs of £2.7 million (2002: £3.7 million) and compensation for industrial disease costs of £3.8 million (2002: credit of £10.1 million).

	2003 £m	2002 £m
Turnover *	**228.3**	191.7
Operating Profit *	**10.0**	9.2

* Including share of continuing joint ventures

Year on year, turnover increased by 19.1% whilst operating profit improved by 8.7%. CIS experienced increased demand for its services in virtually all the regions in which the business operates. A more challenging operating environment resulted in a slight deterioration in margins largely driven by an increase in insurance premiums. The Board is actively reviewing options to minimise insurance costs going forward.

During 2003 a number of new contracts were won in the UK. The offshore business is providing a range of services on the Golden Eye project at St Fergus and Mossmorran. Two three year maintenance contracts were awarded, the first to provide industrial cleaning services to a large industrial group at their Trafford Park and Tilbury sites and the second to provide scaffolding and access equipment for RWE Innogy PLC at Didcot A Power Station.

Outside Europe, CIS has won a number of major projects including work on Liquefied Natural Gas (LNG) plants at Damietta for the Damietta LNG Construction Company LLC (a joint venture between MW Kellogg, Japanese Gas Corporation and Tecnicas Reunidas) in Egypt and at Sur, Oman for Chiyoda Foster Wheeler & Co LLC.

CIS is a market leader in cryogenic insulation and related services for the LNG market in the Middle East. The market for LNG is expected to grow at around 12% per annum. The Board believes that CIS is well positioned to benefit from this increase in demand, worldwide, for its services given its existing expertise, client relationships and health, safety and environmental performance. The Group recently received an award for completion of more than 5 million man hours of work without a lost time accident on an LNG plant in Bintulu, Malaysia.

Activity levels across all areas of the business were particularly strong over the final quarter of 2003 and these have continued into 2004

The Board is confident that the Group will continue to make good progress

On behalf of the Board I would like to take this opportunity to thank the management and employees of the Group worldwide for their commitment and support during 2003

Surplus Properties
The Group owns the freehold of two properties that are surplus to requirements following the sale of CCS. They comprise a seven acre former manufacturing site at Chesham in Surrey and a 120 acre brown field site in Uxbridge which is located between the M40 and the M4 and immediately adjacent to the M25. The Group is considering its options for these sites. Any cash generated from the disposal of these non-core assets will be used to finance further growth in the business either organically or through the acquisition of complementary businesses.

Industrial Disease
The Group has received, and continues to receive, claims arising from historical asbestos related activities. On the basis of the information presently available, it is not possible for the Directors to quantify, with sufficient reliability, the amount required to settle future claims, and accordingly claims are accounted for on the basis of claims lodged and settlements reached. Given the outlook for the Group and assuming that future settlements broadly follow recent history, the Directors anticipate that future claims, to the extent not matched by insurance recoveries, can be met from operating cash flows.

The Board adopts a responsible attitude in dealing with claims received. All claims are dealt with on their merits and in a timely manner. The Group has recently invested in and established a purpose built in-house archive facility to aid the effective management of claims.

The Board is presently reviewing the options available for the long term funding of industrial disease claims.

The Board

During the year there have been a number of changes to the Board. On 24 June I was appointed as Chairman and Mike Reynolds was appointed Group Finance Director. Mike Reynolds replaces Ian Widdowson, who resigned from the Board on that day. Ian was with the Group for 11 years and had been Group Finance Director for five years. I would like to thank Ian on behalf of the Board for his full contribution to the Group and in particular for his participation in the successful restructuring.

Strategic Review

The Board recently completed a strategic review of the CIS business. The review confirmed that the Group, post the restructuring I refer to above, has a great opportunity to do more things in more places and build long-term value for our shareholders. Consequently the Board has set the following objectives:-

- To become the recognised expert and leader in each of our chosen markets
- To re-inforce, develop and build upon existing relationships with clients
- To increase leverage from our safety proposition and continue to set challenging safety standards across all areas of the business
- To extend the service offering to all clients and broaden the range of services offered
- To build value for shareholders through improving its return on managed assets

Our People

On behalf of the Board I would like to take this opportunity to thank the management and employees of the Group worldwide for their commitment and support during 2003.

Trading Outlook

Activity levels across all areas of the business were particularly strong over the final quarter of 2003 and these have continued into 2004. In light of the outcome of the strategic review and the activity levels during 2003, the Board is confident that the Group will continue to make good progress in the current year and beyond.

Martin K May
Chairman

CAPE'S TECHNICAL EXPERTISE GIVES IT A DOMINANT POSITION IN THE MARKETS IT SERVES

Cape Industrial Services
Recent contracts

Customer list includes:

BP
British Gas
Chevron
Esso
Foster Wheeler
Huntsman
Kellogg JGC
Mitsui Babcock
Nerefeco
Qatar Petroleum
Petronas
Phillips
Sabic
Shell
Toyo Engineering

1 Hartlepool
North East of England
(2003-2004)
Cape Industrial Services provided scaffolding and painting services on BP Clair's Drilling Rig under construction at Heerema's Hartlepool yard.

1 Shell Northern Systems
Plants at St Fergus and Fife
(2003-2004)
Cape's involvement in the tie-in works and offshore hook-up on the Golden Eye project extends to insulation, painting and scaffolding services.

1 BP Schehallion FPSO
West of Shetland
(2000-2005)
Cape provides a range of multi discipline deck and fabric maintenance services offshore including BP's Schehallion FPSO.

2 Holland
Refinery Maintenance
(2003-to date)
Cleton consolidated its leading presence in Holland's Europort with annual maintenance programmes at the Shell, Nerefco (BP) and Kuwait Petroleum Oil Refineries.

3 Kazakhstan
Karachaganak
(2001-2003)
Cape Industrial Services completed a $15 million painting and insulation contract on the British Gas/Agip oil and gas field development at Karachaganak, Kazakhstan.

4 Egypt Damietta LNG Export Terminal
(2002-to date)
Cape East Egypt and its partners were awarded contracts by a consortium headed by Kellogg JGC valued at $8 million covering the provision of scaffolding and insulation services.

5 Bahrain
Aluminium Bahrain
(2003-to date)
R B Hilton Bahrain has been awarded a $2.5 m refractory services contract on the new Potline at Aluminium Bahrain's expansion and further contracts for scaffolding.

6 Oman
Qalhat LNG Export Terminal
(2003-to date)
Cape East & Partners were awarded a $15 million contract by Chiyoda Foster Wheeler covering painting, scaffolding, refractory and insulation services.

7 India
Dahej LNG Import Terminal
(2002-2003)
Cape Industrial Services completed insulation work to India's first LNG import receiving terminal under a $3 million contract with Toyo Engineering.

8 Malaysia
LNG Export Terminal at Bintulu
(2000-2003)
Cape East (Malaysia) Sdn Bhd completed its $28 million contract for Kellogg JGC covering scaffolding and insulation services.

9 Indonesia
PT Cape East Meiso
(2003-to date)
Under the direction of Cape East's Singapore regional headquarters a new subsidiary was established in Indonesia to take advantage of opportunities in the oil and gas sector.

10 Australia/Philippines
Bayu Undan offshore development
(2003-to date)
Cape Modern in conjunction with Cape East Philippines provided multi discipline manpower services to Clough Aker on the hook up of Phillips' offshore development in the Timor Sea.

Health, safety and the environment

Cape Industrial Services has always put health & safety, quality and environmental excellence at the forefront of its business philosophy

The Company has developed continuous improvement strategies to enhance further safety performance throughout all levels of the organisation

Our overriding objectives are to ensure excellence in product/service provision, no harm to people, no damage to plant or the environment and no loss of production

Continuous improvement to health & safety, quality and environmental management

Cape Industrial Services has always put health & safety, quality and environmental excellence at the forefront of its business philosophy.

Cape Industrial Services was one of the first companies within the industrial business sector to achieve certification to OHSAS 18001:1999 (Occupational health and safety management systems – Specification). Third Party Accreditation has been achieved throughout all UK industrial operating units and most of the major overseas operating units.

The Company has developed continuous improvement strategies to enhance further safety performance throughout all levels of the organisation. The Company continually sets objectives and strives for tangible improvements to its health and safety culture. The Company operates an Integrated Management System (IMS), which controls all aspects of health & safety, quality and environmental management. Since the conception of the IMS there has been a year on year improvement in accident statistics, demonstrating the progressive safety culture within the Company.

Cape Industrial Services holds Third Party Accreditation to ISO 9001:2000 (Quality management systems – requirements) throughout all UK industrial operating units and most of the major overseas operating units.

Cape Industrial Services holds Third Party Accreditation to ISO 14001:1996 (Environmental management systems – Specification with guidance for use) throughout all UK industrial operating units. A phased roll-out of the system is currently in place for the overseas operating units.

The Company recognises that people are its greatest asset and the management systems endeavour to allow every member of the Company to contribute to the overall effectiveness of the Company's performance.

Our overriding objectives are to ensure excellence in product/service provision, no harm to people, no damage to plant or the environment and no loss of production.

Directors' Report

The Directors have pleasure in submitting their report and audited financial statements of the Group for the year ended 31 December 2003.

Principal activities
The Company and its subsidiaries form an international Group engaged in the supply of a range of services to industry which include industrial scaffolding, thermal and acoustic insulation, asbestos removal, fire protection, painting and related services to major industrial groups. The principal subsidiary undertakings are set out on page 51.

Review of business and future developments
A review of the Group's activities during the year together with future developments is contained in the Chairman's Statement on pages 4 to 7.

Results
The financial results for the year ended 31 December 2003 are set out in the financial statements on pages 16 to 48. The profit for the year is £5.9 million (2002: £14.3 million). The profit on ordinary activities before interest is £6.0 million (2002: £14.0 million).

Dividends
No interim dividend was paid for the year ended 31 December 2003 (2002: nil pence). The Directors are unable to recommend the payment of a final dividend for the year ended 31 December 2003 (2002: nil pence).

Fixed assets
Details of the movements in tangible fixed assets are given in Note 11(b) to the accounts on pages 30 and 31.

Donations
During the year the Group made charitable donations of £5,700 (2002: £10,600) towards various local and national causes. There were no political donations (2002: £nil).

Share listing
On 14 January 2003 the Company re-listed from the main market to the Alternative Investment Market ('AIM').

Directors
The Directors at the date of this report and their biographical details are as follows:

Martin May (50)
Appointed Chairman in 2003. He is a Director of Planestation PLC and a number of private companies including McNicholas, a Fellow of the Institute of Chartered Management Accountants and a founder member and Fellow of the Society of Turnaround Practitioners.

Paul Ainley (58)
Appointed director in 1999. He has been Managing Director of the Cape Industrial Services division since 1995.

Mike Reynolds (45)
Appointed Group Finance Director in June 2003. A Chartered Accountant who has been Finance Director of the Cape Industrial Services division since 1998.

John Pool (65)
Appointed Non-Executive Director in 1997. A Chartered Secretary who has spent most of his career with Anglo American and Charter PLC. He was Managing Director of ESAB AB – Asia Pacific based in Singapore when he retired in 1996.

Sean O'Connor (55)
Appointed Non-Executive Director in 1996. He was the founder of the Stoves Group PLC and Chairman until 2001. He is currently Chairman of Applied Energy Limited and a Non-executive Director of Sportingbet plc, Graphite Enterprise Trust plc, Phoenix Equity Partners, Crow TV, Babel Media and Escape Studios Limited.

Ian Widdowson resigned as Group Finance Director on 24 June 2003.

John Pool is the Director retiring by rotation under Article 90 and, being eligible, offers himself for re-appointment at the Annual General Meeting.

Mike Reynolds, having been appointed by the Directors since the last Annual General Meeting, is required to retire at the end of the Annual General Meeting on 22 June 2004 and, being eligible, is seeking re-appointment by the shareholders at that meeting.

Details of the interests of the Directors in the shares and share option schemes of the Company are shown on page 12. No Director had any interests in any contract with the Company or its subsidiaries at any time during the year other than service contracts and share option schemes. No Executive Director has a service contract for a period in excess of one year's duration or with provision for predetermined compensation for loss of office or an amount which equals or exceeds one year's salary and benefits in kind.

The Company has maintained insurance to cover the Directors' and officers' liability as defined in s.310(3)(a) of the Companies Act 1985.

Share schemes

Interests in share options

The following Directors held options in the Company's share option schemes during the year:

	Date of grant	Earliest exercise date	Expiry date	Exercise price	At 31.12.02	Lapsed	**At 31.12.03**
P R Ainley							
Executive Scheme	02.07.98	02.07.01	02.07.08	£1.535	111,500	–	**111,500**
Savings Related Scheme	07.05.99	01.07.04	01.01.05	£0.680	2,580	–	**2,580**
M T Reynolds							
Executive Scheme	05.04.96	05.04.99	05.04.06	£1.670	15,000	–	**15,000**
Executive Scheme	02.07.98	02.07.01	02.07.08	£1.535	25,000	–	**25,000**
Savings Related Scheme	07.05.99	01.07.04	01.01.05	£0.680	2,779	–	**2,779**

The middle market price of the shares on 31 December 2003 was 62.5p and the range during the twelve months ended 31 December 2003 was 10.0p to 68.0p.

No other Directors have been granted share options in the shares of the Company or other group entities. None of the terms and conditions of the share options were varied during the year. All options were granted in respect of qualifying services.

The options were granted at nil cost to the Directors and were in respect of future performance. Subsequent to the year end, all options under the Executive Scheme have been surrendered. Details of the new scheme are stated in the subsequent event note below.

Gains made by Directors on share options

No options were exercised during the year.

Directors' interests

The beneficial interests of the Directors of the Company and their families in the ordinary shares of the Company are set out below:

	2003 Number	2002 Number
M K May	**40,000**	10,000
P R Ainley	–	–
M T Reynolds (appointed 24.06.03)	–	–
S S O'Connor	–	–
J A Pool	**10,000**	10,000

None of the Directors had an interest in the shares of any other Company in the Group.

On 25 March 2004, M K May purchased 10,000 additional shares in Cape PLC taking his beneficial interest to 50,000 ordinary shares. There were no other changes in the Directors' interests shown above between 31 December 2003 and 13 May 2004.

Subsequent event

Subsequent to the year end, all options under the Executive Scheme have been surrendered. On 7 May 2004 the board awarded a total of 1,280,000 options on ordinary shares of 25p each to its senior executives, including certain Directors. The options were granted, for nil consideration, at an exercise price of 60.0p per ordinary share under the Company's Share Option Plan.

Certain performance conditions relating to the future increase in the Company's adjusted earnings per share are attached to the options. The share options issued to the Directors are:

	Earliest exercise date	Expiry date	Exercise price	No. of share options
M K May	07.05.07	07.05.14	£0.60	400,000
P R Ainley	07.05.07	07.05.14	£0.60	400,000
M T Reynolds	07.05.07	07.05.14	£0.60	100,000

Directors' Report continued

Supplier payment policy
The supplier payment policy for Group companies is to agree terms and conditions for business transactions with suppliers. Payment is then made subject to these terms and conditions being met. The Company did not have any amounts owed to trade creditors at the end of the year (2002: nil). The Group owed £16.2 million to trade creditors at the end of the year (2002: £14.9 million).

Employment policies
The companies in the Group operate within broadly prescribed personnel and employment policies. Each company develops procedures which are most appropriate to the circumstances within which it operates. The Group's training, career development and promotion policies provide equal opportunities for all employees.

Employment of disabled persons
It is Group policy to encourage, wherever practicable, the employment of disabled persons and to provide appropriate opportunities for their training, career development and promotion. Where employees have become disabled in the service of the Group, every effort is made to rehabilitate them in their former occupation or in some suitable alternative.

Employee involvement
The Group continues its practice of keeping all employees informed on matters affecting them and the Group, so that a common awareness amongst all employees is developed in relation to the financial and economic factors that affect the performance of the Group. Where applicable,. the Group consults employees or their representatives on a regular basis so that the views of employees can be taken into account in making decisions that are likely to affect their interests. Senior management is kept abreast of developments in financial, commercial and personnel matters and this enables it to ensure that employees at operational level are kept informed. The Group operates pension schemes for the benefit of eligible employees in the U.K. and overseas. The funds of the pension schemes are administered by trustees and they are held separately from Group funds.

Health and safety
The Group has issued a policy statement on its commitment to a safe working environment for all employees. The CIS Managing Director is responsible for the implementation of the Group policy on Health and Safety within his area of responsibility. During the year company operations throughout the UK and the rest of the World, were subjected to internal and third party audits to monitor compliance with company procedures and statutory requirements.

Statement of Directors' responsibilities
Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss and cash flows of the Group for that period.

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

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

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

It is the intention of the Group that this document (the Annual Report and Accounts 2003) will be published on the Company's website (in addition to the normal paper version). The maintenance and integrity of the Cape website is the responsibility of the Directors and the work carried out by the auditors does not involve consideration of these matters.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Report continued

Substantial holdings

The Directors have been advised that as at 30 April 2004 the following have interests of 3% or more in the issued ordinary share capital of the Company:

	Number of ordinary shares	Percentage of issued shares
Prudential PLC and certain of its subsidiaries	8,089,814	14.89%
RBS Trust Artemis UK Growth Fund	5,000,000	9.20%
RBS Trust Jupiter High Income Fund	3,550,000	6.53%
RBS Trustee ML UK Dynamic Fund	3,025,000	5.57%
Active Capital Trust	3,000,000	5.52%
Canada Life Marketing Group	2,350,000	4.33%

The Company has not received notification of any other interests held by persons acting together which at 30 April 2004 represented 3% or more of the issued ordinary share capital.

Annual General Meeting

At the Annual General Meeting to be held on 22 June 2004, resolutions will be proposed on the following items of special business:

(a) To disapply Section 89 of the Companies Act 1985.
The Directors consider it to be in the best interests of the Company that they should continue to have the power to allot equity securities for cash other than to existing shareholders up to an amount equal to five per cent of the Company's issued ordinary share capital at 30 April 2004.

(b) To authorise the purchase by the Company of its own shares.
The Directors consider that it would be advantageous to obtain the authority of the shareholders to allow the Company to acquire its own shares in the market. The Directors would then be in a position to act quickly in the interests of the Company and shareholders generally if circumstances so warrant. A special resolution (numbered 6 in the notice of meeting) will be put to the Annual General Meeting to authorise the Company to make market purchases of up to fifteen percent of its issued ordinary shares. The price at which shares may be purchased will not be more than five percent above the average middle market quotations for the Company's shares in the London Stock Exchange Daily Official List for the five business days before the date of purchase. Shares purchased will be cancelled. This authority will expire on 21 June 2005.

The Directors have no present intention of exercising this authority if it is given. Purchases of the Company's shares would only be made if this would result in an increase in earnings per share and be in the best interests of the Company at the time. The text of all the resolutions is set out in full in the notice convening the Annual General Meeting on pages 52 and 53.

The Annual General Meeting is to be held on 22 June 2004 at the registered Office of the Company, Cape House, 3 Red Hall Avenue, Paragon Business Village, Wakefield WF1 2UL.

Independent Auditors

The auditors PricewaterhouseCoopers LLP have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board

M T Reynolds
Secretary
13 May 2004

Cape House
3 Red Hall Avenue
Paragon Business Village
Wakefield WF1 2UL

Independent auditors' report to the members of Cape PLC

We have audited the financial statements which comprise the consolidated profit and loss account, the consolidated and Company balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses, the note of Group historical cost profits and losses, the reconciliation of movements in shareholders' funds, the accounting policies and the related notes.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises:

Financial highlights
Cape Industrial Services
Chairman's statement and review
Cape Industrial Services – Recent contracts
Health, safety and the environment
Directors' report

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the impact of, and accounting for, potential future claims for industrial disease compensation. On the basis of the information presently available, it is not generally possible for the Directors to quantify, with sufficient reliability, the amount required to settle future claims and accordingly claims are generally accounted for on the basis of claims lodged or settlements reached and outstanding at the balance sheet date. However, if it were possible to assess reliably the present value of the amount required to settle future claims such that this was provided in the balance sheet, there would be a materially adverse effect on the Group's financial position. Details of the circumstances relating to this fundamental uncertainty are described in note 26 to the financial statements. Our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Leeds
13 May 2004

Consolidated profit and loss account for the year ended 31 December 2003

	Note	**Continuing £m**	**Discontinued £m**	**2003 Total £m**	Continuing £m	Discontinued £m	2002 Total £m
Turnover	1	**228.3**	**3.6**	**231.9**	191.7	33.1	224.8
Less share of turnover of joint ventures		**(3.5)**	**–**	**(3.5)**	(2.4)	(0.8)	(3.2)
Group turnover		**224.8**	**3.6**	**228.4**	189.3	32.3	221.6
Group operating profit/(loss) before exceptional items		**3.6**	**(0.1)**	**3.5**	5.0	(0.6)	4.4
Operating exceptional items	4	**(0.4)**	**0.9**	**0.5**	10.5	2.5	13.0
Group operating profit	3	**3.2**	**0.8**	**4.0**	15.5	1.9	17.4
Share of operating profit/(loss) in joint ventures	1	**0.3**	**–**	**0.3**	0.1	(0.2)	(0.1)
Total operating profit: group and share of joint ventures	2	**3.5**	**0.8**	**4.3**	15.6	1.7	17.3
Profit on sale of fixed asset investments	5	**–**	**–**	**–**	–	0.5	0.5
Profit on sale of fixed assets	5	**–**	**2.4**	**2.4**	–	–	–
Loss on sale and subsequent closure costs of Calsil Division	5	**–**	**(0.7)**	**(0.7)**	–	(3.8)	(3.8)
Profit/(loss) on ordinary activities before interest	1	**3.5**	**2.5**	**6.0**	15.6	(1.6)	14.0
Net interest payable	8			**(1.4)**			(1.7)
Other finance income	27			**0.9**			2.3
Profit on ordinary activities before taxation				**5.5**			14.6
Tax credit/(charge) on profit on ordinary activities	9			**0.4**			(0.3)
Profit for the year	21			**5.9**			14.3
Earnings per ordinary share:	10						
– Basic and diluted				**10.9p**			26.2p
– Adjusted basic				**6.9p**			8.1p

The notes and information on pages 20 to 48 form part of these accounts.

Consolidated and Company balance sheets at 31 December 2003

	Note	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Fixed assets					
Intangible assets	11	**0.1**	0.1	**–**	–
Tangible assets	11	**22.4**	30.8	**–**	0.1
Investments	12	**–**	–	**66.9**	60.4
Interest in joint ventures:					
Share of gross assets	12	**0.1**	0.8	**–**	–
Share of gross liabilities	12	**(0.1)**	(0.8)	**–**	–
		–	–	**–**	–
		22.5	30.9	**66.9**	60.5
Current assets					
Stocks	13	**10.0**	13.1	**–**	–
Debtors	14	**61.9**	58.7	**4.5**	3.9
Cash at bank and in hand	16	**7.1**	17.0	**1.5**	–
		79.0	88.8	**6.0**	3.9
Creditors: amounts falling due within one year					
Short-term borrowings	17	**(2.3)**	(36.1)	**–**	(26.7)
Other creditors	17	**(49.9)**	(43.3)	**(2.4)**	(3.2)
		(52.2)	(79.4)	**(2.4)**	(29.9)
Net current assets/(liabilities)		**26.8**	9.4	**3.6**	(26.0)
Total assets less current liabilities		**49.3**	40.3	**70.5**	34.5
Creditors: amounts falling due after more than one year	18	**(10.2)**	(0.2)	**(40.5)**	(8.9)
Provisions for liabilities and charges	19	**(16.8)**	(23.3)	**(7.5)**	(8.8)
Net assets excluding pension asset		**22.3**	16.8	**22.5**	16.8
Pension asset	27	**7.4**	7.3	**7.2**	7.3
Net assets including pension asset		**29.7**	24.1	**29.7**	24.1
Capital and reserves					
Called up share capital	20	**18.2**	18.2	**18.2**	18.2
Share premium account	21	**1.6**	1.6	**1.6**	1.6
Revaluation reserve	21	**2.4**	10.7	**30.1**	24.3
Profit and loss account	21	**7.5**	(6.4)	**(20.2)**	(20.0)
Shareholders' funds (includes non-equity interests)		**29.7**	24.1	**29.7**	24.1
Equity interests		**25.1**	19.5	**25.1**	19.5
Non-equity interests		**4.6**	4.6	**4.6**	4.6
Shareholders' funds		**29.7**	24.1	**29.7**	24.1

These accounts were approved by the Board of Directors on 13 May 2004 and were signed on its behalf by:

M K May **Chairman**

M T Reynolds **Group Finance Director**

The notes and information on pages 20 to 48 form part of these accounts.

Consolidated cash flow statement for the year ended 31 December 2003

	Note	2003 £m	2003 £m	2002 £m	2002 £m
Net cash inflow from operating activities	22(a)		**11.4**		7.6
Returns on investments and servicing of finance					
Interest received		**0.1**		0.1	
Interest paid		**(1.5)**		(1.9)	
Net cash outflow from returns on investments and servicing of finance			**(1.4)**		(1.8)
Taxation	22(b)		**(0.6)**		(0.3)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(6.5)**		(4.6)	
Receipt from sale of tangible fixed assets		**12.6**		0.5	
Net cash inflow/(outflow) from capital expenditure and financial investment			**6.1**		(4.1)
Acquisitions and disposals					
Receipts from sale of Cape Calsil		**–**		9.2	
Costs associated with the sale and disposal of Cape Calsil		**(0.8)**		(3.5)	
Net cash (outflow)/inflow from acquisitions and disposals			**(0.8)**		5.7
Net cash inflow before financing			**14.7**		7.1
Financing					
Capital element of finance lease rental payments			**(0.3)**		(0.4)
Repayment of short-term borrowings			**(34.0)**		5.4
New long-term borrowings			**10.0**		–
(Decrease)/increase in cash in the year	22(c)		**(9.6)**		12.1

		2003 £m	2002 £m
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in cash in the year		**(9.6)**	12.1
Outflow/(inflow) from debt and lease financing		**24.3**	(5.0)
Change in debt resulting from cash flows		**14.7**	7.1
New finance leases		**(0.3)**	(0.2)
Exchange movement in year		**(0.5)**	(0.1)
Movement in net debt in year		**13.9**	6.8
Net debt at 1 January		**(19.3)**	(26.1)
Net debt at 31 December	22(c)	**(5.4)**	(19.3)

The notes and information on pages 20 to 48 form part of these accounts.

Consolidated statement of total recognised gains and losses for the year ended 31 December 2003

	Note	2003 £m	2002 £m
Profit on ordinary activities after taxation		**5.9**	14.3
Currency translation differences net of taxation on foreign currency net investments	21	**(0.7)**	0.4
Actuarial gain/(loss) recognised in the pension scheme	27	**0.6**	(15.4)
Movement on deferred tax relating to pension asset	27	**(0.2)**	4.3
Total recognised gains relating to the year		**5.6**	3.6

Note of Group historical cost profits and losses for the year ended 31 December 2003

	2003 £m	2002 £m
Reported profit on ordinary activities before taxation	**5.5**	14.6
Realisation of property revaluation gains of previous years	**8.3**	–
Historical cost profit on ordinary activities before taxation	**13.8**	14.6
Historical cost profit for the year retained after taxation and dividends	**14.2**	14.3

Reconciliation of movements in shareholders' funds for the year ended 31 December 2003

Group	Note	2003 £m	2002 £m
Profit on ordinary activities after taxation		**5.9**	14.3
Currency translation differences net of taxation on foreign currency net investments	21	**(0.7)**	0.4
Other recognised gains and losses relating to the year		**0.4**	(11.1)
Net increase to shareholders' funds		**5.6**	3.6
Shareholders' funds at 1 January		**24.1**	20.5
Shareholders' funds at 31 December		**29.7**	24.1

Company	2003 £m	2002 £m
(Loss)/profit on ordinary activities after taxation	**(0.7)**	8.9
Other recognised gains and losses relating to the year	**6.3**	(5.3)
Net increase to shareholders' funds	**5.6**	3.6
Shareholders' funds at 1 January	**24.1**	20.5
Shareholders' funds at 31 December	**29.7**	24.1

The notes and information on pages 20 to 48 form part of these accounts.

Accounting policies

1. Accounting convention
The financial statements are prepared under the historical cost convention, except for certain fixed assets included at revaluation, and in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom. A summary of the more important Group accounting policies are set out below.

2. Basis of consolidation
(a) The consolidated financial statements comprise the financial statements of the Company and all subsidiary undertakings for the year ended 31 December 2003.

(b) The results of subsidiary undertakings acquired or disposed of during the year are included in the Consolidated profit and loss account from or to their effective dates of acquisition or disposal. Intercompany transactions, balances, and unrealised profits and losses on transactions between Group Companies are eliminated on consolidation.

(c) The Group's interest in joint ventures is accounted for under the gross equity method.

3. Foreign currencies
Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of transaction. Profits and losses of subsidiary undertakings, joint ventures and branches which have currencies of operation other than sterling are translated into sterling at average rates of exchange. Assets and liabilities denominated in foreign currencies are translated at the year end exchange rate.

Exchange differences arising from the retranslation of the opening net assets of subsidiary undertakings, joint ventures and branches that have currencies of operation other than sterling, net of any matching exchange differences on related foreign currency loans taken out to hedge overseas investments, are taken to reserves, together with the differences arising when the profit and loss accounts are translated at average rates and compared with rates ruling at the year end. Other exchange differences are taken to the profit and loss account.

4. Turnover
Turnover for manufactured goods is the invoiced value of sales and services of the Group. The policy for recognition of turnover in respect of short and long-term contracts is disclosed in the policy on stocks and work in progress.

5. Cost of sales
Operating expenses, to the extent that they are directly related to contracting activities, are recoverable against contracts and classified within cost of sales.

6. Goodwill
Purchased goodwill (representing the excess of the fair value of the consideration paid over the fair value of the separable net assets acquired) is stated at cost (less provision for impairment) and is amortised through the profit and loss account on a straight line basis over its estimated useful economic life, which is considered to be 20 years. The carrying value of goodwill is reviewed for impairment in accordance with FRS 11 "Impairment of fixed assets and goodwill." Any impairment is recognised in the profit and loss account.

On the implementation of FRS10 "Goodwill and Intangible Assets", the Group adopted the transitional arrangements such that all goodwill that had been written off directly to reserves would only be charged to the profit and loss account on subsequent disposal of the business to which it related.

7. Tangible fixed assets and depreciation
Tangible fixed assets are stated at cost or valuation net of depreciation and any provision for impairment. Under FRS 15, the Group followed the option within the transitional arrangements to retain the book values of land and buildings, certain of which were last revalued in 1992. Depreciation is provided to write off the cost or valuation less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives with the exception that no depreciation is provided on freehold land. The following rates are applied:

- Freehold buildings – 2% per annum
- Leasehold land and buildings – the period of the lease
- Plant, machinery, fixtures and fittings – 6⅔% to 33⅓% per annum

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

Any impairment in the value of fixed assets is dealt with in the profit and loss account in the period in which it arises.

8. Leased plant and machinery
Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the amount representing the outright purchase price is capitalised and the corresponding leasing commitments are shown as obligations to the lessor. The relevant assets are depreciated in accordance with the Group's depreciation policy or over the lease term if shorter. Net finance charges, calculated on the reducing balance method, are included in interest costs.

All other leases are treated as operating leases and the annual rentals charged to the operating profit for the year on a straight line basis.

9. Compensation for industrial disease
Provision is made for compensation for industrial disease where it is possible to estimate the liability with sufficient reliability. As explained in Note 26, this is generally only currently possible in respect of claims lodged and outstanding at the year end. Where this is not possible, a contingent liability is noted. Benefit is recognised for insurance recoveries for claims provided when they are anticipated with virtual certainty.

10. Stocks and work in progress
Stocks are valued at the lower of cost and net realisable value. Contracts are undertaken for customers either on a short or long-term basis. For short-term contracts, work done is substantially billed as performed and for long-term contracts, work is carried out on a substantially fixed or limited-price basis. With respect to short-term contracts, turnover and profit are recognised according to work executed. Amounts taken to turnover in respect of work done not billed are included within amounts recoverable on contracts. Costs incurred, including an appropriate allocation of overheads, in respect of long-term contracts are included in work in progress net of progress payments received and provisions for foreseeable losses. Any payments on account or provisions for foreseeable losses in excess of contract balances are included in creditors. Turnover and attributable profit on long-term contracts is recognised according to the percentage of estimated total contract value completed or the achievement of contractual milestones provided that the outcome of the contract can be assessed with reasonable certainty.

Accounting policies continued

11. *Deferred taxation*
Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less, tax in the future. Resultant deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted, or where there are deferred tax liabilities against which the assets can be recovered. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

12. Investments in subsidiary undertakings
The cost of investments is revalued each year to the net asset value of the Group's subsidiaries with changes above and below cost dealt with through the revaluation reserve and profit and loss account reserve accordingly. Provision has not been made for any taxation liability on capital gains that might arise on the disposal of subsidiary undertakings at the amount at which they are stated in the balance sheet.

13. Pensions and retirement benefits
The Group operates two major pension schemes in the UK, one is a defined benefit type and the other of the defined contribution type. Full valuations of the defined benefit scheme are performed every three years, using the projected unit method.

The pension expense for defined contribution schemes represents amounts payable in the year. Under the defined benefit scheme any current and past service costs are charged to operating profit and interest costs and expected returns on assets to financing costs or income. Actuarial gains and losses arising from new valuations and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are recognised in the statement of total recognised gains and losses.

The Group continues to account for its pension schemes in the UK in line with the requirements of FRS 17 "Retirement Benefits".

Further information is provided in Note 27.

14. Financial instruments
A derivative instrument is considered to be used for hedging purposes when it alters the risk profile of an existing underlying exposure of the Group in line with the Group's risk management policies.

The Group uses derivative financial instruments primarily to manage exposures to fluctuations in foreign currency exchange rates. As in previous years, it is the Group's policy not to trade in financial instruments.

Gains and losses on foreign currency contracts are deferred and recognised in the profit and loss account when the hedged transaction occurs. Gains and losses arising from the translational hedges of foreign currency investments are taken to reserves.

If an instrument ceases to be accounted for as a hedge, for example because the underlying hedged position is eliminated, the instrument is marked to market and any resultant profit or loss recognised at that time.

Notes to the Financial Statements

1. Segmental analysis

(a) Business analysis	Turnover £m	Profit before tax: Pre-exceptional items £m	Operating exceptional items £m (Note 4)	Non-operating exceptional items £m (Note 5)	Total £m	Net operating assets £m
2003						
Continuing operations						
– Cape Industrial Services	**224.8**	**9.7**	**–**	**–**	**9.7**	**45.8**
– Head Office	**–**	**(2.3)**	**(0.4)**	**–**	**(2.7)**	**6.3**
– Compensation for industrial disease	**–**	**(3.8)**	**–**	**–**	**(3.8)**	**(18.8)**
– Joint ventures	**3.5**	**0.3**	**–**	**–**	**0.3**	**(0.1)**
Total continuing	**228.3**	**3.9**	**(0.4)**	**–**	**3.5**	**33.2**
Discontinued operations						
– Cape Calsil	**3.6**	**(0.1)**	**0.9**	**1.7**	**2.5**	**1.9**
– Joint ventures	**–**	**–**	**–**	**–**	**–**	**–**
Total discontinued	**3.6**	**(0.1)**	**0.9**	**1.7**	**2.5**	**1.9**
Total operations	**231.9**	**3.8**	**0.5**	**1.7**	**6.0**	**35.1**
Net interest/net borrowings					**(1.4)**	**(5.4)**
Other finance income					**0.9**	**–**
					5.5	**29.7**

There are no significant inter-segment sales between business units

	Turnover £m	Profit before tax: Pre-exceptional items £m	Operating exceptional items £m (Note 4)	Non-operating exceptional items £m (Note 5)	Total £m	Net operating assets £m
2002						
Continuing operations						
– Cape Industrial Services	189.3	9.1	–	–	9.1	37.2
– Head Office	–	(1.7)	(2.0)	–	(3.7)	13.3
– Compensation for industrial disease	–	(2.4)	12.5	–	10.1	(13.4)
– Joint ventures	2.4	0.1	–	–	0.1	(0.4)
Total continuing	191.7	5.1	10.5	–	15.6	36.7
Discontinued operations						
– Cape Calsil	32.3	(0.6)	2.5	(3.8)	(1.9)	6.7
– Joint ventures	0.8	(0.2)	–	0.5	0.3	–
Total discontinued	33.1	(0.8)	2.5	(3.3)	(1.6)	6.7
Total operations	224.8	4.3	13.0	(3.3)	14.0	43.4
Net interest/net borrowings					(1.7)	(19.3)
Other finance income					2.3	–
					14.6	24.1

Net operating assets represents the net assets of each business unit after adjusting for Group funding loans. The 2002 analysis has been restated on this basis.

Notes to the Financial Statements continued

1. Segmental analysis (continued)

(b) Geographical analysis by origin	Turnover £m	Profit before tax: Pre-exceptional items £m	Operating exceptional items £m (Note 4)	Non-operating exceptional items £m (Note 5)	Total £m	Net operating assets £m
2003						
Continuing operations						
– United Kingdom	**150.3**	**1.0**	**(0.4)**	**–**	**0.6**	**19.2**
– Continental Europe	**34.5**	**0.2**	**–**	**–**	**0.2**	**6.7**
– Rest of the World	**40.0**	**2.4**	**–**	**–**	**2.4**	**7.4**
– Rest of the World joint ventures	**3.5**	**0.3**	**–**	**–**	**0.3**	**(0.1)**
	228.3	**3.9**	**(0.4)**	**–**	**3.5**	**33.2**
Discontinued operations						
– United Kingdom	**3.6**	**(0.1)**	**0.9**	**1.7**	**2.5**	**2.2**
– Continental Europe	**–**	**(0.1)**	**–**	**–**	**(0.1)**	**(0.2)**
– Rest of the World	**–**	**0.1**	**–**	**–**	**0.1**	**(0.1)**
– Rest of the World joint ventures	**–**	**–**	**–**	**–**	**–**	**–**
– Inter-segment sales	**–**	**–**	**–**	**–**	**–**	**–**
	3.6	**(0.1)**	**0.9**	**1.7**	**2.5**	**1.9**
Total operations	**231.9**	**3.8**	**0.5**	**1.7**	**6.0**	**35.1**
Net interest/net borrowings					**(1.4)**	**(5.4)**
Other finance income					**0.9**	**–**
					5.5	**29.7**

	Turnover £m	Profit before tax: Pre-exceptional items £m	Operating exceptional items £m (Note 4)	Non-operating exceptional items £m (Note 5)	Total £m	Net operating assets £m
2002						
Continuing operations						
– United Kingdom	122.3	1.9	10.5	–	12.4	33.0
– Continental Europe	28.2	0.1	–	–	0.1	5.3
– Rest of the World	38.8	3.0	–	–	3.0	2.0
– Rest of the World joint ventures	2.4	0.1	–	–	0.1	(0.4)
	191.7	5.1	10.5	–	15.6	39.9
Discontinued operations						
– United Kingdom	31.6	(0.8)	2.2	(3.8)	(2.4)	(3.3)
– Continental Europe	8.6	0.5	–	–	0.5	6.5
– Rest of the World	0.9	(0.3)	0.3	–	–	0.3
– Rest of the World joint ventures	0.8	(0.2)	–	0.5	0.3	–
– Inter-segment sales	(8.8)	–	–	–	–	–
	33.1	(0.8)	2.5	(3.3)	(1.6)	3.5
Total operations	224.8	4.3	13.0	(3.3)	14.0	43.4
Net interest/net borrowings					(1.7)	(19.3)
Other finance income					2.3	–
					14.6	24.1

Net operating assets represents the net assets of each geographical segment after adjusting for Group funding loans. The 2002 analysis has been restated on this basis.

Notes to the Financial Statements continued

1. Segmental analysis (continued)

(c) Business analysis	2003 Net operating assets £m	2003 Group funding £m	2003 Net assets £m	2002 Net operating assets £m	2002 Group funding £m	2002 Net assets £m
Continuing operations						
– Cape Industrial Services	**45.8**	**21.2**	**67.0**	37.2	(0.3)	36.9
– Head Office	**6.3**	**(28.3)**	**(22.0)**	13.3	(6.0)	7.3
– Compensation for industrial disease	**(18.8)**	**–**	**(18.8)**	(13.4)	–	(13.4)
– Joint ventures	**(0.1)**	**–**	**(0.1)**	(0.4)	–	(0.4)
Total continuing	**33.2**	**(7.1)**	**26.1**	36.7	(6.3)	30.4
Discontinued operations						
– Cape Calsil	**1.9**	**7.1**	**9.0**	6.7	6.3	13.0
– Joint ventures	**–**	**–**	**–**	–	–	–
Total discontinued	**1.9**	**7.1**	**9.0**	6.7	6.3	13.0
Total operations	**35.1**	**–**	**35.1**	43.4	–	43.4
Net borrowings	**(5.4)**	**–**	**(5.4)**	(19.3)	–	(19.3)
	29.7	**–**	**29.7**	24.1	–	24.1

(d) Geographical analysis by origin	2003 Net operating assets £m	2003 Group funding £m	2003 Net assets £m	2002 Net operating assets £m	2002 Group funding £m	2002 Net assets £m
Continuing operations						
– United Kingdom	**19.2**	**(0.8)**	**18.4**	33.0	(9.9)	23.1
– Continuing Europe	**6.7**	**(2.4)**	**4.3**	5.3	2.2	7.5
– Rest of the World	**7.4**	**(3.9)**	**3.5**	2.0	1.4	3.4
– Rest of the World joint ventures	**(0.1)**	**–**	**(0.1)**	(0.4)	–	(0.4)
Total continuing	**33.2**	**(7.1)**	**26.1**	39.9	(6.3)	33.6
Discontinued operations						
– United Kingdom	**2.2**	**(1.0)**	**1.2**	(3.3)	11.7	8.4
– Continuing Europe	**(0.2)**	**7.3**	**7.1**	6.5	(5.1)	1.4
– Rest of the World	**(0.1)**	**0.8**	**0.7**	0.3	(0.3)	–
– Rest of the World joint ventures	**–**	**–**	**–**	–	–	–
Total discontinuing	**1.9**	**7.1**	**9.0**	3.5	6.3	9.8
Total operations	**35.1**	–	**35.1**	43.4	–	43.4
Net borrowings	**(5.4)**	**–**	**(5.4)**	(19.3)	–	(19.3)
	29.7	**–**	**29.7**	24.1	–	24.1

Notes to the Financial Statements continued

1. Segmental analysis (continued)

(e) Geographical analysis of turnover by market	2003 Continuing operations £m	2003 Discontinued operations £m	2003 Total £m	2002 Continuing operations £m	2002 Discontinued operations £m	2002 Total £m
United Kingdom	**146.1**	**3.6**	**149.7**	119.5	12.1	131.6
Continental Europe	**34.5**	**–**	**34.5**	28.2	15.4	43.6
Rest of the World – group	**44.2**	**–**	**44.2**	41.6	4.8	46.4
– joint ventures	**3.5**	**–**	**3.5**	2.4	0.8	3.2
	228.3	**3.6**	**231.9**	191.7	33.1	224.8

2. Operating profit

	2003 £m	2002 £m
Operating profit is stated after charging/(crediting)		
Auditors' remuneration (of which the parent company was £106,000 (2002: £196,000))	**0.4**	0.3
Non-audit fees payable to auditors	**0.6**	1.4
Depreciation on owned tangible fixed assets	**5.3**	7.1
Depreciation of tangible fixed assets under finance leases	**0.3**	0.4
Profit on disposal of tangible fixed assets	**(0.1)**	(0.1)
Rental/hire of plant and machinery	**5.2**	4.4
Operating leases – plant and machinery	**0.1**	0.1
Operating leases – other	**1.0**	0.3
Exchange losses	**0.5**	0.1

The 2003 non-audit fees payable to auditors represents advice in relation to taxation and the renewal of the banking facilities. The 2002 non-audit fees related to the sale of the Calsil business, the aborted flotation of Cape Industrial Services and the renewal of the banking facilities.

Rental/hire of plant and machinery comprises short-term hire charges.

3. Group operating profit

(a) Analysis of Group operating profit	Note	2003 Pre-exceptional items £m	2003 Exceptional items £m (Note 4)	2003 Total £m	2002 Pre-exceptional items £m	2002 Exceptional items £m (Note 4)	2002 Total £m
Continuing operations							
Turnover		**224.8**	**–**	**224.8**	189.3	–	189.3
Cost of sales		**(215.0)**	**–**	**(215.0)**	(179.2)	–	(179.2)
Gross profit		**9.8**	**–**	**9.8**	10.1	–	10.1
Net operating expenses	3(b)	**(6.2)**	**(0.4)**	**(6.6)**	(5.1)	10.5	5.4
Operating profit/(loss)		**3.6**	**(0.4)**	**3.2**	5.0	10.5	15.5
Discontinued operations							
Turnover		**3.6**	**–**	**3.6**	32.3	–	32.3
Cost of sales		**(3.5)**	**–**	**(3.5)**	(25.4)	2.5	(22.9)
Gross profit		**0.1**	**–**	**0.1**	6.9	2.5	9.4
Net operating expenses	3(b)	**(0.2)**	**0.9**	**0.7**	(7.5)	–	(7.5)
Operating profit/(loss)		**(0.1)**	**0.9**	**0.8**	(0.6)	2.5	1.9
Group operating profit		**3.5**	**0.5**	**4.0**	4.4	13.0	17.4

Notes to the Financial Statements continued

3. *Group operating profit (continued)*

(b) Net operating expenses	2003 Pre-exceptional items £m	2003 Operating exceptional items £m (Note 4)	2003 Total £m	2002 Pre-exceptional items £m	2002 Operating exceptional items £m (Note 4)	2002 Total £m
Continuing operations						
Distribution costs	–	–	–	–	–	–
Administrative expenses	**(6.2)**	**(0.4)**	**(6.6)**	(5.1)	10.5	5.4
Research and development expenses	–	–	–	–	–	–
	(6.2)	**(0.4)**	**(6.6)**	(5.1)	10.5	5.4
Discontinued operations						
Distribution costs	–	–	–	(4.4)	–	(4.4)
Administrative expenses	**(0.2)**	**0.9**	**0.7**	(2.4)	2.5	(2.4)
Research and development expenses	–	–	–	(0.7)	–	(0.7)
	(0.2)	**0.9**	**0.7**	(7.5)	2.5	(7.5)
Group net operating expenses	**(6.4)**	**0.5**	**(5.9)**	(12.6)	13.0	(2.1)

4. Operating exceptional items

The operating exceptional items comprise:	2003 £m	2002 £m
Continuing:		
The net release of the provision made in 2001, following the settlement made on 13 March 2003 with the South African claimants	–	11.6
Costs incurred by Head Office in the aborted divestment of Cape Industrial Services	–	(1.2)
Costs relating to the relocation of the Head Office function	**(0.4)**	(0.8)
Insurance recoveries recognised on claims provided in prior years	–	2.3
Provision for future claims from employees transferred to Promat	–	(1.4)
	(0.4)	10.5
Discontinued:		
Release of the provision made in 2001 with regard to Cape Calsil stocks and debtors	–	1.7
Release of the impairment provision made in 2001 with regard to Cape Calsil fixed assets	**0.9**	0.8
	0.9	2.5
Total operating exceptional items	**0.5**	13.0

5. Non-operating exceptional items

The non-operating exceptional items comprise:	2003 £m	2002 £m
Discontinued:		
Profit on sale of Uxbridge and Caerphilly sites and plant	**2.4**	–
Loss incurred on the sale of Cape Calsil business to Promat Glasgow Ltd and subsequent closure costs	**(0.7)**	(3.8)
Profit on sale of the joint venture with Goldsun Development & Construction Ltd	–	0.5
Total non-operating exceptional items	**1.7**	(3.3)

There is no tax charge in respect of the above disposals. The Group has sufficient tax losses available against which the chargeable gains arising can be offset. If such losses were not available, the current tax charge would increase by £2.0 million (2002: £nil effect).

Notes to the Financial Statements continued

6. Directors' emoluments

	2003 £000	2002 £000
The aggregate emoluments of the Directors of the parent Company were:		
Remuneration	**363**	479
Sums paid to third parties for directors' services (See note 28)	**222**	118
Compensation for loss of office	**139**	251
Payment to Montpellier Group PLC (See note 28)	**–**	229
	724	1,077

Highest paid director:		
Aggregate emoluments	**233**	176
Defined benefit pension scheme:		
Accrued pension entitlement at end of year	**93**	71

The full content of information required to be included in order to complete the Notes to the Financial Statements with regard to Directors' interests in Cape PLC share option schemes and Cape PLC savings related share options schemes can be found in the Directors' Report.

Retirement benefits are accruing to two (2002: three) directors under the Group's defined benefit pension scheme.

7. Employees

(a) Average number of employees (including executive directors) by business:	2003	2002
Industrial Services	**6,073**	5,604
Calsil	**11**	412
Head Office	**10**	18
	6,094	6,034

Geographically:		
United Kingdom	**2,613**	2,749
Continental Europe	**390**	421
Rest of the World	**3,091**	2,864
	6,094	6,034

(b) Employment costs, including directors' emoluments:	Note	2003 £m	2002 £m
Wages and salaries		**105.6**	102.1
Social security costs		**10.9**	10.0
Other pension costs	27	**1.4**	2.1
		117.9	114.2

Notes to the Financial Statements continued

8. Net interest payable

	2003 £m	2002 £m
Interest receivable	**0.1**	0.1
Interest payable on bank loans and overdrafts	**(1.5)**	(1.8)
	(1.4)	(1.7)

9. Tax on profit on ordinary activities

	2003 £m	2002 £m
Analysis of (credit)/charge in period – United Kingdom		
Corporation tax at 30.0% (2002: 30.0%)	**–**	–
Adjustment in respect of prior periods	**(0.1)**	0.9
Foreign Tax		
Corporation taxes	**0.9**	0.6
Adjustment in respect of prior periods	**0.1**	–
Total current tax	**0.9**	1.5
Deferred tax – United Kingdom		
Origination and reversal of timing differences	**0.4**	(1.2)
Adjustment in respect of prior periods	**(1.7)**	–
Total deferred tax	**(1.3)**	(1.2)
Tax (credit)/charge on profit on ordinary activities	**(0.4)**	0.3

There is no tax recognised on gains and losses not included in the profit and loss account.

The current tax (credit)/charge for the period is lower (2002: lower) than the standard rate of corporation tax in the UK (30.0%). The differences are explained below:

	2003 £m	2002 £m
Profit on ordinary activities before tax	**5.5**	14.6
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30.0% (2002: 30.0%)	**1.7**	4.4
Effects of:		
Adjustments to tax in respect of prior periods	**–**	0.9
Adjustment in respect of foreign tax rates	**(0.3)**	(0.3)
Expenses non-deductible/(income not taxable)	**1.8**	(1.3)
Origination and reversal of timing differences	**(0.8)**	(2.2)
Recognition of deferred tax on brought forward tax losses	**(1.5)**	–
	0.9	1.5

Notes to the Financial Statements continued

10. Earnings per ordinary share

The basic earning per share calculation for the year ended 31 December 2003 is based on the earnings (after tax and dividends on the 3.5% cumulative preference shares) of £5.9 million (2002: £14.3 million) divided by the weighted average number of ordinary 25p shares of 54,326,021 (2002: 54,326,021).

The share options in issue are not considered potentially dilutive, as the average share price for both 2002 and 2003 has been below any of the exercise price and hence basic and diluted EPS are the same.

An adjusted basic earnings per share has been disclosed which excludes the effects of operating and non-operating exceptional items. It is calculated by dividing the adjusted earnings (after tax and dividends on the 3.5% cumulative preference shares) of £3.7 million (2002: £4.6 million) by the weighted average number of ordinary 25p shares of 54,326,021 (2002: 54,326,021). The adjusted numbers have been provided in order that the effects of exceptional items on reported earnings can be fully appreciated, and has been calculated as follows:

	2003		2002	
	Earnings £m	**EPS pence**	Earnings £m	EPS pence
Basic earnings per share	**5.9**	**10.9**	14.3	26.2
Adjustments:				
Operating exceptional items	**(0.5)**	**(1.0)**	(13.0)	(24.0)
Profit on sale of fixed asset investments	**–**	**–**	(0.5)	(1.0)
Profit on sale of fixed assets	**(2.4)**	**(4.3)**	–	–
Loss on sale and subsequent closure costs of Calsil Division	**0.7**	**1.3**	3.8	6.9
Adjusted basic earnings per share	**3.7**	**6.9**	4.6	8.1

11. Fixed assets

(a) Intangible assets (goodwill)	**£m**
Group	
Cost at 1 January 2003 and 31 December 2003	**0.2**
Accumulated amortisation at 1 January 2003 and 31 December 2003	**(0.1)**
Net book value at 31 December 2002 and 31 December 2003	**0.1**

(b) Tangible assets	**Total £m**	Land and buildings £m	Plant, machinery, fixtures and fittings £m
Group			
Cost or valuation:			
At 1 January 2003	**67.9**	21.3	46.6
Exchange adjustments	**(0.8)**	0.2	(1.0)
Additions at cost	**6.5**	1.3	5.2
Disposals	**(16.1)**	(10.8)	(5.3)
At 31 December 2003	**57.5**	**12.0**	**45.5**
Depreciation:			
At 1 January 2003	**37.1**	5.2	31.9
Exchange adjustments	**(0.7)**	0.1	(0.8)
Provided during the year	**5.6**	0.4	5.2
Impairment release	**(0.9)**	(0.9)	–
Disposals	**(6.0)**	(1.6)	(4.4)
At 31 December 2003	**35.1**	**3.2**	**31.9**
Net book amounts:			
At 31 December 2003	**22.4**	**8.8**	**13.6**
At 31 December 2002	**30.8**	**16.1**	**14.7**

The impairment release reflects an impairment provision against fixed assets made in previous years, which is no longer required.

Notes to the Financial Statements continued

11. Fixed assets (continued)

	Group 2003 £m	2002 £m
(i) The net book amount of land and building comprises:		
Freehold	**8.0**	15.1
Long leasehold	**0.4**	0.6
Short leasehold	**0.4**	0.4
	8.8	16.1

(ii) The net book amount of group freehold land and buildings at 31 December 2003 includes £4.6 million (2002: £6.3 million) of depreciable assets.

	2003 £m	2002 £m
(iii) The total cost or valuation of land and buildings comprises:		
At cost	**9.5**	9.8
At 1992 professional valuation, frozen on implementation of FRS 15	**2.5**	11.5
	12.0	21.3
(iv) Historical cost figures for land and buildings:		
Historical cost	**9.7**	11.5
Aggregate depreciation	**(3.3)**	(6.1)
Net book amounts based on historic cost	**6.4**	5.4

The decrease in aggregate depreciation of £2.8 million includes the release of £0.9 million impairment provision against land held within the Calsil Division.

	2003 £m	2002 £m
(v) Included in plant and machinery are the following assets which are held under finance leases:		
Net book amount	**0.6**	0.6
Aggregate depreciation	**1.1**	1.0

	Total £m	Land and buildings £m	Plant, machinery, fixtures and fittings £m
Company			
Cost:			
At 1 January 2003	**0.3**	–	0.3
Group transfers	**10.0**	10.0	–
Disposals	**(10.3)**	(10.0)	(0.3)
At 31 December 2003	**–**	**–**	**–**
Depreciation:			
At 1 January 2003	**0.2**	–	0.2
Disposals	**(0.2)**	–	(0.2)
At 31 December 2003	**–**	**–**	**–**
Net book amounts:			
At 31 December 2003	**–**	**–**	**–**
At 31 December 2002	**0.1**	–	0.1

Notes to the Financial Statements continued

12. Fixed asset investments

		Group undertakings	
Company	Total £m	Shares £m	Loans £m
Cost or valuation at 1 January 2003	60.4	53.9	6.5
Net decrease	(2.7)	–	(2.7)
Decrease in provision charged to profit and loss account	3.4	3.5	(0.1)
Unrealised gain on revaluation of investments in subsidiary undertakings	5.8	5.8	–
Cost or valuation at 31 December 2003	**66.9**	**63.2**	**3.7**

Included within the above are the following movements on provisions:	Total £m	Shares £m	Loans £m
At 1 January 2003	(43.4)	(37.2)	(6.2)
Decrease in provision charged to profit and loss account	3.4	3.5	(0.1)
Provision at 31 December 2003	**(40.0)**	**(33.7)**	**(6.3)**

If investments in shares in subsidiary undertakings had not been revalued they would have been included at the following amounts:

	2003 £m	2002 £m
Cost	**66.7**	66.7
Aggregate amounts provided	**33.7**	37.2

The principal subsidiary undertakings at 31 December 2003, which are all included in the consolidation are shown on page 51.

Group	**2003 £m**	2002 £m
Interest in joint ventures		
Continuing operations		
– Share of gross assets	**0.1**	0.8
– Share of gross liabilities	**(0.1)**	(0.8)
	–	–

The Group has a 51% interest in the Cape Modern Pty joint venture incorporated in Australia for the manufacture and installation of commercial air-conditioning systems and thermal insulation.

The Group has a 51% interest in the Cape Perlite Systems joint venture incorporated in the United Kingdom for the manufacture of Perlite insulation products.

The Group has a 51% interest in Cape C.I.S.L. joint venture incorporated in Trinidad for the provision of insulation services.

The Group's share of net liabilities of joint ventures is included within other creditors (see note 17).

Notes to the Financial Statements continued

13. Stocks

	Group	
	2003 £m	2002 £m
Contract work in progress	**24.4**	31.4
Less: progress payments received and receivable	**(17.3)**	(24.6)
Contract balances	**7.1**	6.8
Raw materials and consumables	**2.9**	2.9
Finished goods and goods for resale	**–**	3.4
	2.9	6.3
	10.0	13.1

Payments received on account in excess of the value of the work performed on the related contract are included within creditors (Note 17).

14. Debtors

	Note	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Amounts falling due within one year:					
Trade debtors		**41.7**	38.4	**–**	–
Amounts recoverable on contracts		**8.5**	7.8	**–**	–
Amounts owed by Group undertakings		**–**	–	**0.2**	1.0
Amounts owed by joint ventures		**1.1**	0.8	**–**	–
Other debtors		**4.5**	2.5	**0.1**	0.3
Payroll and other taxes, including social security		**–**	–	**0.1**	–
UK taxation		**–**	–	**1.2**	0.6
Prepayments and accrued income		**2.6**	7.0	**1.0**	–
Deferred tax	15	**3.5**	2.2	**1.9**	2.0
		61.9	58.7	**4.5**	3.9

Notes to the Financial Statements continued

15. Deferred taxation

	Note	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Deferred taxation asset comprises:					
Short-term timing differences		**0.6**	2.2	**0.4**	2.0
Accelerated capital allowances		**1.5**	0.2	**–**	–
Losses		**1.5**	–	**1.5**	–
Overseas tax		**(0.1)**	(0.2)	**–**	–
Deferred taxation asset included in debtors		**3.5**	2.2	**1.9**	2.0
Deferred tax liability on pension asset	27	**(3.4)**	(3.2)	**(3.3)**	(3.2)
		0.1	(1.0)	**(1.4)**	(1.2)
Net deferred taxation asset/(liability):					
At 1 January		**(1.0)**	(6.5)	**(1.2)**	(5.5)
Amount credited/(debited) to profit and loss account	9	**1.3**	1.2	**(0.1)**	–
Amount (debited)/credited to statement of total recognised gains and losses		**(0.2)**	4.3	**(0.1)**	4.3
At 31 December		**0.1**	(1.0)	**(1.4)**	(1.2)

The Group has no unprovided deferred tax liability arising on timing differences between the treatment of items for accounts and taxation purposes at 31 December 2003 (2002: £nil). The Group has an unrecognised deferred tax asset of £0.9 million (2002: £2.0 million) arising on losses and timing differences in certain subsidiary undertakings which has not been recognised as there is uncertainty in respect of its future recoverability.

Tax relief is available in respect of trading losses carried forward amounting to approximately £5.0 million (2002: £7.2 million) subject to agreement with the tax authorities. The losses carried forward are in certain subsidiary undertakings and can only be utilised against future profits of those undertakings.

Deferred taxation has not been provided in the event of the distribution of the unappropriated profits or reserves of certain overseas subsidiary undertakings as the Group does not currently intend to make such distributions.

Advance corporation tax written off to date amounts to £1.7 million (2002: £1.7 million) and is available for offset against future United Kingdom corporation tax liabilities subject to certain conditions being met. The future benefit of advance corporation tax has not been accounted for in the provision of deferred taxation as its recoverability is uncertain.

There are no unrecognised deferred tax balances in the Company.

Notes to the Financial Statements continued

16. Cash at bank and in hand

The cash at bank and in hand for the Company and the Group contains £1.4 million (2002: £1.4 million) held in a trust account. These monies are to be used solely for the settlement of any potential future industrial disease claims from the employees that transferred to Promat Glasgow Ltd under the sale agreement regarding the Cape Calsil business. This restriction expires on 12 September 2052 at which point any balance remaining in the account reverts to Cape PLC. The cash at bank figure for the Group also includes a £0.6 million (2002: £nil) balance held by Standard Chartered Bank as security against the provision of an overdraft facility in an overseas subsidiary.

17. Creditors: amounts falling due within one year

		Group		Company	
	Note	**2003 £m**	2002 £m	**2003 £m**	2002 £m
Finance leases	18&23	**0.2**	0.2	**–**	–
Bank loans and overdrafts	18&23	**2.1**	35.9	**–**	26.7
Short-term borrowings	23	**2.3**	36.1	**–**	26.7
Other creditors:					–
Payments received on account	13	**0.5**	0.7	**–**	–
Trade creditors		**16.2**	14.9	**–**	–
Amounts owed to Group undertakings		**–**	–	**0.9**	–
Amounts owed to joint ventures		**0.2**	0.2	**–**	–
Payroll and other taxes, including social security		**8.3**	6.5	**–**	–
UK taxation		**0.9**	1.0	**–**	–
Overseas taxation		**1.7**	1.6	**–**	–
Other creditors		**7.3**	9.4	**0.8**	2.2
Accruals and deferred income		**14.8**	9.0	**0.7**	1.0
		49.9	43.3	**2.4**	3.2
		52.2	79.4	**2.4**	29.9

Other creditors includes £0.1m (2002: £0.4m) in respect of the Group's share of the liabilities of its joint venture undertakings.

Notes to the Financial Statements continued

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

	Note	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Long-term borrowings:					
Finance leases		**0.2**	0.2	**–**	–
Bank loans	23	**10.0**	–	**–**	–
Amounts owed to Group undertakings		**–**	–	**40.5**	8.9
		10.2	0.2	**40.5**	8.9

The bank loans and overdrafts of £12.1 million (2002: £35.9 million) are secured by fixed and floating charges over the UK assets of the Group.

	Note	Group 2003 £m	Group 2002 £m
The finance lease rentals fall due as follows:			
Within one year	17	**0.2**	0.2
Between one and two years		**0.1**	0.1
Between two and five years		**0.1**	0.1
Total rentals due		**0.4**	0.4
Less: finance charges allocated to future periods		**–**	–
		0.4	0.4
The aggregate of secured finance leases is shown as:			
Amounts falling due within one year		**0.2**	0.2
Amounts falling due between one and two years		**0.1**	0.1
Amounts falling due between two and five years		**0.1**	0.1
		0.4	0.4

Finance leases are at the weighted average interest rate of 8.6% (2002: 9.5%) over an average period to termination of 1.6 years (2002: 1.1 years).

Notes to the Financial Statements continued

19. Provisions for liabilities and charges

	Total £m	South Africa settlement (i) £m	Compensation for industrial disease (ii) £m	Other provisions (iii) £m
Group				
At 1 January 2003	23.3	5.7	12.8	4.8
Transferred in from accruals and other creditors	1.3	–	0.6	0.7
Charge to profit and loss account	7.2	–	5.4	1.8
Released to profit and loss account	(0.8)	–	–	(0.8)
Utilised in the year	(14.2)	(5.7)	(5.4)	(3.1)
At 31 December 2003	***16.8***	**–**	**13.4**	**3.4**
Company				
At 1 January 2003	8.8	5.7	–	3.1
Group transfers	2.7	–	3.3	(0.6)
Charge to profit and loss account	3.6	–	1.8	1.8
Utilised in the year	(7.6)	(5.7)	–	(1.9)
At 31 December 2003	**7.5**	**–**	**5.1**	**2.4**

(i) S Africa settlement, refer to note 26(ii).

(ii) The charge to profit for the compensation for industrial disease in the year before exceptional items net of insurance recoveries of £1.6 million is £3.8 million (2002: net charge of £2.4 million after £0.2 million of insurance recoveries). The provision for industrial disease represents the expected costs of settling notified claims. It is anticipated that most of these claims will be paid within the next three years. Insurance recoveries of £3.0 million (2002: £5.2 million) are receivable against certain of these claims and are included in the Balance Sheet under "prepayments and accrued income". The basis for the provision and the contingent liability in respect of future settlements is described in Note 26 (i).

(iii) Other provisions relate mainly to the amount expected to be incurred in respect of the decision made in 2002 to sell and close the Calsil business. £1.3 million of the provision is expected to be utilised within the next two years and the balance over the longer term as the provisions crystallise.

20. Share capital

Group and Company	**2003 £m**	2002 £m
(a) Authorised		
Equity:		
73,663,439 ordinary shares of 25p each (2002: 73,663,439 ordinary shares of 25p)	**18.4**	18.4
Non-equity:		
15,067 8.4% cumulative preference shares of £1 each (2002: 15,067)	**–**	–
250,000 3.5% cumulative preference shares of £1 each (2002: 250,000)	**0.3**	0.3
431,906,031 deferred shares of 1p each (2002: 431,906,031)	**4.3**	4.3
	4.6	4.6
	23.0	23.0

Notes to the Financial Statements continued

20. Share capital (continued)

(b) Called up, fully paid and allotted	2003 £m	2002 £m
Equity:		
54,326,021 ordinary shares of 25p each (2002: 54,326,021)	**13.6**	13.6
Non-equity:		
250,000 3.5% cumulative preference shares of £1 each (2002: 250,000)	**0.3**	0.3
431,906,031 deferred shares of 1p each (2002: 431,906,031)	**4.3**	4.3
	4.6	4.6
	18.2	18.2

(c) Share options

The following share options in respect of ordinary shares were outstanding at 31 December 2003.

Savings related share option scheme	Date of grant	Number of shares	Price	Date of exercise
	5.4.96	1,868	167p	31.5.04
	7.5.99	197,071	68p	1.7.04 or 1.7.06

166,363 options lapsed during the year. All options must be exercised within six months of the above dates.

Executive share option scheme				
	5.4.96	117,000	167p	5.4.99 to 5.4.06
	2.7.98	411,000	153.5p	2.7.01 to 2.7.08

466,500 options lapsed during the year

Subsequent to the year end, options under the Executive Share options scheme have been surrendered and a new scheme introduced. Refer to the subsequent event note (see page 12).

(d) 3.5% Cumulative preference shares

Dividend rights: Fixed cumulative preferential dividend at the rate of 3.5% per annum payable half yearly in arrears on 31 March and 30 September. Dividends have been paid during the year and there are no outstanding amounts.

Redemption of shares: The shares have no redemption entitlement.

Winding up: On a winding up the holders have priority before all other classes of share to receive repayment of capital plus all arrears of dividend.

Voting rights: The holders have no voting rights unless the dividend is in arrears by six months or more.

(e) Deferred shares

Dividend rights, redemption of shares and voting rights: The holders have no dividend rights, no redemption entitlement and no voting rights.

Winding up: On a winding up the holders are entitled to repayment of capital only after ordinary shareholders have received £100 for each ordinary share.

Notes to the Financial Statements continued

21. Reserves

	Total £m	Share premium account £m	Revaluation reserve £m	Profit and loss account £m
Group				
At 1 January 2003	5.9	1.6	10.7	(6.4)
Currency translation differences net of tax on foreign currency net investments	(0.7)	–	–	(0.7)
Profit for the year	5.9	–	–	5.9
Transfer on sale of properties	–	–	(8.3)	8.3
Actuarial gain on pension scheme	0.6	–	–	0.6
Movement on deferred tax relating to pension assets	(0.2)	–	–	(0.2)
At 31 December 2003	**11.5**	**1.6**	**2.4**	**7.5**
Company				
At 1 January 2003	5.9	1.6	24.3	(20.0)
Unrealised gain on revaluation of investments in subsidiary undertakings	5.8	–	5.8	–
Loss for the year	(0.7)	–	–	(0.7)
Actuarial gain on pension scheme	0.6	–	–	0.6
Movement on deferred tax relating to pension assets	(0.1)	–	–	(0.1)
At 31 December 2003	**11.5**	**1.6**	**30.1**	**(20.2)**

Group	**2003 £m**	2002 £m
Profit and loss reserve comprises:		
Profit and loss account excluding pension asset	**0.1**	(13.7)
Pension asset	**7.4**	7.3
Profit and loss reserve	**7.5**	(6.4)

The cumulative goodwill charged to reserves at 31 December 2003 was £9.2 million (2002: £9.2 million). This goodwill has been eliminated as a matter of accounting policy. It would be charged or credited in the profit and loss account on subsequent disposal of the business to which it relates.

Included in the Group profit and loss account is a loss of £0.7 million (2002: gain of £0.4 million) in relation to foreign currency borrowings.

As permitted by Section 230 of the Companies Act 1985 no separate profit and loss account is presented for the Company. Of the Group profit for the year, a loss of £0.7 million (2002: profit of £8.9 million) is dealt with in the financial statements of the Company.

Notes to the Financial Statements continued

22. Consolidated cash flow statement

(a) Reconciliation of Group operating profit to net operating cash flow from operating activities

Continuing operations	2003 £m	2002 £m
Group operating profit	**3.2**	15.5
Depreciation charge on fixed assets	**5.6**	5.8
Profit on disposal of fixed assets	**(0.1)**	(0.1)
Difference between pension charge and cash contributions	**1.2**	1.0
Increase in stocks	**(0.1)**	(1.2)
Increase in debtors	**(4.6)**	(2.2)
Increase in creditors	**8.7**	1.3
Decrease in provisions (excluding deferred tax)	**(5.1)**	(11.9)
Decrease in other provisions	**–**	0.9
Net cash inflow from continuing operations	**8.8**	9.1
Discontinued operations		
Group operating profit	**0.8**	1.9
Depreciation charge on fixed assets	**–**	1.7
Release of impairment of fixed assets	**(0.9)**	(0.8)
Costs relating to the relocation of the Head Office function	**0.4**	–
Difference between pension charge and cash contributions	**–**	0.7
(Increase)/decrease in stocks	**3.2**	(0.8)
Decrease in debtors	**2.1**	5.6
Decrease in creditors	**(1.3)**	(11.4)
Increase in provisions (excluding deferred tax)	**–**	1.8
Decrease in other provisions	**(1.7)**	(0.2)
Net cash inflow/(outflow) from discontinued operations	**2.6**	(1.5)
Total net cash inflow from operating activities	**11.4**	7.6

(b) Analysis of tax paid

UK corporation tax	**–**	0.2
Overseas tax	**(0.6)**	(0.5)
	(0.6)	(0.3)

(c) Reconciliation of movement in net debt	Note	At 31 December 2003 £m	Cash flow £m	New finance leases £m	Exchange movements £m	At 1 January 2003 £m
Cash at bank and in hand	16	**7.1**	(9.6)	–	(0.3)	17.0
Debt due after 1 year	18	**(10.0)**	(10.0)	–	–	–
Debt due within 1 year	17	**(2.1)**	34.0	–	(0.2)	(35.9)
Finance leases	17&18	**(0.4)**	0.3	(0.3)	–	(0.4)
		(5.4)	14.7	(0.3)	(0.5)	(19.3)

The cash at bank and in hand above includes £2.0 million (2002: £1.4 million) for which there is a restricted use, as explained in note 16.

(d) Cash flow relating to exceptional items and major non-cash transactions

Specific items within the operating cash flows relate to the operating exceptional items shown in Note 4.

Notes to the Financial Statements continued

23. Financial instruments

Foreign currency risk

The Group faces currency exposures on trading transactions undertaken by its subsidiaries in foreign currencies and on transactional exposures. In order to manage transactional exchange risk the Group uses forward currency contracts to hedge significant non-sterling commitments or anticipated transactions of up to 12 months. The decision to hedge is influenced by the size of the exposure, the certainty of it arising and the current exchange rate. At the year end, there are no forward contracts to manage transactional exchange risk as the risk is not considered significant.

Exchange risks on foreign currency assets of the Group were previously hedged using external foreign currency borrowings. This practice was reviewed during the year and no such borrowing now exists.

The Group policy is now two fold. Firstly to designate relevant intra-group foreign currency loans as hedges against assets held in those currencies. Secondly, given the basket of currencies which make up the remaining foreign currency assets and the inherent natural hedge therein, it is thought unnecessary to externally hedge these risks. This policy is subject to regular review.

Interest rate risk

The Group finances its operations mainly through bank borrowings. Bank borrowings can be denominated in any currency and bear interest rates at the appropriate currency rate. All year end borrowings are drawn in sterling and bear interest at floating rates. No instruments are currently used to hedge against interest rates.

In accordance with the requirements of FRS 13 the following information is given to provide a clear understanding of the Group's treasury position. As allowed under the Standard, other than currency risk disclosures, certain short-term debtors, creditors and provisions have been excluded from the figures.

(a) Interest rate risk and currency profile of financial assets

The Group's financial assets comprise cash. This earns interest at a floating rate of 3% below the bank base rate (2002: 3% below the bank base rate) or at fixed rates of between 1% and 1.5% (2002: 1% to 1.5%) on UK balances and at rates between 0% and 4.1% (2002: 0% to 4.75%) on international balances.

	2003 £m	2002 £m
Analysis of financial assets by major currency at 31 December:		
UK Sterling	**1.5**	7.9
Euro	**1.3**	1.1
United States Dollar	**1.7**	3.2
Singapore Dollar	**0.1**	0.8
Saudi Arabian Riyal	**0.5**	0.3
Qatar Riyal	**0.4**	0.3
Bahrain Dinar	**0.4**	0.3
Thai Baht	**0.2**	–
Maltese Lira	**0.2**	–
Kuwaiti Dinar	**0.1**	–
Indian Rupee	**0.2**	–
Malaysian Ringgit	**0.2**	1.6
Philippine Peso	**–**	0.1
UAE Dirham	**0.2**	0.1
Other currencies	**0.1**	1.3
	7.1	17.0

Notes to the Financial Statements continued

23. Financial instruments (continued)

(b) Interest rate risk and currency profile of financial liabilities

The Group's financial liabilities comprise bank loans, overdrafts, finance leases, non-equity interests and certain provisions. All bank loans and overdrafts are at a floating interest rate of 1.5% (2002: 1.5%) over bank base rate and uncommitted borrowings at a floating interest rate of 1.5% (2002: 1.5%) over LIBOR. Certain of the Group's provisions for liabilities and charges meet the definition of financial liabilities. These have been excluded from the financial liabilities disclosures, however they are all denominated in sterling, are non-interest bearing and their maturity profiles are disclosed within the narrative information of note 19.

The weighted average interest rate for the fixed rate finance leases is disclosed in Note 18. The non-equity interests comprise the deferred shares and 3.5% cumulative preference shares which have no redemption entitlement other than on a winding up of the Company.

	2003 £m	2002 £m
Analysis of financial liabilities by major currency at 31 December:		
£ Sterling		
– financial liabilities	**10.0**	22.1
– finance leases	**0.4**	0.4
– non-equity interests	**4.6**	4.6
Euro	**2.1**	4.8
United States Dollar	**–**	6.9
Singapore Dollar	**–**	2.1
	17.1	40.9

All the Group's creditors falling due within one year (other than bank loans and overdrafts and finance leases) are excluded from the table above either due to the exclusion of short-term items or because they do not meet the definition of a financial liability, such as tax balances.

(c) Maturity of financial liabilities

The maturity profile of the carrying amount of the Group's financial liabilities, other than short-term trade creditors and accruals and the non-redeemable non-equity interests at 31 December was as follows:

2003	**Bank loans and overdrafts £m**	**Finance leases £m**	**Total £m**
In one year or less, or on demand	2.1	0.2	**2.3**
In more than one year but not more than two years	–	0.1	**0.1**
In more than two years but not more than five years	10.0	0.1	**10.1**
	12.1	0.4	**12.5**

2002	Bank loans and overdrafts £m	Finance leases £m	Total £m
In one year or less, or on demand	35.9	0.2	36.1
In more than one year but not more than two years	–	0.1	0.1
In more than two years but not more than five years	–	0.1	0.1
	35.9	0.4	36.3

The above analysis for the Company does not include the preference shares and provisions for liabilities and charges referred to above.

The Group's £10.0 million bank loan is repayable within twelve months of the balance sheet date, but as the amount is drawn under a three year committed revolving credit facility it is classified in the table above as repayable between two and five years on the basis of the expiry of the facility in August 2006.

Notes to the Financial Statements continued

23. Financial instruments (continued)

(d) Borrowing facilities

The Group has the following undrawn committed borrowing facilities available at 31 December in respect of which all conditions precedent had been met at that date:

	2003 Floating rate £m	2002 Floating rate £m
Expiring within one year	**3.0**	1.6
Expiring between one and two years	**–**	–
Expiring in more than two years	**5.0**	–
	8.0	1.6

The facilities expiring within one year are annual facilities subject to review at various dates during 2004.

(e) Currency exposures

The table below shows the extent to which Group companies have monetary assets and liabilities in currencies other than their local currency. Foreign exchange differences on re-translation of these assets and liabilities are taken to the profit and loss account of the Group Companies and the Group.

	Net foreign currency monetary assets/(liabilities)				
2003	US$ £m	Sing$ £m	Euro £m	Other Currencies £m	**Total £m**
Functional currency of group operation:					
UK Sterling	0.9	–	0.5	–	**1.4**
UAE Dirham	1.1	–	–	0.1	**1.2**
Malaysian Ringgit	0.6	–	–	(0.2)	**0.4**
Trinidad and Tobago Dollar	0.1	–	–	–	**0.1**
Egyptian Pound	0.1	–	–	–	**0.1**
Singapore Dollar	0.1	–	–	–	**0.1**
Philippine Peso	0.2	–	–	–	**0.2**
Qatar Riyal	0.1	–	–	(0.1)	**–**
Total	3.2	–	0.5	(0.2)	**3.5**
2002					
Functional currency of group operation:					
UK Sterling	(0.1)	0.1	0.5	–	**0.5**
UAE Dirham	1.8	–	–	0.1	**1.9**
Malaysian Ringgit	2.1	–	–	–	**2.1**
Azerbaijan Manat	0.3	–	–	–	**0.3**
Qatar Riyal	0.1	–	–	–	**0.1**
Total	4.2	0.1	0.5	0.1	**4.9**

Notes to the Financial Statements continued

23. Financial instruments (continued)

(f) Fair values of financial assets and financial liabilities

In the Board's opinion, the carrying value of all financial assets and liabilities represents the "fair value" of such assets and liabilities.

Summary of methods and assumptions

Short-term deposits and borrowings	The values quoted of short-term deposits, loans and overdrafts are the actual balances in credit or owing.
Long-term borrowings	The values quoted of long-term borrowings are the actual balances owing.

(g) Hedges

As explained on page 41, the Group's policy is to hedge the following exposures:
Currency risk – using forward currency contracts for currency exposures on next year's expected sales.

The Group did not have off balance sheet (unrecognised) and on balance sheet (deferred) gains and losses in respect of financial instruments used as hedges at the beginning and end of the year (2002: nil).

(h) Financial instruments held for trading purposes

The Group does not trade in financial instruments.

24. Capital commitments

		Group
	2003 £m	2002 £m
Capital expenditure authorised but not provided for in these accounts against which orders have been placed	**0.5**	–
Capital expenditure authorised but not provided for in these accounts against which orders have not been placed	**0.2**	–
	0.7	–

Notes to the Financial Statements continued

25. Commitments under operating leases

	Group	
Land and buildings	**2003 £m**	2002 £m
Annual commitments under operating leases expiring:		
Within one year	**0.2**	0.3
Between one year and five years	**0.3**	0.2
After five years	**0.5**	0.5
	1.0	1.0
Other		
Annual commitments under operating leases expiring:		
Within one year	**0.1**	0.1
Between one year and five years	**0.4**	–
	0.5	0.1

26. Contingent liabilities

(i) There is a history of industrial disease claims being lodged against the Group for a number of years in the United Kingdom, the Republic of Ireland and the Netherlands. Where the Group has determined that it is appropriate to do so, settlement has been made. Based on this experience, it is likely that similar claims will continue to be received for the foreseeable future. However, there is significant uncertainty over the number, nature, timing and validity of such future claims. This is as a result of, inter alia, uncertainties concerning the population that may have been exposed to asbestos and that may develop asbestos related diseases, the nature and timing of the diseases that may develop, the impact of other factors which might have contributed to the claimant's condition, changes in the legal environment and to the typical cost of settlement. These factors affect considerations of liability and the quantum of settlement. Experience to date is that some of these claims will be at least partially covered by insurance policies, but the amount of cover will not be known until the details of the claims are available. As a result of these uncertainties, the amount of the Group's obligation cannot generally be measured with sufficient reliability. Accordingly, the Group provides in the profit and loss account each year for the estimated liability in respect of industrial disease claims lodged and outstanding at the year-end.

If it were possible to assess reliably the present value of amounts that might be paid in future settlements such that this was to be provided in the Balance Sheet, there would be a materially adverse effect on the Group's financial position. There is great uncertainty over the net present value of the future claim settlements. These could occur over a period of more than twenty years. However, in aggregate they are likely to exceed the amount of the net assets included in the current Group Balance Sheet.

Based on the recent history of settlements, the Directors anticipate that future settlements can be made from the future cash flows generated by the trading operations of the Group. Should the future pattern as regards the timing and quantum of claims prove to be materially and adversely different from the historic trend, there could be a material adverse effect on the Group's financial position.

(ii) The Company was the defendant in proceedings brought by some 7,500 South African residents who claimed that they suffered injury as the result of mining activities in South Africa undertaken by former subsidiaries of Cape PLC which were sold in 1979. Following a decision by the House of Lords in July 2000, the claimants were allowed to pursue a group action in the English Courts.

Following discussions with the claimants' representatives, and without any admission of liability, the Company entered into an agreement on 13 March 2003 with the claimants in the group action and new claimants who had come forward in 2002 to pay £7.5 million for the benefit of claimants and £2.75 million as a contribution towards legal costs in full and final settlement of all such claims claimants may have, subject to any recoveries from third parties. These payments were made as agreed during 2003.

Notes to the Financial Statements continued

26. Contingent liabilities (continued)

It is possible that claims could arise in the future from claimants who were not included in the group action, or who claim they have developed an asbestos related disease since the date of the settlement and as a result of the Group's former mining activities in South Africa. There is a significant uncertainty as to whether such future claims will be made and as to the number, nature, timing and validity of such claims.

(iii) Certain companies in the Group continue to be named, along with several asbestos fibre and asbestos product suppliers, as defendants in a number of legal actions in North America. The plaintiffs in such actions are claiming substantial damages as a result of the use of these products. The Company has received legal advice in the UK that default judgements obtained in North America against Companies within the Group which are not present in North America, would not be enforceable in the UK. Consequently the Directors believe that the above-mentioned matters are unlikely to have a material effect on the Group's financial position.

(iv) There are a number of leasehold properties in respect of which the Group is liable for dilapidations, and rent in the event of default by its sub-tenants. Given the nature of these arrangements it is difficult to assess the potential liability with certainty and as a consequence contingent liabilities may exist. The Directors believe that any such contingent amounts would not have a material effect on the Group's financial position.

(v) The Group has contingent liabilities in respect of guarantees and bonds entered into in the normal course of business, in respect of which no loss is expected.

27. Pensions

The Group operates two major pension schemes in the UK, one is of the defined benefit type and the other of the defined contribution type. The assets of both schemes are held in trustee administered funds. The latest valuation of the defined benefit scheme was assessed by independent qualified actuaries as at 6 April 2001, using the projected unit method. The main actuarial assumptions adopted in the valuation were that over the long-term the annual investment return would be 2.0% higher than general earnings inflation and 2.75% higher than the annual increase in present and future pensions. The valuation showed that the defined benefit scheme had a market value of £121.0 million and was 151% funded.

The pension expense in the period for the defined contribution pension scheme of £0.2 million (2002: £0.2 million) equalled the Group contributions to the scheme. This excludes the additional provision disclosed within the FRS17 disclosures. Pensions for employees of overseas companies are provided in accordance with local requirements and practices.

The defined benefit scheme disclosures of the Group in this note also include figures relating to a small scheme held by a subsidiary undertaking.

The Group and Company continue to fully adopt the arrangements of FRS 17. As a result the most recent full actuarial valuations referred to above were updated to 31 December 2003 and adjusted by qualified independent actuaries for the assumptions used as specified below:

Group and Company

As at 31 December	2003	2002	2001
Rate of increase in pensionable salaries	**3.75%**	3.50%	3.50%
Rate of increase in pensions in payment	**2.75%**	2.50%	2.50%
Discount rate	**5.40%**	5.50%	5.50%
Inflation	**2.75%**	2.50%	2.50%

Notes to the Financial Statements continued

27. Pensions (continued)

Funded status and expected return on assets

The assets in the pension schemes and the expected annual rate of return (net of investment management expenses) as at 31 December were as follows:

	2003		2002		2001	
Group	**% p.a.**	**£m**	% p.a.	£m	% p.a.	£m
Equities	**7.50%**	**46.4**	7.50%	41.6	7.50%	58.8
Bonds	**4.78%**	**55.0**	4.48%	53.5	4.98%	48.6
Total market value of assets		**101.4**		95.1		107.4
Present value of scheme liabilities		**(90.6)**		(84.6)		(82.4)
Surplus in the schemes		**10.8**		10.5		25.0
Related deferred tax liability (see Note 15)		**(3.4)**		(3.2)		(7.5)
Net pension asset		**7.4**		7.3		17.5
Company						
Equities	**7.50%**	**45.3**	7.50%	41.6	7.50%	58.8
Bonds	**4.78%**	**55.0**	4.48%	52.5	4.98%	48.6
Total market value of assets		**100.3**		94.1		107.4
Present value of scheme liabilities		**(89.8)**		(83.6)		(82.4)
Surplus in the schemes		**10.5**		10.5		25.0
Related deferred tax liability (see Note 15)		**(3.3)**		(3.2)		(7.5)
Net pension asset		**7.2**		7.3		17.5

Analysis of amount charged to operating profit		**Group**		**Company**
Year to 31 December	**2003 £m**	2002 £m	**2003 £m**	2002 £m
Current service cost	**0.9**	1.9	**0.9**	1.9
Provision for additional contributions (defined contribution scheme)	**0.3**	–	**0.3**	–
Past service cost	**–**	–	**–**	–
Total operating charge	**1.2**	1.9	**1.2**	1.9

Analysis of amount credited to other finance income		**Group**		**Company**
Year to 31 December	**2003 £m**	2002 £m	**2003 £m**	2002 £m
Expected return on pension scheme assets	**5.4**	6.7	**5.3**	6.7
Interest on pension scheme liabilities	**(4.5)**	(4.4)	**(4.5)**	(4.4)
Net return	**0.9**	2.3	**0.8**	2.3

		Group		**Company**
Analysis of amount in statement of total recognised gains and losses	**2003 £m**	2002 £m	**2003 £m**	2002 £m
Actual return less expected return on pension scheme assets	**5.4**	(16.1)	**5.4**	(15.9)
Experience gain arising on the scheme liabilities	**–**	0.7	**–**	0.9
Changes in assumptions underlying the present value of scheme liabilities	**(4.8)**	–	**(4.8)**	–
Actuarial gain/(loss) in statement of total recognised gains and losses	**0.6**	(15.4)	**0.6**	(15.0)

Analysis of amount credited to loss on sale of Calsil Division		**Group**
Year to 31 December	**2003 £m**	2002 £m
Impact of settlements and curtailments	**–**	0.5

Notes to the Financial Statements continued

27. Pensions (continued)

Movement in surplus during the year	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Surplus in the scheme at the beginning of the year	**10.5**	25.0	**10.3**	25.0
Movement in the year:				
Service cost	**(0.9)**	(1.9)	**(0.9)**	(1.9)
Provision for additional contributions	**(0.3)**	–	**(0.3)**	–
Other finance income	**0.9**	2.3	**0.9**	2.3
Impact of settlements and curtailments	**–**	0.5	**–**	–
Actuarial gain/(loss)	**0.6**	(15.4)	**0.6**	(15.1)
Surplus in the scheme at the end of the year	**10.8**	10.5	**10.6**	10.3

History of experience gains and losses	Group 2003	Group 2002	Company 2003	Company 2002
Difference between the actual and expected return on scheme assets:				
Amount	**£5.4m**	£(16.1m)	**£5.4m**	£(16.0m)
Percentage of scheme assets	**5%**	(17%)	**5%**	(17%)
Experience gains and losses on scheme liabilities:				
Amount	**–**	£0.7m	**–**	£0.9m
Percentage of scheme liabilities	**–**	1%	**–**	1%
Total amount recognised in statement of total recognised gains and losses:				
Amount	**£0.6m**	£(15.4m)	**£0.6m**	£(15.0m)
Percentage of scheme liabilities	**1%**	(18%)	**1%**	(18%)

The valuation at 31 December 2003 showed an increase in the surplus from £10.5 million to £10.8 million. As a result of the current surplus, it was agreed with the actuaries and trustees of the pension scheme that no contributions are to be paid for the foreseeable future.

28. Related party transactions

The Company has taken advantage of the exemption available under FRS8 not to disclose any transactions or balances between group entities that have been eliminated on consolidation. Other related party transactions are detailed below.

During the year £0.2 million (2002: £0.1 million) was paid to M&J Associates (1953) Limited for management services provided by Martin May, a Director, in connection with his duties as a Director of Cape PLC.

Management services charges of £nil (2002: £0.2 million) were paid to Montpelllier Group PLC, a substantial shareholder in the year ended 31 December 2002.

During the year Cape Modern pty, a 51% joint venture undertaking purchased goods totalling £1.1 million (2002: £nil) from the Group. There was a £0.2 million balance (2002: £nil) owed by Cape Modern pty at the year end.

There have been no other material transactions with related parties during the year.

29.Post balance sheet events

Details of a subsequent event is disclosed in the Directors Report on page 12.

Five Year Financial Summary

Profit and Loss Account	Note	**Year ended 31 December 2003 £m**	Year ended 31 December 2002 £m	Year ended 31 December 2001 £m	Year ended 31 December 2000 £m	Year ended 31 December 1999 £m
Turnover	(i)					
Continuing operations		**228.3**	191.7	217.4	188.3	178.0
Discontinued operations		**3.6**	33.1	49.2	50.8	61.1
Group Turnover		**231.9**	224.8	266.6	239.1	239.1
Group operating profit/(loss) before exceptional items						
Continuing operations		**3.6**	5.0	4.2	2.7	7.1
Discontinued operations		**(0.1)**	(0.6)	(5.3)	(3.9)	3.0
		3.5	4.4	(1.1)	(1.2)	10.1
Share of operating profit/(loss) in joint ventures						
Continuing operations		**0.3**	0.1	(0.2)	(0.3)	0.1
Discontinued operations		**–**	(0.2)	(3.0)	(0.2)	–
		0.3	(0.1)	(3.2)	(0.5)	0.1
Operating exceptional items						
Continuing operations		**(0.4)**	10.5	(13.5)	(7.0)	–
Discontinued operations		**0.9**	2.5	(15.9)	(8.7)	–
		0.5	13.0	(29.4)	(15.7)	–
Total operating profit/(loss): group and share of joint ventures						
Continuing operations		**3.5**	15.6	(9.5)	(4.6)	7.2
Discontinued operations		**0.8**	1.7	(24.2)	(12.8)	3.0
		4.3	17.3	(33.7)	(17.4)	10.2
Non operating exceptional items						
Continuing operations		**–**	–	–	–	–
Discontinued operations		**1.7**	(3.3)	–	–	–
		1.7	(3.3)	–	–	–
Profit/(loss) on ordinary activities before interest		**6.0**	14.0	(33.7)	(17.4)	10.2
Net interest payable		**(1.4)**	(1.7)	(1.9)	(1.6)	(1.1)
Other finance income	(ii)	**0.9**	2.3	3.2	4.0	–
Profit/(loss) on ordinary activities before taxation		**5.5**	14.6	(32.4)	(15.0)	9.1
Tax on profit/(loss) on ordinary activities		**0.4**	(0.3)	(0.3)	0.5	(2.7)
Profit/(loss) for the year		**5.9**	14.3	(32.7)	(14.5)	6.4
Compensation for industrial disease	(iii)	**(3.8)**	(2.4)	(3.7)	(4.4)	(3.2)
Earnings/(loss) per ordinary share		**10.9p**	26.2p	(60.0)p	(26.8)p	11.7p
Dividend per ordinary share		**0.0p**	0.0p	0.0p	2.0p	7.0p

Five Year Financial Summary continued

Balance Sheet	Note	**Year ended 31 December 2003 £m**	Year ended 31 December 2002 £m	Year ended 31 December 2001 £m	Year ended 31 December 2000 £m	Year ended 31 December 1999 £m
Employment of capital						
Fixed assets		**22.5**	30.9	37.4	47.8	46.9
Pension asset		**7.4**	7.3	17.5	34.1	–
Other net assets/(liabilities)		**5.2**	5.2	(8.3)	3.4	18.0
		35.1	43.4	46.6	85.3	64.9
Capital employed						
Capital and reserves		**29.7**	24.1	20.5	67.8	55.2
Net borrowings		**5.4**	19.3	26.1	17.5	9.7
		35.1	43.4	46.6	85.3	64.9
Net assets per ordinary share	(iv)	**55p**	44p	38p	125p	102p

Notes:

(i) Turnover includes the Group's share of the turnover of the joint ventures.

(ii) Other finance income is "deemed" income from return on pension asset and arises through the introduction of FRS 17 in 2001.

(iii) Compensation for industrial disease represents amounts charged to the profit and loss account. It is before additional operating exceptional items relating to the South African litigation.

(iv) Net assets per ordinary share has been calculated on the basis of deferred shares having no real value.

(v) Year ended 31 December 2000 figures as shown above are the figures restated as shown in the 2001 accounts.

Principal Subsidiary Undertakings as at 31 December 2003

Cape Industrial Services
Wakefield

Managing Director: Paul Ainley
Telephone +44(0) 1924 871000

The provision of specialised services to major industrial groups in the UK and internationally, predominantly in the energy sector. Services include: scaffolding, insulation, specialist coatings, fire protection, refractory linings, inspection and other associated services including asbestos removal.

Cape Industrial Services Limited*
Wakefield
Co-ordination of industrial services activities in the UK.

St. Albans
Co-ordination of international industrial services activities.

Cape East Private Limited*
Singapore
Co-ordination of industrial services activities in the Asia Pacific region.

Cleton Insulation BV*
Vlaardingen, The Netherlands
Co-ordination of industrial services activities in Continental Europe.

Cape East EC*
Bahrain
Co-ordination of industrial services activities in the Middle East.

Cape Calsil (discontinued operations)
Uxbridge

Cape Calsil Systems Limited (discontinued operations)*
Uxbridge, Washington, Caerphilly

1. The subsidiary undertakings listed are those whose results, in the opinion of the Directors, principally affected the profit or assets of the Group. The subsidiary undertakings operate principally in the countries in which they are incorporated.

2. Except where indicated all subsidiary undertakings are wholly-owned and incorporated in Great Britain and registered in England and Wales.

3. There are no subsidiary undertakings that have been excluded from the consolidation.

* The shareholdings in subsidiary undertakings are in ordinary shares which are held by Cape PLC except for those marked with an asterisk whose shares are held by subsidiaries.

Notice of Annual General Meeting

Notice is hereby given that the one hundred and eleventh Annual General Meeting of Cape PLC (the 'Company') will be held at Cape House, 3 Red Hall Avenue, Paragon Business Village, Wakefield, WF1 2UL on 22 June 2004 at 12 noon when the following business will be considered:

Resolution 1
To receive the audited accounts and the reports of the Directors and the Auditors thereon for the year ended 31 December 2003.

Resolution 2
To re-appoint Mr M T Reynolds, who having been appointed by the Directors since the last Annual General Meeting retires at the end of this meeting, as a Director of the Company.

Resolution 3
To re-appoint Mr J A Pool, who retires by rotation, as a Director of the Company.

Resolution 4
To re-appoint PricewaterhouseCoopers LLP as auditors of the Company, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and to authorise the Directors to fix their remuneration.

To propose the following Resolutions as special resolutions:

Resolution 5
That the Directors be empowered, pursuant to s.95(1) of the Companies Act 1985, to allot equity securities (within the meaning of s.94(2) of the Companies Act 1985) of the Company pursuant to the authority under s.80 of the Companies Act 1985 conferred by an ordinary resolution of the Company passed on 15 May 2000 (the 's.80 Authority') as if s.89(1) of that Act did not apply to such allotment, provided that such power shall be limited:

(i) to the allotment of equity securities in connection with a rights issue in favour of the holders of ordinary shares where the equity securities attributable to the interests of such shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them subject only to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements, legal or practical problems arising in any overseas territory or by virtue of shares being represented by depository receipts, the requirements of any regulatory body or stock exchange, or any other matter whatsoever; and

(ii) to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities to any person up to an aggregate nominal value of £679,075 (representing 5% of the issued ordinary share capital at 30 April 2004).

Such power shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2005 or, if earlier, the expiry of the s.80 Authority, except that the Directors shall be entitled to make at any time prior to the expiry of the power hereby conferred any offer or agreement which would or might require equity securities to be allotted after the expiry of such power and the directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

Notice of Annual General Meeting

Resolution 6
That the Company be generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of ordinary shares of 25p each of the Company provided that:

i. the maximum number of ordinary shares hereby authorised to be acquired is 8,140,000;

ii. the minimum price which may be paid for any such share is 25p;

iii. the maximum price which may be paid for any such share is an amount equal to 105% of the average of the middle market quotations for an ordinary share in the Company as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such share is contracted to be purchased;

iv. the authority hereby conferred shall expire on 21 June 2005;

v. the Company may make a contract to purchase its ordinary shares under the authority hereby conferred prior to the expiry of such authority, which contract will or may be executed wholly or partly after the expiry of such authority, and may purchase its ordinary shares in pursuance of any such contract.

By order of the Board

M T Reynolds
Secretary
13 May 2004

Registered Office:
Cape House
3 Red Hall Avenue
Paragon Business Village
Wakefield WF1 2UL
Registered in England and Wales:
Number 40203

1. This notice is sent for information only to the holders of the 3.5% cumulative preference shares and the holders of share options.

2. Any ordinary shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company. A proxy form is enclosed. Proxy forms should be received by the Company's registrars at the address on the back of the form not less than 48 hours before the time fixed for the meeting.

3. The Company has not entered into any Directors' service contracts of more than one year's duration or with provisions for predetermined compensation on termination of an amount which equals or exceeds one year's salary and benefits in kind.

Directors and Advisers

M K May [2 3 4]
Chairman

P R Ainley
Managing Director

M T Reynolds
Group Finance Director and
Company Secretary

J A Pool [1 2 3 4]
S S O'Connor [1 2 3 4]
Non-Executive Directors

1 Non-Executive
2 Audit Committee
3 Remuneration Committee
4 Nomination Committee

Registered Office
Cape House
3 Red Hall Avenue
Paragon Business Village
Wakefield WF1 2UL

Independent Auditors
PricewaterhouseCoopers LLP
Benson House
33 Wellington Street
Leeds LS1 4JP

Solicitors
Travers Smith Braithwaite
10 Snow Hill
London EC1A 2AL

Bankers
Barclays Bank PLC
PO Box 544
54 Lombard Street
London EC3V 9EX

Registrars
Capita IRG PLC
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

Stockbrokers
Evolution Beeson Gregory Limited
100 Wood Street
London EC2V 7AN

Cape PLC is a company registered in
England and Wales
Registered number 40203

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Cape House
3 Red Hall Avenue
Paragon Business Village
Wakefield
West Yorkshire
WF1 2UL