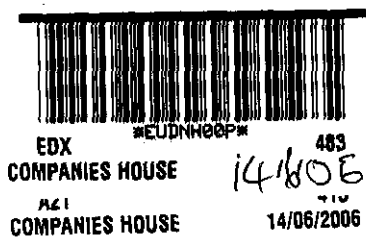


CAPE ANNUAL REPORT AND ACCOUNTS 2005

CO N° = 40203



EDX
COMPANIES HOUSE

A21
COMPANIES HOUSE

483
14/06/2006

14/06/2006

£261.8m

TURNOVER UP 9.6% (2004: £238.9m)

£14.9m

CAPE INDUSTRIAL SERVICES OPERATING PROFIT UP 30.7%
(2004: £11.4m)

£8.2m

GROUP OPERATING PROFIT BEFORE OPERATING
EXCEPTIONAL ITEMS UP 41.4% (2004: £5.8m)

£9.7m

OPERATING EXCEPTIONAL EXPENDITURE RELATING
TO PROPOSED SCHEME OF ARRANGEMENT (2004: £1.1m)

£1.3m

TOTAL OPERATING LOSS (2004: PROFIT £5.1m)

£23.7m

YEAR END NET FUNDS (2004: DEBT £2.4m)

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FOUNDED IN 1893, CAPE PLC IS THE PARENT COMPANY OF A NUMBER OF SERVICE PROVIDING ORGANISATIONS OPERATING PRIMARILY IN THE OIL AND GAS, PETROCHEMICAL AND POWER GENERATION INDUSTRIES. THE COMPANY IS BASED IN THE UK AND OPERATES IN 23 COUNTRIES WORLDWIDE.

United Kingdom
Australia
Azerbaijan
Bahrain
Belgium
Brunei
Egypt
Germany
Holland
Indonesia
Ireland
Kazakhstan
Malaysia
Malta
New Caledonia
Oman
Philippines
Qatar
Russia
Saudi Arabia
Singapore
Thailand
United Arab Emirates

COMPANY

PROVIDING ESSENTIAL SERVICES

CAPE INDUSTRIAL SERVICES IS A MARKET LEADER IN THE PROVISION OF INDUSTRIAL SERVICES WHERE THE REQUIREMENT FOR QUALITY, RELIABILITY AND SAFETY IS PARAMOUNT.

SCAFFOLDING

The supply and erection of scaffolding to enable site operators and other contractors to have 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.

TYPICAL PROJECTS

- + new construction
- + plant maintenance
- + plant shutdowns
- + plant upgrades

MARKETS

- + power generation
- + offshore oil and gas
- + refineries
- + LNG terminals
- + petrochemicals
- + pharmaceuticals
- + process industries
- + food and beverages
- + ship repair/module yards

INSULATION

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 .

An additional service is the calculation of heat loss and provision of infrared equipment for evaluating thermal insulation efficiency.

- + new construction
- + plant maintenance
- + plant shutdowns
- + plant upgrades

- + power generation
- + offshore oil and gas
- + refineries
- + petrochemicals
- + process industries

INDUSTRIAL CLEANING

The provision of a comprehensive range of cleaning services to industry in a broad variety of industrial environments carried out in a safe and controlled way.

Cleaning services are provided as planned programmes carried out on a fixed price, schedule of rates or daywork basis. Cape can provide an emergency response capability and adapt the range of disciplines to meet clients' particular needs.

- + plant maintenance
- + plant shutdowns

- + power generation
- + offshore oil and gas
- + refineries
- + petrochemicals
- + process industries

REFRACTORY LININGS

The lining of boilers, furnaces, kilns and high temperature petrochemical reactors with materials to withstand temperatures in excess of $1,000^{\circ}\text{C}$.

This activity also incorporates the business of RB Hilton, and offers design, supply and installation services.

- + new construction
- + plant maintenance
- + plant shutdowns
- + plant upgrades

- + power generation
- + refineries
- + LNG terminals
- + petrochemicals
- + process industries
- + smelting/metal processing

Cape Industrial Services ('CIS') aims to provide best value solutions, tailored to meet the needs of its clients, supplying them individually or as a seamlessly integrated multi-disciplinary package. The Group's commitment is to its clients, working continuously to improve delivery through its structured approach to the management of safety, quality and costs.

Whilst being proud of its international reputation, CIS is able to deliver its services locally through its network of offices and depots in the UK and in Holland, Belgium and Germany through its Cleton division. Its other international activities are mainly incorporated in Cape East which, through its overseas subsidiaries and branches, provides the local knowledge and presence required to respond effectively to its clients' needs.

The Group now employs a total of approximately 7,700 people operating in 23 countries across the world.

SPECIALIST COATINGS

The provision of a 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.

- + new construction
- + plant maintenance
- + plant shutdowns
- + plant upgrades

- + power generation
- + offshore oil and gas
- + refineries
- + LNG terminals
- + petrochemicals
- + pharmaceuticals
- + process industries
- + food and beverages
- + ship repair/module yards

FIRE PROTECTION

The application of passive 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.

- + new construction
- + plant maintenance
- + plant shutdowns
- + plant upgrades

- + power generation
- + offshore oil and gas
- + refineries
- + LNG terminals
- + petrochemicals
- + ship repair/module yards
- + construction industry

HIRE & SALES

Through its Hire & Sales Division, Cape supplies scaffolding, access and non-mechanical plant on a hire or sales basis to clients in the construction and engineering industries and to organisers of specific entertainment events.

As well as traditional tube, fittings and boards, Cape Hire offers system scaffolding, temporary fencing and hoarding, alloy towers and a full range of metal and timber plant.

- + new construction
- + plant shutdowns
- + plant upgrades
- + entertainment events

- + civil engineering
- + industrial sites
- + commercial building sites
- + entertainment venues

ASSOCIATED SERVICES

In response to client needs, the range of industrial services includes trace heating, asbestos management, security, training and facilities management. For offshore installations, services include lifting, crane operation, abseiling, catering and logistics. In addition, inspection services are provided identifying corrosion, the efficiency of thermal insulation and refractory linings and the survey and removal of hazardous materials.

- + new construction
- + plant maintenance
- + plant shutdowns
- + plant upgrades

- + offshore oil and gas
- + refineries
- + LNG terminals
- + petrochemicals
- + ship repair/module yards

GLOBAL

REACH

CAPE'S TECHNICAL EXPERTISE GIVES IT A STRONG POSITION IN EACH OF THE INTERNATIONAL MARKETS IT SERVES. IT OPERATES PRIMARILY IN THE OIL AND GAS, PETROCHEMICAL AND POWER GENERATION INDUSTRIES.

UK

Heerema Hartlepool

(2004 – to date)
CIS provides access and painting services on the Buzzard Utilities Platform under construction at Heerema's Hartlepool yard. The continued success of this project has seen the award of a similar contract on the Brit Satellite module being constructed concurrently.

Huntsman Petrochemicals Ltd
(2005 – 2009)

CIS provides integrated maintenance services including access, insulation, painting, cleaning and grounds maintenance services across all Huntsman assets in the Teesside region.

British Energy

(2005 – 2010)
CIS provides a full range of access and maintenance services to British Energy on five of its nine power stations.

BNG Sellafield

(2005 – 2010)
CIS provides site wide access services including scaffolding, rope and powered access as sole supplier on BNG's nuclear processing facility at Sellafield.

BP PLC

(2006 – 2009)
CIS provides platform and fabric maintenance services (which includes the disciplines of scaffolding, painting and insulation) on a number of BP's onshore sites and offshore platforms.

HOLLAND

Refinery Maintenance

(2003 – to date)
Clecon consolidated its leading presence in Holland's Europort with annual maintenance services at the Shell, Nerefco (BP) and Kuwait Petroleum oil refineries.

EDF

(2006 – 2011)
CIS is the sole supplier to EDF of access and insulation services for both the West Burton and Cottam Power Stations.

Alcan Smelting & Power

(2006 – 2011)
CIS has been awarded a new long-term multi-discipline maintenance contract as sole provider of access, insulation and facilities cleaning services at the Alcan smelting and power facility in Northumberland.

SOME OF OUR CLIENTS

Main offices worldwide

(from left to right):

Belfast
Warrington
Aberdeen
Billingham
Wakefield
Doncaster
Elsham
St Albans
Vlaardingen (Netherlands)
Valetta (Malta)
Jubail (Saudi Arabia)
Sitra (Bahrain)
Doha (Qatar)
Abu Dhabi
Singapore
Manila
Yuzhno-Sakhalinsk (Sakhalin)

RUSSIA

BAHRAIN / UAE

SAUDI ARABIA

AUSTRALIA / PHILIPPINES

Sakhalin 2 LNG Project
(2004 – to date)

CIS is supporting the onshore field works and offshore supply of materials and equipment, providing common user scaffolding, insulation, fire protection and refractory services on the Sakhalin 2 LNG Project for CTSD, a joint venture between the Chiyoda and Toyo Engineering Corporations from Japan.

Bahrain Petroleum Company
(2006 – to date)

RB Hilton has been awarded a US\$2.8 million thermal insulation and scaffolding services contract on the Bapco Low Sulphur Diesel Production Project.

Gasco

(2005 – 2010)
Cape East LLC has been awarded the renewal of a five year multi-discipline maintenance contract with Gasco (a joint venture between the Abu Dhabi National Oil Company, Shell, Total and Partex). The contract is to carry out insulation, painting and scaffolding services on Gasco's LNG plants at Asab, Bu Hasa and Ruwais in the United Arab Emirates.

Safco

(2005 – to date)
RB Hilton Saudi Arabia has been awarded two contracts totalling US\$10.40 million for the provision of thermal insulation and scaffolding services, forming part of the Saudi Arabia Fertiliser Company's upgrade and extension at their plant in Jubail.

Aramco Berri Gas Plant

(2005 – to date)
RB Hilton Saudi Arabia has been awarded a US\$5.10 million refractory and scaffolding services contract on the Aramco Berri Gas Plant.

Bayu Undan offshore development

(2003 – to date)
Cape East Philippines has been awarded a multi-discipline maintenance contract by Amec Clough on the Bayu Undan development offshore Australia/Timor.

Inco Goro Nickel Project
(2006 – 2008)

Cape Industrial Services Pty Ltd has been awarded a US\$17.5 million access contract in relation to the US\$1.8 billion Inco Goro Nickel Project located in New Caledonia, a French overseas territorial community. The contract will require Cape Industrial Services over an 18 month period to manage and construct over 2,000 tonnes of scaffold with a site team peaking at 300 personnel.

Client list includes:

Abu Dhabi Gas Industries
Alba
Alcan
Amec Clough
Aramco
Bapco
Bechtel
BG Group

BP
British Energy
British Nuclear Group
Consolidated Contractors
Company International
Chevron Texaco
Chiyoda
Conoco Phillips

EDF
Entrepose
Exxon Mobil (Esso)
Foster Wheeler
Heerema
Huntsman
Kellogg JGC
Inco Management

Malta Shipyards
Mitsui Babcock
Nerefco
Qatar Petroleum
Qatargas LNG
Parsons Fluor Daniel
Petronas
PX

Sabic
Safco
Shell
Technip
Toyo Engineering

CHAIRMAN'S

STATEMENT AND REVIEW

CIS HAS NOW DELIVERED GROWTH IN TURNOVER AND UNDERLYING PROFITABILITY

I am pleased to report that Cape Industrial Services ('CIS') has had another excellent year in which it has delivered strong organic growth in its core markets in the UK and the Middle East and has successfully maintained its market share elsewhere.

CIS, which specialises in the provision of scaffolding, insulation, fire protection and other essential services to the energy sector, performed significantly ahead of forecast. Turnover, including its share of joint ventures, at £261.8 million, rose by 9.6% (2004: £238.9 million).

The total operating loss, including the Group's share of joint ventures, of £1.3 million (2004: profit £5.1 million) is after taking into account the operating exceptional item of £9.7 million (2004: £1.1 million) relating to the costs of the proposed scheme of arrangement ('Scheme').

CONSISTENTLY FOR THE LAST FOUR YEARS.

I am also delighted to be able to announce significant progress with the proposed Scheme as well as a number of new contracts, contract renewals, extensions and awards that have been achieved in 2005 and the early part of 2006.

CIS has now delivered growth in turnover and underlying profitability consistently for the last four years. These results demonstrate CIS's position as one of the leading international providers of essential support services to the energy sector.

THESE RESULTS DEMONSTRATE CIS'S POSITION AS ONE OF THE LEADING INTERNATIONAL PROVIDERS OF ESSENTIAL SUPPORT SERVICES TO THE ENERGY SECTOR.

Financial summary

Turnover for the year, including the Group's share of joint ventures, was £261.8 million (2004: £238.9 million), an increase of 9.6%. Of the £22.9 million increase, £14.1 million was generated in the UK and £8.8 million in the rest of the world.

On this strong, organic growth in turnover, CIS has made an operating profit, including its share of joint ventures, of £14.9 million, up 30.7% from £11.4 million and increased its return on net operating assets to 29.2% (2004: 23.9%).

Group operating profit before operating exceptional items was £8.2 million (2004: £5.8 million) an increase of 41.4%. However, the costs of the proposed Scheme of £9.7 million, have resulted in a total operating loss for the year, including the Group's share of joint ventures, of £1.3 million (2004: profit £5.1 million). Further details of the Scheme are set out below. On the assumption that the Scheme Creditors vote in favour of the establishment of the Scheme and that the Court sanctions the Scheme before 30 June 2006, the Directors do not anticipate that there will be any further exceptional costs relating to the Scheme.

The net charge to the profit and loss account for industrial disease claims was £4.6 million (2004: £3.7 million).

The Group continues to generate cash and, despite industrial disease costs and costs associated with the Scheme, closed the year with a net cash inflow from operating activities of £7.3 million (2004: £10.7 million). Further investment in growth in the business resulted in a net cash outflow before financing of £2.2 million (2004: inflow £3.6 million). This resulted, after financing, including the proceeds of the share issue and repayment of borrowings, in a £22.4 million net inflow (2004: outflow of £1.5 million). The Group ended the year with net funds of £23.7 million (2004: net debt £2.4 million).

Although the exceptional charge resulted in basic earnings per share ('EPS') of 0.2 pence (2004: 10.7 pence), before exceptional items the adjusted basic EPS was 9.8 pence (2004: 11.2 pence). The issue of shares to part fund the Scheme has affected the EPS in 2005. For comparison, the adjusted basic EPS for 2004, restated using 2005's weighted average number of shares, would have been 8.9 pence.

In last year's statement, I said that the Group would announce detailed proposals for the long-term financing of the Group's asbestos-related claims in the UK. On 16 June 2005, Cape announced a proposed scheme of arrangement to provide for the long term financing of a great majority of all future UK asbestos-related claims likely to be successfully made against the Company and those of its subsidiaries included in the Scheme. On 11 July 2005, the Company's shareholders approved the Scheme and on 15 July 2005 the Company completed the issue of 29,090,910 new ordinary shares to raise approximately £32 million before expenses to part fund the Scheme. The balance of the initial Scheme funding is being provided by a new £15 million bank facility with the remainder coming from the Group's own resources.

The full, formal Scheme documents together with voting forms and a letter from the Forum of Asbestos Victims Support Groups have been sent out convening creditors' meetings on 16 May 2006. More details on progress with the Scheme are given below.

Largely as a result of the £32 million fundraising in July 2005, shareholders' funds increased from £30.9 million to £64.9 million.

A dividend is not being proposed (2004: £nil).

£261.8m

**TURNOVER UP 9.6%
2004: £238.9m**

£14.9m

**CAPE INDUSTRIAL SERVICES OPERATING
PROFIT UP 30.7% 2004: £11.4m**

CHAIRMAN'S STATEMENT AND REVIEW CONT

Business highlights

2005 has been another successful year in terms of winning new contracts, contract extensions, contract renewals and safety awards with CIS continuing to grow both the range of services and international spread of its operations to both new and existing clients.

Notable contract successes in 2005 included:

- a new five year contract with CNR International (UK) Limited for maintenance work on four of its platforms in the North Sea. The contract has an estimated annual value of more than £3 million;
- a new three year contract (with the option to renew annually thereafter up to a total of five years) with British Nuclear Group ('BNG') under which CIS will provide site wide access services as sole supplier on BNG's nuclear processing facility at Sellafield. The contract has an estimated annual value of £6 million;
- the renewal of CIS's contract with British Energy to perform maintenance work on five of British Energy's nine power stations for an initial period of three years with the option to renew for a further two years. This contract has an estimated annual value of in excess of £6 million;
- a new £8 million per annum contract with Huntsman for the delivery of multi-disciplinary services on their North Eastern petrochemicals sites. The contract is for an initial three year period with a further two year renewal option;
- the renewal of CIS's contract with BP to provide the full range of platform and fabric maintenance services on a number of BP's offshore and onshore locations. The contract, which commenced in 1 January 2006, will be for an initial three year term with the option to renew for three further two year periods, potentially therefore for up to nine years. The contract has an estimated annual value of in excess of £20 million;
- receiving approval from the Saudi Arabian national oil company, Aramco, for RB Hilton Limited, CIS's operating subsidiary in Saudi Arabia, to provide scaffolding works on its facilities throughout the Kingdom. RB Hilton's pre-qualified status led directly to the award of a new scaffolding contract on Aramco's Riyadh refinery – a part of the Aramco business for which RB Hilton had not previously worked; and
- the renewal of a five year multi-discipline maintenance contract with Gasco (a joint venture between the Abu Dhabi National Oil Company, Shell, Total and Partex). The contract is to carry out insulation, painting and scaffolding services on Gasco's LNG plants at Asab, Bu Hasa and Ruwais in the United Arab Emirates. This contract maintains CIS's continuous association with Gasco which goes back to 1980 when CIS was involved in the construction of the Bu Hasa and Ruwais plants.

£8.2m

GROUP OPERATING PROFIT BEFORE OPERATING EXCEPTIONAL ITEMS UP 41.4% 2004: £5.8m

£9.7m

OPERATING EXCEPTIONAL EXPENDITURE RELATING TO PROPOSED SCHEME OF ARRANGEMENT 2004: £1.1m

CIS CONTINUES TO PLACE THE HIGHEST EMPHASIS ON HEALTH AND SAFETY. ANOTHER HIGHLIGHT OF 2005 WAS THE AWARD OF THE BRITISH SAFETY COUNCIL'S SWORD OF HONOUR.

We are also pleased to be able to announce the following significant contract awards in early 2006:

- a new £7.5 million contract to provide access and industrial cleaning services for the next five years at the Alcan smelting and power facility in Northumberland;
- an £8 million contract renewal with EDF as sole provider of access and insulation services for the next five years at the West Burton and Cottam power stations;
- the renewal of a three year multi-discipline contract with BP to provide access, insulation and coatings at the Sullom Voe Terminal in Shetland. The contract has an estimated annual value of c. £5 million;
- two contracts in Saudi Arabia with a total value of c. US\$10.4 million with the Saudi Arabia Fertiliser Company ('Safco') for the provision of thermal insulation and scaffolding services on Safco's upgrade and extension of their plant in Jubail; and
- a US\$17.5 million access services contract on the Inco Goro Nickel Project. This US\$1.8 billion nickel-cobalt project, which will be one of the largest projects of its kind in the world, is located in New Caledonia, a French overseas territorial community in the Coral Sea, west of Australia. The contract, which is expected to last for c.18 months, will require CIS to manage and construct over 2,000 tonnes of scaffolding with a site team peaking at 300 personnel.

We are delighted to be working so closely with these and many other blue-chip companies.

Key to the Group's success is its safety proposition: CIS continues to place the highest emphasis on health and safety. Another highlight of 2005 was the award of the British Safety Council Five Star Award. CIS has now held this award continuously since 2002. Subsequently, and in competition with other recipients of Five Star Awards in the sector, CIS won the British Safety Council's prestigious Sword of Honour. The Sword of Honour is one of only 40 awarded worldwide by the British Safety Council and recognises organisations that have implemented safety systems that are among the best in the world. This is the second time that CIS has won the British Safety Council's Sword of Honour, the last time being in 2003.

This was followed by the presentation in February 2006 of the winner's trophy in British Energy's inaugural Supplier of the Year of Award. Nominations for the award, which was presented by the Chairman of British Energy, Sir Adrian Montague, were judged against a range of measures including safety, quality of performance, capability and responsiveness.

Strategy

Over the past six months, the Board together with the key management group, which includes its regional operations directors, has carried out a review of the Group's strategy. The core principles which underpin the strategy remain unchanged. They are:

- to become the recognised expert and leader in each of our chosen markets;
- to reinforce, develop and build upon existing relationships with clients and to secure new blue-chip clients;

£1.3m

**TOTAL OPERATING LOSS
2004: PROFIT £5.1m**

CHAIRMAN'S STATEMENT AND REVIEW CONT

- 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; and
- to build value for shareholders through improving our return on managed assets.

As a result of the review it has been agreed that the Group will:

- accelerate investment in, and the development of, long-term alliances and partnerships;
- improve the Group's international perspective through the establishment of a regional HQ in the Middle East; and
- establish an Operating Board with HR development, and strategic planning and marketing responsibilities.

Scheme of Arrangement

Since the fundraising in July 2005, Cape has been continuing discussions with interested parties including claimants, asbestos victims support groups and their representatives. The reasons for these discussions have been:

- to give sufficient time and information to interested parties to examine and understand the proposal in detail and for them to make recommendations; and
- to give comfort to interested parties, and in particular claimants' lawyers, that the proposals are in the interests of claimants and future claimants and that the commercial and legal arrangements underpinning the Scheme are justifiable and robust.

As a result:

- as announced on 17 January 2006, Cape has funded an independent legal review of the Scheme by solicitors and counsel (including a leading national asbestos claimant firm of solicitors, Thompsons); and
- as also announced on 17 January 2006, Cape has funded an independent financial review of the Scheme by accountants KPMG.

The legal and financial reviews have raised a number of issues on the proposed Scheme as a result of which Cape has agreed to make a number of amendments. None of the issues raised is considered by the Directors to be fundamental to the working of the Scheme or to the benefits which it is intended to deliver.

On 17 January 2006, Cape also announced that discussions were continuing with its bank regarding an extension of its loan facilities pursuant to which some of the initial Scheme funding of £40 million is to be provided. These discussions have now been concluded and a further extension to the facilities agreed. It is a condition to Cape's draw down of the £15 million loan facility that the Scheme becomes effective by no later than 30 June 2006.

On 28 February 2006 Cape made an application to the High Court to seek an order to convene meetings of the Scheme creditors – in other words to authorise meetings at which claimants will be able to vote on the Scheme. On 8 March 2006, Mr Justice David Richards made an order authorising Cape to convene the meetings. The full, formal scheme documents together with voting forms and a letter from the Forum of Asbestos Victims Support Groups have been sent out convening creditors' meetings on 16 May 2006.

£23.7m

YEAR END NET FUNDS
2004: DEBT £2.4m

£64.2m

SHAREHOLDERS' FUNDS
2004: £30.9m

**ON BEHALF OF THE BOARD,
I WOULD LIKE TO THANK
THE GROUP'S MANAGEMENT,
STAFF AND EMPLOYEES AT
ALL LEVELS WORLDWIDE
FOR THEIR HARD WORK
AND COMMITMENT
THROUGHOUT 2005.**

The Scheme also requires Cape's shareholders to have passed a resolution approving a number of the amendments to the Scheme. At an extraordinary general meeting on 12 April 2006 Cape's shareholders voted unanimously in favour of the proposed amendments.

A summary of the independent actuarial estimate of the range of potential UK asbestos-related liabilities assessed as part of the proposed Scheme is set out in note 26(i). Although the net charge to the profit and loss account for industrial disease claims was £4.6 million (2004: £3.7 million), should the Scheme not be approved, given the outlook for the Group and assuming that future settlements broadly follow recent history, the Directors remain confident that future claims, to the extent not matched by insurance recoveries, can be met from operating cash flows.

Our people

I am sorry to report that following the serious accident in which he was involved on 31 October 2005, the Group's Managing Director, Paul Ainley, has been making a slow recovery and the prognosis remains uncertain. His absence is keenly felt and we all hope very much that he will make a full recovery over time. We wish Paul and his family the very best for the future.

Since November, Mike Reynolds has been combining his duties as Finance Director with those of Acting Managing Director. The Board acknowledges the considerable additional workload that this involves and, on their behalf, I would like to express our appreciation of his efforts over the past few months.

Against this background, the Board has begun the task of recruiting a Chief Executive Officer. Whilst the results of the search so far have been encouraging, and a number of exceptional candidates have been identified, it is not possible, at this stage, to say when an appointment will be made.

The Board recognises that the Group's success depends heavily on the quality of its people. None of our contract wins or safety awards would have been achieved without their daily focus on the Group's strategic objectives. On behalf of the Board, I would like to thank the Group's management, staff and employees at all levels worldwide for their hard work and commitment throughout 2005.

Outlook

Sales in the second half of 2005 continued to grow both in the UK and overseas. In January and February, sales have also been ahead of budget. The order book in the UK is looking healthy and the number and quality of opportunities in the Middle East is particularly encouraging. The Group remains well placed to benefit from these and other new opportunities.

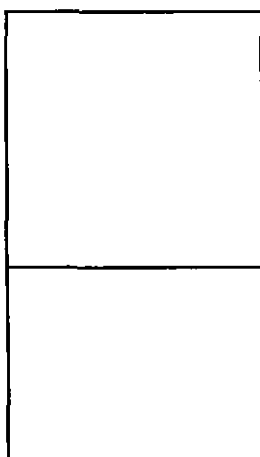
With energy prices remaining at high levels and a market looking to ensure continuity of supply from a number of sources, the Directors view the Group's prospects over the short and medium term with confidence.



Martin K May
Chairman
20 April 2006

TECHNOLOG

**CIS PRIDES ITSELF ON USING
INDUSTRY LEADING TECHNOLOGY
AND TECHNIQUES.**

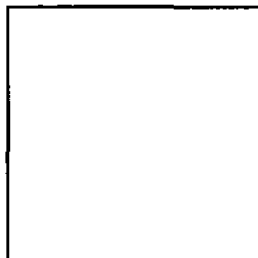


ELECTRONIC IMAGE TRANSFER

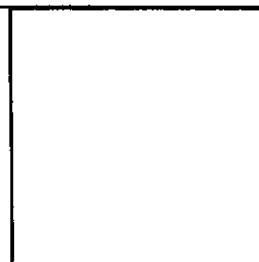
Design offices are equipped with computer aided design (CAD) facilities and are *electronically* interconnected to ensure the high speed transmission of schemes and documentation between CIS's offices and from CIS to its clients.

SCAFFOLD DESIGN

We employ qualified and experienced scaffold engineers who use computer modelling software to design all types of 'special' steel and aluminium scaffold structures. In addition, comprehensive technical advice is provided on all aspects of scaffold structure, components and alternative means of access to satisfy the requirements of both CIS and the client.

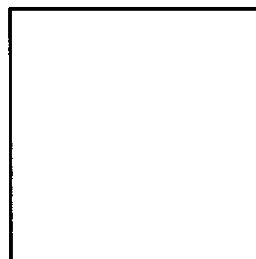


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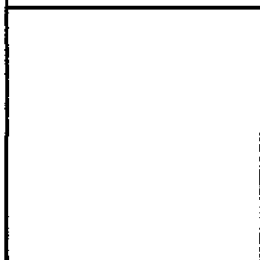
FIREMATS

CIS has developed a removable insulated jacket system, particularly suited for the petrochemical industry that can withstand the extreme conditions of an explosion, followed by a jet fire and then providing a 2 hour hydrocarbon rating. The system holds Lloyds certification.



THERMAL IMAGING

To demonstrate the effectiveness of thermal insulation systems, CIS uses thermal imaging equipment to identify levels of heat loss. Areas of insulation breakdown and areas requiring upgrade are highlighted in a visual display and comprehensive report.



UV CURED GRP CLADDING

CIS embraces the challenge to find innovative ways to insulate onerous types of plant and in one such development has pioneered the use of glass reinforced plastic cladding cured by ultra violet light.

TRAINING

CIS DELIVERS INTERNATIONALLY ACCREDITED TRAINING.

ACCREDITED TRAINING

A number of the training courses available are certified by internationally accepted authorities such as CITB, IOSH, PASMA and ACAD.

TRAINING TO THE INDUSTRY

Not only do our training centres and courses support our own workforce, they are also being used to provide extensive training to clients and other industry bodies.

DIVERSITY OF TRAINING

As Cape continues to diversify its disciplines and skills to meet its client's needs, the portfolio of training courses continues to expand to meet these demands. Current training courses and contact details can be found via our website <http://www.cisgl.com/cape/training.htm>.



ASBESTOS REMOVAL AND AWARENESS

CIS has developed a range of asbestos removal and awareness courses that meet the stringent requirements of the Health & Safety Executive which are open to operatives, managers, clients and other interested parties.

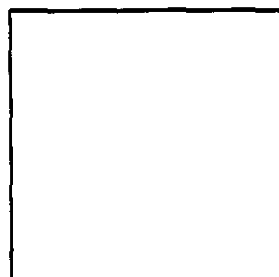


TRAINING CENTRES

CIS has established training centres across the UK, Middle East and Far East to continue to raise *skill levels and competencies* of its entire workforce throughout the world.

TEAMWORK

CIS BELIEVES IN THE VALUE OF GOOD TEAMWORK AT ALL LEVELS.

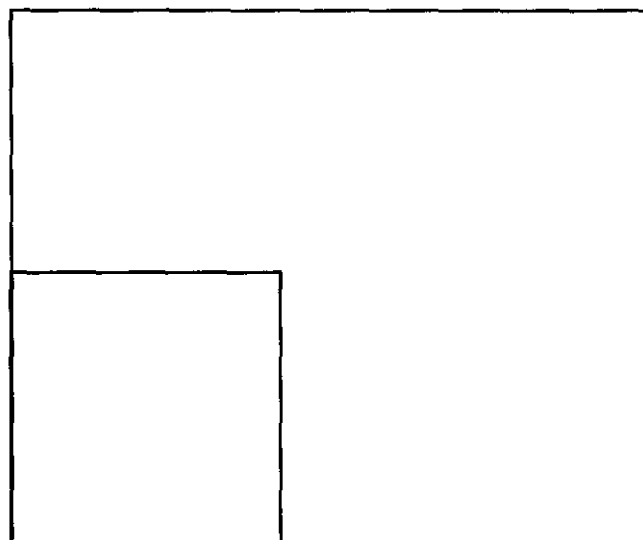


CLIENT RELATIONSHIPS

CIS is strongly focused on maintaining and developing excellent relationships with our clients and we are proud to have been working with a number of clients for over 25 years. Due to the diverse nature of contracts awarded, CIS has developed a variety of systems to provide synergy with whichever existing or new approach is required.

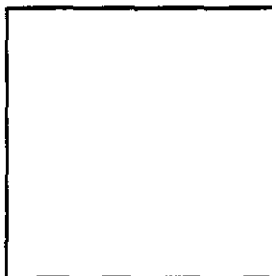
WORKFORCE

An organisation is only as good as the people who work for it. CIS encourages the participation of all employees in the development of good working practice.



CENTRAL TECHNICAL SERVICES

The Central Technical Services Department provides the catalyst for continuous improvement throughout the organisation. It controls the Integrated Management System and facilitates information flow for all health, safety and environmental issues.





INDUSTRY BODIES

Involvement with industry bodies and trade associations such as NASC, OCA, FESI, TICA and ACAD provides CIS with the ability to pinpoint industry developments at an early stage and ensure that our ideas and points of view are discussed.



WORKING GROUPS

CIS representatives sit on a number of committees and working groups created by various enforcement agencies and as a result is able to have input into and instigate the latest industry recommendations and standards.



INTERNATIONAL TEAM

The Cape Group is an international organisation currently operating in over 20 countries. Our network of offices around the world provides the opportunity to share expertise, develop markets and source the most skilled workforce on a global scale.

HEALTH, SAFETY AND THE ENVIRONMENT

CIS IS KEEN TO TAKE THE BEST HEALTH AND SAFETY PRACTICES FROM ITS OPERATIONS AROUND THE WORLD AND, WHERE APPROPRIATE, TO REPLICATE THEM THROUGHOUT ITS BUSINESS.

CIS's Health and Safety Policy was originally developed in the UK to define its obligations to employees and others who may be affected by its operations and to form the basis of the Group's integrated approach health and safety. CIS is keen to take the best health and safety practices from its operations around the world and, where appropriate, to replicate them throughout its business. As a result, a 'Global Safety Policy' has been produced to better serve the needs of a truly international business.

In 2005:

- CIS successfully piloted an enhanced health surveillance programme in the UK as part of which experienced occupational health nurses travel to individual site locations in mobile surgeries. This arrangement when rolled out nationally will facilitate cost effective and efficient access to medical examinations together with minimum disruption to worksite operations.
- CIS instigated a system for the rehabilitation of UK employees who have been injured by an accident at work, the overall objective being that of accelerating the injured party's recovery and return to work.

As the Group has diversified and its workload has expanded, the demand for skilled workers has increased. Therefore, to meet current and future demands, great emphasis is placed on training. CIS has established training centres in the UK, the Middle East and the Far East, to raise the skill levels and competencies of the indigenous work forces. Each centre continues to expand its range of courses to meet continually increasing requirements. The training centres provide both internal bespoke courses and training certified by internationally accepted authorities such as CITB, IOSH, PASMA and ACAD for employees, clients and other industry bodies.

With these initiatives and the achievement of a combined accident frequency rate (AFR) of 0.07 (per 100,000 man-hours), CIS has sustained its commitment to improving its safety culture and driving down the number of accidents, with the involvement of staff at all levels of the organisation.

One of the highlights of 2005 was the award of the British Safety Council Five Star Award. CIS has now held this award continuously since 2002. Subsequently, and in competition with other recipients of Five Star Awards in the sector, CIS won the British Safety Council's prestigious Sword of Honour. The Sword of Honour is one of only 40 awarded worldwide by the British Safety Council and recognises organisations that have implemented safety systems that are among the best in the world. This is the second time that CIS has won the British Safety Council's Sword of Honour, the last time being in 2003.

During 2005, the ISO 14001 environmental standard was raised to a new level of specification. CIS is pleased to note that the environmental systems in place were of sufficient calibre for upgrading to the new specification to be achieved with no significant issues raised. In addition, further certification was gained during the year with the successful ISO 14001 implementation and accreditation of the Qatar business unit.

DIRECTORS' REPORT

The Directors have pleasure in submitting their report and audited financial statements of the Group and the Company for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Company and its subsidiaries form an international group primarily engaged in the supply of a wide range of services including industrial scaffolding, thermal and acoustic insulation, fire protection, painting, asbestos removal, and related services to major industrial groups, principally in the energy sector. The Company's subsidiary undertakings are listed on pages 56 and 57.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

A review of the Group's activities during the year, its strategy and outlook for 2006 is contained in the Chairman's statement on pages 6 to 11.

RESULTS

The financial results for the year ended 31 December 2005 are set out in the financial statements on pages 24 to 53. The total operating loss for the year is £1.3 million (2004: a profit of £5.1 million). The loss on ordinary activities before tax is £0.9 million (2004: profit of £5.8 million).

DIVIDENDS

No interim dividend was paid for the year ended 31 December 2005 (2004: nil pence). The Directors are unable to recommend the payment of a final dividend for the year ended 31 December 2005 (2004: nil pence).

FIXED ASSETS

Details of the movements in tangible fixed assets are given in note 11(b) to the accounts on page 37.

DONATIONS

During the year the Group made charitable donations of £11,845 (2004: £21,100) towards various local and national causes. There were no political donations (2004: £nil).

SHARE LISTING

The Company's ordinary shares are admitted to and traded on AIM, a market operated by the London Stock Exchange.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group is not required to adopt International Financial Reporting Standards ('IFRS') until the year ending 31 December 2007.

INCREASE IN SHARE CAPITAL

The Company's authorised and issued share capital increased during year through a placing of 29,090,910 ordinary shares. Further details are provided in note 20 to the accounts on page 42.

DIRECTORS

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

Martin May (52)

Appointed a Director of the Company in 2002 and became Chairman in 2003. He is also Chairman of Volex Group PLC and a number of private companies, a Fellow of the Institute of Chartered Management Accountants and a founder member and Fellow of the Society of Turnaround Practitioners.

Paul Ainley (60)

Appointed a Director of the Company in 1999. He joined the Group in 1976, was appointed as a Director of one of the Group's subsidiaries in 1978 and has been Managing Director of the Cape Industrial Services division since 1995. He has also been a board member of the Offshore Contractors Association since 2002. Paul Ainley was involved in a serious car accident on 31 October 2005, since when he has been unable to return to work.

Mike Reynolds (47)

Appointed Group Finance Director in 2003. He is a Chartered Accountant who has been Finance Director of the Cape Industrial Services division since 1998. Since 1 November 2005, Mike Reynolds has been combining his duties as Finance Director with those of Acting Managing Director.

John Pool (67)

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 Pandrol International Limited, Charter's railway track maintenance subsidiary from 1985 to 1995. Since June 2004 he has been a Non-Executive Director of McNicholas Construction Limited.

David McManus (53)

Appointed Non-Executive Director in November 2004. He was President of ARCO Europe until ARCO's merger with BP in 2000 and then Executive Vice President with BG Group until 2004. He is currently Vice President of International Operations and an Officer of Pioneer Natural Resources, an independent American oil and gas company.

The Company's articles provide that at each Annual General Meeting one third of the Directors shall retire from office and may, if being eligible and willing to act, offer themselves for reappointment.

Martin May is the Director retiring by rotation under Article 100 and, being eligible, offers himself for reappointment at the Annual General Meeting.

Details of the interests of the Directors in the shares and share option schemes of the Company are shown over the page. No Director had any interests in any contract with the Company or its subsidiaries at any time during the year other than their service contracts and through the 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.

DIRECTORS' REPORT

continued

DIRECTORS' INTERESTS

Shares

The beneficial interests of the Directors of the Company and their families in the ordinary shares of the Company as at 31 December 2005 are set out below:

	2005 Number	2004 Number
MK May	85,000	50,000
PR Ainley	27,580	2,580
MT Reynolds	12,779	2,779
JA Pool	30,000	10,000
D McManus	25,000	–

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

On the 21 March 2006 MK May acquired 15,000 ordinary shares of the Company (bringing his total shareholding to 100,000 shares) and on the same day JA Pool acquired 10,000 ordinary shares of the Company (bringing his total shareholding to 40,000 shares).

SHARE OPTIONS

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

	Date of grant	Earliest exercise date	Surrendered/ expiry date	Exercise price	At 31 December 2004	Granted	At 31 December 2005
PR Ainley							
Share Option Plan*	07.05.04	07.05.07	07.05.14	£0.60	400,000	–	400,000
MT Reynolds							
Share Option Plan*	07.05.04	07.05.07	07.05.14	£0.60	100,000	–	100,000
Share Option Plan*	24.10.05	24.10.08	24.10.15	£1.20	–	100,000	100,000
MK May							
Share Option Plan*	07.05.04	07.05.07	07.05.14	£0.60	400,000	–	400,000

*Performance condition applies.

On 24 October 2005, the Board awarded a total of 640,000 options over ordinary shares of 25p each to its senior executives, including MT Reynolds. The options were granted for nil consideration at an exercise price of 120p per ordinary share under the Company's Share Option Plan.

The middle market price of the shares on 31 December 2005 was 114p and the range during the twelve months ended 31 December 2005 was 111p to 171.5p.

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 are subject to the condition that they will not be exercisable unless the performance of the Company's adjusted earnings per share over a set three year period exceeds the growth in the Consumer Prices Index over the same period by 3 per cent per annum.

There were no changes to the Directors' interests in share options in the period from 1 January 2006 to 20 April 2006.

GAINS MADE BY DIRECTORS ON SHARE OPTIONS

No gains were made on the exercise of share options during the year.

DIRECTORS INDEMNITIES

The Company has provided qualifying third party indemnities to Andrew Gillespie, Claire Craigie and Benjamin Whitworth in their capacity as officers of two Group companies that were put into liquidation on 6 January 2006.

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 (2004: nil). The Group owed £17.3 million to trade creditors at the end of the year (2004: £16.4 million) which represented 54 creditor days (2004: 53).

TREASURY POLICY

The Group's policy on treasury and financial risk is set by the board and is subject to regular reporting and review. The main risks faced by the Group relate to foreign currency risk and liquidity risk.

A significant proportion of the Group's business is conducted overseas. The Group is therefore subject to exchange risk when translating the results and assets of its overseas subsidiaries into Sterling. Where significant transactional exchange risks are identified, then appropriate currency contracts are used to hedge these transactions.

The Group currently has a large liquid fund balance as a result of the fund raising for the proposed scheme of arrangement. Committed bank facilities have been negotiated to provide the appropriate level of finance to support the current and future requirements of the Group should the scheme of arrangement become effective.

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 UK 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 Group 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, as set out in more detail on page 18.

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 2005) 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 4 April 2006 the following have interests of 3 per cent or more in the issued ordinary share capital of the Company:

	Number of ordinary shares	Percentage of issued share capital
M & G Investment Management	12,527,814	15.00
Schroder Investment Management	9,922,803	11.88
Merrill Lynch Investment Managers	8,002,764	9.58
Artemis Fund Managers	7,052,191	8.44
Gartmore Investment Management	6,165,265	7.38
F & C Asset Management	3,212,634	3.85
Slater Investments	3,058,566	3.66
Morley Fund Management	3,041,000	3.64
Bluehone Investors	3,000,000	3.59
Marlborough Fund Managers	2,650,000	3.17

The Company has not received notification of any other interests held by persons acting together which at 4 April 2006 represented 3 per cent or more of the issued ordinary share capital.

ANNUAL GENERAL MEETING

At the Annual General Meeting to be held on 19 June 2006, resolutions will be proposed on the following items of special business:

- (a) To approve the rules of the Cape PLC 2006 Sharesave Plan ("Plan").

The Directors believe that the incentivisation of the Group's employees is in the best interests of the Company. Accordingly, they propose to introduce a new Inland Revenue approved Save As You Earn scheme which will be open to all employees with more than one year's continuous service.

- (b) To authorise the Directors to be counted in the quorum and to vote in meetings and on matters connected with the Plan.

The Directors consider that such a measure is necessary in order to enable them to implement the Plan provided that (as set out in the resolution) no Director is permitted to vote on any matter solely concerning his own participation.

- (c) To disapply statutory pre-emption rights under 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 a maximum amount of 5 per cent of the Company's issued ordinary share capital at 31 December 2005. A Special Resolution will be proposed at the Annual General Meeting authorising the Directors to allot ordinary shares up to a nominal amount of £1,044,038.

The text of all the resolutions is set out in full in the notice convening the Annual General Meeting on pages 58 and 59.

The Annual General Meeting is to be held on 19 June 2006 at the offices of Travers Smith at 10 Snow Hill, London EC1A 2AL.

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
BW Whitworth
Secretary
20 April 2006

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CAPE PLC

We have audited the group and parent company financial statements (the "financial statements") of Cape PLC for the year ended 31 December 2005 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, the reconciliation of net cash flow to movement in net funds/(debt), the consolidated statement of total recognised gains and losses, the note of consolidated historical cost profit and losses, the reconciliation of movements in shareholders' funds and the related notes to the financial statements. These financial statements have been prepared under the accounting policies set out therein.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland). 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 into 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 other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises the Financial highlights, the Chairman's statement and review the Directors' report and the other items listed on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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.

OPINION

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2005 and of the group's profit and cash flows for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

EMPHASIS OF MATTER – CONTINGENT LIABILITY FOR INDUSTRIAL DISEASE CLAIMS

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in note 26 to the financial statements concerning the impact of, and accounting for, potential future claims for industrial disease compensation. An independent actuarial estimate of the range of certain potential liabilities has been performed, however, given the wide range of the estimates and significant degree of uncertainty surrounding them, it is not 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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Leeds
20 April 2006

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2005

	Note	2005 £m	2004 £m
Turnover	1	261.8	238.9
Less share of turnover of joint ventures		(0.3)	(5.3)
Group turnover		261.5	233.6
Group operating profit before exceptional items		8.2	5.8
Operating exceptional items	4	(9.7)	(1.1)
Group operating (loss)/profit	3	(1.5)	4.7
Share of operating profit in joint ventures	1	0.2	0.4
Total operating (loss)/profit: group and share of joint ventures	2	(1.3)	5.1
Profit on sale of fixed assets – continuing	5	0.3	–
Profit on sale of fixed assets – discontinued	5	–	0.5
(Loss)/profit on ordinary activities before interest	1	(1.0)	5.6
Net interest payable	8	(0.7)	(1.0)
Other finance income	27	0.8	1.2
(Loss)/profit on ordinary activities before taxation		(0.9)	5.8
Tax credit on profit on ordinary activities	9	1.0	–
Profit for the year	21	0.1	5.8
Earnings per ordinary share:			
– Basic	10	0.2p	10.7p
– Diluted	10	0.2p	10.6p

The notes and information on pages 28 to 53 form part of these financial statements.

CONSOLIDATED AND COMPANY BALANCE SHEETS

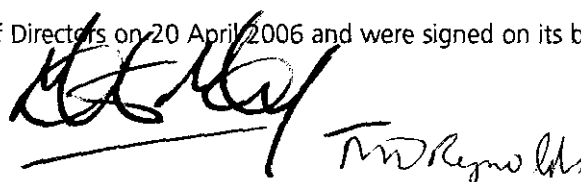
at 31 December 2005

	Note	2005 £m	Group 2004 £m	Company 2005 £m	2004 £m
Fixed assets					
Intangible assets	11	0.6	0.1	–	–
Tangible assets	11	29.4	23.4	–	–
Investments	12	–	–	83.5	72.5
Interest in joint ventures:					
Share of gross assets	12	0.2	1.2	–	–
Share of gross liabilities	12	–	(0.8)	–	–
		0.2	0.4	–	–
		30.2	23.9	83.5	72.5
Current assets					
Stocks	13	9.9	9.7	–	–
Debtors	14	77.5	63.3	6.8	3.5
Cash at bank and in hand	16	27.2	7.8	1.3	1.4
		114.6	80.8	8.1	4.9
Creditors: amounts falling due within one year					
Short-term borrowings	17	(1.8)	(4.7)	–	–
Other creditors	17	(63.2)	(51.1)	(2.5)	(2.6)
		(65.0)	(55.8)	(2.5)	(2.6)
Net current assets		49.6	25.0	5.6	2.3
Total assets less current liabilities		79.8	48.9	89.1	74.8
Creditors:					
amounts falling due after more than one year	18	(1.7)	(5.5)	(19.4)	(41.6)
Provisions for liabilities and charges	19	(19.2)	(16.1)	(11.0)	(6.0)
Net assets excluding pension asset		58.9	27.3	58.7	27.2
Pension asset	27	5.3	3.6	5.5	3.7
Net assets including pension asset		64.2	30.9	64.2	30.9
Capital and reserves					
Called up share capital	20	25.5	18.2	25.5	18.2
Share premium account	21	25.0	1.7	25.0	1.7
Revaluation reserve	21	2.2	2.3	45.9	35.1
Profit and loss account	21	11.5	8.7	(32.2)	(24.1)
Shareholders' funds (includes non-equity interests)		64.2	30.9	64.2	30.9
Equity interests		59.6	26.3	59.6	26.3
Non-equity interests	20	4.6	4.6	4.6	4.6
Shareholders' funds		64.2	30.9	64.2	30.9

These accounts were approved by the Board of Directors on 20 April 2006 and were signed on its behalf by:

MK May Chairman

MT Reynolds Group Finance Director



The notes and information on pages 28 to 53 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2005

	Note	2005 £m	2005 £m	2004 £m	2004 £m
Net cash inflow from operating activities	22(a)		7.3		10.7
Dividends received from joint ventures		0.4		–	
Returns on investments and servicing of finance					
Interest received		0.3		0.1	
Interest paid		(1.0)		(1.1)	
Net cash outflow from returns on investments and servicing of finance			(0.7)		(1.0)
Taxation	22(b)		(0.9)		(0.8)
Capital expenditure and financial investment					
Purchases of tangible fixed assets		(8.8)		(7.3)	
Receipts from sale of tangible fixed assets		1.0		2.0	
Net cash outflow from capital expenditure and financial investment			(7.8)		(5.3)
Acquisitions and disposals					
Net cash outflow from acquisitions and disposals	22(d)		(0.5)		–
Net cash (outflow)/inflow before financing			(2.2)		3.6
Financing					
Issue of ordinary shares		32.0		0.1	
Expenses of share issue		(1.4)		–	
Capital element of finance lease rental payments		(0.8)		(0.4)	
Repayment of short-term borrowing		(5.2)		–	
Repayment of long-term borrowings		–		(4.8)	
Net cash inflow/(outflow) from financing			24.6		(5.1)
Increase/(decrease) in cash in the year	22(c)		22.4		(1.5)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/(DEBT)

	Note	2005 £m	2004 £m
Increase/(decrease) in cash in the year		22.4	(1.5)
Inflow from debt and lease financing		6.0	5.2
Change in debt resulting from cash flows		28.4	3.7
New finance leases		(2.8)	(0.5)
Exchange movement in year		0.5	(0.2)
Movement in net debt in year		26.1	3.0
Net debt at 1 January		(2.4)	(5.4)
Net funds/(debt) at 31 December	22(c)	23.7	(2.4)

The notes and information on pages 28 to 53 form part of these financial statements.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2005

	Note	2005 £m	2004 £m
Profit for the year		0.1	5.8
Currency translation differences net of taxation on foreign currency net investments	21	1.4	(1.0)
Actuarial gain/(loss) recognised in the pension scheme	27	1.6	(5.6)
Movement on deferred tax relating to pension asset	27	(0.5)	1.8
Total recognised gains relating to the year		2.6	1.0

NOTE OF CONSOLIDATED HISTORICAL COST PROFITS AND LOSSES

for the year ended 31 December 2005

	2005 £m	2004 £m
Reported (loss)/profit on ordinary activities before taxation	(0.9)	5.8
Realisation of property revaluation gains of previous years	0.1	0.1
Historical cost (loss)/profit on ordinary activities before taxation	(0.8)	5.9
Historical cost profit for the year retained after taxation	0.2	5.9

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 31 December 2005

Group	Note	2005 £m	2004 £m
Profit for the year		0.1	5.8
Currency translation differences net of taxation on foreign currency net investments	21	1.4	(1.0)
Issue of new share capital (net of issue costs)		30.6	0.1
UITF17 credit in respect of share options		0.1	0.1
Actuarial gain/(loss) in pension scheme net of deferred tax		1.1	(3.8)
Net increase in shareholders' funds		33.3	1.2
Shareholders' funds at 1 January		30.9	29.7
Shareholders' funds at 31 December		64.2	30.9

The notes and information on pages 28 to 53 form part of these financial statements.

ACCOUNTING POLICIES

1. ACCOUNTING CONVENTION

The financial statements are prepared under the historical cost convention, except for certain fixed assets which are included at valuation, 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 2005.
- (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. The consolidated financial statements include the Group's share of the profits or losses of joint ventures and the consolidated balance sheet includes the investments in joint ventures at cost, including attributable goodwill, plus the Group's share of post-acquisition reserves.

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, net of value added taxes. 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 FRS 10 '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. Cost comprises purchase cost together with any incidental costs of acquisition. 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 – 6% to 33% 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.

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.

15. EMPLOYEE SHARE OPTION PLANS

The cost of share awards to employees are recognised over the period to which the employee's performance relates. The amount recognised is based on the fair value of the award at the date the award is made.

The Company has taken advantage of the exemption under UITF 17 (revised), in relation to Inland Revenue approved SAYE schemes from the need to apply a charge to the profit and loss account based on the difference between the fair value of the shares and the exercise price at the date the award is made.

NOTES TO THE FINANCIAL STATEMENTS

1. SEGMENTAL ANALYSIS

				Profit before tax		
	Turnover £m	Pre- exceptional items £m	Operating exceptional items £m (Note 4)	Non- operating exceptional items £m (Note 5)	Total £m	Net operating assets £m
(a) Business analysis						
2005						
Continuing operations						
– Cape Industrial Services	261.5	14.7	–	0.3	15.0	51.0
– Joint ventures	0.3	0.2	–	–	0.2	–
Total Cape Industrial Services	261.8	14.9	–	0.3	15.2	51.0
– Head Office	–	(1.9)	(9.7)	–	(11.6)	3.2
– Compensation for industrial disease	–	(4.6)	–	–	(4.6)	(14.5)
Total continuing	261.8	8.4	(9.7)	0.3	(1.0)	39.7
Discontinued operations						
– Cape Calsil	–	–	–	–	–	0.8
Total operations	261.8	8.4	(9.7)	0.3	(1.0)	40.5
Net interest/net cash					(0.7)	23.7
Other finance income					0.8	–
					(0.9)	64.2

There are no significant inter-segment sales between business units.

		Profit before tax				
	Turnover £m	Pre- exceptional items £m	Operating exceptional items £m (Note 4)	Non- operating exceptional items £m (Note 5)	Total £m	Net operating assets £m
2004						
Continuing operations						
– Cape Industrial Services	233.6	11.0	–	–	11.0	47.4
– Joint ventures	5.3	0.4	–	–	0.4	0.2
Total Cape Industrial Services	238.9	11.4	–	–	11.4	47.6
– Head Office	–	(1.5)	(1.1)	–	(2.6)	1.8
– Compensation for industrial disease	–	(3.7)	–	–	(3.7)	(16.9)
Total continuing	238.9	6.2	(1.1)	–	5.1	32.5
Discontinued operations						
– Cape Calsil	–	–	–	0.5	0.5	0.8
Total operations	238.9	6.2	(1.1)	0.5	5.6	33.3
Net interest/net borrowings					(1.0)	(2.4)
Other finance income					1.2	–
					5.8	30.9

Net operating assets represents the net assets of each business unit after adjusting for Group funding loans.

1. SEGMENTAL ANALYSIS continued

	Profit before tax					
	Turnover £m	Pre- exceptional items £m	Operating exceptional items £m (Note 4)	Non- operating exceptional items £m (Note 5)	Total £m	Net operating assets £m
(b) Geographical analysis by origin						
2005						
Continuing operations						
– United Kingdom	165.9	1.2	(9.7)	0.3	(8.2)	24.5
– Continental Europe	36.8	0.2	–	–	0.2	2.8
– Rest of the World	58.8	6.8	–	–	6.8	12.4
– Rest of the World joint ventures	0.3	0.2	–	–	0.2	–
	261.8	8.4	(9.7)	0.3	(1.0)	39.7
Discontinued operations						
– United Kingdom	–	–	–	–	–	0.9
– Continental Europe	–	–	–	–	–	(0.1)
	–	–	–	–	–	0.8
Total operations	261.8	8.4	(9.7)	0.3	(1.0)	40.5
Net interest/net funds					(0.7)	23.7
Other finance income					0.8	–
					(0.9)	64.2

		Profit before tax				
	Turnover £m	Pre- exceptional items £m	Operating exceptional items £m (Note 4)	Non- operating exceptional items £m (Note 5)	Total £m	Net operating assets £m
2004						
Continuing operations						
– United Kingdom	151.8	2.4	(1.1)	–	1.3	14.3
– Continental Europe	36.4	0.5	–	–	0.5	6.7
– Rest of the World	45.4	2.9	–	–	2.9	11.3
– Rest of the World joint ventures	5.3	0.4	–	–	0.4	0.2
	238.9	6.2	(1.1)	–	5.1	32.5
Discontinued operations						
– United Kingdom	–	–	–	0.5	0.5	0.9
– Continental Europe	–	–	–	–	–	(0.1)
– Rest of the World	–	–	–	–	–	–
– Inter-segment sales	–	–	–	–	–	–
	–	–	–	0.5	0.5	0.8
Total operations	238.9	6.2	(1.1)	0.5	5.6	33.3
Net interest/net borrowings					(1.0)	(2.4)
Other finance income					1.2	–
					5.8	30.9

Net operating assets represents the net assets of each geographical segment after adjusting for Group funding loans.

NOTES TO THE FINANCIAL STATEMENTS

continued

1. SEGMENTAL ANALYSIS continued

			2005		2004	
	Net operating assets £m	Group funding £m	Net assets £m	Net operating assets £m	Group funding £m	Net assets £m
(c) Business analysis						
Continuing operations						
– Cape Industrial Services	51.0	(2.0)	49.0	47.4	20.6	68.0
– Joint ventures	–	–	–	0.2	–	0.2
Total Cape Industrial Services	51.0	(2.0)	49.0	47.6	20.6	68.2
– Head Office	3.2	(7.2)	(4.0)	1.8	(29.5)	(27.7)
– Compensation for industrial disease	(14.5)	–	(14.5)	(16.9)	–	(16.9)
Total continuing	39.7	(9.2)	30.5	32.5	(8.9)	23.6
Discontinued operations						
– Cape Calsil	0.8	9.2	10.0	0.8	8.9	9.7
Total operations	40.5	–	40.5	33.3	–	33.3
Net cash/(borrowings)	23.7	–	23.7	(2.4)	–	(2.4)
	64.2	–	64.2	30.9	–	30.9

			2005		2004	
	Net operating assets £m	Group funding £m	Net assets £m	Net operating assets £m	Group funding £m	Net assets £m
(d) Geographical analysis by origin						
Continuing operations						
– United Kingdom	24.5	(13.0)	11.5	14.3	(8.1)	6.2
– Continental Europe	2.8	8.4	11.2	6.7	4.1	10.8
– Rest of the World	12.4	(4.6)	7.8	11.3	(4.9)	6.4
– Rest of the World joint ventures	–	–	–	0.2	–	0.2
Total continuing	39.7	(9.2)	30.5	32.5	(8.9)	23.6
Discontinued operations						
– United Kingdom	0.9	0.9	1.8	0.9	0.5	1.4
– Continuing Europe	(0.1)	7.4	7.3	(0.1)	7.7	7.6
– Rest of the World	–	0.9	0.9	–	0.7	0.7
Total discontinuing	0.8	9.2	10.0	0.8	8.9	9.7
Total operations	40.5	–	40.5	33.3	–	33.3
Net funds/(borrowings)	23.7	–	23.7	(2.4)	–	(2.4)
	64.2	–	64.2	30.9	–	30.9

	2005 £m	2004 £m
(e) Geographical analysis of turnover by destination		
United Kingdom	159.5	147.6
Continental Europe	37.2	36.4
Rest of the World	64.8	49.6
Rest of the World joint ventures	0.3	5.3
	261.8	238.9

2. TOTAL OPERATING (LOSS)/PROFIT

	2005 £m	2004 £m
Operating (loss)/profit is stated after charging/(crediting)		
Auditors' remuneration (of which the parent company was £107,000 (2004: £113,000))	0.4	0.4
Non-audit fees payable to auditors	3.8	1.0
Depreciation on owned tangible fixed assets	5.1	4.9
Depreciation of tangible fixed assets under finance leases	0.9	0.3
Profit on disposal of tangible fixed assets	-	(0.1)
Rental/hire of plant and machinery	5.5	4.3
Operating leases – other	1.2	1.1

The non-audit fees payable to auditors represents advice in relation to the proposed scheme of arrangement £3.8 million (2004: £0.7 million) and taxation £nil (2004: £0.3 million). In addition to the above amounts charged to the profit and loss account, the auditors also received £0.2 million in respect of advisory services in relation to the share issue. This has been charged against the share premium account. Rental/hire of plant and machinery comprises short-term hire charges.

3. GROUP OPERATING (LOSS)/PROFIT

	Pre-exceptional items £m	Exceptional items £m (Note 4)	2005 Total £m	Pre-exceptional items £m	Exceptional items £m (Note 4)	2004 Total £m
Analysis of Group operating (loss)/profit						
Continuing operations						
Turnover	261.5	-	261.5	233.6	-	233.6
Cost of sales	(246.0)	-	(246.0)	(221.1)	-	(221.1)
Gross profit	15.5	-	15.5	12.5	-	12.5
Net operating expenses	(7.3)	(9.7)	(17.0)	(6.7)	(1.1)	(7.8)
Operating profit/(loss)	8.2	(9.7)	(1.5)	5.8	(1.1)	4.7

Net operating expenses comprise wholly of administrative costs.

4. OPERATING EXCEPTIONAL ITEMS

	2005 £m	2004 £m
The operating exceptional items comprise		
Continuing:		
Costs relating to proposed scheme of arrangement	9.7	1.1

The cash outflow relating to the above exceptional items was £4.4 million (2004: £0.9 million).

The tax effect of the operating exceptional item is a tax credit of £2.9 million (2004: £0.3 million).

5. NON-OPERATING EXCEPTIONAL ITEMS

	2005 £m	2004 £m
The non-operating exceptional items comprise		
Continuing:		
Profit on sale of Sutton Coldfield depot	0.3	-
Discontinued:		
Profit on sale of Botley and Washington sites	-	0.5

Because of the availability of tax losses, there was no material tax effect in either the current or comparative year of the above transactions.

NOTES TO THE FINANCIAL STATEMENTS

continued

6. DIRECTORS' EMOLUMENTS

	Note	2005 £000	2004 £000
The aggregate emoluments of the Directors of the parent Company were:			
Remuneration		598	471
Sums paid to third parties for Directors' services	28	102	103
Gains made on exercise of share options		–	3
		700	577
Highest paid director:			
Aggregate emoluments		325	277
Gains made on exercise of share options		–	1
Defined benefit pension scheme:			
Accrued pension entitlement at end of year		169	142

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 (2004: two) Directors under the Group's defined benefit pension scheme.

During the year no Directors (2004: two) exercised share options.

7. EMPLOYEES

	2005 Number	2004 Number
(a) Average number of employees (including Executive Directors) by business:		
Industrial Services	7,672	6,653
Head Office	14	12
	7,686	6,665
Geographically:		
United Kingdom	3,111	3,132
Continental Europe	541	510
Rest of the World	4,034	3,023
	7,686	6,665

	Note	2005 £m	2004 £m
(b) Employment costs, including Directors' emoluments:			
Wages and salaries		124.6	115.1
Social security costs		12.2	11.3
Other pension costs	27	2.1	2.0
		138.9	128.4

8. NET INTEREST PAYABLE

	2005 £m	2004 £m
Interest receivable	0.3	0.1
Interest payable		
Interest payable on bank loans and overdrafts	(0.7)	(1.1)
Interest payable on finance leases	(0.1)	–
Other interest payable	(0.2)	–
	(1.0)	(1.1)
Net interest payable	(0.7)	(1.0)

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2005 £m	2004 £m
Analysis of charge/(credit) in period – United Kingdom		
Corporation tax at 30.0% (2004: 30.0%)	–	–
Adjustment in respect of prior periods	(0.5)	–
Overseas tax		
Corporation taxes	1.2	1.0
Adjustment in respect of prior periods	0.3	(0.9)
Total current tax	1.0	0.1
Deferred tax – United Kingdom		
Origination and reversal of timing differences	(1.3)	0.7
Adjustment in respect of prior periods	(0.8)	(0.9)
	(2.1)	(0.2)
Deferred tax – Overseas		
Origination and reversal of timing differences	(0.1)	–
Adjustment in respect of prior periods	0.2	0.1
	0.1	0.1
Total deferred tax	(2.0)	(0.1)
Tax credit on profit on ordinary activities	(1.0)	–

The current tax charge for the period is higher (2004: lower) than the standard rate of corporation tax in the UK (30.0%). The differences are explained below:

	2005 £m	2004 £m
(Loss)/profit on ordinary activities before tax	(0.9)	5.8
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30.0% (2004: 30.0%)	(0.3)	1.7
Effects of:		
Adjustments to tax in respect of prior periods	(0.2)	(0.9)
Adjustment in respect of overseas tax rates	(1.9)	(0.3)
Tax on overseas dividends, no double tax relief available	1.2	–
Expenses non-deductible/(income not taxable)	0.2	–
Origination and reversal of timing differences	1.4	(0.7)
Deferred tax assets not recognised	0.3	–
Unrelieved overseas taxation	0.3	0.3
	1.0	0.1

NOTES TO THE FINANCIAL STATEMENTS

continued

10. EARNINGS PER ORDINARY SHARE

The basic earning per share calculation for the year ended 31 December 2005 is based on the earnings (after tax and dividends on the 3.5% cumulative preference shares) of £0.1 million (2004: £5.8 million) divided by the weighted average number of ordinary 25p shares of 67,183,916 (2004: 54,369,148).

The diluted earning per share calculation for the year ended 31 December 2005 is based on the earnings (after tax and dividends on the 3.5% cumulative preference shares) of £0.1 million (2004: £5.8 million) divided by the weighted average number of ordinary 25p shares of 67,939,577 (2004: 54,801,759).

Share options are considered potentially dilutive as the average share price during the year was above the average exercise prices.

	2005 Shares	2004 Shares
Basic weighted average number of shares	67,183,916	54,369,148
Adjustments:		
Weighted average number of outstanding share options	755,661	432,611
Diluted weighted average number of shares	67,939,577	54,801,759

An adjusted basic earnings per share has been calculated 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 £6.6 million (2004: £6.1 million) by the weighted average number of ordinary 25p shares of 67,183,916 (2004: 54,369,148). 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:

	Earnings £m	2005 EPS pence	Earnings £m	2004 EPS pence
Basic earnings per share	0.1	0.2	5.8	10.7
Adjustments:				
Operating exceptional items	9.7	14.4	1.1	2.0
Tax effect of operating exceptional items	(2.9)	(4.3)	(0.3)	(0.6)
Profit on sale of fixed assets	(0.3)	(0.5)	(0.5)	(0.9)
Adjusted basic earnings per share	6.6	9.8	6.1	11.2

	Earnings £m	2005 EPS pence	Earnings £m	2004 EPS pence
Diluted earnings per share	0.1	0.2	5.8	10.6
Adjustments:				
Operating exceptional items	9.7	14.3	1.1	2.0
Tax effect of operating exceptional items	(2.9)	(4.3)	(0.3)	(0.6)
Profit on sale of fixed assets	(0.3)	(0.5)	(0.5)	(0.9)
Adjusted diluted earnings per share	6.6	9.7	6.1	11.1

11. FIXED ASSETS

(a) Intangible assets (goodwill)		£m
Group		
Cost:		
At 1 January 2005		0.2
Additions		0.5
At 31 December 2005		0.7

Amortisation:

At 1 January 2005	0.1
Provided for the period	–
At 31 December 2005	0.1

Net book value:

At 31 December 2005	0.6
At 31 December 2004	0.1

During the year the group made a further investment of £0.5 million in RB Hilton Saudi Arabia Limited, a wholly owned subsidiary.

	Total £m	Land and buildings £m	Plant, machinery, fixtures and fittings £m
(b) Tangible assets			
Group			
Cost or valuation:			
At 1 January 2005	59.4	11.4	48.0
Exchange adjustments	1.7	(0.1)	1.8
Additions at cost	11.8	0.9	10.9
Disposals	(3.3)	(0.1)	(3.2)
At 31 December 2005	69.6	12.1	57.5
Depreciation:			
At 1 January 2005	36.0	3.3	32.7
Exchange adjustments	1.2	(0.1)	1.3
Provided during the year	6.0	0.3	5.7
Disposals	(3.0)	–	(3.0)
At 31 December 2005	40.2	3.5	36.7
Net book amounts:			
At 31 December 2005	29.4	8.6	20.8
At 31 December 2004	23.4	8.1	15.3

NOTES TO THE FINANCIAL STATEMENTS

continued

11. FIXED ASSETS continued

	2005 £m	Group 2004 £m
(i) The net book amount of land and building comprises:		
Freehold	7.5	7.2
Long leasehold	0.2	0.5
Short leasehold	0.9	0.4
	8.6	8.1

(ii) The net book amount of Group freehold land and buildings at 31 December 2005 includes £4.1 million (2004: £3.8 million) of depreciable assets.

(iii) The total cost or valuation of land and buildings comprises:

At cost	6.7	5.8
At 1992 professional valuation, frozen on implementation of FRS 15	5.4	5.6
	12.1	11.4

(iv) Historical cost figures for land and buildings:

Historical cost	9.9	9.1
Aggregate depreciation	(3.5)	(3.4)
Net book amounts based on historic cost	6.4	5.7

(v) Included in plant and machinery are the following assets which are held under finance leases:

Net book amount	2.4	0.7
Aggregate depreciation	1.6	1.5

The Company did not own any fixed assets at the end of the year (2004: £nil).

12. FIXED ASSET INVESTMENTS

Company	Total £m	Group undertakings Shares £m	Loans £m
Cost or valuation at 1 January 2005	72.5	68.8	3.7
Reversal of provision charged to profit and loss account	0.2	0.2	-
Unrealised gain on revaluation of investments in subsidiary undertakings	10.8	10.8	-
Cost or valuation at 31 December 2005	83.5	79.8	3.7

Included within the above are the following movements on provisions:	Total £m	Shares £m	Loans £m
At 1 January 2005	(38.3)	(33.0)	(5.3)
Reversal of provision charged to profit and loss account	0.2	0.2	-
Provision at 31 December 2005	(38.1)	(32.8)	(5.3)

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

	2005 £m	2004 £m
Cost	66.6	66.6
Aggregate amounts provided	(32.8)	(33.0)
Net book value	33.8	33.6

The principal subsidiary undertakings at 31 December 2005, which are all included in the consolidation are shown on page 56.

12. FIXED ASSET INVESTMENTS continued

Group	2005 £m	2004 £m
Interest in joint ventures		
Continuing operations		
– Share of gross assets	0.2	1.2
– Share of gross liabilities	–	(0.8)
	0.2	0.4

The movement in the interest in joint ventures is attributable to the Group's share of operating profit of joint ventures of £0.2 million (2004: £0.4 million).

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 has a 50% interest in Orascom Cape joint venture incorporated in Egypt for the provision of insulation and scaffolding services.

The Group has a 50% interest in Orascom Cape WLL, a joint venture incorporated in Bahrain for the provision of insulation services.

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

13. STOCKS

Group	2005 £m	2004 £m
Contract work in progress	13.7	16.3
Less: progress payments received and receivable	(9.2)	(10.9)
Contract balances	4.5	5.4
Raw materials and consumables	5.4	4.3
	9.9	9.7

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

14. DEBTORS

	Note	2005 £m	Group 2004 £m	2005 £m	Company 2004 £m
Amounts falling due within one year:					
Trade debtors		51.5	42.6	–	–
Amounts recoverable on contracts		11.4	8.0	–	–
Amounts owed by joint ventures		0.3	1.2	–	–
Other debtors		6.5	5.7	0.5	0.1
Payroll and other taxes, including social security		–	–	0.3	0.3
UK taxation		–	–	3.1	0.4
Prepayments and accrued income		1.9	2.0	0.5	1.0
Deferred tax	15	5.9	3.8	2.4	1.7
		77.5	63.3	6.8	3.5

NOTES TO THE FINANCIAL STATEMENTS

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15. DEFERRED TAXATION

	Note	2005 £m	Group 2004 £m	2005 £m	Company 2004 £m
Deferred taxation asset comprises:					
Short-term timing differences		0.7	0.4	0.5	0.2
Depreciation in excess of capital allowances		3.5	1.9	–	–
Losses		1.9	1.5	1.9	1.5
Overseas tax		(0.2)	–	–	–
Deferred taxation asset included in debtors		5.9	3.8	2.4	1.7
Deferred tax liability on pension asset	27	(2.2)	(1.6)	(2.4)	(1.6)
		3.7	2.2	–	0.1
Net deferred taxation asset/(liability):					
At 1 January		2.2	0.1	0.1	(1.4)
Amount transferred to current tax		–	0.2	–	–
Amount credited/(debited) to profit and loss account	9	2.0	0.1	0.5	(0.2)
Amount credited to statement of total recognised gains and losses		(0.5)	1.8	(0.6)	1.7
At 31 December		3.7	2.2	–	0.1

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 2005 (2004: £nil). The Group has an unrecognised deferred tax asset of £1.1 million (2004: £1.3 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 £7.4 million (2004: £5.6 million) subject to agreement with the tax authorities. The losses carried forward are in certain entities and can only be utilised against future profits of those entities.

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 (2004: £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.

The unrecognised deferred tax balance in the Company is £nil (2004: £nil).

16. CASH AT BANK AND IN HAND

The cash at bank and in hand for the Company and the Group contains £1.5 million (2004: £1.5 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 Limited under the sale agreement regarding the Cape Calsil business in 2002. This restriction expires on 12 September 2052 at which point any balance remaining in the account reverts to Cape PLC.

In the Netherlands there is a restriction on a £0.2 million (2004: £0.1 million) balance held to pay the tax authority and social security. In Azerbaijan there is a restriction on £nil (2004: £0.1 million) held as a bank guarantee.

Should the proposed scheme of arrangement ("Scheme") (see Chairman's Statement for further details) become effective, Cape Claims Services Limited ("CCS") will become the Scheme company in which asbestos-related liabilities and the associated Scheme funding will be accounted for.

There is a funding agreement between Cape PLC and CCS under which Cape PLC will provide CCS with initial funding of £40 million. Any funds held by CCS, which at 31 December 2005 was £nil, will be restricted for use primarily in settling the Group's UK asbestos-related liabilities.

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Note	2005 £m	Group 2004 £m	2005 £m	Company 2004 £m
Finance leases	18 & 23	0.9	0.2	–	–
Bank overdrafts	18 & 23	0.9	4.5	–	–
Short-term borrowings	23	1.8	4.7	–	–
Other creditors:					
Payments received on account	13	6.5	1.2	–	–
Trade creditors		17.3	16.4	–	–
Amounts owed to joint ventures		–	0.1	–	–
Payroll and other taxes, including social security		9.6	5.9	–	–
UK taxation		0.5	0.9	–	–
Overseas taxation		1.7	1.2	–	–
Other creditors		11.3	8.4	1.6	1.8
Accruals and deferred income		16.3	17.0	0.9	0.8
		63.2	51.1	2.5	2.6
		65.0	55.8	2.5	2.6

Other creditors include £0.2 million (2004: £0.1 million) in respect of the Group's share of the liabilities of its joint venture undertakings.

18. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Note	2005 £m	Group 2004 £m	2005 £m	Company 2004 £m
Long-term borrowings:					
Finance leases		1.7	0.3	–	–
Bank loans	23	–	5.2	–	–
Amounts owed to Group undertakings		–	–	19.4	41.6
		1.7	5.5	19.4	41.6

The bank loans and overdrafts of £0.9 million are secured over assets of the Continental European Group Companies (2004: £9.7 million secured by fixed and floating charges over the UK assets of the Group).

	Note	2005 £m	Group 2004 £m
The aggregate of secured finance leases is shown as:			
Amounts falling due within one year	17	0.9	0.2
Amounts falling due between one and two years		0.8	0.2
Amounts falling due between two and five years		0.9	0.1
		2.6	0.5

Finance leases are at the weighted average interest rate of 4.6% (2004: 6.2%) over an average period to termination of 3.0 years (2004: 1.7 years).

NOTES TO THE FINANCIAL STATEMENTS

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19. PROVISIONS FOR LIABILITIES AND CHARGES

Group	Total £m	Compensation for industrial disease (i) £m	Other provisions (ii) £m
At 1 January 2005	16.1	13.0	3.1
Charge to profit and loss account	14.2	4.6	9.6
Utilised in the year	(11.1)	(5.5)	(5.6)
At 31 December 2005	19.2	12.1	7.1

Company	Total £m	Compensation for industrial disease (i) £m	Other provisions (ii) £m
At 1 January 2005	6.0	3.8	2.2
Charge to profit and loss account	13.4	3.9	9.5
Utilised in the year	(8.4)	(2.8)	(5.6)
At 31 December 2005	11.0	4.9	6.1

- (i) The charge to profit for the compensation for industrial disease in the year net of insurance recoveries is £4.6 million (2004: net charge of £3.7 million). 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 two years. Insurance recoveries of £2.6 million (2004: £2.5 million) are receivable against certain of these claims and are included in the Balance Sheet under 'other debtors'. The basis for the provision and the contingent liability in respect of future settlements is described in note 26 (i).
- (ii) Other provisions relate to the provision made in this year for further costs associated with the proposed scheme of arrangement and the decision made in 2002 to sell and close the Calsil business.

20. SHARE CAPITAL

Group and Company	2005 £m	2004 £m
(a) Authorised		
Equity:		
105,683,762 ordinary shares of 25p each (2004: 73,663,439 ordinary shares of 25p)	26.4	18.4
Non-equity:		
nil 8.4% cumulative preference shares of £1 each (2004: 15,067)	-	-
250,000 3.5% cumulative preference shares of £1 each (2004: 250,000)	0.3	0.3
431,906,031 deferred shares of 1p each (2004: 431,906,031)	4.3	4.3
1 PLC Scheme Share of £1	-	-
	4.6	4.6
	31.0	23.0

	2005 £m	2004 £m
(b) Called up, fully paid and allotted		
Equity:		
83,523,010 ordinary shares of 25p each (2004: 54,421,880)	20.9	13.6
Non-equity:		
250,000 3.5% cumulative preference shares of £1 each (2004: 250,000)	0.3	0.3
431,906,031 deferred shares of 1p each (2004: 431,906,031)	4.3	4.3
	4.6	4.6
	25.5	18.2

On 15 July 2005 the Company allotted further share capital in connection with the proposed scheme of arrangement in respect of asbestos liabilities. 29,090,910 ordinary shares with an aggregate nominal value of £7,273,000 were issued for 110 pence per share (£32.0 million in aggregate).

10,220 ordinary shares of 25p each were issued upon exercise of the share options below.

20. SHARE CAPITAL continued

(c) Share options

The following share options in respect of ordinary shares were outstanding at 31 December 2005.

Savings related share option scheme	Date of grant	Number of shares	Price	Date of exercise
	7.5.99	41,873	68p	1.7.06

10,220 options were exercised during the year. All options must be exercised within six months of the above date.

Executive share option plan

	7.5.04	1,280,000	60p	7.5.07 to 7.5.14
	24.10.05	640,000	120p	24.10.08 to 24.10.15

Further details of the Executive Share Option Plan are shown in the Directors' report on page 20.

(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. The dividends are being deferred until the Company has distributable reserves from which to pay the dividends.

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.

(f) PLC Scheme Share

In order to protect the interests of creditors under the proposed scheme of arrangement ("Scheme"), a special voting share has been created in Cape PLC. The rights attaching to the share are designed to ensure that Scheme assets are only used to settle Scheme claims and ancillary costs and impose restrictions on dividends and other distributions by the Company.

The PLC Scheme Share will be held by Law Debenture Trust Corporation plc as an independent third party on trust for Scheme creditors.

Should the Scheme become effective and the share be issued it will have the following rights:

Rights to a distribution and return of capital: it will not confer any right to receive a distribution or return of surplus capital save that the holder will have the right to require the Company to redeem the share at par value on or at any time after the termination of the Scheme.

Voting rights: the share carries two votes for every vote which the holders of the other classes of shares in issue are entitled to exercise on any resolution proposing during the life of the Scheme to engage in certain activities specified in the Company's articles of association.

Other rights: the Company will not be permitted to engage in certain activities specified in the Company's articles of association without the prior consent of the holder of the share.

NOTES TO THE FINANCIAL STATEMENTS

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21. RESERVES

Group	Total £m	Share premium account £m	Revaluation reserve £m	Profit and loss account £m
At 1 January 2005	12.7	1.7	2.3	8.7
Currency translation differences net of tax on foreign currency net investments	1.4	–	–	1.4
Profit for the year	0.1	–	–	0.1
Issue of share capital (net of issue cost of £1.4 million)	23.3	23.3	–	–
UITF17 credit in respect of share options	0.1	–	–	0.1
Transfer on sale of properties	–	–	(0.1)	0.1
Actuarial gain on pension schemes	1.6	–	–	1.6
Movement on deferred tax relating to pension assets	(0.5)	–	–	(0.5)
At 31 December 2005	38.7	25.0	2.2	11.5

Company

At 1 January 2005	12.7	1.7	35.1	(24.1)
Unrealised gain on revaluation of investments in subsidiary undertakings	10.8	–	10.8	–
Loss for the year	(9.5)	–	–	(9.5)
Issue of share capital (net of issue cost of £1.4 million)	23.3	23.3	–	–
UITF17 credit in respect of share options	0.1	–	–	0.1
Actuarial gain on pension scheme	1.9	–	–	1.9
Movement on deferred tax relating to pension assets	(0.6)	–	–	(0.6)
At 31 December 2005	38.7	25.0	45.9	(32.2)

Group	2005 £m	2004 £m
Profit and loss reserve comprises:		
Profit and loss account excluding pension asset	6.2	5.1
Pension asset	5.3	3.6
Profit and loss reserve	11.5	8.7

The cumulative goodwill charged to reserves at 31 December 2005 was £9.2 million (2004: £9.2 million). This goodwill has been eliminated as a matter of accounting policy. It will be charged or credited in the profit and loss account on subsequent disposal of the business to which it relates.

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 £9.5 million (2004: £0.3 million) is dealt with in the financial statements of the Company.

22. CONSOLIDATED CASH FLOW STATEMENT

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

	2005 £m	2004 £m
Continuing operations		
Group operating (loss)/profit	(1.5)	4.7
Depreciation charge on fixed assets	6.0	5.2
Profit on disposal of fixed assets	–	(0.1)
Difference between pension charge and cash contributions	0.1	1.2
Decrease in stocks	–	0.2
Increase in debtors	(10.9)	(0.7)
Increase in creditors	10.7	1.3
Increase/(decrease) in provisions (excluding deferred tax)	3.0	(0.6)
Net cash inflow from continuing operations	7.4	11.2
Discontinued operations		
Decrease/(increase) in debtors	0.1	(0.1)
Decrease in creditors	(0.3)	(0.3)
Increase/(decrease) in provisions (excluding deferred tax)	0.1	(0.1)
Net cash outflow from discontinued operations	(0.1)	(0.5)
Total net cash inflow from operating activities	7.3	10.7

(b) Analysis of tax paid

UK corporation tax	0.1	(0.1)
Overseas tax	(1.0)	(0.7)
	(0.9)	(0.8)

(c) Reconciliation of movement in net funds/(debt)

	Note	At 31 December 2005 £m	Cash flow £m	New finance leases £m	Exchange movements £m	At 1 January 2005 £m
Cash at bank and in hand	16	27.2	18.9	–	0.4	7.8
Bank overdrafts	17	(0.9)	3.5	–	0.1	(4.5)
Debt due after 1 year	18	–	5.2	–	–	(5.2)
Finance leases	17 & 18	(2.6)	0.8	(2.8)	–	(0.5)
		23.7	28.4	(2.8)	0.5	(2.4)

The cash at bank and in hand above includes £1.7 million (2004: £1.8 million) for which there is a restricted use, as explained in note 16.

(d) Acquisitions and disposals

During the year the Group made a further investment of £0.5 million in RB Hilton Saudi Arabia Limited, a wholly owned subsidiary.

(e) 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-local currency commitments or anticipated transactions. 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 was one significant forward contract in existence to manage transactional exchange risk. This is described further in sub-note (g).

The Group policy in respect of foreign currency assets is twofold. 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 enter into additional external hedges. 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 euros 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 earned interest at fixed rates of between 0% and 4.75% (2004: fixed rates of between 0% and 2.25% and floating rates of 3% below base rate) on UK balances and at rates between 0% and 3% (2004: 0% to 3%) on international balances.

	2005 £m	2004 £m
Analysis of financial assets by major currency at 31 December:		
Azerbaijan Manat	0.1	–
Bahraini Dinar	0.1	0.5
Euro	1.1	2.2
Indian Rupee	–	0.1
Kazakhstan Tenge	0.2	–
Malaysian Ringgit	0.1	–
Maltese Lira	0.1	0.1
Omani Rials	0.5	0.3
Philippine Peso	0.1	0.1
Qatar Riyal	0.7	0.3
Russian Rouble	0.2	–
Saudi Arabian Riyal	0.5	0.2
Singapore Dollar	0.2	0.2
Thai Baht	0.3	0.3
Trinidad and Tobago Dollar	0.1	–
UAE Dirham	0.8	0.4
UK Sterling	20.2	1.6
United States Dollar	1.8	1.3
Other currencies	0.1	0.2
	27.2	7.8

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. Bank overdrafts are at a floating interest rate of between 1.5% and 1.75% (2004: 1.5%) over bank base rate and bank loans are at a floating rate of 2% over LIBOR (2004: 2% over LIBOR). Certain of the Group's provisions for liabilities and charges meet the definition of financial liabilities as shown in note 19. 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.

	2005 £m	2004 £m
Analysis of financial liabilities by major currency at 31 December:		
£ Sterling		
– bank loans and overdrafts	–	7.5
– finance leases	2.6	0.5
– non-equity interests	4.6	4.6
Euro bank overdraft	0.9	2.2
	8.1	14.8

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:

	Bank loans and overdrafts £m	Finance leases £m	Total £m
2005			
In one year or less, or on demand	0.9	0.9	1.8
In more than one year but not more than two years	–	0.8	0.8
In more than two years but not more than five years	–	0.9	0.9
	0.9	2.6	3.5

	Bank loans and overdrafts £m	Finance leases £m	Total £m
2004			
In one year or less, or on demand	4.5	0.2	4.7
In more than one year but not more than two years	5.2	0.2	5.4
In more than two years but not more than five years	–	0.1	0.1
	9.7	0.5	10.2

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

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:

	2005 Floating rate £m	2004 Floating rate £m
Expiring within one year	6.9	0.7
Expiring between one and two years	–	9.8
Expiring in more than two years	15.0	–
	21.9	10.5

The UK facilities, of which £18 million were undrawn at 31 December 2005 were renegotiated in January 2006. The new facilities provide £18 million of undrawn committed facilities renewable in 2008 and a further £15 million facility if the scheme of arrangement is approved.

(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)				
	GBP	US\$ £m	Euro £m	Other currencies £m	Total £m
2005					
Functional currency of Group operation:					
UK Sterling	–	0.6	0.9	0.3	1.8
UAE Dirham	0.2	0.1	–	–	0.3
Egyptian Pound	–	0.1	–	–	0.1
Philippine Peso	–	0.2	–	0.1	0.3
Qatar Riyal	–	0.4	–	–	0.4
Bahraini Dinar	–	0.1	–	–	0.1
Saudi Riyal	(0.1)	(0.3)	(0.2)	(0.1)	(0.7)
Russian Rouble	–	0.8	–	–	0.8
Total	0.1	2.0	0.7	0.3	3.1
2004					
Functional currency of Group operation:					
UK Sterling	–	(0.1)	1.3	0.3	1.5
UAE Dirham	–	0.1	–	0.1	0.2
Singapore Dollar	–	0.1	–	–	0.1
Philippine Peso	–	0.1	–	(0.1)	–
Azerbaijan Manat	–	0.4	–	–	0.4
Kazakhstan Tenge	–	0.9	–	–	0.9
Saudi Riyal	–	0.2	–	–	0.2
Omani Rial	–	0.4	–	–	0.4
Bahraini Dinar	–	0.1	–	–	0.1
Total	–	2.2	1.3	0.3	3.8

The amounts in the table take into account the effect of forward currency contracts entered into to manage currency exposures.

23. FINANCIAL INSTRUMENTS continued

(f) Fair values of financial assets and financial liabilities

In the Directors' opinion, the carrying value of all financial assets and liabilities, excluding derivative financial instruments analysed below, represents the 'fair value' of such assets and liabilities.

	Book value 2005 £m	Fair value 2005 £m	Book value 2004 £m	Fair value 2004 £m
Derivative financial instruments held to hedge the currency exposure on expected future sales:				
Forward foreign currency contract liability	-	(0.6)	-	(0.1)

Summary of methods and assumptions

Finance leases, non-equity interests and provisions	The fair value has been taken as the book value as the difference is not considered material.
Bank loans	The fair value of bank loans approximates to the carrying value reported in the balance sheet as they are at floating rate where payments are reset to market rates at intervals of less than one year.
Cash and bank overdrafts	The fair value of cash and bank overdrafts approximates to the carrying amount because of the short maturity of these instruments.
Forward foreign currency contracts	Fair value is normally based on market price of comparable instruments at the balance sheet date.

(g) Hedges

As explained on page 46, the Group's policy is to hedge against currency risk using forward currency contracts.

As shown in the table below, the Group had an unrecognised loss of £0.6 million at the year end in respect of forward currency contracts entered into on 30 November 2004 and 4 January 2005. These contracts were taken out to hedge against exposed currency risk for a long term project on Sakhalin Island. The forward contracts outstanding at 31 December 2005 involve selling a total of US\$15.4 million in exchange for sterling and US\$2.5 million in exchange for Euros at various value dates between March 2006 and June 2007.

	Gains £m	Losses £m	Unrecognised: Total net gains/ (losses) £m	Gains £m	Losses £m	Deferred: Total net gains/ (losses) £m
Gains and losses on hedges at 1 January 2005	-	(0.1)	(0.1)	-	-	-
Losses arising in the year	-	(0.5)	(0.5)	-	(0.2)	(0.2)
Gains and losses on hedges at 31 December 2005	-	(0.6)	(0.6)	-	(0.2)	(0.2)

(h) Financial instruments held for trading purposes

The Group does not trade in financial instruments.

24. CAPITAL COMMITMENTS

	2005 £m	Group 2004 £m
Capital expenditure authorised but not provided for in these accounts against which orders have been placed	1.4	0.2

NOTES TO THE FINANCIAL STATEMENTS

continued

25. COMMITMENTS UNDER OPERATING LEASES

	2005 £m	Group 2004 £m
Land and buildings		
Annual commitments under operating leases expiring:		
Within one year	0.1	0.1
Between one year and five years	0.3	0.2
After five years	0.2	0.3
	0.6	0.6
Other		
Annual commitments under operating leases expiring:		
Within one year	0.2	0.1
Between one year and five years	0.3	0.5
	0.5	0.6

26. CONTINGENT LIABILITIES

- (i) There is a history of industrial disease claims being lodged against the Group for a number of years. 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.

For the purposes of the proposed Scheme, the Directors commissioned independent actuaries to review and provide an estimate of certain of the Group's unpaid and uninsured UK asbestos-related claims as at 31 December 2004. Estimates of unpaid asbestos-related claims are inherently uncertain. Although the review did not take account of all potential claims against the Group, it covers, in the opinion of the Directors, the overwhelming majority of all UK asbestos-related claims likely to be made against the Group. The actuaries' best estimate of the aggregate projected discounted value, net of insurance recoveries, of the unpaid UK asbestos-related claims they reviewed is £119.4 million. This estimate is contained within a range of low and high estimates of £70.2 million and £240.3 million respectively, although there can be no certainty that the total cost of such claims will fall within the range of such estimates. The discount rate applied is five per cent. Claims not covered by the review include, inter alia, overseas claims and certain potential claims for reimbursement from insurers and others.

Given the wide range of the estimates and the significant degree of uncertainty surrounding them, the Directors take the view that the amount of the Group's overall obligation cannot be measured with sufficient reliability. Accordingly, the Group provides in the profit and loss account each period for the estimated liability in respect of industrial disease claims lodged and outstanding at the period-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 forty 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 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. 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.

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. However, no such claims have been received to date.

26. CONTINGENT LIABILITIES continued

- (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) The Company's subsidiary, Cape Industrial Services Limited, together with other companies involved in offshore contracting work, is a defendant in proceedings before the Employment Tribunal under the Working Time Regulations 1998 brought by a small number of employees claiming that their paid annual leave should be taken from scheduled working time. If successful, the claimants (and other affected employees who are not party to the proceedings) could be entitled to compensation. Under the terms of certain of its contracts, Cape Industrial Services Limited would be entitled to additional payment from its clients. There is significant uncertainty as to whether the claimants will succeed and, if they do, as to the number of affected employees, the amount of any compensation that would be awarded and the extent to which it could be recovered under relevant contracts.
- (v) 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.
- (vi) 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 2004, 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 1.25% higher than general earnings inflation and 3% higher than the annual increase in present and future pensions. The valuation showed that the defined benefit scheme had a market value of £97.5 million and was 104% funded.

The pension expense in the period for the defined contribution pension scheme of £0.4 million (2004: £0.3 million) equalled the Group contributions to the scheme. 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 2005 and adjusted by qualified independent actuaries for the assumptions used as specified below:

Group and Company

As at 31 December	2005	2004	2003
Rate of increase in pensionable salaries	3.90%	3.90%	3.75%
Rate of increase in pensions in payment	2.90%	2.90%	2.75%
Discount rate	4.70%	5.30%	5.40%
Inflation	2.90%	2.90%	2.75%

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:

Group	Note	2005 % p.a.	£m	2004 % p.a.	£m	2003 % p.a.	£m
Equities		7.00%	44.7	7.50%	44.5	7.50%	46.4
Bonds		4.04%	71.0	4.52%	60.0	4.78%	55.0
Total market value of assets			115.7		104.5		101.4
Present value of scheme liabilities			(108.2)		(99.3)		(90.6)
Surplus in the schemes			7.5		5.2		10.8
Related deferred tax liability	15		(2.2)		(1.6)		(3.4)
Net pension asset			5.3		3.6		7.4

Company

Equities		7.00%	44.1	7.50%	43.2	7.50%	45.3
Bonds		4.04%	70.5	4.52%	60.1	4.78%	55.0
Total market value of assets			114.6		103.3		100.3
Present value of scheme liabilities			(106.7)		(98.0)		(89.8)
Surplus in the schemes			7.9		5.3		10.5
Related deferred tax liability	15		(2.4)		(1.6)		(3.3)
Net pension asset			5.5		3.7		7.2

Analysis of amount charged to operating profit

Year to 31 December	2005 £m	Group 2004 £m	2005 £m	Company 2004 £m
Current service cost	0.9	1.2	0.9	1.1
Total operating charge	0.9	1.2	0.9	1.1

Analysis of amount credited to other finance income

Year to 31 December	2005 £m	Group 2004 £m	2005 £m	Company 2004 £m
Expected return on pension scheme assets	5.9	5.9	5.9	5.9
Interest on pension scheme liabilities	(5.1)	(4.7)	(5.1)	(4.7)
Net return	0.8	1.2	0.8	1.2

Analysis of amount in statement of total recognised gains and losses

Year to 31 December	2005 £m	Group 2004 £m	2005 £m	Company 2004 £m
Actual return less expected return on pension scheme assets	8.9	4.1	8.9	4.0
Experience (loss)/gain arising on the scheme liabilities	(0.1)	0.5	–	0.6
Changes in assumptions underlying the present value of scheme liabilities	(7.2)	(10.2)	(7.0)	(10.0)
Actuarial gain/(loss) in statement of total recognised gains and losses	1.6	(5.6)	1.9	(5.4)

27. PENSIONS continued

Year to 31 December	2005 £m	Group 2004 £m	2005 £m	Company 2004 £m
Movement in surplus during the year				
Surplus in the scheme at the beginning of the year	5.2	10.8	5.3	10.6
Movement in the year:				
Service cost	(0.9)	(1.2)	(0.9)	(1.1)
Contributions paid	0.8	–	0.8	–
Impact of settlements and curtailments	–	–	–	–
Other finance income	0.8	1.2	0.8	1.2
Actuarial gain/(loss)	1.6	(5.6)	1.9	(5.4)
Surplus in the scheme at the end of the year	7.5	5.2	7.9	5.3

	2005	2004	2003	Group 2002	2005	2004	2003	Company 2002
History of experience gains and losses								
Difference between the actual and expected return on scheme assets:								
Amount (£m)	8.9	4.1	5.4	(16.1)	8.9	4.0	5.4	(15.9)
Percentage of scheme assets	7.7	3.9	5.3	(16.9)	7.7	3.9	5.4	(16.9)
Experience gains and losses on scheme liabilities:								
Amount (£m)	(0.1)	0.5	–	0.7	–	0.6	–	0.9
Percentage of scheme liabilities	–	0.5	–	0.8	–	0.6	–	1.1
Total amount recognised in statement of total recognised gains and losses:								
Amount (£m)	1.6	(5.6)	0.6	(15.4)	1.9	(5.4)	0.6	(15.0)
Percentage of scheme liabilities	1.5	5.6	0.7	(18.2)	1.8	5.5	0.7	(17.9)

One of the Group's subsidiaries in the Netherlands operates two defined benefit schemes. The first one is an industry-wide defined benefit scheme. This scheme has been accounted for as a defined contribution scheme as the company is unable to identify its share of the underlying assets and liabilities and, therefore, the surplus or deficit arising under FRS 17.

The second defined benefit scheme is operated in association with an insurance company. There are only five contributing participants in this scheme and the employer's funding is up to date. This scheme has not been accounted for under FRS 17, however the impact is not considered to be material for the Group accounts.

The pension expense in the year for these two schemes was £0.6 million (2004: £0.6 million).

28. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption available under FRS 8 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 £102,000 (2004: £78,000) 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.

During the year £nil (2004: £25,000) was paid to The Sean O'Connor Consultancy Limited for management services provided by Sean O'Connor in connection with his duties as a Non-Executive Director. During the year £nil (2004: £15,000) was paid to Trillium Venture Developments Limited for consultancy services provided by Sean O'Connor in the year.

During the year Cape Modern pty, a 51% joint venture undertaking purchased goods totalling £nil (2004: £0.9 million) from the Group. There was a £nil balance (2004: £nil) owed by Cape Modern pty at the year end.

During the year Cape Perlite Systems, a 51% joint venture undertaking purchased goods totalling £nil (2004: £nil) from the Group. There was a £0.2 million balance (2004: £0.2 million) owed by Cape Perlite Systems at the year end.

During the year Orascom Cape (WLL), a 50% joint venture, was provided with a working capital loan from various Group undertakings to complete projects undertaken. There was a £nil (2004: £0.3 million) balance owed by Orascom Cape (WLL) at the year end.

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

FIVE YEAR FINANCIAL SUMMARY

	Note	Year ended 31 December 2005 £m	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m	Year ended 31 December 2002 £m	Year ended 31 December 2001 £m
Profit and loss account						
Turnover	(i)					
Continuing operations		261.8	238.9	228.3	191.7	217.4
Discontinued operations		–	–	3.6	33.1	49.2
Group turnover		261.8	238.9	231.9	224.8	266.6
Group operating profit/(loss) before exceptional items						
Continuing operations		8.2	5.8	3.6	5.0	4.2
Discontinued operations		–	–	(0.1)	(0.6)	(5.3)
		8.2	5.8	3.5	4.4	(1.1)
Share of operating profit/(loss) in joint ventures						
Continuing operations		0.2	0.4	0.3	0.1	(0.2)
Discontinued operations		–	–	–	(0.2)	(3.0)
		0.2	0.4	0.3	(0.1)	(3.2)
Operating exceptional items						
Continuing operations		(9.7)	(1.1)	(0.4)	10.5	(13.5)
Discontinued operations		–	–	0.9	2.5	(15.9)
		(9.7)	(1.1)	0.5	13.0	(29.4)
Total operating (loss)/profit: group and share of joint ventures						
Continuing operations		(1.3)	5.1	3.5	15.6	(9.5)
Discontinued operations		–	–	0.8	1.7	(24.2)
		(1.3)	5.1	4.3	17.3	(33.7)
Non operating exceptional items						
Continuing operations		0.3	–	–	–	–
Discontinued operations		–	0.5	1.7	(3.3)	–
		0.3	0.5	1.7	(3.3)	–
(Loss)/profit on ordinary activities before interest		(1.0)	5.6	6.0	14.0	(33.7)
Net interest payable		(0.7)	(1.0)	(1.4)	(1.7)	(1.9)
Other finance income	(ii)	0.8	1.2	0.9	2.3	3.2
(Loss)/profit on ordinary activities before taxation		(0.9)	5.8	5.5	14.6	(32.4)
Tax on profit/(loss) on ordinary activities		1.0	–	0.4	(0.3)	(0.3)
Profit/(loss) for the year		0.1	5.8	5.9	14.3	(32.7)
Compensation for industrial disease	(iii)	(4.6)	(3.7)	(3.8)	(2.4)	(3.7)
Earnings/(loss) per ordinary share – Basic		0.2p	10.7p	10.9p	26.2p	(60.0)p
Dividend per ordinary share		0.0p	0.0p	0.0p	0.0p	0.0p

		Year ended 31 December 2005 £m	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m	Year ended 31 December 2002 £m	Year ended 31 December 2001 £m
Balance sheet	Note					
Employment of capital						
Fixed assets		30.2	23.9	22.5	30.9	37.4
Pension asset		5.3	3.6	7.4	7.3	17.5
Other net assets/(liabilities)		5.0	5.8	5.2	5.2	(8.3)
		40.5	33.3	35.1	43.4	46.6
Capital employed						
Capital and reserves		64.9	30.9	29.7	24.1	20.5
Net borrowings		(23.7)	2.4	5.4	19.3	26.1
		40.5	33.3	35.1	43.4	46.6
Net assets per ordinary share	(iv)	77p	57p	55p	44p	38p

Notes:

- (i) Turnover includes the Group's share of the turnover of the joint ventures.
- (ii) Other finance income is 'deemed' income from the return on the pension asset.
- (iii) Compensation for industrial disease represents amounts charged to the profit and loss account. It is before additional operating exceptional items relating to the proposed scheme of arrangement and the South African litigation.
- (iv) Net assets per ordinary share has been calculated on the basis of deferred shares having no real value.

PRINCIPAL SUBSIDIARY UNDERTAKINGS

as at 31 December 2005

CAPE INDUSTRIAL SERVICES

Wakefield

Acting Managing Director: Mike Reynolds
Telephone +44 (0)1924 871000

The provision of specialised services to major industrial groups in the UK and internationally, primarily 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.

CLETON CONTINENTAL EUROPE BV

Vlaardingen, The Netherlands

Co-ordination of industrial services activities in Continental Europe.

CAPE EAST EC (INCORPORATING RB HILTON LIMITED)

Bahrain

Co-ordination of industrial services activities in the Middle East.

CAPE EAST PRIVATE LIMITED

Singapore

Co-ordination of industrial services activities in the Asia Pacific region.

Notes:

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. The subsidiary undertakings listed are wholly but indirectly owned.
3. Of the subsidiary undertakings listed, only Cape Industrial Services Limited and RB Hilton Limited are incorporated and registered in England and Wales.
4. There are no subsidiary undertakings that have been excluded from the consolidation.

DIRECTORS, OFFICERS AND ADVISERS

MK May²³⁴
Chairman

PR Ainley
Managing Director

MT Reynolds
Acting Managing Director
and Group Finance Director

JA Pool¹²³⁴⁵
D McManus¹²³⁴
Non-executive Directors

- 1 Non-executive
- 2 Audit Committee
- 3 Remuneration Committee
- 4 Nomination Committee
- 5 Senior Independent
Non-Executive Director

BW Whitworth
Group Company Secretary

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

Cape PLC is a company
registered in England and
Wales

Registered Number: 40203

INDEPENDENT AUDITORS
PricewaterhouseCoopers LLP
Benson House
33 Wellington Street
Leeds LS1 4JP

SOLICITORS
Travers Smith
10 Snow Hill
London EC1A 2AL

BANKERS
Barclays Bank PLC
PO Box 44
54 Lombard Street
London EC3V 9EX

REGISTRARS
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

**NOMINATED ADVISER
AND STOCKBROKER**
Evolution Securities Limited
100 Wood Street
London EC2V 7AN

OTHER SUBSIDIARY UNDERTAKINGS

as at 31 December 2005

The following companies' ultimate parent company is Cape PLC:

UK

Cape Building Products Limited
Cape Calsil Group Limited
Cape Calsil International Limited
Cape Calsil Systems Limited
Cape East Limited
Cape East (UK) Limited
Cape Industrial Services Europe Limited
Cape Industrial Services Group Limited
Cape Overseas Limited
Cape Perlite Systems Limited
Predart Limited

UK Dormant

Altitude Scaffolding Limited
Aspectadd Limited
Capasco Limited
Cape Boards Limited
Cape Calsil Limited
Cape Claims Services Limited
Cape Contracts Limited
Cape Contracts International Limited
Cape Contracts Overseas Limited
Cape Defined Pension Trustees Limited
Cape Durasteel Limited
Cape Environmental Services Limited
Cape Estates Limited
Cape Fire Protection Products Limited
Cape Hire Limited
Cape Industrial Services Holdings Limited
Cape Industrial Training Services Limited
Cape Industries Limited
Cape Insulation Limited
Cape Industrial Products Limited
Cape Insulation Products Limited
Cape Mechanical Insulation Limited
Cape Mechanical Services Limited
Cape Painting Contractors Limited
Cape Pension Trustees Limited
Cape Scaffolding Limited
Cape Specialist Coatings Limited
Cape Security Services Limited
CISG Limited
Darlington Insulation Company Limited
Datadeep Limited
Duffy & McGovern Maintenance Services Limited
HPC Coatings Limited
Investable Limited
Joseph Nadin Limited
Kennedy's Scaffolding Limited
Maintenance Insulation Limited
RB Hilton Refractories Limited
RBH Limited
Somewatch Limited
Somewin Limited
Stockfocal Limited
T.A.P. Ceilings Limited
Wildboost Limited
Winfield Insulation Services Limited

INTERNATIONAL

Australia

Cape Industrial Services (Australia) Pty Ltd
Cape Contracts International (WA) Pty Ltd

Bahrain

Oрасom Cape WLL

Belgium

Cleton Insulation Belgium NV

Brunei

Cape International Sdn Bhd

Cayman Islands

Cape Cayman (No.2) Ltd

Egypt

Cape East Egypt LLC

Germany

Cleton Isolierungen GmbH

India

Cape Industrial Services Private Ltd

Indonesia

PT Cape East Meiso Ltd

Kazakhstan

Cape Kazakhstan LLC

Malaysia

Cape East Malaysia Sdn Bhd

Malta

Cape East (Malta) Limited

Netherlands

Cleton Insulation BV
Cleton Maintenance BV
Cape Milieutechniek BV
Fibertec Europe BV
Cape Netherlands BV
Cape Marine & Offshore BV

Oman

Cape East & Partners LLC

Philippines

Cape East Philippines Inc.

Russia

Cape Industrial Services LLC
Cape Industrial Services (Sakhalin) LLC

Saudi Arabia

RB Hilton Saudi Arabia Ltd
Cape Industrial Services Ltd

Thailand

Cape East (Holdings) Ltd
Cape East (Thailand) Ltd

UAE

Cape East LLC

International Dormant

Belgium

Cape Calsil Belgium SPRL

France

Cape France Holdings SARL
Cape Calsil France SA

Germany

Cape Boards Siborit GmbH
Cape Entsorgungs-technik GmbH
Minora Luneburg GmbH
CSP GmbH
Cape Calsil Deutschland GmbH

Hong Kong

Cape Asia Pacific Ltd

Malaysia

Cape Asia Pacific Sdn Bhd

Singapore

Cape Asia Pacific Pte Ltd

Spain

Cape Ailsamientos S.L

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the one hundred and thirteenth Annual General Meeting of Cape PLC ('Company') will be held at the offices of Travers Smith at 10 Snow Hill, London EC1A 2AL on 19 June 2006 at 11.00 am when the following business will be considered:

ORDINARY RESOLUTIONS

To consider and, if thought fit, to pass the following resolutions, each of which will be proposed as ordinary resolutions:

Resolution 1

To receive the audited accounts and the reports of the Directors and the auditors thereon for the year ended 31 December 2005.

Resolution 2

To reappoint Mr MK May, who retires by rotation as a Director of the Company.

Resolution 3

To reappoint PricewaterhouseCoopers LLP as auditors of the Company, to hold office from the conclusion of the meeting until the conclusion of the next general meeting at which accounts are laid before the Company.

Resolution 4

To authorise the Directors to set the auditors' remuneration.

SPECIAL RESOLUTIONS

To consider and, if thought fit, to pass the following resolutions as special resolutions:

Resolution 5

To approve the rules ("Rules") of the Cape PLC 2006 Share Save Plan ("Plan") and authorise the Directors of the Company to do all acts and things which they may consider necessary or expedient to give effect to the Plan (including, but not limited to, making any amendments to the Rules, including any that are required by the Inland Revenue where such amendments are required in order to obtain Inland Revenue approval to the Plan).

Resolution 6

To authorise the Directors of the Company to be counted in the quorum and to vote and that their votes may be counted on any matter at any shareholders', Directors', or committee meeting connected with the Plan notwithstanding that they may be interested in the same (except that no Director may be counted in the quorum or vote on any matter solely concerning his own participation) and any prohibitions in this regard contained in the articles of association of the Company be and are suspended and relaxed to that extent.

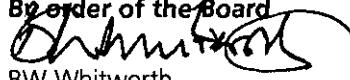
Resolution 7

Pursuant to section 95(1) of the Act, and in substitution for all existing authorities under that section, the Directors be and are generally empowered to allot equity securities (within the meaning of section 94(2) of the Act) for cash pursuant to the authority conferred by resolution D passed on 11 July 2005 as if section 89(1) of the Act did not apply to such allotment, provided that such power shall be limited to:

- (i) the allotment of equity securities in connection with an offer (whether by way of a rights issue, open offer or otherwise) to the holders of ordinary shares in the capital of the Company in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them, subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange;
- (ii) the allotment of equity securities in the form of share options up to an aggregate nominal amount of £640,000 in connection with the Company's existing Executive Share Option Scheme;
- (iii) the allotment of equity securities in the form of share options up to an aggregate amount of £500,000 in connection with the Plan;
- (iv) the allotment of equity securities for cash (otherwise than pursuant to sub-paragraphs (i), (ii) and (iii) above) up to an aggregate nominal amount of £1,044,038 (representing five per cent of the issued ordinary share capital of the Company at 20 April 2006,

and (unless previously revoked, varied or renewed) shall expire on 18 June 2011, save that the Company may make an offer or agreement before the expiry of this power which would or might require equity securities to be allotted for cash after such expiry and the Directors may allot equity securities for cash pursuant to any such offer or agreement as if the power conferred by this resolution had not expired.

By order of the Board



BW Whitworth
Secretary
20 April 2006

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

Registered Number: 40203

Notes:

1. This notice is sent for information only to the holders of share options.
2. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those members registered in the register of members of the Company as at 11.00 am on 17 June 2006 or, in the event that the meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after 11.00 am on 17 June 2006 or, in the event that the meeting is adjourned after 48 hours before the time of any adjourned meeting shall be disregarded in determining the rights of any person to attend or vote at the meeting.
3. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. The appointment of a proxy will not preclude a member from attending and voting in person at the meeting if he so wishes.
4. A proxy form is enclosed. To be valid, it must be deposited at the offices of the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, by 11.00 am on 17 June 2006 (or, in the event that the meeting is adjourned, no later than 48 hours before the time of any adjourned meeting).
5. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.
6. The Company has not entered into a service contract of more than one year's duration with any Director or with provisions for predetermined compensation on termination of an amount which equals or exceeds one year's salary and benefits in kind.
7. The following information is available for inspection during normal business hours at the registered office of the Company (excluding weekends and public holidays). It will also be available for inspection at the place of the Annual General Meeting from 9.30 am on the day of the meeting until the conclusion of the meeting:
 - (a) the register of interests of Directors and their connected persons in the share capital of the Company; and
 - (b) copies of the Directors' service contracts.
8. Biographical details of the Director offering himself for re-election at the meeting are set out on page 19.