

740203

CAPE



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COMPANIES HOUSE		10/10/02
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COMPANIES HOUSE		19/09/02

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Directors and Advisers

P Sellars

Chairman (1,3,4,5)

I D Maclellan

Chief Executive (4)

I R Widdowson

Finance Director

P R Ainley

Managing Director
Cape Industrial Services

S S O'Connor (1,2,3,4,5)

J A Pool (1,2,3,4,5)

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

Secretary and

Registered Office

S H Smith
Iver Lane, Uxbridge
Middlesex UB8 2JQ

Auditors

PricewaterhouseCoopers
Harman House,
1 George Street
Uxbridge UB8 1QQ

Solicitors

Davies Arnold Cooper
6-8 Bouverie Street
London EC4Y 8DD

Herbert Smith
Exchange House,
Primrose Street
London EC2A 2HS

Bankers

National Westminster Bank PLC
30 North Audley Street
London W1A 4UQ

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

Registrars

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

Stockbrokers

Rowan Dartington & Co Ltd
Colston Tower
Colston Street
Bristol BS1 4RD

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

Chairman's Statement

In November 2001 Montpellier Group Plc raised its investment in Cape PLC to 29.9% as a result of a purchase of shares from Rutland Trust PLC. Rutland Trust's shareholding in Cape PLC reduced from 25% to 14.7%. At the same time I was appointed Chairman of Cape PLC, replacing Michael Langdon.

The past two years have been very difficult for Cape PLC. We are in the process of reorganising the Group to end many of the uncertainties of the past; to extricate the Group from the burden of the South African litigation; to realise cash for the Group from the disposal of the Manufacturing Division (Cape Calsil); and to reduce substantially the Group's borrowings.

As the first part of the restructuring, a circular for the proposed disposal of the Cape Calsil business will be issued at the same time as the 2001 financial statements and will provide you with information regarding the Proposal, to explain why your Directors consider the Proposal to be in the best interests of shareholders as a whole and to seek your approval of the Proposal. The circular also contains a notice convening an Extraordinary General Meeting of the Company to be held at the offices of Cape PLC, Iver Lane, Uxbridge, Middlesex UB8 2JQ at 10.00 a.m. on 11 September 2002 at which the Resolutions required to authorise the Board to proceed with the Proposal will be put to shareholders.

The Board intends in due course to send a further circular or circulars to Shareholders giving details of other parts of the restructuring, namely the South African Settlement and proposals for the future of the Industrial Services Division.

South African Settlement

In 1997, proceedings were commenced against Cape PLC in the English courts by five South African residents who claimed they suffered injury as the result of asbestos mining activities carried on by former Cape Group companies. By 2001 the number of claimants had risen to over 7,500 many of whom were supported by British Legal Aid. In July 2000 the House of Lords agreed to allow the claimants to pursue their actions in the English courts. The trial of lead cases was due to commence in the High Court in April 2002.

Discussions in pursuit of a settlement continued between Cape PLC's representatives and those of the claimants in the South African Litigation throughout the late autumn of 2001 and culminated in the Settlement Agreement being signed on 21 December 2001. The terms of the Settlement Agreement are that Cape PLC will pay £20 million over a period of 10 years to a trust set up in South Africa to compensate not only those claimants who are parties to the South African Litigation but also future sufferers from asbestos related disease who can prove that their disease is likely to have resulted from the Group's operations in South Africa. Of the £20 million, £10 million was due to be paid by the 30 June 2002 and annual payments of £1 million for 10 years thereafter. In addition, a contribution will be paid of £2.25 million to the legal costs of the claimants and this is anticipated to be recovered from the Group's insurers. The South African government has agreed not to seek to recover from the Group the costs of environmental remediation arising from the Group's previous mining activities in South Africa.

It was originally intended that a South African Trust would be formed and the settlement completed by 30 June 2002. Owing to delays in the restructuring, the date for completion has been extended by agreement, and, if necessary, further extensions may be negotiated.

Disposal of Cape's manufacturing business - Cape Calsil

On 22 July 2002 Cape PLC announced that it had exchanged contracts for the sale of the major part of its manufacturing division, Cape Calsil, to Promat Glasgow Limited ("Promat") a subsidiary of Promat International NV, a part of the Belgian Etex group. Cape Calsil specialises in the production and sale of systems for passive fire protection and high temperature insulation.

The proceeds from the sale will be used to repay bank debt.

Details of the sale of the Cape Calsil Business

Cape Calsil has entered into a conditional agreement for the sale of certain of the business and assets of the manufacturing division comprising of:

- all the business and assets of the manufacturing and all other activities at the Glasgow factory
- the UK sales, marketing, finance and support activities relating to the Cape Calsil business
- certain other items of plant and machinery relating to the manufacture of the Dalfratex, DXP and TL products at the Caerphilly factory
- the business and assets of each of the overseas sales and distribution operations in France, Germany, Singapore, Hong Kong, Malaysia and the Netherlands.

Under a transitional agreement, Cape Calsil will continue to manufacture product at the Uxbridge plant on behalf of Promat for a period of up to 9 months. The residual assets after completion will comprise mainly the properties at Uxbridge and Caerphilly, which will be sold as soon as practicable.

The sale is conditional, amongst other things, on receiving merger clearance in the UK and other European countries and the consent of Cape's shareholders. The consideration for the sale is £9.2 million, subject to an adjustment by reference to the value of certain assets and to the extent that any apportionment needs to be made of pre-payments and creditors. On completion of the sale, £1.5 million of the consideration will be placed in a retention account to be released over a six month period according to the amount of product made available to Promat during the 6 month transitional period after completion. £1.3 million will be placed in a trust account which could remain open until 2052 and which is to be used solely to meet possible future industrial disease claims from employees who transfer to Promat as part of the sale. Cape could be obliged to pay up to a further £0.8 million of the consideration it will receive at completion into the trust account in the event that employees from the Uxbridge site transfer to Promat.

Cape Calsil has given Promat warranties and indemnities in respect of the Cape Calsil business. The liability of Cape Calsil pursuant to the warranties is capped at the amount of the consideration and there are individual and aggregate thresholds on Promat's ability to make claims under the warranties. In view of the historic activities carried on by the Cape Calsil business and the ongoing risks in relation to industrial disease claims, Cape Calsil has agreed to indemnify Promat and its group against asbestos related or other environmental liabilities.

Cape has guaranteed the obligations of Cape Calsil under the agreements. Cape will covenant not to undertake any act which will cause it to be unable to meet claims under the guarantee. Promat International NV has entered into an agreement to guarantee certain specific obligations of Promat to pay amongst other things the consideration and the rent payable under the sub-lease of the Glasgow factory.

The employees at the Glasgow site, certain manufacturing employees at Caerphilly, the sales, marketing, finance and support employees at Uxbridge, Washington and Wellingborough and the employees in the overseas operations will transfer to Promat or a member of Promat's group.

Banking

Cape PLC has for some years required a high level of borrowings. The Board intends that the disposal of the Cape Industrial Services Division (CIS) and Cape Calsil, and the sale of further assets should eliminate the current bank borrowings within 18 months.

On the basis that there is a flotation of CIS, outline agreement has been reached with the Group's existing bankers for new facilities of up to £12.5 million expiring on 31 December 2003, with repayments matched to proceeds from anticipated asset sales. The facilities are conditional on the following:

- raising £30 million from the partial flotation of CIS. This transaction would be dependent upon shareholders' approval.
- the sale of the Cape Calsil business to Promat International NV. This transaction is dependent upon shareholders' approval.
- shareholders' approval being obtained for the settlement of the South African Litigation.
- satisfactorily completion of legal documentation in respect of the above matters.

If the flotation of CIS takes place, it is anticipated that CIS will be separately financed, without any reliance on Cape, with new bank facilities secured on the assets of CIS.

If, for whatever reason, the flotation of CIS does not proceed, the Board has an alternative plan of continuing to run the Industrial Services Division wholly within the Group and re-negotiate the South African Settlement. The Group's banks have indicated their willingness to consider continuing the provision of sufficient working capital facilities to allow such an alternative plan to be implemented.

The Company needs the facilities to meet its potential liability to pay £10 million under the conditional agreement for the South African Settlement detailed in Note 25 to the financial statements. In addition the Board anticipates being able to fund future settlements of other industrial disease claims from cash flows from operations and investments. As also explained in Note 25, an adverse outcome to the South African Litigation or an adverse change from the timing or quantum of past claims experience could have a material effect on the financial position of the Group.

The Group's banks have agreed to release their security over the relevant Cape Calsil assets to allow the sale to Promat to complete.

The Group is dependent on the continuing support of its bankers. The bank facilities are repayable on demand and, were support to be withdrawn, the Group would not be able to continue trading. However, the Directors, following extensive discussions with the banks, believe that the banking facilities will be confirmed. Accordingly, they believe that the Group will have sufficient working capital for its present requirements, that is for at least 12 months from the date of this document.

2001 Results

The Group loss before operating exceptional items was £1.8 million (2000: loss £1.7 million) on turnover of £266.6 million (2000: £239.1 million). The Group loss on ordinary activities before tax was £32.4 million (2000: loss £15.0 million) after making an exceptional charge of £31.9 million (2000: £15.7 million). The charge is made up of £13.5 million representing the net present value of the conditional settlement to be made to the South African claimants less a release of provisions for future legal fees, and £18.4 million relating to a write down in the value of the manufacturing assets.

I am pleased to say that Cape's principal business, Cape Industrial Services, had another good year in 2001 with operating profits of £11.0 million. Trading this year is up to expectations. The Manufacturing Division, Cape Calsil, has continued to under-perform with operating losses of £5.8 million. A further exceptional charge of £18.4 million has been made against the Division to reflect the reduction in the estimated underlying value of the Division's assets. (See Note 4 to the financial statements).

With regard to industrial disease claims, a conditional settlement has been agreed with the claimants from South Africa. This, in turn, requires the recognition of the anticipated cost by way of an exceptional charge of £17.9 million in the financial statements. This is partially offset by the release of legal provisions no longer required of £4.4 million.

Financing the Cape Calsil losses, the Cape Calsil reorganisation and the industrial disease claims and corresponding litigation has had a negative impact on the net assets and financing resources of the Group. Following the exceptional charges created in the year 2001, the net assets of the Group have been reduced to £3.0 million. This reduction in net assets has been partially offset by the introduction of a pension asset of £17.5 million, following adoption of the terms of Financial Reporting Standard 17 in full by the Group. The net cash outflow of the Group in the year was £8.6 million.

As a result of the exceptional charges, the Board will not be recommending the payment of a dividend.

Chairman's Statement continued

Industrial Services Division

	2001	2000
	£m	£m
Turnover	215.1	185.9
Operating profit*	10.8	11.0
Net assets*	37.9	35.0

*including joint ventures

The Industrial Services Division had another successful year in 2001, with turnover increasing by 16%. This was due to a generally high level of maintenance expenditure by clients and significant one-off projects in the UK and Middle East operations. Operating profit was slightly down on last year due to margin erosion and the impact of bad debts incurred on the UK subsidiaries of Enron.

Throughout the year, the Division has continued to develop its reputation for delivering a very high safety performance. This was evidenced by the award of two Swords of Honour by the British Safety Council for exceptional safety management performance.

Our Dutch business, Cleton Insulation, launched a scaffolding business during the year. We have also continued to invest in the expansion of the Middle and Far East operations. During the year, Cape Perlite Systems (which provides specialist insulation using volcanic glass rock for liquid natural gas [LNG] cryogenic applications) won projects in Singapore, Spain and Australia.

Manufacturing Division

	2001	2000
	£m	£m
Turnover	47.8	50.0
Operating (loss) before operating exceptional items*	(5.8)	(4.1)
Exceptional items*	(18.4)	(8.7)
Net assets*	19.4	32.7

*Including joint ventures

The Cape Calsil Division has continued to incur financial losses as is evidenced from the above summary and the financial statements. A substantial effort by both management and employees has been invested in attempting to improve operations. In recognition of the impact of operating losses of the business, an impairment provision of £18.4 million has been made against the carrying value of the assets of Cape Calsil.

Industrial Disease Claims

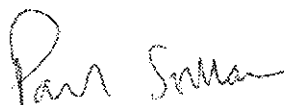
In addition to the settlement of South African claims, the Company continues to meet UK industrial disease claims. As indicated in Note 17 of the financial statements, the net charge for the compensation for industrial disease in the year 2001 is £3.7 million. Insurance recoveries at £0.5 million were lower than in the year 2000, due to one of our insurers being placed into liquidation.

Directors

As a result of the proposed restructuring of the Group involving the disposal of Cape Calsil and the plans for the Resultant Group, the role of Group Chief Executive of Cape will cease to exist. In December 2001, after the conditional agreement for the South African settlement had been entered into with the South African plaintiffs, the Board agreed with Mr Maclellan that he would remain with Cape until the Group restructuring was substantially completed and, specifically, until Cape Calsil was sold. Accordingly Mr Maclellan will resign from the Board on the completion of the Cape Calsil disposal. The Board would like to acknowledge Mr Maclellan's contribution to the reorganisation. The Board has appointed Mr Martin May to the new position of General Manager of Cape. He will take responsibility for the day-to-day management of Cape, including the sale of the surplus properties, completing the settlement of the South African litigation and administering the agreed schedule of repayments to the banks. Martin May, who is an experienced interim business manager, will report to the Chairman.

Summary

The Directors believe that the actions being taken in relation to the three central issues (the poor performance of the Cape Calsil Division, the South African litigation and the restriction preventing CIS from realising its full potential) will enable the Company to unlock the value of its assets and to continue to meet industrial disease claims in the future.



Paul Sellars
Chairman

22 August 2002

Directors' Report

The Directors have pleasure in submitting their report and financial statements of the Group for the year ended 31 December 2001.

Principal activities

The Company and its subsidiaries form an international group engaged in the supply of thermal insulation, scaffolding and related services to major industrial groups and the manufacture of high performance fire protection, insulation and building products for the construction industry. The principal subsidiary undertakings are set out on page 36.

Review of business and future developments

A review of the Group's activities during the year together with future developments is contained in the Chairman's Statement on pages 2 to 4.

Results

The financial results for the year ended 31 December 2001 are set out in the financial statements on pages 10 to 35. The loss for the year is £32.7 million (2000: loss of £15.6 million).

Dividends

No interim dividend was paid for the year ended 31 December 2001 (2000: 2.0p). Furthermore, the Directors are not recommending the payment of a final dividend for the year ended 31 December 2001 (2000: nil pence).

Subsequent events

(i) The Company announced on 22 July 2002 that it has exchanged contracts for the sale of the major part of its manufacturing division, Cape Calsil to Promat Glasgow Limited ("Promat") a subsidiary of Promat International NV, a part of the Belgian Etex group.

The sale is conditional amongst other things, on receiving merger clearance in the UK and other European countries and on the consent of Cape's shareholders. The Company has also given certain warranties and indemnities. The consideration for the sale is £9.2 million, subject to an adjustment by reference to the value of certain assets and to the extent that any apportion needs to be made of prepayments and creditors. On completion of the sale, £1.5 million of the consideration will be placed in a retention account to be released over a six month period according to the amount of product made available to Promat during the six month transitional period after completion. £1.3 million will be placed in a trust account which could remain open until 2052 and which is to be used solely to meet possible future industrial disease claims from employees who transfer to Promat as part of the sale. Cape could be obliged to pay up to a further £0.8 million of the consideration it will receive at completion into the trust account in the event that employees from the Uxbridge site transfer to Promat. The remaining proceeds from the sale will be used to repay bank debt. The book value of the net assets of Cape Calsil at 31 December 2001 is £19.4 million of which £9.9 million have been sold and the remaining £9.5 million will be retained by the Company for subsequent disposal. Further financial information on Cape Calsil is given in Note 1(a).

(ii) The Company received an indicative offer of new banking facilities details of which are given in Note 2 of the Accounting Policies.

(iii) Subsequent to 31 December 2001, the Group decided to dispose of its shareholding in the Cape Goldsun joint venture to Goldsun Development & Construction Co Ltd for a nominal value. There is no profit or loss arising on disposal as the Group share of the net assets was fully written down at the year end.

Fixed assets

Details of the movements in the tangible fixed assets are given in Note 11(b) to the accounts on pages 22 to 23.

Donations

During the year the Group made charitable donations of £30,700 (2000: £26,000). There were no political donations (2000: £nil).

Directors

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

Paul Sellars (48)

Appointed Chairman in October 2001. He is currently Managing Director of Montpellier Group Plc and a Director of a number of private companies.

Ian Maclellan (54)

Appointed Chief Executive in August 1998 having been a Non-Executive Director since July 1997. A chartered accountant with experience in the construction materials, property and engineering industries. He is also a Non-Executive Director of Swan Hill Group PLC.

Ian Widdowson (48)

Appointed Finance Director in December 1998. A chartered accountant who joined Cape in 1986.

Sean O'Connor (53)

Appointed Non-Executive Director in July 1996. He was the Chairman of Stoves Group PLC until January 2001. He is a Non-Executive Director of Sportingbet PLC, Graphite Enterprise Trust plc, Phoenix Equity Partners, Crow Film and TV and Babel Media Limited.

John Pool (63)

Appointed Non-Executive Director in November 1997. A chartered secretary who has spent most of his career with Anglo American and Charter plc. He was Managing Director of ESAB AB - Asia Pacific based in Singapore when he retired in 1996.

Paul Ainley (56)

Appointed Director in September 1999. He has been Managing Director of the Cape Industrial Services division since July 1995. Michael Langdon and Christopher Dowling resigned as Non-Executive Directors of the Company on 31 October 2001. In consequence of Christopher Dowling's resignation, Paul Cartwright ceased to act as his alternate Director.

Ian Widdowson and Paul Ainley are the Directors retiring by rotation under Article 90 and, being eligible, offer themselves for re-appointment at the Annual General Meeting.

Paul Sellars, having been appointed by the Directors since the last annual general meeting, is required to retire at the Annual General Meeting on 8 October 2002 and is seeking re-appointment by the shareholders at that meeting.

Details of the interests of the Directors and their associates in the shares and share option schemes of the Company are shown in Note 5 on pages 19 to 20. Except as disclosed in the accounts, no Director had any interests in any contract with the Company or its subsidiaries at any time during the year other than service contracts and share option schemes. No Executive Director has a service contract for a period in excess of one year's duration or with provision for predetermined compensation for loss of office or an amount which equals or exceeds one year's salary and benefits in kind.

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

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 on these terms and conditions being met by the supplier. The Company did not have any amounts owed to trade creditors at the end of the year (2000: nil).

Research and development

The companies in the Group continue to place a strong emphasis on the research and development which is needed to expand the scope of the products required to meet the changing demands of their customers in the highly competitive markets in which they operate. Costs charged to operating profit for these activities amount to £1.2 million (2000: £1.3 million).

Employment policies

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

Employment of disabled persons

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

Employee involvement

The Group continues its practice of keeping all employees informed on matters affecting them. Senior management is kept abreast of developments in financial, commercial and personnel matters and this enables them 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 Chief Executive has issued a policy statement on the Group's commitment to a safe working environment for all employees. Each divisional Managing Director is responsible for the implementation of the Group policy on Health and Safety within his area of responsibility. During the year external consultants carried out audits at all UK subsidiaries to ensure that proper procedures were in operation.

Substantial holdings

The Directors have been advised that as at 26 July 2002 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 shares
Montpellier Group PLC	16,243,480	29.90
Rutland Trust PLC	7,968,875	14.70
Fidelity International Management	5,407,600	9.95
M & G Investment Management	5,399,814	9.94
Unibank A/S UBCC Acct	5,175,000	9.53

The Company has not received notification of any other interests held by persons acting together which at 26 July 2002 represented 3 per cent or more of the issued ordinary share capital.

Financial instruments

Group policy in treasury matters continues to be the minimisation of risk. The Group's financial instruments utilised to finance the operations of the Group comprise borrowings, cash and liquid resources, and items such as trade debtors and trade creditors arising directly from the operations. The Group also minimises foreign currency exposures through the use of forward currency contracts, it is, and has been throughout the period under review, the Group's policy not to trade in financial instruments. The Board regularly reviews the risks associated with the financial instruments and agrees the policies for their management. These policies have remained unchanged since the beginning of 2001 (Note 21) and are summarised below.

(a) Interest rate risk

Operations are financed by retained profits and short term bank borrowings. The Board considers it appropriate that such bank borrowings are made in the relevant currencies at floating rates of interest.

(a) Foreign currency risk

The Group has overseas subsidiaries operating in continental Europe and the Middle and Far East, revenue and expenses of which are denominated exclusively in local currencies. In order to protect the Group's sterling balance sheet from the movements in exchange rates the Group aims to finance 70% of its net investments in overseas subsidiaries with local currency borrowings.

A significant proportion of the Group sales are to customers outside the UK. These are invoiced in the currency of the customer. Exchange exposure is minimised through the use of forward currency contracts. The Calsil and Industrial Services Divisions also use forward currency contracts for non sterling purchase transactions.

Annual General Meeting

At the Annual General Meeting to be held on 8 October 2002, resolutions will be proposed on the following items of special business:

(a) To disapply Section 89 of the Companies Act 1985.

The Directors consider it to be in the best interests of the Company that they should continue to have the power to allot equity securities for cash other than to existing shareholders up to an amount equal to five per cent of the Company's issued ordinary share capital at 31 December 2001.

(b) To authorise the purchase by the Company of its own shares.

The Directors consider that it would be advantageous to obtain the authority of the shareholders to allow the Company to acquire its own shares in the market. The Directors would then be in a position to act quickly in the interests of the Company and shareholders generally if circumstances so warrant. A special resolution (numbered 7 in the notice of meeting) will be put to the Annual General Meeting to authorise the Company to make market purchases of up to fifteen per cent of its issued ordinary shares. The price at which shares may be purchased will not be more than five per cent above the average middle market quotations for the Company's shares in the London Stock Exchange Daily Official List for the five business days before the date of purchase. Shares purchased will be cancelled. This authority will expire at 7 October 2003.

The Directors have no present intention of exercising this authority if it is given. Purchases of the Company's shares would only be made if this would result in an increase in earnings per share and be in the best interests of the Company at the time. The text of all the resolutions is set out in full in the notice convening the Annual General Meeting on page 37.

The Annual General Meeting is to be held on 8 October 2002 at the registered office of the Company, Iver Lane, Uxbridge, Middlesex UB8 2JQ.


Close Company status

The Company is not a close company for the provisions of the Income and Corporation Taxes Act 1988.

Auditors

In accordance with Section 383 of the Companies Act 1985, a resolution for the re-appointment of PricewaterhouseCoopers will be proposed at the Annual General Meeting on 8 October 2002.

By order of the Board

S H Smith 
Secretary

22 August 2002

Iver Lane, Uxbridge,
Middlesex UB8 2JQ

Statement of Corporate Governance

The Board is committed to high standards of corporate governance throughout the Group. The Board is accountable to the Company's shareholders for good governance and this statement describes how the Principles of Good Governance and the provisions of the Code of Best Practice identified in the London Stock Exchange's Combined Code, issued on 25 June 1998, are applied by the Company.

Cape PLC strives to maintain a good dialogue with institutional shareholders. Regular meetings are held with institutional shareholders throughout the year to discuss the progress of the Company, future growth prospects and strategy. Notice of the Annual General Meeting is sent out to all shareholders at least 20 working days before the meeting. The Chairman and Chairman of the Audit Committee will be available to answer questions at the Annual General Meeting on 8 October 2002.

The Board

As at 22 August 2002, the date of signing the accounts, the Board comprises three Executive Directors and three Non-Executive Directors. The post of Chairman and Chief Executive are separate. Short biographies of the Board members are shown on page 5. Constituent members of the Audit, Remuneration, Supervisory and Nomination Committees, are shown on page 1.

John Pool and Sean O'Connor are independent Non-Executive Directors and free from any business or other relationship which could materially interfere with the exercise of independent judgement. John Pool has been identified as the senior Non-Executive Director and is a member of the Supervisory Committee. Sean O'Connor is also a member of the Supervisory Committee. The purpose of this committee is commented on in this statement.

The Board meets at least eight times a year. To enable the Board to function effectively and allow Directors to discharge their responsibilities, full and timely access is given to all relevant information. There is a schedule of matters reserved for the Board's decision, in order to ensure the maintenance of control over strategic, financial and operational matters. In addition, the Directors have access to the advice and services of the Company Secretary and, should the need arise, procedures are in place for them to seek professional advice at the Company's expense. The Directors receive training and advice on their responsibilities as necessary.

A Nomination Committee, chaired by Paul Sellars, was formed on 14 September 1999 to make recommendations to the Board on new Board appointments.

Any Director appointed during the year is required, under the Company's Articles of Association, to retire and seek re-appointment by shareholders at the next Annual General Meeting. The Articles also require that one third of the Directors retire by rotation each year and seek re-appointment at the Annual General Meeting. The Directors required to retire are those in office longest since their previous appointment or re-appointment. This will usually mean that each Director retires at least every three years, although there is no absolute requirement to this effect. The Board has resolved that each Director will retire at least every three years, even if this is not strictly required by the application of the provisions of the Articles of Association. Non-Executive Directors are appointed for a term of three years.

Directors' remuneration

Remuneration Committee

The following Directors have been members of the Remuneration Committee during the year.

Sean O'Connor, Chairman
Michael Langdon (resigned 31.10.2001)
Christopher Dowling (resigned 13.03.2001)
John Pool
Paul Sellars (appointed 31.10.2001)

The Remuneration Committee is comprised entirely of Non-Executive Directors.

The remuneration policy in respect of Executive Directors is to ensure that individual remuneration reflects the performance of the Group, the performance of each Director, the interests of shareholders and that the overall remuneration package enables the Company to attract and retain high calibre executives. A full report on Directors' emoluments, interests and shareholdings is set out in Note 5 on pages 18 to 20.

Services agreement with Montpellier Group Plc

Since 31 October 2001, the services of the Chairman of the Company has been provided by Montpellier Group Plc as part of the Services Agreement ("the Agreement") entered into by the Company with Montpellier Group Plc on 13 December 2001. Fees are payable to Montpellier Group Plc under this agreement for the services of the Chairman in the amount of £250,000 per annum and will be reviewed by the Supervisory Committee on or with effect from 31 October 2004 unless the Supervisory Committee shall determine otherwise in respect of any prior period. Under this agreement, Montpellier Group Plc received fees of £42,000 in 2001. The Agreement was ratified by the Board of Directors of the Company. The terms of the Agreement may not be varied without an affirmative vote from the majority of the Supervisory Committee.

A similar agreement existed with Rutland Trust PLC until 31st October 2001. Under this agreement, Rutland Trust PLC received fees in 2001 of £208,000 (2000: £250,000).

The remuneration of Paul Sellars is determined by the Remuneration Committee of Montpellier Group Plc.

Supervisory Committee

At a meeting of the Supervisory Committee held on 30 October 2001, following the sale by Rutland Trust PLC of certain shares in Cape PLC, it was resolved that the Supervisory Committee, established by a committee of the Board of Directors on 17 June 1996, should continue in existence. A number of key decisions relating to the Company including (without limitation) changes in strategy, the appointment of Directors and matters directly involving Montpellier Group Plc are reserved to the Supervisory Committee.

The members of the Supervisory Committee are Paul Sellars, Chairman, Ian Maclellan, Sean O'Connor and John Pool. Michael Langdon resigned as a member of the Supervisory Committee on 31 October 2001.

The structure of the Supervisory Committee is designed to ensure that the interests of non-Montpellier shareholders (and previously non-Rutland shareholders) in Cape PLC are represented at all meetings where decisions significant to the running of Cape are to be taken.

Remuneration of Non-Executive Directors

The remuneration of the Non-Executive Directors is determined by the Board.

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Report of the Auditors, is made with a view to identifying for shareholders the responsibilities of the Directors in respect of the accounts.

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss and cash flows of the Group for that period. In preparing those accounts the Directors are required to:

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

Statement of Corporate Governance continued

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

The maintenance and integrity of the Cape PLC website is the responsibility of the Directors. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Internal control and risk management

The Board of Directors is responsible for the Group's system of internal control and the Board has delegated formal responsibility to the Audit Committee for reviewing the effectiveness of the system. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

In line with the London Stock Exchange's letter of 27th September 1999, the Board confirms that, in respect of the application of principle D.2 of the Combined Code, there is an ongoing process for identifying, evaluating and managing the significant risks facing the Group. This process is regularly reviewed by the Board and accords with the internal control guidance for Directors on the Combined Code, issued by the Turnbull Committee.

In relation to Code provision D.2.1, the process established for the Group includes;

Processes

- An organisational structure with clearly defined lines of responsibility, delegation of authority and limits of authority, which is supported by documentation of policies and procedures.
- A comprehensive financial reporting system based on annual budgets approved by the Board. Actual results and updated forecasts are prepared monthly and compared against budget. Cash flows are controlled in comparison with the budget and forecast.
- The annual capital investment budget is approved by the Board together with significant individual items prior to commitment.
- The management of each operating unit provides written confirmation annually to the Group Finance Director that they are complying with the Group's policies and procedures and that appropriate internal financial controls are in place and functioning properly.
- The Board receives regular reports on treasury, legal, pension and insurance matters. In connection with industrial disease claims, the Board has set up a computerised system for registering and processing claims lodged.
- The Board also receives regular reports on the number of claims, the amounts paid and the provisions carried.
- Formal business risk reviews performed by management evaluate the potential impact of identified risk gaps and possible new risk areas. Control, mitigation and monitoring procedures are set and actual occurrences are regularly reviewed.

Verification

- An Audit Committee of the Board, consisting of Non-Executive Directors, considers significant control matters, receives reports from the external auditors and reviews the factors which could affect the objectivity and independence of the auditors. From time to time it also reviews the need for an internal audit function.
- An Executive Committee has been established with the sole purpose of considering divisional and overall group risks and controls. Results are reported to the Board.

Audit Committee

The Audit Committee consists of the independent Non-Executive Directors other than the Chairman and operates under the chairmanship of John Pool. They are responsible:

- before the annual audit commences for reviewing the scope of the audit to be performed by the external auditors;

- after the annual audit is completed for reviewing the findings of the external auditors and the response of management to those findings;
- for reviewing the Company's financial statements before they are submitted to the Board;
- for reporting to the Board on the above matter.

Compliance

In addition to the Principles of Good Governance, the Combined Code also contained a Code of Best Practice detailing some 45 provisions. The Board confirms that the Company has complied with these provisions throughout the financial year except for:

- the independence of the Chairman within the Remuneration Committee in respect of provision B2.2, and;
- the Audit Committee comprising of only two Non-Executive Directors in respect of provision D3.1.

Going concern

The financial statements have been prepared under the going concern basis of accounting. During the year the Group has met its working capital requirements through an uncommitted secured bank facility, which expired on 30 June 2002. On the basis that there is a flotation of the Cape Industrial Services Division (CIS) outline agreement has been reached with the Group's existing bankers for new facilities of up to £12.5 million expiring 31 December 2003, with repayments matched to proceeds from anticipated asset sales. The facilities are conditional on the following:

- raising £30 million from the flotation of CIS. This transaction would be dependent upon shareholders' approval.
- the sale of the Cape Calsil Division to Promat International NV. This transaction is dependent upon shareholders' approval.
- shareholders' approval being obtained for the settlement of the South African litigation.
- satisfactory completion of legal documentation in respect of the above matters.

If the flotation of CIS takes place, it is anticipated that CIS will be separately financed, without any reliance on Cape, with new bank facilities secured on the assets of CIS.

If, for whatever reason, the flotation of CIS does not proceed, the Board has an alternative plan of continuing to run the Industrial Services Division wholly within the Group and re-negotiate the South African Settlement. The Group's banks have indicated their willingness to consider continuing the provision of sufficient working capital facilities to allow such an alternative plan to be implemented.

The Company needs the facilities to meet its potential liability to pay £10 million under the conditional agreement for the South African Settlement detailed in Note 25 to the financial statements. In addition the Board anticipates being able to fund future settlements of other industrial disease claims from cash flows from operations and investments. As also explained in Note 25, an adverse outcome to the South African Litigation or an adverse change from the timing or quantum of past claims experience could have a material effect on the financial position of the Group.

The Group's banks have agreed to release their security over the relevant Cape Calsil assets to allow the sale to Promat to complete.

The Group is dependent on the continuing support of its bankers. The bank facilities are repayable on demand and, were support to be withdrawn, the Group would not be able to continue trading. However, the Directors, following extensive discussions with the banks, believe that the banking facilities will be confirmed. Accordingly, they believe that the Group will have sufficient working capital for its present requirements, that is for at least 12 months from the date of this document.

If the banking facilities are not made available to the Company or to CIS, adjustments would have to be made to reduce the balance sheet values of assets to their recoverable amounts, to provide for further liabilities that might arise and to reclassify fixed assets and long-term liabilities as current assets and liabilities.

Report of the Independent Auditors' to the Members of Cape PLC

for the year ended 31 December 2001

We have audited the financial statements, which comprise the Consolidated Profit and Loss account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes which have been prepared under the historical cost convention as modified for the revaluation of certain fixed assets and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of Directors and Auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Chairman's Statement, the Directors' Report and the Statement of Corporate Governance.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

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

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

Fundamental uncertainties

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the impact of, and accounting for, potential future claims for industrial disease compensation. On the basis of information presently available, it is not possible for the Directors to quantify, with sufficient reliability the amount required to settle future claims and accordingly claims are accounted for on the basis of claims lodged or settlements reached and outstanding at the Balance Sheet date. However, if it were possible to assess reliably the present value of the amount required to settle future claims such that this was provided in the Balance Sheet, there would be a materially adverse effect on the Group's financial position. Details of the circumstances relating to this fundamental uncertainty are described in Note 25 to the financial statements. Our opinion is not qualified in this respect.

In forming our opinion we have also considered the adequacy of the disclosures made in the financial statements concerning the basis of preparation. The financial statements have been prepared on a going concern basis, the validity of which depends on new banking facilities being confirmed as the current facilities expired on 30 June 2002. The financial statements do not include any adjustments from a failure to obtain these new banking facilities. Details of the circumstances relating to this fundamental uncertainty and of why the Directors believe it is appropriate to prepare the financial statements on a going concern basis are described in Note 2 of the Accounting Policies. Our opinion is not qualified in this respect.

Opinion to the financial statements

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2001 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers

Chartered Accountants and Registered Auditors
West London

22 August 2002

Consolidated Profit and Loss Account

for the year ended 31 December 2001

	Note	Pre- exceptional items £m	Exceptional items £m	2001 £m	Pre- exceptional items (restated) £m	Exceptional items £m	2000 (restated) £m
Turnover							
Total turnover including group share of joint ventures	1	266.6	–	266.6	239.1	–	239.1
Less share of turnover of joint ventures		(3.7)	–	(3.7)	(3.2)	–	(3.2)
Group turnover		262.9	–	262.9	235.9	–	235.9
Group operating loss	2, 3 & 4	(1.1)	(29.4)	(30.5)	(1.2)	(15.7)	(16.9)
Share of operating loss in joint ventures		(0.7)	(2.5)	(3.2)	(0.5)	–	(0.5)
Loss on ordinary activities before interest		(1.8)	(31.9)	(33.7)	(1.7)	(15.7)	(17.4)
Net interest payable	7			(1.9)			(1.6)
Other finance income	26			3.2			4.0
Loss on ordinary activities before taxation				(32.4)			(15.0)
Tax on loss on ordinary activities	8			(0.3)			0.5
Loss on ordinary activities after taxation				(32.7)			(14.5)
Dividends	9			–			(1.1)
Loss for the year	19			(32.7)			(15.6)
Earnings/(loss) per ordinary share	10						
– basic and diluted before operating exceptional items				0.2p			(4.4)p
– basic and diluted total operations				(60.0)p			(26.8)p

There is no material difference between the loss on ordinary activities before taxation and the loss for the year stated above and their historical cost equivalents.

The above results are derived from continuing operations.

Movements in reserves are set out in Note 19 on pages 27 and 28.

The notes and information on pages 14 to 35 form part of these accounts.

Consolidated and Company Balance Sheets

at 31 December 2001

		Group		Company	
		2001	2000	2001	2000
		(restated)	(restated)	(restated)	(restated)
	Note	£m	£m	£m	£m
Fixed assets					
Tangible assets	11	37.3	45.7	0.1	0.1
Investments	12	–	–	63.3	83.9
Interest in joint ventures					
Share of gross assets	12	5.0	5.2	–	–
Share of gross liabilities	12	(4.9)	(3.1)	–	–
		0.1	2.1	–	–
		37.4	47.8	63.4	84.0
Current assets					
Stocks	13	13.9	17.7	–	–
Debtors	14	60.9	67.5	2.8	0.5
Cash at bank and in hand		5.4	16.5	–	0.5
		80.2	101.7	2.8	1.0
Creditors: amounts falling due within one year					
Short-term borrowings	15	(31.3)	(33.6)	(31.5)	(27.9)
Other creditors	15	(51.8)	(55.7)	(4.3)	(3.7)
		(83.1)	(89.3)	(35.8)	(31.6)
Net current (liabilities)/assets		(2.9)	12.4	(33.0)	(30.6)
Total assets less current liabilities		34.5	60.2	30.4	53.4
Creditors: amounts falling due after more than one year	16	(0.2)	(0.4)	(9.3)	(13.4)
Provisions for liabilities and charges	17	(31.3)	(26.1)	(18.1)	(6.3)
Net assets excluding pension asset		3.0	33.7	3.0	33.7
Pension asset	26	17.5	34.1	17.5	34.1
Net assets including pension asset		20.5	67.8	20.5	67.8
Capital and reserves					
Called up share capital (includes non-equity interests)	18	18.2	18.2	18.2	18.2
Share premium account	19	1.6	1.6	1.6	1.6
Revaluation reserve	19	10.7	11.3	18.5	13.3
Profit and loss account	19	(10.0)	36.7	(17.8)	34.7
Shareholders' funds		20.5	67.8	20.5	67.8
Equity interests		15.9	63.2	15.9	63.2
Non-equity interests		4.6	4.6	4.6	4.6
Shareholders' funds		20.5	67.8	20.5	67.8

These accounts were approved by the Board of Directors on 22 August 2002 and were signed on its behalf by:

I D Maclellan Chief Executive

I R Widdowson Finance Director

The notes and information on pages 14 to 35 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 31 December 2001

	Note	2001 £m	2001 £m	2000 £m	2000 (restated) £m
Net cash inflow from operating activities	20(a)		4.3		8.0
Returns on investments and servicing of finance					
Interest received		0.2		0.3	
Interest paid		(2.1)		(1.8)	
Net cash outflow from returns on investments and servicing of finance			(1.9)		(1.5)
Tax paid	20(b)		(0.6)		(0.7)
Capital expenditure and financial investment					
Purchase of tangible fixed assets net of grants		(10.9)		(8.9)	
Purchase of additional shares in joint venture		-		(1.2)	
Sale of tangible fixed assets		0.5		0.4	
Net cash outflow for capital expenditure and financial investment			(10.4)		(9.7)
Equity dividends paid			-		(3.1)
Net cash outflow before use of liquid resources and financing			(8.6)		(7.0)
Financing					
Capital element of finance lease rental payments			(0.4)		(0.3)
Short-term borrowings			(2.2)		5.2
Net decrease in cash	20(c)		(11.2)		(2.1)
Reconciliation of net cash flow to movement in net debt			2001 £m		2000 (restated) £m
Decrease in cash in the year			(11.2)		(2.1)
Inflow/(outflow) from the increase in debt and lease financing			2.6		(4.9)
Change in debt resulting from cash flows			(8.6)		(7.0)
New finance leases			(0.3)		(0.6)
Exchange movement in year			0.3		(0.2)
Movement in net debt in year			(8.6)		(7.8)
Net debt at 1 January			(17.5)		(9.7)
Net debt at 31 December	20(c)		(26.1)		(17.5)

The notes and information on pages 14 to 35 form part of these accounts.

Statement of Total Recognised Gains and Losses

for the year ended 31 December 2001

	Note	2001 £m	2000 (restated) £m
Loss on ordinary activities after taxation		(32.7)	(14.5)
Currency translation differences net of tax on foreign currency net investments		–	(0.2)
Actuarial loss recognised in the pension scheme	26	(25.2)	(8.3)
Movement on deferred tax relating to pension asset	26	7.1	1.8
Total recognised losses relating to the year		(50.8)	(21.2)
Prior year adjustment	19	28.9	–
Total recognised losses since last annual report		(21.9)	(21.2)

Reconciliation of Movements in Shareholders' Funds

for the year ended 31 December 2001

	Note	2001 £m	2000 (restated) £m
Loss on ordinary activities after taxation		(32.7)	(14.5)
Dividends		–	(1.1)
		(32.7)	(15.6)
Currency translation differences net of tax on foreign currency net investments		–	(0.2)
Write-back of goodwill on Cape Calsil previously written-off to reserves	19	3.5	–
Other recognised gains and losses relating to the year		(18.1)	(6.5)
Net reduction to shareholders' funds		(47.3)	(22.3)
Shareholders' funds at 1 January		67.8	90.1
Shareholders' funds at 31 December		20.5	67.8

The notes and information on pages 14 to 35 form part of these accounts.

Accounting Policies

1. Accounting convention

The financial statements are prepared under the historical cost convention, except for certain fixed assets included at revaluation and in accordance with applicable Accounting Standards.

2. Going concern

The financial statements have been prepared under the going concern basis of accounting. During the year the Group has met its working capital requirements through an uncommitted secured bank facility, which expired on 30 June 2002. On the basis that there is a flotation of the Cape Industrial Services Division (CIS), outline agreement has been reached with the Group's existing bankers for new facilities of up to £12.5million expiring on 31 December 2003, with repayments matched to proceeds from anticipated asset sales. The facilities are conditional on the following:

- raising £30 million from the flotation of CIS. This transaction would be dependent upon shareholders' approval.
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If the flotation of CIS takes place, it is anticipated that CIS will be separately financed, without any reliance on Cape, with new bank facilities secured on the assets of CIS.

If, for whatever reason, the flotation of CIS does not proceed, the Board has an alternative plan of continuing to run the Industrial Services Division wholly within the Group and re-negotiate the South African Settlement. The Group's banks have indicated their willingness to consider continuing the provision of sufficient working capital facilities to allow such an alternative plan to be implemented.

The Company needs the facilities to meet its potential liability to pay £10 million under the conditional agreement for the South African Settlement detailed in Note 25 to these financial statements. In addition the Board anticipates being able to fund future settlements of other industrial disease claims from cash flows from operations and investments. As also explained in Note 25, an adverse outcome to the South African Litigation or an adverse change from the timing or quantum of past claims experience could have a material effect on the financial position of the Group.

The Group's banks have agreed to release their security over the relevant Cape Calsil assets to allow the sale to Promat to complete.

The Group is dependent on the continuing support of its bankers. The bank facilities are repayable on demand and, were support to be withdrawn, the Group would not be able to continue trading. However, the Directors, following extensive discussions with the banks, believe that the banking facilities will be confirmed. Accordingly, they believe that the Group will have sufficient working capital for its present requirements, that is for at least 12 months from the date of this document.

If the banking facilities are not made available to the Company or to CIS, adjustments would have to be made to reduce the balance sheet values of assets to their recoverable amounts, to provide for further liabilities that might arise and to reclassify fixed assets and long-term liabilities as current assets and liabilities.

3. Changes in accounting policies

- (a) The Group has fully adopted the provisions allowed under FRS 17 "Retirement Benefits". The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly.
- (b) 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. During the year the Group changed its accounting policy to allow the goodwill to also be charged to the Profit and Loss Account when the Group believes it has been impaired. This ensures that the effects of impairment are applied consistently across all classes of assets. The effect of this change in accounting policy in this year is a £3.5 million charge to the Profit and Loss Account, with no change in net assets. There is no effect upon the prior year.
- (c) The Group has fully adopted FRS 18 "Accounting Policies" during the period. The Directors have reviewed the Group's existing accounting policies and consider that they are already consistent with this new standard except as noted above.
- (d) The 2000 cash flow comparatives and notes to the financial statements have been restated to reallocate items to more appropriate cash flow headings. In addition, the 2000 directors' emoluments comparatives have been restated for the incorrect inclusion of notional company pension contributions.

4. 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 2001.
- (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. Goodwill that arises on the acquisition of businesses is capitalised and amortised over a maximum of 20 years. The difference between the sale consideration and the book value of net assets at the date of disposal, plus purchased goodwill eliminated against reserves in previous years, is included in profit on ordinary activities before interest.
- (c) The Group's interest in joint ventures is accounted for under the gross equity method.

5. Foreign currencies

Foreign currency assets and liabilities of UK undertakings and the assets and liabilities of overseas subsidiary undertakings are translated into sterling at the rates of exchange ruling at the balance sheet dates. Profits and losses of overseas subsidiary undertakings are translated into sterling at the average rates of exchange during the year.

The differences arising from the translation of net equity interests in overseas subsidiary undertakings and of foreign currency borrowings used to finance these interests are dealt with through reserves as are differences between profits translated at average and closing rates.

6. Turnover

Group turnover for manufactured goods is the invoiced value of sales and services of the Group. Group turnover for contracts represents the value of work executed during the year excluding intra-group sales and VAT.

7. Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment. Under FRS 15, the Group followed the option within the transitional arrangements to retain the book values of land and buildings, certain of which were last revalued in 1990. 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 normally applied:

- Freehold buildings - 2% per annum
- Leasehold land and buildings - the period of the lease
- Plant, machinery, fixtures and fittings - 6 $\frac{2}{3}$ % to 33 $\frac{1}{3}$ % per annum

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 of such assets 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 of the year.

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 25, this is only currently possible in respect of claims lodged and outstanding at the year end. Where this is not possible, a contingent liability is noted. A reference to the financial movement during the year 2001 is contained within Note 17.

10. Research and development expenditure

Group expenditure on research and development, patents and trade marks is written off when incurred.

11. 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 the former, 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 fixed or limited-price 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. Attributable profit on fixed or limited-price 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.

12. Capital expenditure grants

Grants in respect of capital expenditure are treated as deferred income and are credited to operating profit over the expected useful lives of the assets to which they relate.

13. Deferred taxation

Provision is made for deferred taxation on the liability method in respect of timing differences to the extent that it is probable that an actual liability will crystallise.

14. Investments in subsidiary undertakings

The Company revalues its investments in subsidiary undertakings each year in order to reflect their underlying net asset values at the balance sheet date. 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.

15. Pensions and retirement benefits

The Group operates two major pension schemes in the UK, one is of 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.

Further information is provided in Note 26.

16. 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 is a party to derivative financial instruments (derivatives) primarily to manage exposures to fluctuations in foreign currency exchange rates and interest rates. As in previous years, it is the Group's policy not to trade in financial instruments.

As part of exchange risk management, the Group uses forward currency contracts to hedge significant US Dollar, Euro and Singapore Dollar commitments or anticipated transactions. Gains and losses on these 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.

It is also Group policy to use forward currency contracts for non-sterling purchase transactions.

As part of interest rate risk management, bank borrowings are made in relevant currencies at floating rates of interest. Receipts and payments on interest rate instruments are recognised on an accruals basis.

This is elaborated on in Note 21.

2001					
Loss before tax					Net assets
Turnover	Pre-exceptional	Exceptional items	Total		
£m	£m	£m	£m	£m	£m
		(Note 4)			
(a) Business analysis					
2001					
Continuing operations					
- Cape Industrial Services	215.1	11.0	-	11.0	37.8
- Cape Calsil	47.8	(5.3)	(15.9)	(21.2)	19.4
- Head Office	-	(3.1)	-	(3.1)	16.2
- Compensation for industrial disease	-	(3.7)	(13.5)	(17.2)	(26.9)
Group	262.9	(1.1)	(29.4)	(30.5)	46.5
Joint ventures	3.7	(0.7)	(2.5)	(3.2)	0.1
	266.6	(1.8)	(31.9)	(33.7)	46.6
Net interest/net borrowings				(1.9)	(26.1)
Other finance income				3.2	-
				(32.4)	20.5
There are no significant inter-segment sales between business units					
2000					
Loss before tax					Net assets
Turnover	Pre-exceptional	Exceptional items	Total		
£m	£m	£m	£m		(restated) £m
		(Note 4)			
2000					
Continuing operations					
- Cape Industrial Services	185.9	11.3	-	11.3	34.7
- Cape Calsil	50.0	(3.9)	(8.7)	(12.6)	30.9
- Head Office	-	(4.2)	-	(4.2)	(25.2)
- Compensation for industrial disease	-	(4.4)	(7.0)	(11.4)	(7.6)
Group	235.9	(1.2)	(15.7)	(16.9)	83.2
Joint ventures	3.2	(0.5)	-	(0.5)	2.1
	239.1	(1.7)	(15.7)	(17.4)	85.3
Net interest/net borrowings				(1.6)	(17.5)
Other finance income				4.0	-
				(15.0)	67.8
(b) Geographical analysis by origin					
2001					
Loss before tax					Net assets
Turnover	Pre-exceptional	Exceptional items	Total		
£m	£m	£m	£m		£m
		(Note 4)			
United Kingdom	213.7	(4.4)	(29.4)	(33.8)	32.2
Continental Europe	22.1	1.5	-	1.5	6.8
Rest of the world	40.8	1.8	-	1.8	7.5
Inter-segment sales	(13.7)	-	-	-	-
Group	262.9	(1.1)	(29.4)	(30.5)	46.5
Rest of the world - joint ventures	3.7	(0.7)	(2.5)	(3.2)	0.1
	266.6	(1.8)	(31.9)	(33.7)	46.6
Net interest/net borrowings				(1.9)	(26.1)
Other finance income				3.2	-
				(32.4)	20.5

Notes to the Financial Statements continued

1. Segmental analysis (continued)

	Turnover	Pre- exceptional	Exceptional items	2000 (restated)	
				Loss before tax	
	£m	£m	£m (Note 4)	Total	Net assets (restated) £m
(b) Geographical analysis by origin (continued)					
2000					
United Kingdom	201.4	(4.6)	(15.5)	(20.1)	72.2
Continental Europe	19.6	0.8	(0.2)	0.6	5.6
Rest of the world	30.4	2.6	–	2.6	5.4
Inter-segment sales	(15.5)	–	–	–	–
Group	235.9	(1.2)	(15.7)	(16.9)	83.2
Rest of the world – joint ventures	3.2	(0.5)	–	(0.5)	2.1
	239.1	(1.7)	(15.7)	(17.4)	85.3
Net interest/net borrowings				(1.6)	(17.5)
Other finance income				4.0	–
				(15.0)	67.8

(c) Geographical analysis of turnover by market

	2001 £m	2000 £m
United Kingdom	175.5	152.6
Continental Europe	36.2	40.6
Rest of the world – group	51.2	42.7
– joint ventures	3.7	3.2
	266.6	239.1

2. Operating loss

	2001 £m	2000 £m
Operating loss is stated after charging		
Auditors' remuneration of which the parent company was £90,000 (2000: £85,000)	0.3	0.3
Non-audit fees payable to auditors	–	0.2
Depreciation on owned tangible fixed assets	7.7	7.3
Depreciation of tangible fixed assets under finance leases	0.3	0.4
Impairment of tangible fixed assets	8.8	0.3
Loss on disposal of fixed assets	2.1	–
Amortisation of intangible fixed assets	–	0.1
Hire of plant and machinery	3.5	2.3
Other operating leases	0.8	0.6

3. Group operating loss

					2001		2000 (restated)
		Pre- exceptional £m	Exceptional items £m	Total £m	Pre- exceptional £m	Exceptional Items £m	Total £m
(a) Analysis of Group operating loss	Note						
Group turnover		262.9	–	262.9	235.9	–	235.9
Cost of sales		(245.9)	(11.9)	(257.8)	(215.7)	–	(215.7)
Gross profit		17.0	(11.9)	5.1	20.2	–	20.2
Other operating expenses	3b & 4	(18.1)	(17.5)	(35.6)	(21.4)	(15.7)	(37.1)
Group operating loss		(1.1)	(29.4)	(30.5)	(1.2)	(15.7)	(16.9)

Notes to the Financial Statements continued

3. Group operating loss (continued)

	2001			2000 (restated)		
	Pre- exceptional £m	Exceptional items £m	Total £m	Pre- exceptional £m	Exceptional Items £m	Total £m
(b) Other operating expenses						
Distribution costs	7.7	–	7.7	7.5	–	7.5
Administrative expenses	9.2	17.5	26.7	12.6	15.7	28.3
Research and development expenditure	1.2	–	1.2	1.3	–	1.3
	18.1	17.5	35.6	21.4	15.7	37.1

All operating profit is derived from continuing activities.

4. Operating exceptional items

	2001 £m
The exceptional items of £31.9 million comprise:	
The release of the provision for legal costs relating to the defence of the action brought by claimants in South Africa now no longer required (see Note 17)	(4.4)
Provision against the net present value of the conditional settlement made with the South African claimants on 21 December 2001 (see Note 25)	17.9
Increase in the provision made in 2000 required for the rationalisation of the Cape Calsil operations	0.5
Impairment of the fixed assets and goodwill of Cape Calsil:	
– Fixed asset write-offs	8.8
– Goodwill	3.5
	12.3
Provision to write down stocks and debtors of Cape Calsil Division to net realisable value	3.1
	29.4
Impairment in joint venture	2.5
Total operating exceptional items 2001	31.9

	2000 £m
The exceptional items of £15.7 million comprise:	
An estimate of the additional legal costs relating to the defence of the action brought by claimants in South Africa	7.0
Costs relating to the rationalisation of the manufacturing capacity within the Cape Calsil Division comprising:	
– Asset write-offs	3.3
– Redundancy and closure costs	5.4
	8.7
Total operating exceptional items 2000	15.7

5. Directors

	2001 £000	2000 (restated) £000
(a) Directors' emoluments		
The aggregate emoluments of the Directors of the parent Company were:		
Remuneration	473	541
Fees	60	49
Compensation for loss of office	–	157
Payment to Rutland Trust PLC (See page 19)	208	250
Payment to Montpellier Group Plc (See page 19)	42	–
	783	997

Notes to the Financial Statements continued

5. Directors (continued)

	Salaries & Fees	Bonus	Benefits	2001 Total	2000 Total (restated)
	£000	£000	£000	£000	£000
(b) Analysis of Directors' emoluments					
P Sellars (appointed 31.10.01)	—	—	—	—	—
P R Ainley	114	43	11	168	150
I D Maclellan	163	—	46	209	204
S S O'Connor	20	—	—	20	20
J A Pool	40	—	—	40	29
I R Widdowson	86	—	10	96	99
M R F Langdon (resigned 31.10.01)	—	—	—	—	—
C B Dowling (resigned 31.10.01)	—	—	—	—	—
P I Cartwright (alternate director for C B Dowling) (resigned 31.10.01)	—	—	—	—	—
	423	43	67	533	502

Year 2000 comparatives have been restated as these included notional company pension contributions which were included in error for P R Ainley and I R Widdowson. The pension benefits are identified in a separate note below.

Rutland Trust PLC received a payment of £208,000 covering the period 1 January 2001 to 31 October 2001 (2000: £250,000) for the services of Mr M R F Langdon, Mr C B Dowling and Mr P I Cartwright. This payment is set out in the Services Agreement entered into by the Company with Rutland Trust PLC on 19 June 1996 and subsequently revised on 9th March 1999. Mr M R F Langdon and Mr C B Dowling are Directors of Rutland Trust PLC and their emoluments received from and their shareholdings in Rutland Trust PLC are disclosed in the Annual Report of that Company.

Montpellier Group Plc received a payment of £42,000 covering the period 31 October 2001 to 31 December 2001 for the services of Mr P Sellars. This payment is set out in the Services Agreement entered into by the Company with Montpellier Group Plc on 13 December 2001. Mr P Sellars is a Director of Montpellier Group Plc and his emoluments received from and his shareholdings in Montpellier Group Plc are disclosed in the Annual Report of that Company.

No pensions are provided by Cape PLC for Mr P Sellars and the Non-Executive Directors.

Retirement benefits are accruing to three Directors (2000: three Directors) under a defined benefit scheme. Set out below are details of the pension benefits earned by each of the Executive Directors during the year ended 31 December 2001:

	Increase in accrued pension earned in the year £000	Accrued pension entitlement at year end £000	Increase in transfer value for the year £000
P R Ainley	8	67	73
I D Maclellan	6	6	73
I R Widdowson	4	33	25

The increase in accrued pension earned during the year excludes any increase for inflation. The accrued pension entitlement shown is the amount that would be paid each year on retirement at normal retirement age based on service to the end of the current year. The increase in the transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11, less Directors' contributions. It does not represent a sum payable to individual Directors and it, therefore, cannot be added meaningfully to annual remuneration.

(c) Directors' interests

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

	2001 Number	2000 Number
Directors' interests		
P Sellars (appointed 31.10.01)	—	—
P R Ainley	—	—
I D Maclellan	15,000	15,000
S S O'Connor	—	—
J A Pool	10,000	10,000
I R Widdowson	—	—

There were no changes in the Directors' interests shown above between 31 December 2001 and 5 August 2002, being one month prior to the date of the Notice of the Annual General Meeting.

Notes to the Financial Statements continued

5. Directors (continued)

The share options held by Directors of the Company at 31 December 2001 are shown below.

	Date of grant	Earliest exercise date	Expiry date	Exercise price	Number at 1 January 2001	Granted in the year	Exercised in the year	Lapsed unexercised in the year	Number at 31 December 2001
(d) Cape PLC share option schemes									
P R Ainley	2.7.1998	2.7.2001	2.7.2008	£1.535	111,500	—	—	—	111,500
I D Maclellan	2.7.1998	2.7.2001	2.7.2008	£1.535	200,000	—	—	—	200,000
I R Widdowson	2.7.1998	2.7.2001	2.7.2008	£1.535	20,000	—	—	—	20,000

The middle market price of the shares on 31 December 2001 was 20.0p and the range during the twelve months ended 31 December 2001 was 12.0p to 25.5p.

	Date of grant	Earliest exercise date	Expiry date	Exercise price	Number at 1 January 2001	Granted in the year	Exercised in the year	Lapsed unexercised in the year	Number at 31 December 2001
(e) Cape PLC savings-related share option schemes									
P R Ainley	5.4.1996	31.5.2001	30.11.2001	£1.67	2,809	—	—	2,809	—
P R Ainley	7.5.1999	1.7.2004	1.1.2005	£0.68	2,580	—	—	—	2,580
I D Maclellan	7.5.1999	1.7.2004	1.1.2005	£0.68	5,558	—	—	—	5,558

6. Employees

(a) Average number of employees by business:	2001	2000
Industrial Services	5,673	5,075
Calsil	573	681
Head Office	20	17
	6,266	5,773

Geographically:

United Kingdom	3,416	3,268
Continental Europe	419	390
Rest of the World	2,431	2,115
	6,266	5,773

(b) Employment costs, including directors' emoluments:

	Note	2001 £m	2000 £m
Wages and salaries		122.2	109.3
Social security costs		11.6	10.9
Other pension costs	26	0.2	0.2
		134.0	120.4

7. Net interest payable

	2001 £m	2000 £m
Interest receivable	0.2	0.3
Interest payable on bank loans and overdrafts	(2.1)	(1.9)
	(1.9)	(1.6)

No interest was payable by instalments.

Notes to the Financial Statements continued

8. Tax on profit on ordinary activities

	2001 £m	2000 (restated) £m
Taxation for the year comprises:		
United Kingdom:		
Corporation tax at 30.0% (2000: 30.0%)	0.1	0.8
Double tax relief	(0.7)	(0.8)
	(0.6)	-
Deferred tax	0.7	(2.3)
Advance corporation tax written off	-	1.7
Overseas taxes	0.8	0.8
	0.9	0.2
Adjustments relating to earlier years:		
United Kingdom:		
Corporation tax	(0.4)	(0.8)
Deferred tax	(0.2)	0.1
	0.3	(0.5)

The tax attributable to the 2001 exceptional items was a tax charge of £0.8 million being wholly related to deferred tax. The tax attributable to the year 2000 exceptional items was a tax credit of £3.6 million being wholly related to deferred tax.

9. Dividends – equity shares

	2001 £m	2000 £m
Interim – November 2001 0.0p per share (2000: 2.0p per share)	-	1.1

10. Earnings/(losses) per ordinary share

Earnings/(losses) per ordinary share are calculated by dividing losses (after tax and dividends on the 3½% cumulative preference shares) of £32.7 million (2000: loss of £14.5 million) by 54,326,021 ordinary shares (2000: 54,326,021), being the weighted average number of such shares in issue during the year.

	2001 p per share	2000 (restated) p per share
Basic and diluted losses per share (total operations)	(60.0)	(26.8)
Adjustments: Operating exceptional items	58.7	28.9
Taxation charge/(credit) on exceptional items	1.5	(6.5)
Basic and diluted earnings/(losses) per share before exceptional items	0.2	(4.4)

Under FRS 14, potential ordinary shares should be treated as dilutive only when their conversion to ordinary shares would increase net losses per share from continuing operations. As such, the deferred shares of 1,517,007 (2000: 2,043,977) are not dilutive and have been excluded from the standard diluted losses per share calculation.

Supplementary basic and diluted earnings/(losses) per share have been calculated to exclude the effect of operating exceptional items. The adjusted numbers have been provided in order that the effects of exceptional items on reported earnings can be fully appreciated. The adjustments have been derived by dividing the exceptional items of £31.9 million (2000: £15.7 million) and tax charge of £0.8 million (2000: credit of £3.6 million) by the ordinary shares used in the basic calculations.

Notes to the Financial Statements continued

11. Fixed assets

(a) Intangible assets (goodwill)

	£m
Group	
Cost at 1 January and 31 December 2001	0.1
Accumulated amortisation at 1 January and 31 December 2001	(0.1)
Net book value at 1 January and 31 December	-

(b) Tangible assets

	Total £m	Land and buildings £m	Plant, machinery, fixtures and fittings £m
Group			
Cost			
At 1 January 2001	115.1	21.5	93.6
Exchange adjustments	(0.1)	(0.1)	-
Additions at cost	10.9	0.6	10.3
Disposals	(8.5)	(1.1)	(7.4)
At 31 December 2001	117.4	20.9	96.5
Depreciation:			
At 1 January 2001	69.4	5.0	64.4
Exchange adjustments	(0.1)	(0.1)	-
Provided during the year	8.0	0.4	7.6
Impairment review (Note 4)	8.8	-	8.8
Disposals	(6.0)	(1.1)	(4.9)
At 31 December 2001	80.1	4.2	75.9
Net book amounts			
At 31 December 2001	37.3	16.7	20.6
At 31 December 2000	45.7	16.5	29.2
Company			
Cost			
At 1 January 2001	1.5	1.1	0.4
Additions at cost	-	-	-
Disposals	(1.2)	(1.1)	(0.1)
At 31 December 2001	0.3	-	0.3
Depreciation:			
At 1 January 2001	1.4	1.1	0.3
Provided during the year	-	-	-
Disposals	(1.2)	(1.1)	(0.1)
At 31 December 2001	0.2	-	0.2
Net book amounts			
At 31 December 2001	0.1	-	0.1
At 31 December 2000	0.1	-	0.1

Notes to the Financial Statements continued

		Group	
		2001 £m	2000 £m
(i)	The net book amount of land and buildings comprises:		
	Freehold	15.6	15.7
	Long leasehold	0.6	0.7
	Short leasehold	0.5	0.1
		16.7	16.5
(ii)	The net book amount of group freehold land and buildings at 31 December 2001 includes £7.0 million (2000: £7.1 million) of depreciable assets.		
(iii)	The total cost or valuation of land and buildings comprises:		
	At cost	9.4	8.8
	At 1988 professional valuation	11.5	11.5
	At 1990 Directors' valuation	–	1.2
		20.9	21.5
(iv)	Historical cost figures for land and buildings, i.e. the original cost of all land and buildings and related depreciation are:		
	Historical cost	11.1	11.0
	Aggregate depreciation	(5.1)	(5.1)
	Net book amounts	6.0	5.9
(v)	Included in plant and machinery are the following assets which are held under finance leases:		
	Net book amount	0.8	0.5
	Depreciation charge to date	2.1	1.8

12. Fixed asset investments

Company	Group undertakings		
	Total £m	Shares £m	Loans £m
Cost or valuation at 1 January 2001	83.9	38.9	45.0
Net (decrease)/increase	(4.9)	38.3	(43.2)
(Increase)/decrease in provision charged to profit and loss account	(20.9)	(30.6)	9.7
Unrealised gain on revaluation of investments in subsidiary undertakings	5.2	5.2	–
Cost or valuation at 31 December 2001	63.3	51.8	11.5
Included within the above is the following movement on provisions:	Total	Shares £m	Loans £m
At 1 January 2001	(17.8)	(2.9)	(14.9)
(Increase)/decrease in provision charged to profit and loss account	(20.9)	(30.6)	9.7
Provision at 31 December 2001	(38.7)	(33.5)	(5.2)
If investments in shares in subsidiary undertakings had not been revalued they would have been included at the following amounts:			
	2001 £m	2000 £m	
Cost	66.7	28.4	
Aggregate amounts provided	33.3	2.6	
The principal subsidiary undertakings at 31 December 2001, which are all included in the consolidation are shown on page 36.			
Group	2001 £m	2000 £m	
Interest in joint ventures			
Share of gross assets	5.0	5.2	
Share of gross liabilities	(3.7)	(3.1)	
Impairment provision	(1.2)	–	
	0.1	2.1	

Notes to the Financial Statements continued

12. Fixed asset investments (continued)

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

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 50% interest in the Cape Goldsun joint venture incorporated in Taiwan for the manufacture of calcium silicate boards.

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 during 2001 for the provision of insulation services.

Included within the share of gross assets is the following goodwill arising on the acquisition of the Cape Goldsun joint venture:

Group	2001 £m	2000 £m
At 1 January	0.1	0.1
Impairment provision	(0.1)	-
At 31 December	-	0.1

13. Stocks

	Group	
	2001 £m	2000 £m
Contract work in progress	21.6	44.4
Less: progress payments received and receivable	(15.6)	(37.7)
Contract balances	6.0	6.7
Raw materials and consumables	3.6	4.2
Work in progress	1.3	1.6
Finished goods and goods for resale	3.0	5.2
	7.9	11.0
	13.9	17.7

Payments received on account in excess of the value of the work performed on the related contract are included within creditors (Note 15).

14. Debtors

	Group		Company	
	2001 £m	2000 (restated) £m	2001 £m	2000 (restated) £m
Amounts falling due within one year:				
Trade debtors	47.5	51.8	-	-
Amounts recoverable on contracts	6.2	8.5	-	-
Amounts owed by subsidiary undertakings	-	-	0.7	0.3
Other debtors	2.8	2.4	0.2	0.1
UK taxation	-	-	1.9	0.1
Prepayments and accrued income	4.4	4.4	-	-
	60.9	67.1	2.8	0.5
Amounts falling due after more than one year:				
Trade debtors	-	0.4	-	-
	60.9	67.5	2.8	0.5

Notes to the Financial Statements continued

15. Creditors: amounts falling due within one year

	Note	Group		Company	
		2001 £m	2000 £m	2001 £m	2000 £m
Finance leases	16	0.4	0.3	-	-
Bank loans and overdrafts		30.9	33.3	31.5	27.9
Short-term borrowings		31.3	33.6	31.5	27.9
Other creditors					
Payments received on account	13	2.9	6.7	-	-
Trade creditors		19.1	20.1	-	-
Payroll and other taxes, including social security		5.1	6.6	-	-
UK taxation		-	0.8	-	-
Overseas taxation		1.6	1.7	-	-
Other creditors		8.8	7.4	3.2	1.1
Accruals and deferred income		14.0	12.0	1.1	2.6
Government grants		0.3	0.4	-	-
		51.8	55.7	4.3	3.7
		83.1	89.3	35.8	31.6

The bank loans and overdrafts of £30.9 million (2000: £33.3 million) are secured over the UK assets of the Group.

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

	Note	Group		Company	
		2001 £m	2000 £m	2001 £m	2000 £m
Long-term borrowings					
Finance leases		0.2	0.4	-	-
Amounts owed to subsidiary undertakings		-	-	9.3	13.4
		0.2	0.4	9.3	13.4
				Group	
				2001 £m	2000 £m
The finance lease rentals fall due as follows:					
Within one year	15			0.4	0.3
Between one and two years				0.2	0.3
Between two and five years				0.1	0.2
Total rentals due				0.7	0.8
Less: finance charges allocated to future periods				(0.1)	(0.1)
				0.6	0.7
The aggregate of secured finance leases is shown as:					
Amounts falling due within one year	15			0.4	0.3
Amounts falling due between one and two years				0.2	0.4
				0.6	0.7

Finance leases are at the weighted average interest rate of 9.2% (2000: 11.6%) over an average period to termination of 1.0 years (2000: 1.2 years).

Notes to the Financial Statements continued

17. Provisions for liabilities and charges

	Total	South Africa settlement (iii)	Major litigation (ii)	Compensation for industrial disease (i)	Deferred taxation	Other provisions (iv)
	£m	£m	£m	£m	£m	£m
Group						
At 1 January 2001 (restated)	26.1	-	8.3	11.4	(1.5)	7.9
Charge/(release) to profit and loss account	18.7	17.9	(4.4)	4.2	0.5	0.5
Applications	(13.5)	-	(3.5)	(3.5)	-	(6.5)
At 31 December 2001	31.3	17.9	0.4	12.1	(1.0)	1.9
Company						
At 1 January 2001 (restated)	6.3	-	8.3	-	(2.2)	0.2
Charge/(release) to profit and loss account	15.3	17.9	(4.4)	-	1.8	-
Applications	(3.5)	-	(3.5)	-	-	-
At 31 December 2001	18.1	17.9	4.4	-	(0.4)	0.2

(i) The net charge to profit for the compensation for industrial disease in the year is £3.7 million (2000: £4.4 million) after £0.5 million (2000: £1.1 million) of insurance recoveries. The provision for industrial disease represents the expected costs of settling notified claims. It is anticipated that most of these claims will be paid in the next two years. Insurance recoveries of £3.1 million (2000: £3.6 million) are receivable against certain of these claims and are included in the Balance Sheet under "prepayments and accrued income". The basis for the provision and the contingent liability in respect of future settlements is described in Note 25 (i).

(ii) With the introduction of the South Africa settlement described below, it has been estimated that £4.4 million of the provision made for defence costs in the year 2000 is no longer required. The remaining provision will be utilised in 2002.

(iii) The provision of £17.9 million for the South Africa settlement represents the present day value of the £20.0 million payable under the terms agreed and £0.4 million for legal costs in respect of forming the settlement. Discussions in pursuit of a settlement continued between Cape PLC's representatives and those of the claimants in the South African Litigation throughout the late autumn of 2001 and culminated in an agreement for the South African Settlement being signed on 21 December 2001. The terms of the Settlement Agreement are that Cape will pay £20 million over 10 years to a trust set up in South Africa to compensate not only those claimants who are parties to the South African Litigation but also future sufferers from asbestos related diseases who can prove that their disease is likely to have resulted from the Group's operations in South Africa. Of the £20 million, £10 million was due to be paid by 30 June 2002 and annual payments of £1 million for 10 years thereafter. In addition, a contribution of £2.25 million will be paid in respect of the legal costs of the claimants. The South African government has agreed not to seek to recover from the Group the costs of environmental remediation arising from the Group's former mining activities in South Africa. It was originally intended that a South African trust would be formed and the South African Settlement completed by 30 June 2002. Owing to delays in the restructuring of the Group, the date for completion of the South African Settlement has been extended by agreement and, if necessary, further extensions may be negotiated.

(iv) Other provisions relate mainly to the amount expected to be incurred in respect of the decision made in 2000 to rationalise the manufacturing capacity in Cape Calsil. The remaining provision relates to the costs that are outstanding at 31 December 2001. It is anticipated that this provision will be utilised in 2002.

18. Share capital

	2001 £m	2000 £m
(a) Authorised		
Equity:		
73,663,439 ordinary shares of 25p each (2000: 73,663,439 ordinary shares of 25p each)	18.4	18.4
Non-equity:		
15,067 8.4% cumulative preference shares of £1 each (2000: 15,067)	-	-
250,000 3½% cumulative preference shares of £1 each (2000: 250,000)	0.3	0.3
431,906,031 deferred shares of 1p each (2000: 431,906,031)	4.3	4.3
	4.6	4.6
	23.0	23.0
(b) Called up, fully paid and allotted		
Equity:		
54,326,021 ordinary shares of 25p each (2000: 54,326,021)	13.6	13.6
Non-equity:		
250,000 3½% cumulative preference shares of £1 each (2000: 250,000)	0.3	0.3
431,906,031 deferred shares of 1p each (2000: 431,906,031)	4.3	4.3
	4.6	4.6
	18.2	18.2

Notes to the Financial Statements continued

18. Share capital (continued)

(c) Share options

The following share options in respect of ordinary shares were outstanding at 31 December 2001.

	Date of grant	Number of shares	Price	Date of exercise
Savings related share option scheme	7.4.95	45,422	206p	31.5.02
	5.4.96	32,933	167p	31.5.01 or 31.5.03
	7.5.99	99,160	68p	1.7.02
	7.5.99	322,492	68p	1.7.04

253,470 options lapsed during the year. All options must be exercised within six months of the above dates.

Executive share option scheme

	5.4.96	197,000	167p	5.4.99 to 5.4.06
	2.7.98	807,500	153.5p	2.7.01 to 2.7.08
	20.10.98	12,500	112.5p	20.10.01 to 20.10.08

273,500 options lapsed during the year

(d) 3½% Cumulative preference shares

Dividend rights: Fixed cumulative preferential dividend at the rate of 3½% per annum payable half yearly in arrears on 31 March and 30 September.

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.

19. Reserves

	Total £m	Share premium account £m	Revaluation reserve £m	Profit and loss account £m
Group				
At 1 January 2001	20.7	1.6	11.3	7.8
Prior year adjustment – FRS 17	28.9	–	–	28.9
At 1 January 2001 as restated	49.6	1.6	11.3	36.7
Reversal of goodwill previously written off to reserves	3.5	–	–	3.5
Transfer from revaluation reserve	–	–	(0.6)	0.6
Loss for the year	(32.7)	–	–	(32.7)
Actuarial loss on pension scheme	(25.2)	–	–	(25.2)
Movement on deferred tax relating to pension assets	7.1	–	–	7.1
At 31 December 2001	2.3	1.6	10.7	(10.0)
Company				
At 1 January 2001	20.7	1.6	13.3	5.8
Prior year adjustment – FRS 17	28.9	–	–	28.9
At 1 January 2001 as restated	49.6	1.6	13.3	34.7
Unrealised gain on revaluation of investments in subsidiary undertakings	5.2	–	5.2	–
Loss for the year	(34.4)	–	–	(34.4)
Actuarial loss on pension scheme	(25.2)	–	–	(25.2)
Movement on deferred tax relating to pension assets	7.1	–	–	7.1
At 31 December 2001	2.3	1.6	18.5	(17.8)

Notes to the Financial Statements continued

19. Reserves (continued)

	2001 £m	2000 (restated) £m
Profit and loss reserves comprise:		
Profit and loss account excluding pension asset	(27.5)	2.6
Pension reserve	17.5	34.1
Profit and loss reserve	(10.0)	36.7

The cumulative goodwill charged to reserves at 31 December 2001 was £9.2 million (2000: £12.7 million). This goodwill has been eliminated as a matter of accounting policy. It would be charged or credited in the Profit and Loss Account on subsequent disposal of the business to which it relates, or as a result of a change in accounting policy in 2001, if it has been unimpaired. As a result of this change in accounting policy, £3.5 million has been charged to the Profit and Loss Account during the year due to impairment.

Included in the Group Profit and Loss Account is a movement of £0.0 million (2000: deficit of £0.7 million) in relation to foreign currency borrowings.

As permitted by Section 230 of the Companies Act 1985 no separate Profit and Loss Account is presented for the Company. Of the Group loss for the year, a loss of £34.4 million (2000: loss of £4.3 million) is dealt with in the Financial Statements of the Company.

The prior year adjustment relates to the implementation of FRS 17. The adoption of FRS 17 has resulted in an increase in staff costs by £3.2 million (2000: £4.2 million) and other finance income of £3.2 million (2000: £4.0 million), a decrease in the tax charge of £0.4 million (2000: £0.7 million), a decrease in the loss for the year by £0.4 million (2000: £0.5 million) and an increase in recognised losses by £11.3 million (2000: increase of £6.0 million).

The prior year adjustment for FRS 17 comprises:	£m
Recognition of pension asset	34.1
Elimination of SSAP 24 prepayment	(7.5)
Elimination of SSAP 24 deferred tax on prepayment	2.3
	28.9

20. Consolidated cash flow statement

	2001 £m	2000 (restated) £m
(a) Reconciliation of operating loss to net operating cash flow from operating activities		
Operating loss	(33.7)	(17.4)
Joint ventures	0.7	0.5
Depreciation charge on fixed assets	8.0	7.7
Impairment of fixed assets	8.8	3.3
Impairment of joint venture	2.5	–
Impairment of goodwill previously written off to reserves	3.5	–
Loss on disposal of fixed assets	2.1	–
Difference between pension charge and cash contributions	1.7	1.8
Decrease/(increase) in stocks	4.0	(0.9)
Decrease/(increase) in debtors	4.4	(7.0)
(Decrease)/increase in creditors	(4.2)	8.2
Increase in provisions (excluding deferred tax)	11.8	8.6
Decrease/(increase) in other provisions	(5.3)	3.2
Net cash inflow from operating activities	4.3	8.0

As well as due to the effects of FRS 17, the year 2000 figures have been restated to reallocate 'operating exceptional provisions' of £7.4 million to other more appropriate cash flow headings within this note, and also to reflect the reclassification of £0.9 million of financing to net cash inflow from operating activities.

(b) Analysis of tax paid	2001 £m	2000 £m
UK corporation tax	1.7	(0.3)
Overseas tax	(2.3)	(0.4)
	(0.6)	(0.7)

	Note	At 31 December 2001 £m	Cash flow £m	Non-cash changes £m	Other exchange movement £m	At 1 January 2001 £m
(c) Reconciliation of movement in net debt						
Cash at bank and in hand		5.4	(11.2)	–	0.1	16.5
Short term borrowings	15	(30.9)	2.2	–	0.2	(33.3)
Finance leases	15&16	(0.6)	0.4	(0.3)	–	(0.7)
		(26.1)	(8.6)	(0.3)	0.3	(17.5)

Notes to the Financial Statements continued

20. Consolidated cash flow statement (continued)

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

Specific items within the operating cash flows relate to the operating exceptional items shown in Note 4. Of the amount of £28.9 million, £0.5 million relates to an outflow for the rationalisation of the Cape Calsil operations and the remainder results in a non-cash transaction.

21. Financial instruments

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.

The Group's approach to managing liquidity, currency and interest rate risk, and its use of forward currency contracts in that process, is described in the accounting policies on page 14 and 15.

(a) Interest rate risk profile of financial assets

The Group's financial assets comprise cash and long term debtors. These earn interest at a floating rate which is receivable at rates between 0.4% and 0.1% below the bank base rate. (2000: between 0.4% and 0.1% below the bank base rate).

	2001 £m	2000 £m
Analysis of financial assets by major currency at 31 December 2001:		
UK Sterling	0.2	0.4
Netherlands Guilder	–	3.6
Deutschmark	–	4.4
Euro	1.2	–
United States Dollar	1.1	3.9
Singapore Dollar	0.4	0.8
Saudi Arabian Riyals	–	0.5
Qatar Riyals	0.2	0.2
Bahrain Dinars	0.1	0.6
Malaysian Ringgits	1.0	–
Philippine Peso	0.1	0.3
UAE Dirhams	0.4	0.3
Other currencies	0.7	1.9
	5.4	16.9

Included in the year 2000 above is £0.4 million relating to long-term debtors. These were at a fixed rate of interest of 10% per annum.

(b) Interest rate risk profile of financial liabilities

The Group's financial liabilities comprise bank loans, overdrafts, finance leases, non-equity interests and certain provisions for liabilities. All bank overdrafts are at a floating interest rate of 1.5% (2000: 1.0%) over bank base rate and uncommitted borrowings at a floating interest rate of 1.5% (2000: 0.4%) over LIBOR.

The weighted average interest rate for the fixed rate finance leases is disclosed in Note 16. The non-equity interests comprise the deferred shares and 3½% cumulative preference shares which have no redemption entitlement other than on a winding up of the Company.

	2001 £m	2000 £m
Analysis of financial liabilities by major currency at 31 December		
£ Sterling		
– financial liabilities	14.3	11.3
– financial leases	0.6	0.7
– non-equity interests	4.6	4.6
Euro	6.6	9.1
United States Dollar	7.3	7.2
Singapore Dollar	2.7	3.5
Netherlands Guilder	–	2.0
Indian Rupees	–	0.2
	36.1	38.6

In addition to the above, the Group's provision of £17.9 million (2000: £nil) for the South African settlement (Note 17) meets the definition of financial liabilities. This liability is considered to be a 4.5% per annum floating rate financial liability. This is because, in establishing the provisions, the cash flows have been discounted at a rate of 4.5% per annum and the discount rate will be re-appraised at each reporting date to ensure that it reflects current market assessments of the time value of money and the risks specific to the liability.

Notes to the Financial Statements continued

21. Financial instruments (continued)

(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-redemable non-equity interests at 31 December was as follows.

2001	Bank loans and overdrafts £m	Finance leases £m	Other financial liabilities £m	2001 £m
In one year or less, or on demand	30.9	0.4	10.2	41.5
In more than one year but not more than two years	–	0.2	0.9	1.1
In more than two years but not more than five years	–	–	2.6	2.6
In more than five years	–	–	4.2	4.2
	30.9	0.6	17.9	49.4
2000	Bank loans and overdrafts £m	Finance leases £m	Other financial liabilities £m	2000 £m
In one year or less, or on demand	33.3	0.3	–	33.6
In more than one year but not more than two years	–	0.4	–	0.4
In more than two years but not more than five years	–	–	–	–
In more than five years	–	–	–	–
	33.3	0.7	–	34.0

Other financial liabilities includes the provisions for the South African settlement (Note 17)

(d) Borrowing facilities

The Group has no committed undrawn facilities as at 31 December 2001 (2000: nil).

The Group has total uncommitted facilities of £39.7 million (2000: £40.2 million), all of which are floating rate and all of which mature within one year.

(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.

	US\$ £m	Sing\$ £m	Euro £m	Other Currencies £m	Total £m
2001					
Functional currency of group operation:					
UK Sterling	1.5	0.4	1.6	0.4	3.9
UAE Dirhams	3.0	–	–	–	3.0
Malaysian Ringgits	1.7	–	–	–	1.7
Azerbaijan Manet	0.2	–	–	–	0.2
Kazakhstan Tenge	0.1	–	–	–	0.1
Phillipine Pesos	0.1	–	–	–	0.1
Qatar Riyals	0.1	–	–	–	0.1
Total	6.7	0.4	1.6	0.4	9.1
2000					
Functional currency of group operation:					
UK Sterling	0.2	1.2	0.9	–	2.3
UAE Dirhams	3.6	–	–	(0.1)	3.5
Azerbaijan Manet	0.4	–	–	–	0.4
Kazakhstan Tenge	0.1	–	–	–	0.1
Qatar Riyals	0.2	–	–	–	0.2
Total	4.5	1.2	0.9	(0.1)	6.5

Notes to the Financial Statements continued

21. Financial instruments (continued)

(f) Fair values of financial assets and financial liabilities

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

Summary of methods and assumptions

Forward foreign currency contracts	Fair value is based on the comparison of the foreign currency contract rate to the year end closing rate
Short-term deposits and borrowings	The value quoted of short-term deposits, loans and overdrafts are the actual balances owing.
Long-term borrowings	The value quoted of long-term loans are the actual balances owing.

(g) Hedges

As explained in the accounting policies on pages 14 and 15, the Group's policy is to hedge the following exposures:
Currency risk – using forward currency contracts for currency exposures on next year's expected sales.

The table below shows the extent to which the Group has off-balance sheet (unrecognised) and on-balance sheet (deferred) gains and losses in respect of financial instruments used as hedges at the beginning and end of the year. It also shows the amount of such gains and losses which have been included in the profit and loss account for the year and those gains and losses which are expected to be included in next year's or later profit and loss accounts.

All the gains and losses on the hedging instruments are expected to be matched by losses and gains on the hedged transactions or positions. Such gains and losses are treated as deferred for the purpose of the table below:

	Unrecognised			Deferred		
	Gains £m	Losses £m	Total net gains/losses £m	Gains £m	Losses £m	Total net gains/losses £m
Gains and losses on hedges at 1 January 2001	–	(0.2)	(0.2)	–	–	–
Arising in previous years	–	–	–	–	–	–
Included in 2001 income	–	–	–	–	–	–
Gains and losses not included in 2001 income						
Arising before 1 January 2000	–	–	–	–	–	–
Arising in 2000	–	–	–	–	–	–
Gains and losses on hedges at 31 December 2001	0.1	–	0.1	–	–	–

The year 2000 loss has not been realised since the contract matured at the contract rate. The same applies to the position at 31 December 2001.

(h) Financial instruments held for trading purposes

The Group does not trade in financial instruments.

22. Deferred taxation

	2001 £m	Movement £m	2000 (restated) £m
Group			
The provision for deferred taxation comprises:			
Excess of the book values of assets including finance leases qualifying for taxation allowances over their written down values for taxation purposes	–	(1.8)	1.8
Disposal of properties	0.1	–	0.1
Other timing differences	(1.1)	2.3	(3.4)
Provision for deferred taxation	(1.0)	0.5	(1.5)
Deferred tax liability on pension asset	7.5	(7.1)	14.6
	6.5	(6.6)	13.1

The Group has no potential liability for unprovided deferred taxation arising on timing differences between the treatment of items for accounts and taxation purposes at 31 December 2001 (2000: £nil).

Tax relief is available in respect of trading losses carried forward amounting to approximately £6.0 million (2000: £4.8 million). The losses carried forward are in certain subsidiary undertakings and can only be utilised against future profits of those undertakings. The Group also has a deferred tax asset in respect of other timing differences amounting to approximately £1.3 million which is not accounted for in the provision for deferred taxation due to the uncertainty as to when these timing differences will reverse.

Notes to the Financial Statements continued

22. Deferred taxation (continued)

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 intend to make such distributions.

Advance corporation tax written off to date amounts to £1.7 million (2000: £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 for deferred taxation as its recoverability is uncertain.

Company	2001 £m	Movement £m	2000 (restated) £m
The provision for deferred taxation comprises:			
Other timing differences	(0.4)	1.8	(2.2)
Deferred tax liability on pension asset	7.5	(7.1)	14.6
	7.1	(5.3)	12.4

23. Capital commitments

	Group	
	2001 £m	2000 £m
Capital expenditure authorised but not provided for in these accounts against which orders have been placed	0.2	0.8

24. Commitments under operating leases

	Group	
	2001 £m	2000 £m
Land and buildings		
Annual commitments under operating leases expiring:		
Within one year	0.2	0.3
Between one year and five years	0.3	0.4
After five years	0.1	-
	0.6	0.7
Other		
Annual commitments under operating leases expiring:		
Within one year	0.8	0.7
Between one year and five years	0.4	0.9
	1.2	1.6

25. Contingent liabilities

(i) There is a history of industrial disease claims being lodged for a number of years in the United Kingdom. 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 the cover will not be known until the details of the claims are available. As a result of these uncertainties, the amount of the Group's obligation cannot be measured with sufficient reliability. Accordingly, the Group provides in the Profit and Loss Account each year for the estimated liability in respect of industrial disease claims lodged and outstanding at the year-end.

If it were possible to assess reliably the present value of amounts that might be paid in future settlements such that this was 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 which could occur in excess of twenty years, but 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 prove inaccurate, there could be a material adverse effect on the Group's financial position.

25. Contingent liabilities (continued)

- (ii) The Company is the defendant in proceedings brought by some 7,500 South African residents who claim that they suffered injury as the result of mining activities in South Africa undertaken by former subsidiaries of Cape PLC which were sold in 1979. Following a decision of the House of Lords in July 2000, the claimants were allowed to pursue their action in the English courts and a High Court judge was appointed to manage the case.

Following discussion with the claimants representatives, agreement to stay these proceedings was reached in December 2001. Without any admission of liability, and subject to the satisfaction of certain conditions, including obtaining the consent of shareholders of Cape PLC and of the South African government not to assist future claims against Cape, a trust fund will be established to compensate not only claimants in the current proceedings but also future applicants to the trust who satisfactorily establish both exposure to asbestos as the result of the activities of the Company's former subsidiaries and that they have an asbestos related disease.

It is anticipated that, provided the conditions are satisfied, the trust will consist of an initial payment of £10 million and annual payments of £1 million for 10 years thereafter. It was originally intended that a South African Trust would be formed and the settlement completed by 30 June 2002. Owing to delays in the restructuring, the date for completion of the South African Settlement has been extended by agreement and, if necessary, further extensions may be negotiated.

If the conditions are not satisfied, the stay will be lifted and the litigation will resume. No firm date for a trial of the substantive case has been fixed, but it cannot be before September 2002.

On the assumption that the litigation is settled and that a trust is established, an operating exceptional charge of £17.9 million has been made in this year's accounts, representing the net present value of the Company's contingent obligation to make payments to the South African trust fund. The balance of the provision for the estimated costs of defending the action (£4.4 million) has been released.

If there is no settlement and the litigation resumes, the Directors believe that, if the case is decided in favour of the claimants, there may be a materially adverse effect on the Group's financial position disclosed in these financial statements. It is not possible to provide a reliable estimate of the amount or range of potential loss that could result from an unfavourable outcome.

- (iii) Certain companies in the group continue to be named, along with several asbestos fibre and asbestos product suppliers, as defendants in a significant 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 provided no defence is mounted or response made abroad, and so long as the normal rules governing corporate individuality apply, a default judgement obtained in North America against Companies within the Group which are not present in North America, would not be enforceable in the UK. Accordingly, Companies within the Group and who are not present in North America do not defend these actions. If any of these plaintiffs in North America, who obtain default judgement against a Group Company, sought to enforce it in the UK courts, such attempt would be likely to fail. The Directors believe, in the light of legal advice they have received, that the above-mentioned matters are unlikely to have a material effect on the Group's financial position.
- (iv) The parent Company has contingent liabilities amounting to £4.9 million (2000: £5.6 million) in respect of bank and other guarantees and indemnities, the majority on behalf of subsidiary undertakings. In addition, both the Company and its subsidiary undertakings have given guarantees and performance bonds of a normal trading nature.

26. Pensions

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

The pension expense in the period for the defined contribution pension scheme of £0.2 million (2000: £0.2 million) equalled the Group contributions to the scheme. Pensions for employees of overseas companies are provided in accordance with local requirements and practices.

The Company has fully adopted the arrangements of FRS 17. As a result the most recent full actuarial valuations referred to above were updated to 31 December 2001 and adjusted by qualified independent actuaries for the assumptions used as specified below:

Notes to the Financial Statements continued

26. Pensions (continued)

As at 31 December	2001	2000	1999
Rate of increase in pensionable salaries	3.50%	3.60%	3.60%
Rate of increase in pensions in payment	2.50%	2.60%	2.60%
Discount rate	5.50%	6.00%	6.00%
Inflation assumption	2.50%	2.60%	2.60%

Funded status and expected return on assets

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

	% p.a.	2001 £m	% p.a.	2000 £m	% p.a.	1999 £m
Equities	7.50%	58.8	7.50%	72.2	7.50%	79.7
Bonds	4.98%	48.6	4.68%	51.2	5.09%	49.1
Total market value of assets		107.4		123.4		128.8
Present value of scheme liabilities		(82.4)		(74.7)		(74.0)
Surplus in the schemes		25.0		48.7		54.8
Related deferred tax liability (see Note 22)		(7.5)		(14.6)		(16.6)
Net pension asset		17.5		34.1		38.2

Analysis of amount charged to operating profit in respect of defined benefit scheme:

Year to 31 December	2001 £m	2000 £m
Current service cost	1.7	1.8
Past service cost	—	—
Total operating charge	1.7	1.8

Analysis of amount credited to other finance income

Year to 31 December	2001 £m	2000 £m
Expected return on pension scheme assets	7.6	8.3
Interest on pension scheme liabilities	(4.4)	(4.3)
Net return	3.2	4.0

Analysis of amount in statement of total recognised gains and losses

	2001 £m	2000 £m
Actual return less expected return on pension scheme assets	(20.3)	(8.3)
Experience gain/(loss) arising on the scheme liabilities	—	—
Changes in assumptions underlying the present value of scheme liabilities	(4.9)	—
Actuarial loss in statement of total recognised gains and losses	(25.2)	(8.3)

Notes to the Financial Statements continued

26. Pensions (continued)

	2001 £m	2000 £m
Movement in surplus during the year		
Surplus in the scheme at the beginning of the year	48.7	54.8
Movement in the year		
Service cost	(1.7)	(1.8)
Contributions	—	—
Other finance income	3.2	4.0
Actuarial loss	(25.2)	(8.3)
Surplus in the scheme at the end of the year	25.0	48.7
History of experience gains and losses	2001 £m	2000 £m
Difference between the actual and expected return on scheme assets:		
Amount	(20.3)	(8.3)
Percentage of scheme assets	(19%)	(7%)
Experience gains and losses on scheme liabilities:		
Amount	—	—
Percentage of scheme liabilities	0%	0%
Total amount recognised in statement of total recognised gains and losses:		
Amount	(25.2)	(8.3)
Percentage of scheme liabilities	(31%)	(11%)

The valuation at 31 December 2001 showed a decrease in the surplus from £48.7 million to £25.0 million. As a result of the current surplus, it was agreed with the actuaries and trustees of the pension scheme that no contributions are to be paid for the foreseeable future.

The defined benefit scheme was closed to new members during the period. As a result, under the projected unit method of valuation, the current service cost will increase as the members of the scheme approach retirement.

27. Related party transactions

The Group's related party transactions during 2001, as defined by FRS 8, are summarised below:	2001 £m	2000 £m
Management service charges to the Group by Rutland Trust PLC to 30 October 2001	0.2	0.3
Management service charges to the Group by Montpellier Group Plc from 31 October 2001 (i & ii)	0.1	—
(i) Since 31 October 2001 Montpellier Group Plc has owned 29.9% of the ordinary share capital of Cape PLC. Montpellier Group Plc provided Mr P Sellars as the Chairman from 31 October 2001 and has provided property services and financial advice. See Note 5(b).		
(ii) Montpellier Group Plc were paid £42,000 for services provided during the year. Property fees of £120,000 were incurred from Cheltenham Land Company Limited, a subsidiary of Montpellier Group Plc.		

28. Subsequent events

- (i) The Company announced on 22 July 2002 that it has exchanged contracts for the sale of the major part of its manufacturing division, Cape Calsil to Promat Glasgow Limited ("Promat") a subsidiary of Promat International NV, a part of the Belgian Etex group.

The sale is conditional amongst other things, on receiving merger clearance in the UK and other European countries and on the consent of Cape's shareholders. The Company has also given certain warranties and indemnities. The consideration for the sale is £9.2 million, subject to an adjustment by reference to the value of certain assets and to the extent that any apportion needs to be made of prepayments and creditors. On completion of the sale, £1.5 million of the consideration will be placed in a retention account to be released over a six month period according to the amount of product made available to Promat during the six month transitional period after completion. £1.3 million will be placed in a trust account which could remain open until 2052 and is to be used solely to meet possible future industrial disease claims from employees who transfer to Promat as part of the sale. Cape could be obliged to pay up to a further £0.8 million of the consideration it will receive at completion into the trust account in the event that employees from the Uxbridge site transfer to Promat. The remaining proceeds from the sale will be used to repay bank debt. The book value of the net assets of Cape Calsil at 31 December 2001 is £19.4 million of which £9.9 million have been sold and the remaining £9.5 million will be retained by the Company for subsequent disposal. Further financial information on Cape Calsil is given in Note 1(a).

- (ii) The Company received an indicative offer of new banking facilities, details of which are given in Note 2 of the Accounting Policies.

- (iii) Subsequent to 31 December 2001, the Group decided to dispose of its shareholding in the Cape Goldsun joint venture to Goldsun Development & Construction Co Ltd for a nominal value. There is no profit or loss arising on disposal as the Group share of the net assets was fully written down at the year end.

Principal Subsidiary Undertakings

as at 31st December 2001

Cape Industrial Services

Wakefield

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

The provision of specialised services to the contracting industries in the UK and internationally. Industrial insulation, scaffolding, painting, fire protection, refractory and asbestos removal services, hire and sale of scaffolding equipment and factoring insulation products.

Cape Industrial Services Limited*

Wakefield

Co-ordination of industrial services activities in the UK.

St. Albans

Co-ordination of international industrial services activities.

Cape East Private Limited*

Singapore

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

Cleton Insulation BV*

Vlaardingen, The Netherlands

Co-ordination of industrial services activities in Continental Europe.

Cape East EC*

Bahrain

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

Cape Calsil

Uxbridge

Managing Director: Ian Maclellan
Telephone 44(0) 1895 463000

Manufacture and supply of high performance products for use in building, construction and general industry.

Cape Calsil Systems Limited*

Uxbridge, Glasgow, Caerphilly

Manufacture and supply of non-combustible fire protection and high performance boards, calcium silicate industrial and insulation products.

Cape Asia Pacific Private Limited*

Singapore

Co-ordination of marketing and sales in the Asia Pacific region.

Cape Calsil Belgium SPRL*

Mechelen, Belgium

Marketing and sales in Belgium.

Cape Calsil France SA*

Paris, France

Marketing and sales in France and Spain.

Cape Calsil Deutschland GmbH*

Cologne, Germany

Marketing and sales in Germany.

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 shareholdings in subsidiary undertakings are in ordinary shares which are held by Cape PLC except for those marked with an asterisk whose shares are held by subsidiaries.
3. Except where indicated all subsidiary undertakings are wholly-owned and incorporated in Great Britain and registered in England and Wales.

Notice of Annual General Meeting

Notice is hereby given that the one hundred and ninth Annual General Meeting of Cape PLC (the 'Company') will be held at Iver Lane, Uxbridge, Middlesex UB8 2JQ on 8 October 2002 at 12 noon when the following business will be considered:

Resolution 1

To receive the audited accounts and the reports of the Directors and the Auditors thereon for the year ended 31 December 2001.

Resolution 2

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

Resolution 3

To re-appoint Mr I R Widdowson, who retires by rotation, as a Director of the Company.

Resolution 4

To re-appoint Mr P R Ainley, who retires by rotation, as a Director of the Company.

Resolution 5

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

To propose the following Resolutions as special resolutions:

Resolution 6

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

- (i) to the allotment of equity securities in connection with a rights issue in favour of the holders of ordinary shares where the equity securities attributable to the interests of such shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them subject only to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements, legal or practical problems arising in any overseas territory or by virtue of shares being represented by depository receipts, the requirements of any regulatory body or stock exchange, or any other matter whatsoever; and
- (ii) to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities to any person up to an aggregate nominal value of £679,075 (representing 5% of the issued ordinary share capital at 26 July 2002).

Such power shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2003 or, if earlier, the expiry of the s.80 Authority, except that the Directors shall be entitled to make at any time prior to the expiry of the power hereby conferred any offer or agreement which would or might require equity securities to be allotted after the expiry of such power and the directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

Resolution 7

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

- (i) the maximum number of ordinary shares hereby authorised to be acquired is 8,140,000;
- (ii) the minimum price which may be paid for any such share is 25p;
- (iii) the maximum price which may be paid for any such share is an amount equal to 105% of the average of the middle market quotations for an ordinary share in the Company as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such share is contracted to be purchased;
- (iv) the authority hereby conferred shall expire on 7 October 2003;
- (v) the Company may make a contract to purchase its ordinary shares under the authority hereby conferred prior to the expiry of such authority, which contract will or may be executed wholly or partly after the expiry of such authority, and may purchase its ordinary shares in pursuance of any such contract.

By Order of the Board

S H Smith

Secretary
5 September 2002

Registered Office:

Iver Lane
Uxbridge
Middlesex
UB8 2JQ
Registered in England:
Number 40203

1. This notice is sent for information only to the holders of the 3½% cumulative preference shares and the holders of share options.
2. Any ordinary shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company. A proxy form is enclosed. Proxy forms should be received by the Company's registrars at the address on the back of the form not less than 48 hours before the time fixed for the meeting.
3. The Company has not entered into any Directors' service contracts of more than one year's duration or with provisions for predetermined compensation on termination of an amount which equals or exceeds one year's salary and benefits in kind.

Five Year Financial Summary

		Year ended 31 December 2001	Year ended 31 December 2000 (restated)	Year ended 31 December 1999	Year ended 31 December 1998	Year ended 31 December 1997
	Note	£m	£m	£m	£m	£m
Profit and Loss Account						
Turnover						
Continuing operations	(i)	266.6	239.1	239.1	244.4	243.2
Operating profit/(loss)						
Continuing operations	(ii)	(1.8)	(1.7)	10.2	13.1	12.3
Operating exceptional items		(31.9)	(15.7)	–	(3.3)	(2.5)
(Loss)/profit on ordinary activities before interest		(33.7)	(17.4)	10.2	9.8	9.8
Net interest payable		(1.9)	(1.6)	(1.1)	(1.0)	(0.9)
Other finance income		3.2	4.0	–	–	–
(Loss)/profit on ordinary activities before taxation		(32.4)	(15.0)	9.1	8.8	8.9
Tax on (loss)/profit on ordinary activities		(0.3)	0.5	(2.7)	(2.8)	(2.6)
(Loss)/profit attributable to ordinary shareholders		(32.7)	(14.5)	6.4	6.0	6.3
Compensation for industrial disease	(iii)	(3.7)	(4.4)	(3.2)	(2.9)	(2.9)
(Losses)/earnings per ordinary share		(60.0)p	(26.8)p	11.7p	15.5p	15.7p
Dividend per ordinary share		0.0p	2.0p	7.0p	7.0p	6.5p
Balance Sheet						
	Note	£m	£m	£m	£m	£m
Employment of capital						
Fixed assets		37.4	47.8	46.9	45.3	42.0
Pension asset		17.5	34.1	–	–	–
Other net (liabilities)/assets		(8.3)	3.4	18.0	17.3	13.6
		46.6	85.3	64.9	62.6	55.6
Capital employed						
Capital and reserves		20.5	67.8	55.2	53.6	51.1
Net borrowings		26.1	17.5	9.7	9.0	4.5
		46.6	85.3	64.9	62.6	55.6
Net assets per ordinary share	(iv)	37.7p	125p	102p	99p	94p

Notes:

- (i) Turnover includes the Group's share of the turnover of the joint ventures.
- (ii) Operating profit is before operating exceptional items and after Cape's share of operating (loss)/profit in joint ventures.
- (iii) Compensation for industrial disease represents amounts charged to the profit and loss account. It is before additional operating exceptional items relating to the South African litigation.
- (iv) Net assets per ordinary share has been calculated on the basis of deferred shares having no real value.

Products

Fire Barriers and Doors

Durasteel Industrial Doors
Durabloc Insulation Barriers
Durasteel Hydrocarbon
Durasteel SS Barriers
Durasteel Fire Blast
Masterboard
Supalux

Partitioning & Internal Wall Linings

DecoStyle
Masterboard
Masterclima
Pyrok
Steriboard
Supalux
Master Impact
GP Class O Board

Cladding

BluClad
(Masterfacade, Masterfasadi)
Masterclad (Supaclad)
Pyrok (Masterpanel)

Ceiling & Steelwork

Fire Protection

Durasteel
Monolux 40
Supalux
Supalux Ceiling Panels
Vermiculux
Ceiling Panels
Steriboard Ceiling Panels

Ducting

Duraduct
Duraflex
Durastop
Monolux
Supalux L
Supalux M

Roofing

Mastersoffit
(Masterpanel)
Supalux (Supalux S)
Under-cloaking

Flooring

Durabloc
Pyrok (Masterpanel)
Supalux (Supalux S)
Acoustifloor

Industrial/OME & Marine

Cape Lightweight System
Dalfratex
Duraflex DXP
Duratec A, 750 and 1000
Marine Board
Modlag
Monalite M1, M1-A and G4
Monolux 500, 800 and 250
Newtherm 800, 1000 and 1050
Salu 800, 1000 and 1100

Services

Insulation

The Division provides thermal and acoustic insulation for industrial applications. Thermal insulation is provided for temperature maintenance, personnel protection and for the conservation of heat and efficient cryogenic insulation at temperatures down to -160°C. Cape can provide heat loss calculations and evaluate savings from thermal insulation. The Division also has infra-red equipment to enable it to undertake surveys of thermal insulation efficiency.

Scaffolding

Scaffolding is provided to enable site operators and other contractors to obtain access to all parts of an industrial plant. This can be for routine maintenance, shutdowns, major projects or new construction. Cape Industrial Services both supplies and erects scaffolding. Computer-aided design is used where appropriate.

Cape's UK network of hire and sale depots provides access and associated equipment to contractors and end users.

Specialist Coatings

The provision of a complete range of coatings for a variety of structures, including petrochemical plants, refineries and offshore installations in the North Sea. Cape Industrial Services provides surface protection and the application of coatings to prevent corrosion of bare surfaces or those to be insulated and clad.

Fire Protection

The application of fire protection to a variety of structures in environments ranging from the extreme weather conditions in the North Sea to onshore petrochemical and other installations exposed to fire risk. Cape Industrial Services offers a range of proprietary systems including products such as Durasteel from Cape Calsil.

Refractory Linings

The lining of boilers, furnaces, kilns and high temperature petrochemical reactors with materials to withstand temperatures in excess of 1000°C. Incorporating the business of RB Hilton, Cape Industrial Services offers design, supply and installation services to clients world-wide.

Associated Services

In response to client needs Cape Industrial Services seeks to maximise the range of industrial services offered. These include industrial cleaning, fabrication of both insulation and sheet metal and, for offshore installations, the provision of an integrated facilities management support service including lifting, crane operations and janitorial services through specialist partners.

Financial Calendar

Annual General Meeting

8 October 2002.

Dividend payments

3½% cumulative preference shares 31 March and 30 September.

Announcement of results

Interim results announced September 2002.

Final results announced March 2003.