

Directors' report

The Directors have pleasure in submitting their report and audited financial statements of the Group and the Company for the year ended 31 December 2010.

Principal activities

Cape plc is a holding company. The principal activities of its subsidiary undertakings ('subsidiaries') during the year were the provision of essential non-mechanical fabric maintenance and construction support services. The range of services included access systems, insulation, refractory, painting, coatings, blasting, industrial cleaning, training and assessment.

Business review and future developments

The Directors present a Business Review as required by section 417 of the Companies Act 2006. This comprises:

- the Chairman's statement on pages 2 and 3 of the Annual Report;
- the Chief Executive's review on pages 4 and 5 of the Annual Report;
- the Operating and financial review on pages 10 to 21 of the Annual Report;
- the five-year financial summary and key performance indicators on page 91 of the Annual Report; and
- the discussion of the risks and uncertainties facing the Group set out on pages 26 and 27 of the Annual Report.

Share listing

During the year, the Company's Ordinary Shares were traded on AIM, a market operated by the London Stock Exchange. The Company also has in issue one plc Scheme Share. The rights and obligations attached to each share class are listed below:

Ordinary shares of 25p ('Ordinary Shares')

Following approval by shareholders on 13 April 2011 of the repurchase and cancellation of the outstanding 250,000 Preference shares of £1, the Company's Ordinary Shares represent approximately 100% of its total issued share capital. At a meeting of the Company every member present in person or by proxy shall, have one vote for every Ordinary Share of which they are the holder. Holders of Ordinary Shares are entitled to receive dividends. On a winding-up or other return of capital, holders are entitled to share in any surplus assets pro rata to the amount paid up on their Ordinary Shares. The Ordinary Shares are not redeemable at the option of either the Company or the holder. There are no restrictions on the transfer of Ordinary Shares.

plc Scheme share of £1 ('Scheme Share')

The Company has only one Scheme Share in issue. The Scheme Share carries two votes for every vote which the holders of the other classes of shares in issue are entitled to exercise on any resolution proposed during the life of the Scheme to engage in certain activities specified in the Company's Articles of Association. The Scheme Share is held on behalf of the Scheme creditors. The Company will not be permitted to engage in certain activities specified in the Company's Articles of Association without the prior consent of the holder of the Scheme Share. The rights attaching to the Scheme Share are designed to ensure that Scheme assets are only used to settle Scheme claims and ancillary costs. The Scheme Share does not confer any right to receive a distribution or any right to receive a return of surplus capital. The Scheme Share holder has the right to require the Company to redeem the Scheme Share at par value on or at any time after the termination of the Scheme.

Treasury shares

The Company currently holds no Ordinary Shares in treasury.

Principal subsidiaries and branches

Details of the Company's principal subsidiaries are listed on page 90. The Group also has branches located in Azerbaijan, Kazakhstan, New Caledonia, Ireland, Trinidad, Tunisia and Turkmenistan.

Dividends

On 10 October 2010 Cape paid its first dividend in 10 years with an interim distribution of 4 pence per share (2009: nil pence).

The Board is recommending a Final Dividend of 8 pence per Ordinary Share (2009: nil) to give a total dividend of 12 pence in respect of the year ended 31 December 2010 (2009: nil) reflecting our continued confidence in the longer term prospects for the Group. Subject to approval by shareholders at a General Meeting of the Company convened for 25 May 2011, the Final Dividend of 8 pence per Ordinary Share will be paid on 3 June 2011 to shareholders on the register at the record date of 13 May 2011.

Property, plant and equipment

Details of the movements in property, plant and equipment are given in note 14 to the Group financial statements on page 62.

Charitable and political donations

During the year the Group made charitable donations of £20,521 (2009: £17,906) towards various local and national causes. There were no political donations (2009: £nil).

Directors' indemnities

As permitted by the Companies Act 2006, the Company has indemnified the Directors and officers in respect of proceedings which may be brought by third parties and such indemnification was in place throughout the year. Neither the Company's indemnity nor insurance provides cover in the event that a Director or officer is proved to have acted fraudulently or dishonestly.

A qualifying indemnity provision has also been made by the Company and was in force throughout the financial year for the benefit of the directors of the Company's subsidiaries.

Supplier payment policy

The supplier payment policy for Group companies is to agree terms and conditions for business transactions with suppliers. Suppliers are made aware of the Group's terms of payment. Payment is then made subject to these terms and conditions being met. The Company did not have any amounts owed to trade creditors at the end of the year (2009: nil). The Group had £37.0 million of trade payables at the end of the year (2009: £30.0 million) which represented 55 payable days (2009: 43).

Treasury policy

The Group's policy on treasury and financial risk (see note 23) is set by the Board and is subject to regular reporting and review. The main risks faced by the Group relate to foreign currency risk and liquidity risk.

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

The Group's committed facilities all carry interest rates based on LIBOR and therefore the Group is exposed to interest rate movements. As at 31 December 2010, 59.6% of the Group borrowings were hedged (2009: 56%).

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The Group and Parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the Group financial statements comply with IFRSs as adopted by the European Union, and with regard to the Parent Company financial statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the Group and Parent Company financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the Group and Parent Company financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. 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 Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the current Directors, whose names and functions are listed on page 29, confirms that, to the best of his knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the risks and uncertainties that it faces, set out in the risks and uncertainties review on pages 26 and 27.

The Directors are responsible for the maintenance and integrity of the Group website www.capeplc.com. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of disclosure of information to auditors

So far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware. Relevant information is defined as information needed by the Company's auditors in connection with preparing their report. Each Director has taken all the steps (such as making enquiries of other Directors and the auditors and any other steps required by the Director's duty to exercise due care, skill and diligence) that he ought to have taken in his duty as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Substantial holdings

The Directors have been advised that as at 19 April 2011 the following have interests of 3% or more in the issued ordinary share capital of the Company:

Institution	No. of shares	% holding
M&G Investment Management	15,225,976	12.91
BlackRock	10,958,772	9.29
Deutsche Bank as principal	7,831,797	6.64
Four Capital Partners	4,780,397	4.05
JPMorgan		
Asset Management	4,613,870	3.91
Slater Investments	4,579,217	3.88
Acadian Asset Management	3,570,232	3.03

The Company has not received notification of any other interests held by persons acting together which at 19 April 2011 represented 3% or more of the issued ordinary share capital.

Purchase of own shares

At the Annual General Meeting held on 20 May 2010, shareholders approved a resolution to authorise the Company generally and unconditionally to make one or more market purchases of the issued Ordinary Shares of the Company up to a maximum aggregate nominal value of £2,900,921 (representing 10% of the Company's then issued ordinary share capital). No shares were purchased under this authority during the year.

General Meeting

The Company has recently mailed to shareholders a Circular containing inter alia details of a proposed Scheme of Arrangement (the "Scheme") to establish a new Jersey incorporated holding company of the Cape Group and related matters (the "Proposals") and convening a General Meeting to approve the Proposals ("GM").

In addition, at the GM, shareholders will be asked to approve the Final Dividend for the year ended 31 December 2010, and changes to long-term incentive arrangements including the introduction of a revised Performance Share Plan. Copies of the Circular may be obtained from the Company's registered office at 9 The Square, Stockley Park, Uxbridge, Middlesex UB11 1FW, and are available on the Cape Group's website at www.capeplc.com.

Subject to approval of the Proposals, and to the Scheme becoming effective, it is intended that the new holding company will hold its first annual general meeting in September 2011, and details will be sent to shareholders in due course. At that annual general meeting it is intended that resolutions will be proposed inter alia to re-elect Tim Eggar, Martin K May, Richard Bingham, David McManus and Michael Merton as Directors of the new holding company, and to reappoint the auditors.

The proposed new holding company has also published a Prospectus in connection with its planned introduction to the Premium Listing Segment of the Official List of the Financial Services Authority and to trading on the London Stock Exchange's main market, copies of which are available on the Cape Group's website at www.capeplc.com.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office.

By order of the Board

Jeremy Gorman

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16 May 2011