Notes to the financial statements

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (IFRSs as adopted by the EU), International Financial Reporting Interpretations Committee (IFRIC) interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention as modified by derivatives at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2.

The accounts for the Parent Company, Cape plc, have been prepared in accordance with UK Generally Accepted Accounting Practice (GAAP). The Company accounts are presented in separate financial statements on pages 83 to 90.

1.2. Going concern

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

1.3. Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010:

- IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income.

There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. This revision has not had a material impact on the Financial Statements of the Group.

- IAS 27 (revised) (effective 1 July 2009) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. IAS 27 (revised) has had no impact on the current period, as none of the non-controlling interests have a deficit balance; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity. The dividend paid during the year of £1.3m has been treated as a reduction in non-controlling interest and in accordance with the revised standard.
- IFRS 1 (revised) 'First time adoption' is not applicable to the Group.

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

- IFRIC 12, 'Service concession arrangements' effective 30 March 2009.
- IFRIC 15, 'Arrangements for construction of real estates' effective 1 January 2009 but EU endorsed for 1 January 2010.
- IFRIC 16, 'Hedges of a net investment in a foreign operation' effective 1 July 2009.
- IFRIC 17, 'Distributions of non-cash assets to owners' effective 1 July 2009.
- IFRIC 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009 (EU endorsed on 1 October 2009).
- IAS 39 (amendment), 'Financial instruments: Recognition and measurement', on eligible hedged items effective 1 January 2010.
- IFRS 2 (amendment), 'Group cash-settled share-based payment transactions', effective from 1 January 2010.
- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirements of IAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

(c) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted.

- IFRS 9, 'Financial instruments', issued in November 2009 and amended in October 2010. This standard is part of the process to replace IAS 39, 'Financial instruments: recognition and measurement' (effective date 1 January 2010).
- Revised IAS 24 (revised), 'Related party disclosures', issued in November 2009.
- 'Classification of rights issues' (amendment to IAS 32), issued in October 2009.
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010.
- 'Prepayments of a minimum funding requirement' (amendments to IFRIC 14). The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'.

1.4. Reclassification of short term facility at 31 December 2009

The Group has reclassified a short-term facility which was netted off against cash and cash equivalents to short-term borrowings. The impact of this reclassification is that the 31 December 2009 cash and cash equivalents and borrowings have been restated by £13.4 million. The table below shows the restatement of the balance sheet summarised by the categories affected by the change.

	Notes	2010 £m	Restated 2009 £m	Restated 2008 £m
Current assets				
Inventories	18	**8.8**	17.3	17.2
Trade and other receivables	19	**170.1**	156.0	184.7
Cash – IDC[c] Scheme funds (restricted)	20	**31.6**	33.8	37.5
Cash and cash equivalents	21	**95.8**	66.7	46.1
		306.3	273.8	285.5
Current liabilities				
Borrowings	22	**(34.4)**	(45.4)	(51.7)
Derivative financial instruments	23	**(4.1)**	(4.4)	(6.9)
Trade and other payables	24	**(100.3)**	(95.7)	(133.0)
Current income tax liabilities	25	**(13.1)**	(11.3)	(9.4)
		(151.9)	(156.8)	(201.0)

(c) IDC refers to the Industrial Disease claims which are funded using the Scheme cash (note 34).

2. Accounting policies

The Group's key accounting policies are set out below. These policies have been prepared on a historic cost basis and under recognition and measurement requirements of IFRS standards in effect that apply to accounting periods beginning on or after 1 January 2010.

Basis of consolidation

(a) A business combination is recognised where separate legal entities or businesses have been brought together within the Group.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

(b) Transactions with non-controlling interests
The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss.

The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(c) Joint ventures
Joint ventures are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in the joint venture includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of the joint venture's post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

If the ownership interest in a joint venture is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Unrealised gains on transactions between the Group and the joint ventures are eliminated to the extent of the Group's interest in the joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Dilution gains and losses arising in joint ventures are recognised in the income statement.

(d) Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(e) All subsidiary undertakings have year-end dates of 31 December except Cape Industrial Services Group Limited which prepares accounts to 31 March and last prepared annual accounts to 31 March 2010.

Foreign currencies
(a) Functional and presentational currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('functional currency'). The consolidated financial statements are presented in GB pounds, which is the Group's functional and presentational currency.

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

(c) Group companies
The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of the balance sheet;
– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case the income and expenses are translated at the rate on the dates of the transaction); and
– all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recognised in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rate.

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets acquired. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to the appropriate cash generating unit for the purpose of impairment testing. Any impairment is recognised immediately through the income statement and is not subsequently reversed. Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose.

Intangible assets
Intangible assets are recognised if it is probable that there will be future economic benefits attributable to the asset, the cost of the asset can be measured reliably, the asset is separately identifiable and there is control over the use of the asset. The assets are amortised on a straight line basis over the period over which the Group expects to benefit from these assets, ranging from three to five years.

Property, plant and equipment
Property, plant and equipment is stated at cost net of accumulated depreciation and any provision for impairment. Cost comprises purchase cost together with any incidental costs of acquisition. Certain land and buildings are held at previous revalued amounts less accumulated depreciation as these amounts have been taken as their deemed cost at the date of transition to IFRS in accordance with the exemption under IFRS 1 'First-time Adoption of IFRS'.

Depreciation is provided to write off the cost 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 assets' residual values and useful economic lives are reviewed, and adjusted as appropriate, at each balance sheet date. The following rates are applied:

- freehold buildings – 50 years;
- leasehold land and buildings – the shorter of 50 years/the period of the lease; and
- plant, machinery, and fixtures and fittings – 1-7 years.

The entity applies the cost model in accounting for investment property. The investment property relates to land held at cost less any provision for impairment.

Impairment of assets (excluding goodwill)
The entity assesses at each reporting date whether an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where the recoverable amount is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement.

Trade receivables
Trade receivables are recognised and carried at fair value and subsequently measured at amortised cost, less any provision for impairment. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows.

Trade payables
Trade payables are recognised initially at fair value and subsequently measured at amortised cost.

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

(b) Operating leases
Payments made under operating leases, net of any incentives received from the lessor, are charged to the income statement on a straight line basis over the period of the lease.

Dividend distribution
Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

Critical accounting estimates and judgements
The preparation of these financial statements requires management to make judgements and estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue during the reporting period. Actual results could differ from these estimates. Information about such judgements and estimations are contained in individual accounting policies.

The key judgements and sources of estimation uncertainty that could cause an adjustment to be required to the carrying amount of asset or liabilities within the next accounting period are outlined below:

(a) Carrying amount of certain assets and goodwill
In reviewing the carrying value of certain assets and goodwill, estimates of future financial performance of the assets and businesses concerned are taken into account. The estimates inherently include assumptions about internal and external factors that, whilst considered reasonable at the date of these accounts, may change in the future from those levels currently expected. The carrying value of goodwill has been considered fully in note 13.

(b) Pensions and other post retirement costs
The liability in respect of the Group's retirement benefit obligations is dependent on a number of estimates including those relating to mortality, inflation, salary increases and the rate at which liabilities are discounted. Any change in these assumptions would impact the retirement benefit obligation recognised. Further information on the assumptions used is disclosed in note 16.

(c) Revenue recognition and assessment of construction contract performance
Revenue and profit on long-term construction contracts are usually recognised according to the stage of completion of the contract, which is calculated by reference to the estimated contract revenues and expected costs including provisions. The judgements made in this process are considered to be appropriate; however, a change in these estimates would have an impact on the amount of revenue, costs and profits recognised.

(d) Industrial disease claims
Provision is made for compensation for industrial disease claims where it is possible to estimate the liability with sufficient reliability. The key critical accounting estimates and assumptions in respect of the provisions for industrial disease are detailed in note 26.

(e) Deferred tax assets
Deferred tax has only been recognised where it is assumed that the deferred tax asset is recoverable. The accumulated losses reported by the Group for tax purposes in various tax jurisdictions have not been recognised as deferred tax assets where the Directors hold the view that it is unlikely that the Group will be able to utilise them in the future. Further information on the assumptions used is disclosed in note 17.

Compensation for industrial disease
Provision is made for compensation for industrial disease where it is possible to estimate the liability with sufficient reliability. This is in respect of both claims lodged and outstanding at the period end and future potential claims. Benefit is recognised for insurance recoveries for claims provided when they are anticipated with virtual certainty.

Provisions
Provisions for liabilities are made where the timing or amount of settlement is uncertain. A provision is recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the obligation. The charge incurred in respect of the unwind of the discount is recognised in finance costs in the income statement.

Inventories
Inventories which include raw materials and work in progress are stated at the lower of cost and net realisable value. Raw materials are valued based on first in first out method.

Net realisable value is the estimated selling price in the ordinary course of business less selling expenses. Allowance is made for obsolete and slow moving items based on annual usage.

Revenue recognition
Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue recognition in relation to construction contracts is described in the accounting policy for construction contracts. Revenue is recognised in relation to non-construction contracts when the service is rendered.

Construction contracts
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. For short-term contracts, revenue and profit are recognised according to work executed. Amounts taken to revenue in respect of work done but not billed are included within amounts recoverable on contracts. Costs incurred, including an appropriate allocation of overheads and attributable profits, in respect of long-term contracts are included in work in progress net of progress payments received and provisions for foreseeable losses. Provision is made in full for any losses as soon as they can be foreseen. Any payments on account or provisions for foreseeable losses in excess of contract balances are included in trade and other payables. Revenue and attributable profit on long-term contracts is recognised according to the percentage of estimated total contract value completed or the achievement of contractual milestones provided that the outcome of the contract can be assessed with reasonable certainty.

Taxation
Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised, using the full liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantially enacted, by the balance sheet date and are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not be reversed in the foreseeable future.

Exceptional items
Exceptional items represent income and expenses relating to non-recurring transactions that are significant, by virtue of their size or nature, and therefore relevant to understanding the Group's financial performance and are shown separately to provide a better indication of the underlying results of the business.

Employee benefits
The Group operates both defined benefit and defined contribution schemes.

A defined contribution scheme is a pension scheme under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employment in the current or prior periods. The pension expense for defined contribution schemes represents contributions payable in the year.

A defined benefit scheme is a pension scheme that is not a defined contribution scheme. The asset recognised in the balance sheet in respect of the defined benefit scheme is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets. The defined benefit obligation is calculated tri-annually by independent actuaries using the projected unit method and this valuation is updated at each balance sheet date. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Current and past service costs, finance costs and expected returns on assets are charged to operating profit. 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 full in the statement of recognised income and expense.

The pension schemes' deficits or surpluses, (to the extent that any surpluses are considered recoverable), are recognised in full and presented on the face of the balance sheet.

Under IFRIC 14 the recoverability of a surplus must be assessed against the minimum funding requirements of the pension scheme.

The Group operates gratuity schemes in certain overseas countries. These are accounted for in accordance with IAS 19 and accounting follows the same principles as for a defined benefit scheme.

Accounting for derivative financial instruments and hedging activities
The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Derivatives are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their fair value.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swaps is determined by reference to market values of similar instruments.

For the purpose of hedge accounting, hedges are classified as:

- net investment hedges when hedging the exposure to changes in the value of the Group's interests in the net assets of foreign operations; and
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

The Group formally designates and documents the relationship between the hedging instrument and the hedged item at the inception of the transaction, as well as its risk management objectives and strategy for undertaking various hedge transactions. The documentation also includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of the hedging instruments in offsetting the exposure to changes in the fair value of the hedge or the cash flows attributable to the hedged risk. The Group also documents its assessment, both at inception and on an ongoing basis, of whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken to the income statement. The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship, as follows:

(a) Net investment hedges
For net investment hedges, the gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

(b) Cash flow hedges
For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the income statement. Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Borrowings
Borrowings are recognised initially at the amount of the consideration received after deduction of issue costs. Issue costs together with finance costs are charged to the income statement over the term of the borrowings and represent a constant proportion of the balance of capital repayments outstanding.

Cumulative preference shares are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Cash and cash equivalents
Cash and cash equivalents include cash in hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Restricted cash relating to the Scheme of Arrangement (see notes 20 and 34) is excluded from cash and cash equivalents for the purpose of the Group statement of cash flows.

Share capital
Ordinary shares and deferred shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Share based payments
The Group issues equity settled share based payments to certain employees which must be measured at fair value and recognised as an expense in the income statement with a corresponding increase in equity. The fair values of these payments are measured at the dates of grant using option pricing models, taking into account the terms and conditions upon which the awards are granted. The fair value is recognised over the period during which employees become unconditionally entitled to the awards subject to the Group's estimate of the number of awards which will lapse, either due to employees leaving the Group prior to vesting or due to non-market based performance conditions not being met.

Proceeds received on the exercise of share options are credited to share capital and share premium.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash settled transaction.

Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group Board.

Financial risk factors
The Group's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the Group treasury department under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. A summary of the Group's financial risk factors is given on page 72.

3. Segment information

Management has determined the operating segments based on the reports reviewed by the Group Board (Chief Operating Decision Maker) that are used to make strategic decisions. The Board considers the business from a geographic perspective. The profit measure used by the Chief Operating Decision Maker in its review is total operating profit.

The segment information for the year ended 31 December 2010 is as follows:

2010	United Kingdom £m	Gulf/Middle East £m	CIS, Med & NA £m	Far East/ Pacific Rim £m	Central Costs £m	Group £m
Continuing operations						
Revenue	273.4	137.7	51.0	188.0	–	650.1
Operating profit/(loss) before other items	28.0	35.4	7.8	14.8	(7.8)	78.2
Amortisation of intangible assets	(0.3)	–	–	(2.3)	–	(2.6)
IDC costs	–	–	–	–	(0.4)	(0.4)
Operating profit/(loss)	27.7	35.4	7.8	12.5	(8.2)	75.2
Share of post tax loss of joint ventures	–	–	(0.1)	–	–	(0.1)
Total operating profit/(loss)	27.7	35.4	7.7	12.5	(8.2)	75.1
Finance income						1.1
Finance costs						(13.1)
Profit before tax						63.1
Taxation						(10.8)
Profit from continuing operations						52.3
Discontinued operations						
Profit attributable to discontinued operations						0.3
Profit for the year						52.6
Attributable to:						
Owners of Cape plc						49.5
Non-controlling interest						3.1
						52.6

There are no significant inter-segment sales.

2009	United Kingdom £m	Gulf/Middle East £m	CIS, Med & NA £m	Far East/ Pacific Rim £m	Central Costs £m	Group £m
Continuing operations						
Revenue	304.7	170.7	48.4	131.3	–	655.1
Operating profit/(loss) before other items	25.4	38.6	6.1	7.9	(7.4)	70.6
Amortisation of intangible assets	(0.5)	–	–	(2.4)	–	(2.9)
IDC costs	–	–	–	–	(74.2)	(74.2)
Operating profit/(loss)	24.9	38.6	6.1	5.5	(81.6)	(6.5)
Share of post tax profits of joint ventures	–	–	1.6	–	–	1.6
Total operating profit/(loss)	24.9	38.6	7.7	5.5	(81.6)	(4.9)
Finance income						1.6
Finance costs						(12.3)
Loss before tax						(15.6)
Taxation						14.1
Loss from continuing operations						(1.5)
Discontinued operations						
Loss attributable to discontinued operations						–
Loss for the year						(1.5)
Attributable to:						
Owners of Cape plc						(4.1)
Non-controlling interest						2.6
						(1.5)

There are no significant inter-segment sales.

3. Segment information (continued)

Other segment items included in the income statement are as follows:

	2010						2009					
	United Kingdom £m	Gulf/Middle East £m	CIS, Med & NA £m	Far East/ Pacific Rim £m	Central Costs £m	Group £m	United Kingdom £m	Gulf/Middle East £m	CIS, Med & NA £m	Far East/ Pacific Rim £m	Central Costs £m	Group £m
Depreciation	3.8	5.1	2.0	6.5	–	17.4	4.1	4.8	1.4	5.5	–	15.8
Amortisation	0.3	–	–	2.3	–	2.6	0.5	–	–	2.4	–	2.9

The Group operates in the following geographic areas:

Revenue (based on location of the entity)	2010 £m	2009 £m
Continuing operations:		
United Kingdom	273.4	304.7
Gulf/Middle East	137.7	170.7
CIS, Med & NA	51.0	48.4
– Australia	134.3	96.9
– Other Far East/Pacific Rim	53.7	34.4
Total Far East/Pacific Rim	188.0	131.3
Central	–	–
Total	650.1	655.1

Segment assets consist primarily of property, plant and equipment, investments, intangible assets, inventories and trade and other receivables. Unallocated assets comprise deferred taxation and cash.

Segment liabilities comprise operating liabilities. Unallocated liabilities comprise items such as taxation and borrowings including related hedging transactions.

The segment assets and liabilities at 31 December 2010 and capital expenditure for the year then ended are as follows:

	United Kingdom £m	Gulf/ Middle East £m	CIS, Med & NA £m	Far East/ Pacific Rim £m	Central Costs £m	Unallocated £m	Group £m
Assets – continuing	78.2	129.9	33.4	317.0	46.0	139.0	743.5
Assets – discontinued	2.0	–	–	–	–	–	2.0
Total assets	80.2	129.9	33.4	317.0	46.0	139.0	745.5
Non-current assets included within total assets are as follows:							
Continuing	25.7	72.8	16.5	266.8	12.2	43.2	437.2
Discontinued	2.0	–	–	–	–	–	2.0
Total non-current assets	27.7	72.8	16.5	266.8	12.2	43.2	439.2
Liabilities – continuing	27.7	34.4	10.5	30.8	89.5	182.7	375.6
Liabilities – discontinued	1.1	–	–	–	–	–	1.1
Total liabilities	28.8	34.4	10.5	30.8	89.5	182.7	376.7
Capital expenditure – property, plant and equipment	1.6	4.3	2.0	4.5	–	–	12.4
Capital expenditure – intangible assets	–	–	–	–	–	–	–

Segment assets and liabilities are reconciled to the Group assets and liabilities as follows:

	Assets £m	Liabilities £m
Segment assets/liabilities	606.5	194.0
Unallocated:		
– Deferred tax	43.2	16.8
– Current tax	–	13.1
– Cash	95.8	–
– Current borrowings	–	34.4
– Non-current borrowings	–	114.3
– Derivatives	–	4.1
Total assets/liabilities	745.5	376.7

3. Segment information (continued)

The segment assets and liabilities at 31 December 2009 and capital expenditure for the year then ended are as follows:

	United Kingdom £m	Gulf/ Middle East £m	CIS, Med & NA £m	Far East/ Pacific Rim £m	Central Costs £m	Restated Unallocated £m	Restated Group £m
Assets – continuing	85.0	84.9	24.0	310.2	54.5	102.4[d]	661.0
Assets – discontinued	2.1	–	–	–	–	–	2.1
Total assets	87.1	84.9	24.0	310.2	54.5	102.4	663.1
Non-current assets included within total assets are as follows:							
Continuing	28.5	23.7	9.4	276.0	13.8	35.9	387.3
Discontinued	2.0	–	–	–	–	–	2.0
Total non-current assets	30.5	23.7	9.4	276.0	13.8	35.9	389.3
Liabilities – continuing	34.6	37.1	4.0	21.3	88.6	208.5[d]	394.1
Liabilities – discontinued	1.3	–	–	–	–	–	1.3
Total liabilities	35.9	37.1	4.0	21.3	88.6	208.5	395.4
Capital expenditure – property, plant and equipment	2.7	3.0	1.4	4.5	–	–	11.6
Capital expenditure – intangible assets	0.3	–	–	–	–	–	0.3

Segment assets and liabilities are reconciled to the Group assets and liabilities as follows:

	Restated assets £m	Restated liabilities £m
Segment assets/liabilities	560.7	186.9
Unallocated:		
– Deferred tax	35.7	12.5
– Current tax	–	11.3
– Cash	66.7[d]	–
– Current borrowings	–	45.4[d]
– Non-current borrowings	–	134.9
– Derivatives	–	4.4
Total assets/liabilities	**663.1**	**395.4**

(d) Cash and current borrowings have been restated for the reclassification of a short-term loan facility to current borrowings (£13.4 million) which was netted against cash balance in the prior year, please refer to note 1.4 for further detail.

The Group's non current assets in the following geographic areas:

	Non-Current assets (based on location of the assets)*			
	Goodwill and intangibles		Other	
	2010 £m	2009 £m	**2010 £m**	2009 £m
Continuing operations:				
United Kingdom	**4.2**	3.0	**23.5**	27.5
Gulf/Middle East	**47.3**	0.7	**25.5**	23.0
CIS, Med & NA	**6.1**	–	**10.4**	9.4
– Australia	**151.2**	193.0	**82.8**	72.2
– Other Far East/ Pacific Rim	**20.5**	–	**12.3**	10.8
Total Far East/ Pacific Rim	**171.7**	193.0	**95.1**	83.0
Unallocated*	**–**	–	**43.2**	35.9
Central	**12.2**	13.8	**–**	–
Total	**241.5**	210.5	**197.7**	178.8

*Unallocated includes financial instruments, deferred tax assets and post employment benefits only.

4. Operating profit/(loss)

	2010 £m	Restated 2009 £m
Analysis of operating profit/(loss)		
Continuing operations		
Revenue	**650.1**	655.1
Cost of sales	**(528.2)**	(541.8)
Gross profit	**121.9**	113.3
Operating expenses	**(43.7)**	(42.7)
Operating profit before other items	**78.2**	70.6
Amortisation	**(2.6)**	(2.9)
Industrial disease related expenses	**(0.4)**	(74.2)
Operating profit/(loss)	**75.2**	(6.5)

Cost of sales consists principally of direct labour, materials and other direct costs.

Administration costs consist principally of operating and industrial disease related expenses.

During the year the Group reconsidered the classification of overheads and has reclassified local and central overheads amounting to £10.3m (2009: £10.2m) to operating expenses from cost of sales for both current year and comparative purposes.

The following items have also been charged in arriving at operating profit/(loss):

	2010 £m	2009 £m
Employee benefit expense	**338.2**	333.6
Cost of inventories	**57.4**	43.0
Depreciation	**17.4**	15.8
Operating lease payments – plant and equipment	**13.6**	14.1
Operating lease payments – property	**2.9**	3.2
Auditors remuneration		
– Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.2**	0.2
– Fees payable to the Company's auditor and its associates for other services:		
– The audit of the Company's subsidiaries pursuant to legislation	**0.6**	0.5
– All other services	**0.5**	–

5. Net foreign exchange gains/(losses)

Exchange adjustments taken through the income statement amount to:

	2010 £m	2009 £m
Cost of sales	**0.1**	(2.3)

6. Other gains – net

	2010 £m	2009 £m
Credit in respect of ineffective derivative financial instrument	–	0.3

7. Employee benefit expense

	Note	2010 £m	2009 £m
Wages and salaries		**304.7**	303.7
Social security costs		**25.4**	22.4
Share options granted and awarded to directors and employees	28	**2.2**	1.6
Pension costs – defined contribution plans	16	**4.2**	3.7
Pension costs – defined benefit plans	16	**0.3**	0.6
Other employee benefit costs	16	**1.4**	1.6
		338.2	333.6

Average monthly number of employees including Executive Directors	**16,081**	15,661

The remuneration paid to Directors in the Group is disclosed in note 35 and the Directors' remuneration report on page 29.

8. Auditors' remuneration

Services provided by the Company's auditor and its associates.

During the year the Group (including its overseas subsidiaries) obtained the following services from the Company's auditors and its associates:

	2010 £m	2009 £m
Fees payable to the Company's auditors for the audit of the Company's and the consolidated annual accounts	**0.2**	0.2
Fees payable to the Company's auditors and its associates for other services:		
– The audit of the Company's subsidiaries pursuant to legislation	**0.6**	0.5
– All other services	**0.5**	–
	1.3	0.7

9. Finance income and costs

	2010 £m	2009 £m
Interest income:		
– Short-term bank deposits	**0.1**	0.8
– Interest on Scheme funds	**1.0**	0.8
Finance income	**1.1**	1.6
Interest expense:		
– Bank borrowings	**(8.1)**	(10.5)
– Finance leases	**(1.0)**	(1.7)
– Other	–	(0.1)
– IDC unwind of provision	**(4.0)**	–
Finance costs	**(13.1)**	(12.3)
Net finance costs	**(12.0)**	(10.7)

10. Income tax

	Note	2010 £m	2009 £m
Current tax		**12.6**	9.9
Deferred tax	17	**(1.8)**	(24.0)
		10.8	(14.1)

The tax charge/(credit) on the Group's profit/(loss) before tax differs from the theoretical amount that would arise using the UK standard corporation tax rate applicable to profits of the consolidated entities as follows:

	2010 £m	2009 £m
Profit/(loss) before tax (pre share of results from joint ventures)	**63.2**	(15.6)
Tax calculated at the standard rate of corporation tax in the UK of 28% (2009: 28%)	**17.7**	(4.4)
Adjustments to tax in respect of prior year	**0.3**	(4.0)
Adjustments in respect of overseas tax rates	**(7.5)**	(4.4)
Tax losses not recognised	**0.2**	–
Expenses non-deductible	**0.3**	0.4
Income not taxable	**(0.8)**	(2.2)
Double tax relief	**(0.2)**	1.0
Change in tax rates	**0.8**	–
Adjustments in respect of overseas joint ventures	**–**	(0.5)
Tax charge/(credit)	**10.8**	(14.1)

A number of changes to the UK corporation tax system were announced in the June 2010 Budget Statement. Legislation was passed in the Finance (No. 2) Act 2010 to reduce the main rate of UK corporation tax to 27% as from 1 April 2011. However, in the March 2011 Budget Statement an additional announcement was made advising that the main rate of corporation tax will be reduced from 28% to 26% from 1 April 2011. This change was substantively enacted on 29 March 2011 through the Provisional Collection of Taxes Act 1968 and is expected to be passed through the Finance Act 2011.

These changes are expected to impact the future current tax charges of the Group. The resulting effect on the deferred tax balance has been disclosed in note 17.

11. Discontinued operations

Analysis of the result of discontinued operations is as follows:

	2010 £m	2009 £m
Release of historic provision	**0.4**	–
Profit before tax on discontinued operations	**0.4**	–
Income tax expense	**(0.1)**	–
Profit from discontinued operations	**0.3**	–

12. Earnings/(loss) per ordinary share

The basic earnings per share calculation for the year ended 31 December 2010 (2009: loss per share) is based on the profit after tax attributable to ordinary shareholders of £49.5 million (2009: loss of £4.1 million) divided by the weighted average number of ordinary 25 pence shares of 116,268,784 (2009: 115,427,015).

The diluted earnings per share calculation for the year ended 31 December 2010 (2009: diluted loss per share) is based on the profit after tax of £49.5 million (2009: loss of £4.1 million) divided by the diluted weighted average number of ordinary 25 pence shares of 120,819,330 (2009: 118,038,129).

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

	2010 Shares	2009 Shares
Basic weighted average number of shares	**116,268,784**	115,427,015
Adjustments:		
Weighted average number of outstanding share options	**4,550,546**	2,611,114
Diluted weighted average number of shares	**120,819,330**	118,038,129

12. Earnings/(loss) per ordinary share (continued)

	2010		2009	
	Earnings £m	EPS pence	(Loss)/ earnings £m	EPS pence
Basic earnings/(loss) per share				
Continuing operations	49.2	42.3	(4.1)	(3.5)
Discontinued operations	0.3	0.3	–	–
Basic earnings/(loss) per share	49.5	42.6	(4.1)	(3.5)
Diluted earnings/(loss) per share				
Continuing operations	49.2	40.7	(4.1)	(3.4)
Discontinued operations	0.3	0.3	–	–
Diluted earnings/(loss) per share	49.5	41.0	(4.1)	(3.4)
Adjusted basic earnings/(loss) per share				
Earnings/(loss) from continuing operations	49.2	42.3	(4.1)	(3.5)
Amortisation	2.6	2.3	2.9	2.5
Exceptional items	–	–	–	–
IDC related costs and interest income	3.4	2.9	73.4	63.6
Tax effect of adjusting items	(3.8)	(3.3)	(21.4)	(18.5)
Exceptional Australian tax credit	–	–	(6.6)	(5.7)
Adjusted basic earnings per share	51.4	44.2	44.2	38.4
Adjusted diluted earnings/(loss) per share				
Earnings/(loss) from continuing operations	49.2	40.7	(4.1)	(3.4)
Amortisation	2.6	2.2	2.9	2.4
Exceptional items	–	–	–	–
IDC related costs and interest income	3.4	2.8	73.4	62.2
Tax effect of adjusting items	(3.8)	(3.1)	(21.4)	(18.1)
Exceptional Australian tax credit	–	–	(6.6)	(5.6)
Adjusted diluted earnings per share	51.4	42.6	44.2	37.5

The adjusted earnings per share calculations have been calculated after excluding the impact of amortisation of intangibles, exceptional items, IDC related costs and interest income, the tax impact of these items and an exceptional tax credit received in Australia predominantly arising on the consolidation of PCH assets in Australia which was acquired during 2007.

Options are dilutive at the profit from continuing operations level and so, in accordance with IAS 33, have been treated as dilutive for the purpose of diluted earnings per share.

13. Intangible assets

	Total £m	Goodwill £m	Other £m
Cost:			
At 1 January 2009	191.8	182.5	9.3
Additions	0.3	–	0.3
Exchange adjustments	25.1	24.5	0.6
At 31 December 2009	217.2	207.0	10.2
Additions	–	–	–
Exchange adjustments	33.6	33.4	0.2
At 31 December 2010	**250.8**	**240.4**	**10.4**
Accumulated amortisation			
At 1 January 2009	3.8	–	3.8
Amortisation charge	2.9	–	2.9
At 31 December 2009	6.7	–	6.7
Amortisation charge	2.6	–	2.6
At 31 December 2010	**9.3**	**–**	**9.3**
Net book amount:			
At 31 December 2010	**241.5**	**240.4**	**1.1**
At 31 December 2009	210.5	207.0	3.5
At 1 January 2009	188.0	182.5	5.5

Amortisation charges of £2.6 million (2009: £2.9 million) have been charged to the income statement.

One individually significant intangible asset remains at year-end. Two customer relationships and contracts which had an opening carrying value of £0.6 million and £0.8 million and have been fully amortised to £nil over the current year. A favourable lease contract which has a carrying value of £0.9 million (2009: £1.1 million) remains at year-end and will be amortised to £nil over the next two years.

Impairment tests for goodwill

Goodwill is allocated to the Group's Cash-Generating Units (CGU). All goodwill relates to Industrial Services.

During the financial year goodwill was reallocated to reflect changes made in the reporting and organisational structure of the Group. The allocation was made on the basis of the relative values of the CGUs affected.

The aggregate carrying amounts of goodwill are allocated by CGU as follows:

	2010 £m	2009 £m
UK	**16.2**	16.2
Gulf/Middle East	**47.3**	0.7
Asia	**20.5**	–
CIS	**6.1**	–
Australia	**150.3**	190.1
	240.4	207.0

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five year period. Cash flows beyond the five year period are extrapolated using the estimated growth rates stated below.

13. Intangible assets (continued)

The key assumptions used for value-in-use calculations are:

	2010					2009				
	United Kingdom	Gulf/Middle East	Australia	Asia	CIS	United Kingdom	Gulf/Middle East	Australia	Asia	CIS
Terminal growth rate	3.0%	2.7%	2.7%	2.7%	2.7%	3.0%	3.0%	3.3%	–	–
Average five-year growth rate	7.6%	6.5%	17.6%	18.4%	2.3%	3.2%	1.8%	17.6%	–	–
Discount rate	11.0%	11.2%	11.7%	11.3%	11.4%	11.0%	10.2%	11.4%	–	–

Terminal growth rates are based on the long-term growth rates for the countries in which the CGU operates. Management determined growth rates over the next five years based on internal forecasts that were derived from detailed analysis on future prospects combined with the secured order book for the relevant CGU. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGU.

Sensitivity analysis

A sensitivity analysis has been performed on the base case assumptions used for assessing the goodwill. The Directors have concluded that there are no reasonably possible changes in key assumptions which would cause the carrying value of goodwill to exceed its value in use.

14. Property, plant and equipment

During the year ended 31 December 2010, the Group acquired assets with a cost of £12.4 million (2009: £11.6 million) and received proceeds from asset sales of £0.3 million (2009: £1.1 million) giving net capital expenditure of £12.1 million (2009: £10.5 million). The capital expenditure of £11.9 million (2009: £10.0 million) shown in the cash flow statement represents the actual cash outflow and therefore excludes purchases funded through finance leases of £0.5 million (2009: £1.6 million).

	Total £m	Land and buildings £m	Plant, machinery, fixtures and fittings £m
Cost:			
At 1 January 2009	214.5	20.3	194.2
Exchange adjustments	13.8	1.1	12.7
Additions	11.6	0.2	11.4
Disposals	(17.2)	(0.9)	(16.3)
At 31 December 2009	222.7	20.7	202.0
Exchange adjustments	20.3	1.5	18.8
Additions	12.4	2.0	10.4
Disposals	(6.1)	(0.1)	(6.0)
At 31 December 2010	**249.3**	**24.1**	**225.2**
Accumulated depreciation:			
At 1 January 2009	62.2	2.6	59.6
Exchange adjustments	10.6	0.6	10.0
Charge for the year	15.8	0.9	14.9
Disposals	(8.8)	(0.4)	(8.4)
At 31 December 2009	79.8	3.7	76.1
Exchange adjustments	3.5	0.2	3.3
Charge for the year	17.4	0.9	16.5
Disposals	(5.7)	–	(5.7)
At 31 December 2010	**95.0**	**4.8**	**90.2**
Net book amount:			
At 31 December 2010	**154.3**	**19.3**	**135.0**
At 31 December 2009	142.9	17.0	125.9
At 1 January 2009	152.3	17.7	134.6

14. Property, plant and equipment (continued)
Depreciation expense of £17.4 million (2009: £15.8 million) has been charged to cost of sales in the income statement.

Exchange adjustments relate to the translation of assets held by foreign operations into the presentation currency.

Included within Land and buildings is an investment property with a value of £2.0 million (2009: £2.0 million). No rent is received from the investment property. The fair value of the investment property has not been estimated as the property is the residual land left over from the sale of the Calsil businesses.

The Group leases plant and machinery under finance lease agreements. The leased equipment secures lease obligations (see note 22).

At 31 December 2010 the net carrying amount of leased plant and machinery was £22.0 million (2009: £21.0 million).

15. Investments accounted for using the equity method

	2010 £m	2009 £m
At 1 January	**0.1**	0.6
Share of (loss)/profit	**(0.1)**	1.6
Dividends paid	**0.1**	–
Contribution from joint ventures	**–**	(2.1)
At 31 December	**0.1**	0.1

The Group's share of post tax losses of joint ventures is £0.1 million (2009: profit of £1.6 million) and dividends paid to joint ventures are £0.1 million (2009: contribution from joint ventures £2.1 million).

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

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

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

The Group has a 50% interest in Cape Resa, a joint venture incorporated in Spain for the provision of scaffolding, rope access and insulation services.

The Group has a 50% interest in Ship Support Services Limited, a joint venture incorporated in the United Kingdom for the provision of scaffolding and painting services.

The Group accounts for the investments in Cape C.I.S.L. as joint ventures due to the Group not having control over the financial and operating policies of these entities.

16. Retirement benefit obligations

The Group operates a defined benefit scheme and a defined contribution scheme for employees within the UK and provides pensions for employees of overseas companies in accordance with local requirements and practices. The assets of both the defined benefit and defined contribution schemes are held in trustee administered funds. The latest full valuation of the defined benefit scheme was assessed by independent qualified actuaries as at 6 April 2010 using the projected unit method. The valuation showed that the assets of the defined benefit scheme had a market value of £125.1 million and was 100% funded. Included within the assets balance is an amount of £81.3 million in respect of insurance policies covering pensioner liabilities. The next full valuation will take place as at 6 April 2013.

Some of the Group's overseas subsidiary undertakings operate leaving indemnity schemes as required by local laws and regulations. These schemes are unfunded. The provision for leaving indemnities is based on the number of years' service and the current salary of the employee.

The pension expense in the period for the defined contribution pension scheme of £4.2 million (2009: £3.7 million) equalled the Group contributions to the scheme.

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

	2010 £m	2009 £m
Balance sheet assets/(obligations) for:		
Pension benefit assets	**0.1**	0.1
Pension benefit liabilities	**(0.4)**	(0.4)
	(0.3)	(0.3)
Leaving indemnities	**(6.3)**	(5.2)
	(6.6)	(5.5)
Income statement charge for:		
Leaving indemnities charged through cost of sales	**1.4**	1.6
	1.4	1.6

	2010 £m	2009 £m
Actuarial gain recognised in the statement of other comprehensive income in the year (before tax)	**1.7**	0.2
Cumulative actuarial losses recognised in the statement of other comprehensive income (before tax)	**(50.3)**	(52.0)

Pension benefits

The amounts recognised in the balance sheet are determined as follows:

	2010 £m	2009 £m
Present value of funded obligations	**(113.1)**	(113.6)
Fair value of plan assets	**126.3**	124.3
	13.2	10.7
Restriction of surplus	**(13.5)**	(11.0)
Net liability in the balance sheet	**(0.3)**	(0.3)

In accordance with IFRIC 14, the Group must consider the minimum funding requirements of the pension scheme. This has resulted in the recognised surplus on the main scheme being reduced to £nil at 31 December 2010 (2009: £nil).

The amounts recognised in the income statement are as follows:

	2010 £m	2009 £m
Current service cost	**0.1**	0.5
Interest cost	**6.4**	6.3
Expected return on plan assets	**(6.9)**	(6.7)
Settlements and curtailments	**(0.1)**	(0.1)
Total	**(0.5)**	–

The actual return on plan assets was £6.4 million (2009: £14.0 million).

16. Retirement benefit obligations (continued)

The movement in the fair value of plan assets over the year is as follows:

	2010 £m	2009 £m
Beginning of year	**124.3**	114.8
Expected return on plan assets	**6.9**	6.7
Actuarial (losses)/gains	**(0.3)**	7.2
Employer contributions	**0.3**	0.6
Employee contributions	**–**	0.2
Benefits paid	**(4.9)**	(5.2)
End of year	**126.3**	124.3

The movement in the defined benefit obligation over the year is as follows:

	2010 £m	2009 £m
Beginning of year	**113.6**	104.8
Current service cost	**0.1**	0.5
Interest cost	**6.4**	6.3
Employee contributions	**–**	0.2
Actuarial (gains)/losses	**(2.0)**	7.1
Benefits paid	**(4.9)**	(5.2)
Settlements and curtailments	**(0.1)**	(0.1)
End of year	**113.1**	113.6

The principal actuarial assumptions used were as follows:

	2010	2009
Discount rate	**5.30%**	5.75%
Expected return on plan assets	**5.27%**	5.63%
Future salary increases	**4.60%**	4.70%
Future pension increases	**3.30%**	3.40%
Inflation rate	**3.60%**	3.70%

Mortality rate

Assumptions regarding future mortality experience are set based on advice in accordance with published statistics and scheme experience.

The average remaining life expectancy in years of a pensioner retiring at age 65 on the balance sheet date is as follows:

	2010	2009
Male	**22.0**	22.0
Female	**24.5**	24.5

The average remaining life expectancy in years of a pensioner retiring at age 65, 20 years after the balance sheet date is as follows:

	2010	2009
Male	**24.0**	24.0
Female	**26.5**	26.5

16. Retirement benefit obligations (continued)

Pension benefits

Plan assets are comprised as follows:

	2010 £m	Expected return	2009 £m	Expected return
Insurance annuities	**81.5**	**5.30%**	83.6	5.75%
Index-linked Gilts	**15.7**	**3.80%**	14.3	4.10%
Bonds	**13.0**	**4.85%**	11.8	5.25%
Equities	**8.9**	**7.70%**	7.9	7.50%
Property	**3.1**	**7.95%**	2.8	8.25%
Cash	**0.6**	**0.90%**	0.7	0.50%
Other	**3.5**	**4.85%**	3.2	5.25%
Total/weighted average return	**126.3**	**5.27%**	124.3	5.63%

The expected return on plan assets is determined by considering the expected returns on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields at the balance sheet date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

Expected contributions to defined benefit schemes for the year ended 31 December 2011 are £0.2 million.

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Fair value of plan assets	**126.3**	124.3	114.8	122.1	117.9
Fair value of plan liabilities	**(113.1)**	(113.6)	(104.8)	(109.5)	(102.7)
Surplus	**13.2**	10.7	10.0	12.6	15.2
Experience adjustments on plan assets	**(0.4)**	7.3	(9.7)	1.9	2.2
Experience adjustments on plan liabilities	**6.2**	1.7	(3.4)	(4.8)	0.3

17. Deferred income tax

Deferred income tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Property, plant and equipment	**0.5**	0.6	**(16.2)**	(11.4)	**(15.7)**	(10.8)
Intangible assets	**–**	–	**(0.3)**	(0.9)	**(0.3)**	(0.9)
Retirement benefits	**–**	–	**(0.3)**	(0.2)	**(0.3)**	(0.2)
Derivative financial instruments	**2.1**	2.1	**–**	–	**2.1**	2.1
Provisions	**23.4**	22.2	**–**	–	**23.4**	22.2
Employee share options	**2.7**	0.6	**–**	–	**2.7**	0.6
Tax losses carried forward	**14.5**	10.2	**–**	–	**14.5**	10.2
	43.2	35.7	**(16.8)**	(12.5)	**26.4**	23.2

17. Deferred income tax (continued)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets/(liabilities)	Accelerated capital allowances £m	Provisions £m	Tax losses £m	Pension £m	Hedging £m	Share options £m	Intangibles £m	Total £m
At 1 January 2009	(9.7)	4.7	3.7	–	3.3	–	(1.8)	0.2
Credited/(charged) to the income statement	0.2	17.3	5.4	(0.1)	–	0.4	0.8	24.0
Credited/(charged) directly to equity	–	–	–	(0.1)	(1.2)	0.2	–	(1.1)
Exchange differences	(1.3)	0.2	1.1	–	–	–	0.1	0.1
At 31 December 2009	(10.8)	22.2	10.2	(0.2)	2.1	0.6	(0.9)	23.2
Deferred tax asset	0.6	22.2	10.2	–	2.1	0.6	–	35.7
Deferred tax liability	(11.4)	–	–	(0.2)	–	–	(0.9)	(12.5)
At 31 December 2009	(10.8)	22.2	10.2	(0.2)	2.1	0.6	(0.9)	23.2

Deferred tax assets/(liabilities)	Accelerated capital allowances £m	Provisions £m	Tax losses £m	Pension £m	Hedging £m	Share options £m	Intangibles £m	Total £m
At 1 January 2010	(10.8)	22.2	10.2	(0.2)	2.1	0.6	(0.9)	23.2
(Charged)/credited to the income statement	(2.8)	0.9	2.2	(0.1)	–	0.9	0.7	1.8
Credited directly to equity	–	–	–	–	–	1.2	–	1.2
Exchange differences	(2.1)	0.3	2.1	–	–	–	(0.1)	0.2
At 31 December 2010	(15.7)	23.4	14.5	(0.3)	2.1	2.7	(0.3)	26.4
Deferred tax asset	0.5	23.4	14.5	–	2.1	2.7	–	43.2
Deferred tax liability	(16.2)	–	–	(0.3)	–	–	(0.3)	(16.8)
At 31 December 2010	**(15.7)**	**23.4**	**14.5**	**(0.3)**	**2.1**	**2.7**	**(0.3)**	**26.4**

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

At the balance sheet date, the Group has unused tax losses of £6.4 million (2009: £8.6 million) available for offset against future profits, subject to agreement with the tax authorities. The losses carried forward are in certain entities and can only be utilised against future profits of those entities. No deferred tax asset has been recognised in respect of these losses as there is uncertainty in respect of its future recoverability. In particular, £3.8 million (2009: £3.3 million) of the balance relates to losses arising in the Australian consolidated group which are subject to strict recognition rules. The Group is still determining whether the losses can be recognised and if so, the extent to which they can be recognised.

Advance corporation tax written off to date amounts to £1.8 million (2009: £1.8 million) and is available for offset against future United Kingdom corporation tax liabilities subject to certain conditions being met. The future benefit of advance corporation tax has not been accounted for in the provision of deferred taxation as its recoverability is not probable.

A number of changes to the UK corporation tax system were announced in the June 2010 Budget Statement. Legislation was passed in the Finance (No 2) Act 2010 to reduce the main rate of UK corporation tax to 27% as from 1 April 2011. The deferred tax balances in these financial statements have therefore been measured at 27%.

However, in the March 2011 Budget Statement an additional announcement was made advising that the main rate of corporation tax will be reduced from 28% to 26% from 1 April 2011. This change was substantively enacted on 29 March 2011 through the Provisional Collection of Taxes Act 1968 and is expected to be passed though the Finance Act 2011. Had the new corporate tax rate been adopted, the deferred tax assets as of 31 December 2010 would reduce by £0.9 million. Further reductions to the main rate are proposed to reduce the main rate of corporation tax by 1% per annum to 23% by 1 April 2014. These changes had not been substantively enacted at the balance sheet date, and have therefore not been included in the financial statements.

18. Inventories

	2010 £m	2009 £m
Materials	**5.8**	5.0
Work in progress	**–**	8.7
Finished goods	**3.0**	3.6
	8.8	17.3

The cost of inventories recognised as an expense has been charged to cost of sales in the income statement and amounted to £57.4 million (2009: £43.0 million).

There was no work in progress held at year-end. In the prior year there was a build up of manufacturing components held in stock at year-end.

Payments received on account in excess of the value of the work performed on the related contract are included within trade and other payables (see note 24).

19. Trade and other receivables

	Note	2010 £m	2009 £m
Trade receivables		**111.0**	115.8
Less: provision for impairment of trade receivables		**(2.5)**	(3.2)
Trade receivables – net		**108.5**	112.6
Amounts recoverable on contracts		**37.4**	26.1
Receivables from joint ventures	35	**0.5**	0.4
Other receivables		**16.8**	10.7
Prepayments and accrued income		**6.9**	6.2
		170.1	156.0

Trade receivables include retentions of £11.6 million (2009: £10.1 million).

The fair values of trade and other receivables equals their carrying amount, as the impact of discounting is not material.

Receivables from joint ventures are repayable on demand and bear no interest.

As of 31 December 2010, trade receivables of £5.8 million (2009: £8.7 million) were partially impaired. The amount of the provision was £2.5 million (2009: £3.2 million). The individually impaired receivables mainly relate to contracts within the UK and Gulf/Middle East. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	2010 £m	2009 £m
Less than 3 months	**1.1**	2.4
3 to 6 months	**4.4**	2.8
7 to 12 months	**0.3**	2.1
Over 12 months	**–**	1.4
	5.8	8.7

As of 31 December 2010, trade receivables of £61.2 million (2009: £62.3 million) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2010 £m	2009 £m
Less than 3 months	**55.4**	57.4
3 to 6 months	**5.5**	4.6
7 to 12 months	**0.2**	0.1
Over 12 months	**0.1**	0.2
	61.2	62.3

19. Trade and other receivables (continued)

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

	2010 £m	2009 £m
Australian dollar	**25.8**	20.0
Bahraini dinar	**1.8**	0.7
Euro	**2.1**	0.7
GB pound	**53.2**	60.1
Kazakhstan tenge	**7.1**	–
Kuwaiti dinar	**0.3**	0.5
Omani rial	**1.9**	0.9
Philippine peso	**2.1**	2.8
Qatar riyal	**13.4**	10.2
Saudi Arabian riyal	**19.5**	18.2
Singapore dollar	**12.3**	3.3
Thai baht	**1.4**	1.8
UAE dirham	**8.1**	9.3
US dollar	**21.1**	27.5
	170.1	156.0

Provision for impairment of trade receivables:

	2010 £m	2009 £m
At 1 January	**3.2**	3.5
Provision for receivables impairment	**2.0**	2.8
Receivables written off during the year as uncollectable	**(0.4)**	(1.2)
Unused amounts reversed	**(2.3)**	(1.9)
At 31 December	**2.5**	3.2

The creation and release of provision for impaired receivables have been included in cost of sales in the income statement. Amounts charged to the bad debt provision account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

The Group does not hold any collateral as security.

20. Cash – IDC Scheme funds (restricted)

	2010 £m	2009 £m
Cash – IDC Scheme funds (restricted)	**31.6**	33.8

Cape Claims Services Limited ('CCS') is the Scheme company in which Scheme funding is accounted for (note 34). Under the terms of the Scheme, there is a funding agreement between Cape plc and CCS under which Cape plc has provided CCS with initial funding of £40 million. The fund held by CCS of £31.6 million (2009: £33.8 million) is restricted for use primarily in settling the asbestos-related liabilities which are all in the UK.

21. Cash, cash equivalents and bank overdrafts

	Note	2010 £m	Restated 2009 £m
Cash at bank and in hand		**95.8**	66.7[(d)]
Bank overdrafts	22	**–**	(0.4)
Cash, cash equivalents and bank overdrafts in the statement of cash flows		**95.8**	66.3

(d) Cash and current borrowings have been restated for the reclassification of a short-term loan facility to current borrowings (£13.4 million) which was netted against cash balance in the prior year, please refer to note 1.4 for further details.

22. Borrowings

	Note	2010 £m	Restated 2009 £m
Non-current			
Finance leases		**4.4**	9.2
Bank loans		**109.6**	125.4
Cumulative preference shares		**0.3**	0.3
		114.3	134.9
Current			
Finance leases		**5.9**	5.4
Bank loans		**28.5**	39.6[(d)]
Bank overdrafts	21	**–**	0.4
		34.4	45.4
Total borrowings		**148.7**	180.3

Bank borrowings

The bank loans and overdrafts of £138.1 million (2009: £165.4 million) are secured by fixed and floating charges over the assets of the Group. Bank loans are stated net of unamortised issue costs of £1.3 million (2009: £2.1 million). The Group incurred issue costs of £3.9 million in respect of the five-year facility entered into in September 2007 (amended December 2007 and July 2008) under which amounts were drawn down in part to fund the acquisitions in Australia. These issue costs together with the interest expense are allocated to the income statement over the five-year term of the facility at a constant rate on the carrying amount.

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amount		Fair value	
	2010 £m	2009 £m	2010 £m	2009 £m
Finance leases	**4.4**	9.2	**4.0**	8.1
Bank loans	**109.6**	125.4	**96.0**	105.5
Cumulative preference shares	**0.3**	0.3	**0.2**	0.2
	114.3	134.9	**100.2**	113.8

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 5.45% (2009: 6.09%).

22. Borrowings (continued)

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2010 £m	Restated 2009 £m
Australian dollar	24.1	25.7
GB pound	105.4	136.0[d]
US dollar	19.2	18.6
	148.7	180.3

The Group has the following undrawn borrowing facilities:

	2010 £m	2009 £m
Floating rate:		
– Expiring beyond 1 year	16.0	13.4

3.5% cumulative preference shares

During the year, the Company had in issue 250,000 cumulative preference shares of £1 with a fixed cumulative preferential dividend of 3.5% per annum payable half yearly in arrears on 31 March and 30 September, and with no redemption entitlement. All arrears of dividends were paid up to 30 September 2010, and the dividend due to 31 March 2011 was paid on the due date. As stated in note 36, the Preference Shares were repurchased and cancelled on 13 April 2011.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Future minimum lease payments 2010 £m	Interest 2010 £m	Present value of minimum lease payments 2010 £m	Future minimum lease payments 2009 £m	Interest 2009 £m	Present value of minimum lease payments 2009 £m
Less than 1 year	6.9	1.0	5.9	6.4	1.0	5.4
Between 1 and 5 years	4.4	–	4.4	10.0	0.8	9.2
	11.3	1.0	10.3	16.4	1.8	14.6

The following table analyses the Group's remaining contractual maturity of borrowings and finance leases. The table has been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group is obliged to pay.

	2010 £m	2009[d] £m
6 months or less	20.0	43.4
6 to 12 months	14.4	18.8
1 to 5 years	114.0	117.8
Over 5 years	0.3	0.3
	148.7	180.3

Trade and other payables are all aged less than 6 months.

(d) Cash and current borrowings have been restated for the reclassification of a short-term loan facility to current borrowings (£13.4 million) which was netted against cash balance in the prior year, please refer to note 1.4 for further details.

23. Financial instruments

Details of financial instruments are set out below.

Financial instruments by category 31 December 2010	Loans and receivables £m	Derivatives used for hedging £m	Other financial liabilities at amortised cost £m	Total £m
Assets as per balance sheet				
Trade and other receivables (excluding prepayments)	163.2	–	–	163.2
Cash and cash equivalents	95.8	–	–	95.8
Cash – IDC Scheme funds (restricted)	31.6	–	–	31.6
	290.6	–	–	290.6
Liabilities as per balance sheet				
Borrowings (excluding finance lease liabilities)	–	–	(138.4)	(138.4)
Finance lease liabilities	–	–	(10.3)	(10.3)
Derivative financial instruments	–	(4.1)	–	(4.1)
Trade and other payables (excluding statutory liabilities)	–	–	(83.0)	(83.0)
	–	(4.1)	(231.7)	(235.8)

Financial instruments by category 31 December 2009 (restated)	Loans and receivables £m	Derivatives used for hedging £m	Other financial liabilities at amortised cost £m	Total £m
Assets as per balance sheet				
Trade and other receivables (excluding prepayments)	149.8	–	–	149.8
Cash and cash equivalents	66.3[d]	–	–	66.3
Cash – IDC Scheme funds (restricted)	33.8	–	–	33.8
	249.9	–	–	249.9
Liabilities as per balance sheet				
Borrowings (excluding finance lease liabilities)	–	–	(165.7)[d]	(165.7)
Finance lease liabilities	–	–	(14.6)	(14.6)
Derivative financial instruments	–	(4.4)	–	(4.4)
Trade and other payables (excluding statutory liabilities)	–	–	(76.6)	(76.6)
	–	(4.4)	(256.9)	(261.3)

Disclosures in respect of the Group's financial risks are set out below.

(d) Cash and current borrowings have been restated for the reclassification of a short-term loan facility to current borrowings (£13.4 million) which was netted against cash balance in the prior year, please refer to note 1.4 for further details.

Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the Group treasury department under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Australian dollar, GB pound and the US dollar.

The primary exposure to the Group in terms of foreign currency risk is translation of the subsidiary results. This risk is managed primarily through borrowings denominated in the relevant foreign currencies and net investment hedges. No sensitivity analysis has been performed for the purposes of these accounts as under IFRS 7 translation related risk is not taken into account.

Foreign currency transaction exposure arising on normal trade flows is not hedged. The exposure of overseas operating subsidiaries to transaction risk is minimised by matching functional currency income with functional currency costs. Group management has completed a sensitivity analysis on the exposure of the Group to reasonable movements in the main functional currencies used by the subsidiaries and has concluded that the impact on profit and equity is minimal.

23. Financial instruments (continued)

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

As at 31 December 2010, the Group's debt was denominated in GB pounds, US dollars and Australian dollars and was all at a floating rate. The Group has interest rate swaps in place for both the US dollar denominated debt and a proportion of the GB pound debt.

The Group reviews its interest rate exposure, taking into consideration refinancing, renewal of existing positions and alternative financing and hedging.

Based on various scenarios, the Group manages its cash flow interest rate risk by using floating to fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating to fixed rates. Under interest rate swaps, the Group has entered into transactions to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional amounts.

Management has performed a sensitivity analysis on the impact of reasonable movements in interest rates on Group profit and equity and consider that once interest rate swaps in place are considered, the impact is limited.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arise principally from the Group's receivables from customers and deposits with financial institutions.

The Group's exposure to credit risk (see note 19 for additional information) is influenced mainly by the individual characteristics of each customer. The Group has an established credit policy under which each new customer is analysed for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, and in some cases bank references.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due (see note 22 for additional information). The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or damage to the Group's reputation.

(d) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure the Group may adjust the amount of dividends payable to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

(e) Accounting for derivative financial instruments and hedging activities

On inception derivatives are accounted and measured at fair value and subsequently remeasured at fair value. The gain or loss on remeasurement is taken to the income statement except where the derivative is a designated hedging instrument when it is recognised in equity. The accounting treatment of derivatives classified as hedges depends on their designations, which occurs on the date that the derivative contract is committed to. The Group designates derivatives as:

– a hedge of the income/cost of a highly probable forecasted transaction or commitment ('cash flow hedge');
– a hedge of the net investment in a foreign entity ('net investment hedge'); and
– a hedge of the fair value of an asset or liability ('fair value hedge').

In order to qualify for hedge accounting, the Group documents in advance the relationship between the item being hedged and the hedging instrument and demonstrates the relationship between the hedged item and the hedging instrument, to show that the hedge will be effective on an ongoing basis. Testing the effectiveness of the hedging instrument is performed semi-annually.

Gains or losses on cash flow hedges that are regarded as highly effective are recognised in equity. Where the forecast transaction results in a financial asset or liability, the gains or losses previously recognised in equity are reclassified to the income statement in the same period as the asset or liability affects income or expenditure. Where the forecasted transaction or commitment results in a non-financial asset or a liability, then any gains or losses previously deferred in equity are included in the cost of the related asset or liability. If the forecasted transaction or commitment results in future income or expenditure, gains or losses deferred in equity are transferred to the income statement in the same period as the underlying income or expenditure.

23. Financial instruments (continued)

For the portion of hedges deemed ineffective or transactions that do not qualify for hedge accounting under IAS 39, any change in assets or liabilities is recognised immediately in the income statement. Where a hedge no longer meets the effectiveness criteria, any gains or losses deferred in equity are only transferred to the income statement when the committed or forecasted transaction is recognised in the income statement. However, where the Group applied cash flow hedge accounting for a forecasted or committed transaction that is no longer expected to occur, then the cumulative gain or loss that has been recorded in equity is transferred to the income statement. When a hedging instrument expires or is sold, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement.

Where the Group hedges net investments in foreign entities through currency borrowings that are regarded as highly effective, the gains or losses on the translation of the borrowings are recognised in equity. If the Group uses derivatives as the hedging instrument, the effective portion of the hedge is recognised in equity with any ineffective portion recognised in the income statement. On disposal of the foreign operation gains and losses accumulated in equity are transferred to the income statement.

The Group has not entered into any fair value hedges.

The fair values of short-term deposits, loans and other borrowings with a maturity of less than one year are assumed to approximate to their book values. In the case of the bank loans and other borrowings due in more than one year, the fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. The fair value of the interest rate swaps (cash flow hedges) are calculated using quoted prices in active markets for identical assets and liabilities.

The notional principal amounts of the outstanding interest rate swap contracts at 31 December 2010 were £78.4 million (2009: £85.6 million).

At 31 December 2010 the main floating rates were UK LIBOR, US LIBOR and Australian inter bank rate. Interest rate swaps were in place which swapped floating LIBOR amounts for fixed rates. UK LIBOR was swapped for a fixed rate of 5.145% on £60 million of the GB pound debt and 5.66% on £7 million of the sterling debt. US LIBOR was swapped for a fixed rate of 3.23% on $30 million of US dollar denominated debt.

	2010		2009	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Interest rate swaps – cash flow hedges	–	(4.1)	–	(4.4)
Total	–	(4.1)	–	(4.4)

There was no ineffectiveness to be recorded from net investment in foreign entity hedges.

24. Trade and other payables

	2010 £m	2009 £m
Payments received on account	4.7	3.5
Trade payables	37.0	30.0
Social security and other taxes	17.3	19.1
Other payables	25.9	24.3
Payables to joint ventures	–	0.6
Accrued expenses	15.4	18.2
	100.3	95.7

Other payables include £0.5 million (2009: £0.9 million) in respect of deferred contingent consideration.

Trade payables to joint ventures are repayable on demand and bear no interest.

25. Current income tax liabilities

	2010 £m	2009 £m
UK taxation	8.6	5.3
Overseas taxation	4.5	6.0
	13.1	11.3

26. Provisions for liabilities and charges

	At 1 January 2010 £m	Provisions charged £m	Provisions released £m	Unwind of provision discount £m	Provision utilised £m	**At 31 December 2010 £m**
Industrial disease provision	80.2	–	–	4.0	(2.5)	**81.7**
Other provisions	5.4	0.9	(0.8)	–	(0.2)	**5.3**
	85.6	0.9	(0.8)	4.0	(2.7)	**87.0**

Due to the inherent uncertainty regarding the timing of settlement, all provisions have been classed as non-current.

Industrial disease provision
There is a history of asbestos claims being lodged against the Cape Group. Where the Group has deemed that it is appropriate to do so, settlement has been made.

In order to provide for the long-term financing of future asbestos related claims likely to be made successfully against the Group, in 2006 Cape plc put in place a Scheme of Arrangement, details of which are set out in note 34.

In accordance with the terms of the Scheme, the Directors have commissioned independent actuaries to review and provide estimates of the Group's unpaid and uninsured asbestos related claims as at 31 December 2010.

The actuaries provided a reasonable range of estimates which resulted in a range of £60 million (2009: £60 million) to £100 million (2009: £100 million) with a consistent central estimate of £81.7 million (2009: £79.0 million).

The actuaries' estimates are of the aggregate projected, discounted value, net of insurance recoveries, of the unpaid UK asbestos-related claims.

There has been an overall increase in the 2010 central estimate, in comparison to what was anticipated during the last full actuarial review in 2007. While there has been better than expected claims experience overall between full reviews, this has been more than offset by an overall strengthening of assumptions. The main assumptions in question are as follows:

a) *Future population mortality* – these assumptions have been updated to the latest population projections from the Office for National Statistics: "English Males, Principal assumption" to reflect the latest views on longevity trends. This has contributed to an increase of estimates over all disease types.
b) *Average claim size* – this has increased for mesothelioma claims as a result of an analysis of the historical experience together with an update of the benchmark model, which shows an approximate increase of around 10% in average indemnity over the base period.

Overall claims experience within Cape has been favourable for the high value claims such as mesothelioma and lung cancer, although slightly worse than expected for asbestosis and pleural thickening.

The assumptions made in assessing the appropriate level of provision include:

i. Future claim numbers – the latest disease emergence studies conducted in the UK by the HSE were used along with several academic studies. These were overlaid with Cape specific exposure data and the latest population mortality projections from the Office for National Statistics.
ii. Future average claim sizes.
iii. Allocation of gross claims to exposure year for the purposes of estimating insurance recoveries.
iv. Future UK earnings and judicial inflation.
v. Claims payment pattern for known claims and future reported disease claims.

Due to the nature of this provision there remains uncertainty over the number, nature, timing and validity of future claims which could occur over a period of more than 40 years and the provision will be updated should any material change occur. However, the Directors anticipate that, assuming no material deterioration in the Group's trading performance, the Group will be able to ensure that (i) its subsidiary Cape Claims Services Limited will be sufficiently funded to satisfy all Scheme claims and (ii) the Group will be sufficiently funded to satisfy any UK asbestos-related claims falling outside of the Scheme.

The provision in respect of the industrial disease is discounted at 5% (2009: 5%). The deferred tax asset related to this provision is shown within the deferred tax balance (note 17). The net discounted after tax provision is £58.3 million as shown below.

Total provision	£81.7m
Deferred tax benefit	£(22.1)m
Net provision after tax	£59.6m

27. Commitments

(a) Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred:

	2010 £m	2009 £m
Property, plant and equipment	1.6	1.5

These commitments are expected to be settled in the following financial year.

(b) Operating lease commitments

The Group leases various properties, plant and machinery under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The lease expenditure charged to the income statement during the year was £2.9 million (2009: £3.2 million) property leases, and £13.6 million (2009: £14.1 million) plant and equipment leases.

The future aggregate minimum lease payments under non-cancellable operating leases are due:

	Property 2010 £m	Plant and equipment 2010 £m	Property 2009 £m	Plant and equipment 2009 £m
Within 1 year	1.8	2.0	2.6	2.1
Later than 1 year and less than 5 years	2.9	3.9	3.9	2.4
After 5 years	1.3	–	0.9	–
	6.0	5.9	7.4	4.5

28. Share capital

Issued and fully paid	2010 Number	2010 £m	2009 Number	2009 £m
Ordinary shares of 25p each				
At 1 January	116,029,082	29.0	114,989,087	28.8
Issue of shares and options in settlement of deferred consideration	–	–	677,726	0.1
Exercise of share options	915,914	0.2	362,269	0.1
At 31 December	116,944,996	29.2	116,029,082	29.0
Deferred shares of 1p each				
At 1 January	431,906,031	4.3	431,906,031	4.3
Purchased for cancellation	(431,906,031)	(4.3)	–	–
At 31 December	–	–	431,906,031	4.3
plc Scheme share				
At 1 January and 31 December	1	–	1	–
		29.2		33.3

Deferred shares

The holders held no dividend rights, redemption entitlement or voting rights. On a winding up the holders were entitled to repayment of capital only after ordinary shareholders had received £100 for each ordinary share. Following approval by shareholders on 20 May 2010, the deferred shares were purchased for an aggregate consideration of £1 and cancelled on 20 August 2010.

plc Scheme Share

The plc Scheme Share is held by the Law Debenture Trust Corporation plc on behalf of the Scheme creditors.

The rights attaching to the share are designed to ensure that Scheme assets are only used to settle Scheme claims and ancillary costs and do not confer any right to receive a distribution or return of surplus capital save that the holder will have the right to require the Company to redeem the share at par value on or at any time after the termination of the Scheme.

The share carries two votes for every vote which the holders of the other classes of shares in issue are entitled to exercise on any resolution proposed during the life of the Scheme to engage in certain activities specified in the Company's Articles of Association.

The Company will not be permitted to engage in certain activities specified in the Company's Articles of Association without the prior consent of the holder of the share.

28. Share capital (continued)

Share based payments

The Group has a savings related share option scheme ('Sharesave plan') which entitles employees of the Group to buy shares in the Company. Grants of share options under this scheme are offered to employees periodically and the options are usually awarded at a 20% discount to the market price at the date the options are offered to employees. These options must be exercised within six months of the vesting date.

The Employee Incentive Plan (EIP) allows the Group to grant options to Directors and senior employees. The EIP carries a non-market based performance criteria. The contractual life of the options is 10 years. The options become exercisable on the third anniversary of the date of grant, subject to a growth in earnings per share over that period exceeding an average 3% compounded annually above the growth in the consumer price index over the same period. Exercise of an option is subject to continued employment.

The Performance Share Plan (PSP) is the award of Ordinary Shares at no cost to the participant employees or Executive Directors of the Group. Awards are made upon the terms set out in the plan and such other additional terms as the Board shall determine. Vesting of the conditional awards made to date is subject to Cape plc adjusted diluted Earnings Per Share (EPS) meeting the specified performance criteria over a three-year vesting period. The performance criteria is, adjusted diluted EPS growth of the Retail Price Index ('RPI') plus 3% for the minimum of 30% of the shares awarded to vest, and EPS growth of RPI plus 10% for all of the shares awarded to vest, calculated on an annually compounded basis. The contractual life of the award is three years and is subject to continued employment.

Options are valued using the Black-Scholes option pricing model. The fair value per option granted and the assumptions used in the calculation for the current and preceding year are as follows:

	Employee Incentive Plan	3-year Sharesave plan	5-year Sharesave plan
Weighted average fair value at measurement date	80.9p	87.5p	110.0p
Share price at grant date	269.0p	266.0p	266.0p
Exercise price	269.0p	230.0p	230.0p
Vesting period	3 years	3 years	5 years
Expected option life	3.95 years	3.25 years	5.25 years
Risk free interest rate	4.97%	4.89%	4.89%
Expected share price volatility	28%	27%	28%

The expected share price volatility is based on historic volatility. The expected option life is the average expected period to exercise. The risk free rate of return is the yield on a five-year zero coupon UK Government bond. The assumed dividend yield is zero.

The shares issued under the PSP, are deemed to have a fair value equivalent to the share price on the day of grant. Therefore the shares granted in March 2010 have a fair value of 240.5 pence.

The number and weighted average exercise price of the share options under the EIP and Sharesave plan and the share awards under the PSP are as follows:

Employee Incentive Plan	**Weighted average exercise price 2010 (pence)**	**Number of share options 2010**	Weighted average exercise price 2009 (pence)	Number of share options 2009
Outstanding at 1 January	**235.0**	**1,565,000**	223.1	2,182,500
Exercised	**206.7**	**(747,500)**	147.3	(215,000)
Forfeited	**269.0**	**(85,000)**	217.2	(402,500)
Outstanding at 31 December	**260.7**	**732,500**	235.0	1,565,000

Out of the 732,500 outstanding options (2009: 1,565,000 options), 732,500 options (2009: 562,500) were exercisable. Options exercised in 2010 resulted in 5,000 shares (2009: 110,000 shares) being issued at £1.20 each, 492,500 shares (2009: 105,000) being issued at £1.76 each and 250,000 shares (2009: nil) being issued at £2.69 each. The options were exercised on a regular basis during the year. The average share price in 2010 was £2.78 (2009: £1.57).

28. Share capital (continued)

Sharesave Plan	Weighted average exercise price 2010 (pence)	Number of share options 2010	Weighted average exercise price 2009 (pence)	Number of share options 2009
Outstanding at 1 January	178.2	922,785	173.4	1,352,023
Exercised	204.3	(141,437)	135.6	(147,269)
Forfeited	187.4	(129,197)	177.4	(281,969)
Outstanding at 31 December	168.0	652,151	178.2	922,785

Out of the 652,151 outstanding options (2009: 922,785 options), 39,455 options (2009: 35,620) were exercisable. Options exercised in 2010 resulted in 38,272 shares (2009: 146,377 shares) being issued at £1.35 each and 103,165 shares (2009: 892) being issued at £2.30 each.

Performance Share Plan	Weighted average exercise price 2010 (pence)	Number of share options 2010	Weighted average exercise price 2009 (pence)	Number of share options 2009
Outstanding at 1 January	–	3,363,386	–	900,201
Exercised	–	(26,977)	–	–
Granted	–	1,046,628	–	2,648,712
Forfeited	–	(181,110)	–	(185,527)
Outstanding at 31 December	–	4,201,927	–	3,363,386

Out of the 4,201,927 outstanding PSP awards (2009: 3,363,386 awards), 26,977 awards vested in 2010 (2009: nil).

Share options and awards outstanding at the end of the year have the following expiry date and exercise prices:

Employee Incentive Plan Expiry date	Exercise price per share (pence)	2010	2009
24 October 2015	120.0	–	5,000
7 July 2016	176.0	65,000	557,500
1 April 2017	269.0	667,500	1,002,500
		732,500	1,565,000

Sharesave plan Expiry date	Exercise price per share (pence)	2010	2009
1 March 2010	135.0	–	35,620
1 June 2011	230.0	404,495	465,073
1 March 2012	135.0	39,455	170,363
1 June 2013	230.0	208,201	251,729
		652,151	922,785

Performance Share Plan Expiry date	Exercise price per share (pence)	2010	2009
28 April 2011	–	562,238	582,296
23 September 2011	–	123,830	150,216
30 April 2012	–	2,104,630	2,144,630
29 July 2012	–	370,491	486,244
17 March 2013	–	1,040,738	–
		4,201,927	3,363,386

On 17 March 2010 1,046,628 share awards were awarded to Directors and employees under the PSP which vest after three years subject to performance criteria being met. If the criteria are met, the awards vest at no cost to the employees and Directors.

The total charge for the year relating to employee share based payment plans was £2.2 million (2009: £1.6 million), all of which related to equity settled share based payment transactions.

29. Dividends per share

An interim dividend was paid in 2010 amounting to £4,660,619 (4 pence per share) (2009: £nil). A final dividend in respect of the year ended 31 December 2010, of 8 pence per share, is to be proposed at the General Meeting convened for 25 May 2011, making a total dividend of 12 pence for the year. These financial statements do not reflect this final dividend payable.

30. Cash generated from operations

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

	2010 £m	2009 £m
Cash flows from operating activities		
Continuing operations		
Operating profit/(loss) for the year	75.2	(6.5)
Depreciation	17.4	15.8
Amortisation of intangibles	2.6	2.9
Share option charge	2.2	1.6
Loss on sale of property, plant and equipment	0.1	1.4
Difference between pension charge and cash contributions	(0.7)	(0.5)
Share of profit of joint ventures	(0.1)	1.6
Decrease/(increase) in inventories	3.9	(0.5)
Decrease in trade and other receivables	0.2	22.4
(Decrease) in trade and other payables	(2.3)	(29.2)
(Decrease)/increase in provisions (excluding deferred tax)	(0.4)	71.2
Industrial disease costs paid	0.4	4.2
Cash generated from continuing operations	98.5	84.4
Discontinued operations		
Profit for the year	0.4	–
Decrease in provisions	(0.4)	–
Cash outflow from discontinued operations	–	–
Cash generated from operating activities	98.5	84.4

In the statement of cash flows, proceeds from sale of property, plant and equipment comprise:

	2010 £m	2009 £m
Net book amount	0.4	2.5
Loss on disposal of property, plant and equipment	(0.1)	(1.4)
Proceeds from disposal of property, plant and equipment	0.3	1.1

(b) Analysis of cash flows relating to restricted funds

	2010 £m	2009 £m
At 1 January	33.8	37.5
Payment of Scheme creditors	(2.2)	(4.1)
Operating costs	–	(0.1)
Interest received	–	0.5
At 31 December	31.6	33.8

31. Repayment of borrowings

The repayment of borrowings shown in the cash flow statement represents a scheduled repayment under the Group's Senior Debt facility, in addition to a £13.4 million tranche of the Ancillaries under the same facility.

32. Settlement of loan notes

The loan notes of nil (2009: £3.7 million) relate to deferred consideration payable for the acquisition of the DBI Group which took place during 2006. These loan notes were settled during January 2009.

33. Contingencies

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

34. The Scheme of Arrangement

On 14 June 2006, the Scheme became effective and binding upon Cape plc and the following 12 of its wholly-owned subsidiaries:

Cape Building Products Limited
Cape Calsil Systems Limited
Cape Contracts International Limited
Cape Durasteel Limited
Cape East Limited
Cape Industrial Services Limited
Cape Industries Limited
Cape Insulation Limited
Cape Specialist Coatings Limited
Predart Limited
Somewatch Limited
Somewin Limited

The detailed terms of the Scheme are set out in the Scheme itself, a copy of which has been filed with the Registrar of Companies, the Articles of Association of Cape plc and Cape Claims Services Limited ('CCS') and a number of other ancillary agreements. The effect of the Scheme as a whole can be summarised as follows:

(a) While Scheme creditors retain their rights against Scheme companies, and may bring proceedings against Scheme companies for declaratory relief to determine whether they have a claim and, if so, of what amount, their rights, subject as provided in sub paragraphs (k) and (m) below are only enforceable against CCS under the terms of the Scheme guarantee;

(b) CCS was funded in the first instance with a sum of £40 million which represented what was considered to be a sufficient sum to discharge CCS's liabilities to Scheme creditors which became payable over at least eight years from 1 January 2006;

(c) Every three years there is an assessment of the projected Scheme claims against Scheme companies payable by CCS over the following nine years, by reference to which the Funding Requirement, is established;

(d) The use of Scheme funds is restricted to the payment of established Scheme claims and Scheme creditor costs;

34. The Scheme of Arrangement (continued)

(e) In the event that an assessment reveals a shortfall between the Scheme assets and the Funding Requirement, the Company will top up CCS's funding over the following three years provided that sufficient cash is available, Cape's obligation being limited to 70% of the Group's consolidated adjusted operational cash flow (including, for example, adjustments to take account of acquisitions, an element of capital expenditure and repayment of borrowing facilities);

(f) Should the Company not be able to meet its top up obligation in any one year, it will be required to make good the shortfall in the next year, again subject to sufficient cash being available;

(g) Alongside the Funding Requirement there is the Scheme Funding Requirement which is assessed every year by reference to projected Scheme claims against Scheme companies payable by CCS over the next six years;

(h) If at any time the ratio of the Scheme assets to the Scheme Funding Requirement (the Scheme Funding Percentage) falls below 60%, CCS will have the ability to reduce the percentage (the Payment Percentage) of each established claim which it pays to Scheme creditors until such time as the Scheme Funding Percentage is restored to 60%;

(i) Cape is permitted to pay dividends provided that at the time of payment (i) the Scheme Funding Percentage in relation to the last preceding financial year was certified to be not less than 110%, (ii) the Directors of Cape certify that they anticipate that the Scheme Funding Percentage for the current and following financial year will be not less than 110% and (iii) the Payment Percentage has not at any time within the previous 40 business days been below 100%. Any distribution which Cape proposes to make to its shareholders may not, without the consent of the Scheme Shareholder, exceed the greater of (i) 50% of the consolidated operating profits of the Group for the last preceding financial year and (ii) the aggregate of any permitted dividends made in the preceding financial year. This restriction therefore places a cap on the amount of dividends that the Company may pay in any one year;

(j) There have been established special voting shares (the Scheme Shares) in CCS and Cape which are held by an independent third party (the Scheme Shareholder) on trust for Scheme creditors. The Scheme Shares have special rights which are designed to enable the Scheme Shareholder to protect the interests of Scheme creditors;

(k) In the case of certain Scheme creditors (Recourse Scheme Creditors), who are those Scheme creditors whose claims are in whole or in part the subject of a contract of insurance (Recourse Scheme Claims) their rights to enforce their Recourse Scheme Claims against a relevant Scheme company will revive in certain circumstances. These circumstances are where the relevant Scheme company is insolvent or where there has been a specified reduction in the Payment Percentage and if the Scheme creditor was able to bring about the insolvency of the relevant Scheme company he would be able to recover greater compensation from the FSCS ('Financial Services Compensation Scheme') or, in certain circumstances, from a solvent insurer than is available from CCS at that time under the Scheme. There will be a specified reduction if either (i) the Payment Percentage has been reduced below 100% but above 50% and the Scheme creditor has not been paid in full after 12 months or (ii) the Payment Percentage is reduced to 50% or below;

(l) Each Scheme company will agree to hold on trust for any Scheme creditor concerned the proceeds of any policy of insurance (or any compensation received from the FSCS) referable to that Scheme claim;

(m) The restriction described in sub-paragraph (a) above will not apply to proceedings to enforce the right to confer under sub-paragraph (l) above; and

(n) There are provisions contained in two reimbursement agreements which preserve certain rights of proof by CCS and Cape respectively in any insolvency of Cape or any of the other Scheme companies.

35. Related party transactions

The Company has taken advantage of the exemption available under IAS 24 not to disclose any transactions or balances between Group entities that have been eliminated on consolidation.

	2010 £m	2009 £m
(a) Key management compensation		
Short-term employee benefits	**2,427**	2,363
Post-employment benefits	**163**	163
Share based payments	**997**	743
	3,587	3,269
(b) Directors		
Aggregate emoluments	**1,903**	1,903
Company contributions to defined contribution pension scheme	**117**	117
	2,020	2,020
Highest paid Director		
Aggregate emoluments	**1,066**	1,066
Defined contribution pension scheme:		
Contributions in year	**70**	70

The key management with Group wide responsibility are considered to be the Group Directors and the head office Group management team.

No Directors (2009: none) accrued benefits under the Group's defined benefit pension scheme.

(c) Other related party transactions

There have been no material transactions with other related parties during the year. As at the year-end there was a balance of £0.5 million (2009: £0.4 million) owed by joint ventures.

36. Post balance sheet events

Facilities refinancing

On 5 January 2011, The Group signed an agreement to refinance its banking facilities through to June 2015 with a new £220 million syndicated credit facility.

Repurchase and cancellation of Preference Shares

On 25 March 2011, the Company entered into a share purchase agreement (the "Agreement") with the registered holder of 250,000 preference shares of £1 each in the capital of Company, being all the preference shares in issue (the "Preference Shares"), pursuant to which the Company agreed to purchase the Preference Shares for an aggregate amount of £284,200 (the "Consideration"), following which the Preference Shares would be cancelled.

The terms of the Agreement were approved by shareholders at a General Meeting of the Company held on 13 April 2011, and the Preference Shares were cancelled on that date.

General Meeting and Scheme of Arrangement

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").

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.

Publication of Prospectus

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.