1. Accounting policies

Basis of preparation

The financial statements are prepared on the going concern basis under the historical cost convention as modified by the revaluation of derivatives at fair value, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The Company's financial statements have been prepared in accordance with accounting principles generally accepted in the United Kingdom and are therefore being presented separately from the consolidated financial statements of Cape plc, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and International Financial Reporting Interpretations Committee (IFRIC) Interpretations.

As permitted by section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account for the year. The Company has decided not to prepare a cash flow statement. In accordance with FRS 8 the Company has taken the exemption not to disclose related party transactions with entities that are part of the Cape plc Group. FRS 29 Financial instruments: Disclosures became effective from 1 January 2008. As the consolidated financial statements have been prepared in accordance with IFRS 7, the Company is exempt from the disclosure requirements of FRS 29. Other new accounting standards issued by the Accounting Standards Board and effective from 1 January 2010 have had no impact on the accounts of the Company.

Dividend income

Dividend income is recognised in the income statement as part of other income when the Company's right to receive payments is established.

Fixed asset investments

Investments are held at cost less impairment.

Use of estimates and assumptions

The preparation of these financial statements requires management to make estimates and assumptions 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 estimation is contained in individual accounting policies.

Key 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:

- review of carrying value of fixed asset investments;
- estimation of liabilities for pension and other post retirement costs;
- liabilities in relation to industrial disease claims;
- liabilities in relation to central provisions; and
- recoverability of deferred tax assets.

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. Where this is not possible, a contingent liability is noted. Benefit is recognised for insurance recoveries for claims provided when they are anticipated with virtual certainty.

Provisions

Provisions for liabilities, except for those for industrial disease, are made where the timing or amount of settlement is uncertain. A provision is recognised when: the Company 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.

Deferred income taxation

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

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 profit and loss account 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 an interest expense.

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

Cash at bank and in hand

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

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.

Accounting for derivative financial instruments and hedging activities
The Company has adopted FRS 26 and has accounted for derivative financial instruments consistent with the method adopted by the Group shown on page 73 of the financial statements.

Share based payments
The Company issues equity settled share based payments to certain employees which must be measured at fair value and recognised as an expense in the profit and loss account 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 Company'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.

Pensions
The Group operates two major pension schemes in the UK, one is a defined benefit scheme and the other is a defined contribution scheme. The assets of the plan are held separately from those of the Company in an independently administered fund.

(a) Defined benefit plan
This is a legacy balance from a defined benefit scheme which has now closed.

(b) Defined contribution plan
Payments to the defined contribution plan are charged to the profit and loss account as an expense as they fall due.

2. Profit/(loss) of the Company
The profit for the financial year attributable to the Company was £50.4 million (2009: loss of £10.0 million).

Auditor remuneration is disclosed in note 8 to the Group financial statements.

3. Employees and Directors
Employment costs, including Directors' emoluments

	2010 £m	2009 £m
Wages and salaries	**4.1**	4.0
Social security	**0.5**	0.4
Other pension costs	**0.2**	0.2
Cost of employee share scheme	**1.1**	0.8
	5.9	5.4

Details of share based payments are disclosed in note 28 to the Group accounts and in the Directors' remuneration report on page 29.

4. Fixed asset investments

	Group Companies £m
Cost:	
At 1 January 2010	66.6
Additions	–
At 31 December 2010	66.6
Impairment	
At 1 January 2010	35.3
Impairment*	1.2
Reversal of provision for impairment**	(32.8)
At 31 December 2010	3.7
Net book amount:	
At 31 December 2010	62.9
At 31 December 2009	31.3

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

* Impairment relates to write down of investment in dormant company Predart Limited.
** Reversal of impairment relates to the change in the ownership of Cape Calsil Group Limited (CCGL) which was transferred from the parent company to Cape Industrial Services Group Limited (CISGL) for a share for share exchange. As parent company no longer owns CCGL directly, the provision for impairment of £32.8 million was reversed.

5. Debtors

	Note	2010 £m	2009 £m
Amounts owed by Group undertakings		**117.0**	134.6
Other debtors		**0.6**	1.9
Group relief receivable		**3.4**	3.4
UK taxation		**1.3**	4.2
Deferred tax	6	**5.8**	3.2
		128.1	147.3

Amounts owed by Group undertakings are unsecured, have no fixed date of repayment and are repayable on demand.

6. Deferred taxation

	Note	2010 £m	2009 £m
Deferred taxation asset comprises:			
Short-term timing differences		**5.8**	3.2
Net deferred taxation asset			
At 1 January		**3.2**	4.2
Amount credited to profit and loss account		**2.9**	0.2
Amount (debited) to reserves	11	**(0.3)**	(1.2)
At 31 December		**5.8**	3.2

7. Creditors: amounts falling due within one year

	2010 £m	2009 £m
Bank loans	**20.0**	20.0
Bank overdrafts	**4.2**	20.1
Short-term borrowings	**24.2**	40.1
Social security and other taxation	**–**	0.1
Other creditors	**1.2**	0.9
Accruals and deferred income	**1.7**	1.5
	2.9	2.5
Derivative financial liabilities	**3.0**	4.4
Total amounts falling due within one year	**30.1**	47.0

Details of the derivative financial liabilities are disclosed in note 23 to the Group financial statements.

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

	2010 £m	2009 £m
Bank loans	**93.8**	107.9
Cumulative preference shares	**0.3**	0.3
Total amounts falling due after more than one year	**94.1**	108.2

The bank loans and overdrafts are secured by fixed and floating charges over the assets of the Group.

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.

9. Provisions for other liabilities and charges

	At 1 January 2010 £m	Provisions charged £m	Provisions released £m	Provision utilised £m	At 31 December 2010 £m
Industrial disease provision	**4.7**	–	(4.7)	–	**–**
Other provisions	**4.3**	0.6	(0.8)	(0.3)	**3.8**
	9.0	0.6	(5.5)	(0.3)	**3.8**

The industrial disease provision was moved to a trading entity within the Group in the year.

Other provisions relate to the decision made in 2002 to sell and close the Calsil business and provisions for property dilapidations and national insurance on share options.

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

10. Called up 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.

The total charge for the year relating to employee share based payment plans was £1.1 million (2009: £0.8 million), all of which related to equity settled share based payment transactions.

11. Capital and reserves

	Total £m	Called up share capital £m	Share premium account £m	Special Reserve £m	Profit and loss account £m
At 1 January 2009	5.8	33.1	8.4	1.0	(36.7)
Exchange loss, net of taxation	(1.7)	–	–	–	(1.7)
Cash flow hedges – fair value gains in the year	2.1	–	–	–	2.1
Net investment hedges – fair value gains in the year	2.3	–	–	–	2.3
Deferred tax on hedges	(1.2)	–	–	–	(1.2)
Loss for the financial year	(10.0)	–	–	–	(10.0)
Dividends received	15.0	–	–	–	15.0
Share options					
– proceeds from shares issued	1.0	0.2	0.8	–	–
– value of employee services	0.8	–	–	–	0.8
At 31 December 2009	14.1	33.3	9.2	1.0	(29.4)
At 1 January 2010	**14.1**	**33.3**	**9.2**	**1.0**	**(29.4)**
Exchange loss, net of taxation	**(0.5)**	**–**	**–**	**–**	**(0.5)**
Cash flow hedges – fair value gains in the year	**1.4**	**–**	**–**	**–**	**1.4**
Net investment hedges – fair value losses in the year	**(0.6)**	**–**	**–**	**–**	**(0.6)**
Deferred tax on hedges	**(0.3)**	**–**	**–**	**–**	**(0.3)**
Profit for the financial year	**50.4**	**–**	**–**	**–**	**50.4**
Cancellation of deferred shares	**–**	**(4.3)**	**–**	**–**	**4.3**
Dividends paid	**(4.7)**	**–**	**–**	**–**	**(4.7)**
Share options					
– proceeds from shares issued	**1.8**	**0.2**	**1.6**	**–**	**–**
– value of employee services	**1.1**	**–**	**–**	**–**	**1.1**
At 31 December 2010	**62.7**	**29.2**	**10.8**	**1.0**	**21.7**

12. Contingencies

The Company 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.

13. Related party transactions

In accordance with FRS 8 the Company has taken the exemption not to disclose related party transactions with entities that are part of the Cape plc Group.

Details of Directors' emoluments are shown in note 35 to the Group financial statements and in the Directors' remuneration report on page 29.

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

14. Dividends

Equity – Ordinary	**2010 £m**	2009 £m
Interim dividend paid: 4p (2009: nil) per share	4.7	–
	4.7	–

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.