CAPE INTERIM REPORT 2006

£145.1m

GROUP TURNOVER
UP 20.2% (2005: £120.7m)

£128.2m

GROUP TURNOVER - CONTINUING OPERATIONS
UP 20.9% (2005: £106.0m)

£3.4m

GROUP OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS
UP 47.8% (2005: £2.3m)

£4.2m

GROUP OPERATING PROFIT
(2005: LOSS OF £3.4m)

↑↑4.1p

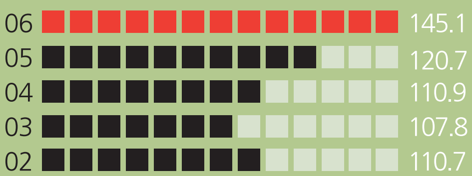
DILUTED EARNINGS PER SHARE
(2005: LOSS OF 4.9p)

CONTENTS

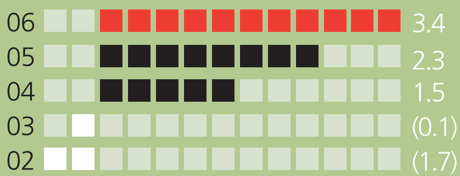
FOUNDED IN 1893, CAPE PLC IS THE PARENT COMPANY OF A NUMBER OF SERVICE PROVIDING ORGANISATIONS OPERATING PRIMARILY IN THE OIL AND GAS, PETROCHEMICAL AND POWER GENERATION INDUSTRIES.

THE COMPANY IS BASED IN THE UK AND OPERATES IN 23 COUNTRIES WORLDWIDE.

TURNOVER AT HALF-YEAR £m



OPERATING PROFIT/(LOSS) BEFORE EXCEPTIONAL ITEMS £m



BUSINESS HIGHLIGHTS

- **CONTINUED PROGRESS IN KEY POWER GENERATION, OIL AND GAS MARKETS**
- **FORWARD ORDER BOOK IS STRONG AND CONTINUES TO GROW**
- **FURTHER SIGNIFICANT NEW CONTRACT WINS IN UK AND INTERNATIONAL MARKETS**
- **ASBESTOS SCHEME OF ARRANGEMENT EFFECTIVE FROM 14 JUNE 2006**
- **SALE OF THE CLETON BUSINESS ON 20 JULY 2006**

CHAIRMAN'S STATEMENT

CAPE HAS ENJOYED A VERY STRONG FIRST SIX MONTHS OF 2006 AND THE OUTLOOK IS EQUALLY PROMISING

I am pleased to report that Cape has enjoyed a very strong first six months of 2006 and that the outlook for the remainder of the year is equally promising.

The approval of the Scheme of Arrangement ('Scheme'), which became effective on 14 June, is an important development in Cape's fortunes and will, I believe, help to enable Cape to realise its full growth potential whilst also securing compensation payments for future claimants.

Other significant developments include the disposal of the Cleton business and a number of changes to the Board. The recent appointment of Martin May as Chief Executive with the task of implementing the Company's ambitious and acquisitive growth strategy will give added momentum to a Group that has been growing consistently and profitably since he first became involved in 2002. I take over from Martin as non-executive Chairman and have been joined by David Robins, a partner at city law firm Berwin Leighton Paisner and former director of Hornby Plc, whose corporate finance expertise adds strength and depth to the Board.

The Board now comprises:

David McManus – Non-executive Chairman
Martin May – Chief Executive
Mike Reynolds – Group Finance Director
David Robins – Non-executive Director

David McManus
Chairman
22 September 2006

CHIEF EXECUTIVE'S REPORT

WE HAVE CONTINUED TO DELIVER EXCELLENT GROWTH IN THE FIRST HALF OF THE YEAR

I am pleased to report that Cape's operating business has continued to deliver excellent growth in turnover and operating profit in the first half of this financial year. Cape, which specialises in the provision of common user scaffolding, insulation, fire protection and other essential services to major industrial clients principally in the energy sector, has performed ahead of management expectations and has been successful in securing a number of new contracts and renewals both in the UK and internationally.

On turnover from continuing operations of £128.2 million in the first six months of 2006 (2005: £106.0 million), the Group made an operating profit before exceptional items of £3.2 million (2005: £2.2 million before exceptional items), an increase of 45.5%.

The basic earnings per share is 4.1p (2005: basic loss of 5.1p). The increase arises, in part from the exceptional credit of £0.8 million (2005: exceptional cost £5.7 million) in the first six months of the year relating to the costs of implementing the scheme. Despite a 53.5% increase in the issued ordinary share capital, the adjusted earnings per share of 3.4p (2005: 2.2p) reflects improved trading and a reduction in the industrial disease claims charge.

Net debt as at 30 June 2006 is £28.9 million (30 June 2005: £13.3 million). The increase in net debt, despite the share issue in July 2005, is due to the transfer of cash to Cape Claims Services Limited. Cape Claims Services Limited (the wholly owned subsidiary formed to administer the Scheme), has funds of £40.1 million being the initial Scheme funding plus interest. The use of these funds is restricted to the payment of industrial disease claims under the Scheme. Due to the restricted nature of these funds they are not included within Group net debt.

An interim dividend is not proposed.

OPERATING REVIEW

High levels of investment will continue to provide significant growth opportunities and underpin the Group's business. World energy consumption is projected to rise by 71% between 2003 and 2030. In OECD countries energy consumption is forecast to increase by 32% whilst in Non-OECD countries consumption is forecast to increase by 221%. Over the same period, investment in the energy sector will total $16 trillion or $550 billion per annum. Almost all of this investment will go into oil, gas and power generation. The Group continues to exploit opportunities in existing and new markets especially in Non-OECD countries.
For example, in the Middle East Cape is well established; in the Far East we have a growing presence; and in North Africa, as a result of recent project work in Egypt, Cape is now well placed to expand into Algeria and Libya.

Although the business environment (particularly the UK market) remains highly competitive, Cape continues to strengthen its market leading position. Our safety proposition and proven ability to deliver on time all of the time is becoming increasingly compelling for our blue chip client base.

Against this background, the operating business made a profit from continuing operations of £5.7 million (2005: £5.0 million) up 14.0%, on turnover of £128.2 million (2005: £106.0 million) up 20.9%, in the six months ended 30 June 2006.

CONTRACT WINS

Cape has continued to win significant contracts and renewals with new and existing clients in each of its core markets as well as expanding the range of services it offers.

The value of the major new contracts and contract renewals listed below together with others announced in the last 12 months is now in excess of £150 million giving much enhanced visibility of future earnings.

Since 1 January 2006, we have announced:

- a ten year contract with an estimated overall value of £78 million with Scottish Power Generation Limited to provide shared services including scaffolding, access, insulation, asbestos management, industrial cleaning and surface preparation to the principal power generating stations at Longannet and Cockenzie located on the river Forth in Scotland;
- the renewal of a £10 million contract with Drax Power Limited to provide maintenance services, including the provision of access, insulation and industrial cleaning at Drax Power Station, near Selby, North Yorkshire which runs for a period of five years from 1 July 2006;
- a contract with IGS Sicim involving insulation work, scaffolding and painting at the Kashagan development at Karabatan, Kazakhstan which is worth c. US$7.4 million;
- a £3.8 million order from Consolidated Contractors International Ltd for cryogenic and thermal insulation services on the Third NGL Train at Ruwais, United Arab Emirates. The work is expected to commence in the final quarter of this year and continue into early 2008. The ultimate client for the project, Abu Dhabi Gas Industries Ltd (GASCO), has also recently named Cape's subsidiary, Cape East LLC, as its 2005 HSE contractor of the year;
- a US$3.6 million contract with Bahwan Engineering Company, providing multi-discipline services covering thermal insulation, refractory work and scaffolding at the new fertiliser plant at Sohar, Oman;
- an insulation contract from Parsons Fluor Daniel in connection with the Tengiz development, in Kazakhstan. The contract has a value of US$2.5 million and will ensure Cape's continued involvement with the Tengiz development into the middle of 2007; and
- marking Cape's return to Kuwait after an absence of nine years, Cape East's subsidiary there has entered into a contract with Gulf Spic to provide scaffolding services worth approximately $400,000 on the new Equate II petrochemical plant.

HEALTH AND SAFETY

I am also pleased to report that the Group continues to sustain its first class record on health and safety, one of the key elements of its business proposition. In the UK, Cape's operating business has been awarded the British Safety Council 5 Star Award for health and safety for the fifth time in the past six years. Health and safety awards have also been achieved in Abu Dhabi, Qatar and on Sakhalin Island. We understand clearly that the importance of health and safety to our clients can never be underestimated and we are pleased that our health and safety standards when combined with the other elements that make up the Cape brand have led, among other business awards, to being named as British Energy's Contractor of the Year.

CLETON DISPOSAL

On 20 July 2006, Cape completed the disposal of the business and assets of Cleton, its operating business based in the Netherlands, Germany and Belgium. The terms of the disposal provided for an initial cash payment to Cape of £5.6 million, representing a small premium to the net assets sold, which is subject to adjustment by reference to completion accounts up to a maximum consideration of £6.1 million. The recycling of goodwill previously taken to reserves, which will be shown in the Group’s year end accounts, will lead to there being an overall loss on the sale. However, the Company is also in negotiations with a view to the disposal of the three freehold premises used by the Cleton business and the overall effect on the Group, particularly from a cash flow perspective, is expected to be positive.

The sale of the Cleton business, which in the first six months of 2006 generated turnover of £16.9 million and contributed profit before tax of £0.2 million, is in line with the Group's strategy of focusing on core markets where the return on managed assets, rate of growth in operating profit and cash generation justify Cape's presence.

The proceeds of the sale will be used in the first instance to reduce borrowings and then to fund Cape's growth strategy in its core markets in the UK and Middle East.

INDUSTRIAL DISEASE CLAIMS

The net charge to the profit and loss account for industrial disease claims in the six months to 30 June 2006 was down from the same period last year at £1.4 million (2005: £2.2 million). Given the outlook for the Group and assuming that future settlements broadly follow recent history, we remain confident that any required top-ups to the Scheme fund and (insofar as there are any) future claims outside the Scheme, to the extent not matched by insurance recoveries, can be met from operating cash flows.

SCHEME OF ARRANGEMENT

Following its approval by the overwhelming majority of creditors who voted on the Scheme and its subsequent sanction by the High Court, the Scheme became effective on 14 June 2006. The Scheme provides for the long-term funding of the majority of asbestos-related claims arising out of the historical UK activities of the Cape Group. The Directors believe that the Scheme brings considerable de-risking for Cape, leaving the Group better able to generate the resources needed to secure the continued payment of compensation to claimants and removes a significant obstacle to the Group's growth.

OUTLOOK

Cape continues to maintain its leading position in the majority of the markets in which it operates. Sales remain strong in all of the Group’s activities and the prospects for new work driven by the buoyant energy sector are excellent. The Board has every reason to believe that the Group will continue to improve on the growth and progress of the past four years.

Martin K May
Chief Executive
22 September 2006

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for half-year ended 30 June 2006

	Unaudited Half-year ended 30 June 2006 £m	Unaudited Half-year ended 30 June 2005 £m	Restated audited Year ended 31 December 2005 £m
Turnover including group share of joint ventures			
Continuing operations	**128.2**	106.2	229.8
Discontinued operations	**16.9**	14.7	32.0
	145.1	120.9	261.8
Less share of turnover of joint ventures	**–**	(0.2)	(0.3)
Group turnover	**145.1**	120.7	261.5
Group operating profit before operating exceptional items - continuing operations	**3.2**	2.2	7.8
Operating exceptional items - continuing operations	**0.8**	(5.7)	(9.7)
Group operating profit/(loss) - continuing operations	**4.0**	(3.5)	(1.9)
Group operating profit - discontinued operations	**0.2**	0.1	0.3
Group operating profit/(loss)	**4.2**	(3.4)	(1.6)
Share of operating profit in joint ventures	**–**	–	0.2
Total operating profit/(loss): group and share of joint ventures	**4.2**	(3.4)	(1.4)
Profit on sale of fixed assets	**–**	–	0.3
Profit/(loss) on ordinary activities before interest	**4.2**	(3.4)	(1.1)
Net interest payable	**–**	(0.6)	(0.7)
Other finance income	**0.5**	0.4	0.8
Profit/(loss) on ordinary activities before taxation	**4.7**	(3.6)	(1.0)
Tax (charge)/credit on profit/(loss) on ordinary activities	**(1.2)**	0.9	1.0
Profit/(loss) for the period	**3.5**	(2.7)	–
Earnings/(loss) per ordinary share:			
Basic	**4.1p**	(5.1)p	Nil
Diluted	**4.1p**	(4.9)p	Nil

CONSOLIDATED BALANCE SHEET

at 30 June 2006

	Note	**Unaudited 30 June 2006 £m**	Unaudited 30 June 2005 £m	Audited 31 December 2005 £m
Fixed assets				
Intangible assets		**0.6**	0.1	0.6
Tangible assets		**29.4**	26.6	29.4
Interest in joint ventures				
Share of gross assets		**0.1**	0.4	0.2
Share of gross liabilities		**–**	(0.1)	–
		0.1	0.3	0.2
		30.1	27.0	30.2
Current assets				
Stocks		**8.7**	10.8	9.9
Debtors		**88.7**	79.4	77.5
Cash - Scheme funds (restricted)	8b	**40.1**	–	–
Cash at bank and in hand		**10.5**	7.7	27.2
		148.0	97.9	114.6
Creditors: amounts falling due within one year				
Short term borrowings		**(25.1)**	(8.2)	(1.8)
Other creditors		**(64.3)**	(60.2)	(63.2)
		(89.4)	(68.4)	(65.0)
Net current assets		**58.6**	29.5	49.6
Total assets less current liabilities		**88.7**	56.5	79.8
Creditors: amounts falling due after more than one year		**(14.3)**	(12.8)	(1.7)
Provisions for liabilities and charges		**(13.3)**	(18.6)	(19.2)
Net assets excluding pension asset		**61.1**	25.1	58.9
Pension asset		**9.2**	3.7	5.3
Net assets including pension asset		**70.3**	28.8	64.2
Capital and reserves				
Called up share capital		**25.5**	18.2	25.5
Share premium account		**25.0**	1.7	25.0
Revaluation reserve		**2.2**	2.3	2.2
Profit and loss account		**17.6**	6.6	11.5
Shareholders' funds		**70.3**	28.8	64.2

CONSOLIDATED CASH FLOW STATEMENT

for half-year ended 30 June 2006

	Unaudited Half-year ended 30 June 2006 £m	Unaudited Half-year ended 30 June 2005 £m	Audited Year ended 31 December 2005 £m
Net cash (outflow)/inflow from operating activities before Scheme funding	**(7.7)**	(5.5)	7.3
Scheme funding - transfer to restricted cash	**(40.0)**	–	–
Net cash (outflow)/inflow from operating activities	**(47.7)**	(5.5)	7.3
Dividends received from joint ventures	**0.1**	–	0.4
Returns on investments and servicing of finance	**(0.1)**	(0.6)	(0.7)
Taxation	**(0.9)**	(0.4)	(0.9)
Net cash outflow from capital expenditure and financial investment	**(2.4)**	(4.8)	(7.8)
Net cash outflow from acquisitions and disposals	**–**	–	(0.5)
Net cash outflow before financing	**(51.0)**	(11.3)	(2.2)
Financing			
Issue of ordinary shares	**–**	–	32.0
Expenses of share issue	**–**	–	(1.4)
Capital element of finance lease rental payments	**(0.5)**	–	(0.8)
Increase/(decrease) in short-term borrowings	**13.8**	3.5	(5.2)
Increase in long-term borrowings	**12.0**	7.3	–
Decrease in cash in the period	**(25.7)**	(0.5)	22.4
Reconciliation of net cash flow to movement in net debt:			
(Decrease)/increase in cash in the period	**(25.7)**	(0.5)	22.4
(Inflow)/outflow from debt and lease financing	**(25.3)**	(10.8)	6.0
Change in debt resulting from cash flows	**(51.0)**	(11.3)	28.4
New finance leases	**(1.3)**	–	(2.8)
Exchange movement in period	**(0.3)**	0.4	0.5
Movement in net debt in the period	**(52.6)**	(10.9)	26.1
Net funds/(debt) at 1 January	**23.7**	(2.4)	(2.4)
Net (debt)/funds at end of period	**(28.9)**	(13.3)	23.7

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the half-year ended 30 June 2006

	Unaudited Half-year ended 30 June 2006 £m	Unaudited Half-year ended 30 June 2005 £m	Restated audited Year ended 31 December 2005 £m
Profit/(loss) on ordinary activities after taxation	**3.5**	(2.7)	–
Currency translation differences net of taxation on foreign currency net investments	**(1.2)**	0.8	1.4
Acturial gain/(loss) recognised in the pension scheme	**5.2**	(0.4)	1.6
Movement on deferred tax relating to pension asset	**(1.6)**	0.1	(0.5)
Total recognised gains/(losses) relating to the period	**5.9**	(2.2)	2.5
Prior year adjustments	**(0.1)**		
Total gains and losses recognised since last annual report	**5.8**		

NOTES TO THE FINANCIAL STATEMENTS

1. BUSINESS ANALYSIS

		Unaudited 6 months ended 30 June 2006 Profit before tax		
Business analysis	**Turnover £m**	**Pre-exceptional £m**	**Operating exceptional items £m**	**Total £m**
2006				
Continuing operations				
- Operating business	**128.2**	**5.7**	**–**	**5.7**
- Joint ventures	**–**	**–**	**–**	**–**
- Total operating business	**128.2**	**5.7**	**–**	**5.7**
- Head Office	**–**	**(1.1)**	**0.8**	**(0.3)**
- Compensation for industrial disease	**–**	**(1.4)**	**–**	**(1.4)**
Total continuing operations	**128.2**	**3.2**	**0.8**	**4.0**
Discontinued operations				
- Operating business	**16.9**	**0.2**	**–**	**0.2**
Total discontinued operations	**16.9**	**0.2**	**–**	**0.2**
Total operations	**145.1**	**3.4**	**0.8**	**4.2**
Net interest payable				**–**
Other finance income				**0.5**
Profit on ordinary activities before taxation				**4.7**

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

1. BUSINESS ANALYSIS continued

		Unaudited (restated) 6 months ended 30 June 2005 Profit before tax		
	Turnover	Pre-exceptional	Operating exceptional items	Total
Business analysis	£m	£m	£m	£m
2005 (restated)				
Continuing operations				
- Operating business	106.0	5.0	–	5.0
- Joint ventures	0.2	–	–	–
- Total operating business	106.2	5.0	–	5.0
- Head Office	–	(0.6)	(5.7)	(6.3)
- Compensation for industrial disease	(2.2)	–	(2.2)	–
Total continuing operations	106.2	2.2	(5.7)	(3.5)
Discontinuing operations				
- Operating business	14.7	0.1	–	0.1
Total discontinued operations	14.7	0.1	–	0.1
Total operations	120.9	2.3	(5.7)	(3.4)
Net interest payable				(0.6)
Other finance income				0.4
Loss on ordinary activities before taxation				(3.6)

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

1. BUSINESS ANALYSIS continued

		Audited (restated) Year ended 31 December 2005 Profit/(loss) before tax			
Business analysis	Turnover £m	Pre-exceptional £m	Operating exceptional items £m	Non-operating exceptional items £m	Total £m
2005 (restated)					
Continuing operations					
- Operating business	229.5	14.4	–	0.3	14.7
- Joint ventures	0.3	0.2	–	–	0.2
- Total operating business	229.8	14.6	–	0.3	14.9
- Head Office	–	(1.8)	(9.7)	–	(11.5)
- Compensation for industrial disease	–	(4.8)	–	–	(4.8)
Total continuing operations	229.8	8.0	(9.7)	0.3	(1.4)
Discontinued operations					
- Operating business	32.0	0.3	–	–	0.3
Total discontinued operations	32.0	0.3	–	–	0.3
Total operations	261.8	8.3	(9.7)	0.3	(1.1)
Net interest payable					(0.7)
Other finance income					0.8
Loss on ordinary activities before taxation					(1.0)

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

2. RECONCILIATION OF GROUP OPERATING PROFIT/(LOSS) TO NET OPERATING CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES

	Unaudited Half-year ended 30 June 2006 £m	Unaudited Half-year ended 30 June 2005 £m	Restated audited Year ended 31 December 2005 £m
Group operating profit/(loss)	**4.2**	(3.4)	(1.6)
Depreciation charge on fixed assets	**3.3**	2.5	6.0
Profit on sale of fixed assets	**–**	(0.4)	–
Changes in working capital	**(9.4)**	(7.1)	(0.2)
Difference between pension charge and cash contributions	**0.1**	0.4	0.1
(Decrease)/increase in provisions	**(5.9)**	2.5	3.0
Scheme funding - transfer to restricted cash	**(40.0)**	–	–
Net operating cash (outflow)/inflow from operating activities	**(47.7)**	(5.5)	7.3

3. RECONCILIATION OF MOVEMENT IN NET (DEBT)/FUNDS

	At 30 June 2006 £m	Cashflow £m	New finance leases £m	Exchange movements £m	At 31 December 2005 £m
Cash at bank and in hand	**10.5**	(16.4)	–	(0.3)	27.2
Bank overdrafts and loans due in less than 1 year	**(24.0)**	(23.1)	–	–	(0.9)
Debt due after 1 year	**(12.0)**	(12.0)	–	–	–
Finance leases	**(3.4)**	0.5	(1.3)	–	(2.6)
Net (debt)/funds	**(28.9)**	(51.0)	(1.3)	(0.3)	23.7
Scheme funds - restricted	**40.1**	40.1	–	–	–
Net funds including restricted cash	**11.2**	(10.9)	(1.3)	(0.3)	23.7

4. FINANCIAL INFORMATION

The financial information for the half years ended 30 June 2006 and 30 June 2005 is unaudited.

The financial information for the year ended 31 December 2005 does not constitute full accounts, but, subject to the restatement explained in note 5, is an extract from the Company’s accounts for the year, which have been delivered to the Registrar of Companies and on which the auditors gave an unqualified report.

In forming their opinion, the auditors considered the adequacy of the disclosures made in the financial statements concerning the impact of, and accounting for, potential future claims for industrial disease compensation. An independent actuarial estimate of range of certain potential liabilities has been performed, however, given the wide range of estimates and significant degree of uncertainty surrounding them, it is not possible for the Directors to quantify, with sufficient reliability, the amount required to settle future claims and accordingly claims are generally accounted for on the basis of claims lodged or settlements reached and outstanding at the balance sheet date.

However, if it were possible to assess reliably the present value of the amount required to settle future claims such that this was provided in the balance sheet, there would be a materially adverse effect on the Group’s financial position. Details of the circumstances relating to this ‘emphasis of matter – contingent liability for industrial disease claims’ are described in the contingent liability note below. The auditor’s opinion was not qualified in this respect.

The results for the half-year ended 30 June 2006 were approved by the Board on 22 September 2006.

5. ACCOUNTING POLICIES

The interim statements have been prepared using the same accounting policies as were used in the Group's statutory accounts to 31 December 2005 except for the adoption of a new accounting standard as detailed below.

FRS 20 'Accounting for share based payments', which is applicable for accounting periods beginning on or after 1 January 2006, was adopted in the period. FRS 20 requires the fair value of employee share options granted to be charged in the profit and loss account over the vesting period of the option. Accordingly the prior year results have been restated. The effect is to reduce profit after tax by £0.1 million for the year ended 31 December 2005. In the six months ended 30 June 2006 the reversal of the charge under UITF 17 is not materially different to the FRS 20 charge.

6. EARNINGS/(LOSS) PER ORDINARY SHARE

The basic earnings per share calculation for the six month period ended 30 June 2006 is based on the profit after tax of £3.5 million (2005: loss of £2.7 million) divided by the weighted average number of 25p ordinary shares of 83,523,010 (2005: 54,430,397).

The diluted earnings per share calculation for the six month period ended 30 June 2006 is based on the profit after tax of £3.5 million (2005: loss of £2.7 million) divided by the weighted average number of 25p ordinary shares of 84,420,326 (2004: 55,753,973).

6. EARNINGS/(LOSS) PER ORDINARY SHARE continued

An adjusted basic earnings per share has been disclosed which excludes the effects of operating and non-operating exceptional items. It is calculated by dividing the adjusted earnings after tax of £2.9 million (2005: £1.3 million) by the weighted average number of 25p ordinary shares of 83,523,010 (2005: 54,430,397). The adjusted numbers have been provided in order that the effects of exceptional items on reported earnings can be fully appreciated and has been calculated as follows:

	Unaudited Half-year ended 30 June 2006		Unaudited Half-year ended 30 June 2005		Audited (restated) Year ended 31 December 2005	
Basic earnings/(loss) per share	**Earnings £m**	**EPS pence**	Earnings £m	EPS pence	Earnings £m	EPS pence
As stated	**3.5**	**4.1**	(2.7)	(5.1)	–	–
Adjustments:						
Operating exceptional items	**(0.8)**	**(1.0)**	5.7	10.4	9.7	14.4
Tax effect of operating exceptional items	**0.2**	**0.3**	(1.7)	(3.1)	(2.9)	(4.3)
Profit on sale of fixed assets	**–**	**–**	–	–	(0.3)	(0.5)
As adjusted earnings per share	**2.9**	**3.4**	1.3	2.2	6.5	9.6
Diluted earnings/(loss) per share						
As stated	**3.5**	**4.1**	(2.7)	(4.9)	–	–
Adjustments:						
Operating exceptional items	**(0.8)**	**(1.0)**	5.7	10.3	9.7	14.3
Tax effect of operating exceptional items	**0.2**	**0.3**	(1.7)	(3.1)	(2.9)	(4.3)
Profit on sale of fixed assets	**–**	**–**	–	–	(0.3)	(0.5)
As adjusted diluted earnings per share	**2.9**	**3.4**	1.3	2.3	6.5	9.5

7. CONTINGENT LIABILITIES

i. There is a history of industrial disease claims being lodged against the Group for a number of years. Where the Group has determined that it is appropriate to do so, settlement has been made. Based on this experience, it is likely that similar claims will continue to be received for the foreseeable future. However, there is significant uncertainty over the number, nature, timing and validity of such future claims. This is as a result of, inter alia, uncertainties concerning the population that may have been exposed to asbestos and that may develop asbestos-related diseases, the nature and timing of the diseases that may develop, the impact of other factors which might have contributed to the claimant's condition, changes in the legal environment and to the typical cost of settlement. These factors affect considerations of liability and the quantum of settlements. Experience to date is that some of these claims will be at least partially covered by insurance policies but the amount of cover will not be known until the details of the claims are available.

7. CONTINGENT LIABILITIES continued

In order to provide for the long term financing of a great majority of all future asbestos-related claims likely to be made successfully against the Group, Cape has put in place a Scheme of Arrangement ('Scheme') details of which are set out in Note 8. The Scheme became effective in relation to Cape PLC and 12 of its wholly owned subsidiaries on 14 June 2006. The Scheme companies are listed in Note 8.

For the purposes of the Scheme, the Directors commissioned independent actuaries to review and provide an estimate of certain of the Group's unpaid and uninsured UK asbestos-related claims as at 31 December 2004. Estimates of unpaid asbestos-related claims are inherently uncertain. Although the review did not take account of all potential claims against the Group, it covers, in the opinion of the Directors, the overwhelming majority of all UK asbestos-related claims likely to be made against the Group. The actuaries' best estimate of the aggregate projected discounted value, net of insurance recoveries, of the unpaid UK asbestos-related claims they reviewed is £119.4 million. This estimate is contained within a range of low and high estimates of £70.2 million and £240.3 million respectively, although there can be no certainty that the total cost of such claims will fall within the range of such estimates. The discount rate applied is 5%. Claims not covered by the review include, inter alia, overseas claims and certain potential claims for reimbursement from insurers and others.

Given the wide range of the estimates and the significant degree of uncertainty surrounding them, the Directors take the view that the amount of the Group's overall obligation cannot be measured with sufficient reliability. Accordingly, the Group provides in the profit and loss account each period for the estimated liability in respect of industrial disease claims lodged and outstanding at the period end. The accounting treatment of claims lodged and outstanding has not been changed as a result of the implementation of the Scheme. Upon consolidation the potential liability shown in the Group Balance Sheet remains unchanged as a result of the implementation of the Scheme. However, the effect of the Scheme is to protect the Group to a significant extent from the risks of insolvency of the Scheme companies if there is a significant increase in either the number of claims or the quantum of damages or costs the Group has to settle or a material deterioration in the Group's trading performance which would otherwise have caused the Group to be unable to settle Scheme claims payable by it in full. Nevertheless, if it were possible to assess reliably the present value of amounts that might be paid in future settlements such that this was to be provided in the Balance Sheet, there would be a materially adverse effect on the Group's financial position. There is great uncertainty over the net present value of the future claim settlements. These could occur over a period of more than 40 years. However, in aggregate they are likely to exceed the amount of the net assets included in the current Group Balance Sheet. Based on the recent history of settlements, the Directors anticipate that, assuming there is no material deterioration in the Group's trading performance nor a significant increase in either the number of asbestos-related claims or the quantum of damages or costs the Group has to settle, nor any significant shortfall in the recoveries that the Directors expect the Group to make from its insurers and under third party indemnities and the Scheme fund achieves investment returns in line with current expectations, the Group will be able to ensure that (i) its newly formed subsidiary Cape Claims Services Limited ('CCS') 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 the Scheme.

7. CONTINGENT LIABILITIES continued

Should the future pattern as regards timing and quantum of claims prove to be materially and adversely different from the historic trend, there could be a material adverse effect on the Group's financial position.

ii. The Company was the defendant in proceedings brought by some 7,500 South African residents who claimed that they suffered injury as the result of mining activities in South Africa undertaken by former subsidiaries of Cape PLC. The Company entered into an agreement on 13 March 2003 with the claimants in the group action and new claimants who had come forward in 2002.

It is possible that claims could arise in the future from claimants who were not included in the group action, or who claim they have developed an asbestos related disease since the date of the settlement and as a result of the Group's former mining activities in South Africa. There is a significant uncertainty as to whether such future claims will be made and as to the number, nature, timing and validity of such claims. However, no such claims have been received to date.

iii. Certain companies in the Group continue to be named, along with several asbestos fibre and asbestos product suppliers, as defendants in a number of legal actions in North America. The plaintiffs in such actions are claiming substantial damages as a result of the use of these products. The Company has received legal advice in the UK that default judgments obtained in North America against Companies within the Group which are not present in North America, would not be enforceable in the UK. Consequently the Directors believe that the above-mentioned matters are unlikely to have a material effect on the Group's financial position.

iv. The Company's subsidiary, Cape Industrial Services Limited, together with other companies involved in offshore contracting work, is a defendant in proceedings before the Employment Tribunal under the Working Time Regulations 1998 brought by a small number of employees claiming that their paid annual leave should be taken from scheduled working time. If successful, the claimants (and other affected employees who are not party to the proceedings) could be entitled to compensation. Under the terms of certain of its contracts, Cape Industrial Services Limited would be entitled to additional payment from its clients. There is significant uncertainty as to whether the claimants will succeed and, if they do, as to the number of affected employees, the amount of any compensation that would be awarded and the extent to which it could be recovered under relevant contracts.

v. There are a number of leasehold properties in respect of which the Group is liable for dilapidations, and rent in the event of default by its sub-tenants. Given the nature of these arrangements it is difficult to assess the potential liability with certainty and as a consequence contingent liabilities may exist. The Directors believe that any such contingent amounts would not have a material effect on the Group's financial position.

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

8. 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 and 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 has been funded in the first instance with a sum of £40 million which represents what is considered to be a sufficient sum to discharge CCS's liabilities to Scheme creditors which become payable over at least 8 years from 1 January 2006. The use of these funds is restricted to the payment of established Scheme claims and Scheme creditor costs;

(c) The sum of £40 million has not been calculated by reference to an estimate of the likely amount of Scheme claims. It simply represents the aggregate of the amount that the Company was able to raise from its shareholders and the level of debt which the Company can reasonably maintain for the purposes of the Scheme. Of fundamental importance to the Scheme are the provisions as to topping up of that sum described below;

(d) Commencing in 2008, every three years there will be an assessment of the projected Scheme claims against Scheme companies payable by CCS over the following nine years, by reference to which there will be established the Funding Requirement;

(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);

8. THE SCHEME OF ARRANGEMENT continued

(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 will be 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) Commencing in 2008, Cape will be 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;

8. THE SCHEME OF ARRANGEMENT continued

(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 conferred 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.

9. PENSIONS

The Group fully adopted the requirements of FRS17 in the year ended 31 December 2001. The last triennial actuarial valuation was performed in April 2004. In accordance with FRS17 the valuation as at 31 December 2005 was updated to reflect the latest actuarial assumptions and asset values to June 2006. This resulted in an actuarial gain of £3.6 million net of deferred tax (2005: loss of £0.3 million) shown in the Statement of Total Recognised Gains and Losses in respect of the half year. The net pension surplus at 30 June 2006 was £9.2 million (31 December 2005: £3.7 million).

10. POST BALANCE SHEET EVENTS

On 20 July 2006, Cape completed the disposal of the business and assets (excluding property) of Cleton, its operating business based in the Netherlands, Germany and Belgium. The terms of the disposal provided for an initial cash payment to Cape of £5.6 million, representing a small premium of £0.3 million to the net assets sold, which is subject to adjustment by reference to completion accounts up to a maximum consideration of £6.1 million. The recycling of goodwill previously taken to reserves of £1.9 million will be shown in the Group’s year end accounts, will lead to there being an overall loss on the sale of the business.

However, the company is also in negotiations with a view to the disposal of the three freehold premises used by the Cleton business. The net book value of these properties is £0.8 million and their sale should generate a large profit so that the overall effect on the Group of the sale of the properties and business, particularly from a cash flow perspective, is expected to be positive.

The sale of the Cleton business, which in the first six months of 2006 generated turnover of £16.9 million and contributed profit before tax of £0.2 million, is in line with the Group's strategy of focusing on core markets where the return on managed assets, rate of growth in operating profit and cash generation justify Cape's presence.

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