

Capcon Holdings plc (“Capcon” or the “Company”)

Preliminary results for the year ended 30 September 2009

Main points

- § Increased profit from operations.
- § Increased margins
- § Focus on core business creating stronger base
- § Prospects continue to remain strong.

Capcon Holdings plc, the AIM listed investigations and risk management company, announces its unaudited consolidated results for the year ended 30 September 2009.

Ken Dulieu, Chairman, commented:

‘The year ended 30 September 2009 has been another period in which we have continued to make good progress towards returning the Group to its former strength’

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Chairman's statement

Operational review

The year ended 30 September 2009 has been another period in which we have continued to make good progress towards returning the Group to its former strength. Group operating profit has increased despite the challenging market conditions brought about by the continuing deterioration in trading suffered by many of our clients in the leisure sector.

The demand for our investigation services has increased this year after several years of decline and the Directors believe that the various recent initiatives taken since resolving the Argen related litigation last year have started to yield benefits for this part of the Group. Additionally, there has been increased demand for investigative work from insolvency practitioners as a direct consequence of fraudulent activity in some major business failures in this past year. One such business failure led to our engagement in a high profile international fraud investigation which is still on going.

The Group's operating profit margin has improved in the financial year as a result of a proportionate increase in the level of higher margin investigation services. Additionally, one of the Board's responses to the adverse market conditions in the leisure sector was to undertake a top to bottom review of all costs and resources deployed in the Audit & Stocktaking division at the beginning of the financial year. The prompt action taken following this review ensured that our operating margin levels in this area were close to the level achieved last financial year despite incurring significant redundancy costs.

The mandatory Rule 9 Offer that was made in July 2009 resulted in certain members of the Board owning, or otherwise controlling, in aggregate, 86% of the issued share capital of the Company. Consequently, the Directors are now in a position to implement their development plans for the Group and can now take appropriate steps to strengthen the Group's balance sheet going forward.

On 30 June 2009 it was announced that Alex Borrelli had been appointed to the Board as a Non Executive Director with effect from 29 June 2009. Alex has specialised in advising companies in the smaller growth company sector for over twenty years and we are delighted to have the benefit of his considerable experience on the Board as Capcon enters a new stage in its development.

Financial overview

Sales for the year to 30 September 2009 were £3.65 million (2008: £3.83 million) representing a 4.7% decrease on last year. This decrease was due to lower activity for services to the leisure sector, audit & stocktaking in particular, partly offset by increased activity in 'other investigations'. The overall gross margin of 39.4% showed an improvement on last year's level of 37.8%, and was primarily

attributable to an increase in investigation services in the first half of the financial year which traditionally yield a higher margin level than audit & stocktaking services.

The Group achieved a profit from operations of £0.25 million (2008: £0.09 million) for the year and there were no exceptional items charged or credited (2008: exceptional items of £0.1 million were charged). A loss was generated before tax of £0.05 million (2008: loss of £0.11 million) after charging interest of £0.31 million (2008: £0.20 million). The interest charge includes a net charge of £0.1m resulting from the revaluation (as required under IFRS) of the Group's cap and collar agreement with its bank which expires in 2013.

The Directors considered that no further impairment of goodwill was necessary for the year.

The basic loss per share of 0.5p for the year compares with 1.0p loss per share for the year ended 30 September 2008.

Despite a considerable amount of time being spent by the Directors on corporate matters, including potential acquisitions, the level of Directors' remuneration and external advisers' fees has been contained and does not represent a significant increase on last year. The Directors' ongoing attention to these and other overhead costs has ensured that the central overhead cost of the Group has been maintained at a low level, increasing by just 6.9% on last year despite the increased corporate activity.

There was a net cash inflow from operating activities before changes in working capital of £0.28 million (2008: £0.12 million) which was increased to £0.34 million (2008: £0.14 million) after working capital movements. Total borrowings were reduced in the year by £0.21 million from £1.71 million to £1.50 million due to a reduction in invoice discounting as well as a reduced overdraft requirement. During the year, the Group restructured its banking facilities and converted £0.4 million of the overdraft to a medium term loan. The Group continues to benefit from loan stock of £0.68 million, bearing interest of 10% p.a. of which £0.60 million is held by two directors.

The improved cash flow position in the financial year, which has led to the reduced level of bank borrowings, has underlined the Directors' strategy to strengthen the balance sheet and progressively improve the financial base upon which to grow the business. The Directors will continue to review alternative sources of funding whilst maintaining a cautious approach to cash management within the business. A continuing reduction in the level of borrowings remains a priority and, accordingly, the Directors will continue the policy of not recommending the payment of a dividend, as last year, for the time being.

Rule 9 Offer

A placing of shares was made by the Company on 30 April 2008 to Paul Ashton, an existing shareholder and a Director of Vantis plc. It was subsequently deemed that Mr Ashton had, at the time of the placing, been acting in concert with the then Directors of Capcon Holdings plc who held amongst them shares representing approximately 39.6% of the issued shares of the Company. Extensive discussions between the Takeover Panel and the concert party and its advisers ensued over several months in an attempt to resolve the situation. Consequently, on 28 July 2009 Paul Jackson, on behalf of the concert party, made a mandatory offer for the issued shares in the Company not held by the concert party. The Offer closed on 16 September 2009, at which time the concert party had received acceptances which, together with the shares they already held, accounted for 86.2% of the issued share capital. Since the financial year end, the shares held by certain members of the concert party have been re-distributed amongst them.

At the time that Paul Jackson made the Offer he stated that it was the intention of the concert party to maintain Capcon's admission to trading on the AIM market and this remains the intention of the Board.

Audit, stocktaking and investigations - Leisure

Sales of £3.07 million were 11.2% lower than last year due to reduced revenues from audit and stocktaking services. Profit from operations was £0.47 million compared to £0.51 million last year, a 7.8% reduction. The difficulties for the leisure sector, referred to in the Group's Interim Report for the six months ended 31 March 2009, continued into the second half of the financial year and there is unlikely to be a significant improvement in the short term. Consequently our clients' short term cost saving measures referred to in the Interim Report, which have resulted in clients reducing the frequency of stock takes, is unlikely to be reversed in the short term. However, as previously commented, our past experience suggests that such short term action ultimately highlights the true value of our services as clients' profit margins are likely to be adversely affected as a result of limiting the use of our control procedures, and a realisation that a full resumption of our services in the longer term will be to their benefit. Furthermore, we believe that most clients have achieved the full extent of short term cut backs that are achievable without damaging their businesses and are unlikely to reduce the use of our services further.

The Audit business continues to develop in the growing budget hotel sector where the nature of our work commands a higher fee level. This positive trend continues to partly offset the short term effect of lower sales of stocktaking services and is also mainly responsible for the improved operating profit margin of 15.2% compared to 14.6% last year.

Our Systems and IT staff have continued the development of software used in the field which is an essential aspect of the service this division provides in assisting clients to improve their controls over stock and cash. In particular, the development work undertaken on improving our bespoke Cellar Management System has been especially beneficial in tightening controls in our hotel client base. Additionally, as our clients respond to the tough trading conditions, there has been an increasing focus on the use of our customised reporting procedures to identify problem areas, pinpoint training requirements or other needs and, in the process, become more proactive in the involvement of our staff to minimise stock and cash losses.

The current harsh climate in our target sector has created a pressure on fee levels, as well as the level of sales, and an immediate and effective response has been necessary. During the first half of the financial year all cost areas were closely scrutinised and, after taking account of the trading outlook for the coming year, it was reluctantly decided to reduce the number of staff in our stocktaking team. By taking action early in the year we have been able to reduce our future cost base without significant impact on our profit margin in the current year, despite incurring redundancy costs. We have been successful in achieving these changes whilst continuing to maintain high quality standards in the delivery of our services.

Investigation services to the leisure sector have continued to be focused on two main areas, ferries and hotels, although services to ferries have been a declining market for some time. However, the level of business with hotels has continued to increase, assisted by cross referrals emanating from stocktaking activities, and this trend is expected to continue into the next financial year.

I am pleased to report that, once again, we have been awarded gold accreditation by the ISO. This is a tribute to our hardworking employees who have consistently delivered the highest standard of service to our clients throughout one of the toughest years that the leisure industry has endured.

Other investigation services

Sales for other investigation services for the year ended 30 September 2009 were £0.58 million compared to £0.37 million last year, a 57% increase. The provision of traditional investigation services through the Argen brand name has increased compared to last year. However, the significant overall increase in other investigation services is mainly attributable to an engagement by an insolvency practitioner in the first half of the financial year to investigate a major international fraud. Operating profit for this division has increased from £0.07 million last year to £0.19 million in the year to 30 September 2009 due to increased sales and an improved profit margin as a consequence of the more complex nature of the fraud work which has been undertaken in this period.

The prospects for gaining more investigative projects as a direct result of the present high level of company insolvencies are good. We are, therefore, undertaking new marketing and networking initiatives to take advantage of the increase in investigative work that is often identified only after the appointment of an insolvency practitioner.

The investigative services provided by Argen continue to be delivered to a broad range of clients in the UK and overseas. Sales in the year to 30 September 2009 have increased for the first time in five years following a year on year deterioration since 30 September 2004. Following resolution of the Argen related litigation issues in 2008 after three years of dispute, it has been possible to take more positive steps to market Argen's services to new clients and, as a result of this marketing, business from several new clients has been gained in the financial year.

The unpredictable frequency of investigation projects necessitates that we maintain the present minimal overhead cost base until we are confident that a consistent and higher level of activity can be maintained. Consequently, organic growth in this division will be slow in the short term as it is necessary for limited key resources to be shared between operational and business development activities.

Current trading and prospects

The start of the new financial year has seen a continuation of similar trading conditions experienced in the second half of last year. Sales levels for leisure based services are expected to remain at the current level for the short term although investigation services in this sector are forecast to reduce later in the financial year due to less activity on ferries. Our budgets for the current year assume that the prevailing issues in the leisure sector will continue throughout the current financial year.

Our experience over the past year has led us to believe that further investigative work could be gained from insolvency practitioners whom we regard as potential sources for major fraud investigations and other investigative work such as asset tracing. However, although such work can be significant and highly profitable, it is also unpredictable. Also, in Capcon Argen, we expect to increase business as we continue to raise our profile in the financial sector where the screening of directors and senior managers by financial institutions is increasingly regarded as a pre-requisite to investment.

Having resolved the Argen related litigation last year and concluded the long running concert party issues with the Takeover Panel this year, the board is now in a position to focus on strengthening the Group and developing a strategy of growth through acquisition. To this end, the Directors are now seeking suitable acquisitions that will complement our existing services and enhance shareholder value.

K P Dulieu
Chairman

22 January 2010

Capcon Holdings plc

Consolidated income statement for the year ended 30 September 2009

	Note	Unaudited 2009 £	Audited 2008 £
Revenue		3,652,396	3,829,100
Cost of sales		(2,214,589)	(2,382,182)
Gross profit		1,437,807	1,446,918
Administrative expenses		(1,185,160)	(1,353,430)
Profit from operations before exceptional items.		252,647	194,865
Exceptional items		(0)	(101,377)
Profit from operations		252,647	93,488
Finance income		8667	-
Finance expense		(315,971)	(199,100)
Profit before taxation		(54,657)	(105,612)
Tax expense		-	-
Loss for the year attributable to equity shareholders		(54,657)	(105,612)
Loss per share attributable to the equity holders of the parent during the year	1		
Basic		(0.5p)	(1.0p)
Diluted		(0.5p)	(1.0p)

Consolidated statement of changes in equity for the year ended 30 September 2009

Group	Share Capital	Share premium account	Merger reserve	Retained earnings	Total Equity
	£	£	£	£	£
At 1 October 2007	101,568	2,774,094	950,000	(4,515,512)	(689,850)
Loss for the year	-	-	-	(105,612)	(105,612)
Issue of Share Capital	15,235	43,801	-	-	59,036
At 1 October 2008 and 30 September 2008	116,803	2,817,895	950,000	(4,621,124)	(736,426)
Loss for the year	-	-	-	(54,657)	(54,657)
Total recognised income and expense	-	-	-	(4,675,781)	(791,083)
At 30 September 2009	116,803	2,817,895	950,000	(4,675,781)	(791,083)

Consolidated balance sheet as at 30 September 2009

	Unaudited 2009 £	Audited 2008 £
Assets		
Non current assets		
Intangible assets	1,425,264	1,425,264
Property plant and equipment	36,543	56,420
Total Non current assets	<u>1,461,807</u>	<u>1,481,684</u>
Current assets		
Trade and other receivables	840,299	856,503
Derivative financial assets	8,667	-
Cash and cash equivalents	706	657
Total current assets	<u>849,672</u>	<u>857,160</u>
Total assets	2,311,479	2,338,844
Liabilities		
Non current liabilities		
Loans and borrowings	600,000	675,000
Derivative financial liabilities	37,556	-
Total non current liabilities	<u>637,556</u>	<u>675,000</u>
Current liabilities		
Trade and other payables	1,400,844	1,251,852
Loans and borrowings	903,012	1,031,368
Derivative financial liabilities	57,600	-
Provision	103,550	117,050
Total current liabilities	<u>2,465,006</u>	<u>2,400,270</u>
Total liabilities	<u>3,102,562</u>	<u>3,075,270</u>
Net liabilities	<u>(791,083)</u>	<u>(736,426)</u>
Capital and reserves		
Called up share capital	116,803	116,803
Share premium account	2,817,895	2,817,895
Merger reserve	950,000	950,000
Retained earnings	(4,675,781)	(4,621,124)
Shareholders' deficit	<u>(791,083)</u>	<u>(736,426)</u>

Consolidated cash flow statement for the year ended 30 September 2009

	Unaudited 2009 £	Audited 2008 £
Cash flows from operating activities		
Loss for the year	(54,657)	(105,612)
Depreciation	23,949	29,304
Finance income	(8,667)	-
Finance expense	315,971	199,100
Cash flows from operating activities before changes in working capital	276,596	122,792
Decrease in trade and other receivables	16,204	44,082
Increase/(decrease) in trade and other payables	46,404	(25,724)
Net cash generated/ (outflow) from operating activities	339,204	141,150
Cash flows from investing activities		
Purchase of property, plant and equipment	(4,072)	(19,905)
Net Cash used in investing activities	(4,072)	(19,905)
Cash flows from financing activities		
Issue of ordinary shares	-	59,036
Finance expense paid	(114,889)	(156,332)
Repayment of loans	-	(648)
Repayment of invoice discounting facilities	(134,690)	(33,197)
Principal payment under finance leases	(5,026)	(8,534)
Net cash from/(used in) financing activities	(254,605)	(139,675)
Increase/(decrease) in net cash and cash equivalents in the year	80,527	(18,430)
Cash and cash equivalents at the beginning of year	(544,040)	(525,610)
Cash and cash equivalents at the end of year	(463,513)	(544,040)

Notes to the final results for the year ended 30 September 2009

1 Loss per share

Loss per ordinary share have been calculated using the weighted average number of shares in issue during the relevant financial periods. The weighted average number of equity shares in issue is 11,680,292 (2008 – 10,711,609) and the earnings, being loss after tax, are £54,657 (2008 – £105,612 loss).

The directors have also presented adjusted earnings per share, as they believe this gives a better indicator of underlying business performance.

	Unaudited 2009 £	Audited 2008 £
<i>Reconciliation of losses</i>		
Loss used for calculation of basic and diluted EPS	(54,657)	(105,612)
Exceptional items	-	101,377
	<u> </u>	<u> </u>
Loss used for calculation of adjusted basic and diluted EPS	(54,657)	(4,235)
	<u> </u>	<u> </u>
<i>Reconciliation of denominator</i>		
Shares used for calculation of basic and adjusted basic EPS	11,680,292	10,711,609
	<u> </u>	<u> </u>
Shares used in calculation of diluted and adjusted diluted EPS	11,680,292	10,711,609
	<u> </u>	<u> </u>
Loss per share		
Basic	(0.5p)	(1.0p)
Diluted	(0.5p)	(1.0p)
(Loss)/earnings per share before exceptional items		
Basic	(0.5p)	0p
Diluted	(0.5p)	0p
	<u> </u>	<u> </u>

Employee options have been excluded from the calculation of diluted EPS as their exercise price is greater than the average share price for the year. The number of shares options in issue at September 2009 was 1,163,850 (2008: 1,163,850).

- 2 The financial information set out above does not constitute the company's statutory accounts for the years ended 30 September 2009 and 30 September 2008 but is derived from those accounts. Statutory accounts for 2008 have been delivered to the Registrar of Companies and those for 2009 will be delivered following the company's annual general meeting. While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS), this announcement does not itself contain sufficient information to comply with IFRS. The Company will publish a full annual report that complies with IFRS on 27 January 2010.
- 3 The total number of ordinary shares in issue as at today's date is 11,680,292.
- 4 The Audited Annual Report and Accounts for the year ended 30 September 2009 and the Notice of Annual General Meeting will be available to view and download from the Company's website from 27 January 2010.