

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

Final results for the year ended 30 September 2008

Main points:

- Increased profit from operations before exceptional items
- Litigation successfully resolved
- Central overhead costs, before exceptional items, further reduced.
- 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 audited consolidated results for the year ended 30 September 2008.

Ken Dulieu, Chairman, commented:

‘The year to 30 September 2008 has seen further progress made in strengthening the Group. Profitability of our leisure sector based services continued to improve and, following the successful resolution of the litigation proceedings, Argen has been re-building its specialised services business. We remain optimistic that, despite the present harsh market conditions, there will be a strong demand for our services as clients focus even more on processes that will maximize their profit margins through reduced wastage and better cost control.’

Enquiries:

Capcon Holdings plc

Paul Jackson, Non executive Director 020 74170417

Shore Capital and Corporate Limited

Pascal Keane 020 7408 4090

Chairman's statement

Operational review

During the year ended 30 September 2008 the Group achieved further progress towards sustainable operating profit growth despite seriously adverse market conditions affecting clients in our main target sector, leisure, in the period. Traditionally, many of our clients have turned to Capcon during difficult trading conditions in order to make full use of our services to assist in the preservation or increase in their gross margins. This reaction has been evident in Capcon's results for the year ended 30 September 2008 and has offset the effect of reduced volumes from some existing clients as a result of their contracting hotel, pub and restaurant estates.

The board has continued a disciplined approach to cost control throughout the year which combined with the successful implementation of a strategy of introducing higher skilled services to our audit and stocktaking clients has led to an improvement in the overall profit margin achieved on leisure sector business.

Other investigation services, principally in Argen, have been profitable, and several new clients have been gained during the year. Considerable commitment to marketing these services will continue to be necessary as part of our strategy to rebuild this business following the loss of clients suffered during the protracted litigation proceedings.

Having achieved a satisfactory conclusion to the long running litigation proceedings with the Argen vendors, the Directors have remained focused on continuing to strengthen the core business whilst considering alternative strategies for Group development and expansion.

Financial overview

Sales for the year to 30 September 2008 were £3.83 million (2007: £4.06 million) representing a 5.7% decrease on last year which was entirely attributable to reduced activity in Argen. The overall gross margin of 37.8%, although lower than last year's level of 38.2%, was entirely attributable to the lower sales of the traditionally higher margin Argen services and masks an improvement in the overall level achieved for other core services.

The Group achieved an operating profit of £0.09 million (2007: £0.81 million) for the year after exceptional items. The Group generated a profit from operations before exceptional items for the year of £0.19 million (2007: £0.14 million). A loss was generated before tax of £0.11 million (2007: £0.59 million profit) after charging exceptional items of £0.10 million (2007: (£0.67million)) and interest of £0.20 million (2007:£0.22 million).

This year is the first in which the Group has adopted International Financial Reporting Standards and the previous year's figures have been re-stated where appropriate. The Directors considered that no further impairment of goodwill was necessary for the year.

The basic loss per share of 0.1p for the year compares with a re-stated 5.8p profit per share for the year ended 30 September 2007 and, excluding exceptional items, the loss per share was reduced to 0p compared with a 0.8p loss per share in 2007.

The Board has continued to scrutinise every aspect of the central administration of the Group in order to maintain the recent trend of reducing overheads before exceptional items and has successfully reduced these costs by 17% compared with last year. The exceptional cost of £0.10 million relates principally to the legal costs incurred by the Group in connection with the recently settled litigation proceedings involving the Argen vendors.

There was a net cash inflow from operations of £0.14 million (2007: £0.08 million outflow) reflecting the higher profit from operations before exceptional items achieved whilst maintaining good control over working capital. Bank borrowings were marginally reduced in the year by £0.01 million from £0.94 million to £0.93 million with total borrowings being maintained at the same level as last year.

The significant legal fees incurred this year leading up to the resolution of the litigation proceedings with the Argen vendors have mainly neutralised the gains made from further profit growth in the year. This, in turn, has limited the Directors' opportunity to reduce the level of Group borrowings. Additionally, the Directors do not consider that a reduction in the Group's borrowings through an equity issue is feasible at this time. Accordingly, the Directors will continue the policy of not recommending the payment of a dividend, as last year, for the time being.

Litigation resolved

As announced on 10 December 2008, the litigation proceedings brought against the Company by the Argen vendors were dismissed following a protracted period of mediation. The outcome, as expected by the Directors in the Interim Report for the six months ended 31 March 2008, has resulted in no further payments being made to the Argen vendors and a contribution of £36,000 being made by the vendors towards the Group's legal costs. Additionally, the Group will benefit from the proceeds of sale of the Argen vendors' shares in the Company equivalent to approximately £26,000 at the current share price. The provision previously made in respect of the Group's potential liability of £0.82 million in respect of these proceedings was released in the year to 30 September 2007 in expectation of this outcome.

Audit, stocktaking and investigations - Leisure

The segmental analysis of the business, now reported in the accounts in detail under note 4, distinguishes between those services provided to the leisure sector and 'other investigation services'. Capcon's core business was founded on the provision of a range of services aimed at improving the profit margins of our clients' businesses in the leisure sector. The Directors consider that, as these services are marketed specifically to the leisure sector and represent a significant part of the overall business, they should be distinguished from our other, more specialised, investigation services which are not sector based.

Sales of £3.46 million were 1.6% higher than last year due to increased revenues from audit and stocktaking services. Profit from operations was £0.51 million compared with £0.48 million last year, a 4.7% improvement. The trend commented on in the Group's Interim Report for the six months ended 31 March 2008 whereby gross margins have increased as a result of our clients' demands for services which offer them higher added value, continued into the second half of the year. In addition, operating costs continue to be closely reviewed on an on going basis which has further improved the margin achieved this year.

We have gained several new stocktaking clients in the year and, in particular, we have been successful in attracting small pub groups, many having developed from the disposal of non core units from the larger national pub chains. In addition, some existing and new clients have requested consultancy work and audit work which is more complex than our traditional services which, in turn, has justified a higher fee rate being charged, leading to an improved margin level. This consultancy work requires our field managers to work closely with our clients' operational managers in the formulation of joint action plans to resolve stock and cash control issues. Inevitably, these assignments lead to further integration with the client and security for our services in the future.

During the year, the Group developed new relationships with several hotel chains which has led to a recurring business stream for audit and stocktaking work but, more particularly, for investigation services. The investigations division has been successful in the

marketing of its traditional higher margin services and the growth of business in the hotel sector has become an important niche for future development.

Our ongoing attention to minimising costs and maximising operational efficiencies has been critical in maintaining our unit costs at a level that ensures our clients receive best value during a period of change that is unprecedented in our target market.

The tough market conditions facing the leisure sector during the year led to many clients increasing their attention to controls over cost and wastage to maximise profit margins on their lower volume of business. This trend was evident during the recession of the early 1990's and created growth opportunities for our services at that time. Consequently, we anticipate that the continuing harsh economic conditions may similarly increase demand for our audit, stocktaking and investigation services in the current year.

Other investigation services

Sales for other investigation services for the year were £0.38 million compared with £0.67 million last year, a 44% decrease. As reported in the Group's Interim Report for the six months ended 31 March 2008, the traditional services provided by Capcon Argen have suffered from the effects of the Argen litigation. Consequently, significant time and effort has been expended on marketing activities aimed at re-building this division. The decline in demand for Argen's services has been arrested and we are seeing evidence of growth in certain areas in which Argen specialises.

Several new clients have been gained in the year and marketing activity has led to some significant tenders being submitted to blue chip clients seeking an on going contractual service. Although Argen has not benefited in the period under review from such contracts, we remain optimistic that a number of current outstanding tenders may be concluded in our favour in the medium term. The traditional Argen business is assignment based and, in contrast to contractual work, is too unpredictable to be forecast with any certainty. We, therefore, remain cautious with regard to the current year's trading performance.

As previously reported, a significant and progressive rationalisation of the operating cost base has been undertaken over the past two years including a relocation of the office from London to Surrey. These cost savings have contributed to an improved operating margin percentage in the year to 30 September 2008 despite the lower level of activity. The Directors believe that overhead costs can be contained if activity increases in the current year and this will have a further beneficial effect on the operating margin level.

Group costs

I am pleased to report that our continuous attention to the reduction of central overhead costs as the Group re-focuses on core activities has resulted in further savings of 17% in the year to 30 September 2008 compared with the previous year.

Legal fees of £101,377, mainly associated with the proceedings related to the Argen vendors' pursuit of further earn out payments, have been treated as exceptional items. Legal fees of £155,535 in respect of these proceedings were incurred in the previous year. Due to the successful conclusion of these proceedings in December 2008, no related fees will be incurred after the current year.

Current trading and prospects

The new financial year has started well with sales levels for audit and stocktaking services being maintained despite the prevailing difficult economic climate. The demand from pub companies and hotels for higher skilled consultancy services continues in the current year with a consequent benefit to operating margin levels. There has been little adverse effect from the deteriorating leisure sector so far but the Directors are wary of the potential for a down turn should the current economic situation worsen and contingency plans are already in place to soften the impact on Capcon of any consequent reduction in business.

Instructions for Argen's specialised investigation services are slowly increasing from the lower activity base that was established last year and the Directors remain optimistic that, based on the quality of feedback from an increasing client base, this part of the Capcon business will continue to grow in the medium term. However, Argen is an assignment based business which makes any short term forecasting difficult.

Having successfully resolved the long running legal dispute with the Argen vendors, whilst simultaneously restoring profit in the core Capcon business, the Group has been, once again, growing in strength. Nevertheless, at present, the Directors are limited in the options open for future development until the current difficulties of funding growth are resolved. The Directors are considering various alternative strategies for Group development which take account of the Group's high level of gearing and limited scope for a new equity issue.

K P Dulieu
Chairman

27 March 2009

Capcon Holdings plc

Consolidated income statement for the year ended 30 September 2008

	2008	2007
	£	£
Revenue	3,829,100	4,055,593
Cost of sales	(2,382,182)	(2,505,749)
Gross profit	1,446,918	1,549,844
Administrative expenses	(1,353,430)	(744,146)
Profit from operations before exceptional items.	194,865	140,582
Exceptional items	(101,377)	665,116
Profit from operations	93,488	805,698
Finance income	-	41
Finance expense	(199,100)	(218,810)
(Loss)/ profit before taxation	(105,612)	586,929
Tax expense	-	-
(Loss)/profit for the year attributable to equity shareholders	(105,612)	586,929
 (Loss) / earnings per share for (loss)/profit attributable to the equity holders of the parent during the year.		
Basic	(0.1p)	5.8p
Diluted	(0.1p)	5.8p

Consolidated statement of changes in equity for the year ended 30 September 2008

Group	Share Capital	Share premium account	Merger reserve	Retained earnings	Total Equity
	£	£	£	£	£
At 1 October 2006	101,568	2,774,094	950,000	(5,102,441)	(1,276,779)
Profit for the year	-	-	-	586,929	586,929
At 1 October 2007 and 30 September 2007	101,568	2,774,094	950,000	(4,515,512)	(689,850)
Loss for the year	-	-	-	(105,612)	(105,612)
Total recognised income and expense	101,568	2,774,094	950,000	(4,621,124)	(795,462)

Issue of Share Capital	15,235	43,801	-	-	59,036
At 30 September 2008	116,803	2,817,895	950,000	(4,621,124)	(736,426)

Consolidated balance sheet at 30 September 2008

	2008 £	2007 £
Assets		
Non current assets		
Intangible assets	1,425,264	1,425,264
Property plant and equipment	56,420	65,819
Total Non current assets	1,481,684	1,491,083
Current assets		
Trade and other receivables	856,503	900,585
Cash and cash equivalents	657	35
Total current assets	857,160	900,620
Total assets	2,338,844	2,391,709
Liabilities		
Non current liabilities		
Loans and borrowings	675,000	666,317
Current liabilities		
Trade and other payables	1,251,852	1,269,065
Loans and borrowings	1,031,368	1,037,867
Provision	117,050	108,304
Total current liabilities	2,400,270	2,415,236
Total liabilities	3,075,270	3,081,553
Net liabilities	(736,426)	(689,850)
Capital and reserves		
Called up share capital	116,803	101,568
Share premium account	2,817,895	2,774,094
Merger reserve	950,000	950,000
Retained earnings	(4,621,124)	(4,515,512)
Shareholders' deficit	(736,426)	(689,850)

Consolidated cashflow statement for the year ended 30 September 2008

	2008 £	2007 £
Cash flows from operating activities		
Profit/(loss) for the period	(105,612)	586,929
Depreciation	29,304	66,122
Finance Expense	199,100	218,769
Cash flows from operating activities before changes in working capital	122,792	871,820
Decrease in debtors	44,082	165,015
(Decrease)/increase in creditors	(25,724)	(1,119,385)
Net cash generated/ (outflow) from operating activities	141,150	(82,550)
Investing Activities		
Purchase of property, plant and equipment.	(19,905)	(12,888)
Net Cash used in Investing Activities	(19,905)	(12,888)
Financing activities		
Issue of ordinary shares	59,036	-
Interest paid	(156,332)	(117,012)
Repayment of loans	(648)	(57,335)
Invoice discounting facilities	(33,197)	43,314
Principal payment under finance leases	(8,534)	(16,265)
Net cash used in Financing Activities	(139,675)	(147,298)
(Decrease) in cash in the year	(18,430)	(242,736)
Cash and Cash equivalents at the beginning of year	(525,610)	(282,874)
Cash and Cash equivalents at the end of year	(544,040)	(525,610)

Notes to the final results for the year ended 30 September 2008

1 Going concern

The financial statements have been prepared on the going concern basis as, in the opinion of the directors, at the time of approving the financial statements, there is a reasonable expectation that the group will continue in operational existence for the foreseeable future. The group finances part of its working capital needs through a group overdraft facility. Since the period end the group has secured a new overdraft facility that following draw

down will be available until 31 December 2009. The group's bankers have indicated that there are currently no reasons to believe that this facility will not be renewed on similar terms.

In view of the matters noted above, the directors believe that it is appropriate to prepare the financial statements on a going concern basis.

The financial statements do not include any adjustments which might be required from the Group over draft facility not being renewed on similar terms.

2 Transition to IFRS

The group reported under UK GAAP in its previously published financial statements for the year ended 30 September 2007. The tables below reconcile net liabilities and profit and loss for the year as reported previously under UK GAAP and those now reported under IFRS for the period ended 30 September 2007. A reconciliation of net liabilities at 1 October 2006 is also provided, being the date of transition to IFRS.

UK GAAP to IFRS net profit and loss reconciliation

	Year ended 30 September 2007 £
UK GAAP profit on ordinary activities	485,121
Amortisation of goodwill under UK GAAP for the year ended 30 September 2007	101,808
IFRS profit on ordinary activities	<u>586,929</u>

UK GAAP to IFRS net liabilities reconciliation

	30 September 2007 £	1 October 2006 £
UK GAAP net liabilities	(791,658)	(1,276,779)
Amortisation of goodwill	101,808	-
IFRS net liabilities	<u>(689,850)</u>	<u>(1,276,799)</u>

In preparing these financial statements, the group has elected to apply the transitional arrangements permitted by IFRS 1 "First time adoption of International Financial Reporting Standards" in relation to Business Combinations. Accordingly, the carrying amount of capitalised goodwill at 30 September 2006 that arose on business combinations accounted for using the Acquisition method under UK GAAP was frozen at this amount and tested for impairment at 1 October 2006. Previously amortised amounts in the UK GAAP accounts for the year ended 30 September 2007 of £101,808 has therefore been reversed in the IFRS income statement.

3 Earnings per share

Earnings 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 10,711,609 (2007 – 10,156,776) and the earnings, being loss after tax, are £105,612 (2007 – £586,929 profit).

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

	2008	2007
	£	£
<i>Reconciliation of earnings</i>		
(Loss)/profit used for calculation of basic and diluted EPS	(105,612)	586,929
Exceptional items	101,377	(665,116)
	<hr/>	<hr/>
Loss used for calculation of adjusted basic and diluted EPS	(4,235)	(78,187)
	<hr/>	<hr/>
<i>Reconciliation of denominator</i>		
Shares used for calculation of basic and adjusted basic EPS	10,711,609	10,156,776
Exercise of options	-	-
Shares to be issued	-	-
	<hr/>	<hr/>
Shares used in calculation of diluted and adjusted diluted EPS	10,711,609	10,156,776
	<hr/>	<hr/>
(Loss)/earnings per share		
Basic	(0.1p)	5.8p
Diluted	(0.1p)	5.8p
(Loss)/earnings per share before exceptional items,		
Basic	0p	(0.8p)
Diluted	0p	(0.8p)
	<hr/>	<hr/>

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 2008 was 1,163,850 (2007: 1,291,850).

- 4 The financial information set out above does not constitute the company's statutory accounts for the years ended 30 September 2008 and 30 September 2007, but is derived from those accounts. Statutory accounts for 2007 have been delivered to the Registrar of Companies and those for 2008 will be delivered following the company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under the Companies Act 1985, s 237(2) or (3), but for the year ended 2007 did include references to matters to which the auditors drew attention by way of emphasis without qualifying their reports. The financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs). Therefore, this announcement contains sufficient information to comply with IFRSs.
- 5 The total number of ordinary shares in issue as at today's date is 11,680,292. 1,523,516 of these shares are restricted from voting at a general meeting of the Company. As a result, the total number of ordinary shares with voting rights is currently 10,156,776.
- 6 Printed copies of the Annual Report and Accounts for the year ended 30 September 2008 and the Notice of Annual General Meeting will be posted to the Company's website on 27 March 2009.