

**CAPCON HOLDINGS plc****Final results for the year ended 30 September 2007**

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Capcon Holdings plc, the AIM listed investigations and risk management company, announces its audited consolidated results for the year ended 30 September 2007.

**Main points**

- § Operating profit before exceptional items, amortisation and impairment restored
- § Overhead costs continue to be reduced
- § Focus on core business creating stronger base
- § Prospects continue to improve

**Ken Dulieu, Chairman, commented:**

“The financial year ended 30 September 2007 has been a year of transition and re-building for the Group. Having disposed of loss making activities in the previous financial year, the directors have focused on the core business of Audit & Stocktaking and Commercial Investigations to restore the Group to profitability”

Enquiries

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**Operational review**

The financial year ended 30 September 2007 has been a year of transition and re-building for the Group. Having disposed of loss making activities in the previous financial year, the directors have focused on the core business of Audit & Stocktaking and Commercial Investigations to restore the Group to profitability. We have successfully improved margin levels and reduced overhead costs, which has resulted in a turn-round from a significant operating loss last financial year to an operating profit before amortisation, impairment and exceptional items in the year ended 30 September 2007. The directors have a policy of continual review of central overhead costs which is expected to lead to even lower cost levels being incurred in the current financial year.

The legal proceedings involving the vendors of Argen Limited are continuing and a date for trial has been set for July 2008. As stated in the Interim Report, there is a substantial difference between the Company's position and the Argen vendors' demands which is the reason for the directors continuing this action. Furthermore, notwithstanding the outcome of the trial, the directors believe that no further consideration is payable in any event based on the adjusted accounts which have been prepared in accordance with the acquisition agreement to determine whether any potential further earn out payments arise. The financial statements of the Company have been amended accordingly although the directors wish to draw attention to the contingent liability described in the notes to the accounts.

During the financial year, the directors have considered various possible options for developing and restructuring the Group. However, any strategy for development of the Group must take account of the uncertainty surrounding the legal proceedings involving the vendors of Argen. Therefore, the directors believe it is unlikely that any significant change to the Group's direction will be achievable until the proceedings are concluded or the issues are otherwise resolved.

**Financial overview**

Sales for the year to 30 September 2007 were £4.06 million (2006: £5.25 million) representing a 22.8% decrease on last year. £0.76 million, or 14.4%, of the decrease in turnover was attributable to discontinued operations. The overall gross margin improved from 37.9% to 38.2% notwithstanding an increasing proportion of business comprising the lower margin Audit & Stocktaking services due to improved efficiencies leading to lower costs in that division.

The Group achieved an operating profit of £0.7 million (2006: £2.78 million loss) for the year after exceptional items. The Group generated a profit for the year, before exceptional items, interest, amortisation and impairment of goodwill, of £0.14 million (2006: £1.04 million loss). A profit was generated before tax, amortisation and impairment of £0.59 million (2006: £1.23 million loss) after crediting exceptional items of £0.67 million and charging interest of £0.22 million. No further impairment of goodwill was considered necessary this year having disposed of, or discontinued, loss making activities, enabling management to focus on restoring sustainable profit to the Group's core business.

The basic profit per share of 4.8p for the year compares with a 29.1p loss per share for the year ended 30 September 2006 and, excluding exceptional items, amortisation and impairment of goodwill, the loss per share was 0.8p compared with a 11.9p loss per share in 2006.

The Board has continued to reduce divisional and central overhead costs wherever possible and these costs are now running at a level that is appropriate for the down-sized Group. Having restored the Group to an operating profit before exceptional items and amortisation, we now have a stronger base upon which to plan for growth.

There was a net cash outflow from operations of £0.08 million (2006: £0.11 million outflow) which was mainly the result of a reduced level of creditors which exceeded the amount by which debtors were reduced. Bank borrowings were increased in the year by £0.21 million from £0.74 million to £0.95 million, which was the main reason for the overall increase in net debt by £0.25 million.

The present cash position determines that a continuing strict control over all outgoings must be maintained in order to build on the major progress made in the past year in restoring profitability and strengthening the balance sheet. The directors will, accordingly, continue the policy of not recommending the payment of a dividend, as last year, for the time being.

**Funding**

As reported in the Interim Report, legal proceedings with the vendors of Argen Limited are continuing, and there has been no resolution to the issues since that report. However, developments in recent months have given the directors reason to believe it is probable that no further consideration will be payable, irrespective of the conclusion of the legal process. In view of this the directors have concluded that the provision for deferred consideration of £0.82m is no longer required and this has been released to profit and loss account in the year. However, in view of the continuing uncertainty surrounding the final outcome, the directors have detailed the associated contingent liability in the notes to the accounts.

**Audit & stocktaking**

Sales of £2.99 million were broadly similar to last year's revenues, although there has been an increase in new clients. The recent trend continues whereby existing clients are reducing the frequency of stock takes across their estates overall but are focusing on areas of greatest loss and potential risk. This results in lower sales value but improved profitability for the division with volume being replaced with higher added value services which yield improved gross margins.

The investment reported last year in development of new 'user friendly' IT software has successfully secured existing client relationships and created the opportunity to offer the higher added value services referred to above to existing and new clients. In addition, having incurred the cost of development, staff training and implementation of the software last year, we are now benefiting from the recovery of gross margins to levels enjoyed in previous years. The positive response from our clients continues to provide confidence that we are offering a service that is superior to our competitors.

Re-structuring of the management of this division has again been undertaken in response to the changes that are a feature in the sector within which we operate. Consolidation and changes in ownership of our clients can bring new challenges and a requirement to adopt a flexible approach to the provision of our services. The resultant changes in management in the year under review have led to further cost reductions and improved efficiency in the field with a consequent increase in our gross margins which, overall, have improved by some 7%.

**Commercial investigation services**

Sales for the year for all investigation activities were £1.07 million compared with £2.27 million last year, a 52.9% decrease. However, approximately 34% of this decrease can be attributed to the decision, made last financial year, to withdraw from the loss making insurance investigation services. As reported in the Group's Interim Report for the six months ended 31 March 2007, these services are now provided by certain ex employees who pay licence fees to Capcon.

As previously reported, sales levels in Capcon Argen have been severely reduced as a result of the resignation of the managing director and other management changes last year, which had a disruptive effect on the business. However, renewed marketing initiatives have resulted in new clients being secured in Capcon Argen and, in particular, there has been increased demand for services provided by our team that specialises in investigations in the leisure sector. As a consequence, sales for the leisure based services have increased by 16% compared with last year and Capcon Argen has made some progress in replacing lost business.

Having disposed of the loss-making activities and considerably reduced costs by re-structuring the division following the resignation of Argen's Managing Director, operating margins have been recovering. Furthermore, during the year the Capcon Argen business was re-located to alternative, more suitable, offices in the same area of London which has further reduced overhead costs. As a consequence of the several initiatives taken, overall the division generated an operating profit representing a major turnaround from the significant loss made last financial year. The leisure sector based investigation services showed a good increase in both sales revenue and operating profit compared with last financial year.

**Group costs**

Over the past three years during this period of rationalisation and restructuring, the Board has continually reviewed the level of central overhead costs and taken action wherever possible to reduce them to a level that is consistent for a smaller Group. This financial year has seen a continuation of this trend with accounting and administration costs being further reduced and directors remuneration reduced still further to a minimal level totalling £69,000. A rationalisation of the Group legal structure is currently being undertaken which should reduce future audit and professional fees.

Legal fees of £155,535, associated with the proceedings related to the Argen vendors' pursuit of further earn out payments, have been treated as exceptional items.

**Current trading and prospects**

Audit & Stocktaking has started the new financial year well with sales levels in line with internal forecasts and operating margins slightly ahead of the same period last year. Growth prospects for this division are expected to remain limited but the predictability of income and cash flow continue to provide a strong base upon which to build other services in the future which, in turn, will create greater opportunities for growth than the traditional services.

The Commercial Investigations division has had a slow start to the financial year with sales less than forecast although margins have been somewhat better than those achieved in the same period last year. This project based business is traditionally difficult to predict and sustained marketing activity is necessary to generate new clients and new business in the longer term.

Central administrative costs are running at a lower level than the same period last year and are forecast to remain at this lower level.

The ongoing legal proceedings with the Argen vendors have limited the development plans for the Group for the time being until the issues are resolved. However, with Group expansion temporarily stalled, the directors have taken this opportunity to focus on the traditional core business, restoring divisional profitability and cash flow to strengthen the Group for the future.

K P Duluiu  
Chairman

28 March 2008

## Capcon Holdings plc

## Consolidated profit and loss account for the year ended 30 September 2007

	Note	2007 £	2006 £
<b>Turnover</b>			
Continuing operations		4,055,593	4,493,804
Discontinued operations		-	757,818
<b>Group turnover</b>		4,055,593	5,251,622
Cost of sales		(2,505,749)	(3,261,929)
<b>Gross profit</b>		1,549,844	1,989,693
Administrative expenses		(845,954)	(4,773,202)
Operating profit/(loss) before exceptional items, amortisation and impairment of goodwill		140,582	(1,039,558)
Exceptional items		665,116	-
Amortisation and impairment of goodwill		(101,808)	(1,743,951)
<b>Group operating profit/(loss)</b>		703,890	(2,783,509)
Interest receivable		41	487
Interest payable and similar charges		(218,810)	(191,218)
<b>Profit/(loss) on ordinary activities before taxation</b>		485,121	(2,974,240)
Taxation on profit from ordinary activities		-	21,472
<b>Profit/(loss) on ordinary activities after taxation</b>		485,121	(2,952,768)
<b>Profit/(loss) per share</b>	3		
Basic		4.8p	(29.1p)
Diluted		4.8p	(29.1p)

## Capcon Holdings plc

## Consolidated balance sheet at 30 September 2007

	Note	2007 £	2007 £	2006 £	2006 £
<b>Fixed assets</b>					
Intangible assets		1,323,456		1,425,264	
Tangible assets		65,819		119,053	
		<u>          </u>	1,389,275	<u>          </u>	1,544,317
<b>Current assets</b>					
Debtors		900,585		1,065,600	
Cash at bank and in hand		35		1,716	
		<u>900,620</u>		<u>1,067,316</u>	
<b>Creditors:</b>					
Amounts falling due within one year		(2,415,236)		(3,246,010)	
		<u>          </u>		<u>          </u>	
<b>Net current liabilities</b>			(1,514,616)		(2,178,694)
			<u>          </u>		<u>          </u>
<b>Total assets less current liabilities</b>			(125,341)		(634,377)
			<u>          </u>		<u>          </u>
<b>Creditors</b>					
Amounts falling due after more than one year			(666,317)		(642,402)
			<u>          </u>		<u>          </u>
			(791,658)		(1,276,779)
			<u>          </u>		<u>          </u>
<b>Capital and reserves</b>					
Called up share capital			101,568		101,568
Share premium account			2,774,094		2,774,094
Merger reserve			950,000		950,000
Profit and loss account			(4,617,320)		(5,102,441)
			<u>          </u>		<u>          </u>
<b>Shareholders' deficit</b>			(791,658)		(1,276,779)
			<u>          </u>		<u>          </u>

## Capcon Holdings plc

## Consolidated cash flow statement for the year ended 30 September 2007

	Note	2007 £	2007 £	2006 £	2006 £
<b>Net cash outflow from operating activities</b>	4		(82,550)		(107,468)
<b>Returns on investments and servicing of finance</b>					
Interest received		41		487	
Interest paid		(117,053)		(122,262)	
<b>Net cash outflow from returns on investment and servicing of finance</b>			(117,012)		(121,775)
<b>Taxation</b>					
Tax paid			-		(3,964)
<b>Capital expenditure and financial investment</b>					
Purchase of tangible fixed assets		(12,888)		(47,294)	
Sale of tangible fixed assets		-		18,001	
<b>Net cash outflow from capital expenditure and financial investment</b>			(12,888)		(29,293)
<b>Cash outflow before financing</b>			(212,450)		(262,500)
<b>Financing</b>					
Issue of loans		-		675,000	
Costs incurred on issue of loan stock		-		(63,463)	
Repayment of loan		(57,335)		(206,581)	
Movement in invoice discounting facilities		43,314		(122,623)	
Capital element of finance lease payments		(16,265)		(5,461)	
<b>Cash (outflow)/inflow from financing</b>			(30,286)		276,872
<b>(Decrease)/increase in cash in the year</b>			(242,736)		14,372

**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. In forming this opinion, the directors have taken account of the following facts and assumptions:

- § The consolidated balance sheet at 30 September 2007 shows that the group had net current liabilities of £1,514,616 (2006: £2,178,694);
- § The group currently has available no committed undrawn borrowing facilities. The group finances part of its working capital needs through a group overdraft facility which is due for renewal in July 2008. The Group's bankers have indicated that there are currently no reasons to believe that this facility will not be renewed on similar terms;
- § Legal proceedings with the vendors of Argen Limited are continuing as there has been no resolution to the dispute. Although a possibility of further consideration becoming payable exists, developments in recent months have given the directors reason to believe that it is probable that no further consideration will be payable, irrespective of the conclusion of the legal process;
- § Margin levels have improved and, combined with reduced overhead costs, have resulted in a turnaround from a significant operating loss last financial year to an operating profit before exceptional items and amortisation of goodwill;
- § The directors continually review the level of central overhead costs and have taken more action, with further reduction in accounting and administration costs secured since the year end;
- § The repayment date for the 10% Redeemable Guaranteed Loan Stock has been extended to 1 April 2010; and
- § The directors current plans include an additional share placing to supplement cash flow;

In view of the matters noted above, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, these conditions indicate the existence of material uncertainties which may cast significant doubt over the group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

**2 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 10,156,776 (2006 – 10,156,776) and the earnings, being profit after tax, are £485,121 (2006 – Loss £2,952,768).

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

	2007 £	2006 £
<i>Reconciliation of earnings</i>		
Profit/(loss) used for calculation of basic and diluted EPS	485,121	(2,952,768)
Exceptional items	(665,116)	-
Amortisation and impairment of goodwill	101,808	1,743,951
	<hr/>	<hr/>
Loss used for calculation of adjusted basic and diluted EPS	(78,187)	(1,208,817)
	<hr/>	<hr/>
<i>Reconciliation of denominator</i>		
Shares used for calculation of basic and adjusted basic EPS	10,156,776	10,156,776
Exercise of options	-	-
Shares to be issued	-	-
	<hr/>	<hr/>
Shares used in calculation of diluted and adjusted diluted EPS	10,156,776	10,156,776
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## 2 Earnings per share (continued)

	2007 £	2006 £
<b>Profit/(loss) per share</b>		
Basic	4.8p	(29.1p)
Diluted	4.8p	(29.1p)
<b>Loss per share before exceptional items, amortisation and impairment of goodwill</b>		
Basic	(0.8p)	(11.9p)
Diluted	(0.8p)	(11.9p)

## 3 Reconciliation of operating profit to net cash inflow from operating activities

	2007 £	2006 £
Operating profit/(loss)	703,890	(2,783,509)
Amortisation and impairment of goodwill	101,808	1,743,951
Depreciation	66,122	124,005
Loss on disposal of fixed assets	-	55,205
Decrease in debtors	165,015	630,488
(Decrease)/increase in creditors	(1,119,385)	122,392
Net cash outflow from operating activities	(82,550)	(107,468)

## 4 Reconciliation of net cash inflow to movement in net debt

	2007 £	2006 £
(Decrease)/increase in cash in the year	(242,736)	14,372
Cash flow from change in debt and lease finance	30,286	(276,872)
Change in net debt resulting from cash flows	(212,450)	(262,500)
Other non-cash movements	(41,757)	(22,464)
Movement in net debt in the year	(254,207)	(284,964)
Net debt at start of year	(1,449,979)	(1,165,015)
Net debt at end of year (note 28)	(1,704,186)	(1,449,979)

Notes to the preliminary announcement for the year ended 30 September 2007

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- 5** The financial information set out in the announcement does not constitute the company's statutory accounts for the years ended 30 September 2007 or 2006, but is derived from those accounts. Statutory accounts for 2006 have been delivered to the Registrar of Companies and those for 2007 will be delivered in advance of the statutory filing deadline. The auditors have reported on those accounts; their reports' were unqualified but did contain an emphasis of matter concerning the uncertainty as to the ability of the group to continue as a going concern. The auditors reports did not contain statements under s237(2) or (3) Companies Act 1985.
- 6** Printed copies of the Annual Report and Accounts for the year ended 30 September 2007 are being distributed to shareholders together with the Notice of Annual General Meeting.