

Capcon Holdings PLC  
30 June 2006

Capcon Holdings plc  
Interim Report 2006

Interim results for the six months ended 31 March 2006

Capcon Holdings plc, the AIM listed investigations and risk management group, announces its unaudited interim results for the six months ended 31 March 2006.

Main Points:

- Turnover of £2.8m (2005: £3.4m)
- Pre-tax loss of £726,700 (2005: Loss £1,026,300)
- Loss before tax, interest, amortisation of £554,400 (2005: Profit of £160,800)
- Net cash inflow from operations of £140,600 (2005: £125,300)
- Action taken to create platform for growth
- Signs of increased activity in core businesses

Capcon Chairman, Ken Dulieu, said: 'The six months to 31 March 2006 has been a challenging period for the Group during which time the Board carried out a thorough review of the businesses and took decisive action to safeguard the core business and create a stronger platform for growth.

'Both Audit & Stocktaking and Commercial Investigations are showing signs of increased activity, and, the reshaping of the Commercial Investigations division should lead to improved focus on building this traditionally very profitable part of the business in the second half of the financial year.

'The Board is committed to restoring profitability to the Group in the short term and priority will be given to the growth of the core business for the foreseeable future'.

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Chairman's Statement

The six months to 31 March 2006 has been a challenging period for the Group during which time the Board carried out a thorough review of the business and took decisive action to safeguard the core business and create a stronger platform for future growth.

The Board continues to give a high priority to the appointment of a Chief Executive Officer who will bring relevant industry experience and capability to develop the Group strategy from our recently strengthened core business. I am optimistic that this appointment will be made in the near future.

Results

Turnover for the six months to 31 March 2006 was £2,811,200, an 18.1% reduction on the previous year's £3,431,000. The overall gross margin fell from 41.1% to 39.1% largely due to the structural changes made to the insurance investigations business.

The Group made a loss before tax of £726,700 which is £299,600 lower than the loss of £1,026,300 for the same period last year. The loss before tax, interest, amortisation and impairment was £554,400 (2005: £160,800 profit). On a like for

like basis this is £457,500 below the same period last year as that period benefited from a profit on disposal of Argen GmbH of £224,400 and a pre disposal profit of £33,300 from that business. Furthermore, £309,700 of the loss this year is attributable to discontinued operations and £70,000 is due to the Directors taking a cautious approach in providing for possible bad debts. The amortisation charge for the period of £98,600 (2005: £144,300) was £45,700 less than last year. In the same period last year a review of the carrying value of Goodwill led to an impairment charge of £978,000 but no further impairment is considered necessary in this year. A recent formal offer received by the Company for the Audit and Stocktaking business further supports the carrying value of Goodwill in the balance sheet for that division.

The loss per share before goodwill amortisation of 6.2p compares with 1.3p earnings per share for the same period last year.

Despite difficult trading conditions during the period and the cost of rationalising our insurance investigation business, the Group generated a net cash inflow from operations of £140,600 (2005: £125,300). Net debt at 31 March 2006 was £1,114,100 - £62,600 higher than at the same date last year. The Directors, therefore, are continuing their policy with regard to dividend payments and no interim dividend is being declared.

#### Funding

At an Extraordinary General Meeting held on 29 March 2006 it was proposed that Convertible Loan Stock of £800,000, carrying an interest rate of 10%, should be created and issued to certain Directors and shareholders in order to strengthen the Company's financial position and provide working capital for the coming year. The relevant resolutions proposed at the meeting were defeated and in order to maintain the Group's financial stability, certain Directors and an independent shareholder of the Company have subscribed at par for £375,000 newly constituted, non-convertible, secured loan stock in the Company, carrying interest at a rate of 10%. Additionally, two of the Directors have, subject to certain conditions, committed to subscribe for a further £300,000 non-convertible, secured loan stock on the same terms, if required.

#### Business Review

Sales in the Audit & Stocktaking division were marginally lower than last year at £1,501,300 (2005: £1,616,200) despite substantial new business being gained from major blue chip clients. However, the new business has been offset by two existing clients reviewing their auditing and stocktaking needs which have resulted in less frequent but more focused audit work. However, the Directors are confident that this reduction in sales will be reversed in the medium term and will be boosted by the introduction of new, updated software and reporting systems to our client base during the second half of the financial year. The effect of lower sales, together with the internal cost of developing the enhanced systems referred to above, reduced operating profit compared with last year.

Trading performance in the Commercial Investigations division has been significantly affected by the Board's strategic decision to withdraw from certain loss making insurance investigation services provided by Capcon Vincent Sherman (CVS). These services are now provided by a company incorporated by certain ex employees and supplied to clients under a fee paying licence from Capcon without any cost to the Company. Additionally, all surveillance activities previously provided by CVS to blue chip insurance clients have been transferred to the specialist Capcon Surveillance Bureau, the new subsidiary established last year. The cost of these changes, which were necessary to cut losses and re-establish our insurance activities on a profitable basis for the future, were approximately £185,000 and this is included in the operating loss of discontinued operations of £309,700.

Capcon Argen continues to win significant new business from blue chip clients that have not been previously engaged by the Company. The overall level of project activity has been lower than last year but with an expanding client base and continuation of recent marketing initiatives, the Board is expecting an upturn in sales in the medium term.

Sales for the Commercial Investigations division overall were £1,310,000 (2005: £1,815,000) and the shortfall compared with last year is mainly attributable to the withdrawal from direct involvement in loss making insurance based work.

Gross margin levels have been increased compared with last year.

Following a review of the Capcon Argen debtors, the Directors have decided to take a more cautious view of the risk associated with the recovery of certain overseas debts and have increased the provision for bad debts accordingly by £70,000.

The recruitment last year of new senior project managers and their subsequent development in the Company has created the opportunity to restructure the management of Capcon Argen and strengthen our position both internally and when presenting our services to potential clients. Also, we are in the process of recruiting additional project managers who have existing experience and client relationships to ensure accelerated growth in the short term.

A review of central overhead costs at the end of last financial year has resulted in a significant reduction in these costs and this should be maintained throughout the second half of the year.

#### Current Trading and Prospects

Both Audit & Stocktaking and Commercial Investigations are showing signs of increased activity, and the re-shaping of the Commercial Investigations division should lead to improved focus on building this traditionally very profitable part of the business in the second half of the financial year.

The Board is committed to restoring profitability to the Group in the short term and priority will be given to the growth of the core business for the foreseeable future. Alternative strategies for developing the Group are reviewed regularly by the Board but our overriding commitment is to maximise shareholder value through retaining our position as an independent public company and to take full advantage of this status at the appropriate time in the future when our profit track record has been restored.

K P Dulieu  
Chairman

30 June 2006

#### Consolidated Profit and Loss Account For the six months ended 31 March 2006

Total	Continuing	Discontinued	Total	Total
	operations	operations		
Year	Six months	Six months	Six months	Six months
ended	ended	ended	ended	ended
30 September	31 March	31 March	31 March	31 March
2005	2006	2006	2006	2005
audited	unaudited	unaudited	unaudited	unaudited
£'000	£'000	£'000	£'000	£'000
Turnover 6,930.6	2,604.7	206.5	2,811.2	3,431.1
Cost of sales (4,031.1)	(1,497.1)	(214.9)	(1,712.0)	(2,020.0)
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Gross profit/(loss) 2,899.5	1,107.6	(8.4)	1,099.2	1,411.1

Administrative expenses (5,326.9)	(1,450.9)	(301.3)	(1,752.2)	(2,630.3)
	_____	_____	_____	_____
Group operating loss (2,427.4)	(343.3)	(309.7)	(653.0)	(1,219.2)
Share of operating profit in associates 33.3	-	-	-	33.3
Total operating loss before goodwill (414.0)	(244.7)	(309.7)	(554.4)	(63.6)
amortisation and impairment Amortisation of goodwill and impairment (1,980.1)	(98.6)	-	(98.6)	(1,122.3)
Total operating loss (2,394.1)	(343.3)	(309.7)	(653.0)	(1,185.9)
Profit on sale of associate 248.0	-	-	-	224.4
	_____	_____	_____	_____
Loss before interest and taxation (2,146.1)	(343.3)	(309.7)	(653.0)	(961.5)
	_____	_____		
Interest receivable 0.3			0.2	0.2
Interest payable (131.9)			(73.9)	(65.0)
			_____	_____
Loss on ordinary activities before (2,277.7)			(726.7)	(1,026.3)
taxation				
Taxation 81.1			-	38.5
			_____	_____
Loss on ordinary activities after (2,196.6)			(726.7)	(987.8)
taxation for the period/year				
			_____	_____
Loss per share - Basic and diluted (21.6p)			(7.2p)	(9.7p)
			_____	_____
(Loss)/earnings per share before amortisation and impairment of goodwill - Basic and diluted (2.1p)			(6.2p)	1.3p
			_____	_____

Consolidated Balance Sheet  
As at 31 March 2006

	As at 31 March 2006 unaudited £'000	As at 31 March 2005 unaudited £'000	As at 30 September 2005 audited £'000
Fixed assets			
Intangible fixed assets	3,070.6	3,923.1	3,169.2
Tangible fixed assets	217.6	326.7	269.0
Investments	-	0.1	-
	<u>3,288.2</u>	<u>4,249.9</u>	<u>3,438.2</u>
Current assets			
Debtors	1,480.3	1,801.9	1,696.1
Cash at bank and in hand	1.9	13.8	13.9
	<u>1,482.2</u>	<u>1,815.7</u>	<u>1,710.0</u>
Creditors			
Amounts falling due within one year	(3,395.4)	(2,627.1)	(3,071.5)
	<u>(1,913.2)</u>	<u>(811.4)</u>	<u>(1,361.5)</u>
Net current liabilities			
	<u>(1,913.2)</u>	<u>(811.4)</u>	<u>(1,361.5)</u>
Total assets less current liabilities	<u>1,375.0</u>	<u>3,438.5</u>	<u>2,076.7</u>
Creditors			
Amounts falling due after more than one year	(108.1)	(242.6)	(83.1)
Provisions for liabilities and charges	(21.4)	(21.4)	(21.4)
Net assets	<u>1,245.5</u>	<u>3,174.5</u>	<u>1,972.2</u>
Capital and reserves			
Called up share capital	101.6	101.6	101.6
Share premium account	2,774.1	2,774.1	2,774.1
Other reserves	950.0	950.0	950.0
Profit and loss account	(2,876.4)	(940.9)	(2,149.7)
Shares to be issued	296.2	289.7	296.2
	<u>1,245.5</u>	<u>3,174.5</u>	<u>1,972.2</u>

Consolidated Cash Flow Statement  
For the six months ended 31 March 2006

	Six months ended 31 March 2006 unaudited £'000	Six months ended 31 March 2005 unaudited £'000	Year ended 30 September 2005 audited £'000
Net cash inflow from operating activities	140.6	125.3	193.2
Dividend received from associate	-	118.2	118.2
Returns on investments and servicing of finance			
Interest received	0.2	0.2	0.3
Interest paid	(55.0)	(62.1)	(124.8)
	<u>(54.8)</u>	<u>(61.9)</u>	<u>(124.5)</u>
Taxation			
Tax paid	(4.0)	(23.7)	(23.7)
Capital expenditure and financial			

investment			
Payments to acquire tangible fixed assets	(17.3)	(70.9)	(86.0)
Sale of tangible fixed assets	0.8	-	8.9
	<u>(16.5)</u>	<u>(70.9)</u>	<u>(77.1)</u>
Acquisitions and disposals			
Acquisition of subsidiary undertakings	-	(89.5)	(193.6)
Disposal of investment in associates	-	332.9	328.5
	<u>-</u>	<u>243.4</u>	<u>134.9</u>
Net cash outflow before financing	<u>65.3</u>	<u>330.4</u>	<u>221.0</u>
Financing			
Repayment of loans	(103.3)	(100.1)	(205.6)
New loans issued	-	150.0	170.0
Invoice discounting facilities	(7.7)	(189.9)	3.0
Principal payment under finance leases	(8.3)	(8.3)	(14.9)
Other loans	75.0	20.0	-
Other loan repayments	-	(2.4)	-
	<u>(44.3)</u>	<u>(130.7)</u>	<u>(47.5)</u>
Increase in cash	<u>21.0</u>	<u>199.7</u>	<u>173.5</u>

Notes to the Interim Accounts  
For the six months ended 31 March 2006

1. Basis of preparation

The interim results for the six months ended 31 March 2006 and 31 March 2005 do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985 and have been neither audited nor reviewed by the Group's auditors. The financial information for the year ended 30 September 2005 has been extracted from the statutory accounts for the year which have been filed with the Registrar of Companies and which contain an unqualified audit report and did not contain a statement under section 237(2) of the Companies Act 1985.

The interim accounts have been prepared on the basis of the accounting policies set out in the statutory accounts for the year ended 30 September 2005.

The Group had no recognised gains or losses other than the results shown in the Consolidated Profit and Loss Account.

Copies of this statement are being sent to shareholders and are available from the registered office of the Company.

2. Going Concern

Issue of Redeemable Loan Stock

At a meeting of the directors held on 29 March 2006, K P Dulieu, P F Jackson and R G Boyle together with a shareholder of the Company agreed to subscribe for a total £675,000 (nominal) 10% Redeemable Guaranteed Secured Loan Stock 2006 (the 'Loan Stock'). Of this amount, £375,000 was subscribed for immediately and the balance of £300,000 is to be subscribed for as to £150,000 each by K P Dulieu and P F Jackson upon demand being made by the Company at any time on or before 31 May 2008 save that if there exists an event of default at that time then such subscriptions will not be made. For this purpose an event of default includes inter alia a change of control of the Company such that a third party acquires an interest of 30 per cent. or more in the Company. The Loan Stock was put in place to ensure, on the continuing assumption that the directors will be able to focus their attention on the running of the business without external interference, the financial viability of the Group going forward.

Timing of deferred consideration payments

The Group acquired Argen Limited ('Argen') in February 2003. In addition to initial consideration of £1.35million, the purchase agreement provided for a maximum contingent consideration of £1.92million - £1.57million by way of cash and £0.35million by way of shares. This contingent consideration was payable dependent upon the profit of Argen for the years ended 31 December 2003 and 31 December 2004 ('the earn-out period') exceeding specified targets. The extent to which these targets were exceeded is disputed.

The earn-out period has now expired. Under the terms of the agreement, the contingent consideration was due to be paid by April 2005 and £500,000 has been paid to date. The Directors are actively engaged in ongoing discussions with the vendors of Argen with a view to reaching a final settlement as to the amount due and a number of letters have been exchanged in this regard. The latest indicates a willingness on the part of the vendors to accept a legally binding deferred payment schedule comprising the issue of 2,200,000 Ordinary Shares and the payment in cash of the sum of £524,485 plus accrued interest over a three year period. The Company has proposed a four year schedule to resolve the dispute but agreement to this has yet to be received. The balance sheet at 31 March 2006 includes an appropriate provision for contingent consideration. However, the amount of any liability due remains a matter of dispute and has not been agreed or determined.

In the absence of a legally binding deferred payment schedule, any contingent consideration that might be due could be payable on demand. The directors will not agree to any settlement without first endeavouring to ensure that the Company has the funds available to meet its obligations as they fall due. The cash flow forecasts prepared by the directors assume a deferred payment schedule in line with that proposed above but make no allowance for immediate repayment. Additionally, in view of the uncertainty surrounding any amounts that might be payable and, in turn, the timing of such payments, the directors have not entered into any negotiations to secure the additional financing that would be required to fund immediate repayment.

As a consequence of the matters set out above, the Group may be unable to meet its financial obligations as they fall due and may thus be unable to continue as a going concern as a result of either or both of the following circumstances:

- with regard to the issue of Loan Stock, an event of default occurring such that the subscriptions for the balance of £300,000 are not made, or the continuing assumption noted above not being met.
- with regard to the timing of deferred consideration payments, the amount of deferred consideration due being determined to be at the level currently provided in the financial statements, with a demand for the immediate payment of this sum being enforced.

The financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

### 3. Earnings per share

Year ended	Six months	Six months	30
	ended	ended	
September 2005	31 March 2006	31 March 2005	
audited	unaudited	unaudited	
£'000	£'000	£'000	
Losses attributable to ordinary shareholders (2,196.6)	(726.7)	(987.8)	
Amortisation of goodwill and impairment 1,980.1	98.6	1,122.3	
	_____	_____	
Adjusted (losses)/earnings (216.5)	(628.1)	134.5	

Basic and diluted weighted average number of 10,156,776 shares issued	10,156,776	10,156,776
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4. Reconciliation of operating loss to net cash inflow from operating activities

September	Six months ended 31 March	Six months ended 31 March	Year ended 30
	2006 unaudited £'000	2005 unaudited £'000	2005 audited £'000
Group operating loss	(653.0)	(1,219.2)	(2,427.4)
Depreciation	48.8	56.4	119.0
Loss on disposal of fixed assets	29.4	-	1.2
Amortisation of goodwill and impairment	98.6	1,122.3	1,980.1
Decrease in debtors	215.8	89.6	195.4
Increase in creditors	401.0	76.2	324.9
Net cash inflow	140.6	125.3	193.2

5. Reconciliation of net cash flow to movement in net debt

September	Six months ended 31 March	Six months ended 31 March	Year ended 30
	2006 unaudited £k	2005 unaudited £k	2005 audited £k
Increase in cash in period	21.0	199.7	173.5
Cash flow from change in debt financing	44.3	130.7	47.5
Change in net debt resulting from cash flows	65.3	330.4	221.0
New finance leases	(10.4)	(46.1)	(45.9)
Other non-cash movements	(4.0)	(2.9)	(7.2)
Net debt brought forward	(1,165.0)	(1,332.9)	(1,332.9)
Net debt carried forward	(1,114.1)	(1,051.5)	(1,165.0)

6. Reconciliation of net cash flow to movement in net debt

Analysis of net debt	As at 30 September 2005 audited £'000	Cash flow £'000	Non cash movements £'000	As at 31 March 2006 unaudited £'000
Cash at bank and in hand	13.9	(12.0)	-	1.9
Overdraft	(311.2)	33.0	-	(278.2)
Cash	(297.3)	21.0	-	(276.3)
Debt due within one year	(206.6)	103.3	(53.6)	(156.9)
Debt due after one year	(58.0)	-	53.6	(4.4)
Invoice discounting facilities	(487.2)	7.7	-	(479.5)
Finance leases	(37.3)	8.3	(10.4)	(39.4)
Other loans	(78.6)	(75.0)	(4.0)	(157.6)

Financing	(867.7)	44.3	(14.4)	(837.8)
Total	<u>(1,165.0)</u>	<u>65.3</u>	<u>(14.4)</u>	<u>(1,114.1)</u>