

Capcon Holdings PLC
30 March 2007

CAPCON HOLDINGS plc

Final results for the year ended 30 September 2006

Capcon Holdings plc, the AIM listed investigations and risk management company, announces its audited consolidated results for the year ended 30 September 2006.

Main points

- Business now stabilised
- Loss-making divisions now disposed of
- Overhead costs significantly reduced
- Group now focused on core strengths
- Capcon a smaller, but potentially profitable business
- Prospects much improved for the medium term

Ken Dulieu, Chairman, commented:

'The financial year ended 30 September 2006 has been the most challenging period in the Group's history and the Board has been required to make several difficult decisions that were necessary to ensure the survival of the core business. Loss making services have been disposed of and overhead costs significantly reduced in response to the down sizing of the business. Additionally, our Commercial Investigations division has been re-structured following the departure of certain senior managers. The outcome of these major changes to the Group has been to create a smaller, but potentially profitable business that is focused on core strengths.'

'Having disposed of loss making activities, the Directors believe that, by focusing on the core business that has a proven record of profitability and continuing the program of reducing and controlling central costs, prospects are much improved for the Group in the medium term.'

Enquiries

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Chairman's statement

Operational review

The financial year ended 30 September 2006 has been the most challenging period in the Group's history and the Board has been required to make several difficult decisions that were necessary to ensure the survival of the core business. Loss making services have been disposed of and overhead costs significantly reduced in response to the down sizing of the business. Additionally, our Commercial Investigations division has been re-structured following the departure of certain senior managers. The outcome of these major changes to the Group has been to create a smaller, but potentially profitable business that is focused on core strengths. This should enable the Directors to build future growth and profitability on a sound and familiar platform.

As reported with the Interim results, the loss making insurance services provided by Capcon Vincent Sherman are now provided by ex employees under a licence from Capcon, so the Group has no future exposure to losses from this division. Furthermore, the activities of Capcon Surveillance Bureau Limited which absorbed the surveillance activities of Capcon Vincent Sherman, has been transferred to its managing director who has left the Group and also operates under a licence from Capcon. This latter decision reflects further action taken by the Board to ensure profitability is restored to the core Group activities in the short term. Both licencing arrangements require the payment of licence fees to the Group on an ongoing basis.

During the year, a considerable amount of time was spent by the Directors in an effort to recruit a new Chief Executive Officer for the Group. A potential candidate for this role eventually emerged who would have and brought with him a management and commercial team capable of winning significant new business as well as attracting substantial funding from his backers. However, negotiations were terminated after the financial year end, when conditions placed on the appointment and other requirements by the prospective candidate were considered by the Board to be unacceptable and detrimental to shareholders' interests.

Elsewhere, the Board has taken legal advice regarding possible action relating to the significant loss of business following the resignation of the managing director of Capcon Argen and is currently considering its options. More encouragingly, however, significant cost savings have been achieved as a result of the restructuring process and the level of instructions currently being received gives confidence that recovery to more acceptable levels of business may be achievable in the medium term.

Financial overview

Sales for the year to 30 September 2006 were £5.25 million (2005: £6.93 million) representing a 24.2% decrease on last year. In excess of half of the decrease on last year was attributable to discontinued operations.

The Group generated a loss for the year, before interest, amortisation and impairment of goodwill, of £1.04 million (2005: £0.17 million). The loss before tax, amortisation and impairment was £1.23 million (2005: £0.30 million).

The basic loss per share of 29.1p for the year compares with 21.6p loss per

share last year and, excluding amortisation and impairment of goodwill, the loss per share was 11.9p compared with 2.1p loss per share last year.

As a result of the continued underperformance of the Group, and Capcon Argen Limited in particular, the carrying value of the goodwill arising on the acquisition of Capcon Argen Limited has been reduced to nil value. This has resulted in an additional charge to the profit and loss account of £1.55 million in the year above the normal level of amortisation.

The Board has maintained a continual review of divisional and central overhead costs throughout the year to ensure that the changes and, in particular, the down sizing of the loss making insurance activities, will improve the profitability of the core business upon which, in the short term, future growth of the Group will be based.

There was a net cash outflow from operations of £0.11 million (2005: £0.19 million inflow) which was significantly less than the Group loss before tax, amortisation and impairment, due mainly to a reduction in debtors as a result of discontinuing unprofitable operations. Bank borrowings were reduced in the year by £0.35 million from £1.09 million to £0.74 million, although net debt increased overall by £0.33 million. This was due, principally, to the issue of £675,000 unsecured loan stock, as reported below, exceeding the reduction in bank borrowings.

Maintaining controls and strengthening the cash position during this period of major rationalisation and re-structuring is an ongoing priority. The Directors will, accordingly, continue the policy of not recommending the payment of a dividend, as last year, for the time being.

Funding

As referred to in the Interim Report, an Extraordinary General Meeting was held on 29 March 2006 when 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 Group's financial position. As the relevant resolutions proposed at the meeting were defeated, in order to maintain the Group's financial stability, certain Directors and an independent shareholder subsequently subscribed at par for £675,000 newly constituted, non-convertible, secured loan stock carrying interest at a rate of 10%.

The potential liability in respect of earn out payments due to the vendors of Argen Limited remains in dispute. There is a significant difference between the amount considered payable by the vendors and the amount that the Directors now believe is due when taking full account of all aspects of Argen's performance. On going legal advice is being taken in order to resolve this dispute but there remains an uncertainty with regard to the amount of the final settlement.

Audit & stocktaking

Sales of £2.98 million were £0.32 million, or 9.8%, lower than last year's revenues mainly due to the loss of business from one client whose acquisition resulted in our services being absorbed by the acquirer's existing in house resource. Several new clients have been gained in the second half of the

financial year and, in particular, following a successful trial period, a major national pub chain committed to a contract which, alone, is expected to replace much of the lost business.

During the year, our IT department completed a major update to the software used by our clients to support their financial and operational controls. This was followed by a major re-launch of this more 'user friendly' product, which also involved extensive re-training of our own field staff as well as our clients' staff. We have received a considerable amount of positive feedback from our clients which has endorsed our commitment to invest internal IT resources in areas that will secure existing relationships and provide sales opportunities in the future by offering a service that is superior to that of our competitors.

The development, implementation and training in respect of the new software was expensive and had a temporary, but significant, negative impact on direct labour costs especially in the second half of the financial year during the implementation and training phase. In addition, the regional management of this division has been re-structured to provide a more responsive service for our clients, whilst focusing internally on future improved controls over unit labour costs. These changes and their implied increase in costs temporarily reduced gross margins in the financial year under review by approximately 5%. However, since the financial year end the benefits outlined above have already been reflected in increased business and gross margins have now been restored to historic levels.

Commercial investigation services

Sales for the year for all investigation activities were £2.27 million compared with £3.62 million last year, a 37.3% decrease. However, approximately 24% of this decrease can be attributed to the decision, made early in the financial year, to withdraw from the loss making insurance investigation services provided by Capcon Vincent Sherman. As reported in the Group's Interim Report, these services are now provided by a company incorporated by certain ex employees who pay licence fees to Capcon.

Gross margins achieved by Capcon Argen and the leisure-based Capcon Investigations division have been improved by comparison with last year.

Capcon Surveillance Bureau, which specialises in personal injury investigations for the insurance sector, absorbed the surveillance business of Capcon Vincent Sherman in March 2006. Since then, the division actively marketed its services under the new branding and with a focus on building a reputation for the highest quality service in this niche industry. Towards the end of the financial year, the Board reviewed this operation and concluded that, despite its optimism for the growth of the business in the long term, it was unlikely to be profitable in the short term. Consequently, it was decided that the most appropriate plan for developing this growing business would be through a licensing arrangement with the divisional managing director and the business was transferred to him in September 2006 on terms requiring the payment of licencing fees to Capcon.

Commercial investigation services (continued)

There have been a number of major changes to the management structure of Capcon Argen in the second half of the financial year. The divisional managing director, who joined the Company with Argen when it was acquired, resigned and left the Company in August 2006. Further, his deputy, who was expected to take

over the management of this division, resigned shortly after for family reasons. During this period the negotiations with the potential candidate for the role of Group Chief Executive referred to above were taking place and it was the Board's intention that the new general and project management team, expected to join the Group with him, would fill the void left within Capcon Argen as a result of these departures. Whilst these management changes did not ultimately take place, the opportunity was taken to change the management model for this division and, at the same time, eliminate the disproportionate cost base that was a feature of the previous management structure.

As reported at the half year, a review of Capcon Argen debtors has prompted an increase in the bad debt provision and this has been increased further at the end of the financial year to make a total increase in the year of £123,000, creating a small operating loss for the year in this division. However, the significant cost reductions and a new initiative to market the services to a broader client base has resulted in an improved start to the new financial year.

Current trading and prospects

The new financial year has started well for the Audit & Stocktaking division which is achieving sales at the forecast level. Operating margins have recovered to the levels achieved consistently prior to 2005/06, which is the result of improved direct cost control and full roll out and implementation of the new software referred to earlier. New business gains have been achieved and the Board is confident that internal forecasts for this division will be achieved this year.

With major structural changes to the Commercial Investigations division having been completed during 2005/06, this division has started the new financial year well, albeit at a lower sales activity level. The lower operating cost base should enable this division to return to profit in the short term and further reductions in overhead costs will be achievable later in the new financial year.

Having disposed of loss making activities, the Directors believe that, by focusing on the core business that has a proven record of profitability and continuing the program of reducing and controlling central costs, prospects are much improved for the Group in the medium term.

K P Dulieu

Chairman

30 March 2007

Capcon Holdings plc

Consolidated profit and loss account for the year ended 30 September 2006

Total	Note	Total
2005		2006
£		£
Turnover		
Continued operations		4,493,804
5,304,888		
Discontinued operations		757,818
1,625,759		
Group turnover		5,251,622
6,930,647		
Cost of sales		(3,261,929)
(4,031,136)		
		<hr/>
Gross profit		1,989,693
2,899,511		
Administrative expenses		(4,773,202)
(5,326,940)		
Operating loss		
Continued operations		(2,221,971)
(1,180,099)		
Discontinued operations		(561,538)
(1,247,330)		
Group operating loss		(2,783,509)
(2,427,429)		
Share of operating profit in associates		-
33,332		
Total operating loss before amortisation and		(1,039,558)
(414,009)		
impairment of goodwill		
Amortisation of goodwill and impairment		(1,743,951)
(1,980,088)		
Total operating loss		(2,783,509)
(2,394,097)		
Profit on sale of associate		-
248,012		
		<hr/>
Loss on ordinary activities		
before interest and other income		(2,783,509)
(2,146,085)		
Interest receivable		487
301		
Interest payable and similar charges		(191,218)
(131,936)		
		<hr/>
Loss on ordinary activities		
before taxation		(2,974,240)
(2,277,720)		
Taxation on loss from ordinary activities		21,472
81,164		
		<hr/>
Loss on ordinary activities		

after taxation (2,196,556) (2,952,768)

Loss per share 2
 Basic (21.6p) (29.1p)
 Diluted (21.6p) (29.1p)

Capcon Holdings plc

Consolidated balance sheet at 30 September 2006

2005	2006	2006	2005
	£	£	£
£			
Fixed assets			
Intangible assets	1,425,264		3,169,215
Tangible assets	119,053		268,970
		1,544,317	
3,438,185			
Current assets			
Debtors	1,065,600		1,696,088
Cash at bank and in hand	1,716		13,908
	1,067,316		1,709,996
Creditors:			
Amounts falling due within one year	(3,246,010)		(3,071,498)
Net current liabilities		(2,178,694)	
(1,361,502)			
Total assets less current liabilities		(634,377)	
2,076,683			
Creditors			
Amounts falling due after more than one year		(642,402)	
(83,056)			
Provision for liabilities and charges		-	
(21,472)			
		(1,276,779)	
1,972,155			
Capital and reserves			
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		(5,102,441)	
(2,149,673)			

Shares to be issued	-
296,166	
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Shareholders' funds/(deficit)	(1,276,779)
1,972,155	
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Capcon Holdings plc

Consolidated cash flow statement for the year ended 30 September 2006

	Note	2006	2006	2005
		£	£	£
2005				
£				
Net cash (outflow)/inflow from operating activities	3	(107,468)		
193,243				
Dividend received from associate			-	
118,223				
Returns on investments and servicing of finance				
Interest received		487		301
Interest paid		(122,262)		(124,787)
Net cash outflow from returns on investment and servicing of finance		(121,775)		
(124,486)				
Taxation				
Tax paid			(3,964)	
(23,711)				
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(47,294)		(86,022)
Sale of tangible fixed assets		18,001		8,860
Net cash outflow from capital expenditure and financial investment		(29,293)		
(77,162)				
Acquisitions and disposals				
Purchase of subsidiary undertakings		-		(193,599)
Disposal of investment in associate		-		328,470
Net cash inflow from acquisitions and disposals			-	
134,871				
Equity dividends paid			-	
-				
Cash (outflow)/inflow before financing		(262,500)		
220,978				
Financing				
Issue of loans		675,000		170,000

Costs incurred on issue of loan stock	(63,463)	-
Repayment of loan	(206,581)	(205,625)
Movement in invoice discounting facilities	(122,623)	3,062
Capital element of finance lease payments	(5,461)	(14,894)
	<hr/>	<hr/>
Cash inflow/(outflow) from financing (47,457)		276,872
	<hr/>	<hr/>
Increase in cash in the year 173,521		14,372
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Capcon Holdings plc

Notes to the preliminary announcement for the year ended 30 September 2006

1 Going concern

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.

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 amount of any further liability to pay contingent consideration has been a matter of dispute between the Company and the vendors for some time. The Directors had been engaged in discussions and negotiations with the vendors of Argen with a view to reaching a final settlement as to the amount (if any) due but proceedings have now been issued by the vendors seeking to enforce the Company's obligations under the agreement that the vendors allege have not been performed by the Company. Such proceedings are being vigorously defended by the Company and notice has been served by the Company upon the vendors rescinding the agreement and claiming the repayment of all amounts paid by the Company to the vendors to date.

Whilst settlement of the claims made by the vendors is not in contemplation at this time, any settlement of the claims made by the vendors that the directors may be advised to agree, will not be agreed 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 make no allowance for any such payment. Additionally, in view of the uncertainty surrounding any amounts that might be payable and, in turn, the timing of any such payments, the directors have not entered into any negotiations to secure the additional financing that would be required to fund any immediate payment requirement.

As a consequence of the matter set out above, the Company may be unable to meet its financial obligations as they fall due and may thus be unable to continue as a going concern if the amount of deferred consideration found to be due (if any) is determined to be at the level currently provided in the financial statements and a demand for the immediate payment of this sum is enforced.

The financial statements do not include any adjustments that would result if the Company was unable to continue as a going concern.

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 (2005 - 10,156,776) and the earnings, being loss after tax, are £2,952,768 (2005 - £2,196,556).

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

	2006 £	2005 £
Reconciliation of earnings		
Loss used for calculation of basic and diluted EPS	(2,952,768)	(2,196,556)
Amortisation and impairment of goodwill	1,743,951	1,980,088
	<u> </u>	<u> </u>
Loss used for calculation of adjusted basic and diluted EPS	(1,208,817)	(216,468)
	<u> </u>	<u> </u>
Reconciliation of denominator		
Shares used for calculation of basic and adjusted basic EPS	10,156,776	10,156,776
Exercise of options	-	-
Shares to be issued	-	-
	<u> </u>	<u> </u>
Shares used in calculation of diluted and adjusted diluted EPS	10,156,776	10,156,776
	<u> </u>	<u> </u>
Loss per share		
Basic	(29.1p)	(21.6p)
Diluted	(29.1p)	(21.6p)
Loss per share before amortisation and impairment of goodwill		
Basic	(11.9p)	(2.1p)
Diluted	(11.9p)	(2.1p)
	<u> </u>	<u> </u>

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

2005	2006
£	£
Operating loss	(2,783,509)
(2,427,429)	
Amortisation and impairment of goodwill	1,743,951
1,980,088	
Depreciation	124,005
119,038	
Loss on disposal of fixed assets	55,205
1,161	
Decrease in debtors	630,488
195,409	
Increase in creditors	122,392
324,976	

Net cash inflow from operating activities	(107,468)
193,243	

4 Reconciliation of net cash inflow to movement in net debt

2005	2006
£	£
Increase in cash in the year	14,372
173,521	
Cash flow from change in debt and lease finance	(276,872)
47,457	

Change in net debt resulting from cash flows	(262,500)
220,978	
New finance leases	-
(45,932)	
Other non-cash movements	(22,464)
(7,149)	

Movement in net debt in the year	(284,964)
167,897	
Net debt at start of year	(1,165,015)
(1,332,912)	

Net debt at end of year	(1,449,979)
(1,165,015)	

5 The financial information set out in the announcement does not constitute the company's statutory accounts for the years ended 30 September 2006 or 2005, but is derived from those accounts. Statutory accounts for 2005 have been delivered to the Registrar of Companies and those for 2006 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 2006 have been distributed to shareholders together with the Notice of Annual General Meeting.