Capcon Holdings plc

Report and Financial Statements

Year Ended

30 September 2005

Capcon Holdings plc

Annual report and financial statements for the year ended 30 September 2005

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Directors

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Directors

K P Dulieu
C J Cavender
P F Jackson
R Boyle

Secretary

C J Cavender

Company number

4196004

Auditors

BDO Stoy Hayward LLP, 8 Baker Street, London, W1U 3LL.

Highlights

- Net cash inflow from operations despite difficult trading year
- New specialised surveillance division established and funded by operations
- Improved margins achieved by the Audit & Stocktaking division
- New major blue chip clients acquired
- Recruited high calibre project managers for future growth in Argen
- Action taken to raise funds and strengthen balance sheet

Operational review

It has been a challenging year requiring the Board to make several internal changes to strengthen the Group and create a stronger base for future development. Also, during this period business activity in our Investigations division has been disappointing which, together with our commitments to reduce borrowings and other liabilities, has placed a high priority on cash management.

The underlying strength of the Audit & Stocktaking and Commercial Investigations divisions has, again, enabled us to generate cash from our operating activities and our financial performance on a like for like basis has improved since reporting our results for the first six months of the year.

New blue chip clients continue to be gained by both divisions and much management effort has been spent on rationalising the business to ensure that in future we are focused on the provision of services that create greatest added value.

As announced at the Extraordinary General Meeting held on 29 March 2006, approval was not given to the issue of £800,000 of Secured Convertible Loan Stock. Following this certain directors and a shareholder of the Company have agreed to subscribe for a total of £675,000 (nominal) 10% Redeemable Guaranteed Loan Stock of which £375,000 will be subscribed for immediately. The balance, of £300,000, is to be subscribed for on demand by the Company at any time on or before 31 May 2008 save that if there is a default at that time in which case such subscriptions will not be made. The resulting improvement in the Group's cash position will provide a sound base for ongoing operations and alleviate the pressures that have dominated the past financial year which, in turn, were placing limitations on our growth potential.

Acknowledging our responsibilities with regard to Corporate Governance the Company announced, on 20 March 2006, the appointment of Robin Boyle as non executive director. Robin's considerable experience and particularly his 'City' involvement with small public companies will improve independence and strengthen the Board.

Our search for potential acquisitions in the risk management sector has continued despite this difficult trading period. However, the recent perceived under valuation of our company in the market has determined that a higher priority is placed on restoring growth in our core business. The Directors are confident that growth and improved profitability can be achieved in the medium term and other compatible businesses will be identified that will make acquisition an earnings enhancing process.

Financial overview

Sales for the year to 30 September 2005 were £6.93 million (2004: £7.45 million) representing a 7.0% decrease on last year.

The Group generated a loss for the year, before interest, amortisation and impairment of goodwill, of £0.41 million (2004: £0.57 million profit), after charging £0.22 million in exceptional charges relating to compensation payable to Directors' for reductions in their future contracted remuneration. The loss before tax, amortisation and impairment was £0.30 million, compared with £0.43 million profit achieved last year, and includes the profit on disposal of Argen GmbH of £0.25 million

Basic loss per share of 21.6p compares with 0.9p earnings per share last year, and excluding amortisation and impairment of goodwill, the loss per share was 2.1p compared with 3.7p earnings per share last year.

As a result of the continued underperformance of the Group, the carrying value of the goodwill arising on the acquisition of Vincent Sherman (Creditor Claims) Limited and Capcon Argen Limited has been partially impaired with a consequent additional charge to the profit and loss account of £1.69 million in the year above the normal level of amortisation.

Despite the lower sales activity and profit performance, there was a net cash flow from operations of £0.19 million (2004: £0.52 million). Consequently, we were able to reduce total bank borrowings in the year by £0.17 million to £1.09 million from £1.26 million, representing 37% of net assets. The reduction was achieved by maintaining stringent cash management procedures during a difficult trading period and also, as reported previously, the sale of the Group's 50% interest in Argen GmbH which completed in January 2005 for a total cash consideration of £360,000.

The issue of £675,000 secured loan stock referred to above will strengthen the balance sheet and, in particular, ensure amounts owed to the vendors of Argen Limited, acquired in February 2003, are paid in line with scheduled cash flow availability.

The priority of strengthening the cash position of the Group determines that the Directors continue to exercise caution with regard to the dividend policy. No final dividend is being declared and, therefore, no dividend is payable this year (2004: 0.75p).

Audit & stocktaking

Although sales of £3.31 million were 2.6% lower than last year, operating profit increased as a result of reducing direct costs which consequently had a favourable impact on gross margins. Additionally, the trend of providing higher added value services to clients continues which has improved margins at the expense of sales turnover. This change in approach entails the introduction of processes for our clients to highlight action they should take to reduce cash and stock losses and gain greater value from the resource we are providing.

This has been another successful year for gaining new clients which is not fully reflected in the total sales. Sales reduced to £3.31 million from £3.40 million in 2004, or 2.6%, but the change in mix reported at the half year has continued into the second half of the year enabling operating margins to be improved. Ongoing attention to cost control and efficiency has combined with the favourable mix of work to produce an improved profit for the division overall.

New clients continue to be acquired as a result of the continuing changes in ownership of major pubcos that have become a feature of the licensed retail industry in recent years and this has broadened our client base. Additionally, the preference of operators of managed estates to outsource audit and stocktaking services ensures a developing market for our services that is not fully reflected in increased overall sales for the reasons referred to above.

Continual development of our IT systems is essential to ensure that our services fully support our clients' financial and operational controls and maximise opportunities for improving their margins. For this reason we have recently embarked upon a major project to update and upgrade our main support software which is crucial to the integrity of the high quality services that we provide. Additionally, we have strengthened our operational base at Watford with a help desk manned by additional staff who are trained to respond rapidly to our clients' daily stocktaking and audit issues.

Our exceptional experience of providing specialised services to the leisure sector over many years places this division in a strong position for continuing to win new major clients and, in particular, to take advantage of opportunities that are being presented as the industry continues to consolidate.

Commercial investigation services

Sales for the year for all investigation activities were £3.62 million compared with £4.05 million last year, a 10.6% decrease. This decline in sales is mainly attributable to two causes. Firstly, as confirmed in the Interim Report, our insurance investigations division, Capcon Vincent Sherman, has suffered a fall in sales following a major re-structuring of the division subsequent to the departure of the Managing Director. Secondly, Capcon Argen, our corporate investigator, did not receive instructions for as many high value projects as last year. The visibility in this part of the Group is particularly limited due to the unpredictable nature of the work that Capcon Argen is involved in, and the Directors do not believe the current lower activity is an indication of a permanent fall in demand for these services.

The lower level of sales in the two main areas of commercial investigations activity referred to above has resulted in a corresponding reduction in profitability. In addition, as previously reported, our share in Argen GmbH, the German associate providing similar services to Capcon Argen, was sold and as a consequence, the loss of shared profit is approximately £67,000 in this year compared with last year. Nevertheless, on a like for like basis, the second half of the year showed an improved financial performance compared with the first six months.

In the Interim Report I referred to the establishment of a new specialist surveillance division headed by the former managing director of our major competitor in this field. The net cost of setting up this business which was charged to the profit and loss account in the year was £135,700. At the end of the year, the surveillance business operated by Capcon Vincent Sherman and comprising approximately half of its sales was transferred to the new division. The remaining services provided by Capcon Vincent Sherman are not profitable and action is being taken in the current year to rectify this situation.

As the market continues to respond to the greater awareness of the damage that can be caused to business through fraud and malpractice the Directors anticipate that the demand in the future for the high value investigative and screening projects undertaken by Capcon Argen should increase. Hence, there has been an increase in costs in the year resulting from the recruitment and training of new project managers who will strengthen this division's capability to resource complex cases in the future. However, in the short term, these additional staff costs have had a disproportionate and adverse effect on the profit and loss account.

Central overheads

Acknowledging the recent frustration of the Group's short term growth ambitions, the Board have reviewed the Group's central overhead base and, in particular, the Directors' level of remuneration. At the end of the year it was decided that, with effect from 1 November 2005, Ken Dulieu and Cliff Cavender would reduce their salaries to £15,000 p.a. and £10,000 p.a. respectively.

The compensation due to them as a result of this compromise to their service agreements together with other associated costs amounted to approximately £218,000 and was charged in the profit and loss account for the year ended 30 September 2005, although it is payable in twelve equal monthly instalments from 1 November 2005.

Current trading and prospects

Since 30 September 2005, business activity in the two main divisions has been disappointing.

Trading in the Audit & Stocktaking division in the first half of the year has been slower than expected but new business is being won which should flow through to improved profitability later in the year. Action has been taken to eliminate the losses being incurred by Capcon Vincent Sherman by closing the operation and allowing certain ex-employees to operate under a licence with Capcon and paying a commission to the Company. The effect of this will be to improve the profitability of the Investigations division overall in the second half of the year.

The unpredictable nature of project based investigation work determines that forecasting short term future performance remains difficult. Nevertheless, the Directors anticipate that the demand for these services should increase in the longer term and we remain optimistic that the core business will grow in response to increasing global sensitivities to the significance of key issues of corporate risk management.

The injection of funds through the issue of the £675,000 secured loan stock referred to above will strengthen the Group's balance sheet and provided a stable base upon which to grow the business. The Directors continue to search and review potential acquisition opportunities and remain committed to a strategy that will lead to growth from both organic development of the core business and acquisition of compatible businesses.

K P Dulieu
Chairman

31 March 2006

Board of directors

Ken Dulieu (Chairman)

After a career with the police force, Ken Dulieu was appointed, inter alia, security adviser to divisions of Allied Breweries plc and Whitbread plc. In 1983, he founded K & J Dulieu Limited (trading as Capitol Consultants), later renamed Capitol Group plc in 1994 on its admission to the Official List. He was Chief Executive of the Company until its sale to Carlisle Holdings plc for £23.5 million in 1998. He became executive Chairman of Capcon Holdings plc on its admission to AIM.

Cliff Cavender (Managing Director)

Cliff Cavender is a fellow of the Chartered Institute of Management Accountants and member of the Chartered Institute of Management. He trained and qualified with Reed International plc. Subsequently, he held various senior financial positions, including five years as Financial Director for Pizza Express Limited before joining Capitol Group plc in 1994 as Finance Director and company secretary. He became Finance Director and company secretary of Capcon Limited, subsequently Capcon Holdings plc, at the time the Company purchased the business from Carlisle Holdings plc.

Paul Jackson (Non-executive Director)

Paul Jackson qualified as a Chartered Accountant in 1973 and is Chief Executive of Vantis plc. In addition to his responsibilities as non-executive Director, he also chairs the audit and remuneration committees and undertakes corporate finance activities on behalf of the Company.

Robin Boyle (Non-executive Director)

Robin Boyle has spent the last forty years in a number of different roles with institutional fund management and stock broking firms but always retaining an intense interest in small caps. His first job in the City was with the company that eventually became Gartmore: he then went onto Panmure Gordon, Hoare Govett and Capel-Cure Myers before becoming founder, major shareholder and Managing Director of Dunbar Boyle & Kingsley (DBK), a private stock broking business, and Athelney Trust, an investment company specialising in junior markets and small caps. In 2000, he joined Chelverton Asset Management as co-Manager of what became the successful Small Companies Dividend Trust.

The Company's shares are traded on the Alternative Investment Market of the London Stock Exchange and the Company is not formally required to comply with the Combined Code ("the Code"). However the board of Directors supports the Code, and recognises the importance of strong corporate governance procedures. Accordingly, the Directors continue to develop corporate governance policies and procedures that are consistent with a Group of this size and complexity.

Directors and the board

The board comprises two executive Directors and one non-executive Director who contributes to the functioning of the board. The board meets on a regular basis and has a formal schedule of matters specifically reserved for consideration. The board is specifically responsible for overall Group strategy, including but not restricted to the consideration of operating and financial performance, acquisition policy, capital expenditure and senior personnel appointments.

The board has established a remuneration committee and an audit committee with responsibilities formally delegated by the board.

Remuneration committee

The remuneration committee currently comprises the non-executive Director and K P Dulieu. The committee is responsible for reviewing and determining the Group's policy on executive remuneration and the allocation of long term incentives to executives and employees.

The remuneration committee determines an overall package of remuneration for executive Directors with the aim being to attract and retain high quality executives.

Audit committee

The audit committee comprises the non-executive Director and C J Cavender. The committee meets at least twice each year and is responsible for ensuring that the financial performance of the Group is properly monitored and reported on and that any such reports are understood by the board. The committee also meets with the auditors to consider their reports relating to the accounts and internal control systems.

Internal control

The Directors acknowledge their responsibilities for maintaining the Company's system of internal control and for reviewing its effectiveness. It is accepted that any system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The internal control systems are designed to meet the particular needs of the Group. The Group's systems of internal financial control include but are not limited to the following:

- A comprehensive system of financial reporting to monitor monthly performance against a board approved annual budget.
- A formal reporting structure within which individual levels of authority and responsibility are assigned to consider transactions at an appropriate level. These are communicated to staff through regular performance appraisals, training and development programmes.
- The establishment of clear accounting policies to ensure that financial performance is able to be reported on and monitored on a consistent and appropriate basis. Reports on operational, compliance and risk management are also reviewed by the board.

The directors present their report together with the audited financial statements for the year ended 30 September 2005.

Results and dividends

The results of the group for the year are set out on page 11 and show a loss, before taxation, for the year of £2,277,720 (2004 - profit £155,801).

No interim dividend was paid (2004 - £89,465) and the directors do not propose a final dividend (2004 - £nil) for the year ended 30 September 2005.

Principal activities, review of business and future developments

The principal activities of the Group during the year were the provision of audit compliance & stock reconciliation services, commercial research, investigation and business intelligence services.

Substantial shareholders

As at 24 March 2006 the following were, as far as the Directors are aware, interested in 3% or more of the issued share capital of the Company:

	Number of Ordinary 1p shares	%
Christie Group plc	1,522,501	15.0
Mr Kenneth Paul Dulieu	1,422,850	14.0
Mr Paul Francis Jackson	1,410,350	13.9
Mr D I Jefferson	552,653	5.4
Chase Nominees Limited	512,500	5.0
HSBC Global Custody Nominees UK Limited	402,500	4.0
Capita Trust Company Limited	394,692	3.9
Noble Fund Managers Nominee Limited	388,347	3.8
Rock Nominees Limited	312,500	3.1

Policy on the payment of creditors

The Group's policy is to pay its creditors promptly.

It is the Group's policy to agree the terms of payment at the time the contract supply is made, to ensure that suppliers are aware of the terms of payment and to make payments in accordance therewith subject to terms and conditions being met by suppliers. At the end of the year, the Group had an average of 26 days (2004 - 26 days) purchases in trade creditors.

The Company has no trade creditors.

Share Option Scheme

The Company's share option scheme was established in May 2001, shortly prior to the Company's flotation on AIM. The terms of the share option scheme currently limit the number of unissued Ordinary shares that may be made subject to the grant of options to employees of the Group under that scheme to fifteen per cent (15%) of the issued share capital of the Company at any day of grant of an option.

Further details are given in note 20 to the financial statements.

Directors

The directors of the company during the year and their beneficial interests in the ordinary share capital of the parent company and options to purchase such shares under the Senior Executive Share Option Scheme were as follows:

	Ordinary shares of 1p each			
	30 September 2005		1 October 2004	
	Options and similar interests	Shares	Options and similar interests	Shares
Kenneth Paul Dulieu	100,000	1,422,850	100,000	1422,850
Clifford John Cavender	418,350	270,000	418,350	270,000
Paul Francis Jackson	-	1,410,350	-	1,410,350
Robin Boyle (appointed 20 March 2006)	-	-	-	-

No director has any interest in the shares of any of the subsidiary companies.

There have been no changes in the above shareholdings between 30 September 2005 and 31 March 2006.

Further details of the directors' share options and long term incentive scheme are shown in note 20, which also shows the movements during the year. Details of any directors' interest in transactions of the group are given in note 25.

In accordance with the Articles of Association, R Boyle will be proposed for reappointment as a Director at the Annual General Meeting and P F Jackson will be retiring at the Annual General Meeting and, being eligible, will offer himself for re-election.

Going Concern

After making enquiries, the Directors have a reasonable expectation at the time of approving the financial statements that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. In making this assessment, the Directors have taken account of the matters set out in note 1 to the financial statements regarding going concern.

Auditors

A resolution to reappoint BDO Stoy Hayward LLP as auditors will be proposed at the next annual general meeting.

By order of the Board

C J Cavender
Secretary

31 March 2006

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Report of the independent auditors

To the shareholders of Capcon Holdings plc

We have audited the financial statements of Capcon Holdings plc for the year ended 30 September 2005 on pages 11 to 33 which have been prepared under the accounting policies set out on pages 16 to 18.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the Group is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Highlights, the Chairman's Statement, Corporate Governance Statement and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the Loan Stock, the timing of deferred consideration payments and, in these regards, the ability of the Group to continue as a going concern. In view of these uncertainties, we consider that they should be drawn to your attention, but our opinion is not qualified in this respect.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Group and the Company at 30 September 2005 and of the loss of the Group for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

BDO STOY HAYWARD LLP
Chartered Accountants and Registered Auditors
London

31 March 2006

Capcon Holdings plc

Consolidated profit and loss account for the year ended 30 September 2005

	Note	Total 2005 £	Total 2004 £
Turnover	2	6,930,647	7,453,445
Cost of sales		(4,031,136)	(4,100,957)
Gross profit		2,899,511	3,352,488
Administrative expenses	3	(5,326,940)	(3,159,048)
Group operating (loss)/profit	4	(2,427,429)	193,440
Share of operating profit in associates		33,332	100,178
Total operating (loss)/profit before amortisation and impairment of goodwill		(414,009)	568,047
Amortisation of goodwill and impairment		(1,980,088)	(274,429)
Total operating (loss)/profit		(2,394,097)	293,618
Profit on sale of associate		248,012	-
(Loss)/profit on ordinary activities before interest and other income		(2,146,085)	293,618
Interest receivable	7	301	58
Interest payable and similar charges	8	(131,936)	(137,875)
(Loss)/profit on ordinary activities before taxation		(2,277,720)	155,801
Taxation on (loss)/profit from ordinary activities	9	81,164	(69,945)
(Loss)/profit on ordinary activities after taxation		(2,196,556)	85,856
Dividends	10	-	(89,465)
Retained loss for the financial year carried forward	21	(2,196,556)	(3,609)

Consolidated profit and loss account for the year ended 30 September 2005 *(Continued)*

	Note	Total 2005 £	Total 2004 £
Retained loss for the financial year brought forward	21	(2,196,556)	(3,609)
Retained profit brought forward		46,883	50,492
Retained (loss)/profit carried forward		**(2,149,673)**	**46,883**
(Loss)/earnings per share	11		
Basic		(21.6p)	0.9p
Fully diluted		(21.6p)	0.8p
(Loss)/earnings per share before amortisation and impairment of goodwill	11		
Basic		(2.1p)	3.7p
Fully diluted		(2.1p)	3.4p

Group total recognised gain and losses

The Group has no recognised gains or losses other than its profit or loss for the financial year.

All results are derived from continuing operations

The notes on pages 16 to 33 form part of these financial statements.

Capcon Holdings plc

Consolidated balance sheet at 30 September 2005

	Note	2005 £	2005 £	2004 £	2004 £
Fixed assets					
Intangible assets	13	3,169,215		5,020,194	
Tangible assets	14	268,970		266,075	
Investment in associate	15	-		119,936	
			3,438,185		5,406,205
Current assets					
Debtors	16	1,696,088		1,891,497	
Cash at bank and in hand		13,908		37,207	
		1,709,996		1,928,704	
Creditors:					
Amounts falling due within one year	17	(3,071,498)		(2,999,392)	
Net current liabilities			(1,361,502)		(1,070,688)
Total assets less current liabilities			2,076,683		4,335,517
Creditors					
Amounts falling due after more than one year	17		(83,056)		(100,000)
Provision for liabilities and charges	19		(21,472)		(21,472)
			1,972,155		4,214,045
Capital and reserves					
Called up share capital	20		101,568		101,568
Share premium account	21		2,774,094		2,774,094
Merger reserve	21		950,000		950,000
Profit and loss account	21		(2,149,673)		46,883
Shares to be issued	21		296,166		341,500
Equity shareholders' funds	22		1,972,155		4,214,045

The financial statements were approved by the Board on 31 March 2006

C J Cavender
Director

The notes on pages 16 to 33 form part of these financial statements.

Capcon Holdings plc

Company balance sheet at 30 September 2005

	Note	2005 £	2005 £	2004 £	2004 £
Fixed assets					
Investments	15		2,388,687		3,330,099
Current assets					
Debtors	16	974,210		1,223,415	
Creditors:					
Amounts falling due within one year	17	(852,187)		(864,104)	
Net current assets			122,023		359,311
Total assets less current liabilities			2,510,710		3,689,410
Creditors					
Amounts falling due after more than one year	17		(50,000)		(100,000)
			2,460,710		3,589,410
Capital and reserves					
Called up share capital	20		101,568		101,568
Share premium account	21		2,774,094		2,774,094
Profit and loss account	21		(711,118)		372,248
Shares to be issued	21		296,166		341,500
Equity shareholders' funds	22		2,460,710		3,589,410

The financial statements were approved by the Board on 31 March 2006

C J Cavender
Director

The notes on pages 16 to 33 form part of these financial statements.

Capcon Holdings plc

Consolidated cash flow statement for the year ended 30 September 2005

	Note	2005 £	2005 £	2004 £	2004 £
Net cash inflow from operating activities	27		193,243		523,277
Dividend received from associate			118,223		-
Returns on investments and servicing of finance					
Interest received		301		58	
Interest paid		(124,787)		(137,875)	
Net cash outflow from returns on investment and servicing of finance			(124,486)		(137,817)
Taxation					
Tax paid			(23,711)		(37,228)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(86,022)		(84,097)	
Sale of tangible fixed assets		8,860		33,530	
Net cash outflow from capital expenditure and financial investment			(77,162)		(50,567)
Acquisitions and disposals					
Purchase of subsidiary undertakings		(193,599)		(428,658)	
Disposal of investment in associate		328,470		-	
Net cash inflow/(outflow) from acquisitions and disposals			134,871		(428,658)
Equity dividends paid			-		(224,465)
Cash inflow/(outflow) before financing			220,978		(355,458)
Financing					
Issue of ordinary share capital		-		466,115	
Issue of loans		170,000		-	
Repayment of loan		(205,625)		(216,630)	
Movement in invoice discounting facilities		3,062		(77,084)	
Capital element of finance lease payments		(14,894)		(63,117)	
Other loans		-		71,484	
Other loan repayments		-		(62,779)	
Cash (outflow)/inflow from financing			(47,457)		117,989
Increase/(decrease) in cash in the year	28		173,521		(237,469)

The notes on pages 16 to 33 form part of these financial statements.

1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards.

The principal accounting policies are:

Basis of consolidation

The consolidated financial statements incorporate the results of Capcon Holdings plc and its subsidiary and associated undertakings as at 30 September 2005.

In the group accounts, interests in associated undertakings are accounted for using the equity method of accounting. The consolidated profit and loss account includes the group's share of the pre-tax results and taxation attributable to such undertakings. In the consolidated balance sheet, the interests in associated undertakings are shown as the group's share of the identifiable net assets.

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 financial statements at 30 September 2005 include 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.

1 Accounting policies *(Continued)*

Goodwill

Goodwill arising on an acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. It is capitalised and amortised through the profit and loss account over its useful economic life of 20 years. Impairment tests on the carrying value of goodwill are undertaken:

- at the end of the first full financial year following acquisition;
- in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Turnover

Turnover represents sales to external customers at invoiced amount less value added tax, adjusted as necessary to reflect those services provided in the year.

Depreciation

Depreciation is provided to write off the cost or valuation, less estimated residual values, of all tangible fixed assets, over their expected useful lives. It is calculated at the following rates:

Motor vehicles	-	25% reducing balance
Fixtures and equipment	-	25% to 33.3% reducing balance or straight line, as appropriate

Valuation of investments

Investments held as fixed assets are stated at cost less any provision for impairment in value.

Invoice discounting

The company discounts its trade debts. The policy is to include trade debt within trade debtors due within one year and records cash advances within creditors due within one year. Discounting fees and interest are charged to the profit and loss account when incurred. Bad debts are borne by the group and are charged to the profit and loss account when incurred.

Foreign currency

Foreign currency transactions are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet dates. Any differences are taken to the profit and loss account.

The results of foreign associated undertakings are translated at the average rates of exchange during the year and their balance sheets translated into sterling at the rates of exchange ruling on the balance sheet date. Any differences are taken to the profit and loss account.

Deferred taxation

Deferred tax is provided in full on timing differences that have originated but not reversed by the balance sheet date. The recognition of deferred tax assets is limited to the extent that the company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences. Deferred tax balances are not discounted.

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are analysed between capital and interest components. The interest element of the payment is charged to the profit and loss account over the period of the lease and is calculated so that it represents a constant proportion of the balances of capital repayments outstanding. The capital element reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

1 Accounting policies *(Continued)*

Pension costs

Contributions to the group's defined contribution pension scheme are charged to the profit and loss account in the year in which they become payable.

Impairment of fixed assets and goodwill

The need for any fixed asset impairment write down is assessed by comparing the carrying value of the asset against the higher of its realisable value and value in use.

2 Segmental analysis

Turnover

Turnover comprises amounts receivable for goods and services provided in the normal course of business, exclusive of value added tax and after deduction of trade discounts. Turnover is recognised in line with delivery of service. Turnover is entirely attributable to the Group's principal activities.

	2005	2004
	£	£
Group turnover split between business segments is:		
Audit and stock taking	3,307,458	3,401,688
Commercial investigations and other	3,623,189	4,051,757
	6,930,647	7,453,445

The geographic analysis and analysis of profit and net assets has been omitted since in the opinion of the Directors disclosure of this information would be seriously prejudicial to the Group

3 Administrative expenses

	2005	2004
	£	£
Central overhead costs	209,826	198,169
Central marketing costs	57,436	64,477
Group development costs	826,690	405,059
Amortisation and impairment of goodwill	1,980,088	274,429
Other administrative costs	2,252,900	2,216,914
	5,326,940	3,159,048

The information presented includes costs attributable to future development and management of the business. These costs are highlighted on the basis that this allows greater comparability of the underlying performance for the accounting periods. Central marketing costs relate mainly to the salary and benefits of an employee appointed to establish a database comprising potential new clients for existing and future services of the Group and potential targets for acquisition. Group development costs includes the time and expenses of K P Dulieu and the remuneration for C J Cavender attributed to the implementation of the Group strategy and then making acquisitions, together with professional fees relating to potential future development of the Group.

4 Operating (loss)/profit

	2005	2004
	£	£
This is arrived at after charging:		
Depreciation – owned assets	105,142	90,060
Depreciation – leased assets	13,896	6,310
Amortisation of goodwill	289,900	274,429
Impairment of goodwill	1,690,188	-
Hire of equipment - operating leases	283,149	371,434
Land and buildings - operating leases	137,828	151,750
Auditors' remuneration – audit services	28,500	26,000

Included in the Auditor's remuneration for the Group are fees in respect to the Company which are not separately quantifiable

5 Employees

	2005 £	2004 £
Staff costs for all employees, including executive directors, consist of:		
Wages and salaries	3,603,742	3,527,671
Social security costs	378,838	372,741
Pension costs	142,496	135,412
	4,125,076	4,035,824

The average number of employees of the group during the year, including executive directors, was as follows:	Number	Number
Administration and management	49	51
Operational staff	93	98
	142	149

6 Directors' remuneration

	2005 £	2004 £
Directors' emoluments	348,374	206,144
Company contributions to money purchase pension schemes	29,100	15,150

There was one director in the company's defined contribution pension scheme (2004 - one) during the year.

Directors’ emoluments for the year ended 30 September 2005 include £142,160 in relation to compensation payable as a result of variation agreements signed to reduce ongoing directors’ emoluments.

The remuneration of the highest paid director who served during the year was as follows:

	2005 £	2004 £
Directors' emoluments	226,635	121,714
Company contributions to money purchase pension schemes	29,100	15,150

7 Interest receivable

	2005 £	2004 £
Bank interest	301	58
	301	58

8 Interest payable and similar charges - group

	2005 £	2004 £
Bank loans and overdrafts	44,178	48,449
Interest on invoice discounting	60,468	62,488
Interest on deferred purchase consideration	5,607	12,969
Interest on finance leases	4,307	4,265
Other interest	17,376	9,704
	131,936	137,875

9 Taxation on (loss)/profit from ordinary activities

	2005 £	2005 £	2004 £	2004 £
UK corporation tax on (loss)/profits of the year	-		34,920	
Adjustment in respect of previous periods	(30,953)		9,503	
Recovery of foreign tax in respect of previous periods	(63,544)		-	
Share of associated undertakings tax charge	13,333		35,873	
Total current tax		(81,164)		80,296
Deferred tax				
Origination and reversal of timing Differences		-		(10,351)
Taxation on (loss)/profit on ordinary activities		(81,164)		69,945

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The differences are explained below:

	2005 £	2004 £
(Loss)/profit on ordinary activities before tax	(2,277,720)	155,801
(Loss)/profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2004 – 30%)	(683,317)	46,741
Effects of:		
Expenses not deductible for tax purposes	622,345	73,325
Capital allowances for year lower than/(in excess of) depreciation	-	(18,847)
Other timing differences	-	8,486
Profit on disposal of associate not taxable	(74,403)	-
Tax losses carried forward	145,375	(38,217)
Marginal relief	-	(6,515)
Adjustment to tax charge in respect of previous years	(94,497)	9,503
Higher tax rates on overseas earnings	3,333	5,820
Current tax (credit)/charge for year	(81,164)	80,296

10 Dividends

	2005 £	2004 £
Ordinary dividends		
Interim paid of £nil (2004 - 0.75p) per share	-	89,465
Final proposed of £nil (2004 - £nil) per share	-	-
	-	89,465

11 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 (2004 – 9,743,191) and the earnings, being loss after tax, are £2,196,556 (2004 – profit £85,856).

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

	2005 £	2004 £
Reconciliation of earnings		
(Loss)/earnings used for calculation of basic and diluted EPS	(2,196,556)	85,856
Amortisation and impairment of goodwill	1,980,088	274,429
(Loss)/earnings used for calculation of adjusted basic and diluted EPS	(216,468)	360,285
Reconciliation of denominator		
Shares used for calculation of basic and adjusted basic EPS	10,156,776	9,743,191
Exercise of options	-	-
Shares to be issued	-	864,556
Shares used in calculation of diluted and adjusted diluted EPS	10,156,776	10,607,747

12 Profit for the financial year

The company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The parent company made a loss for the year of £1,083,366 (2004 – profit £211,713).

13 Intangible assets

Group	**Goodwill**
	£
Cost	
At 1 October 2004	5,772,702
Amounts arising on acquisitions	129,109
At 30 September 2005	5,901,811
Amortisation	
At 1 October 2004	752,508
Provision for year	289,900
Impairment	1,690,188
At 30 September 2005	2,732,596
Net book value	
At 30 September 2005	3,169,215
At 30 September 2004	5,020,194

The amounts arising on acquisitions of £129,109 (2004 - £88,673) are in respect to contingent consideration.

14 Tangible assets

Group	**Motor vehicles**	**Fixtures, fittings, and equipment**	**Total**
	£	**£**	**£**
Cost or valuation			
At 1 October 2004	75,186	474,211	549,397
Additions	-	131,954	131,954
Disposals	(59,401)	(111,490)	(170,891)
At 30 September 2005	15,785	494,675	510,460
Depreciation			
At 1 October 2004	54,372	228,950	283,322
Provision for year	5,203	113,835	119,038
Disposals	(51,272)	(109,598)	(160,870)
At 30 September 2005	8,303	233,187	241,490
Net book value			
At 30 September 2005	7,482	261,488	268,970
At 30 September 2004	20,814	245,261	266,075

15 Fixed asset investments

	Group	Group	Company	Company
	Associated undertakings	Associated undertakings	Subsidiary undertakings	Subsidiary undertakings
	2005 £	2004 £	2005 £	2004 £
At 1 October 2004	119,936	55,631	3,330,099	3,156,821
Additions	-	-	-	84,605
Disposal	(70,558)	-	-	-
Impairment of fixed asset investments	-	-	(1,070,611)	-
Dividend received from associate	(69,377)	-	-	-
Share of profit after tax of associate	19,999	64,305	-	-
Revaluation of contingent consideration	-	-	129,199	88,673
At 30 September 2005	-	119,936	2,388,687	3,330,099

Subsidiary undertakings

The following were subsidiary undertakings at the end of the year and have all been included in the consolidated financial statements:

Name	Country of incorporation or registration	Proportion of voting rights and ordinary share capital held	Nature of business
Capcon Limited	England and Wales	100%	Audit, stocktaking, commercial investigations, insurance claims investigation and administration
Capcon Argen Limited	England and Wales	100%	Research and investigative services
Vincent Sherman (Creditor Claims) Limited	England and Wales	100%	Non-trading
Capcon Argen Risk Management Limited	England and Wales	100%	Risk management services
Capcon Surveillance Bureau Limited	England and Wales	100%	Surveillance services

15 Fixed asset investments *(Continued)*

Associated undertakings

The Group's share of the summarised results of Argen Gmbh is shown below.

Profit and loss account	**2005 £**	**2004 £**
Turnover	378,341	988,486
Profit before tax	33,332	100,178
Tax	(13,333)	(35,873)
Profit after tax	19,999	64,305

The Group disposed of its share of Argen GmbH in the year.

16 Debtors

	Group 2005 £	**Group 2004 £**	**Company 2005 £**	**Company 2004 £**
Trade debtors	989,727	1,074,384	-	-
Amounts due from subsidiary undertakings	-	-	974,210	1,223,415
Prepayments and accrued income	534,099	584,365	-	-
Other debtors	172,262	232,748	-	-
	1,696,088	1,891,497	974,210	1,223,415

17 Creditors

(a) Amounts falling due within one year

	Group 2005 £	Group 2004 £	Company 2005 £	Company 2004 £
Bank overdrafts (secured)	311,154	507,974	-	-
Amounts due to subsidiary undertakings	-	-	25,090	25,000
Bank loans	206,581	200,189	200,000	200,000
Trade creditors	282,687	241,437	-	-
Invoice discounting facility	487,231	484,169	-	-
Other creditors	193,137	120,166	78,633	71,484
Tax and social security creditor	336,903	343,037	-	-
Deferred purchase consideration	524,485	500,042	524,485	500,042
Corporation tax	4,096	73,458	-	-
Obligations under finance leases and hire purchase contracts	12,268	6,303	-	-
Accruals and deferred income	712,956	522,617	23,979	67,578
	3,071,498	2,999,392	852,187	864,104

The bank overdrafts are secured by a floating charge over the assets of the group and the company. A bank loan, totalling £250,000 (2004 - £300,000), is secured by way of a fixed and floating charge over the assets of the Group

Obligations under hire purchase agreements and finance leases totalling £37,341 (2004 - £6,303) are secured on the assets they finance.

Included within other creditors are loans from the Directors of the Company totalling £78,633 (2004 - £71,484). The balance, which includes interest of £9,462 (2004 - £2,313) charged at 10% on the outstanding balances, is repayable on demand.

Invoice discounting facilities are secured on trade debtors.

Under the terms of the Capcon Argen Limited acquisition agreement, contingent purchase consideration payable was limited to £1,915,250 of which, a maximum of £1,573,500 was payable in cash.

(b) Amounts falling due after more than one year

	Group 2005 £	Group 2004 £	Company 2005 £	Company 2004 £
Bank loans	57,983	100,000	50,000	100,000
Obligations under finance leases and hire purchase contracts	25,073	-	-	-
	83,056	100,000	50,000	100,000

17 Creditors *(Continued)*

(b) Amounts falling due after more than one year

Included in the above are amounts falling due as follows:

	Group 2005 £	Group 2004 £	Company 2005 £	Company 2004 £
In more than one year but not more than two years:				
Bank loans	57,335	100,000	-	-
Obligations under finance leases and hire purchase contracts	13,279	-	-	-
	70,614	100,000	-	-

	Group 2005 £	Group 2004 £	Company 2005 £	Company 2004 £
In more than two years but less than five years:				
Bank loans	648	-	-	-
Obligations under finance leases and hire purchase contracts	11,794	-	-	-
	12,442	-	-	-

18 Financial Instruments

The Group's financial instruments at the year end comprise cash, bank overdrafts, bank loans, finance leases, an invoice discounting facility and various non derivative financial instruments such as trade debtors and trade creditors.

The Group's circumstances and operations do not require the use of complex financial instruments. Nevertheless, the Directors recognise that the Group faces certain interest rate, liquidity and currency risks, which are discussed below. Short-term debtors and creditors, including the invoice discounting creditor, have been excluded from the interest rate disclosures.

(a) **Interest rate**

Financial assets comprise cash held on current account of £13,908 (2004 - £37,207).

The Group's exposure to interest rate fluctuations on its borrowings is managed by the use of both fixed and floating facilities.

The interest rate applying to the Group's bank overdraft facility was 3.0% over bank base rate.

The interest rate applying to the Group's bank loan during the year is 3.5% over bank base rate.

The interest rate applying to the deferred and contingent purchase consideration arising on the acquisition of Argen Limited is bank base rate.

The interest rate applying to the finance lease arrangements is 10.9% over three years.

(b) **Currency exposure**

The Group operates in overseas markets and is subject to currency exposures on transactions undertaken during the year. The Group does not hedge any transactions and foreign exchange differences on retranslation of foreign assets and liabilities are taken to the profit and loss account of the Group companies and the Group.

At 30 September 2005 the net value of the Group's monetary assets is £324,108 (2004 - £350,705) of which net liabilities of £2,910 (2004 – £15,327) is denominated in a currency other than sterling.

(c) **Fair values of financial instruments**

In the opinion of the Directors, there is no significant difference between the fair values of the Group's financial assets and liabilities and those shown in the balance sheet.

(d) **Maturity of financial liabilities**

	Group 2005 £	**Group 2004 £**	**Company 2005 £**	**Company 2004 £**
Due within one year	1,081,959	1,232,912	200,000	200,000
More than one year but no more than two years	70,614	100,000	50,000	100,000
More than two years but no more than five years	12,442	-	-	-
	1,165,015	1,332,912	250,000	300,000

19 Provisions for liabilities and charges

Deferred tax

	Group 2005 £	Group 2004 £
At 1 October 2004	21,472	31,823
Released to profit and loss account	-	(10,351)
At 30 September 2005	21,472	21,472

Deferred tax arises as a result of accelerated capital allowances.

A deferred tax asset has not been recognised in respect of taxable losses. The estimated value of the deferred tax asset not recognised, measured at a standard rate of 30%, is £153,859 (2004 - £113,006). This is recoverable against future taxable profit of the relevant trading activity, the timing of which is uncertain.

20 Share capital

	2005 Number	2004 Number	2005 £	2004 £
Authorised				
20,000,000 ordinary shares of 1p each	20,000,000	20,000,000	200,000	200,000

	2005 Number	2004 Number	2005 £	2004 £
Allotted, called up and fully paid				
10,156,776 (2004 - 10,156,776) ordinary shares of 1p each	10,156,776	10,156,776	101,568	101,568

	Ordinary shares of 1p each Number	£
In issue at 1 October 2004	10,156,776	101,568
In issue at 30 September 2005	10,156,776	101,568

20 Share capital *(Continued)*

Share Option Scheme

At 30 September 2005 the following share options were outstanding in respect of the ordinary shares:

Date of grant	**Number of shares**	**Period of option**	**Price per share**
17 May 2001	331,250	17 May 2004 – 16 May 2011	34p
17 May 2001	62,500	to 16 May 2007	80p
13 March 2003	660,600	31 March 2006 – 31 March 2013	34p
7 April 2004	300,000	7 April 2007 – 6 April 2014	34p

On 23 March 2005, a number of share options were re-priced at 34p per share option under the terms of an agreement.

Director's interests

C J Cavender was granted options to acquire 193,750 ordinary shares of 1p each at a price of £0.80 per share. The options were granted on 17 May 2001 and may be exercised between three and ten years from the date of grant. Also, C J Cavender was granted options to acquire 224,600 ordinary shares of 1p each at a price of £0.555 per share. The options were granted on 31 March 2003 and may be exercised between three and ten years from the date of the grant.

K P Dulieu was granted options to acquire 100,000 ordinary shares of 1p each at a price of £0.555 per share. The options were granted on 31 March 2003 and may be exercised between three and ten years from the date of the grant.

These options were re-priced on 23 March 2005.

There have been no changes in the interests of the Directors between 30 September 2005 and 31 March 2006.

21 Reserves

Group	Share premium account £	Merger reserve £	Profit and loss account £	Shares to be issued £
At 1 October 2004	2,774,094	950,000	46,883	341,500
Loss for the year	-	-	(2,196,556)	-
Change in assessment of contingent purchase consideration	-	-	-	(45,334)
At 30 September 2005	2,774,094	950,000	(2,149,673)	296,166

Company	Share premium account £	Other reserve £	Profit and loss account £	Shares to be issued £
At 1 October 2004	2,774,094	-	372,248	341,500
Loss for the year	-	-	(1,083,366)	-
Change in assessment of contingent purchase consideration	-	-	-	(45,334)
At 30 September 2005	2,774,094	-	(711,118)	296,166

22 Reconciliation of movements in shareholders' funds

	Group 2005 £	Group 2004 £	Company 2005 £	Company 2004 £
(Loss)/profit for the year	(2,196,556)	85,856	(1,083,366)	211,713
Dividends	-	(89,465)	-	(89,465)
	(2,196,556)	(3,609)	(1,083,366)	122,248
Issue of shares	-	466,115	-	466,115
Reduction in shares to be issued	(45,334)	-	(45,334)	-
Net (reduction in)/addition to shareholders' funds	(2,241,890)	462,506	(1,128,700)	588,363
Opening shareholders' funds	4,214,045	3,751,539	3,589,410	3,001,047
Closing shareholders' funds	1,972,155	4,214,045	2,460,710	3,589,410

23 Contingent liabilities

The company has guaranteed bank borrowings of its UK subsidiary undertakings. At the year end the liabilities covered by these guarantees totalled £458,809 (2004 - £791,205).

24 Commitments under operating leases

As at 30 September 2005, the group had annual commitments under non-cancellable operating leases as set out below:

	2005 Land and buildings £	2005 Other £	2004 Land and buildings £	2004 Other £
Operating leases which expire:				
Within one year	800	37,098	22,210	72,258
In two to five years	109,148	246,771	111,023	211,755
After five years	11,550	-	-	-
	121,498	283,869	133,233	284,013

25 Related party transactions

During the year fees were charged by Vantis plc totalling £31,793 (2004 - £101,058). In addition, fees for services totalling £97,969 (2004 - £120,968) were charged by Capcon Limited to Vantis plc. At the year end, a balance of £64,990 (2004 - £78,618) was owed by Vantis plc in respect of services provided by Capcon Limited. P F Jackson is a Director of Vantis plc.

26 Post balance sheet events

On the 29 March 2006, certain directors and a shareholder of the Company agreed to subscribe for a total of £675,000 (nominal) 10% Redeemable Guaranteed Loan Stock of which £375,000 will be subscribed for immediately. The balance, of £300,000, is to be subscribed for on demand by the Company at any time on or before 31 May 2008 save that if there is a default at that time in which case such subscriptions will not be made.

Action has been taken to eliminate the losses being incurred by Capcon Vincent Sherman by closing the operation and allowing certain ex-employees to operate under a licence with Capcon and paying a commission to the Company.

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

	2005 £	2004 £
Operating (loss)/profit	(2,427,429)	193,440
Amortisation and impairment of goodwill	1,980,088	274,429
Depreciation	119,038	96,370
Loss/(profit) on disposal of fixed assets	1,161	(2,178)
Decrease/(increase) in debtors	195,409	87,391
Increase/ (decrease) in creditors	324,976	(126,175)
Net cash inflow from operating activities	193,243	523,277

28 Reconciliation of net cash inflow to movement in net debt

	2005 £	2004 £
Increase/(decrease) in cash in the year	173,521	(237,469)
Cash flow from change in debt and lease finance	47,457	348,126
Change in net debt resulting from cash flows	220,978	110,657
New finance leases	(45,932)	-
Other non-cash movements	(7,149)	-
Movement in net debt in the year	167,897	110,657
Net debt at start of year	(1,332,912)	(1,443,569)
Net debt at end of year (note 29)	(1,165,015)	(1,332,912)

29 Analysis of net debt

	At 1 October 2004 £	Cash flow £	Other non-cash changes £	At 30 September 2005 £
Cash at bank and in hand	37,207	(23,299)	-	13,908
Overdrafts	(507,974)	196,820	-	(311,154)
Cash	(470,767)	173,521	-	(297,246)
Debt due after one year	(100,000)	-	42,017	(57,983)
Debt due within one year	(200,189)	35,625	(42,017)	(206,581)
Finance leases	(6,303)	14,894	(45,932)	(37,341)
Invoice discounting facilities	(484,169)	(3,062)	-	(487,231)
Other loans	(71,484)	-	(7,149)	(78,633)
Financing	(862,145)	47,457	(53,081)	(867,769)
Total	(1,332,912)	220,978	(53,081)	(1,165,015)

Capcon Holdings plc

Professional advisors

Registered office:	4 Chiswell Street London EC1Y 4UP
Nominated advisor And broker:	Insinger de Beaufort 131 Finsbury Pavement London EC2A 1NT
Business advisor:	Vantis 82 St John Street London EC1M 4JN
Auditors:	BDO Stoy Hayward LLP 8 Baker Street London W1U 3LL
Solicitors:	Duane Morris 4 Chiswell Street London EC1Y 4UP
Bankers:	Lloyds TSB Bank plc Dominions House Eton Place 64 High Street Burnham Bucks SL1 7JT
Registrars:	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4BR
Registered number:	4196004

Notice of meeting

Notice is hereby given that the annual general meeting of the shareholders of Capcon Holdings plc will be held at the offices of Insinger de Beaufort at 131 Finsbury Pavement, London EC2A 1NT on 26 April 2006 at 10.00 a.m. for the following purposes:

Ordinary business

1 To receive and adopt the financial statements and the reports of the directors and of the auditors for the year ended 30 September 2005.

2 To reappoint Mr R G Boyle, who retires in accordance with the requirements of the Articles of Association of the Company, as a director of the Company.

3 To re-elect Mr P F Jackson, who retires in accordance with the requirements of the Articles of Association of the Company, as a director of the Company.

4 To re-appoint BDO Stoy Hayward LLP as auditors and authorise the directors to fix their remuneration.

Special business

5 To consider and, if thought fit, pass the following resolution as an Ordinary Resolution of the Company:

That for the purposes of Section 80 of the Companies Act 1985 (the "**Act**") the directors be and are hereby generally and unconditionally authorised to exercise all powers of the company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £98,435 such authority to expire on the earlier of fifteen months following the date upon which this resolution was passed and the conclusion of the Annual General Meeting of the Company next following the date upon which this resolution was passed unless renewed, varied or revoked by the Company in general meeting provided that the Company may at any time before the expiry, variation or revocation of such authority make offers or agreements which will or might require relevant securities to be allotted after the expiry, variation or revocation of such authority and the directors may allot relevant securities pursuant to such offer or agreement as if such authority had not expired or been varied or revoked. This authority shall replace all existing authorities conferred on the directors in respect of the allotment of relevant securities to the extent that the same have not previously been utilised.

6 To consider and, if thought fit, pass the following resolution as a Special Resolution of the Company:

That:

(A) the directors of the Company be and are hereby empowered pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94 of the Act) pursuant to the authority conferred on them for the purposes of Section 80 of the Act by an ordinary resolution of the Company referred to at paragraph 5 above as if Section 89(1) of the Act did not apply to any such allotment, provided that this power will be limited:

(i) to the allotment of equity securities for cash in connection with any offer by way of rights to holders of ordinary shares in the capital of the Company notwithstanding that, by reason of such exclusions or other arrangements as the directors may deem necessary or desirable to deal with legal or other problems arising in any overseas territory, in connection with fractional entitlements, record dates or otherwise howsoever, the equity securities to be allotted are not offered to all such holders in proportion to the respective number of ordinary shares held by them;

(ii) to the allotment (otherwise than pursuant to paragraph (i) above) of equity securities for cash up to an aggregate nominal value of £15,250;

(B) the power conferred by paragraph (A) of this resolution (the "**Section 95 Power**") will expire at the earlier of the conclusion of the next Annual General Meeting following the date on which this resolution was passed or fifteen months following the date upon which this resolution was passed;

(C) the Section 95 Power will enable the Company to make an offer or agreement that would or might require equity securities to be allotted after such power expires and the directors may allot equity securities in pursuance of any such offer or agreement made within the limits prescribed in paragraph (A) above as if the power hereby conferred had not expired; and

(D) the Section 95 Power will replace all existing powers granted to the directors to allot equity securities as if the said Section 89(1) of the Act did not apply to the extent that the same have not been previously utilised.

By order of the Board

C J Cavender
Secretary
31 March 2006

Note

1. A member entitled to attend and vote at the above meeting is entitled to appoint a proxy or proxies to attend and vote, on a poll, instead of him. A proxy need not be a member of the Company. The appointment of a proxy will not preclude a member from attending and voting at the meeting in person should he subsequently decide to do so.

2. A pre-paid form of proxy is enclosed for use by holders of ordinary shares. Completion of a form of proxy will not prevent a holder of ordinary shares from attending and voting at the Meeting should he so wish.

3. To be valid, forms of proxy must be lodged with Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4BR not less than 48 hours before the time appointed for holding the Meeting.

4. As permitted by Regulation 41 of the Uncertificated Securities Regulations 2001, members who hold shares in uncertificated form must be entered on the Company's register of members at 10.00 a.m. on 24 April 2006 in order to be entitled to attend and/or vote at the meeting in respect of the number of shares registered in their name at such time. Changes to entries on the register of members after that time will be disregarded in determining the rights of any person to attend and/or vote at the meeting.