Capcon Holdings plc

Report and Financial Statements

Year Ended

30 September 2006

Capcon Holdings plc

Annual report and financial statements for the year ended 30 September 2006

Contents

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.

Capcon Holdings plc

Our Business

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

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 feed back 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.

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.

Commercial investigation services (continued)

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

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 two non-executive Directors who contribute 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 two non-executive Directors 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 two non-executive Directors 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.

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 2006.

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 £2,974,240 (2005 - £2,277,720).

No interim dividend was paid (2005 - £nil) and the directors do not propose a final dividend (2005 - £nil) for the year ended 30 September 2006.

Principal activities

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.

Principal developments and business review

The principal developments along with a business review, as required by S234ZZB of the Companies Act 1985, are detailed in the Chairman's statement.

Financial instruments

Details regarding the Group's use of financial instruments and their associated risks are given in note 16 to the financial statements.

Substantial shareholders

As at 23 March 2007 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	1,834,994	18.1
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
Noble Fund Managers Nominee Limited	388,347	3.8
Barclayshare Nominees Limited	358,418	3.5
Capita Trust Company Limited	344,692	3.4
HSBC Global Custody Nominees UK Limited	337,500	3.3

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 36 days (2005 - 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 18 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 2006		**1 October 2005**	
	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)	-	25,000	-	-

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 2006 and 30 March 2007.

Further details of the directors' share options and long term incentive scheme are shown in note 18, which also shows the movements during the year. Details of any directors' interest in transactions of the group are given in note 23.

In accordance with the Articles of Association, R G Boyle 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

All of the current directors have taken steps to make themselves aware of any information needed by the company's auditors for the purpose of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

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

30 March 2007

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice. Company law in the United Kingdom requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the 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 accounts; 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 enable them to ensure that the financial statements comply with the Companies Act 1985, as amended. They are also responsible for safeguarding the assets of the Company and 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 group'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 group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

To the shareholders of Capcon Holdings plc

We have audited the group and parent company financial statements (the "financial statements") of Capcon Holdings plc for the year ended 30 September 2006 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with those financial statements. We also report to you if, in our opinion, the company 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 other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Chairman's Statement and the Corporate Governance Statement. 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 International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company'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.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's affairs as at 30 September 2006 and of its loss for the year then ended;

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 30 September 2006;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' Report is consistent with the financial statements.

Emphasis of matter - going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the timing of deferred consideration payments and, in this regard, the ability of the Group to continue as a going concern. These conditions indicate the existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

BDO STOY HAYWARD LLP
Chartered Accountants and Registered Auditors
London
30 March 2007

Capcon Holdings plc

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

	Note	Total 2006 £	Total 2005 £
Turnover			
Continued operations		4,493,804	5,304,888
Discontinued operations		757,818	1,625,759
Group turnover	2	5,251,622	6,930,647
Cost of sales		(3,261,929)	(4,031,136)
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	3	(2,783,509)	(2,427,429)
Share of operating profit in associates		-	33,332
Total operating loss before amortisation and impairment of goodwill		(1,039,558)	(414,009)
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
Loss on ordinary activities before interest and other income		(2,783,509)	(2,146,085)
Interest receivable	6	487	301
Interest payable and similar charges	7	(191,218)	(131,936)
Loss on ordinary activities before taxation		(2,974,240)	(2,277,720)
Taxation on loss from ordinary activities	8	21,472	81,164
Loss on ordinary activities after taxation		(2,952,768)	(2,196,556)
Loss per share	9		
Basic		(29.1p)	(21.6p)
Diluted		(29.1p)	(21.6p)

The Group has no recognised gains or losses other than its loss in either financial year.

Capcon Holdings plc

Consolidated balance sheet at 30 September 2006

	Note	2006 £	2006 £	2005 £	2005 £
Fixed assets					
Intangible assets	11	1,425,264		3,169,215	
Tangible assets	12	119,053		268,970	
			1,544,317		3,438,185
Current assets					
Debtors	14	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	15	(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	15		(642,402)		(83,056)
Provision for liabilities and charges	17		-		(21,472)
			(1,276,779)		1,972,155
Capital and reserves					
Called up share capital	18		101,568		101,568
Share premium account	19		2,774,094		2,774,094
Merger reserve	19		950,000		950,000
Profit and loss account	19		(5,102,441)		(2,149,673)
Shares to be issued	19		-		296,166
Shareholders' funds/(deficit)	20		(1,276,779)		1,972,155

The financial statements were approved by the Board and authorised for issue on 30 March 2007

C J Cavender
Director

The notes on pages 15 to 32 form part of these financial statements.

Capcon Holdings plc

Company balance sheet at 30 September 2006

	Note	2006 £	2006 £	2005 £	2005 £
Fixed assets					
Investments	13		50,000		2,388,687
Current assets					
Debtors	14	-		974,210	
Creditors:					
Amounts falling due within one year	15	(1,046,456)		(852,187)	
Net current (liabilities)/assets			(1,046,456)		122,023
Total assets less current liabilities			(996,456)		2,510,710
Creditors					
Amounts falling due after more than one year	15		(626,139)		(50,000)
			(1,622,595)		2,460,710
Capital and reserves					
Called up share capital	18		101,568		101,568
Share premium account	19		2,774,094		2,774,094
Profit and loss account	19		(4,498,257)		(711,118)
Shares to be issued	19		-		296,166
Shareholders' funds/(deficit)	20		(1,622,595)		2,460,710

The financial statements were approved by the Board and authorised for issue on 30 March 2007

C J Cavender
Director

The notes on pages 15 to 32 form part of these financial statements.

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	24		(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)	
Cash inflow/(outflow) from financing			276,872		(47,457)
Increase in cash in the year	26		14,372		173,521

The notes on pages 15 to 32 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 2006.

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

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.

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.

1 Accounting policies *(Continued)*

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.

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, 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.

Financial Instruments

Financial instruments are measured initially and subsequently at cost, except in the case of current asset investments which are valued at the lower of cost and net realisable value.

1 Accounting policies *(Continued)*

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.

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.

Share-based payments

The group continues to adopt UITF Abstract 17: Employee Share Scheme. No charge arose in the year (2005-£nil).

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.

	2006	**2005**
	£	**£**
Group turnover split between business segments is:		
Audit and stock taking	2,984,260	3,307,458
Commercial investigations and other	2,267,362	3,623,189
	5,251,622	6,930,647

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 Operating Loss

	2006	**2005**
	£	**£**
This is arrived at after charging:		
Depreciation – owned assets	106,213	105,142
Depreciation – leased assets	17,792	13,896
Amortisation of goodwill	197,121	289,900
Impairment of goodwill	1,546,830	1,690,188
Hire of equipment - operating leases	381,233	383,149
Land and buildings - operating leases	112,115	137,828
Auditors' remuneration – audit services	50,000	28,500

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

Discontinued operations comprise the activities of Capcon Vincent Sherman and Capcon Surveillance Bureau Limited. Further details are given in the Chairman’s Statement. Operating loss for 2006 includes the following amounts in relation to discontinued operations–Cost of sales £610,591 (2005-£1,141,928 in relation to operations discontinued in 2006) and Administrative expenses £708,765 (2005-£1,731,161 in relation to operations discontinued in 2006).

4 Employees

	2006 £	2005 £
Staff costs for all employees, including executive directors, consist of:		
Wages and salaries	3,028,708	3,603,742
Social security costs	331,869	378,838
Pension costs	112,274	142,496
	3,472,851	4,125,076

The average number of employees of the group during the year, including executive directors, was as follows:	**Number**	**Number**
Administration and management	37	49
Operational staff	81	93
	118	142

The company has no employees.

5 Directors' remuneration

	2006 £	2005 £
Directors' emoluments	71,154	348,374
Company contributions to money purchase pension schemes	1,730	29,100

There was one director in the company's defined contribution pension scheme (2005 - one) during the year.

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

	2006 £	2005 £
Directors' emoluments	41,840	226,635
Company contributions to money purchase pension schemes	1,730	29,100

6 Interest receivable

	2006 £	2005 £
Bank interest	487	301
	487	301

7 Interest payable and similar charges - group

	2006 £	2005 £
Bank loans and overdrafts	33,663	44,178
Interest on invoice discounting	51,131	60,468
Interest on deferred purchase consideration	31,212	5,607
Interest on finance leases	3,962	4,307
Interest on guaranteed loan stock	22,151	-
Other interest	49,099	17,376
	191,218	131,936

8 Taxation on (loss)/profit from ordinary activities

	2006 £	2006 £	2005 £	2005 £
UK corporation tax on loss for the year	-		-	
Adjustment in respect of previous periods	-		(30,953)	
Recovery of foreign tax in respect of previous periods	-		(63,544)	
Share of associated undertakings tax charge	-		13,333	
Total current tax		-		(81,164)
Deferred tax				
Origination and reversal of timing Differences		(21,472)		-
Taxation on loss on ordinary activities		(21,472)		(81,164)

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

	2006 £	2005 £
Loss on ordinary activities before tax	(2,974,240)	(2,277,720)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 30% (2005 – 30%)	(892,271)	(683,317)
Effects of:		
Expenses not deductible for tax purposes	642,882	622,345
Capital allowances for year lower than/(in excess of) depreciation	35,288	-
Other timing differences	20,010	-
Profit on disposal of associate not taxable	-	(74,403)
Tax losses carried forward	194,091	145,375
Adjustment to tax charge in respect of previous years	-	(94,497)
Higher tax rates on overseas earnings	-	3,333
Current tax charge/(credit) for year	-	(81,164)

9 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
Loss used for calculation of adjusted basic and diluted EPS	(1,208,817)	(216,468)
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	-	-
Shares used in calculation of diluted and adjusted diluted EPS	10,156,776	10,156,776
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)

10 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 £3,787,139 (2005 – £1,083,366).

11 Intangible assets

Group	**Goodwill £**
Cost	
At 1 October 2005 and 30 September 2006	5,901,811
Amortisation	
At 1 October 2005	2,732,596
Provision for year	197,121
Impairment	1,546,830
At 30 September 2006	4,476,547
Net book value	
At 30 September 2006	1,425,264
At 30 September 2005	3,169,215

12 Tangible assets

Group	**Motor vehicles £**	**Fixtures, fittings, and equipment £**	**Total £**
Cost or valuation			
At 1 October 2005	15,785	494,675	510,460
Additions	1	47,293	47,294
Disposals	(15,785)	(230,899)	(246,684)
At 30 September 2006	1	311,069	311,070
Depreciation			
At 1 October 2005	8,303	233,187	241,490
Provision for year	1,419	122,586	124,005
Disposals	(9,722)	(163,756)	(173,478)
At 30 September 2006	-	192,017	192,017
Net book value			
At 30 September 2006	1	119,052	119,053
At 30 September 2005	7,482	261,488	268,970

The net book value of assets held under hire purchase agreements and finance leases was £28,664 (2005: £37,268)

13 Fixed asset investments

	Company Subsidiary undertakings 2006 £	Company Subsidiary undertakings 2005 £
At 1 October 2005	2,388,687	3,330,099
Impairment of fixed asset investments	(2,338,687)	(1,070,611)
Revaluation of contingent consideration	-	129,199
At 30 September 2006	50,000	2,388,687

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%	Non-trading
Capcon Surveillance Bureau Limited	England and Wales	100%	Non-trading

13 Fixed asset investments *(Continued)*

Associated undertakings

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

Profit and loss account	**2006 £**	**2005 £**
Turnover	-	378,341
Profit before tax	-	33,332
Tax	-	(13,333)
Profit after tax	-	19,999

The Group disposed of its share of Argen GmbH in 2005.

14 Debtors

	Group 2006 £	**Group 2005 £**	**Company 2006 £**	**Company 2005 £**
Trade debtors	634,092	989,727	-	-
Amounts due from subsidiary undertakings	-	-	-	974,210
Prepayments and accrued income	339,983	534,099	-	-
Other debtors	91,525	172,262	-	-
	1,065,600	1,696,088	-	974,210

15 Creditors

(a) Amounts falling due within one year

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Bank overdrafts (secured)	284,590	311,154	-	-
Amounts due to subsidiary undertakings	-	-	25,090	25,090
Bank loans	57,335	206,581	50,000	200,000
Trade creditors	329,410	282,687	-	-
Invoice discounting facility	364,608	487,231	-	-
Other creditors	254,662	193,137	86,495	78,633
Tax and social security creditor	545,972	336,903	-	-
Deferred purchase consideration	820,651	524,485	820,651	524,485
Corporation tax	132	4,096	-	-
Obligations under finance leases and hire purchase contracts	16,265	12,268	-	-
Accruals and deferred income	572,385	712,956	64,220	23,979
	3,246,010	3,071,498	1,046,456	852,187

The bank overdrafts are secured by a floating charge over the assets of the group and the company. A bank loan, totalling £50,000 (2005 - £250,000), 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 £31,880 (2005 - £37,341) are secured on the assets they finance.

Included within other creditors are loans from the Directors of the Company totalling £86,495 (2005 - £78,633). The balance, which includes interest of £17,324 (2005 - £9,462) charged at 10% on the outstanding balances, is repayable on demand.

Invoice discounting facilities are secured on trade debtors.

Deferred purchase consideration of £820,651 includes £296,166 in respect to the value of 1p ordinary shares to be issued subject to the terms of the Capcon Argen Limited acquisition agreement. In the current year the group has adopted FRS25 and accordingly shares to be issued are shown under creditors. In the prior year, these shares to be issued are disclosed as part of shareholders funds and, in accordance with FRS25.97B, have not been reclassified to conform to the current year presentation. Had this accounting policy not changed current year net liabilities would have been £296,166 lower. 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 to be payable in cash.

(b) Amounts falling due after more than one year

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Bank loans	648	57,983	-	50,000
Obligations under finance leases and hire purchase contracts	15,615	25,073	-	-
Loan stock	626,139	-	626,139	-
	642,402	83,056	626,139	50,000

15 Creditors *(Continued)*

(b) Amounts falling due after more than one year

Included in the above are amounts falling due as follows:

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
In more than one year but not more than two years:				
Bank loans	648	57,335	-	-
Obligations under finance leases and hire purchase contracts	8,545	13,279	-	-
Loan stock	626,139	-	626,139	-
	635,332	70,614	626,139	-

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
In more than two years but less than five years:				
Bank loans	-	648	-	-
Obligations under finance leases and hire purchase contracts	7,070	11,794	-	-
	7,070	12,442	-	-

Certain directors and a shareholder of the Company subscribed for a total of £675,000 (nominal) 10% Redeemable Guaranteed Loan Stock during the year before issue costs of £48,861. The balance is repayable on 30 June 2008 or such later date as the stockholders and the Company may agree.

16 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 £1,716 (2005 - £13,908).

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 2006 the net value of the Group's monetary liabilities is £109,285 (2005 – assets £324,108) of which net liabilities of £6,399 (2005 – £2,910) 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 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Due within one year	807,577	1,081,959	50,000	200,000
More than one year but no more than two years	635,332	70,614	626,139	50,000
More than two years but no more than five years	7,070	12,442	-	-
	1,449,979	1,165,015	676,139	250,000

17 Provisions for liabilities and charges

Deferred tax

	Group 2006 £	Group 2005 £
At 1 October 2005	21,472	21,472
Released to profit and loss account	(21,472)	-
At 30 September 2006	-	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 £368,894 (2005 - £153,859). This is recoverable against future taxable profit of the relevant trading activity, the timing of which is uncertain.

18 Share capital

	2006 Number	2005 Number	2006 £	2005 £
Authorised				
20,000,000 ordinary shares of 1p each	20,000,000	20,000,000	200,000	200,000

	2006 Number	2005 Number	2006 £	2005 £
Allotted, called up and fully paid				
10,156,776 (2005 - 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 2005	10,156,776	101,568
In issue at 30 September 2006	10,156,776	101,568

18 Share capital *(Continued)*

Share Option Scheme

At 30 September 2006 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 2006 and 30 March 2007.

19 Reserves

Group	**Share premium account £**	**Merger reserve £**	**Profit and loss account £**	**Shares to be issued £**
At 1 October 2005	2,774,094	950,000	(2,149,673)	296,166
Loss for the year	-	-	(2,952,768)	-
Reclassification	-	-	-	(296,166)
At 30 September 2006	2,774,094	950,000	(5,102,441)	-

Company	**Share premium account £**	**Other reserve £**	**Profit and loss account £**	**Shares to be issued £**
At 1 October 2005	2,774,094	-	(711,118)	296,166
Loss for the year	-	-	(3,787,139)	-
Reclassification-	-	-	-	(296,166)
At 30 September 2006	2,774,094	-	(4,498,257)	-

In the current year the group has adopted FRS25 and accordingly shares to be issued are shown under creditors. In the prior year, these shares to be issued are disclosed as part of shareholders funds and, in accordance with FRS25.97B, have not been reclassified to conform to the current year presentation. Had this accounting policy not changed current year net liabilities would have been £296,166 lower.

20 Reconciliation of movements in shareholders' funds

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Loss for the year	(2,952,768)	(2,196,556)	(3,787,139)	(1,083,366)
Reduction in shares to be issued	(296,166)	(45,334)	(296,166)	(45,334)
Net reduction in shareholders' funds	(3,248,934)	(2,241,890)	(4,083,305)	(1,128,700)
Opening shareholders' funds	1,972,155	4,214,045	2,460,710	3,589,410
Closing shareholders' funds	(1,276,779)	1,972,155	(1,622,595)	2,460,710

21 Contingent liabilities

The company has guaranteed bank borrowings of its UK subsidiary undertakings. At the year end the liabilities covered by these guarantees totalled £334,590 (2005 - £458,809).

Details of the deferred purchase consideration that may become payable are included in note 1 to these accounts.

22 Commitments under operating leases

As at 30 September 2006, the group had annual commitments under non-cancellable operating leases as set out below:

	2006 Land and buildings £	2006 Other £	2005 Land and buildings £	2005 Other £
Operating leases which expire:				
Within one year	82,734	82,048	800	37,098
In two to five years	7,200	160,471	109,148	246,771
After five years	11,550	-	11,550	-
	101,484	242,519	121,498	283,869

23 Related party transactions

During the year fees were charged by Vantis plc totalling £26,226 (2005 - £31,793). In addition, fees for services totalling £100,718 (2005 - £97,969) were charged by Capcon Limited to Vantis plc. At the year end, a balance of £37,855 (2005 - £64,990) was owed by Vantis plc in respect of services provided by Capcon Limited. P F Jackson is a Director of Vantis plc.

The bank facilities are, in part, secured by way of a guarantee from K P Dulieu for a principal amount of £200,000.

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

	2006 £	2005 £
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

25 Reconciliation of net cash inflow to movement in net debt

	2006 £	2005 £
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 (note 26)	(1,449,979)	(1,165,015)

26 Analysis of net debt

	At 1 October 2005 £	Cash flow £	Other non-cash changes £	At 30 September 2006 £
Cash at bank and in hand	13,908	(12,192)	-	1,716
Overdrafts	(311,154)	26,564	-	(284,590)
Cash	(297,246)	14,372	-	(282,874)
Debt due after one year	(57,983)	(611,537)	42,733	(626,787)
Debt due within one year	(206,581)	206,581	(57,335)	(57,335)
Finance leases	(37,341)	5,461	-	(31,880)
Invoice discounting facilities	(487,231)	122,623	-	(364,608)
Other loans	(78,633)	-	(7,862)	(86,495)
Financing	(867,769)	(276,872)	(22,464)	(1,167,105)
Total	(1,165,015)	(262,500)	(22,464)	(1,449,979)

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

Capcon Holdings plc

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 30 May 2007 at 12.00 p.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 2006.

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

Special business

4 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 £98,432 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.

5 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 of even date herewith 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
30 March 2007

Note

1. A member entitled to attend and vote at the above meeting is entitled to appoint a proxy or proxies to attend and, on a poll, vote 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, Proxy Processing Centre, Telford Road, Bicester, OX26 4LD 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 12.00 p.m. on 28 May 2007 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.