Capcon Holdings plc
Interim Report 2010

Interim results for the six months ended 31 March 2010

Capcon Holdings plc, the AIM listed investigations and risk management group, announces its unaudited interim results for the six months ended 31 March 2010.

Main points

- Revenue of £1.55m (2009: £1.97m)
- Operating profit £74,700 (2009: £138,000)
- Pre tax loss £61,600 (2009:profit £34,100)
- Net cash outflow from operations of £13,600 (2009: inflow £242,200)

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Chairman's Statement

I am pleased to report that, in the six months to 31 March 2010, the Group's financial position has remained stable despite continuing difficulties in our traditional markets. The underlying strength of our business is demonstrated, once again, by the generation of cash from operating profit despite a lower level of sales in the period. Action was taken by the Board last year to reduce staff levels and overheads when it became apparent that the continuing issues for the leisure sector were to have a major impact on our own business. This action ensured that the Group was in a strong position to operate successfully even though our clients continued to experience harsh trading conditions which, in turn, affected the demand for our services in the first half of the financial year.

Results

Revenue for the six months to 31 March 2010 was £1,545,200, 21.4% lower than the previous year's revenue of £1,966,900. Last year's sales included a high level of investigation services provided specifically to the administrator of Stanford International Bank. The adverse effect of lower sales was mainly offset by a much improved overall gross margin level from 37.2% to 42.4%, reflecting higher sales achieved for leisure based services, as well as non leisure investigation services. Despite the higher gross margin level and continued attention to overhead cost control, the effect of lower sales reduced operating profit margin from 7.0% to 4.8% of sales.

The Group made a profit before tax and interest of £74,700 compared to a profit before tax and interest of £138,000 for the same period last year. However, after charging interest of £136,300, this was reduced to a loss of £61,600 before tax compared with a profit before tax of £34,100 for the first six months last year. As last year, there is no tax charge for the period.

The loss per share of 0.5p compares with a profit per share of 0.3p for the same period last year.

The Group generated a net cash inflow from operations before changes in working capital of £88,100 (2009: £150,500) and net debt at 31 March 2010 was £1,559,400, £27,200 higher than the same date last year. As last year, no interim dividend is being declared.

Chairman's Statement (contd)

Business Review

Sales of services to the leisure sector of £1,390,500 were £179,900, or 11.5%, lower than the same period last year. The difficult trading conditions affecting the leisure sector have continued to have an adverse effect on demand for our audit and stocktaking services in the first half of the financial year. However, as previously reported, we are confident that we will see an uplift in demand in the medium term when it becomes evident to our clients that making short term cost savings by limiting our profit enhancement services ultimately has a detrimental effect on their profit margin levels. No clients have been lost during the period and we have gained several new clients as a result of the repositioning that has been taking place in the pub sector. Demand for our services to budget and mid market hotel groups continues to increase and the more complex nature of these services has contributed to an increase in the gross margin level compared with the same period last year. In addition, the action taken last year to reduce staff levels and other operating costs in anticipation of lower sales of audit and stocktaking services has further contributed to the gross profit margin improvement on our sales of services to the leisure sector by 3.2% to 37.1%.

There was a significantly lower level of investigation services to non-leisure clients compared to the same period last year. This was primarily due to the inclusion in last year's figures of sales in respect of services provided to the insolvency practitioner appointed by the creditors of Stanford International Bank. Payment for this work has not yet been received but the Directors are confident that this is a timing matter only and the receiver has acknowledged that the amounts invoiced are due for settlement. Although we are hopeful that further similar work may be forthcoming in the future, the additional working capital that is required to fund such work necessitates that we limit it to a small proportion of our overall business. Although investigation activity levels have been lower, there has been an increasing demand for these services since the start of the year, with assignments being received from new as well as several long standing clients.

Central overhead costs have been maintained at a low level despite incurring costs attributable to the Directors' ongoing pursuit of opportunities to develop the Group.

The interest charges of £136,300 are excessive and disproportionate to the level of borrowing. The Board will be considering ways to reduce the level of borrowing and interest rates at the earliest opportunity.

Current trading and prospects

Trading in the first half of this financial year, although below the same period last year, has been in line with our expectations. There have been a number of encouraging signs that activity may increase in the leisure sector in the medium term and new initiatives by the investigations division lead us to believe that this business can be restored to the levels enjoyed before the recession.

Acknowledging the present limitations to growth of the business and the relatively high cost of maintaining our AIM listing, the Directors are currently considering new opportunities to develop the Group which can be built upon the existing solid base.

K P Dulieu
Chairman

17th June 2010

Consolidated income statement for the six months ended 31 March 2010

	Note	Unaudited Six months ended 31 March 2010 £'000	Unaudited Six months ended 31 March 2009 £'000	Audited Year ended 30 September 2009 £'000
Revenue		1,545.2	1,966.9	3,652.4
Cost of sales		(890.5)	(1,235.2)	(2,214.6)
Gross profit		654.7	731.7	1,437.8
Administrative expenses		(580.0)	(593.7)	(1,185.1)
Operating profit		74.7	138.0	252.7
Finance income		-	-	8.7
Finance expense		(136.3)	(103.9)	(316.0)
Profit /(loss) before taxation		(61.6)	34.1	(54.6)
Tax expense		-	-	-
Profit /(loss) for the period attributable to equity shareholders		(61.6)	34.1	(54.6)
Earnings per share				
Basic	3	(0.5)p	0.3p	(0.5)p
Diluted		(0.5)p	0.3p	(0.5)p

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Consolidated balance sheet as at 31 March 2010

	Unaudited as at 31 March 2010 £'000	Unaudited as at 31 March 2009 £'000	Audited as at 30 September 2009 £'000
Assets			
Non-current assets			
Intangible assets	1,425.3	1,425.3	1,425.3
Property, plant and equipment	37.4	46.6	36.5
Total non current assets	1,462.7	1,471.9	1,461.8
Current assets			
Trade and other receivables	845.8	677.2	840.3
Derivative financial assets	2.3	-	8.7
Cash and cash equivalents	0.7	0.7	0.7
Total current assets	848.8	677.9	849.7
Total assets	2,311.5	2,149.8	2,311.5
Liabilities			
Non-current liabilities			
Loans and borrowings	(650.0)	(675.0)	(600.0)
Derivative financial liabilities	(49.6)	-	(37.6)
Total non current liabilities	(699.6)	(675.0)	(637.6)
Current liabilities			
Trade and other payables	(1,481.4)	(1,319.2)	(1,504.4)
Loans and borrowings	(910.1)	(857.9)	(903.0)
Derivative financial liabilities	(48.0)	-	(57.6)
Total current liabilities	(2439.5)	(2,177.1)	(2465.0)
Total liabilities	(3,139.1)	(2,852.1)	(3,102.6)
Net liabilities	(827.6)	(702.3)	(791.1)
Capital and reserves			
Called up share capital	121.0	116.8	116.8
Share premium account	2,838.8	2,817.9	2,817.9
Merger reserve	950.0	950.0	950.0
Retained earnings	(4,737.4)	(4,587.0)	(4,675.8)
Shareholder deficit	(827.6)	(702.3)	(791.1)

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Consolidated cash flow statement for the six months ended 31 March 2010

	Unaudited as at 31 March 2010 £'000	Unaudited as at 31 March 2009 £'000	Audited as at 30 September 2009 £'000
Cash flows from operating activities			
Profit/(loss) for the period	(61.6)	34.1	(54.6)
Depreciation	13.4	12.5	23.9
Finance income	-	-	(8.7)
Finance expense	136.3	103.9	316.0
Cashflow from operating activities before changes in working capital	88.1	150.5	276.6
Decrease in debtors	(5.5)	179.3	16.2
Decrease in creditors	(96.2)	(87.6)	46.4
Net cash (used in)/generated from operating activities	(13.6)	242.2	339.2
Investing activities			
Purchase of tangible fixed assets	(1.5)	(2.7)	(4.1)
Net cash used in investing activities	(1.5)	(2.7)	(4.1)
Financing activities			
Issue of ordinary shares	25.1	-	-
Interest paid	(49.3)	(62.4)	(114.9)
Increased borrowings	86.8	-	-
Invoice discounting facilities	(15.9)	(150.4)	(134.7)
Principal payment under finance leases	(3.4)	(2.5)	(5.0)
Net cash generated by/(used in) financing activities	43.3	(215.3)	(254.6)
Net increase in cash and cash equivalents	28.2	24.2	80.5
Cash and cash equivalents at beginning of period	(463.5)	(544.0)	(544.0)
Cash and cash equivalents at end of period	(435.3)	(519.8)	(463.5)

Notes to the interim accounts
For the six months ended 31 March 2010

1. Basis of preparation

The financial information included in the interim accounts has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs) as endorsed by the European Union.

The interim accounts financial information for the six months ended 31 March 2010 does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 and have been neither audited nor reviewed by the group's auditors. The comparatives for the full year ended 30 September 2009 are not the Company's full statutory accounts for that year. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report(s) and did not contain statements under s498(2) or (3) Companies Act 2006.

Except as noted above, the following principal accounting policies have been applied consistently in the preparation of these interim accounts:

2. Accounting Policies

Basis of consolidation

The consolidated financial statements incorporate the results of Capcon Holdings plc and its subsidiary and associated undertakings using the acquisition method of accounting.

Going concern

The financial statements have been prepared on the going concern basis as, in the opinion of the directors, at the time of approving the financial statements, there is a reasonable expectation that the Group will continue in operational existence for the foreseeable future. In reaching this conclusion, the directors have prepared detailed cash flow forecasts for the Group for the period through to 31 June 2011 (the "forecast period") and have given due regard to the following facts and assumptions:

- The Group balance sheet at 31 March 2010 shows a net liability position of £827.6k. The Group finances part of its working capital needs through a Group overdraft facility. Current overdraft facilities are available until 31 December 2010 and the Group's bankers have indicated that there are currently no reasons to believe that this facility will not be renewed on similar terms. Accordingly, in making their assessment of going concern the directors have assumed that the Group's bankers will continue to make the overdraft facilities available throughout the forecast period.

- Part of the Group's loan stock is held by two current directors of the company. The balance, a total of £600,000, is repayable on 1 April 2011, although the directors are likely to defer repayment.

- Trade receivables include an amount of £215,860 due for work done for the receivers of Stanford International Bank. At the date of approval of the financial statements, this balance remains unpaid.

- The receipt of this money is not considered by the Directors to be a risk although the timing of receipt is uncertain. In making their assessment of going concern, the directors have assumed that the monies due will be received by December 2010. In the event that a short term delay in payment is experienced, the directors have put in place a variety of measures that they consider will be sufficient to satisfy the short term funding requirement that may arise as a result.

- The cash flow projections have been prepared taking into account the economic environment and its challenges. Although there will always remain inherent uncertainty within the cash flow projections, including the assumptions the directors have made regarding the timing of receipts of the sums due from Stanford International Bank, at the time of approving the financial statements the directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future.

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. Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Impairment losses are recognised as an administrative expense in the income statement.

Notes to the interim accounts
For the six months ended 31 March 2010 contd

Revenue recognition

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

Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation. Depreciation is provided to write off the cost, less estimated residual values, of all items of property, plant and equipment, over their expected useful lives. It is calculated at the following rates:

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

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 income statement.

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs to its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither the accounting or taxable profit or loss; and
- investments in subsidiaries and jointly controlled entities where the group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Financial Instruments

Financial assets

The group's financial assets, all of which are categorised as loans and receivables, comprise trade receivables, other receivables and cash and cash equivalents.
Trade and other receivables are measured initially at fair value and subsequently at amortised cost. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired.
Cash and cash equivalents comprise cash at bank and in hand. Bank overdrafts are included within current liabilities unless there is a right of offset with cash balances.

Financial liabilities

The group's financial liabilities are recognised on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest method. The group's financial liabilities comprise trade and other payables, an invoice discounting facility, bank loans and overdrafts, finance lease arrangements and loan stock.

Derivative financial instruments
Derivative financial instruments used by the Group are stated at fair value. Derivatives do not qualify for hedge accounting. Any gains or losses arising from changes in fair value are recognised immediately in the income statement.

Notes to the interim accounts
For the six months ended 31 March 2010 contd

Interest
Interest payable is charged to the income statement as incurred.

Invoice discounting

The group discounts its trade receivables. The policy is to include trade receivables within current assets as trade receivables and to record cash advances within current liabilities as other financial liabilities. Discounting fees and interest are charged to the income statement when incurred as part of finance expense. Bad debts are borne by the group and are charged to the income statement when incurred as part of administrative expenses.

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 income statement.

Lease payments are analysed between capital and interest components. The interest element of the payment is charged to the income statement over the period of the lease as part of finance expense 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 income statement on a straight line basis over the term of the lease.
The land and building elements of property leases are considered separately for the purposes of lease classification.

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

Where share options are awarded to employees, the fair value of the options at the date of the grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received.

Notes to the interim accounts
For the six months ended 31 March 2010 contd

3. Earnings per share

	Unaudited Six months ended 31 March 2010 £'000	Unaudited Six months ended 31 March 2009 £'000	Audited Year ended 30 September 2009 £'000
Earnings/(loss) used for calculation of basic and diluted EPS	(61.6)	34.1	(54.6)
Shares used for calculation of basic and diluted EPS	11,806,716	11,680,292	10,711,609
Earnings per share			
Basic	(0.5)p	0.3p	(0.5)p
Fully diluted	(0.5)p	0.3p	(0.5)p

4. Distribution of Interim Report

A copy of the Interim Report will be posted to the Company's website, www.capconplc.com, on 18 June 2010.