Capcon Holdings plc

Interim Report 2007

Interim results for the six months ended

31 March 2007

Capcon Holdings plc
Interim Report 2007

Interim results for the six months ended 31 March 2007

Capcon Holdings plc, the AIM listed investigations and risk management group, announces its unaudited interim results for the six months ended 31 March 2007.

Main Points

- Turnover of £2.0m (2006: £2.8m, including £0.5m from discontinued operations)
- Pre tax loss £87,600 (2006: Loss £726,700)
- Profit before tax, interest, amortisation £52,900 (2006: Loss of £554,400)
- Net cash inflow from operations of £65,600 (2006: £140,600)
- Operating profits generated by both divisions and central costs reduced
- New clients gained

Chairman's Statement

The six months to 31 March 2007 has been a period of recovery for both main divisions of Capcon following a year of considerable change and rationalisation in the Group. Good progress has been made in restoring profitability to the core business and the Board will continue to focus on a strategy that builds on the strengths of the traditional Capcon business.

The legal proceedings with the vendors of Argen Limited continue to inhibit the development of the Group pending the outcome of the dispute.

Results

Turnover for the six months to 31 March 2007 was £2,023,200, a 28.0% reduction on the previous year's level of £2,811,200, although 64% of this decrease was attributable to discontinued operations. The overall gross margin fell from 39.1% to 38.8% due to the shift in the proportion of the contribution favouring the lower margin Audit & Stocktaking division of the Group since the restructuring and disposal of certain commercial investigation activities.

The Group made a profit before tax, interest, amortisation and impairment of £52,900, a significant turnaround compared with the loss before tax, interest, amortisation and impairment of £554,400 for the same period last year. The loss before tax of £87,600 compares with £726,700 for the first six months of last year and, as last year, there is no tax charge for the period. The amortisation charge of £50,900 is £47,700 less than the charge for the same period last year as a result of the Directors' decision to further impair the value of goodwill at the end of the last financial year. No further impairment is considered necessary at this time.

The loss per share before goodwill amortisation and goodwill impairment of 0.4p compares with a loss per share before amortisation and goodwill impairment of 6.2p for the same period last year.

The Group generated a net cash inflow from operations of £65,600 (2006: £140,600) and net debt at 31 March 2007 was £1,488,600, £374,500 higher than the same date last year mainly as a result of the issue of £675,000 (nominal) unsecured loan stock in the second half of last financial year partly offset by reduced funding from invoice discounting.

The Directors are unable to recommend the payment of a dividend, as last year, for the time being.

Funding

The legal proceedings with the vendors of Argen Limited are continuing and the Directors believe that it is unlikely that the issues will be resolved in this financial year. The difference between the Company's position and the Argen vendors' demands in these proceedings is substantial and, for this reason, the Directors believe that the present action must be continued in order to achieve an outcome that is fair for all shareholders. It, therefore, remains the case that there is an uncertainty with regard to the amount of the Company's final liability, if any.

Business Review

Sales in the Audit & Stocktaking division of £1,472,700 were marginally lower than the same period last year (2006: £1,501,300). Several new clients have been gained which are expected to ultimately replace the lost business reported in the 2006 Report and Accounts, which was due to a client being acquired and our services being absorbed into the acquirers existing in-house resource. The benefit of the new software introduced and internal restructuring last year is now reflected in the level of gross margin achieved in the first six months of this year which has been restored to historic levels. As a consequence, operating profit for the division shows a significant increase on the same period last year.

Business Review (continued)

The commercial investigation activities this year exclude discontinued services provided to the insurance sector which were transferred to certain employees who now pay a licence fee to Capcon. Sales for commercial investigation services were £548,600 compared with £1,310,000 for the same period last year although £503,900 of the reduction is due to discontinued operations. The sales for Capcon Argen were significantly lower than last year as a result of the resignation of the managing director and other management changes previously reported that had a disruptive effect on the business. However, the opportunity was taken to restructure the division and reduce operating costs significantly and the first six months of this year have benefited from these changes. Despite the significant reduction in the overall sales level for the Commercial Investigations division, the first six months shows an operating profit compared with a significant loss last year.

Renewed marketing initiatives, particularly in the Commercial Investigations division, are having a favourable effect on gaining new clients and good progress is being made in replacing the Capcon Argen business that was lost last year.

The Central overhead cost base has been significantly reduced in the past year and action has been taken to further reduce costs in the second half of this year, in particular, certain accounting and administrative activities are to be outsourced and offices relocated.

Current trading and prospects

Having disposed of the loss making insurance based services, the Group is now able to focus on rebuilding the commercial investigations business from a more cost efficient and streamlined platform. The market for our investigation services is considerable and the new management team have successfully gained new business and new clients during a difficult and uncertain period in Capcon's development. The management of the Audit & Stocktaking division is working hard to turn round the lack of sales growth in this division and is gaining new clients. The restored gross profit levels in the Audit & Stocktaking division are expected to be maintained and both divisions, having recovered from a turbulent period, are now achieving their internal forecasts.

The Directors will continue to focus on the core activities where it is believed that recovery to higher levels of profitability is achievable in the medium term.

K P Dulieu
Chairman

29 June 2007

Capcon Holdings plc
Interim Report 2007

Consolidated profit and loss account for the six months ended 31 March 2007

	Note	Unaudited Six months ended 31 March 2007 £'000	Unaudited Six months ended 31 March 2006 £'000	Audited Year ended 30 September 2006 £'000
Turnover				
Continuing operations		2,023.2	2,307.3	4,493.8
Discontinued operations		-	503.9	757.8
Group turnover		2,023.2	2,811.2	5,251.6
Cost of sales		(1,238.8)	(1,712.0)	(3,261.9)
Gross profit		784.4	1,099.2	1,989.7
Administrative expenses		(782.4)	(1,752.2)	(4,773.2)
Operating profit/(loss)				
Continuing operations		2.0	(306.3)	(2,222.0)
Discontinued operations		-	(346.7)	(561.5)
Group operating profit/(loss)		2.0	(653.0)	(2,783.5)
Total operating profit/(loss) before amortisation and impairment of goodwill		52.9	(554.4)	(1,039.5)
Amortisation of goodwill and impairment		(50.9)	(98.6)	(1,744.0)
Profit/(loss) on ordinary activities before interest and other income		2.0	(653.0)	(2,783.5)
Interest receivable		-	0.2	0.5
Interest payable and similar charges		(89.6)	(73.9)	(191.2)
Loss on ordinary activities before taxation		(87.6)	(726.7)	(2,974.2)
Taxation on loss from ordinary activities		-	-	21.4
Loss on ordinary activities after taxation		(87.6)	(726.7)	(2,952.8)
Loss per share				
Basic	3	(0.9p)	(7.2p)	(29.1p)
Fully diluted		(0.9p)	(7.2p)	(29.1p)

Capcon Holdings plc
Interim Report 2007

Consolidated balance sheet as at 31 March 2007

	Unaudited as at 31 March 2007 £'000	Unaudited as at 31 March 2006 £'000	Audited as at 30 September 2006 £'000
Fixed assets			
Intangible assets	1,374.4	3,070.6	1,425.3
Tangible assets	84.4	217.6	119.0
	1,458.8	3,288.2	1,544.3
Current assets			
Debtors	873.6	1,480.3	1,065.6
Cash at bank and in hand	0.5	1.9	1.7
	874.1	1,482.2	1,067.3
Creditors:			
Amounts falling due within one year	(3042.9)	(3,395.4)	(3,246.0)
Net current liabilities	(2,168.8)	(1,913.2)	(2,178.7)
Total assets less current liabilities	(710.0)	1,375.0	(634.4)
Creditors			
Amounts falling due after more than one year	(654.4)	(108.1)	(642.4)
Provision for liabilities and charges	-	(21.4)	-
	(1,364.4)	1,245.5	(1,276.8)
Capital and reserves			
Called up share capital	101.6	101.6	101.6
Share premium account	2,774.1	2,774.1	2774.1
Merger reserve	950.0	950.0	950.0
Profit and loss account	(5,190.1)	(2876.4)	(5,102.5)
Shares to be issued	-	296.2	-
Shareholders' (deficit)/funds	(1,364.4)	1,245.5	(1,276.8)

Consolidated cash flow statement for the six months ended 31 March 2007

	Note	Unaudited Six months ended 31 March 2007 £'000	Unaudited Six months ended 31 March 2006 £'000	Audited Year ended 30 September 2006 £'000
Net cash inflow/(outflow) from operating activities	4	65.6	140.6	(107.5)
Returns on investments and servicing of finance				
Interest received		-	0.2	0.5
Interest paid		(38.2)	(55.0)	(122.2)
Net cash outflow from returns on investment and servicing of finance		(38.2)	(54.8)	(121.7)
Taxation				
Tax paid		-	(4.0)	(4.0)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(1.0)	(17.3)	(47.3)
Sale of tangible fixed assets		-	0.8	18.0
Net cash outflow from capital expenditure and financial investment		(1.0)	(16.5)	(29.3)
Cash inflow/(outflow) before financing		26.4	65.3	(262.5)
Financing				
Issue of loans		-	75.0	675.0
Costs incurred on issue of loan stock		-	-	(63.5)
Repayment of loans		(3.6)	(103.3)	(206.6)
Movement in invoice discounting facilities		(69.2)	(7.7)	(122.6)
Capital element of finance lease payments		(7.9)	(8.3)	(5.4)
Cash (outflow)/inflow from financing		(80.7)	(44.3)	276.9
(Decrease)/increase in cash in the period		(54.3)	21.0	14.4

Notes to the interim accounts for the six months ended 31 March 2007

1 Basis of preparation

The interim results for the six months ended 31 March 2007 and 31 March 2006 do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985 and have been neither audited nor reviewed by the Group's auditors. The financial information for the year ended 30 September 2006 has been extracted from the statutory accounts for the year which have been filed with the Registrar of Companies and which contain an unqualified audit report and did not contain a statement under section 237(2) of the Companies Act 1985.

The interim accounts have been prepared on the basis of the accounting policies set out in the statutory accounts for the year ended 30 September 2006.

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

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

2 Going Concern

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.

Notes to the interim accounts for the six months ended 31 March 2007 (continued)

3 Earnings per share

	Unaudited Six months ended 31 March 2007 £'000	Unaudited Six months ended 31 March 2006 £'000	Audited Year ended 30 September 2006 £'000
Reconciliation of earnings			
Loss used for calculation of basic and diluted EPS	(87.6)	(726.7)	(2,952.8)
Amortisation and impairment of goodwill	50.9	98.6	1,744.0
Loss used for calculation of adjusted basic and diluted EPS	(36.7)	(628.1)	(1,208.8)
Reconciliation of denominator			
Shares used for calculation of basic and adjusted basic EPS	10,156,776	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	10,156,776
Loss per share before amortisation and impairment of goodwill			
Basic	(0.4p)	(6.2p)	(11.9p)
Fully diluted	(0.4p)	(6.2p)	(11.9p)

Notes to the interim accounts for the six months ended 31 March 2007 (continued)

4 Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities

	Unaudited Six months ended 31 March 2007 £'000	Unaudited Six months ended 31 March 2006 £'000	Audited Year ended 30 September 2006 £'000
Group operating profit/(loss)	2.0	(653.0)	(2,783.5)
Amortisation and impairment of goodwill	50.9	98.6	1,744.0
Depreciation	35.6	48.8	124.0
Loss/(profit) on disposal of fixed assets	-	29.4	55.1
Decrease in debtors	192.0	215.8	630.5
(Decrease)/Increase in creditors	(214.9)	401.0	122.4
Net cash inflow/(outflow) from operating activities	65.6	140.6	(107.5)

5 Analysis of net debt

	Audited At 1 October 2006 £'000	Cash flow £'000	Other non-cash changes £'000	Unaudited At 31 March 2007 £'000
Cash at bank and in hand	1.7	(1.2)	-	0.5
Overdrafts	(284.6)	(53.1)	-	(337.7)
Cash	(282.9)	(54.3)	-	(337.2)
Debt due after one year	(70.9)	3.6	(30.6)	(97.9)
Debt due within one year	(626.8)	-	(16.5)	(643.3)
Finance leases	(31.9)	7.9	-	(24.0)
Invoice discounting facilities	(364.6)	69.2	-	(295.4)
Other loans	(86.5)	-	(4.3)	(90.8)
Financing	(1,180.7)	80.7	(51.4)	(1,151.4)
Total	(1,463.6)	26.4	(51.4)	(1,488.6)

Capcon Holdings plc

Professional advisors

Registered office:	4 Chiswell Street London EC1Y 4UP
Nominated adviser and broker:	Insinger de Beaufort 131 Finsbury Pavement London EC2A 1NT
Business adviser:	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