# Capcon Holdings plc
# Interim Report 2008

## Interim results for the six months ended 31 March 2008

Capcon Holdings plc, the AIM listed investigations and risk management group, announces its unaudited interim results for the six months ended 31 March 2008.

### Main Points

- Turnover of £1.8m (2007: £2.0m)
- Pre tax profit £6,000 (2007: Loss £36,700)
- Net cash inflow from operations of £49,800 (2006: £65,600)

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| | |
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### Chairman's Statement

In the six months to 31 March 2008 the Group has continued its recovery, following three difficult years, producing a profit before tax in the period. The Board's strategy of disposing of loss making activities, reducing overheads and focusing on the core business of Audit & Stocktaking and Commercial Investigations has resulted in a significant turn-round. Marginally improved sales and higher operating margins in Audit & Stocktaking have more than offset the lower profitability in Commercial Investigations, which has had a slow start to the year.

**Results**

Turnover for the six months to 31 March 2008 was £1,836,800, a 9.2% reduction on the previous year's level of £2,023,200, due entirely to lower sales levels achieved by the Commercial Investigations division. The overall gross margin fell from 38.8% to 37.2% due to the continuing trend of proportionately higher sales emanating from the lower margin Audit & Stocktaking division and the reduction on the higher margin Commercial Investigation sales. However, both divisions showed increased margin levels compared with the same period last year.

This period is the first in which the Group has adopted International Financial Reporting Standards and the previous year's figures have been re-stated where appropriate.
The Group made a profit before tax and interest of £133,200, compared with a profit before tax and interest of £52,900 for the same period last year. The profit before tax of £6,000 compares with a loss of £36,700 for the first six months of last year and, as last year, there is no tax charge for the period.

The profit per share of 0.1p compares with a loss per share of 0.4p for the same period last year.

The Group generated a net cash inflow from operations of £49,800 (2007: £65,600) and net debt at 31 March 2008 was £1,764,100, £275,500 higher than the same date last year, mainly as a result of an increase in the overdraft. No dividend is being declared, as for last year

**Chairmans Statement contd**

**Argen Litigation**

In respect of the litigation proceedings with the Argen vendors, the Company has been engaged in mediation discussions with the other parties and the Board expects a satisfactory final resolution of the dispute in the near future. In the circumstances, the date set for trial in July has been vacated. As previously reported, the Directors believe that it is probable that no further consideration will be payable, however, pending final resolution of the dispute, the associated contingent liability detailed in the Report and Accounts for the year ended 30 September 2007, remains.

**Business Review**

Sales in the Audit & Stocktaking division of £1,487,500 were 1.0% higher than the same period last year (2006: £1,472,700). Several new clients have been gained, which has more than offset any loss of business resulting from rationalisation in the leisure industry over the past year. Sales activity has been buoyant despite the much publicised changes which have been characteristic of the leisure sector in recent years. Gross margins have been improved overall, partly as a result of the on-going attention to operating costs and partly due to the trend towards provision of services offering higher added value for clients. As a consequence, the operating profit of this division has been increased by 17.3%, compared with the same period last year.
Sales for commercial investigation services were £349,300, compared with £548,600 for the same period last year. This division has experienced a slow start to the year with traditional Capcon Argen engagements suffering from the fall out from the Argen litigation. The project based nature of this business determines that sales are unpredictable. There remains a continuing strong demand for investigation services in the leisure sector client base and sales were higher than the same period last year. Gross margins achieved overall for this division were just above the level in the first half of last year. As part of the on going drive to reduce costs in every area, the operational offices of both Capcon Argen and the leisure based investigations have been combined and now operate from one operational base in Surrey.

The Directors have continued their review of Central overheads and, consequently, further reductions have been achieved, resulting in these costs being reduced to 61% of the level incurred in the same period last year.

**Current trading and prospects**

Audit & Stocktaking continues to maintain and improve its presence in the leisure sector during a period of considerable change and uncertainty in the sector. Sales levels are still slightly ahead of last year and margins are being maintained despite inflationary pressures. The Commercial Investigations division has responded to the lower level of activity by reducing costs to maintain margins and the challenge in the near future is to convert recent marketing initiatives into a stronger and more sustainable level of sales.

The Board is confident that, following resolution of the legal proceedings with the Argen vendors, the core business will become a strong platform again upon which we can build a larger Group.

K P Dulieu
Chairman

30 June 2008

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**Consolidated profit and loss account for the six months ended 31 March 2008**

| | Note | Unaudited Six months ended 31 March 2008 £'000 | Unaudited Six months ended 31 March 2007 £'000 | Unaudited Year ended 30 September 2007 £'000 |
|---|---|---|---|---|
| **Revenue** | | 1,836.8 | 2,023.2 | 4,055.6 |
| Cost of sales | | (1,153.3) | (1,238.8) | (2,505.7) |
| **Gross profit** | | 683.5 | 784.4 | 1,549.8 |
| Administrative expenses | | (550.3) | (731.5) | (744.2) |
| **Operating profit** | | 133.2 | 52.9 | 805.7 |
| Finance expense | | (127.2) | (89.6) | (218.8) |
| **Profit /(loss) before taxation** | | 6.0 | (36.7) | 586.9 |
| Tax expense | | 0 | 0 | 0 |
| **Profit /(loss) for the period attributable to equity shareholders** | | 6.0 | (36.7) | 586.9 |
| **Earnings per share** | | | | |
| Basic | 4 | 0.1p | (0.4p) | 5.8p |
| Diluted | | 0.1p | (0.4p) | 5.8p |

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## Consolidated balance sheet as at 31 March 2008

| | Unaudited as at 31 March 2008 £'000 | Unaudited as at 31 March 2007 £'000 | Unaudited as at 30 September 2007 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | 1,425.3 | 1,425.3 | 1,425.3 |
| Property, plant and equipment | 62.5 | 84.4 | 65.8 |
| | 1,487.8 | 1,509.7 | 1,491.1 |
| **Current assets** | | | |
| Trade and other receivables | 791.7 | 873.6 | 900.6 |
| Cash and cash equivalents | 0.4 | 0.5 | - |
| | 792.1 | 874.1 | 900.6 |
| **Current liabilities:** | | | |
| Trade and other payables | (1,199.4) | (2,208.2) | (1,377.4) |
| Loans and borrowings | (1,084.6) | (834.7) | (1,037.8) |
| **Net current liabilities** | (1,491.9) | (2,168.8) | (1,514.6) |
| **Non-current liabilities** | | | |
| Loans and borrowings | (679.8) | (654.4) | (666.3) |
| **Net liabilities** | (683.9) | (1,313.5) | (689.8) |
| **Equity** | | | |
| 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 |
| Retained earnings | (4,509.6) | (5,139.2) | (4,515.5) |
| **Total equity** | (683.9) | (1,313.5) | (689.8) |

## Consolidated cash flow statement for the six months ended 31 March 2008

| | Note | Unaudited as at 31 March 2008 £'000 | Unaudited as at 31 March 2007 £'000 | Unaudited as at 30 September 2007 £'000 |
|---|---|---|---|---|
| **Net Cash Generated from operations** | **5** | 49.8 | 65.6 | (82.6) |
| **Investing Activities** | | | | |
| Purchase of tangible fixed assets | | (12.7) | (1.0) | (12.8) |
| **Net Cash used in Investing Activities** | | (12.7) | (1.0) | (12.8) |
| **Financing activities** | | | | |
| Interest paid | | (76.4) | (38.2) | (117.0) |
| Repayment of loans | | 0.3 | (3.6) | (57.3) |
| Invoice discounting facilities | | (77.2) | (69.2) | 43.3 |
| Principal payment under finance leases | | (4.1) | (7.9) | (16.3) |
| **Net Cash used in Financing Activities** | | (157.4) | (118.9) | (147.3) |
| **Net decrease in cash and cash equivalents** | | (120.3) | (54.3) | (242.7) |
| Cash and cash equivalents at beginning of period | | **(525.6)** | (282.9) | (282.9) |
| Cash and cash equivalents at end of period | | **(645.9)** | (337.2) | (525.6) |

**Notes to the interim accounts**
**For the six months ended 31 March 2008**

## 1. Basis of preparation

The interim financial information for the six months ended 31 March 2008 has been prepared in accordance with the accounting policies that will apply for the year ended 30 September 2008 which will follow the International Financial Reporting Standards (IFRS) and interpretations as endorsed by the European Union.

The interim financial information for the six months ended 31 March 2008 does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 and has been neither audited nor reviewed by the group's auditors. The comparatives for the full year ended 30 September 2007 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, but did contain an emphasis of matter concerning the uncertainty as to the ability of the group to continue as a going concern. The auditors' report did not contain statements under s498(2) or (3) Companies Act 2006.

In preparing these interim financial statements, the group has elected to apply the transitional arrangements permitted by IFRS 1 "First time adoption of International Financial Reporting Standards" in relation to Business Combinations. Accordingly, the carrying amount of capitalised goodwill at 30 September 2006 that arose on business combinations accounted for using the acquisition method under UK GAAP was frozen at this amount and tested for impairment at 1 October 2006.

Except as noted above, the following principal accounting policies have been applied consistently in the preparation of these 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 purchase method of accounting.

*Going concern*

The interim 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 forming this opinion, the directors have taken account of the following facts and assumptions:

§ The consolidated balance sheet at 31 March 2008 shows that the group had net current liabilities of £1,491,880 (31 March 2007: £2,168,800 );

§ The group currently has available no committed undrawn borrowing facilities. The group finances part of its working capital needs through a group overdraft facility which is due for renewal in July 2008. The group's bankers have indicated that there are currently no reasons to believe that this facility will not be renewed on similar terms;

§ Mediation discussions with the vendors of Argen Limited are continuing and a satisfactory resolution to the dispute is expected in the near future;

§ Margin levels remain good and, combined with reduced overhead costs, have resulted in an improved profit for the half year;

§ The directors continually review the level of overhead costs and have taken more action, with further reduction in operating and administration costs secured since the year end;

§ An additional share placing has helped to supplement cash flow;

In view of the matters noted above, the directors believe that it remains appropriate to prepare the interim financial statements on a going concern basis. However, these conditions indicate the existence of material uncertainties which may cast significant doubt over the group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. The interim financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

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**Notes to the interim accounts**
**For the six months ended 31 March 2008 contd**

*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.

*Revenue recognition*

Revenue 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 items of property, plant and equipment, over their expected useful lives. It is calculated at the following rates:

| | | |
|---|---|---|
| Motor vehicles | - | 25% reducing balance |
| 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;
- goodwill for which amortisation is not tax deductible;
- 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 accounting or taxable profit; 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 profit or loss 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.

**Notes to the interim accounts**
**For the six months ended 31 March 2008 contd**

*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.

*Invoice discounting*

The group discounts its trade receivables. The policy is to include trade receivables within current assets as trade receivables and to records 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.

*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. Market vesting conditions are factored into the fair value of the option granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

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.

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**Notes to the interim accounts**
**For the six months ended 31 March 2008 contd**

### 3. Transition to IFRS

The group reported under UK GAAP in its previously published financial statements for the year ended 30 September 2007. The tables below reconcile net assets and profit and loss for the year as reported previously under UK GAAP and those reported under IFRS for the periods ended 31 March 2007 and 30 September 2007. A reconciliation of net liabilities at 1 October 2006 is also provided, being the date of transition to IFRS.

**UK GAAP to IFRS net profit and loss reconciliation**

| | Unaudited Six months ended 31 March 2007 £'000 | Unaudited Year ended 30 September 2007 £'000 |
|---|---|---|
| **UK GAAP (loss)/profit on ordinary activities** | (87.6) | 485.1 |
| | 50.9 | 101.8 |
| **IFRS (loss)/profit on ordinary activities** | (36.7) | 586.9 |

**UK GAAP to IFRS net liabilities reconciliation**

| | Unaudited as at 31 March 2007 £'000 | Unaudited as at 30 September 2007 £'000 | Unaudited as at 1 October 2006 £'000 |
|---|---|---|---|
| **UK GAAP net liabilities** | (1,364.4) | (791.6) | (1,276.8) |
| Amortisation of goodwill | 50.9 | 101.8 | 0.0 |
| **IFRS net liabilities** | (1,313.5) | (689.8) | (1,276.8) |

In preparing these interim financial statements, the group has elected to apply the transitional arrangements permitted by IFRS 1 "First time adoption of International Financial Reporting Standards" in relation to Business Combinations. Accordingly, the carrying amount of capitalised goodwill at 30 September 2006 that arose on business combinations accounted for using the Acquisition method under UK GAAP was frozen at this amount and tested for impairment at 1 October 2006.
Previously amortised amounts in the UK GAAP accounts for the period ended 31 March 2007 and the year ended 30 September 2007 of £50,900 and £101,800 respectively have therefore been reversed in the IFRS income statement.

**Notes to the interim accounts**
**For the six months ended 31 March 2008 contd**

## 4. Earnings per share

| | Unaudited Six months ended 31 March 2008 £'000 | Unaudited Six months ended 31 March 2007 £'000 | Unaudited Year ended 30 September 2007 £'000 |
|---|---|---|---|
| Earnings used for calculation of basic and diluted EPS | 6 | (36.7) | 586.9 |
| Shares used for calculation of basic and diluted EPS | 10,156,776 | 10,156,776 | 10,156,776 |
| **Earnings per share** | | | |
| Basic | 0.1p | (0.4p) | 5.8p |
| Fully diluted | 0.1p | (0.4p) | 5.8p |

## 5. Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

| | Six months ended 31 March 2008 unaudited £'000 | Six months ended 31 March 2007 unaudited £'000 | Year ended 30 September 2007 unaudited £'000 |
|---|---|---|---|
| **Cash flows from Operating Activities** | | | |
| Profit/(loss) for the period | 6.0 | (36.7) | 586.9 |
| Depreciation | 16.0 | 35.6 | 66.0 |
| Finance expense | 127.2 | 89.6 | 218.8 |
| **Net Cash Generated from operations** | 149.2 | 88.5 | 871.7 |
| **Cashflow from operating activities before changes in working capital** | | | |
| Decrease in debtors | 108.9 | 192.0 | 165.0 |
| Decrease in creditors | (208.3) | (214.9) | (1,119.4) |
| **Cash Generated from operations** | **49.8** | **65.6** | **(82.7)** |
| Income tax | 0.0 | 0.0 | 0.0 |
| **Net Cash Generated from operating activities** | **49.8** | **65.6** | **(82.7)** |