Capcon Holdings plc
Interim Report 2011

Unaudited interim results for the six months ended 31 March 2011

Capcon Holdings plc ("Capcon" or the "Group"), the AIM listed investigations and risk management group, announces its unaudited interim results for the six months ended 31 March 2011.

Main points

- Revenue of £1.44m (6 months ended 31 March 2010: £1.55m)
- Operating loss £33,800 (6 months ended 31 March 2010: operating profit £74,700)
- Pre tax loss £142,600 (6 months ended 31 March 2010: pre tax loss £61,600)
- Net cash outflow from operations of £142,400 (6 months ended 31 March 2010: outflow £13,600)

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Chairman's Statement

The financial results for the six months to 31 March 2011 do not unfortunately reflect any improvement in activity levels. The strength of our core business, together with ongoing financial support from the Directors, continues to enable the Board to pursue various opportunities to develop the Group for the future benefit of all shareholders.

Results

Revenue for the six months to 31 March 2011 was £1,439,000, 6.9% lower than the previous year's revenue of £1,545,200. The reduction in revenue is mainly attributable to lower sales of investigatory services. Last year's sales included investigatory sales in respect of a contract for services to a major ferry company which, as previously reported, was terminated in the second quarter of last financial year due to restructuring by the client.

The overall gross margin level of 35.3% was 7.1% lower than last year which was mainly the result of a change in the mix of services provided with proportionately more sales being generated by the audit & stocktaking division than from investigation services. The combination of lower sales and a reduced gross margin had an adverse effect on the operating profit margin which was a 2.3% loss on sales compared with a 4.8% profit last year.

The Group made an operating loss of £33,800 compared to an operating profit of £74,700 for the same period last year. Despite a lower interest charge, the loss before tax was £142,600 (2010: loss of £61,600), an increase of £81,000 compared with the first six months last year. As with last year, there is no tax charge for the period.

The loss per share of 1.2p compares with a 0.5p loss per share for the same period last year.

The Group incurred a net cash outflow from operations before changes in working capital of £25,700 (2010: £88,100 inflow). Net debt at 31 March 2011 was £2,026,500, £242,100 higher than the same date last year. As with last year, no interim dividend is being declared.

Chairman's Statement (continued)

Business Review

Sales of services to the leisure sector were adversely affected by lower investigatory sales following the termination last year of a contract with a major ferry company which is not yet fully replaced with new work. However, this client has now commenced business with the audit & stocktaking division where work is being undertaken on different ferry routes. Sales of services to the leisure sector of £1,209,800 were £180,700 lower than the same period last year. The sector within which we operate continues to recover but at a slower rate than we had previously expected. Nevertheless, new business is being won and negotiations were successfully concluded with a prominent theatre group where our audit and stocktaking services will commence in the second half of the financial year. Development of new services and enhanced IT systems has continued this year and we are in discussions with new and existing clients regarding the introduction of a broader range of services that can now be integrated with our traditional audit, stocktaking and investigatory services. Additionally, our presence in the marketplace has been increased through the use of social media tools which are also being used to increase market penetration in related market sectors. Inflationary pressures have adversely affected our cost base, particularly fuel costs, but a newly negotiated telecommunications contract should reduce these costs in the second half of the year.

The re-building of Argen in the first half of this financial year has continued and is the primary reason for an increase in sales of non-leisure investigation services. Our ongoing focus on containment of costs has improved operating margins during this period. The outstanding debt in respect of Stanford International Bank remains unpaid and although the Court in Antigua has replaced the original liquidator we remain confident that this debt will eventually be settled.

Central overhead costs have been maintained at a low level although there has been an increase of 9.8% compared with the same period last year as a result of increased activity by the Directors in seeking potential new opportunities for the Group and increased marketing for Argen's investigation services.

Interest charges of £108,800 were £27,500 less than last year and the Directors continue to review alternative ways to reduce the Group's borrowing levels and interest rates.

Current trading and prospects

Traditionally, sales activity in the second half of the financial year holds a seasonal advantage for our leisure based services. Marketing of Argen's investigation services is having the effect of slowly improving sales which we expect to continue during the second half of the financial year.

The Directors are currently considering several opportunities that may result in developments for the Group which the Board believe will be for the benefit of shareholders.

K P Dulieu
Chairman

30 June 2011

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Consolidated Statement of Comprehensive Income for the six months ended 31 March 2011

	Note	Unaudited Six months ended 31 March 2011 £'000	Unaudited Six months ended 31 March 2010 £'000	Audited Year ended 30 September 2010 £'000
Revenue		1,439.0	1,545.2	3,134.3
Cost of sales		(931.7)	(890.5)	(1,894.7)
Gross profit		507.3	654.7	1,239.6
Administrative expenses		(541.1)	(580.0)	(1,106.1)
Operating (loss)/ profit		(33.8)	74.7	133.5
Finance expense		(108.8)	(136.3)	(265.3)
Loss before taxation		(142.6)	(61.6)	(131.8)
Tax expense		-	-	-
Loss for the period attributable to equity shareholders		(142.6)	(61.6)	(131.8)
Loss per ordinary share				
Basic	3	(1.2)p	(0.5)p	(1.1)p
Diluted		(1.2)p	(0.5)p	(1.1)p

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Consolidated Statement of Financial Position as at 31 March 2011

	Unaudited as at 31 March 2011 £'000	Unaudited as at 31 March 2010 £'000	Audited as at 30 September 2010 £'000
Assets			
Non-current assets			
Intangible assets	1,425.3	1,425.3	1,425.3
Property, plant and equipment	34.6	37.4	36.7
Total non current assets	1,459.9	1,462.7	1,462.0
Current assets			
Trade and other receivables	725.8	845.8	752.0
Derivative financial assets	0.2	2.3	0.4
Cash and cash equivalents	0.4	0.7	0.7
Total current assets	726.4	848.8	753.1
Total assets	2,186.3	2,311.5	2,215.1
Liabilities			
Non-current liabilities			
Loans and borrowings	(652.4)	(650.0)	(605.4)
Derivative financial liabilities	(9.5)	(49.6)	(47.9)
Total non current liabilities	(661.9)	(699.6)	(653.3)
Current liabilities			
Trade and other payables	(1,117.1)	(1,256.4)	(1,237.7)
Loans and borrowings	(1,374.5)	(1,135.1)	(1,166.8)
Derivative financial liabilities	(68.2)	(48.0)	(50.1)
Total current liabilities	(2,559.8)	(2,439.5)	(2,454.6)
Total liabilities	(3,221.7)	(3,139.1)	(3,107.9)
Net liabilities	(1,035.4)	(827.6)	(892.8)
Capital and reserves			
Called up share capital	121.9	121.0	121.9
Share premium account	2,842.9	2,838.8	2,842.9
Merger reserve	950.0	950.0	950.0
Retained earnings	(4,950.2)	(4,737.4)	(4,807.6)
Shareholder deficit	(1,035.4)	(827.6)	(892.8)

Consolidated Statement of Cash Flows for the six months ended 31 March 2011

	Unaudited as at 31 March 2011 £'000	Unaudited as at 31 March 2010 £'000	Audited as at 30 September 2010 £'000
Cash flows from operating activities			
Loss for the period	(142.6)	(61.6)	(131.8)
Depreciation	8.1	13.4	22.3
Finance income	-	-	-
Finance expense	108.8	136.3	265.3
Cash flow (used in)/generated from operating activities before changes in working capital	(25.7)	88.1	155.8
Decrease/(increase) in debtors	26.2	(5.5)	88.3
Decrease in creditors	(142.9)	(96.2)	(95.2)
Net cash (used in)/generated from operating activities	(142.4)	(13.6)	148.9
Investing activities			
Purchase of tangible fixed assets	(5.9)	(1.5)	(9.7)
Net cash used in investing activities	(5.9)	(1.5)	(9.7)
Financing activities			
Issue of ordinary shares	-	25.1	30.1
Interest paid	(48.9)	(49.3)	(116.8)
Increased borrowings	-	86.8	61.8
Invoice discounting facilities	54.4	(15.9)	(44.3)
Principal payment under finance leases	(2.0)	(3.4)	(5.3)
Net cash generated by/(used in) financing activities	3.5	43.3	(74.5)
Net (decrease)/increase in cash and cash equivalents	(144.8)	28.2	64.7
Cash and cash equivalents at beginning of period	(398.8)	(463.5)	(463.5)
Cash and cash equivalents at end of period	(543.6)	(435.3)	(398.8)

Notes to the interim accounts
For the six months ended 31 March 2011

1. Basis of preparation

The financial information included in the interim accounts has been prepared in accordance with the recognition and measurement principle of International Accounting Standards, International Financial Reporting Standards (IFRSs) and Interpretations adopted for use in the European Union (collectively "adopted IFRS").

The principal accounting policies used in preparing these interim accounts are those expected to apply in the Group's Consolidated Financial Statements for the year ended 30 September 2011 and are unchanged from those disclosed in the Groups annual Report for the year ended 30 September 2010.

The interim accounts financial information for the six months ended 31 March 2011 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 2010 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 sections 498(2) or (3) of the Companies Act 2006. Copies of the accounts for 2010 are available on the Company's website (www.capconplc.com).

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 subsidiaries 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 March 2012 ("the forecast period") and have given due regard to the following facts and assumptions:

The Group Statement of Financial Position at 31 March 2011 shows a net liability position of £1,035.5k. The Group finances part of its working capital needs through a Group overdraft facility. Current overdraft facilities are available until 31 December 2011 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 2012, 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 not be received until March 2012.

Given the current trading uncertainties, the directors have put in place a variety of measures that they consider will be sufficient to satisfy any 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.

Notes to the interim accounts
For the six months ended 31 March 2011 (continued)

2. Accounting Policies (continued)

Goodwill

Goodwill arising on an acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. 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 Statement of Comprehensive Income.

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 Statement of Financial Position dates. Any differences are taken to the Statement of Comprehensive Income.

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the Statement of Financial Position 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 Statement of Financial Position 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 Statement of Comprehensive Income 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 2011 (continued)

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 Statement of Comprehensive Income.

Interest

Interest payable is charged to the Statement of Comprehensive Income 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 Statement of Comprehensive Income when incurred as part of finance expense. Bad debts are borne by the group and are charged to the Statement of Comprehensive Income 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 Statement of Comprehensive Income.

Lease payments are analysed between capital and interest components. The interest element of the payment is charged to the Statement of Comprehensive Income 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 Statement of Comprehensive Income 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 Statement of Financial Position 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 Statement of Comprehensive Income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each Statement of Financial Position 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 Statement of Comprehensive Income over the remaining vesting period.

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

Notes to the interim accounts
For the six months ended 31 March 2011 continued

3. Earnings per share

	Unaudited Six months ended 31 March 2011 £'000	Unaudited Six months ended 31 March 2010 £'000	Audited Year ended 30 September 2010 £'000
Loss used for calculation of basic and diluted EPS	(142.6)	(61.6)	(131.8)
Shares used for calculation of basic and diluted EPS	12,185,598	11,806,716	11,959,988
Loss per share			
Basic	(1.2)p	(0.5)p	(1.1)p
Fully diluted	(1.2)p	(0.5)p	(1.1)p

4. Distribution of Interim Report

A copy of the Interim Report will be posted on the Company's website, www.capconplc.com, on 30th June 2011 and copies will be available from the Company's head office, 82 St. John Street, London, EC1M 4JN.