Capcon Holdings plc
Interim Report 2009

Interim results for the six months ended 31 March 2009

Capcon Holdings plc, the AIM listed investigations and risk management group, announces its unaudited interim results for the six months ended 31 March 2009.

Main Points

- Revenue of £1.97m (2008: £1.84m)
- Operating profit £138,000 (2008: £133,200)
- Pre tax profit £34,100 (2008: £6,000)
- Earnings per share 0.3p (2008: 0.1p)
- Net cash inflow from operations of £242,200 (2008: £49,800)
- Bank borrowing reduced by £231,900

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Chairman's Statement

I am pleased to report that further progress has been made to strengthen the Group's financial position in the six months to 31 March 2009. Despite the extremely harsh economic climate which has added to existing industry issues for our leisure clients, we have succeeded in increasing operating profit and profit before tax, when compared with the same period last year.
The action taken by the Directors over the past two years to improve operating efficiency and reduce overheads has placed the Group in a strong position to continue to compete for market share during this period of challenging market conditions.

Results

Revenue for the six months to 31 March 2009 was £1,966,900, a 7.1% increase on the previous year's level of £1,836,800, due entirely to higher sales levels achieved in investigation services provided outside the leisure sector. The overall gross margin remained constant at 37.2% but operating profit before central costs increased to 16.3% of sales, from 13.9% last year, reflecting the continuing drive to reduce overhead costs.

The Group made a profit before tax and interest of £138,000, compared with a profit before tax and interest of £133,200 for the same period last year. The profit before tax of £34,100 compares with a profit of £6,000 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 0.3p compares with a profit per share of 0.1p for the same period last year.

The Group generated a net cash inflow from operations of £242,300 (2008: £49,800) and net debt at 31 March 2008 was £1,532,200, £231,900 lower than the same date last year, mainly as a result of a reduction in the overdraft. No interim dividend is being declared, as for last year.

Chairman’s Statement contd

Business Review

Sales of services to the leisure sector of £1,570,400 were £103,900, or 6.2%, lower than the same period last year. This reduction is a direct consequence of the difficulties that have prevailed for the past year in this sector. In particular, we have been adversely affected by the action taken by pubcos and hotel groups to reduce costs in the short term by reducing the frequency of stock takes and limiting audit activity. From past experience, we believe that such cost cutting during a downturn eventually highlights to our clients the significance of our control procedures in maintaining profit margins in the longer term which, in turn, will lead to a restoration of demand for the provision of our services as confidence in a recovery in the sector builds. In addition, the continuing contraction of the licensed retail sector through pub closures has been partly offset by the development of our audit business in the growing budget hotel sector. The gross margin achieved on leisure based services has deteriorated by just 0.8%; with fee levels experiencing pressure from clients during these severe market conditions, it has been essential to scrutinise our operating costs and take action wherever possible, without adversely affecting the quality of service, in order to maintain margin levels.

Sales of investigation services to non-leisure clients increased by £234,000 to £396,500 for the six months to 31 March 2009. Although there has been an increase in activity for these specialised investigation services in the first half of this financial year, as previously reported, the nature of this division of our business is unpredictable and it is too early to conclude that these increased sales represent a sustainable upward trend. However, a notable success in this period has been our engagement by an insolvency practitioner to investigate a major high profile business which has not only made a significant contribution to sales in this reporting period but may also benefit the second half of the financial year. Operating profit from non-leisure investigation services increased by £88,200 to £103,000.

Central costs have been maintained at a low level although increased corporate activity has necessitated an increase in expenditure compared with the same period last year.

Current trading and prospects

Trading in the second half of this financial year to date has continued in line with expectations. The challenges facing the leisure sector are still evident and are unlikely to be resolved in the short term. However, periods of re-structuring have been a common feature of this sector over many years, during which time Capcon has benefited from the opportunities that such changes create. Meanwhile, further opportunities for our investigations business are expected to arise from the financial sector as a consequence of the widespread difficulties currently faced by companies under financial stress.

The Board believes that the Group is now in a good position to consider growth opportunities again if current restrictions on funding can be resolved. We will, therefore, continue to focus on the evaluation of all possible ways of developing and expanding the Group over the coming months.

K P Dulieu
Chairman

29 June 2009

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Consolidated income statement for the six months ended 31 March 2009

	Note	Unaudited Six months ended 31 March 2009 £'000	Unaudited Six months ended 31 March 2008 £'000	Audited Year ended 30 September 2008 £'000
Revenue		1966.9	1,836.8	3,829.1
Cost of sales		(1235.2)	(1,153.3)	(2,382.2)
Gross profit		731.7	683.5	1,446.9
Administrative expenses		(593.7)	(550.3)	(1,353.4)
Operating profit		138.0	133.2	93.5
Finance expense		(103.9)	(127.2)	(199.1)
Profit /(loss) before taxation		34.1	6.0	(105.6)
Tax expense		0	0	0
Profit /(loss) for the period attributable to equity shareholders		34.1	6.0	(105.6)
Earnings per share				
Basic	3	0.3p	0.1p	(1.0)p
Diluted		0.3p	0.1p	(1.0)p

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Consolidated balance sheet as at 31 March 2009

	Unaudited as at 31 March 2009 £'000	Unaudited as at 31 March 2008 £'000	Audited as at 30 September 2008 £'000
Non-current assets			
Intangible assets	1,425.3	1,425.3	1,425.3
Property, plant and equipment	46.6	62.5	56.4
	1471.9	1,487.8	1,481.7
Current assets			
Trade and other receivables	677.2	791.7	856.5
Cash and cash equivalents	0.7	0.4	.7
	677.9	792.1	857.2
Current liabilities			
Trade and other payables	(1,319.2)	(1,199.4)	(1,368.9)
Loans and borrowings	(857.9)	(1,084.6)	(1,031.4)
Net current liabilities	(1,499.2)	(1,491.9)	(1,543.1)
Non-current liabilities			
Loans and borrowings	(675.0)	(679.8)	(675.0)
Net liabilities	(702.3)	(683.9)	(736.4)
Capital and reserves			
Called up share capital	116.8	101.6	116.8
Share premium account	2,817.9	2,774.1	2,817.9
Merger reserve	950.0	950.0	950.0
Retained earnings	(4,587.0)	(4,509.6)	(4,621.1)
Shareholder deficit	(702.3)	(683.9)	(736.4)

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Consolidated cash flow statement for the six months ended 31 March 2009

	Note	Unaudited as at 31 March 2009 £'000	Unaudited as at 31 March 2008 £'000	Audited as at 30 September 2008 £'000
Cash flows from Operating Activities				
Profit/(loss) for the period		34.1	6.0	(105.6)
Depreciation		12.5	16.0	29.3
Finance expense		103.9	127.2	199.1
Net Cash Generated from operations		150.5	149.2	122.8
Cashflow from operating activities before changes in working capital				
Decrease in debtors		179.3	108.9	44.1
Decrease in creditors		(87.6)	(208.3)	(25.7)
Net Cash Generated from operating activities		242.2	49.8	141.2
Investing Activities				
Purchase of tangible fixed assets		(2.7)	(12.7)	(19.9)
Net Cash used in Investing Activities		(2.7)	(12.7)	(19.9)
Financing activities				
Issue of ordinary shares				59.0
Interest paid		(62.4)	(76.4)	(156.3)
Repayment of loans		0	0.3	(0.7)
Invoice discounting facilities		(150.4)	(77.2)	(33.2)
Principal payment under finance leases		(2.5)	(4.1)	(8.5)
Net Cash used in Financing Activities		(215.2)	(157.4)	(139.7)
Net increase/(decrease) in cash and cash equivalents		24.2	(120.3)	(18.4)
Cash and cash equivalents at beginning of period		(544.0)	(525.6)	(525.6)
Cash and cash equivalents at end of period		(519.8)	(645.9)	(544.0)

Notes to the interim accounts
For the six months ended 31 March 2009

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 2009 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 2008 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 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. The group finances part of its working capital needs through a group overdraft facility. Since the period end, the group has secured a new overdraft facility that following draw down will be available until 31 December 2009. The group's bankers have indicated that there are currently no reasons to believe that this facility will not be renewed on similar terms.
In view of the matters noted above, the directors believe that it is appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments which might be required resulting from the group overdraft facility not being renewed on similar terms.

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. Revenue recognised represents revenue earned appropriate to the stage of completion of each contract.

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.

Notes to the interim accounts
For the six months ended 31 March 2009 contd

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 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 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.

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 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.

Notes to the interim accounts
For the six months ended 31 March 2009 contd

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.

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3. Earnings per share

	Unaudited Six months ended 31 March 2009 £'000	Unaudited Six months ended 31 March 2008 £'000	Audited Year ended 30 September 2008 £'000
Earnings/(loss) used for calculation of basic and diluted EPS	34.1	6.0	(105.6)
Shares used for calculation of basic and diluted EPS	10,711,609	10,156,776	10,711,609
Earnings per share			
Basic	0.3p	0.1p	(1.0)p
Fully diluted	0.3p	0.1p	(1.0)p

4. Distribution of Interim Report

A copy of the Interim Report will be posted to the Company's website, www.capconplc.com, on 29 June 2009.