

Company Cantono PLC
TIDM CTNO
Headline Interim Results
Released 12:03 29-Feb-08

CTNO
29 February 2008

CANTONO PLC
Interim Results
for the Six Months ended 30 November 2007

Highlights

- **Group revenue almost tripled to £4.3m (2006: £1.6m) - reflecting impact of acquisitions**
- **Group adjusted operating profit* of £0.32m (2006: loss of £2.3m)**
- **Group operating loss £2.3m (2006: loss of £3.0m restated)**
- **Group's strategic repositioning continues - encouraging progress with move into data centre market**
 - **£10m (net) fundraising successfully completed in August 2007**
 - **Heads of Terms signed and Agreement to Lease for first data centre about to be exchanged**
 - **First 10MW of power to data centre available imminently**
- **Net assets at 30 November of £11.1m (2006: £2.7m)**
- **Pleasing growth in Managed Services contracts base (over £7m of new and extended contracts in the period)**
- **Outlook remains encouraging**

*Group operating result adjusted for amortisation, depreciation, IFRS 2 share based payment charges and data centre pre operating costs

For further information:

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CHAIRMAN'S STATEMENT

Overview

The transformation of Cantono plc continues and I am pleased to report that our results show that, at the adjusted operating profit level, the business has moved from a loss into profit.

During the first half of the financial year, we made significant progress with our plans to enter the high growth data centre market, completing a £10 million (net) fundraising in August 2007. We also made good progress in integrating the three acquisitions we made into our existing managed services business.

Financial Review

Our financial results are being presented under International Financial Reporting Standards (IFRS) for the first time. Information showing the effect of the adoption of IFRS on our financial reporting is given in the notes to this announcement. No dividend is payable.

During the period, the Group's revenue almost tripled to £4,259,249 from £1,637,351 in the corresponding period in 2006. This revenue derived exclusively from our managed services business and the significant increase reflected the impact of our three acquisitions. In addition to our managed services business, the Group has now added a second business segment, the data centre operation. The data centre operation incurred pre operational costs during the period of £1,066,453. The Group produced an adjusted operating profit, before amortisation, depreciation and IFRS 2 share based payment charges and data centre pre operating costs of £316,231 compared to an adjusted operating loss of £2,314,105 in the comparable period in 2006. Group operating loss before these adjustments was £2,286,067 (2006: £3,029,026 restated).

Operational Review

During the period, the Group raised £10m (net) of new finance by way of an institutional placing in order to support its strategy to move into the data centre market. We are now in the process of developing this second stream of business and I am, therefore, pleased to announce that the Group has signed Heads of Terms and is also close to exchanging an Agreement to Lease for the first of its planned data centres.

When complete, this data centre will have approximately 80,000 square feet of useable space, incorporating IBM's Modular Data Centre technology, and will be one of the most energy efficient facilities of its class in the UK. The facility has the potential to receive up to 20MW of power, making it capable of handling foreseeable power demands from our target client base.

Our current plan is to have the first phase of the project on line during the middle of the year. Project consultants have been appointed to manage the overall works and the dig for the first 10MW of power is nearing completion. The Group is working with IBM as the sole supplier of their Modular Data Centre system, giving our facility access to a technology with flexibility of deployment. The Group has commenced its first phase marketing activities and in effect is selling "off plan" and has already generated a number of enquiries.

In addition, the Group has entered into further discussions through its property advisers and has identified a number of other possible data centre sites with significant potential. Further information on the data centres will be announced by the Group when necessary.

Our managed services business performed to management's broad expectations during the period. The level of both customer contract renewals and new contracts wins has been encouraging. In particular, the Group's largest client signed a £4.2m, 5 year extension to its existing contract. Overall, the contract base grew by over £7.0m during the period. This provides us with good visibility of revenues for this division. Looking ahead, the pipeline of new prospects remains healthy and continues to grow.

The Group is in a substantially different and, in the opinion of the Board, much stronger position, both operationally and financially, than it was 12 months ago. We have fundamentally restructured and refinanced the Group, acquiring new businesses and disposing of non-core activities. Most significantly, we are now entering the data centre marketplace, which offers us an exciting growth opportunity. This evolution will continue; the Group will focus on

continually improving its key processes of sales and operational performance and on the quality of the products and services that we offer. While we are conscious that economic conditions are less certain than even a few months ago, we are pleased with our progress to date. However we will continue to evaluate our plans on a regular basis and I look forward to updating shareholders on further progress in due course.

Mike Northall

Chairman
29 February 2008

Consolidated Income Statement (unaudited)

	Half Year 30 November 2007	Half Year 30 November 2006 As restated	Year 31 May 2007 As restated
	£	£	£
Revenue	4,259,249	1,637,351	5,144,268
Cost of sales	<u>(1,316,691)</u>	<u>(391,945)</u>	<u>(1,571,739)</u>
Gross profit	2,942,558	1,245,406	3,572,529
Reorganisation costs	-	-	1,106,956
Pre operating costs	1,066,453	-	-
Share based payments	565,279	-	-
Amortization of intangible and tangible assets	970,567	714,921	1,810,975
Other administrative expenses	2,626,326	3,559,511	7,605,551
Administrative expenses	5,228,625	4,274,432	10,523,482
Operating loss	<u>(2,286,067)</u>	<u>(3,029,026)</u>	<u>(6,950,953)</u>
Loss on sale of subsidiary	-	-	(1,752,983)
Finance income	68,214	3,250	6,674
Finance costs	(237,848)	(316,844)	(346,365)
Loss before tax	<u>(2,455,702)</u>	<u>(3,342,620)</u>	<u>(9,043,627)</u>
Tax expense	198,452	104,695	174,876
Loss for the period from continuing operations	<u>(2,257,250)</u>	<u>(3,237,925)</u>	<u>(8,868,751)</u>
Loss for the financial period	(2,257,250)	(3,237,925)	(8,868,751)
attributable to :			
equity holders of the parent	(2,257,250)	(2,963,145)	(8,139,464)
minority interests	-	(274,780)	(729,287)
Earnings per share			
- basic	(7.78)p	(11.16)p	(30.58)p
- diluted	(7.78)p	(11.16)p	(30.58)p

Consolidated Balance Sheet (unaudited)

	Half Year 30 November 2007	Half Year 30 November 2006 As restated	Year 31 May 2007 As restated
	£	£	£
ASSETS			
Non-current assets			
Property, plant and equipment	1,279,848	514,303	1,302,523
Goodwill	3,046,748	1,872,528	3,046,748
Other intangible assets	4,001,978	5,416,235	4,646,937
	<u>8,328,574</u>	<u>7,803,066</u>	<u>8,996,208</u>
Current assets			
Stocks	-	-	7,214
Trade and other receivables	1,790,328	2,378,588	950,056
Cash and cash equivalents	5,743,797	961,793	109,243
	<u>7,534,125</u>	<u>3,340,381</u>	<u>1,066,513</u>
Total Assets	<u>15,862,699</u>	<u>11,143,447</u>	<u>10,062,721</u>
LIABILITIES			
Non-current liabilities			
Deferred tax	710,371	370,150	908,823
Interest bearing loans and borrowings	161,961	4,805,082	61,063
	<u>872,332</u>	<u>5,175,232</u>	<u>969,886</u>
Current liabilities			
Interest bearing loans and borrowings	540,650	110,668	650,822
Trade and other payables	1,483,209	1,957,181	2,767,522
Accruals and deferred income	1,827,695	2,241,944	2,945,402
	<u>3,851,554</u>	<u>4,309,793</u>	<u>6,363,746</u>
Total liabilities	<u>4,723,886</u>	<u>9,485,025</u>	<u>7,333,632</u>
Net assets	<u>11,138,813</u>	<u>1,658,422</u>	<u>2,729,089</u>
EQUITY			
Share capital	9,881,837	6,476,718	7,758,136
Share premium	18,935,452	5,550,707	10,957,455
Retained earnings	(17,678,476)	(10,787,130)	(15,986,502)
Total equity attributable to equity holders of the parent	<u>11,138,813</u>	<u>1,240,295</u>	<u>2,729,089</u>
Minority interests	-	418,127	-
	<u>11,138,813</u>	<u>1,658,422</u>	<u>2,729,089</u>

Consolidated Statement of Changes in Equity (unaudited)

	Share Capital	Share premium	Retained earnings	Total	Minority Interest	Total Equity
Equity at 1 June 2006	4,134,116	1,789,835	(7,840,023)	(1,916,072)	692,907	(1,223,165)
Foreign currency translation differences	-	-	3,655	3,655	-	3,655
Loss for the period	-	-	(2,950,762)	(2,950,762)	(274,780)	(3,225,542)
Issue of shares	2,342,602	3,760,872	-	6,103,474	-	6,103,474
Equity at 30 November 2006	6,476,718	5,550,707	(10,787,130)	1,240,295	418,127	1,658,422
Foreign currency translation differences	-	-	(23,054)	(23,054)	-	(23,054)
Loss for the period	-	-	(5,176,318)	(5,176,318)	(418,127)	(5,594,445)
Issue of shares	1,281,418	5,406,748	-	6,688,166	-	6,688,166
Equity at 31 May 2007	7,758,136	10,957,455	(15,986,502)	2,729,089	-	2,729,089
Foreign currency translation differences	-	-	-	-	-	-
Loss for the period	-	-	(2,257,250)	(2,257,250)	-	(2,257,250)
Issue of shares	2,123,701	7,977,997	-	10,101,698	-	10,101,698
Share based payments	-	-	565,276	565,276	-	565,276
Equity at 30 November 2007	9,881,837	18,935,452	(17,678,476)	11,138,813	-	11,138,813

Consolidated Cash Flow Statement (unaudited)

	Half Year 30 November 2007	Half Year 30 November 2006	Year 31 May 2007
Consolidated Cash Flow Statement (unaudited)	£	As restated £	As restated £
Cash flows from operating activities			
Loss for the period	(2,286,067)	(3,029,026)	(6,950,953)
Adjustments for:			
Depreciation and amortisation of tangible and intangible assets	772,115	714,921	1,810,975
Capitalised costs	-	-	(44,034)
Share based payments	565,279	-	-
Change in inventories	7,214	-	(572)
Change in trade and other receivables	(840,272)	517,302	928,344
Change in trade, other payables and provisions	(2,211,969)	580,602	2,269,644
Interest paid	(237,848)	(33,985)	(346,365)
Income tax paid	-	(12,573)	(8,158)
Net cash from operating activities	(4,231,549)	(1,262,759)	(2,341,119)
Cash flows from investing activities			
Interest received	68,214	3,250	6,674
Proceeds from sale of property, plant and equipment	-	-	750,778
Acquisition of subsidiary, net of cash acquired	-	(330,580)	(459,331)
Purchase of property, plant and equipment	(302,935)	(24,967)	(190,103)
Net cash used in investing activities	(234,722)	(352,297)	108,018
Cash flows from financing activities			
Proceeds from issue of ordinary shares	10,618,500	2,347,000	2,347,000
Payments of transaction costs	(516,803)	-	(225,649)
Repayment of borrowings	(156,292)	-	(126,411)
Payment of finance lease liabilities	(17,555)	-	(14,452)
New debt raised	-	125,000	-
Net cash from/(used in) financing activities	9,927,850	2,472,000	1,980,488
Net increase in cash and cash equivalents	5,461,579	856,944	(252,613)
Cash and cash equivalents at the beginning of the year	(258,432)	(5,819)	(5,819)
Cash and cash equivalents at the end of the year	5,203,147	851,125	(258,432)
	Half Year 30 November 2007	Half Year 30 November 2006	Year 31 May 2007
	£	£	£
Cash and cash equivalents at the end of the periods			
Cash and cash equivalents	5,743,797	961,793	109,243
Bank overdrafts	(540,650)	(110,668)	(367,675)
	5,203,147	851,125	(258,432)

Notes

1. Basis of preparation

This interim statement is unaudited and does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. Statutory accounts for the year ended 31 May 2007, which were prepared on a UK GAAP basis, have been filed with 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 and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

As from 1 June 2007, the Group is required under European Union regulation to prepare its annual financial statements in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union and implemented in the UK. Accordingly, this is the first year when the financial statements will be prepared under IFRS and the comparatives for 2007 are restated from UK Generally Accepted Accounting Practice (UK GAAP) to comply with IFRS.

The interim financial statements have been prepared in accordance with the accounting policies and presentation required by International Financial Reporting Standards, incorporating International Accounting Standards ("IASs") and Interpretations (collectively "IFRS"), which are expected to be endorsed by the EU and applicable for use in the Company's annual financial statements for the year ended 31 May 2008.

The interim financial statements do not include all of the information required for full annual financial statements and do not comply with all the disclosures in IAS 34 'Interim Financial Reporting'. Accordingly, whilst the interim statements have been prepared in accordance with the transitional rules governing the move from UK GAAP to IFRS they cannot be construed as being in full compliance with IFRS.

The comparatives for the full year ended 31 May 2007 are not the Company's full statutory accounts for that year. Comparative information for the six months ended 30 November 2006 and for the year ended 31 May 2007 has been restated on an IFRS basis.

2. Transition to IFRS

The date of transition to IFRS is 1 June 2006.

The adoption of IFRS has no underlying effect on the operating basis of the Group, its strategy or management, the cash flows derived from the business or the timing or amount of the Group's tax liabilities. Further details on the impact of the transition are given in notes 4 and 5.

3. Changes to accounting policies

This interim statement has been prepared in accordance with the Group's IFRS accounting policies expected to apply for the financial year to 31 May 2008. A summary of the significant accounting policies used in the preparation of this interim statement are shown in appendix A.

Prior to the adoption of IFRS the financial statements of the Group had been prepared in accordance with United Kingdom Accounting Standards ("UK GAAP"). UK GAAP differs in certain respects from IFRS and certain accounting, valuation and consolidation methods have been amended, when preparing these financial statements, to comply with IFRS. The comparative figures in respect of November 2006 and May 2007 have been restated to reflect these changes.

4. Reconciliation of closing equity under UK GAAP to closing equity under IFRS

Notes	01-Jun-06	30-Nov-06	31-May-07
	£	£	£
Closing equity as reported under UK GAAP	(1,210,781)	1,664,613	2,666,077
IFRS adjustments:			
Reversal of amortised goodwill brought forward	1	2,189,282	2,189,282
Amortised goodwill reversed	2	-	410,787
Amortisation of identified intangible assets	3	-	(755,951)
Impairment of goodwill	4	(2,201,666)	(2,083,722)
Closing equity reported under IFRS	(1,223,165)	1,658,422	2,729,089

Notes

- 1 In accordance with IAS38 previously amortised goodwill has been reversed at the date of transition, and reviewed in accordance with IFRS1 for impairment at that date.

- 2 Under IAS38 amortisation on goodwill arising from the investment in a subsidiary has been reversed.
- 3 IFRS3 'Business Combinations' requires that all identifiable intangible assets are capitalised and amortised over their useful economic lives. Under UK GAAP these amounts had previously been recognised within goodwill, and amortised in accordance with the Groups goodwill accounting policy. For further detail please see note 6 below.
- 4 Under IFRS goodwill is not amortised, but reviewed for impairment. This is the result of the Group reviewing goodwill brought forward for impairment at the date of transition, and subsequent periods.

5. Reconciliation of profit reported under UK GAAP to profit under IFRS

Period ended	Notes	30 November 2006 £	31 May 2007 £
Loss as reported under UK GAAP		(3,231,734)	(8,931,763)
IFRS Adjustments:			
Amortised goodwill reversed	1	410,787	1,124,190
Amortisation of identified intangible assets	2	(107,846)	(848,877)
Impairment of goodwill	3	(309,132)	(212,301)
Loss as reported under IFRS		(3,237,925)	(8,868,751)

Notes

- 1 In accordance with IAS 38 amortisation on goodwill has been reversed.
- 2 Under IAS 38 separate identifiable intangible assets have been amortised over the useful economic life. For further detail please see note 7 below.
- 3 Goodwill is not amortised under IFRS, but reviewed for impairment.

6. Intangible Assets

IAS 38 requires the identification of intangible assets including items such as contractual order books and customer databases which historically the Group has included within Goodwill. The retrospective adjustment at the date of transition has resulted in a reclassification of assets totalling £4,938,238 at 30 November 2006 and £4,062,166 for the year to 31 May 2007.

This reclassification has resulted in the reversal of amortisation in respect of goodwill, and an amortisation charge in respect of the identifiable intangible fixed assets over their useful economic life. As the useful economic life of the identifiable intangible assets is less than the amortisation period of the previously identified goodwill there is an effect on the Groups income statement and equity which is shown in notes 4 and 5 above.

7. Dividend

No interim dividend has been proposed.

8. Distribution of interim report

This interim report is being posted to all shareholders and will be available on application to the Company's registered office and from the Company's website.

Principal accounting policies for the consolidated accounts

1 Accounting policies

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) and with those parts of the Companies Act 1985 applicable to companies preparing their accounts under IFRS. This is the first time the company has prepared its financial statements in accordance with IFRSs, having previously prepared its financial statements in accordance with UK accounting standards. Details of how the transition from UK accounting standards to IFRSs has affected the group's reported financial position, financial performance are given in notes 4 and 5.

First-time adoption

In preparing these financial statements, the group has elected to apply the following transitional arrangements permitted by IFRS 1 'First-time Adoption of International Financial Reporting Standards':

- Business combinations effected before 1 June 2006, including those that were accounted for using the merger method of accounting under UK accounting standards have not been restated.
- The carrying amount of capitalised goodwill at 31 May 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 June 2006. The carrying amount was adjusted for intangible assets that would have been required to be recognised in the acquiree's separate financial statements in accordance with IAS 38 'Intangible Assets', such as development costs.
- Goodwill written off directly to reserves on business combinations effected before 1 January 1998 has not retrospectively been capitalised and will not be transferred to the income statement on the disposal of a subsidiary to which it relates.
- Only those exchange differences arising on the retranslation of foreign operations since 1 June 2006 have been recognised as a separate component of equity.
- IFRS 2 'Share-based payments' has been applied to employee options granted after 7 November 2002 that had not vested by 1 June 2006.

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

Revenue

Turnover represents the amounts derived from the provision of goods and services to third party customers during the period and is exclusive of value added tax.

The Group has three main income streams: software sales and associated maintenance income, managed services and professional services. Software sales of standard products are recognised when and to the extent that the Group has obtained the right to consideration through its performance. Revenue from support and maintenance is recognised on a straight-line basis over the period to which the maintenance agreement relates. Revenue from managed services is recognised on a straight-line basis over the period of the contract. Professional services income is recognised at the point of completion.

Business combinations

The consolidated financial statements incorporate the results of business combinations using the purchase method other than disclosed above (see 'first-time adoption'). In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated income statement from the date on which control is obtained.

Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the income statement.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the income statement.

Externally acquired intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives. The amortisation expense is included within the administrative expenses line in the income statement.

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques.

In-process research and development programmes acquired in such combinations are recognised as an asset even if subsequent expenditure is written off because the criteria specified in the policy for research and development costs above are not met.

The significant intangibles recognised by the group, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

Intangible asset	Useful economic life	Valuation method
Contractual relationships	Term of contract	Estimated discounted Cash flow

Borrowing costs

The group does not incur any interest costs that qualify for capitalisation under IAS 23 'Borrowing costs'.

Share based payments

Where share options are awarded to employees, the fair value of the options at the date of 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 options 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.

Research and development costs

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the group expects to benefit from selling the products developed. The amortisation expense is included within the cost of sales line in the income statement.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in the income statement as incurred.

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