



CSF MANAGED SERVICES PLC
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2006
COMPANY NUMBER - 3889532

WEDNESDAY



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CSF MANAGED SERVICES PLC

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CSF MANAGED SERVICES PLC

DIRECTORS' REPORT

The directors submit the report and accounts for the year ended 31 December 2006

Principal activity

The principal activity of the company is the provision of computer equipment and related services to its customers

Enhanced business review

The company performed well during the year with an increase in turnover of 3% and gross margins in line with 2006 at 67% (2005 70%) Losses increased compared to the previous year due to an increased marketing budget, increased headcount and a significant increase in depreciation charges. These increases are as a result of our investment in supplying shared information services to our clients. The directors believe that the increase in the investments outlined above places the company in a strong position to take advantage of market trends.

During the year the company signed up several new managed services clients and saw good success in our branded back up service, InfoSAFE. The software underpinning the service was written by Avamar who at the end of the year sold their company to EMC. Whilst this gives the product more credibility and a potentially wider audience, new terms are required to be negotiated with EMC, which is a potential risk to future InfoSAFE opportunities.

In addition to InfoSAFE and traditional managed services, the company is also optimistic that it can grow its "software as a service" customer base. This particular service is priced on a subscription basis and the directors believe it has the potential to produce much higher margins. The directors are confident that market conditions will remain favourable for outsourced managed services, as many medium sized businesses continue to find it difficult to justify the costs of an increasingly technical workforce to support their information technology systems. At the end of the year the company entered into an agreement to novate its interest in the lease at the Bracknell data centre. This agreement is subject to the landlord's permission, but post the transaction the company will still retain the use of 30% of the data centre for a period of three years at terms favourable to the prior agreement.

Finally, after a year of investment in the company and consolidation of its market position, the directors believe the company is well positioned to further develop as opportunities arise.

Principal risks and uncertainties

The company faces a number of risks and uncertainties in the markets in which it operates. For example, the company has a number of high value, major clients, the loss of which would have an impact on the business. IT outsourcing is a strategic decision for its potential customers and sales cycles may be longer than anticipated to grow the company further. Also, the company is not immune to the general economic conditions when procurement of capital expenditure is normally an area companies address first as part of a cashflow protection programme.

Dividends and results

The loss on ordinary activities after taxation for the financial year was £3,642,602 (2005 loss of £2,443,898).

No dividend was paid during the current or prior year.

The directors do not propose the payment of a final dividend (2005 £nil).

Directors

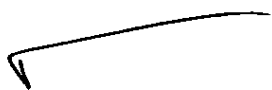
The directors who served during the period, and up to the date of this report, are as follows:

M Cohen (resigned 4 January 2007)
D M Greenberg (resigned 4 January 2007)
C M Keeble (resigned 4 January 2007)
P A Beer (resigned 4 January 2007)
M J Northall
I Williams
C Chapman
E J Halpin (appointed 4 January 2007)

Auditors

A resolution for the resignation of KPMG LLP and the appointment of KPMG plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board,



M J Northall
Director
25 October 2007

Registered Office
First Floor Station House
4-8 High Street
Yiewsley
West Drayton
Middlesex
UB7 7DU

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

Under applicable law the directors are also responsible for preparing a Directors' Report that complies with that law

INDEPENDENT AUDITORS' REPORT

to the members of CSF Managed Services Plc

We have audited the financial statements of CSF Managed Services Plc for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 2.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

BASIS OF OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditors
8 Salisbury Square,
London,
EC4Y 8BB

30 October 2007

CSF MANAGED SERVICES PLC

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2006

	Note	2006 £	2005 £
Turnover	1	4,382,430	4,237,121
Cost of sales		(1,451,674)	(1,279,950)
Gross profit		<u>2,930,756</u>	<u>2,957,171</u>
Administrative expenses		(6,479,593)	(5,341,274)
Operating loss		<u>(3,548,837)</u>	<u>(2,384,103)</u>
Interest payable and similar charges	5	<u>(93,765)</u>	<u>(59,795)</u>
Loss on ordinary activities before taxation	2	(3,642,602)	(2,443,898)
Tax on loss on ordinary activities	6	-	-
Loss on ordinary activities after taxation		<u>(3,642,602)</u>	<u>(2,443,898)</u>
Loss for the financial year	13	<u><u>(3,642,602)</u></u>	<u><u>(2,443,898)</u></u>

There are no recognised gains or losses other than the loss for the year

The historic cost profits and losses of the company are the same as its reported results

The results in the current and prior year derive from continuing operations

The attached notes form part of these accounts

CSF MANAGED SERVICES PLC

BALANCE SHEET
as at 31 December 2006

	Note	2006 £	2006 £	2005 £	2005 £
<u>Fixed assets</u>	7		1,112,153		1,170,313
<u>Current assets</u>					
Stocks	8	96,642		-	
Debtors	9	1,872,474		912,839	
Cash at bank		58,643		63,153	
		<u>2,027,759</u>		<u>975,992</u>	
<u>Current liabilities</u>					
Creditors	10	(11,838,993)		(7,267,131)	
<u>Net current liabilities</u>			(9,811,234)		(6,291,139)
<u>Total assets less current liabilities</u>			<u>(8,699,081)</u>		<u>(5,120,826)</u>
<u>Creditors amounts falling due after more than one year</u>	11		(64,347)		-
<u>Net liabilities</u>			<u>(8,763,428)</u>		<u>(5,120,826)</u>
<u>Capital and reserves</u>					
Called up share capital	12		50,000		50,000
Profit and loss account	13		(8,813,428)		(5,170,826)
<u>Deficit in equity shareholders' funds</u>	14		<u>(8,763,428)</u>		<u>(5,120,826)</u>

These financial statements were approved by the Board of Directors on 25 October 2007 and were signed on its behalf by:


M J Northall
Director

CSF MANAGED SERVICES PLC

CASH FLOW STATEMENT
for the year ended 31 December 2006

	Note	2006 £	2005 £
<u>Net cash inflow from operating activities</u>	19	294,186	1,327,996
<u>Return on investments and servicing of finance</u>			
Interest paid		(93,765)	(59,795)
<u>Capital expenditure</u>			
Payments to acquire tangible assets		(204,931)	(1,217,863)
(Decrease)/increase in cash for the year	20, 21	(4,510)	50,338

NOTES TO THE ACCOUNTS
for the year ended 31 December 2006

1 ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

a) Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention

Group support

At 31 December 2006, the company had net current liabilities and net liabilities. The financial statements have been prepared on a going concern basis. The immediate and ultimate parent undertaking, Cantono plc has confirmed its intention to provide financial support to the company as may be required in order that it can continue to trade and meet its liabilities as they fall due for the next twelve months from the date of signature of the accounts and thereafter, for as long as it remains a member of the group

b) Turnover

Turnover represents the amounts derived (excluding value added tax) from the provision of services during the financial period. Turnover is principally recognised on delivery of goods or services. Where delivery of a service spans a period of time, turnover is recognised over that period. If a contract involves the provision of a single element, revenue is generally recognised when the product or service is delivered or performed, and the amount earned is not contingent upon any future event. If the service is provided evenly during the contract term, revenue is recognised on a straight-line basis over the term of the agreement. Any unrecognised revenue is shown separately in the balance sheet as deferred income. For contracts involving a combination of products and services, revenue is recognised on each element in accordance with the above policy, unless all elements are considered to be interdependent and not separately deliverable, in which case revenue is recognised on a straight-line basis over the term of the agreement.

c) Taxation

The charge for taxation is based on the profit for the financial period and takes into account taxation deferred because of the timing differences between the treatment of certain items for taxation and accounting purposes. Except as otherwise required by accounting standards, full provision without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date.

d) Tangible fixed assets

The company carries all fixed assets at cost less depreciation. Included in fixed assets are assets held under ongoing contractual agreements with third parties.

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Computer equipment and environment	33% per annum
Equipment under contractual agreement	Life of contract

e) Stock

Stock is stated at the lower of net realisable value or cost.

f) Foreign currencies

Transactions in foreign currencies are translated into sterling at the exchange rate in operation at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling using the rate of exchange ruling at the balance sheet date, and gains or losses on translations are taken to the profit and loss account.

g) Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

h) Classification of financial instruments issued by the Company

Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

2 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

Loss on ordinary activities before taxation is stated after charging depreciation of £466,807 (2005: £226,518).

The audit fee for the year was £25,000 (2005: £3,403). The 2005 audit fee represents a recharge from the company's parent.

CSF MANAGED SERVICES PLC

NOTES TO THE ACCOUNTS
for the year ended 31 December 2006

3 REMUNERATION OF THE DIRECTORS

The costs of the directors' salaries were borne by the parent company, Computer Solutions & Finance Group Plc (see note 16). The share of directors' emoluments recharged to the company for the year was £298,153 (2005 £200,948)

4 STAFF COSTS

The company draws on the resources of Computer Solutions & Finance Group plc, the costs of which are borne directly by that company. A recharge is made to the company by Computer Solutions & Finance Group plc to reflect this. This recharge amounted to £859,682 for the financial year (2005 £491,195)

5 INTEREST PAYABLE AND SIMILAR CHARGES

	2006 £	2005 £
Interest payable on bank loans and overdrafts	<u>93,765</u>	<u>59,795</u>

6 TAX ON LOSS ON ORDINARY ACTIVITIES

	2006 £	2005 £
a) Analysis of tax credit		
Tax credit	-	-
	<u>-</u>	<u>-</u>
b) Factors affecting tax credit		
Loss for the year before taxation	<u>(3,642,602)</u>	<u>(2,443,898)</u>
UK corporation tax credit at 30% (2005 30%)	(1,092,781)	(733,169)
Effect of		
Capital allowances (greater)/less than depreciation	96,637	(13,805)
Expenses not deductible	15,914	8,850
Group relief	785,789	-
Losses not utilised or recognised	<u>194,441</u>	<u>738,124</u>
	<u>-</u>	<u>-</u>

There are no unprovided deferred tax liabilities held at 31 December 2006 (2005 £nil). A total of £2,642,766 (2005 £2,435,723) of brought forward losses and other deductions have also not been recognised as an asset within deferred tax, as it is not currently likely that suitable taxable profits will arise to offset the future reversal of these timing differences.

c) Factors affecting future tax

The future tax charge is anticipated to follow the UK statutory rate of corporation taxation. The UK statutory rate of corporation tax will reduce to 28% from 1 April 2008.

7 FIXED ASSETS

	Equipment under contractual agreement £	Computer equipment and environment £	Total £
<u>Cost or valuation</u>			
As at 1 January 2006	455,203	1,401,283	1,856,486
Additions	-	663,071	663,071
Transfer from parent company	-	339,235	339,235
Disposals	(455,203)	(342,172)	(797,375)
As at 31 December 2006	<u>-</u>	<u>2,061,417</u>	<u>2,061,417</u>
<u>Depreciation</u>			
As at 1 January 2006	71,893	614,280	686,173
Charge for the year	-	466,807	466,807
Transfer from parent company	-	210,220	210,220
Eliminated on disposal	(71,893)	(342,043)	(413,936)
As at 31 December 2006	<u>-</u>	<u>949,264</u>	<u>949,264</u>
<u>Net book value</u>			
As at 31 December 2006	<u>-</u>	<u>1,112,153</u>	<u>1,112,153</u>
As at 31 December 2005	<u>383,310</u>	<u>787,003</u>	<u>1,170,313</u>

CSF MANAGED SERVICES PLC

NOTES TO THE ACCOUNTS
for the year ended 31 December 2006

8 STOCK	2006	2005
	£	£
Goods for resale	96,642	-
	<u>96,642</u>	<u>-</u>
9 DEBTORS	2006	2005
	£	£
Trade debtors	324,677	519,697
Prepayments and accrued income	1,547,797	393,142
	<u>1,872,474</u>	<u>912,839</u>
10 CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR	2006	2005
	£	£
Trade creditors	260,774	198,304
Amounts owed to group undertakings	10,721,648	5,896,389
HP and finance lease creditors	20,021	-
Social security and other taxes	210,508	110,496
Accruals and deferred income	626,042	1,061,942
	<u>11,838,993</u>	<u>7,267,131</u>
11 CREDITORS AMOUNTS FALLING DUE AFTER ONE YEAR	2006	2005
	£	£
HP and finance lease creditors	<u>64,347</u>	<u>-</u>
The maturity of obligations under finance leases and hire purchase contracts is as follows		
	2006	2005
	£	£
Within one year	20,021	-
In the second to fifth years	64,347	-
Over five years	-	-
	<u>84,368</u>	<u>-</u>
12 CALLED UP SHARE CAPITAL	2006	2005
	£	£
Authorised, allotted, called up and fully paid £1 ordinary shares	<u>50,000</u>	<u>50,000</u>
13 PROFIT AND LOSS ACCOUNT	2006	2005
	£	£
Retained loss as at 1 January	(5,170,826)	(2,726,928)
Loss for the financial year	(3,642,602)	(2,443,898)
Retained loss as at 31 December	<u>(8,813,428)</u>	<u>(5,170,826)</u>
14 RECONCILIATION OF MOVEMENTS IN THE DEFICIT IN EQUITY SHAREHOLDERS' FUNDS	2006	2005
	£	£
Deficit in equity shareholders' funds as at 1 January	(5,120,826)	(2,676,928)
Loss for the financial year	(3,642,602)	(2,443,898)
Deficit in equity shareholders' funds as at 31 December	<u>(8,763,428)</u>	<u>(5,120,826)</u>

CSF MANAGED SERVICES PLC

NOTES TO THE ACCOUNTS for the year ended 31 December 2006

15 ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

At 31 December 2006, Computer Solutions & Finance Group plc was the ultimate holding company, however this company disposed of its interest in CSF Managed Services plc on 4 January 2007, when the ultimate holding company became Cantono plc

16 RELATED PARTY TRANSACTIONS

In the year, expenses were incurred by the company's parent company (at the balance sheet date), Computer Solutions & Finance Group plc, on behalf of the company and recharged to the company. These costs comprised financing and administrative expenses, employee costs (including directors' remuneration) and amounted to £2,085,469 for the year ended 31 December 2006 (2005 £1,061,460). At the year end, £10,721,648 was owed by the company to Computer Solutions & Finance Group plc (2005 £5,896,389).

The directors confirm that there were no other related party transactions which require disclosure in these financial statements.

17 CROSS GUARANTEES AND COMMITMENTS

The company was party to a group banking arrangement up until 4th January 2007 with the associate companies Computer Solutions & Finance Group Plc and CSF Solutions Limited (which was disposed of on 1st December 2006). As a result of this, the company was contingently liable for any overdrafts and other loans of the group companies within the arrangement. In addition the company was also party to a group VAT election and as such similar cross guarantees applied with all other group companies. Since the date of disposal this company is now part of the Cantono plc group VAT election.

The company had no committed future capital expenditure at the year end.

18 POST BALANCE SHEET EVENTS

On 5 January 2007, Cantono plc, an AIM listed company, acquired 100% of the ordinary share capital of the company in exchange for shares. Under the terms of the sale and purchase agreement, the inter company loan was written back to £750,000 prior to acquisition. Had this write back taken place at 31 December 2006, the company would have had net assets of £1,208,220 at the balance sheet date.

19 RECONCILIATION OF OPERATING LOSS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2006 £	2005 £
Operating loss	(3,548,837)	(2,384,103)
Depreciation on fixed assets	263,091	226,518
Increase in stocks	(96,642)	0
(Increase)/decrease in debtors	(959,635)	403,923
Increase in creditors	4,636,209	3,081,658
Net cash inflow from operating activities	294,186	1,327,996

20 ANALYSIS OF NET (DEBT)/FUNDS

	31 December 2005 £	Cash flow £	31 December 2006 £
Net cash			
Cash at bank and in hand	63,153	(4,510)	58,643
Other borrowings			
Finance leases	-	(84,368)	(84,368)
Net funds/(debt)	63,153	(88,878)	(25,725)

21 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2006 £	2005 £
(Decrease)/increase in cash in year	(4,510)	50,338
New finance leases	(84,368)	-
Movement in net (debt)/funds in the year	(88,878)	50,338
Opening net funds	63,153	12,815
Closing net (debt)/funds	(25,725)	63,153