

10 October 2017

**RedstoneConnect Plc**  
(“RedstoneConnect”, the “Group” or the “Company”)

**Interim Results for the Six Months Ended 31 July 2017**

RedstoneConnect (AIM: REDS), the leading provider of technology and services for smart buildings and commercial spaces, announces its unaudited interim results for the six months ended 31 July 2017.

**Financial Highlights:**

- Adjusted EBITDA\* up 12% to £1.0 million (FY17 H1: £0.9 million)
- Revenue from continuing operations of £20.1 million (FY17 H1: £20.8 million) with a strategic focus on higher margin contracts
- Increase in software revenues of 195% to £1.8 million (FY17 H1: £0.6 million)
- Gross margin from continuing operations of 27% (FY17 H1: 19%) an 800-basis points increase on prior year
- Adjusted basic EPS\*\* from continuing operations of 3.6 pence (FY17 H1: 4.0 pence)

\* Results for the period from continuing operations before net finance costs, depreciation, amortisation, integration and transactional items, impairment charges and share based payment charge.

\*\* Earnings for the period from continuing operations adjusted for integration and transactional items, impairment charges and share based payment charge.

**Operational Highlights:**

- Successful placing to raise £6.5 million (before costs) to fund the acquisition of Easter Road Holdings Ltd and its subsidiary Anders + Kern U.K. Ltd (“A+K”), as well as on-going development of the software division
  - Integration of A+K is now complete, providing complementary skill sets and making a positive contribution to the Group
  - Defined scope of funded product development underway and progressing well
- Completion of the 100:1 share consolidation and capital reduction
- Secured contract extension with UBM to deploy OneSpace to a further 10 office locations globally
- Continued roll-out of proprietary Connect Digital Platform retail software solution
  - Awarded a five-year software licence agreement for the centre:mk, Milton Keynes Smart Retail project
  - Secured a consulting and software mandate with TH Real Estate to develop solution for PEP shopping centre in Munich
- Awarded contract to install an IT cabling infrastructure throughout Tottenham Hotspur’s new 61,500 seat stadium
- Trading in-line with management expectations with strong pipeline of contracts across the Group heavily weighted for the second half

**Post Period End Highlights:**

- Contract secured to provide smart IT infrastructure to a major investment bank, worth £5.5 million
- Extension of deployment of In-Building Cellular (“IBC”) and Distributed Antenna Systems (“DAS”), with new projects secured with two major investment banks
- Continued investment and development of software solutions with the soft launch of OneSpace Link now completed, which will form an integral part of the OneSpace and the Connect platform

**Mark Braund, CEO of RedstoneConnect, commented:**

*“The Company has performed well in the first half of the year, with trading momentum weighted towards the second half. We continue to see good traction for our software solutions alongside our infrastructure and managed services capabilities, which is improving both the predictability and quality of our earnings.*

*“The integration of A+K is now complete and is contributing positively to the business, not only through the addition of services to the Group, but also the diversification of our routes to market for our existing products and IP. Coupled with our continued investment in product development across our software solutions division, we anticipate the next 12 months will be an exciting time for RedstoneConnect.”*

A copy of these interim results together with further information on the Company is available on the Company’s website at: [www.redstoneconnectplc.com](http://www.redstoneconnectplc.com).

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## CEO's Review

I am pleased to report another period of positive progress, with good trading momentum continuing across all three operating divisions. We have also seen a positive uplift in our margin profile both at Group level and across all our operating divisions, which resulted in an increased gross profit margin of 27% compared to 19% in the same period last year.

Revenues overall are marginally below the prior year at £20.1 million (FY17 H1: £20.8 million). Despite a strong performance from both our Services and Software divisions in the period, this was offset by a slow start to the year from our Systems Integration division. We expect increased contributions from this part of the business in the second half, supported by a strong order book and pipeline and remain confident in our performance for the full year.

The Services division, which comprises Managed Services, Professional Services and Maintenance, has performed well. I am particularly pleased with the progress in Professional Services, as we have delivered increased revenues in response to customer demand, and continue to identify material opportunities across the Group.

The Software division benefitted from client engagements for our Connect IB digital cloud retail solution for both the centre:mk, Milton Keynes Smart Retail and THRE in the period. Both projects are progressing well and we expect them to complete in the second half of the year. I am also pleased to see our OneSpace clients continuing to roll-out our agile workspace software solution across their global estates. Evidence of this includes the extension to our contract with UBM to deploy OneSpace at an additional 10 locations globally. We also expect further product deployment in the second half of the current financial year.

In May 2017, we completed the acquisition of Easter Road Holdings Ltd ("ERH"), along with its trading subsidiary Anders + Kern U.K Ltd ("A+K") for £1.4 million cash. This acquisition is strategically important for the Group as it not only adds depth to our key Systems Integration offering of audio visual solutions, but it also provides us with extensive meeting room management expertise as well as established additional routes to market for our software solutions.

In conjunction with the acquisition, the Group raised £6.5 million via a placing with institutional investors. The placing was oversubscribed and brought onto the share register a number of additional high quality institutional investors. The funds raised not only helped finance the acquisition but is also being strategically invested into executing a defined roadmap for our software development. We believe the support and appetite from investors in the raise reflects the scale of the opportunity we have in front of us as well as endorsing the Group's vision and strategy.

Development of the Group's software portfolio is progressing well and we anticipate the next tranche of new solutions to be completed in the second half of the current financial year. The most significant release this financial year will be the next iteration of our Connect platform, which delivers a cloud-based offering that integrates with all major cloud technologies including Amazon (AWS) and Microsoft, amongst others. Further software development will focus on specific modules within our platform, including further enhancement of OneSpace, our agile workspace occupancy management tool.

We continue to focus on productising our software offering, and developing our sales channels is a key component of this, with investment and development of our sales and marketing capability underway and the acquisition of A+K providing a catalyst to allow us to accelerate growth in both our direct and indirect routes to market.

Our indirect channel to market will further develop in a number of ways including partnering with product providers as well as developing a more traditional reseller and system integrator model. This channel will be important to the Group's success and we see current activities in this area gathering momentum, which we believe should provide increased revenue opportunities in the future.

The Company's ability to innovate remains key. An example of this are the two material DAS projects we secured post-period end to provide uninterrupted cellular services to the users of significant commercial properties in the UK; an increasingly important feature in providing access to smart technology features in large buildings. This is an area where we believe our expertise is ahead of the

market, and we are building a reputation as subject matter experts, which is very beneficial for the Group as the market continues to gather momentum.

I am regularly asked about Brexit and how it may affect our business. As we have had the benefit of time post the Brexit vote and the chance to listen to our clients, we continue to believe that Brexit presents opportunities for the Group. The outlook regarding Brexit is one we will continue to monitor, but current client activities in both the UK and Europe suggest there is reason to be optimistic and we will continue to ensure our investment decisions in these markets are aligned to facilitating growth in the business.

## **Outlook**

The board believes that RedstoneConnect is extremely well placed to capitalise on the structural shift in commercial real estate to deploy technology, which makes environments smart and engaging.

Customers have already experienced the positive commercial impact our solutions deliver across the productivity of their buildings and the way users engage with them. We have also seen the impact of providing innovative new products, higher margin services and, importantly, the impact of our software, which ultimately transforms the smart technology installed into the relevant applications bringing smart buildings to life.

We are confident that our evolving product offering will continue to resonate and our core software platform will continue driving engagement with key stakeholders across a variety of vertical markets including both private and public sector organisations.

We anticipate the next 12 months will be very exciting as we continue to evolve our smart building solutions in a market only beginning to recognise their importance. As a result, we will continue to seek to improve our financial performance by focussing on higher margin opportunities and in particular growing our software business through ongoing investment in IP as well as extending our routes to market, both in the UK and overseas.

I would like to thank all of my colleagues for their continued hard work, which is truly evident in our progress to date. I would also like to thank our investors for their continued support during the period and for enabling the board to develop and evolve its strategy to create long-term value.

I very much look forward to the future and to updating the market as we continue to progress.

**Mark Braund**  
Chief Executive Officer

10 October 2017

## Financial Results

Group revenue for the period at £20.1 million (FY17 H1: £20.8 million) is marginally below that of the comparative period. The Systems Integration business was responsible for all of the shortfall, with a strong pipeline weighting expected in the second half, however, this was offset by increased revenue performance in both Services and Software.

Encouragingly, group gross profit at £5.5 million (FY17 H1: £3.9 million) has increased by over 40%. The gross profit performance has been achieved largely thanks to the positive contribution from both the Services and Software divisions, with Group gross margin in the period at 27% (FY17 H1: 19% and FY17: 22%).

Group Adjusted EBITDA\* of £1.0 million (FY17 H1: £0.9 million) is a result of increased gross profit being offset by investment in overheads. During the period the Group incurred administrative expenses of £5.4 million (FY17 H1: £3.1 million). The increase comprises: the impact from investments made through acquisitions of £1.2 million; the impact from movement in integration and transactional items of £0.7 million (prior year income statement credit of £0.3 million versus current year charge of £0.4 million), with an additional £0.4 million from Group overheads which relates to investment in people and marketing activities of £0.2 million; and a further £0.2 million from a prior year credit to the income statement from an occupancy accrual reversal. The movement in integration and transactional items includes last year's provision reversal from the early exit from the Stokenchurch lease and the costs associated with this period's equity raise as well as transactional costs.

Operating profit at £0.1 million (FY17 H1: £0.8 million), which includes integration and transactional items, depreciation, amortisation and share based payments, decreased by £0.7 million during the period. The decrease in operating profit is primarily attributed to the prior period release of occupancy provisions recorded as an integration and transaction item of £0.4 million and the release of an occupancy accrual of £0.2 million, with a combined credit to the prior period Income Statement of £0.6 million.

Operating profit from continuing operations before exceptional items at £0.5 million is flat against the comparable period of £0.5 million.

Profit before taxation of £0.1 million represents a £0.7 million decrease on the prior period (FY17 H1: £0.8 million). This can be primarily attributed to the £0.6 million credits in the prior period in relation to the early exit of the Stokenchurch property lease described above.

The comparable period's Income Statement for the six months ended 31 July 2016 also benefitted from a credit from discontinued operations of £0.4 million. The credit arose from the deconsolidation of the various telecom companies as a result of entering into a voluntary liquidation process.

Basic earnings per share from continuing operations during the period is 0.5 pence (FY17 H1: 5.4 pence) on reported profit after taxation of £0.1 million (FY17 H1: £0.8 million). The comparable period's EPS benefitted from both the credit recorded in transactional items and reversal of the property accrual in relation to Stokenchurch.

Adjusted basic earnings\*\* per share from continuing operations for the period is 3.6 pence (FY17 H1: 4.0 pence), resulting from adjusted earnings of £0.6 million (FY17 H1: £0.6 million). The adjusted basic earnings\*\* per share from continuing operations results from reduced profitability in the Systems Integration business and the increase in issued equity from the share placing on 9 May 2017.

\* Results for the period from continuing operations before net finance costs, depreciation, amortisation, integration and transactional items, impairment charges and share based payment charge

\*\* Earnings for the period from continuing operations adjusted for integration and transactional items, impairment charges and share based payment charge.

## Acquisition

On 9 May 2017, the Group acquired Easter Road Holding Ltd and its 100% owned subsidiary Anders + Kern U.K. Ltd ("A+K") for £1.4 million, which was fully settled in cash on completion. A+K is a meeting

room and audio-visual integrator and it is anticipated that the acquisition will generate additional sales for both the Systems Integration and Software segments. As a result of the acquisition, intangible assets recognised under IFRS were £0.2 million and goodwill recorded on consolidation was £1.1 million.

## **Segmental reporting**

### **Systems Integration**

Revenue for the period at £9.2 million (FY17 H1: £12.5 million) fell by 26% on the prior period. However, the profitability of projects at 16% (FY17 H1: 14%) generated £1.5 million (FY17 H1: £1.7 million) of gross profit in the period, a reduction of only 13%. Adjusted EBITDA\* for the period of £0.1 million (FY17 H1: £0.3 million) was down £0.3 million against the prior period, as the shortfall at the gross contribution level flowed down to Adjusted EBITDA\*.

### **Services**

Services revenue at £9.1 million (FY17 H1: £7.7 million) increased by 18% and gross contribution at £2.5 million (FY17: £1.7 million) was up 50%. The acquisition of Commensus Plc in November 2016 and its higher margin service offerings have contributed to the increase in gross profit percentage in this segment from 22% to 28%. Adjusted EBITDA\* for the period at £1.2 million (FY17 H1: £0.9 million) reflects the improvement in gross contribution being offset in part by higher overheads primarily associated with acquisition of Commensus Plc.

### **Software**

The Software segment delivered 195% revenue growth during the period at £1.8 million (FY17 H1: £0.6 million). The newly acquired A+K entity contributed £0.3 million of this increase through sales of software solutions in meeting room management. Gross margin remained strong at 84% (FY17 H1: 82%) contributing £1.5 million to gross profit in the period (FY17 H1: £0.5 million). Adjusted EBITDA\* for the period of £0.6 million (FY17 H1: £0.1 million) has been achieved through increased revenue performance, offset by investment in overheads as we look to grow the software segment.

## **Investment in product development**

Investment in development of the Group's software for the period amounted to £0.5 million (FY17 H1: nil). This investment has been capitalised in the balance sheet and is included within intangible assets.

## **Changes in equity**

During the period, the Company effected a share consolidation, reducing the ordinary share capital by a factor of 100:1 which was approved by shareholders at the AGM held on 5 June 2017. The effect of the share consolidation was to consolidate 2.1 billion 0.1p ordinary shares into 20.1 million 10p ordinary shares. The Company also effected a capital reduction to eliminate the deficit on distributable reserves to allow the Company, subject to future performance, to pay a dividend and/or buy back its own ordinary shares. The capital reduction incorporated the cancellation of the Company's deferred shares, cancellation of the share premium account, and the capitalisation and subsequent cancellation of the merger reserve. The capital reduction was approved by the High Court on 28 June 2017.

The Group's net equity of £20.9 million (FY17: £14.5 million) increased £6.4 million during the period, primarily as a result of the new equity raised during the period.

## **Cash flow**

Cash generated from operations before movements in working capital amounted to £0.6 million (FY17 H1: £0.6 million). Investment in working capital of £4.5 million (FY17 H1: £1.9 million), of which £2.0 million was in receivables and £2.5 million resulted from reducing payables, resulted in a net cash used in operations figure of £3.9 million (FY17 H1: £1.3 million net cash used in operations). The investment in working capital is in part a result of the Systems Integration segment due to the timing of project delivery and settlement of supplier balances.

Cash outflows from investing activities during the period amounted to £2.0 million (FY17 H1: £1.3 million), comprising the acquisition of Easter Road Holdings Ltd (net of cash acquired of £0.1 million) for £1.3 million, investment in software development of £0.5 million and capital expenditure of £0.2 million.

Cash inflows from financing activities in the period of £5.9 million (FY17 H1: £4.5 million) comprised the proceeds from the placing in May 2017 of £6.2 million (net of associated fees) offset by the repayment of existing loans and interest of £0.4 million.

The above cash flows resulted in a cash balance at the period end of £3.1 million (FY17 H1: £2.9 million) and a net cash position of £0.8 million (FY17 H1: £1.3 million). The Group had the benefit of an undrawn debt facility at the period end of £2.0 million (FY17 H1: £1.5 million drawn facility).

**Spencer Dredge**  
Chief Financial Officer

10 October 2017

## Consolidated Income Statement

For the six months ended 31 July 2017

|  | Note | Six months to 31 July 2017<br>Unaudited<br>£000 | Six months to 31 July 2016<br>Unaudited<br>£000 | Year ended 31 January 2017<br>Audited<br>£000 |
|--|------|---|---|---|
| <b>Continuing operations</b>   |      |   |   |   |
| Revenue  | 4    | 20,119  | 20,810  | 41,521  |
| Cost of sales  |      | (14,622)  | (16,918)  | (32,297)                                      |
| Gross profit   |      | 5,497   | 3,892   | 9,224   |
| Administrative expenses  |      | (5,373)   | (3,064)   | (8,033)                                       |
| Operating profit   |      | 124   | 828   | 1,191   |
| Adjusted EBITDA*   |      | 978   | 876   | 2,010   |
| Integration and transactional costs                                    |      | (353)   | 340   | 211   |
| Depreciation   |      | (187)   | (195)   | (424)   |
| Amortisation   |      | (228)   | (153)   | (371)   |
| Share based payment charge   |      | (86)  | (40)  | (89)  |
| Impairment charge  |      | -   | -   | (146)   |
| Operating profit   |      | 124   | 828   | 1,191   |
| Net finance (expense)/income   |      | (70)  | 5   | (37)  |
| Profit for the period before tax                                       |      | 54  | 833   | 1,154   |
| Taxation   |      | 30  | 7   | 635   |
| <b>Profit for the period after tax</b>                                 | 4    | <b>84</b>                                       | <b>840</b>                                      | <b>1,789</b>                                  |
| (Loss)/profit from discontinued operations, net of tax                 |      | (6)   | 401   | 316   |
| <b>Profit for the period</b>   |      | <b>78</b>                                       | <b>1,241</b>                                    | <b>2,105</b>                                  |
| Total comprehensive profit for the period attributed to equity holders |      | 78  | 1,241   | 2,105   |
| <b>Basic earnings per share</b>  |      |   |   |   |
| Continuing operations  | 6    | 0.5p  | 5.4p  | 11.1p   |
| Discontinued operations  | 6    | 0.0p  | 2.5p  | 2.0p  |
| Total  | 6    | 0.5p  | 7.9p  | 13.1p   |
| <b>Diluted earnings per share</b>                                      |      |   |   |   |
| Continuing operations  | 6    | 0.4p  | 5.4p  | 10.1p   |
| Discontinued operations  | 6    | 0.0p  | 2.5p  | 1.8p  |
| Total  | 6    | 0.4p  | 7.9p  | 11.9p   |

\* Results for the period from continuing operations before net finance costs, depreciation, amortisation, integration and transactional items, impairment charges and share based payment charge.

The profit/(loss) for the period equates to the comprehensive income/(expense) for the period.

**Consolidated Statement of Financial Position as at 31 July 2017**

|   | 31 July<br>2017<br>Unaudited<br>£000 | 31 July<br>2016<br>Unaudited<br>£000 | 31 January<br>2017<br>Audited<br>£000 |
|---|--------------------------------------|--------------------------------------|---------------------------------------|
| <b>ASSETS</b>   |                                      |                                      |                                       |
| <b>Non-current assets</b>                                     |                                      |                                      |                                       |
| Goodwill  | 12,202                               | 9,544                                | 11,087                                |
| Other intangible assets                                       | 3,747                                | 1,616                                | 3,222                                 |
| Property, plant and equipment                                 | 1,638                                | 543                                  | 906                                   |
| Deferred tax  | 2                                    | -                                    | 62                                    |
|   | <b>17,589</b>                        | <b>11,703</b>                        | <b>15,277</b>                         |
| <b>Current assets</b>   |                                      |                                      |                                       |
| Inventories   | 285                                  | 152                                  | 143                                   |
| Trade and other receivables                                   | 10,759                               | 10,398                               | 8,779                                 |
| Cash and cash equivalents                                     | 6,687                                | 2,954                                | 4,468                                 |
|   | <b>17,731</b>                        | <b>13,504</b>                        | <b>13,390</b>                         |
| <b>Total assets</b>   | <b>35,320</b>                        | <b>25,207</b>                        | <b>28,667</b>                         |
| <b>EQUITY and LIABILITIES</b>                                 |                                      |                                      |                                       |
| <b>Capital and reserves attributed to equity shareholders</b> |                                      |                                      |                                       |
| Share capital   | 2,078                                | 3,675                                | 3,687                                 |
| Share premium   | -                                    | 32,452                               | 32,589                                |
| Merger reserve  | -                                    | 1,911                                | 1,911                                 |
| Reverse acquisition reserve                                   | (4,236)                              | (4,236)                              | (4,236)                               |
| Accumulated deficit   | 23,043                               | (20,383)                             | (19,470)                              |
| <b>Total equity</b>   | <b>20,885</b>                        | <b>13,419</b>                        | <b>14,481</b>                         |
| <b>Current liabilities</b>                                    |                                      |                                      |                                       |
| Overdraft   | 3,545                                | 45                                   | 1,273                                 |
| Bank loans  | 679                                  | 104                                  | 653                                   |
| Trade and other payables                                      | 8,338                                | 9,606                                | 10,318                                |
| Corporation tax   | 50                                   | -                                    | 11                                    |
| Provisions  | -                                    | 136                                  | -                                     |
|   | <b>12,612</b>                        | <b>9,891</b>                         | <b>12,255</b>                         |
| <b>Non-current liabilities</b>                                |                                      |                                      |                                       |
| Deferred tax  | -                                    | 240                                  | -                                     |
| Bank loans  | 1,685                                | 1,500                                | 1,762                                 |
| Provisions  | 138                                  | 157                                  | 169                                   |
| <b>Total liabilities</b>                                      | <b>14,435</b>                        | <b>11,788</b>                        | <b>14,186</b>                         |
| <b>Total equity and liabilities</b>                           | <b>35,320</b>                        | <b>25,207</b>                        | <b>28,667</b>                         |

## Consolidated Statement of Cash Flows

For the six months ended 31 July 2017

|  | Six months to<br>31 July 2017<br>Unaudited<br>£000 | Six months to<br>31 July 2016<br>Unaudited<br>£000 | Year ended 31<br>January 2017<br>Audited<br>£000 |
|--|--|--|--|
| <b>Cash flows from operating activities</b>                |  |  |  |
| Profit for the period                                      | 78   | 1,241  | 2,105  |
| Depreciation   | 187  | 195  | 424  |
| Amortisation   | 228  | 153  | 371  |
| Share based payments                                       | 86   | 40   | 89   |
| Net finance costs/(income)                                 | 70   | (5)  | 37   |
| Taxation   | (30)   | (7)  | (635)  |
| Intangible asset impairment                                | -  | -  | 146  |
| Movement in provisions                                     | (30)   | (1,085)  | (610)  |
| Loss on sale of discontinued operation, net of tax         | -  | 40   | -  |
| Operating cash flows before movements in working capital   | 589  | 572  | 1,927  |
| Decrease in inventories                                    | 31   | 29   | 37   |
| Increase in receivables                                    | (1,995)  | (2,201)  | (133)  |
| (Decrease)/increase in payables                            | (2,526)  | 285  | (270)  |
| Movement in provisions                                     | -  | -  | (687)  |
| Operating cash flows after movements in working capital    | (3,901)  | (1,315)  | 874  |
| Tax refunded   | -  | -  | 39   |
| Net cash (used)/generated in operating activities          | (3,901)  | (1,315)  | 913  |
| <b>Cash flows from investing activities</b>                |  |  |  |
| Development expenditure                                    | (511)  | -  | (367)  |
| Acquisition of subsidiaries (net of cash acquired)         | (1,254)  | (978)  | (3,140)  |
| Acquisition of intangible assets                           | (35)   | (223)  | (138)  |
| Acquisition of property, plant and equipment               | (206)  | (83)   | (351)  |
| Net cash used in investing activities                      | (2,006)  | (1,284)  | (3,996)  |
| <b>Cash flows from financing activities</b>                |  |  |  |
| Proceeds from issues of share capital (net of issue costs) | 6,240  | 2,978  | 2,979  |
| Loan drawn   | 1,150  | 1,500  | 3,789  |
| Loan repaid  | (1,467)  | (22)   | (1,500)  |
| Interest paid  | (70)   | 5  | (37)   |
| Net cash from financing activities                         | 5,853  | 4,461  | 5,231  |
| Net increase in cash and cash equivalents                  | (54)   | 1,862  | 2,148  |
| <b>Cash and cash equivalents at start of period</b>        | <b>3,195</b>                                       | <b>1,047</b>                                       | <b>1,047</b>                                     |
| <b>Cash and cash equivalents at end of period</b>          | <b>3,141</b>                                       | <b>2,909</b>                                       | <b>3,195</b>                                     |

## Consolidated Statement of Changes in Equity

For the six months ended 31 July 2017

|                                      | Share capital<br>£000 | Share premium /<br>merger reserve<br>£000 | Reverse<br>acquisition<br>reserve<br>£000 | Accumulated<br>deficit<br>£000 | Total<br>£000 |
|--------------------------------------|-----------------------|---|---|--------------------------------|---------------|
| At 1 February 2016                   | 3,436                 | 31,374                                    | (4,236)                                   | (21,664)                       | 8,910         |
| Profit for the period                | -                     | -   | -   | 1,241                          | 1,241         |
|                                      | -                     | -   | -   | 1,241                          | 1,241         |
| <b>Transactions with the owners:</b> |                       |   |   |                                |               |
| Proceeds from shares issued          | 239                   | 3,136                                     | -   | -                              | 3,375         |
| Share issue costs                    | -                     | (147)                                     | -   | -                              | (147)         |
| Share based payment charge           | -                     | -   | -   | 40                             | 40            |
| At 31 July 2016                      | 3,675                 | 34,363                                    | (4,236)                                   | (20,383)                       | 13,419        |
| Profit for the period                | -                     | -   | -   | 864                            | 864           |
|                                      | -                     | -   | -   | 864                            | 864           |
| <b>Transactions with the owners:</b> |                       |   |   |                                |               |
| Proceeds from shares issued          | 12                    | 136                                       | -   | -                              | 148           |
| Share issue costs                    | -                     | 1   | -   | -                              | 1             |
| Share based payment charge           | -                     | -   | -   | 49                             | 49            |
| At 31 January 2017                   | 3,687                 | 34,500                                    | (4,236)                                   | (19,470)                       | 14,481        |
| Profit for the period                | -                     | -   | -   | 78                             | 78            |
|                                      | -                     | -   | -   | 78                             | 78            |
| <b>Transactions with the owners:</b> |                       |   |   |                                |               |
| Proceeds from shares issued          | 433                   | 6,067                                     | -   | -                              | 6,500         |
| Share issue costs                    | -                     | (260)                                     | -   | -                              | (260)         |
| Capital reduction                    | (2,042)               | (40,307)                                  | -   | 42,349                         | -             |
| Share based payment charge           | -                     | -   | -   | 86                             | 86            |
| <b>At 31 July 2017</b>               | <b>2,078</b>          | <b>0</b>                                  | <b>(4,236)</b>                            | <b>23,043</b>                  | <b>20,885</b> |

## **Notes to the Interim Financial Information**

### **1. Basis of Preparation**

The unaudited interim report for the six months to 31 July 2017 does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006. The comparative figures for the year ended 31 January 2017 are extracted from the statutory financial statements which have been reported on by the Company's auditor, KPMG LLP, and have been delivered to the Registrar of Companies. The report of the auditor on those accounts was unqualified and did not contain statements under Section 498 to 502 of the Companies Act 2006.

The consolidated interim financial information has been prepared in accordance with International Financial Reporting Standards and on the historical cost basis, using generally recognised accounting principles consistent with those used in the annual report and accounts for the year ended 31 January 2017 and expected to be used for the year ending 31 January 2018.

This interim report for the six months to 31 July 2017, which complies with IAS 34 'Interim Financial Reporting', was approved by the Board on 10 October 2017.

Hard copies of this interim report are available from the Company at its registered office at 40 Holborn Viaduct, London, EC1N 2PB. This interim report will also be made available on the Company's website, [www.redstoneconnectplc.com](http://www.redstoneconnectplc.com).

### **2. Significant Accounting Policies**

The accounting policies and methods of computation applied are consistent with those of the annual financial statements for the year ended 31 January 2017, as described in those annual financial statements.

### 3. Business Combinations

On 9 May 2017 (prior to the Group's share consolidation), RedstoneConnect acquired 100% of the share capital of Easter Road Holding Limited ("ERH"), and its 100% owned subsidiary Anders + Kern U.K. Limited ("A+K"), for a total consideration of £1.4 million. Deal costs of £0.1 million were incurred and recorded under integration and transactional items in the Income Statement. The transaction was satisfied fully by cash which was financed out of the placing of 433,333,334 new ordinary shares of 0.1 pence each at a price of 1.5 pence per share, raising £6.5 million, before expenses.

The acquisition of ERH is in line with RedstoneConnect's strategy of developing its core Redstone business through both organic and acquisitive growth. In addition, this acquisition offers significant synergies for the enlarged group in terms of potential new clients for RedstoneConnect and a channel to market for the Group product and services. It is anticipated that this acquisition will contribute to both the Systems Integration and Software segments.

The book value of the ERH net assets acquired and their fair values are summarised below:

|  | Book Value<br>£000 | Fair value Adjustments<br>£000 | Fair value to Group<br>£000 |
|--|--------------------|--------------------------------|-----------------------------|
| Intangible assets                              | -                  | 207                            | 207                         |
| Property, plant and equipment                  | 715                | -                              | 715                         |
| Current assets                                 | 303                | -                              | 303                         |
| Current liabilities                            | (548)              | (36)                           | (584)                       |
| Non-current liabilities                        | (266)              | -                              | (266)                       |
| Deferred tax liability                         | (50)               | (40)                           | (90)                        |
|  | 154                | 131                            | 285                         |
| Fair value of net assets acquired              |                    |                                | 285                         |
| Goodwill                                       |                    |                                | 1,115                       |
| Total consideration                            |                    |                                | 1,400                       |
| Discharged by:                                 |                    |                                |                             |
| Cash   |                    |                                | 1,400                       |
|  |                    |                                | 1,400                       |
| Cash consideration                             |                    |                                | 1,400                       |
| Less: cash acquired                            |                    |                                | (145)                       |
| Total cash consideration, net of cash acquired |                    |                                | 1,255                       |

On acquisition the RedstoneConnect Plc directors assessed the business acquired to identify any intangible assets. Brand and related customer relationships met the criteria for recognition as an intangible asset as it was separable and had a measurable fair value, being the amount for which an asset would be exchanged between knowledgeable and willing parties in an arm's length transaction. The fair value of the brand and related customer relationships intangible asset was calculated using the royalty relief method arising from the existing client base. Attrition rates of 12% were applied, royalty rates of 1%, discount rates of 13.6%, and the reasonable economic life of the brand and customer relationships were assumed to be 10 years.

The identifiable intangible assets and related deferred tax liability are as follows:

|                                  | Fair value to Group<br>£000 |
|----------------------------------|-----------------------------|
| Brand and customer relationships | 207                         |
| Deferred tax liability           | (40)                        |

#### 4. Segmental Analysis

In the opinion of the Directors the Group's activities comprise three material business segments which reflect the profiles of the risks, rewards and internal reporting structures within the Group.

These are as follows:

- Systems Integration
- Managed Services
- Software

All activities were conducted within the United Kingdom and it is the opinion of the Directors that this represents one geographical segment.

##### Six months ended 31 July 2017:

|   | Systems<br>Integration | Managed<br>Services | Software     | Group<br>Overhead | Total        |
|---|------------------------|---------------------|--------------|-------------------|--------------|
|   | £000                   | £000                | £000         | £000              | £000         |
| Revenue   | 9,226                  | 9,114               | 1,779        | -                 | 20,119       |
| Cost of sales   | (7,738)                | (6,594)             | (290)        | -                 | (14,622)     |
| <b>Gross profit</b>   | <b>1,488</b>           | <b>2,520</b>        | <b>1,489</b> | <b>-</b>          | <b>5,497</b> |
| Administrative expenses   | (1,424)                | (1,317)             | (911)        | (867)             | (4,519)      |
| <b>Adjusted EBITDA/(LBITDA)*</b>  | <b>64</b>              | <b>1,203</b>        | <b>578</b>   | <b>(867)</b>      | <b>978</b>   |
| Integration and transactional costs included within administrative expenses | (1)                    | (24)                | (153)        | (175)             | (353)        |
| Depreciation  | (40)                   | (129)               | (17)         | (1)               | (187)        |
| Amortisation  | (26)                   | (139)               | (63)         | -                 | (228)        |
| Share based payment charge  | (18)                   | (28)                | (5)          | (35)              | (86)         |
| <b>Operating profit/(loss)</b>  | <b>(21)</b>            | <b>883</b>          | <b>340</b>   | <b>(1,078)</b>    | <b>124</b>   |
| Net finance costs   | (1)                    | -                   | (19)         | (50)              | (70)         |
| <b>Profit/(loss) before taxation</b>  | <b>(22)</b>            | <b>883</b>          | <b>321</b>   | <b>(1,128)</b>    | <b>54</b>    |
| Taxation  | -                      | 17                  | 13           | -                 | 30           |
| <b>Profit/(loss) after taxation</b>   | <b>(22)</b>            | <b>900</b>          | <b>334</b>   | <b>(1,128)</b>    | <b>84</b>    |

##### Six months ended 31 July 2016:

|   | Systems<br>Integration | Managed<br>Services | Software   | Group<br>Overhead | Total        |
|---|------------------------|---------------------|------------|-------------------|--------------|
|   | £000                   | £000                | £000       | £000              | £000         |
| Revenue   | 12,473                 | 7,733               | 604        | -                 | 20,810       |
| Cost of sales   | (10,756)               | (6,053)             | (109)      | -                 | (16,918)     |
| <b>Gross profit</b>   | <b>1,717</b>           | <b>1,680</b>        | <b>495</b> | <b>-</b>          | <b>3,892</b> |
| Administrative expenses   | (1,370)                | (793)               | (368)      | (485)             | (3,016)      |
| <b>Adjusted EBITDA/(LBITDA)*</b>  | <b>347</b>             | <b>887</b>          | <b>127</b> | <b>(485)</b>      | <b>876</b>   |
| Integration and transactional costs included within administrative expenses | -                      | (13)                | -          | 353               | 340          |
| Depreciation  | (59)                   | (132)               | (4)        | -                 | (195)        |
| Amortisation  | (33)                   | (70)                | (1)        | (49)              | (153)        |
| Share based payment charge  | (2)                    | (4)                 | -          | (34)              | (40)         |
| <b>Operating profit/(loss)</b>  | <b>253</b>             | <b>668</b>          | <b>122</b> | <b>(215)</b>      | <b>828</b>   |
| Net finance costs   | -                      | -                   | -          | 5                 | 5            |
| <b>Profit/(loss) before taxation</b>  | <b>253</b>             | <b>668</b>          | <b>122</b> | <b>(210)</b>      | <b>833</b>   |
| Taxation  | -                      | -                   | 7          | -                 | 7            |
| <b>Profit/(loss) after taxation</b>   | <b>253</b>             | <b>668</b>          | <b>129</b> | <b>(210)</b>      | <b>840</b>   |

Year ended 31 January 2017:

|   | Systems<br>Integration<br>£000 | Managed<br>Services<br>£000 | Software<br>£000 | Group<br>Overhead<br>£000 | Total<br>£000 |
|---|--------------------------------|-----------------------------|------------------|---------------------------|---------------|
| Revenue   | 24,586                         | 15,310                      | 1,625            | -                         | 41,521        |
| Cost of sales   | (20,502)                       | (11,596)                    | (199)            | -                         | (32,297)      |
| <b>Gross profit</b>   | <b>4,084</b>                   | <b>3,714</b>                | <b>1,426</b>     | <b>-</b>                  | <b>9,224</b>  |
| Administrative expenses   | (3,002)                        | (1,755)                     | (1,083)          | (1,374)                   | (7,214)       |
| <b>Adjusted EBITDA/(LBITDA)*</b>  | <b>1,082</b>                   | <b>1,959</b>                | <b>343</b>       | <b>(1,374)</b>            | <b>2,010</b>  |
| Integration and transactional costs included within administrative expenses | (9)                            | (50)                        | (77)             | 347                       | 211           |
| Depreciation  | (122)                          | (281)                       | (20)             | (1)                       | (424)         |
| Amortisation  | (70)                           | (183)                       | (118)            | -                         | (371)         |
| Impairment of intangible assets   | -                              | -                           | (146)            | -                         | (146)         |
| Share based payment charge  | (7)                            | (13)                        | (1)              | (68)                      | (89)          |
| <b>Operating profit/(loss)</b>  | <b>874</b>                     | <b>1,432</b>                | <b>(19)</b>      | <b>(1,096)</b>            | <b>1,191</b>  |
| Net finance costs   | (2)                            | (6)                         | 3                | (32)                      | (37)          |
| <b>Profit/(loss) before taxation</b>  | <b>872</b>                     | <b>1,426</b>                | <b>(16)</b>      | <b>(1,128)</b>            | <b>1,154</b>  |
| Taxation  | 606                            | 6                           | 23               | -                         | 635           |
| <b>Profit/(loss) after taxation</b>   | <b>1,478</b>                   | <b>1,432</b>                | <b>7</b>         | <b>(1,128)</b>            | <b>1,789</b>  |

5. Integration and Transactional items

|                                     | Six months to<br>July 2017<br>£000 | Six months to<br>July 2016<br>£000 | Year ended 31<br>January 2017<br>£000 |
|-------------------------------------|------------------------------------|------------------------------------|---------------------------------------|
| Integration costs                   | 165                                | (783)                              | (380)                                 |
| Transactional items                 | 194                                | 41                                 | 171                                   |
| Deconsolidation credits             | -                                  | -                                  | (318)                                 |
|                                     | 359                                | (742)                              | (527)                                 |
| Integration and transactional items |                                    |                                    |                                       |
| Continued operations                | 353                                | (340)                              | (211)                                 |
| Discontinued operations             | 6                                  | (402)                              | (316)                                 |
|                                     | 359                                | (742)                              | (527)                                 |

The integration costs include both employee and other restructuring costs such as provisions in respect of onerous contracts. Employee costs include salary, redundancy and other exit costs. In the prior year, transactional items include the costs involved with the acquisition of Connect IB Limited and Commensus Plc as well as fees in respect of the share placing. The deconsolidation credits in the prior year represent the unwinding of the balance of provisions made in full year 2016 connected to the former telecoms division in relation to onerous occupancy leases and legacy supplier disputes after settlement was reached and £70,000 was paid in relation to those disputes.

The integration, transactional and deconsolidation charge of £359,000 (FY17 H1: £742,000 credit; FY17: £527,000 credit) comprises £353,000 charge from continued operations (FY17 H1: £340,000 credit; FY17: £211,000 credit) and £6,000 charge from discontinued operations (FY17 H1: £402,000 credit; FY17: £318,000 credit).

## 6. Earnings/(loss) per Share

On 5 June 2017, the Group held its AGM at which the Board proposed a share consolidation whereby every 100 'Existing Ordinary Share' with a nominal value of 0.1 pence would be consolidated into one 'New Issued Ordinary Share' with a nominal value of 10 pence each. This resolution was approved by the shareholders at the AGM and subsequently the consolidation took effect on 6 June 2017.

The 'weighted average ordinary share in issue' and 'weighted average potential diluted shares in issue' values used in the earning per share calculations for the six months ended 31 July 2016 and the year ended 31 January 2017 have been restated to reflect the position had the share consolidation been in affect at those reporting dates.

|  | Continued Operations                        |   |  |
|--|---|---|--|
|  | Six months<br>ended 31 July<br>2017<br>£000 | Six months<br>ended 31 July<br>2016<br>£000 | Year ended 31<br>January<br>2017<br>£000 |
| <b>Profit for the year</b>                                     | 84  | 840   | 1,789                                    |
| <b>Adjustments to basic earnings:</b>                          |   |   |  |
| Integration and transactional costs                            | 353   | (340)                                       | (211)                                    |
| Tax credit on integration and transactional costs              | (67)  | 65  | 40                                       |
| Intangible asset amortisation                                  | 228   | 49  | 372                                      |
| Deferred tax credit on intangible asset amortisation           | (43)  | (9)   | (71)                                     |
| Impairment of intangible assets                                | -   | -   | 146                                      |
| Tax credit on impairment of intangible assets                  | -   | -   | (28)                                     |
| Share based payment charge                                     | 86  | 40  | 90                                       |
| Deferred tax credit on share based payment charge              | (16)  | (8)   | (17)                                     |
| <b>Adjusted earnings attributable to owners of the company</b> | <b>625</b>                                  | <b>637</b>                                  | <b>2,110</b>                             |
| <b>Number of shares</b>  | <b>No.</b>                                  | <b>No.</b>                                  | <b>No.</b>                               |
| Weighted average ordinary shares in issue                      | 17,436,850                                  | 15,741,660                                  | 16,068,962                               |
| Weighted average potential diluted shares in issue             | 19,053,157                                  | 15,741,660                                  | 17,685,269                               |
| <b>Earnings per share</b>                                      |   |   |  |
| Basic earnings per share                                       | 0.5p  | 5.4p  | 11.1p                                    |
| Diluted earnings per share                                     | 0.4p  | 5.4p  | 10.1p                                    |
| <b>Adjusted earnings per share</b>                             |   |   |  |
| Basic earnings per share                                       | 3.6p  | 4.0p  | 13.1p                                    |
| Diluted earnings per share                                     | 3.3p  | 4.0p  | 11.9p                                    |

|  | <b>Discontinued Operations</b>                        |   |  |
|--|---|---|--|
|  | <b>Six months<br/>ended 31 July<br/>2017<br/>£000</b> | <b>Six months<br/>ended 31 July<br/>2016<br/>£000</b> | <b>Year ended 31<br/>January<br/>2017<br/>£000</b> |
| <b>Profit for the year</b>                                     | (6)   | 402   | 316  |
| <b>Adjustments to basic earnings:</b>                          |   |   |  |
| Integration and transactional costs                            | 6   | (402)   | (318)  |
| Tax credit on integration and transactional costs              | (1)   | 76  | 60   |
| <b>Adjusted earnings attributable to owners of the company</b> | <b>(1)</b>  | <b>76</b>   | <b>58</b>  |
| <b>Number of shares</b>  | <b>No.</b>  | <b>No.</b>  | <b>No.</b>   |
| Weighted average ordinary shares in issue                      | 17,436,850  | 15,741,660  | 16,068,962   |
| Weighted average potential diluted shares in issue             | 19,053,157  | 15,741,660  | 17,685,269   |
| <b>(Loss)/earnings per share</b>                               |   |   |  |
| Basic (loss)/earnings per share                                | 0.0p  | 2.5p  | 2.0p   |
| Diluted (loss)/earnings per share                              | 0.0p  | 2.5p  | 1.8p   |
| <b>Adjusted (loss)/earnings per share</b>                      |   |   |  |
| Basic (loss)/earnings per share                                | 0.0p  | 0.5p  | 0.4p   |
| Diluted (loss)/earnings per share                              | 0.0p  | 0.5p  | 0.3p   |

## 7. Share capital and reserves

On 5 June 2017 the Group held its AGM, at which the Board proposed a share consolidation whereby every 100 'Existing Ordinary Share' with a nominal value of 0.1 pence be consolidated into one 'New Issued Ordinary Share' with a nominal value of 10 pence.

In addition, the Directors felt it appropriate to seek shareholder approval at the AGM to effect a Reduction of Capital with the effect of;

- (a) cancel all of the legacy Deferred Shares;
- (b) cancel the Company's share premium account; and
- (c) capitalise the Company's merger reserve as a Capital Reduction Share ahead of cancelling the share

The Directors then proposed to apply the reserve arising to eliminate the Company's accumulated deficit on its profit and loss account and to create distributable profits on the balance sheet of the Company of approximately £6,603,626. The Directors believe that, subject to the future performance of the Group, this should give the Company the ability to make distributions to Shareholders and/or buy back its own ordinary shares in the future if, as and when the Directors may consider that it is appropriate to do so.

Following approval by shareholders of the proposed resolution, the share consolidation based on every 100 existing ordinary shares of 0.1 pence being consolidated into one new ordinary share of 10 pence (the "Share Consolidation"), the 2,078,479,485 shares of 0.1 pence in the issued share capital of the Company (the "Existing Issued Share Capital") were consolidated into 20,784,795 ordinary shares of 10 pence each (the "New Issued Ordinary Shares"), effective 6 June 2017.

Furthermore, following approval by shareholders at the AGM and subsequent approval being granted by the Courts on 28 June 2017 for the proposed cancellation of the deferred shares and premium account, as well as the capital reduction, the Parent Company reserves were amended to reflect these changes on 28 June 2017. The movement in issued and fully paid ordinary share capital detailed below reflect these changes.

|                                    | 31 July<br>2017 | 31 July<br>2016 | 31 January<br>2017 | 31 July<br>2017 | 31 July<br>2016 | 31 January<br>2017 |
|------------------------------------|-----------------|-----------------|--------------------|-----------------|-----------------|--------------------|
|                                    | No.             | No.             | No.                | £000            | £000            | £000               |
| Allotted, called up and fully paid |                 |                 |                    |                 |                 |                    |
| Ordinary shares of 10.0p each      | 20,784,795      | 16,331,696      | 16,451,461         | 2,078           | 1,633           | 1,645              |
| Deferred shares of 1.0p each       | -               | 1,271,440       | 1,271,440          | -               | 1,271           | 1,271              |
| Deferred shares of 0.1p each       | -               | 7,707,140       | 7,707,140          | -               | 771             | 771                |
|                                    |                 |                 |                    | 2,078           | 3,675           | 3,687              |

Movement in issued and fully paid ordinary share capital:

|                              | Share pre<br>consolidation<br>Number | Shares post<br>consolidation<br>Number | Issue<br>price<br>Pence | Share<br>Capital<br>£000 | Share<br>premium<br>£000 | Share<br>merger<br>£000 | Total<br>£000 |
|------------------------------|--------------------------------------|--|-------------------------|--------------------------|--------------------------|-------------------------|---------------|
| Placing on 9 May 2017        | 433,333,333                          | 4,333,333                              | 1.5                     | 433                      | 6,067                    | -                       | 6,500         |
| Placing fee                  |                                      |  |                         | -                        | (260)                    | -                       | (260)         |
| Capital reduction            |                                      |  |                         | -                        | (38,396)                 | (1,911)                 | (40,307)      |
| Total movement in the period | 433,333,333                          | 4,333,333                              |                         | 433                      | (32,589)                 | (1,911)                 | (34,067)      |
| At 31 January 2017           | 1,645,146,151                        | 16,451,461                             |                         | 1,645                    | 32,589                   | 1,911                   | 36,145        |
| At 31 July 2017              | 2,078,479,484                        | 20,784,795                             |                         | 2,078                    | -                        | -                       | 2,078         |