



# Redstone plc

Half Year Report  
30 September 2010

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## Highlights

- Ian Smith and Tony Weaver appointed to the Board on 8 September as Chairman and Chief Executive respectively
- Accelerated the financial and operational restructuring of the Group including the disposal of:
  - 29 September – BSF ICT contract to Bovis Lend Lease for £4.20 million
  - 18 October – Certain assets of Marcom and telephone maintenance contracts of Redstone Converged Solutions Limited for £1.75 million
  - 2 November – Redstone Technology for £2.25 million
  - 10 December – Security Business of Redstone Managed Solutions for £1.00 million of which £0.35 million will be received through the realisation of retained net current assets
- Acquired Fujin Systems for up to £2.90 million, of which at most £2.50 million is deferred to November 2011
- £8.50 million of new cash funding injected into the business, including the issue of 1.40 billion new Ordinary shares raising £7.0 million before expenses
- Continuing operations return a positive adjusted EBITDA\* of £0.6 million (H1 09/10 adjusted EBITDA\* £nil)
- Central costs reduced by £0.5 million or 35.7% to £0.8 million (H1 09/10 £1.3 million)
- Operating losses reduced by 84.3% to £0.5 million (H1 09/10 £3.2 million)
- Loss before taxation reduced by 71.8% to £1.5 million (H1 09/10 £5.4 million)
- Borrowings decreased by £7.7 million from £20.1 million on 31 March 2010 to £12.4 million a decrease of 38.3%

\*Before net finance costs, tax, depreciation, amortisation, exceptional items and share-based payments.

# Chairman's Statement

## Dear Shareholder

Following the appointment of Tony Weaver and me as Chief Executive and Chairman respectively, on 8 September 2010, the Board has accelerated the financial and operational restructuring of the Group, through a programme of divestment of activities regarded as non-core, using the proceeds to reduce borrowings and by making the first acquisition under our tenure. As a result, there have been a number of post balance sheet events that have changed the shape of the Group. Therefore in these results, the continuing operations of the Group exclude the results of businesses disposed after 30 September 2010.

The results for the period ended 30 September 2010 reflect the positive impact of the refinancing on the Group's balance sheet. Continuing operations produced a positive adjusted EBITDA\* and a considerably reduced loss for the period compared to H1 09/10. The results do not yet fully reflect the ongoing focus on improving the efficiency of continuing operations of the business, the impact of which will be more significantly reflected in the new financial year.

## Divestments

The following divestment transactions have now been completed and announced:

On 29 September 2010, the Group announced the novation of the Group's contractual interests in the Building Schools for the Future ('BSF') ICT Birmingham contracts to Bovis Lend Lease Limited for the sum of £2.0 million, together with the receipt of accelerated payments of invoiced and invoiceable debtor balances of a further £2.2 million, resulting in a net cash inflow of £4.2 million to the Group.

On 18 October 2010 the Group announced the sale of certain assets of Marcom Communications Limited ('Marcom') and other telephone systems maintenance contracts, which form a small part of the Redstone Converged Solutions Limited business, to Maintel Europe Limited (a subsidiary of Maintel plc) for a cash consideration of £1.75 million.

On 2 November 2010 the Group completed the sale of the business undertaking of Redstone Technology Limited ('RTL') based in Ireland. The sale, effected by means of a disposal of a wholly owned Irish subsidiary, comprised the entire business undertaking and trading assets of RTL, excluding property and intra-group indebtedness. The business was acquired by PFH Technology Group Limited, for a consideration of £2.25 million. Cash consideration of £2.0 million was received on completion with the balance deferred until the first anniversary of the completion date.

On 10 December 2010 the Group announced the sale of the security business of Redstone Managed Solutions Limited to RMS Managed ICT Security Limited ('RMS'), a company predominately owned by the current management team led by Managing Director Robert Cavan, for a total consideration of £1.0 million.

The Group were advised on the novation of the BSF ICT Birmingham contracts and the disposal of certain assets of Marcom and other telephone systems maintenance contracts, which formed a small part of the RCS business, by MXC Capital Limited ('MXC'), the specialist financial advisory boutique controlled by Tony Weaver and myself. The fees charged in connection with the corporate finance advice given were equal to 1.5% of the disposal value (amounting to £56,250) and are deemed, under the AIM Rules to constitute a related party transaction. The independent Directors of Redstone at the time of the novation and disposal (being David Payne and Peter Hallett) considered, having consulted with finnCapp Limited, that the terms of the MXC fee arrangements were fair and reasonable insofar as the shareholders of the Group are concerned.

\*Before net finance costs, tax, depreciation, amortisation, exceptional items and share-based payments.

## Acquisition

As announced on 8 November 2010 the Group acquired Fujin Systems Limited ('Fujin'), an ICT integration specialist with specific strengths in the installation and management of advanced Ethernet technologies, next generation security and high availability core data services. The initial cash consideration payable was £0.4 million, with a maximum of a further £2.5 million payable after 31 October 2011, subject to the achievement of certain performance criteria.

Fujin was established in late 2009 by a team of experienced ICT professionals with a track record in building ICT businesses focused on serving mid market and enterprise market customers. Through its network of established industry relationships the business has already partnered itself with a number of leading edge technology manufacturers, including Brocade and Arista. Fujin has recently delivered solutions for Red Bee Media, The European Centre for Medium Range Weather Forecasting, Express Newspapers and the University of Westminster and has a good pipeline of prospects. Fujin has delivered turnover of £1.4 million in the 9 months ended 30 September 2010 yielding a gross profit of £311,000 and a loss before tax of £57,000.

The acquisition of Fujin is classified as a related party transaction under the AIM Rules for Companies as Tony Weaver, Chief Executive, and I were each interested in approximately 21% of the ordinary share capital of Fujin. The independent Directors of Redstone (being Peter Hallett, Richard Ramsay and David Payne) considered, having consulted with finnCap Limited, that the terms of the transaction were fair and reasonable insofar as shareholders of Redstone are concerned.

## Refinancing

As I reported in my Chairman's Statement accompanying the Annual Report dated 29 September 2010, the Group undertook a comprehensive refinancing exercise to address a high and unsustainable level of borrowings and consequent gearing, which was having a material and adverse impact on the Group's credit rating and trading prospects.

The refinancing reduced and consolidated all the Group's borrowings to a single facility with Barclays Bank.

Approximately £8.5 million of new funding (including £1.5 million under the 2009 CLN) has been injected into the Group in the half year ending 30 September 2010 through the refinancing, which has strengthened the balance sheet and provided additional working capital funding and headroom for the business.

In parallel with the injection of new equity capital, the Group has also amended the terms of its existing senior debt facilities with Barclays Bank.

The Board is satisfied that post refinancing, the Group has adequate working capital resources and a much stronger balance sheet which together provide a sound platform for the future growth of the business.

# Chairman's Statement continued

## Operational review

Tony and I commenced a detailed operational review of the Business following appointment to our respective executive capacities on 8 September 2010. The divestment activity detailed above has largely arisen and resulted from our review, which identified businesses and activities which were regarded as non-core to the future strategic direction of the Group as we refocus activities to the provision of network based end-to-end managed services.

The disposal of the security business of RMSL represents the final transaction arising from our review of non-core assets and activities.

The residual businesses comprise predominately all the activities of Converged Solutions together with the connectivity and managed services activities of RMSL, being the residual Managed Solutions businesses, and the recently acquired Fujin. We now begin the second phase of our review, in which we intend to consolidate all activities into a single trading entity, clearly branded 'Redstone'.

Our intention is to continue to focus on the delivery of those products and services for which Redstone is recognised as a proven quality provider augmented through the addition of new technology products and expertise to evolve Redstone into a leading network based provider of end-to-end managed services. We have already commenced this process by the acquisition of Fujin, which introduces leading edge technology manufacturers, including Brocade and Arista and expertise in the installation and management of advanced Ethernet technologies, next generation security and high availability core data services.

In addition to the members of staff leaving through the disposal of non-core businesses and assets, there have been further management changes arising from our operational review. The Managing Director and Sales Director of Converged Solutions, Rick Marshall and Richard Bell have each tendered their resignations. Both Rick and Richard have been with the Company which formed the basis of the Converged Solutions division for over 20 years and have each made an enormous contribution to the business during that time. On behalf of the Board, I would like to thank them both for their service and wish them well for the future. As a result of these changes, the senior management of Converged Solutions will now report directly to Tony Weaver, CEO.

In conjunction with the consolidation process we will move quickly to realign the residual cost base to reflect the restructured activities of the Group and delivery of new strategic goals. Our aim is to have completed this process within Q4 of the current financial year.

The Board is confident that the emerging Group will be a revitalised, stable and attractive proposition for our shareholders, employees and customers.

## Financial highlights

### Continuing Operations

The recent disposal activity comprising the novation of the BSF ICT Birmingham contracts, the sale of certain assets of Marcom and telephone systems maintenance contracts Redstone Converged Solutions, the sale of the business undertaking of RTL and the sale of the security business of RMSL have impacted the segmental disclosures. The results for these disposed assets, contracts and business undertakings for the period and for prior periods are now included on the face of the Consolidated Income Statement within Losses from Discontinued Businesses.

### Revenue

Group revenues declined by 12.2% or £4.5 million to £32.4 million (H1 09/10 £36.9 million).

The decrease was attributable to Converged Solutions which declined by £6.0 million or 18.5% to £26.4 million (H1 09/10 £32.4 million), due mainly to deferred or cancelled ICT contracting business reflecting difficult market conditions.

However, Managed Solutions connectivity revenue grew by 33.3% or £1.5 million to £6.0 million (H1 09/10 £4.5 million), reflecting 22% growth in contract base revenue and 61% growth in managed services.

## Gross profit

Gross profit increased by 10.6% or £1.7 million to £17.5 million (H1 09/10 £15.8 million), with gross margins improving to 53.9% (H1 09/10 42.8%). The improvement in gross margin reflects a change in business mix within Converged Solutions, where higher margin managed service activity represents a higher proportion of total business.

## Operating expenses

Operating expenses (comprising Selling and Distribution costs and Administrative expenses) excluding exceptional items, decreased by 5.4% or £1.0 million to £18.0 million (H1 09/10 £19.0 million), reflecting tight control of expenses in the face of declining revenue within the current business structure.

## Adjusted EBITDA\* and profitability

Adjusted EBITDA\* has increased over five fold from break-even in H1 09/10 to £0.6 million in 10/11. The operating divisions broadly maintained their adjusted EBITDA\*, to an aggregate of £1.4 million (H1 09/10 £1.4 million), however, central costs were reduced by 35.7% or £0.5 million to £0.8 million (H1 09/10 £1.3 million).

The reduction in central costs reflects the significant Group restructuring of central Group operations undertaken in H2 of 09/10, including moving from the former Head Office in Great Eastern Street in London, and relocating and downscaling central Group operations to smaller and more cost effective premises in Kirtlington, Oxfordshire.

Total deductions of £1.1 million (H1 09/10 £3.2 million) from adjusted EBITDA\*, comprised depreciation and amortisation of £1.5 million (H1 09/10 £2.2 million), an exceptional credit of £0.7 million (H1 09/10 exceptional cost £0.4 million), and provision for share-based incentive payments of £0.3 million (H1 09/10 £0.6 million).

The exceptional credit of £0.7 million mainly comprises a credit of £1.2 million in relation to the settlement of the loan from Eckoh plc, where the original loan of £2.7 million was settled by a cash payment of £0.5 million and the issue of new Ordinary shares at a value of £1.0 million. In addition, there were exceptional costs relating to redundancies and professional fees arising from restructuring amounting to £0.5 million.

The resulting operating loss of £0.5 million represents a reduction of 84.3% from the H1 09/10 operating loss of £3.2 million.

Net finance costs amounted to £1.0 million (H1 09/10 £2.2 million). The charge for the period includes £1.2 million of accrued interest on the £3.0 million of convertible loan notes, however, the convertible loan noteholders agreed to the conversion of the loan notes at par value as part of the comprehensive refinancing agreed by shareholders on 8 September 2010. Accordingly, at the time of the agreement the accreted interest on the loan notes amounted to £1.8 million and represented an accounting gain on conversion. This gain is also included in net finance costs.

The resulting loss before taxation is £1.5 million (H1 09/10 £5.4 million), a reduction of £3.8 million or 71.8%. The tax credit for the period of £0.2 million (H1 09/10 £0.3 million) arises from the reduction in deferred taxation liabilities in line with amortisation of intangible assets recognised on acquisition. The resulting loss for the period from Continuing Operations (attributable to the shareholders of the parent company) is therefore £1.3 million (H1 09/10 £5.2 million).

\* Before net finance costs, tax, depreciation, amortisation, exceptional items and share-based payments.

# Chairman's Statement continued

## Discontinued Operations

The recent disposal activity comprising the novation of the BSF ICT Birmingham contracts, the sale of certain assets of Marcom and telephone systems maintenance contracts of Redstone Converged Solutions, the sale of the business undertaking of RTL and the sale of the security business of RMSL have impacted the segmental disclosures. With the exception of the novation of the BSF ICT Birmingham contracts on 29 September 2010, all the disposals were transacted after 30 September but before the date of this statement. Accordingly, the results for these disposed assets, contracts and business undertakings for the period and for prior periods are included on the face of the Consolidated Income Statement within Profits/Losses from Discontinued Businesses.

The loss for the period from Discontinued Operations amounted to £1.8 million (H1 09/10 £1.7 million). The revenue and profit on disposal of BSF contracts in respect of Discontinued Operations includes £2.0 million of cash consideration received in respect of the novation of the BSF ICT Birmingham contracts.

## Overall result for the period

The net loss for the period from Continuing and Discontinued Operations is £3.1 million (H1 09/10 £6.9 million), a decrease of 54.8%.

Adjusted basic EBITDA\* per share has returned to a positive 0.13p (H1 09/10 loss of 0.01p). Basic loss per share has decreased to 0.3p (H1 09/10 loss of 3.54p), a decrease of 91.5%.

## Cash flow

The net cash outflow from Continuing Operating activities was £0.6 million (H1 09/10 outflow £4.1 million) a decrease of 85.6%. This was made up of an increase in working capital of £1.9 million (H1 09/10 £3.7 million) offset by cash inflow from trading activity of £1.3 million (H1 09/10 outflow £0.4 million).

A further £0.7 million of cash was consumed by net finance charges, a reduction of £1.1 million on H1 09/10. The reduction reflects the sale of the telecoms businesses of the Group in August 2009 and the consequent reduction in borrowings.

In addition, Discontinued Operations consumed £1.5 million of cash (H1 09/10 outflow £0.9 million) resulting in total cash expended on Continuing and Discontinued Operating activities of £2.8 million (H1 09/10 outflow £6.9 million).

The purchase of tangible and intangible assets resulted in a cash outflow of £0.5 million (H1 09/10 £1.9 million).

Proceeds of issue of shares pursuant to the refinancing detailed earlier in this report of £12.5 million (H1 09/10 £nil) include the value of placing proceeds of £6.5 million, the share subscription of £0.5 million, the shares issued on conversion of the convertible loan notes of £4.5 million, and the shares issued in settlement of the Eckoh loan of £1.0 million. The costs of share issue paid in the period amounted to £0.5 million (H1 09/10 £nil).

Cash proceeds from the issue of convertible loan notes in the period amounted to £1.5 million (H1 09/10 £2.7 million).

Repayment of borrowings from proceeds of the issue of shares and convertible loan notes amounted to £8.8 million (H1 09/10 £15.6 million), and include the conversion of the convertible loan notes of £4.5 million and the Eckoh loan settlement of £2.7 million. Net proceeds from financing activities therefore amounted to £4.8 million (H1 09/10 net outflow £12.9 million).

The resulting net increase in cash and cash equivalents amounted to £1.5 million (H1 09/10 decrease in cash and cash equivalents £6.9 million).

\*Before net finance costs, tax, depreciation, amortisation, exceptional items and share-based payments.

## **Borrowings and bank facilities**

Total borrowings (net of cash and cash equivalents) amounted to £12.4 million (31 March 2010 £20.1 million) a decrease of 38.3% or £7.7 million. Resultant gearing based on enterprise value (the aggregate of total equity and total borrowings) is 43.9% (31 March 2010 74.3%) arising from reduced borrowings and increase in the total equity to £15.7 million (31 March 2010 £70 million). Further reductions in borrowings have been made from the proceeds of disposals undertaken after the date of this report.

Overdraft and term loan facilities totalling £18.0 million remain in place with Barclays Bank PLC and have been extended for a further 2 years and 3 months to December 2013. In addition the Group has the ability to raise capital lease or hire purchase finance in the ordinary course of business to a maximum of £3.0 million.

The Group is therefore in a much stronger and stable financial position.

## **Board changes**

On 2 August 2010, Tony Weaver and I were appointed as non-executive Directors prior to taking on the roles below.

On 8 September 2010, Stephen Yapp resigned as Executive Chairman of the Board and Tony Weaver and I were appointed Chief Executive Officer and Executive Chairman respectively. On 18 October 2010 Tim Sherwood resigned as non-executive Director and was replaced by Richard Ramsay as a non-executive Director.

I would like to thank Tim for his service to the Group through some difficult times and wish him well for the future, and at the same time welcome Richard to the Board of Redstone plc.

## **Outlook**

Macroeconomic recovery continues to be fragile, with consumer confidence likely to be further eroded by the impact of government spending cuts and imminent increases in VAT and income tax. Our corporate client base will undoubtedly look to increase internal efficiencies to counter the potentially adverse trading environment. We are confident that Redstone will continue to provide ICT solutions for increasing client efficiency and consequently will continue to see opportunities to maintain and grow the refocused business.

Following our successful refinancing of the business and the realisation of up to £725 million of cash from our divestment programme the Group is well placed to build and consolidate the residual business, and take advantage of any appropriate opportunities in the ICT sector which may arise from the economic fallout.

The Board remain optimistic for the future prospects of the Group.

## **Ian Smith**

Executive Chairman

17 December 2010

## Statement of Directors' Responsibilities

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The Directors confirm that this condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union. The principal risks and uncertainties of the Group are unchanged from those described in the 31 March 2010 annual report.

The Directors of Redstone plc are listed in the Redstone plc Annual Report and Accounts for 31 March 2010, with subsequent changes disclosed in the Chairman's Statement accompanying these financial statements.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. A copy of this report can be found on the Company's website [www.redstone.co.uk](http://www.redstone.co.uk).

**By order of the Board**

# Consolidated Income Statement

		Unaudited Six months ended 30 September 2010 £000	Unaudited Six months ended 30 September 2009 £000	Unaudited Year ended 31 March 2010 £000
Continuing Operations				
<b>Revenue</b>	2	<b>32,399</b>	36,899	72,173
Cost of sales		<b>(14,948)</b>	(21,115)	(36,365)
<b>Gross profit</b>		<b>17,451</b>	15,784	35,808
Other operating income		-	75	77
Selling and distribution costs		<b>(3,203)</b>	(2,973)	(7,359)
Administrative expenses		<b>(14,749)</b>	(16,076)	(35,122)
<b>Adjusted EBITDA*</b>		<b>562</b>	(11)	(451)
Depreciation		<b>(755)</b>	(846)	(1,519)
Amortisation of intangibles		<b>(754)</b>	(1,309)	(2,733)
Exceptional items included within administrative expenses	3	<b>715</b>	(387)	(931)
Share-based payments		<b>(269)</b>	(637)	(962)
<b>Operating loss</b>		<b>(501)</b>	(3,190)	(6,596)
<b>Net finance costs</b>		<b>(1,027)</b>	(2,219)	(4,503)
<b>Loss on ordinary activities before taxation</b>		<b>(1,528)</b>	(5,409)	(11,099)
Tax on loss on ordinary activities		<b>195</b>	255	303
<b>Loss for the period from Continuing Operations (attributable to shareholders of the parent company)</b>		<b>(1,333)</b>	(5,154)	(10,796)
<b>Loss for the period from Discontinued Operations</b>	7	<b>(1,771)</b>	(1,707)	(4,058)
<b>Loss for the period</b>		<b>(3,104)</b>	(6,861)	(14,854)
<b>Earnings per share</b>				
<b>Basic earnings per share</b>	4	<b>(0.30)p</b>	(3.54)p	(7.41)p
<b>Diluted earnings per share</b>	4	<b>(0.30)p</b>	(3.54)p	(7.41)p
<b>Basic adjusted EBITDA* per share</b>		<b>0.13p</b>	(0.01)p	(0.31)p
<b>Diluted adjusted EBITDA* per share</b>		<b>0.13p</b>	(0.01)p	(0.31)p

\*Earnings from Continuing Operations before interest, tax, depreciation, amortisation, exceptional items and share-based payments.

The above Consolidated Income Statement should be read in conjunction with the accompanying notes.

# Consolidated Statement of Comprehensive Income

	<b>Unaudited Six months ended 30 September 2010 £000</b>	Unaudited Six months ended 30 September 2009 £000	Unaudited Year ended 31 March 2010 £000
Loss for the period	<b>(3,104)</b>	(6,861)	(14,854)
Currency translation differences	<b>(351)</b>	97	(149)
<b>Total comprehensive income</b>	<b>(3,455)</b>	(6,764)	(15,003)

# Consolidated Statement of Changes in Equity

	Called up share capital £000	Share premium account £000	Other reserves			Retained earnings £000	<b>Total equity £000</b>
			Merger reserve (a) £000	Capital redemption reserve (b) £000	Translation reserve (c) £000		
At 1 April 2009	14,574	18,159	216	5,683	112	(16,741)	22,003
Total comprehensive income	–	–	–	–	97	(6,861)	(6,764)
<i>Transactions with owners:</i>							
Stock compensation charge	–	–	–	–	–	84	84
Purchase of own shares (d)	–	–	–	–	–	(110)	(110)
At 30 September 2009	14,574	18,159	216	5,683	209	(23,628)	15,213
Total comprehensive income	–	–	–	–	(246)	(7,993)	(8,239)
<i>Transactions with owners:</i>							
Stock compensation charge	–	–	–	–	–	7	7
Purchase of own shares (d)	4	26	–	–	–	(26)	4
At 1 April 2010	14,578	18,185	216	5,683	(37)	(31,640)	6,985
Total comprehensive income	–	–	–	–	(351)	(3,104)	(3,455)
<i>Transactions with owners:</i>							
Stock compensation charge	–	–	–	–	–	281	281
Share issue less costs	2,514	9,537	–	–	–	–	12,051
<b>At 30 September 2010</b>	<b>17,092</b>	<b>27,722</b>	<b>216</b>	<b>5,683</b>	<b>(388)</b>	<b>(34,463)</b>	<b>15,862</b>

## (a) Merger reserve

The merger reserve resulted from the acquisition of Redstone Communications Limited (formerly Redstone Network Services Limited) and represents the difference between the value of the shares acquired (nominal value plus related share premium) and the nominal value of the shares issued.

## (b) Capital redemption reserve

The capital redemption reserve arose on the elimination of deferred shares and represents the nominal value of the deferred shares.

## (c) Translation reserve

The translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

## (d) Repurchase of own shares

Shares in Redstone plc purchased by and held in the Employee Benefit Trust have been recognised in retained earnings, in accordance with SIC 12 and IAS 32.

The above Consolidated Statement of Comprehensive Income and Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

# Consolidated Balance Sheet

	<b>Unaudited 30 September 2010 £000</b>	Unaudited 30 September 2009 £000	Audited 31 March 2010 £000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	<b>22,720</b>	28,965	27,903
Property, plant and equipment	<b>3,554</b>	4,950	4,308
Other non-current assets	<b>414</b>	431	773
	<b>26,688</b>	34,346	32,984
<b>Current assets</b>			
Inventories	<b>1,349</b>	1,827	1,672
Trade and other receivables	<b>24,388</b>	29,863	28,553
Deferred tax asset	<b>1,216</b>	1,354	1,217
Income tax receivable	<b>18</b>	651	509
Assets held for sale	<b>3,557</b>	–	–
Cash and cash equivalents	<b>917</b>	430	934
	<b>31,445</b>	34,125	32,885
<b>Total assets</b>	<b>58,133</b>	68,471	65,869
<b>Equity and liabilities</b>			
<b>Equity</b>			
Called up share capital	<b>17,092</b>	14,574	14,578
Share premium account	<b>27,722</b>	18,159	18,185
Other reserves	<b>5,511</b>	6,108	5,862
Retained deficit	<b>(34,463)</b>	(23,628)	(31,640)
<b>Total equity</b>	<b>15,862</b>	15,213	6,985
<b>Current liabilities</b>			
Trade and other payables	<b>23,665</b>	28,720	31,174
Deferred tax liability	<b>433</b>	–	467
Deferred consideration	<b>–</b>	30	–
Borrowings	<b>5,345</b>	3,805	6,171
Provisions	<b>305</b>	286	285
	<b>29,748</b>	32,841	38,097
<b>Non-current liabilities</b>			
Trade and other payables	<b>–</b>	96	12
Derivative financial instruments	<b>2,198</b>	2,858	3,140
Borrowings	<b>8,000</b>	13,838	14,908
Provisions	<b>282</b>	637	439
Deferred tax liability	<b>2,043</b>	2,988	2,288
	<b>12,523</b>	20,417	20,787
<b>Total liabilities</b>	<b>42,271</b>	53,258	58,884
<b>Total equity and liabilities</b>	<b>58,133</b>	68,471	65,869

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

# Consolidated Cash Flow Statement

	Unaudited Six months ended 30 September 2010 £000	Unaudited Six months ended 30 September 2009 £000	Unaudited Year ended 31 March 2010 £000
	Note		
<b>Cash flows from continuing operating activities</b>			
Cash absorbed in operations	6	(596)	(4,143)
Income tax paid		-	-
<b>Cash flows absorbed by continuing operating activities</b>		<b>(596)</b>	<b>(4,143)</b>
Net finance charges paid		<b>(686)</b>	(1,817)
Net cash flows absorbed by continuing operating activities		<b>(1,282)</b>	(5,960)
Net cash flows absorbed by discontinued operating activities		<b>(1,477)</b>	(911)
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		<b>(489)</b>	(1,740)
Purchase of intangible assets		<b>(15)</b>	(188)
Sale of business operation, net of costs		-	14,765
<b>Net cash flows generated from/(used in) investing activities</b>		<b>(504)</b>	12,837
<b>Cash flows from financing activities</b>			
Proceeds of issue of shares		<b>12,574</b>	-
Costs of share issue		<b>(521)</b>	-
Proceeds from issue of convertible loans		<b>1,500</b>	2,733
Repayment of borrowings		<b>(8,755)</b>	(15,637)
<b>Net cash flows generated/(used in) from financing activities</b>		<b>4,798</b>	(12,904)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,535</b>	(6,938)
Cash and cash equivalents at beginning of period		<b>(5,162)</b>	7,368
<b>Cash and cash equivalents at end of period</b>		<b>(3,627)</b>	430

The above Consolidated Cash Flow Statement should be read in conjunction with the accompanying notes.

# Notes to the Half-Yearly Financial Information

## 1 Basis of preparation and general information

The interim financial information is unaudited but has been reviewed by the auditors, PricewaterhouseCoopers LLP, and their report to Redstone plc is set out at the end of this announcement.

The Company is a limited liability company incorporated and domiciled in England. The address of its registered office is Redstone plc, Kirtlington Business Centre, Slade Farm, Kirtlington OX5 3JA. The Company is listed on the London Stock Exchange AIM. This condensed consolidated interim financial information was approved for issue on 17 December 2010.

This condensed, consolidated half-yearly financial information for the half year ended 30 September 2010 has been prepared in accordance with IAS 34, 'Interim financial reporting' as adopted by the European Union. The consolidated half-yearly financial information should be read in conjunction with the annual financial statements for the year ended 31 March 2010, which have been prepared in accordance with IFRSs as adopted by the European Union.

This condensed consolidated interim financial information does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2010 were approved by the Board of Directors on 29 September 2010 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Sections 498 (2) or (3) of the Companies Act 2006.

The interim report was approved by the Board on 17 December 2010.

### Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 March 2010, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) New and amended standards adopted by the Group:

- The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 April 2010.
- IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The adoption of this standard has not affected these consolidated half-yearly financial information.

## 1 Basis of preparation and general information (continued)

### Accounting policies (continued)

- (b) Standards, amendments and interpretations to existing standards effective in 2010 but not relevant to the Group:
- IFRIC 17, 'Distributions of non-cash assets to owners', effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Group, as it has not made any non-cash distributions.
  - IFRIC 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. This is not relevant to the Group, as it has not received any assets from customers.
  - 'Additional exemptions for first-time adopters' (Amendment to IFRS 1) was issued in July 2009. The amendments are required to be applied for annual periods beginning on or after 1 January 2010. This is not relevant to the Group, as it is an existing IFRS preparer.
  - Improvements to International Financial Reporting Standards 2009 were issued in April 2009. The effective dates vary standard by standard but most are effective 1 January 2010.
- (c) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 April 2010 and have not been early adopted:
- IFRS 9, 'Financial instruments', issued in December 2009. This addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess IFRS 9's full impact.
  - Revised IAS 24, 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised IAS 24 is required to be applied from 1 January 2011. Earlier application, in whole or in part, is permitted.
  - 'Classification of rights issues' (Amendment to IAS 32), issued in October 2009. For rights issues offered for a fixed amount of foreign currency, current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to all the entity's existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment should be applied for annual periods beginning on or after 1 February 2010. Earlier application is permitted. 'Prepayments of a minimum funding requirement' (Amendments to IFRIC 14), issued in November 2009. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. The amendments are effective for annual periods beginning 1 January 2011. IFRIC 19, 'Extinguishing financial liabilities with equity instruments'. This clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010. Earlier application is permitted.

## **1 Basis of preparation and general information (continued)**

### **Accounting policies (continued)**

#### **Reclassification of results to Loss for the period from Discontinued Operations**

Following the disposals of Technology, i4e, Avaya/Nortel and the Managed security businesses the results of these businesses in the comparatives have been reclassified to 'Loss for the period from discontinued operations' in the Consolidated Income Statement and to 'net cash flows absorbed by discontinued operating activities'. The results of the Discontinued Operations are set out in note 7.

#### **Going concern**

The consolidated half-yearly financial information of Redstone plc has been prepared on the going concern basis and in accordance with EU adopted International Financial Reporting Standards (IFRS), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated half-yearly financial information has been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

The Directors are required to be satisfied that the Group has adequate resources to continue in business for the foreseeable future. The validity of this assumption depends on the ability of the Group to meet its cash flow forecasts and the continuing support of its bankers by providing adequate overdraft facilities and of its debt holders and shareholders. In September 2010 the Group has raised further equity finance, converted the loan notes, agreed new facilities with Barclays Bank PLC through to 31 December 2013, and the bank has agreed to a variation to the financial covenants. The variation to the covenants includes a holiday from financial covenant testing for a limited period and a one-off right to elect not to test the financial covenants during a limited period. The Group's new strategy is expected to achieve cost savings and proceeds from the sale of certain non-core assets and activities. The nature of the Group's business and its new strategy is such that there can be considerable variation in cash inflows, and the timing thereof. Whilst this adds risk to the Group's ability to forecast cash and in the current economic environment there can be no absolute certainty that the Group will achieve its EBITDA forecasts, the present cash flow forecasts indicate that the Group will be able to operate within the present overdraft facilities for at least 12 months from the date of approval of these financial statements. For these reasons the Directors believe the going concern basis to be appropriate.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

# Notes to the Half-Yearly Financial Information continued

## 2 Segment reporting

The disposals of Technology, i4e, Avaya/Nortel and the Managed security businesses have impacted the segmental disclosures. The results for these businesses for the period and for prior periods are now included within the discontinued line on the face of the Consolidated Income Statement. The disclosures in this note relate to the continuing businesses only and as a result the comparatives have been reclassified.

### (a) Unaudited for the six months ended 30 September 2010

Continuing Operations	Converged Solutions £000	Managed Solutions £000	Central £000	Total £000	
Total segment revenue	26,401	5,998	–	<b>32,399</b>	
Inter-segment revenues	–	–	–	<b>–</b>	
Revenue	26,401	5,998	–	<b>32,399</b>	
Adjusted operating costs*	(26,100)	(4,897)	(840)	<b>(31,837)</b>	
Adjusted EBITDA*	301	1,101	(840)	<b>562</b>	
Depreciation	(231)	(264)	(260)	<b>(755)</b>	
Share-based payments	(180)	(11)	(78)	<b>(269)</b>	
Amortisation of intangible assets	(467)	–	(287)	<b>(754)</b>	
Exceptional items	–	(71)	786	<b>715</b>	
<b>Segment result</b>	<b>(577)</b>	<b>755</b>	<b>(679)</b>	<b>(501)</b>	
Net finance costs				<b>(1,027)</b>	
Tax				<b>195</b>	
<b>Loss for the year from Continuing Operations</b>				<b>(1,333)</b>	
<b>Assets and liabilities</b>	Assets held for sale				
Segment assets	3,557	36,847	15,578	2,151	<b>58,133</b>
Segment liabilities		18,163	5,556	18,552	<b>42,271</b>
<b>Other segment information</b>					
Capital expenditure					
Property, plant and equipment		52	405	32	<b>489</b>
Intangibles – software		15	–	–	<b>15</b>

\*Earnings from Continuing Operations before interest, tax, depreciation, amortisation, exceptional items and share-based payments.

## 2 Segment reporting (continued)

(b) Unaudited for the six months ended 30 September 2009

Continuing Operations	Converged Solutions £000	Managed Solutions £000	Central £000	<b>Total £000</b>	
Total segment revenue	32,398	4,501	–	<b>36,899</b>	
Inter-segment revenues	–	–	–	<b>–</b>	
Revenue	32,398	4,501	–	<b>36,899</b>	
Adjusted operating costs*	(32,173)	(3,431)	(1,306)	<b>(36,910)</b>	
Adjusted EBITDA*	225	1,070	(1,306)	<b>(11)</b>	
Depreciation	(388)	(178)	(280)	<b>(846)</b>	
Share-based payments	(276)	(99)	(262)	<b>(637)</b>	
Amortisation of intangible assets	(825)	(64)	(420)	<b>(1,309)</b>	
Exceptional items	(258)	–	(129)	<b>(387)</b>	
<b>Segment result</b>	<b>(1,522)</b>	<b>729</b>	<b>(2,397)</b>	<b>(3,190)</b>	
Net finance costs				<b>(2,219)</b>	
<b>Tax</b>				<b>255</b>	
<b>Loss for the year from Continuing Operations</b>				<b>(5,154)</b>	
<b>Assets and liabilities</b>	Discontinued				
Segment assets	5,356	42,826	15,468	4,821	<b>68,471</b>
Segment liabilities	2,277	23,118	3,880	23,983	<b>53,258</b>
<b>Other segment information</b>					
Capital expenditure					
Property, plant and equipment	668	173	899	<b>1,740</b>	
Intangibles – software	–	–	188	<b>188</b>	

\*Earnings from Continuing Operations before interest, tax, depreciation, amortisation, exceptional items and share-based payments.

# Notes to the Half-Yearly Financial Information continued

## 2 Segment reporting (continued)

(c) Unaudited for the year ended 31 March 2010

Continuing Operations	Converged Solutions £000	Managed Solutions £000	Central £000	<b>Total £000</b>
Total segment revenue	62,248	10,138	–	<b>72,386</b>
Intersegment revenues	(213)	–	–	<b>(213)</b>
Revenue	62,035	10,138	–	<b>72,173</b>
Adjusted operating costs*	(60,989)	(8,272)	(3,363)	<b>(72,624)</b>
Adjusted EBITDA*	1,046	1,866	(3,363)	<b>(451)</b>
Depreciation	(702)	(570)	(247)	<b>(1,519)</b>
Share-based payments	(528)	(199)	(235)	<b>(962)</b>
Amortisation of intangible assets	(1,775)	(65)	(893)	<b>(2,733)</b>
Exceptional items	(398)	(7)	(526)	<b>(931)</b>
<b>Segment result</b>	<b>(2,357)</b>	<b>1025</b>	<b>(5,264)</b>	<b>(6,596)</b>
Net finance costs				<b>(4,503)</b>
Tax				<b>303</b>
<b>Loss for the year from Continuing Operations</b>				<b>(10,796)</b>

### Assets and liabilities

	Discontinued				
Segment assets	6,842	41,965	15,404	2,018	<b>65,869</b>
Segment liabilities	5,348	15,765	3,693	34,078	<b>58,884</b>

### Other segment information

Capital expenditure					
Property, plant and equipment		742	464	699	<b>1,905</b>
Intangibles – software		148	–	427	<b>575</b>

\*Earnings from Continuing Operations before interest, tax, depreciation, amortisation, exceptional items and share-based payments.

### 3 Exceptional items

The exceptional items resulted in a credit in the period of £715,000 compared to charges in 31 March 2010: £846,000 and 30 September 2009: £1,519,000. This is predominantly made up of employee costs associated with restructure and redundancies of £323,000, professional fees associated with the reorganisation of the Group £130,000, aborted transaction costs of £36,000, onerous lease provision of £13,000 and a credit arising on the settlement of the Eckoh loan of £1,217,000. The credit arose as a result of the loan to Eckoh of £2,717,000 being settled with cash of £500,000 and shares at a value of £1,000,000.

## 4 Earnings per share

Basic earnings per share is calculated using a loss from continuing operations of £1,333,000 (31 March 2010: loss £10,796,000 and 30 September 2009: loss £5,154,000) and a weighted average number of shares of 448,098,493 (31 March 2010: 145,751,173 and 30 September 2009: 145,732,516).

There was no dilutive effect of share options at 30 September 2010 (31 March 2010: None and 30 September 2009: None).

In addition, adjusted EBITDA\* per share has been shown on the grounds that it is a common metric used by the market in monitoring similar businesses. This measure is derived as follows:

	<b>Unaudited Six months ended 30 September 2010 £000</b>	Unaudited Six months ended 30 September 2009 £000	Unaudited Year ended 31 March 2010 £000
(Loss)/profit from Continuing Operations for the period	<b>(1,333)</b>	(5,154)	(10,796)
Net finance expense	<b>1,027</b>	2,219	4,503
Tax credit	<b>(195)</b>	(255)	(303)
Depreciation	<b>755</b>	846	1,519
Amortisation of intangibles	<b>754</b>	1,309	2,733
Share-based payments	<b>269</b>	637	962
Exceptional items	<b>(715)</b>	387	931
<b>Adjusted EBITDA*</b>	<b>562</b>	(11)	(451)

\*Earnings from Continuing Operations before interest, tax, depreciation, amortisation, exceptional items and share-based payments.

## 5 Goodwill

	Converged Solutions £000	Managed Solutions £000	Technology £000	<b>Total £000</b>
Goodwill net carrying amount 30 September 2009	8,587	6,256	2,389	<b>17,232</b>
Impairment of goodwill	-	-	-	-
Goodwill net carrying amount 31 March 2010	8,587	6,256	2,389	<b>17,232</b>
Impairment of goodwill	(200)	(60)	(700)	<b>(960)</b>
Goodwill held for sale	(804)	(290)	(1,689)	<b>(2,783)</b>
<b>Goodwill net carrying amount 30 September 2010</b>	<b>7,583</b>	<b>5,906</b>	<b>-</b>	<b>13,489</b>

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. At the half year, the Directors have assessed the carrying value of goodwill due to ongoing difficult trading conditions and the disposals that have taken place subsequent to 30 September 2010 as discussed in note 9, subsequent events.

Goodwill was allocated for impairment testing purposes to cash generating units (CGUs) as follows:

- Converged Solutions; and
- Managed Solutions.

## 5 Goodwill (continued)

The Goodwill relating to segments disposed of was assessed in relation to the sales proceeds and the net assets being disposed of. This resulted in an impairment in the period of £700,000 (31 March 2010: £1,535,000; 30 September 2009: £1,535,000) with respect to the Technology goodwill, £200,000 (31 March 2010: nil and 30 September 2009: nil) with respect to the Marcom goodwill, that was a part of the Converged segment, and £60,000 (31 March 2010: nil and 30 September 2009: nil) with respect to the Managed goodwill as the businesses were sold subsequent to 30 September 2010. This is shown as part of the Discontinued Operations (note 7).

The recoverable amount of the continuing CGUs was based on a value in use calculation using forecast cash flow projections extrapolated for a further 4 years by growth rates applicable to each unit. An appropriate terminal value based on a perpetuity calculation using 2% real growth was then added. Discount rates were then applied to these projections ranging from 12% to 15% reflecting management's expected risk profile for each CGU.

In addition to revenue growth, the key assumptions used in the impairment testing were as follows:

- Gross margin percentage;
- Discount rate; and
- Rates of growth in cash generating units beyond the budget period, and in determining the terminal value.

Gross margins have been based on flat or declining margins starting at current levels. Where declining margins have been assumed at 0.5% per year in certain CGUs, this allows for cost increases from network providers, suppliers and competitive market influences. This has been assumed in respect of part of Redstone Converged Solutions. The assumption of margins remaining flat assumes a mix of cost savings in service delivery offset by competitive market influences. This has been applied in respect of Redstone Managed Solutions and part of Redstone Converged Solutions.

A discount rate of 15% was applied to the Converged Solutions CGU because it is dependent on strong relationships with certain key suppliers and the projects it delivers are complex in nature. A discount rate of 12% was applied to the Managed Solutions which reflects management's estimate of ROCE required. The Managed Solutions CGU have an element of recurring revenue through maintenance contracts and this reduces the risk inherent in the businesses.

After the initial period covered by the latest budget, revenues are projected to grow at between 2% and 3% for the following 4 years. Cost growth after the budget period was projected at between 1% and 3%. Cost growth assumptions were linked to the revenue growth assumptions with an allowance for the decline in gross margins as set out above. Capital expenditure growth after the budget forecast period is projected at 2% across all divisions where there is significant capital spend.

## 6 Net cash flows from continuing operating activities

	<b>Unaudited Six months ended 30 September 2010 £000</b>	Unaudited Six months ended 30 September 2009 £000	Unaudited Year ended 31 March 2010 £000
Loss on ordinary activities before tax	<b>(1,528)</b>	(5,409)	(11,099)
Adjustments for:			
Net finance charges	<b>1,027</b>	2,219	4,503
Depreciation of property, plant and equipment	<b>755</b>	846	1,519
Amortisation of intangible assets	<b>754</b>	1,309	2,733
Equity-settled share-based payments	<b>269</b>	637	(962)
Movements in working capital:			
Increase in inventories	<b>10</b>	25	148
Decrease/(increase) in trade and other receivables	<b>1,811</b>	(2,276)	(628)
(Decrease)/increase in trade and other payables	<b>(3,858)</b>	(1,348)	1,696
Decrease/(increase) in non-current assets	<b>264</b>	27	(227)
Decrease in provisions	<b>(100)</b>	(173)	(317)
<b>Cash absorbed by Continuing Operations</b>	<b>(596)</b>	(4,143)	(2,634)

Assets held for sale include cash of £801,000.

## 7 Discontinued Operations

The Board has undertaken a review of the non-core assets and businesses and as a result has divested of certain businesses and assets. With the exception of the novation of the BSF contract on 29 September 2010 all of these activities were transacted after 30 September 2010 but before the date of this report.

### Building Schools for the Future ICT contract

On 29 September 2010 the Group agreed to novate its interest in the BSF Birmingham ICT contracts to Bovis Lend Lease Limited. This was completed for a cash consideration of £2 million along with an accelerated payment for invoiced and invoiceable debtor balances of approximately £2.2 million (excluding VAT). Under the novation agreement 27 employees were transferred to Bovis Lend Lease in accordance with TUPE regulations.

The capitalised bid costs and other relevant costs were written off against the £2 million consideration resulting in a profit of £0.3 million.

The details of the other disposals are detailed in note 9, subsequent events. In summary they are:

- Marcom and the Avaya/Nortel business on 18 October 2010 which were formerly reported within the Converged segment;
- Redstone Technology on 2 November 2010;
- Redstone Managed Solutions Limited security business on 10 December 2010 which was formerly reported within the Managed segment.

## 7 Discontinued Operations (continued)

This has now substantially completed the Board's review of the non-core activities and subsequent asset disposals. The results of the discontinued businesses for the period are as follows:

	<b>Unaudited Six months ended 30 September 2010 £000</b>	Unaudited Six months ended 30 September 2009 £000	Unaudited Year ended 31 March 2010 £000
<b>Discontinued Operations</b>			
<b>Revenue</b>	<b>11,175</b>	12,359	25,386
Cost of sales	<b>(7,423)</b>	(8,388)	(15,260)
<b>Gross profit</b>	<b>3,752</b>	3,971	10,126
Selling and distribution costs	<b>(1,320)</b>	(1,075)	(2,372)
Administrative expenses	<b>(3,496)</b>	(4,344)	(9,661)
Profit on novation of BSF contracts	<b>298</b>	-	-
Impairment of goodwill	<b>(960)</b>	(1,535)	(1,535)
Exceptional items	<b>-</b>	-	(1,621)
Net finance charges	<b>(33)</b>	(13)	(42)
<b>Loss on ordinary activities before taxation</b>	<b>(1,759)</b>	(2,996)	(5,105)
Tax on profit/(loss) on ordinary activities	<b>(12)</b>	-	-
<b>Loss for the period (from operations discontinued in the current period)</b>	<b>(1,771)</b>	(2,996)	(5,105)
<b>Discontinued in prior period</b>	<b>-</b>	1,289	1,047
<b>Loss for the period (attributable to shareholders of the parent company)</b>	<b>(1,771)</b>	(1,707)	(4,058)

## 8 Funding

### Share Placing

In September 2010 the Group issued 1,404,800,000 new Ordinary shares at a price of 0.5p per share. This raised approximately £7.0 million. The £3.0 million convertible loan notes were converted into equity. Interest of £1.2 million accreted on these loan notes in the 6 months to September 2010 and is included within finance costs. At the time of the agreement the value attributed to these loan notes in the accounts was £4.8 million. It was agreed that the loan notes would convert at par and as a result there was a £1.8 million accounting gain on conversion. This gain is also included within finance costs. A further £1.5 million was drawn down under the 2009 Convertible Loan Notes and converted immediately to equity. The cash in relation to the issue of share, net of fees of £0.6 million, was received in September 2010.

### Eckoh loan

As part of the negotiations relating to the Placing and the Conversion, the Group agreed a settlement in relation to the Eckoh loan of £2.7 million. Eckoh was paid £0.5 million in cash and received 200,000,000 Ordinary shares in consideration for waiving all sums due under the Eckoh loan. This resulted in an exceptional gain of £1.2 million.

### Banking facilities

The Group agreed to amend the terms of its existing senior debt facilities with Barclays Bank PLC to effect the following key changes:

- an extension of the final repayment date by 2 years and 3 months to 31 December 2013;
- a variation of the repayment profile;
- restructuring of the various fees payable in respect of the facilities;
- variation to the restrictions on acquisitions and disposals by the Group;
- an increase in the limit permitted for third-party asset finance facilities and other financial indebtedness;
- a variation to the financial covenants including a holiday from financial covenant testing for a limited period to 30 June 2011 and a one-off right to elect not to test the financial covenants at one test date;
- consent to the settlement with Eckoh plc; and
- an amendment to the excess cash flow sweep provisions which will now commence 2 years later than originally provided for, with effect from 31 March 2012.

## 9 Subsequent events

Following the appointments the Executive Chairman and the Chief Executive Officer on 8 September 2010 the Group has adopted a strategy to become a leading network based supplier of end-to-end managed services. The Board has undertaken a review of the non-core assets and businesses and has divested of certain businesses and assets and made an acquisition. With the exception of the novation of the BSF contract on 29 September 2010 all of these activities were transacted after 30 September 2010 but before the date of this report.

The transactions are shown in chronological order:

### Marcom and the Avaya/Nortel business

On 18 October 2010, as part of its ongoing strategic review, the Group sold certain assets of Marcom Communications Limited and other telephone systems maintenance contracts, which form a part of the Redstone Converged Solutions Limited business, to Maintel Europe Limited (a subsidiary of Maintel plc) for a cash consideration of £1.75 million.

Under the sale agreement 40 employees have transferred to Maintel Europe Limited in accordance with TUPE regulations.

Redstone was advised on the disposal by MXC Capital Limited, the ICT specialist financial advisory boutique controlled by Ian Smith and Tony Weaver (Executive Chairman and Chief Executive Officer respectively of Redstone). The fees charged in connection with the corporate finance advice given were equal to 1.5% of the disposal value (equalling £26,250) and are deemed, under the AIM Rules to constitute a related party transaction. The independent Directors of Redstone (being David Payne and Peter Hallett) consider, having consulted with finnCap Limited, that the terms of the transaction are fair and reasonable insofar as shareholders of Redstone are concerned.

### Redstone Technology

On 2 November 2010 the Group sold its Redstone Technology business. The sale, by means of a disposal of a wholly-owned Irish subsidiary, comprises the entire business, undertaking and trading assets, excluding property and intra-group indebtedness of Redstone Technology Limited (arising from the acquisition of Xpert Group in 2005). The business has been acquired by PFFH Technology Group Limited, Ireland's largest private ICT company, for a cash consideration of £2.25 million. Cash consideration of £2.0 million was received upon completion of the sale with the balance deferred until the first anniversary of the completion date.

### Fujin Systems Limited

On 8 November 2010 the Group acquired Fujin Systems Limited. Fujin is an ICT integration specialist with specific strengths in the installation and management of advanced Ethernet technologies, next generation security and high availability core data services. Fujin specialises in data centre consolidation in a number of key vertical markets including research, media and online gaming. The initial consideration payable is £0.4 million, with a maximum of a further £2.5 million payable after 31 October 2011, subject to the achievement of certain performance criteria.

The acquisition of Fujin is classified as a related party transaction under the AIM Rules for Companies as Ian Smith, Chairman, and Tony Weaver, Chief Executive, are each interested in approximately 21% of the ordinary share capital of Fujin.

The other Directors of Redstone (being Peter Hallett, Richard Ramsay and David Payne) consider, having consulted with finnCap Limited, that the terms of the transaction are fair and reasonable insofar as shareholders of Redstone are concerned.

## 9 Subsequent events (continued)

The information given above has been provided as the acquisition occurred after the reporting period but before this consolidated half-yearly financial information was authorised for issue. At the time that this consolidated half-yearly financial information was authorised for issue the initial accounting for the business combination was incomplete. As a result, disclosures around the opening balance sheet, goodwill, fair value adjustments and pre-acquisition income statement have not been made.

### Redstone Managed Solutions Limited Security Business

On 12 December 2010 the Group sold the security business of Redstone Managed Solutions Limited to RMS Managed ICT Security Limited, a company owned by RMSL's current management team, including Robert Cavan, Managing Director, for a consideration, net of assets being retained, of £0.65 million.

£0.1 million has been received on the signing of the sale and purchase agreement and £0.4 million will be received in cash upon completion of the sale. The balance of consideration will be realised from 3.5% loan notes to be redeemed on or before 31 March 2011. The loan notes will be secured by a first charge over the assets of RMS Managed ICT Security Limited.

In accordance with TUPE regulations, 58 staff members, who are mostly based at the RMSL Stoke office, will transfer to RMS Managed ICT Security Limited.

This has now substantially completed the Board's review of the non-core activities and subsequent asset disposals.

## 10. Seasonality

The Group's activities are subject to seasonal variation and historically higher margins are achieved in the second half of the year.

## 11. Contingent liabilities

The Group's subsidiaries and the Company are currently, and may be from time to time, involved in a number of legal proceedings. Whilst the outcome of current outstanding actions and claims remains uncertain, it is expected that they will be resolved without a material impact on the Group's financial position.

The banking facilities in place are secured through fixed and floating charges over all property and assets of the Redstone plc group.

# Independent Review Report to Redstone plc

## Introduction

We have been engaged by the Company to review the consolidated half-yearly financial information for the 6 months ended 30 September 2010, which comprises the consolidated income statement, consolidated balance sheet, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the consolidated half-yearly financial information.

## Directors' responsibilities

The consolidated half-yearly financial information is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules for Companies which require that the financial information must be presented and prepared in a form consistent with that which will be adopted in the Company's annual financial statements.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The consolidated half-yearly financial information included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

## Our responsibility

Our responsibility is to express to the Company a conclusion on the consolidated half-yearly financial information based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the AIM Rules for Companies and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated half-yearly financial information for the 6 months ended 30 September 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM Rules for Companies.

## PricewaterhouseCoopers LLP

Chartered Accountants  
Uxbridge

17 December 2010

# Advisers

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## **Financial Adviser and Broker**

FinnCap, 60 New Broad Street London EC2M 1JJ

## **Auditors**

PricewaterhouseCoopers LLP, 1 Harefield Road, Uxbridge UB8 1EX

## **Solicitors**

Osborne Clarke, One London Wall, London EC2Y 5EB

## **Registrars**

Capita IRG Plc, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU

## **Principal Bankers**

Barclays Bank PLC, 54 Lombard Street, London EC3V 9EX

## **Company Number**

3336134

Further details can be found on the Redstone website at the following address:

[www.redstone.co.uk](http://www.redstone.co.uk)





redstone

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