REDSTONECONNECT PLC

Annual Report for the Year Ended 31 January 2018

CONTENTS

HIGHLIGHTS

FINANCIAL HIGHLIGHTS:

- Revenue up 15% to £47.6 million (2017: £41.5 million)
- Gross profit up 45% to £13.4 million (2017: £9.2 million), with an increased gross margin of 28% (2017: 22%)
- Adjusted EBITDA* up 60% to £3.2 million (2017: £2.0 million) reflecting the successful implementation of the strategy to focus on higher quality, higher margin business
- Adjusted profit before tax** of £2.4 million (2017: £1.3 million)
- Profit before tax from continuing operations of £1.5 million (2017: £1.2 million)
- Profit after tax from continuing operations of £1.5 million (2017: £1.8 million)
- Cash at year end of £3.4 million (2017: £3.2 million) and net cash of £1.2 million (2017: £0.8 million)
- Basic earnings per share from continuing operations of 7.72 pence (2017: 11.14 pence)
- Adjusted earnings per share from continuing operations 12.81 pence (2017: 13.13 pence)

* profit for the period from continuing operations before net finance costs, tax, depreciation, amortisation, integration costs and transactional items, impairment charge and share based payments.

** adjusted profit before tax is before: integration costs and transactional items, impairment charge, share based payments and amortisation recognised as a result of purchase price allocation under IFRS.

OPERATIONAL HIGHLIGHTS:

- In May 2017, completed a successful placing to raise £6.5 million, of which £1.4 million was used to acquire Anders + Kern ("A+K"), a systems and solutions integrator specialising in meeting room management and audio visual solutions:
  - o Integration of A+K is now complete, providing the group with an indirect sales channel to sell the Group's meeting room and space management software solutions to small and mid-sized clients, both in the UK and overseas
  - o A+K made a positive contribution to the Group's performance in the year
- £1.2 million of proceeds have been invested in development of the Group's software platform:
  - o In December 2017 we released OneSpace Link a locally installed meeting room management solution which integrates with Microsoft Outlook
  - o Ongoing development of a full web-based meeting room management tool which will be offered as a module of the OneSpace platform
  - o Continued development of our OneSpace platform adding to existing modules which include desk management, wayfinding, car parking, visitor management, frictionless vending and space management
- OneSpace continues to gain traction. In December 2017, we announced a deal with a market-leading global technology business to provide an Original Equipment Manufacturer ("OEM") version of our platform. This deal was worth £2.25 million, our largest single contract for OneSpace thus far
- Continued strong performance and levels of renewals from our Managed Services division
- Agreements secured in the year for the Company's innovative in-Building Cellular ("IBC") and Distributed Antenna Systems ("DAS") solutions

POST YEAR END:

- Announced the proposed sale of the Systems Integration and Managed Services divisions for a total consideration of £23.0 million comprising; £19.6 million payable in cash on completion; £2.0 million payable on or before 30 November 2018, subject to completion of an already contracted project by Redstone Converged Solutions Ltd; and the waiver of loans owed by the Company to the divisions of £1.4 million. Owing to its size the disposal requires the approval of shareholders
- This disposal will allow the Group to focus on developing and growing the Company's software proposition in the smart building and co-working space markets both in the UK and internationally

CHAIRMAN'S STATEMENT

I am pleased to report another year of solid progress for RedstoneConnect Plc ("RedstoneConnect"). During this period, we broadened our operational base through acquisition, made significant investment in software product development and have grown our pre-tax profits. It was also a year where we set in motion the plan to focus on our Software business through the disposal of our Systems Integration and Managed Services divisions. RedstoneConnect's software offering has been enhanced following the fundraising in May 2017, which enabled the Group to develop its owned IP and release a number of new modules within our OneSpace software platform.

Using the proceeds from the fundraising, the Group acquired A+K, a systems integrator specialising in the meeting room management and audio-visual market, and I am delighted to welcome the team to RedstoneConnect. I am pleased to report the business is now fully integrated and making a positive contribution to trading. A+K will be the basis to build our channel sales capability allowing us to target mid-market clients with our meeting room and desk management solutions. These partners operate in the UK and internationally, and have established customer bases with meeting room hardware in place. Our aim is to sell our software through these channel partners enabling their end users to get more from their investment. As we develop further OneSpace modules, it is our intention also to offer these through this partner network.

On 29 May 2018 we announced the disposal of the Systems Integration and Managed Services divisions. The disposal, which owing to its size, is subject to shareholder approval at a meeting on 15 June 2018, will substantially change the shape of the Group. The Board has, for some time, considered that the growth prospects for our Systems Integration and Managed Services divisions are lower than those for the Software business. For the future we wish to focus on higher margin business in a less mature market with better visibility of revenues and with significant potential to grow internationally. The Systems Integration business is predominantly project based with the associated lack of forward visibility of revenues with a lower margin than we can achieve from sales of software. The Board therefore believes that by focusing investment on the development of the Software division, there is greater scope to build higher levels of better quality recurring earnings and therefore generate more attractive returns for shareholders.

Management believes the disposal terms represent a good return for both the Company and our shareholders. The two businesses were acquired for a combined consideration of £11.9 million and the disposal is for £21.6 million, £19.6 million payable in cash on completion, £2.0 million payable on or before 30 November 2018, subject to completion of an already contracted project by Redstone Converged Solutions Ltd, and the waiver of loans owed by the Company to the divisions of £1.4 million.

Following the disposal, the Group's focus will be entirely on building our business in the world of smart building and agile workplace markets after a successful year for the Group's OneSpace offering in the smart buildings space. The Software division demonstrated not only strong revenue growth in the year but using some of the funds raised in May 2017 further developed its owned IP and brought to market a number of new modules in our OneSpace platform.

RedstoneConnect is continuing to be seen as a visionary in the workspace management solutions market. We are working with a number of enterprise clients who recognise our vision that this new generation of technology is a way of optimising their corporate real estate as well as creating a better work environment for their employees. I am encouraged by the increased traction we are experiencing for our software solutions. We have secured a number of engagements to pilot our technology, with major international businesses. These pilots are the initial step to a full rollout. The pricing model for these deployments is a monthly fee per desk / room. We are working hard to ensure these relationships will develop into meaningful contracts.

Whilst the focus will be on growing the Group's Software as a Service (SaaS) based revenues through multi-year contracts, over the near team the Board believes there also continue to be opportunities to deliver licensed based agreements aligned with the buying requirements of the potential customer base.

OUTLOOK

There is currently a tipping point in the evolution of the workplace technology market. Until relatively recently the main focus of technology in the context of smart buildings has been on monitoring and managing energy use. However, today building operators are now far more interested in occupant well-being and space optimisation. Because this workplace technology market is in its infancy and is highly fragmented, RedstoneConnect has an opportunity to establish leadership through technology. The market is expanding rapidly with estimated compound annual growth rates between 2017 and 2022 of 25% in EMEA, North America and Asia. We want to use our available resources to capitalise on this opportunity.

Following the disposal of the Managed Services and Systems Integration business the Group will reduce in size operationally. However, we plan to use the funds realised from the disposal to accelerate the growth of our Software business. This growth will initially be organic through the development of our direct and indirect sales channels, both in the UK and overseas. However, should we identify appropriate targets, we also plan to make acquisitions of businesses which either have a customer base that can be migrated onto our OneSpace platform or offer complementary technology that can add value to the OneSpace platform.

After what has been a very traumatic number of years where we have taken the business from crisis to stabilisation we have now reached another important junction in the RedstoneConnect journey. The disposal of the Systems Integration and Managed Services business brings to an end the restructuring of the Group. From here we see a very exciting future where we build a business which is focused on high margin annuity revenues with significant international growth potential.

Frank Beechinor
Chairman
29 May 2018

STRATEGIC REPORT: STRATEGY AND OPERATIONAL REVIEW

STRATEGY

The Group's strategy has been to provide a broad and innovative platform of systems integration, managed services and software solutions to the Smart Buildings and Smart Commercial Spaces market. Once approved by shareholders, the recommended disposal of the Systems Integration and Managed Services business will enable the Company to focus its resources on the Software business, which the Board believes has the greatest potential to drive long-term growth in shareholder value. An important component of our strategy is to invest in the development of our software IP.

The changing business environment brings with it challenges for modern organisations in how to ensure both effective and efficient working. This challenge is one that faces all organisations both big and small, but one that becomes more difficult to manage effectively, the larger and more diverse the organisation. Speaking with clients, we are finding the key drivers for creating a successful office environment are not only the financial benefits associated with an efficient working environment by utilising space effectively, but also the benefits of a modern workplace when recruiting and retaining talent. We believe a digital experience is essential to achieving employee wellbeing and retention, through better engagement with the workplace, empowering employees to enjoy a more engaging work experience, driving productivity gains. We see this change gathering pace as more of the millennials join today's and tomorrow's workforce and as digitalisation continues to gather pace.

In 2017, the global market for occupancy analytics based software services was estimated to be worth $1.54 billion with growth of 24.5% CAGR rising to $4.60 billion in 2022 (Memoori, Occupancy Analytics and In-Building Location Based Services in the Commercial Office Space Report, Q1 2018). Industry analysts, Memoori, position RedstoneConnect's software technology as one of the top 6 global Workplace Management Platforms and in a recent market report Verdantix cited RedstoneConnect as one of the smart innovators in their analysis of the space management market. We intend to focus our energies on exploiting the enormous potential for growth in this market.

Our immediate key strategic priorities to drive future growth remain as follows:

- to focus on developing technology-led intellectual property based on OneSpace;
- to continue to grow our Smart Buildings software offering through a combination of organic growth and acquisition both in our domestic market and overseas;
- to develop new sales channels to market for our software solutions, focusing where possible on SaaS agreements; and
- to deliver higher quality earnings which, in turn, improve cash generation.

PRINCIPAL ACTIVITIES DURING THE YEAR

During the year the Group continued to trade through three operating business segments: Systems Integration, Managed Services and Software.

The Systems Integration segment remained product-agnostic with a strong pedigree in addressing the enterprise market. This division offers physical, wireless and virtual infrastructure solutions, including fully integrated smart solutions such as innovative location-based services and in-building cellular or Distributed Aerial Systems (DAS). The Group's Systems Integration division has established an extensive range of skills and experience in the rapidly advancing market for smart buildings. In addition to the traditional project implementation business, the division has seen consulting engagements become a growing part of its portfolio of services.

Our Managed Services division has a number of long standing service engagements, typically 3-5 years' duration, all with blue chip enterprise-level customers. The Managed Services division combines an on-site client engagement services offering, with a hosted IT services capability.

The Software division's principal offering is a cutting-edge workspace management platform called OneSpace, with global reach and application. The application and services suite provides a broad range of location-based services, which originally established its

STRATEGIC REPORT: STRATEGY AND OPERATIONAL REVIEW continued

strong user experience credentials in the smart city, retail and hospitality sectors, markets which remain active for our software technology today. OneSpace materially helps customers optimise space and enhance employee wellbeing.

The functionality includes:

- 2D/3D mapping;
- Wayfinding;
- Desk management;
- Visitor management;
- Car parking management;
- Meeting room management;
- Cashless vending; and
- Analytics.

The software suite is built to an open-architecture standard, is applicable to both on-premise and cloud strategies and has a secure API layer, allowing easy integration with third party applications. The data gathering, analytics and dashboard functionality enables clients to deploy mobile and agile working strategies, configuring space to achieve increased engagement with the workforce whilst realising significant cost benefits. Whilst the corporate real estate market presents a huge opportunity, the combination of the above functions and services also apply to additional market segments such as co-working office environments.

The value in today's world of understanding business data cannot be underestimated. Our software platform aims to collect data from every end-point and product API. The value adding activities, which are enabled from both the collection and analysis of this data are what drives the financial return on investment. This is certainly the case for the OneSpace product. Understanding current working behaviours and utilisation of office and commercial spaces enables clients to right size their office portfolios. We have already seen existing clients experience a compelling return on investment where the use of OneSpace has enabled, multi-million pound savings in both capital expenditure and annual operating expense.

Our software offering is suited to both direct and channel routes to market. With the investment made in the year, we believe our products have a broader appeal beyond just enterprises and can be deployed to mid-market clients and SME's. Customers can purchase individual modules allowing us to 'land and expand' from an initial sale of, say a meeting room management solution to adopting the full OneSpace suite.

OVERVIEW OF PERFORMANCE

We are pleased with the progress the Group has made in the financial year ended 31 January 2018 during which we focused on three key opportunities, namely:

- maximising organic growth initiatives;
- investing in software development; and
- leveraging the acquisition of A+K, completed in May 2017.

Overall the Group delivered a good operational performance in the year, in both Managed Services and more significantly, the Software division, resulting in an increase in the Group's gross profit and operating margins.

However, 2017 was challenging for the Systems Integration division which saw a marked reduction in profitability. In the year to 31 January 2018, Group revenues increased by 15% to £47.6 million (2017: £41.5 million). More significantly however, gross profit increased by approximately 45% to £13.4 million (2017: £9.2 million) largely thanks to the excellent growth seen in the Software division in the year. Group gross margin increased to 28% (2017: 22%). This strong headline trading performance has been achieved despite the challenges experienced in the Systems Integration division and is predominantly due to the progress made in the year by the Software division.

The Software division worked on a number of high value assignments during the year including a smart city UK project, a smart shopping centre in Munich as well as several corporate projects for enterprise level customers. During the year we increased the scope of the global master framework agreements for OneSpace with the investment bank UBS and global media events company UBM, with deployments of OneSpace into a number of both companies' international offices. We continue to develop further opportunities with OneSpace and already have a number of revenue generating pilot projects, which we hope in time will develop into full deployments of the solution.

In December 2017 we announced a major contract with an Original Equipment Manufacturer ("OEM") to allow them to embed OneSpace into their hardware solutions. The contract, with a value of £2.25 million, is the largest contract we have signed to date for our OneSpace product as is the first major contract to embed our software into a third party solution, a fantastic endorsement of the OneSpace product.

The Board has been considering the options available to it to maximise shareholder value from the Systems Integration and Managed Services divisions given that they operate in slower growth and lower margin markets. The Systems Integration division also has high levels of project-based work with less predictable revenues. There are furthermore considerable swings in the division's working capital requirements. Although the division achieved lower revenues in the current financial year, it had built a strong pipeline of business at the year end which will benefit the following year and this led to higher than normal levels of working capital being employed in the business at the year end, with a resulting negative impact on the Group's net cash. The action which the Board proposes to take in this regard is explained in the proposed post balance sheet events section below.

The financial performance of the Group for the year is covered in more detail in the Financial Review.

SOFTWARE DEVELOPMENT

In May 2017 the Company raised funds to accelerate the development and functionality of OneSpace, in particular, to improve the platform architecture and develop further modules. As a result of the Board's efforts and the investments made to date in the software offering, the Software division has grown considerably over the past twelve months.

During the year we invested £1.2 million to improve scalability and enable the technology to operate on multiple cloud platforms. This supports deployments of our software platform in smart city, retail, hospitality and commercial real estate markets. Importantly, we further developed the OneSpace product family to address the integrated Workspace Management opportunity emerging in commercial real estate, as organisations adapt to more agile working environments and greater workforce mobility. At the end of the year we announced delivery of the first new module for the OneSpace family, an entry-level meeting room scheduling tool called Link that integrates with Microsoft Outlook to make room scheduling and associated services such as audio-visual equipment and catering, easily booked from the desktop. Link has also been integrated with Liso, a well-established meeting room signage product deployed across the world by Swedish manufacturer, Evoko.

Other developments include important enhancements to OneSpace, some of which were going through user-acceptance testing as we closed out the year. Specifically, we are adding web-based resource scheduling for meeting rooms, desks and car parking to an already impressive workspace management technology that provides powerful wayfinding and analytics for workspace utilisation. Additionally, all end user applications for OneSpace are being made available through a powerful new mobile application available in both iOS and Android variants.

Our development team has also made significant progress in developing our technology platform to incorporate a microservice architecture platform, through which services and applications can be deployed across multiple cloud-provider technologies. This modular deployment provides a scalable platform for a SaaS-based solution as well as reducing the future development time to create new functions and modules.

ACQUISITION

As we create additional modules for OneSpace we are productising them to be channel ready so we may rapidly expand market access in the future through value-add partners. The acquisition of A+K in May 2017 for £1.4 million cash has brought with it expertise in designing channel ready products and provides the route to engaging with an important channel to market, the AV reseller (audio-visual). AV resellers operate across the market spectrum from small to very large businesses, providing solutions to improve the quality, efficiency and performance of meetings. New OneSpace product modules fit this market well and provide customers with a strong meeting room management solution that can act as a starting point for more innovative functions available to support the modern workplace, such as visitor management, desk management, wayfinding (indoor navigation) and analytics that help workspace planners optimise the working environment. We continue to develop this theme within our product development and go-to-market strategy.

The acquisition added a team of 20 staff to the Group and A + K contributed revenues of £2.1 million and EBITDA of £0.1 million in the year.

PROPOSED POST BALANCE SHEET DISPOSAL

Following the acquisition of Connect IB in March 2016, the Board has focused on the development of the Company into a software-led business. The Board believes that the Group's capital resources are best utilised in growing the technology-led software business with the focus on higher margin, recurring SaaS revenue.

As a result, the Group announced on 29 May 2018 the proposed disposal of the Systems Integration and Managed Services divisions to Excel I.T. Services Limited for a total consideration of £21.6 million in cash, of which £19.6 million is payable on completion, and a further £2.0 million payable on or before 30 November 2018, subject to completion of an already contracted project by Redstone Converged Solutions Ltd ("Additional Consideration"). In addition, intercompany loans to the divisions amounting to a further £1.4 million will be waived.

The Additional Consideration will be retained by the Purchaser for working capital purposes relating to a project, which is due to complete in November 2018. In the event that the Additional Consideration is not sufficient to cover the ongoing working

STRATEGIC REPORT: STRATEGY AND OPERATIONAL REVIEW continued

capital relating to the project, the Company may be required to provide additional working capital equal to any such deficit, subject to the terms of the Share Purchase Agreement.

Under Excel I.T. Services' ownership the Systems Integration and Managed Services businesses will continue to act as a channel for the Company's software products and services.

As well as providing the Board with the opportunity to focus its energies on maintaining and accelerating the progress in the Software division, the disposal of the Systems Integration and Managed Services divisions will:

- provide the Board with a clear platform to execute its strategy of becoming a software led company focused on the attractive smart buildings and co-working technology markets;
- strengthen the Group's balance sheet, greatly improving our cash position; and
- enable the Group to invest in its technology as well as providing the Group with the flexibility to take advantage of potential acquisition opportunities which broaden its software suite of products into the smart building and co-working space technology markets.

The Board believes that the proposed terms of the disposal represent good value for shareholders. If approved by shareholders, it is expected that completion of the disposal will occur on 15 June 2018.

OUTLOOK

The Board believes there are substantial opportunities for growth in the smart software and co-working technology markets, particularly in light of increasing interest in agile working and the connected office environment, a core focus for the Group's occupancy management software platform, OneSpace.

The Board further believes the Group is in a strong position following the investment made in developing our software and smart working solutions over the past 24 months. RedstoneConnect's software platform, services and application suite have broad appeal and we have increasing interest and early engagements, giving us confidence in securing new client mandates over the coming months. The opportunity in the corporate real estate market, which enables employee and visitor engagements through software technology, continues to gather pace and we are ideally positioned to benefit.

Our plan in the coming year is to invest into sales and marketing to maximize the opportunity in the market for workplace technology. We will also continue to invest in software product, focusing development efforts on functionality to enhance the existing offering thus maintain competitive differentiation through technology innovation. With the benefit of the proceeds from the disposal of the Systems Integration and Managed Services businesses, we will be well placed to explore opportunities to complement the organic growth opportunity we see for our software products with acquisition opportunities that could deliver either a complementary suite of software products into the smart building and co-working sectors or have the potential to increase our customer base and geographic reach.

Finally, on behalf of the Board, I wish personally to thank and acknowledge my colleagues for what they have achieved during the year.

Mark Braund
Chief Executive Officer
29 May 2018

STRATEGIC REPORT: FINANCIAL REVIEW

OVERVIEW

The main focus during the year has been to continue to strengthen our software offering. The Company raised additional capital in May 2017 and has since invested some of the funds raised to deliver a defined program of software development. This has resulted in a broader OneSpace proposition which has enhanced functionality across the platform, its mobile offering and various modular point solutions. We have complemented this development program with an acquisition, which we anticipate will benefit the Group in future years as we take these new software offerings to market. The acquisition of A+K is seen as a key component in our channel strategy.

During the year the Group reported improved trading performance, with its Software division recording the biggest divisional increase in both revenue and profit. Managed Services has also performed reasonably well with the added benefit of a full year contribution from Commensus. The Systems Integration division however had a challenging year, experiencing a slow first half and whilst the second half reported better performance, full year revenue, gross margin and profitability was not as strong as the prior year. The Systems Integration division is a projects business and as a result gross profit margins can fluctuate based on the size and complexity of each project.

SHARE CONSOLIDATION AND CAPITAL REDUCTION

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

The share consolidation involved 2,078,479,485 shares of 0.1 pence in the issued share capital of the Company being consolidated into 20,784,795 ordinary shares of 10 pence each, effective 6 June 2017.

At the same time, shareholders approved a Reduction of Capital which resulted in the following transactions:

(a) the Company's share premium account was transferred to the Company's accumulated deficit in distributable funds;
(b) the Company's deferred shares were cancelled and the capital redemption reserve arising was transferred to the Company's accumulated deficit; and
(c) the Company's merger reserve was transferred to the Company's accumulated deficit.

This resulted in the Company having an accumulated surplus in distributable funds of £12,410,292.

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 if, the Directors consider that it is appropriate to do so. The Reduction of Capital was approved by the Courts and became effective on 28 June 2017.

Where applicable, the comparative figures relating to number or value of shares throughout this report have been amended to reflect the effects of the share consolidation had it been in place at the beginning of the previous financial year.

ACQUISITIONS

On 9 May 2017 (prior to the Group's share consolidation), RedstoneConnect acquired 100% of the share capital of Easter Road Holdings 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 proceeds of a placing of 433,333,334 new ordinary shares of 0.1 pence each (prior to the share consolidation) at a price of 1.5 pence per share, raising £6.5 million, before expenses.

TRADING PERFORMANCE

Revenue for the year of £47.6 million (2017: £41.5 million) increased by £6.1 million or 15% year on year. This increase in revenue was, in the most part, achieved as a result of a full year contribution from Commensus of £2.4 million, the acquisition of A+K in May 2017 (which contributed £2.1 million in revenue in the year), as well as strong growth seen in the Software division. The Software division, benefitted from the OEM software contract recorded in the second half of the year which contributed revenues of £2.25 million. These increases in revenue were offset in part by the reduction in revenue performance from the Systems Integration division.

The Group reported gross profit for the year of £13.4 million, which was 45% ahead of the prior year (2017: £9.2 million), and gross profit margin at 28% which represents a 600 basis points increase over the same period (2017: 22%). The uplift in gross profit performance has been achieved through a greater contribution from the Software division, with its high gross margin at 83% and to a lesser extent, the Managed Services division, with a full year contribution from Commensus with its higher margin service offering, offset by lower margin contribution from Systems Integration.

As a result of the strong gross profit performance, adjusted EBITDA has increased in the year by 60% to £3.2 million (2017: £2.0 million), this increase being supported by an additional £1.5 million EBITDA contribution from the Software division.

The improved trading performance resulted in a £0.4 million increase at the operating level, with profit of £1.6 million (2017: £1.2 million), representing a 32% year on year increase. The Group reports its second consecutive profitable year following its recent restructuring, recording profit before tax from continuing operations of £1.5 million (2017: £1.2 million) and post-tax earnings from continuing operations of £1.5 million (2017: £1.8 million), with the prior year benefitting from a credit to tax of £0.6 million versus £0.1 million credit in the current year.

Year ended 31 January 2018	Systems Integration	Managed Services	Software	Group Overheads	Total
	£000	£000	£000	£000	£000
Revenue	24,213	18,023	5,338	-	47,574
Gross profit	3,777	5,140	4,441	-	13,358
Gross margin	15.6%	28.5%	83.2%	-	28.1%
Adjusted EBITDA	613	2,567	1,884	(1,857)	3,207
Operating profit from continuing operations	409	1,948	1,371	(2,157)	1,571
Adjusted profit before taxation	463	2,207	1,660	(1,959)	2,371
Profit after taxation from continuing operations	405	1,986	1,374	(2,249)	1,516
Operating profit from continuing operations	409	1,948	1,371	(2,157)	1,571
Adjusting items:					
Integration and transactional costs included within administrative expenses	12	36	171	218	437
Depreciation	93	252	47	10	402
Amortisation	59	281	285	-	625
Share based payment charge	40	50	10	72	172
Adjusted EBITDA	613	2,567	1,884	(1,857)	3,207
Profit/(loss) before taxation from continuing operations	404	1,952	1,348	(2,249)	1,455
Adjusting items:					
Integration and transactional costs included within administrative expenses	12	36	171	218	437
Amortisation of intangible assets from business combinations	7	169	131	-	307
Share based payment charge	40	50	10	72	172
Adjusted profit before taxation	463	2,207	1,660	(1,959)	2,371
Amortisation split:					
Development capitalised	-	-	152	-	152
Software capitalised	52	112	2	-	166
Business combinations	7	169	131	-	307
Amortisation of intangible assets	59	281	285	-	625

STRATEGIC REPORT: FINANCIAL REVIEW continued

Year ended 31 January 2017

	Systems Integration	Managed Services	Software	Group Overheads	Total
	£000	£000	£000	£000	£000
Revenue	24,586	15,310	1,625	-	41,521
Gross profit	4,084	3,714	1,426	-	9,224
Gross margin	16.6%	24.3%	87.8%	-	22.2%
Adjusted EBITDA	1,082	1,959	343	(1,374)	2,010
Operating profit from continuing operations	874	1,432	(19)	(1,096)	1,191
Adjusted profit before taxation	888	1,524	321	(1,407)	1,326
Profit after taxation from continuing operations	1,478	1,432	7	(1,128)	1,789
Operating profit from continuing operations	874	1,432	(19)	(1,096)	1,191
Adjusting items:					
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
Adjusted EBITDA	1,082	1,959	343	(1,374)	2,010
Profit/(loss) before taxation from continuing operations	872	1,426	(16)	(1,128)	1,154
Adjusting items:					
Integration and transactional costs included within administrative expenses	9	50	77	(347)	(211)
Amortisation of intangible assets from business combinations	-	35	113	-	148
Impairment of intangible assets	-	-	146	-	146
Share based payment charge	7	13	1	68	89
Adjusted profit before taxation	888	1,524	321	(1,407)	1.326
Amortisation split:					
Development capitalised	21	43	3	-	67
Software capitalised	49	105	2	-	156
Business combinations	-	35	113	-	148
Amortisation of intangible assets	70	183	118	-	371

SYSTEMS INTEGRATION

The Systems Integration division had a challenging year following a slow first half. It reported lower revenues in the year at £24.2 million (2017: £24.6 million), albeit with a second half weighting which was anticipated at the start of the year, as result of order unwind and the profile of new project wins and delivery. The revenue shortfall was a result of slower uptake and delays in delivering infrastructure projects for both Smart building and DAS engagements.

Gross margin percentage at 15.6% is down 100 basis points from 16.6% in 2017, contributing a gross profit of £3.8 million, down £0.3 million (2017: £4.1 million). The decrease in gross profit margin is a result of two material infrastructure projects one of which is traditional cabling and the other a Smart Building mandate, which are contracted at lower margins. As a result, adjusted EBITDA at £0.6 million (2017: £1.1 million) and operating profit on continuing operations at £0.4 million (2017: £0.9 million) are both down £0.5 million on the prior year. A+K's sales of AV products and services contributed £0.7 million of revenues and £0.3 million gross margin from the date of its acquisition in May 2017.

MANAGED SERVICES

During the year, revenues grew by 18% to £18.0 million (2017: £15.3 million) and gross profit increased by £1.4 million or 38% to £5.1 million (2017: £3.7 million). The year ended 31 January 2018 was the first full year of contribution from Commensus which was acquired in November 2016. The full year contribution from Commensus was £2.4 million of revenue (2017: £0.5 million) and £1.3 million (2017: £0.3 million) of gross profit. The increase in gross margin has been offset by a corresponding increase in overheads of £0.8 million, resulting in an increase in adjusted EBITDA of £0.6 million to £2.6 million (2017: £2.0 million) and operating profit of £2.0 million (2017: £1.4 million).

SOFTWARE

This division includes revenues and profits generated from Connect IB product offerings including OneSpace.

Revenues of £5.3 million (2017: £1.6 million) generated gross profit of £4.4 million at a margin of 83.2% (2017: £1.4 million and a margin of 87.8%), resulting in a positive adjusted EBITDA contribution of £1.9 million (2017: £0.3 million) and operating profits of £1.4 million (2017: loss of £0.02 million after £0.1 million impairment of intangible assets). The performance has been underpinned by a few notable contracts, including the £2.25 million OEM for OneSpace alongside the mandates for a smart city solution and a digital retail solution.

Investment in overheads of £1.2 million has been made during the year, with additional employees complementing the existing team and supporting a scalable business platform, as we look to grow the business following this year's period of investment in product.

The impact of the investments in the Software business is beginning to show positive signs and, we have already seen increased client engagements, which start with a pilot or proof of concept. This increase in client activity across a range of vertical markets, we hope over time will develop into full contract engagements and global mandates. We also see the investment program as essential in our strategy of developing new channels to market, and some of the investment has been and will continue to be focused on productising aspects of the modular platform offering, to enable other vendors and partners to take our software products to market. We see this as a big opportunity in 2019 and beyond.

The impairment charge in the prior year arose as a result of the development in previous years of the original OneSpace product, following the acquisition of Connect IB and re-engineering of the product to what it is today as a component of our cloud platform. The charge results from the now 'end of life' previous version of the OneSpace product.

GROUP OVERHEADS

The Group reported central overheads of £2.2 million at an operating level (2017: £1.1 million). This includes a charge in the current year relating to integration and transactional items of £0.4 million (2017: credit of £0.2 million). The previous year also benefited from an exceptional credit of £0.2 million relating to the unwinding of accruals associated with former premises, thus the increase in continuing overheads was £0.3 million. This increase reflects investment in additional headcount and marketing activities.

INTEGRATION AND TRANSACTIONAL ITEMS

A charge of £0.4 million (2017: £0.2 million credit) has been recorded in integration and transactional items from continued operations in the year. This charge comprises an integration charge of £0.3 million (2017: £0.4 million credit) and a transactional charge of £0.1 million (2017: £0.2 million charge).

The integration charge includes £0.2 million employee related costs and £0.1 million business restructuring costs, whilst the £0.1 million transactional items resulted from professional fees associated with the acquisition of A+K as well as fees incurred in respect of the share placing, share consolidation and capital reduction.

STRATEGIC REPORT: FINANCIAL REVIEW continued

TAXATION

The tax credit reported in the income statement of £0.1 million (2017: £0.6 million) is the release of the deferred tax liability associated with the amortisation of the corresponding intangible assets from business combinations of £0.1 million (2017: £0.03 million), with the prior year also benefitting from the recording of a tax asset of £0.6 million in relation to previous years' trading losses.

The Group has the benefit of trading losses which are available to offset against future profits. As at 31 January 2018, the tax losses in the Group totalled £10.4 million (2017: losses of £9.7 million), of which we anticipate utilising £3.6 million against future profits and as such have recognised a deferred tax asset of £0.6 million (2017: £0.6 million). The tax losses primarily sit within the Systems Integration division at £4.7 million, with £1.4 million and £0.9 million trading losses relating to the Managed Services and Software divisions respectively, and the remaining £3.4 million in relation to the central function. Following the disposal of the Systems Integration and Managed Services divisions, £5.3 million of the tax losses will leave the Group, with £5.1 million losses remaining, £1.7 million in the Software division and £3.4 million within the central function.

EARNINGS PER SHARE - CONTINUING OPERATIONS

Basic earnings per share ("EPS") recorded in the year was 7.7 pence, which was down against the prior year at 11.1 pence. EPS on a diluted basis, allowing for employee share options and warrants, was 7.1 pence (2017: 10.1 pence). An analysis is provided in note 14 'Earnings per share'.

Adjusted basic earnings per share recorded in the year was 12.8 pence, which was marginally behind the prior year at 13.1 pence. Adjusted EPS on a diluted basis, allowing for employee share options and warrants, was 12.8 pence (2017: 11.9 pence). An analysis is provided in note 14 'Earnings per share'.

On a comparable basis, both EPS and adjusted EPS have been impacted by the dilutive effect of the shares issued during the year, with an additional 3.5 million shares and 1.9 million weighted average shares in 2018 on a basic and diluted basis. The previous year also benefitted from the credit to the income statement from integration and transactional items of £0.2 million (2018: charge of £0.4 million) as well as the release of accruals of £0.2 million (2018: £nil) in relation to previous premises and a tax credit of £0.6 million (2018: £0.1 million credit).

RESEARCH AND DEVELOPMENT

During the year the Group has made a significant investment of £1.2 million (2017: £0.4 million) in further developing the Software IP, as well as extending the OneSpace product family, each one bringing added functionality to the product offering. New products launched in the year included the Meeting Room Management plug-in, a full web based Meeting Room Management product, and a market leading mobile application. There has also been significant investment in the core platform which hosts the OneSpace product offering. The platform is now multi-tenanted with a microservices architecture and is truly cloud agnostic, which allows for speedy deployment and upgrades to all instances of installed product. This investment is capitalised and recorded in the statement of financial position as an intangible asset. An analysis is provided in note 16 'Other intangible assets'. We anticipate more development in 2019 as we further improve the software offering, with already identified specific enhancements.

INTANGIBLE ASSETS AND GOODWILL

As a result of the acquisition of A+K, the Group intangible assets increased by £0.2 million and goodwill by £1.1 million. A breakdown of the intangible assets and goodwill arising on the acquisition is provided in note 6 'Acquisitions of businesses'.

Amortisation of £0.3 million has been recognised in the income statement in respect of total acquired intangible assets (2017: £0.2 million).

CASH FLOW

Cash and cash equivalents at the end of the year was £3.4 million (2017: £3.2 million), an increase of £0.2 million. Net cash at the year-end amounted to £1.2 million (2017: £0.8 million).

The business operations generated cash of £2.7 million (2017: £1.9 million) from profitable trading during the year. Increased working capital requirements primarily in the Software and Systems Integration businesses resulted in a net cash outflow from operating activities of £2.3 million (2017: £0.9 million cash inflow), largely as a result of higher debtors and accrued income which resulted in an outflow of £4.9 million (2017: £0.1 million). In particular, this outflow has arisen from substantially higher fourth quarter activity in 2018 on infrastructure projects which will benefit revenues in the next financial year. In prior years, including 2017, quarter four has traditionally been our slowest quarter and has therefore seen working capital inflows. The proposed disposal of the Systems Integration and Managed Services divisions involves the recovery of £3.6 million of cash and excess working capital tied up in those divisions at the year end.

Cash outflows from investing activities of £3.1 million (2017: cash outflows £4.0 million), resulted from the investments in A+K of £1.2 million (net of cash acquired), investment in the development of software IP of £1.2 million and investment in fixed and intangible assets of £0.6 million.

Cash flows generated from financing activities of £5.7 million (2017: £5.2 million) comprised funds raised from the issue of new equity, net of issue costs of £6.2 million (2017: £3.0 million) and cash outflows relating to repayment of debt and interest totalling £0.6 million (2017: £2.3 million). The funds raised during the year were used to fund the acquisition of A+K and investment made in software IP.

DIVIDEND POLICY

Following the capital reduction implemented after last year's AGM, the Company is in a position to adopt a dividend policy. The proposed disposal of the Systems Integration and Managed Services divisions will furthermore generate a profit on disposal as well as substantial cash resources. The Board considers that it is in shareholders' best interests to retain resources in the Group to invest in further software development and potential acquisitions. However, should it become apparent in the next 24 months that not all of the available resources are required, the Board will consider implementing a distribution policy or return of capital to shareholders.

BORROWING AND BANK FACILITY

As reported in 2017, on 14 November 2016 the Group entered into a long-term arrangement with Barclays to finance the acquisition of Commensus with a fixed term loan of £2.35 million. The loan is repayable over four years, with quarterly repayments of £0.15 million, and carries a coupon of 3.5%. The first repayment was made in February 2017 and a total of £0.6 million has been repaid in the year ended 31 January 2018.

As a result of the fixed term loan, a reduced revolving loan facility of £1.65 million was agreed (previously £2.5 million). This facility will ratchet back up to a maximum of £2.5 million in line with the repayments of the £2.35 million term loan, and as such the facility is £2.24 million at 31 January 2018. The facility remains undrawn as at the balance sheet date.

Subsequent to the acquisition of A+K in May 2017, as part of the integration within the Group the business moved its banking facilities from Clydesdale Bank to Barclays. At the time of acquisition, A+K had bank loans with Clydesdale amounting to £0.3 million. As part of the bank transition a £0.5 million mortgage, secured against the property owned by A+K, was put in place through Barclays and the funds used in part to repay the Clydesdale loans. The Barclays mortgage loan represents 69% of the property value of £0.7 million, carries a coupon of 2.5% and is repayable over three years. Repayments are £0.01 million quarterly, and represent repayment of principal and interest.

As a result of the Group's term loan and facility arrangements, the following banking covenants are in place: -

- Leverage cover: total borrowings must not exceed 200% of trailing twelve month EBITDA;
- Debt service: adjusted cash flow as a ratio to adjusted debt service shall not fall below 2 times;
- Interest cover: Earnings Before Interest and Tax, ("EBIT"), must exceed 2.5 times gross financing costs; and
- Debtor cover: debtor book cover less than 90 days cannot fall below 3 times the drawn facility.

These covenants must be tested at each financial quarter, and must be based on the previous 12 month period results. During the year to 31 January 2018 the covenants have been tested at the quarterly interval, and all have been within the facility limits.

Should the disposal of the Systems Integration and Managed Services divisions be approved by shareholders, the Group intends to use part of the proceeds to repay the balance of the fixed term loan. If the Group were to repay the outstanding loan balance as the date of this report, the maximum breakage costs incurred would be £0.09 million.

Spencer Dredge
Chief Financial Officer
29 May 2018

STRATEGIC REPORT: PRINCIPAL RISKS

PRINCIPAL RISKS AND UNCERTAINTIES

The Group could potentially be affected by a number of uncertainties and risks that are not wholly within its control:

REGULATORY CHANGES RESULTING FROM THE UK'S EXIT FROM THE EUROPEAN UNION

The Board continues to monitor its operations as a result of the UK's referendum to leave the European Union ("Brexit"). It is not expected that Brexit will have either a material impact on operations or financial performance as the Group looks to expand both in the UK and geographically. The Board believes that smart software technologies will resonate with clients anywhere in the world and therefore Brexit is not a material concern.

RELIANCE ON KEY PERSONNEL AND MANAGEMENT

The success of the Group will rely upon attracting and retaining the right calibre of talent. The Group operates an active talent and development program. The Group continuously monitors and develop this programme to meet the ambitious requirements of the business. The loss of key staff would be detrimental to the Group. The Group utilises a number of tools to retain its senior management including: an annual bonus and long term incentive plans.

TECHNOLOGICAL CHANGE AND COMPETITION

The pace of technology advancement in today's world is apparent and affects all aspects of life. The Group strategy is underpinned by our software offering. We will continue to understand client requirements and research the market to ensure we focus our product development program to ensure we have the most relevant software which is competitive in the global market. The risk should we not continue to build upon recent investment in software is considerable and therefore identifying increased product functionality and differentiation, will ensure we manage and mitigate this risk.

SALES AND CHANNEL DEVELOPMENT

Key to our future success will be developing successful channels to market. Productising our software offering is crucial to ensuring a successful channel strategy, ease of sale and installation are both key components to ensure partner adoption. Failure to develop channels to market is likely to impact our ability to scale the business. Recent and ongoing investment will ensure we have products to share with channel partners along with the necessary training and installation support.

CLIENT DELIVERY

Our software solution addresses many client requirements, some of which can be complex installations. Client IT environments are not uniform and therefore delivery is a key component to successful client relationships. Project management, with technically capable trained resource and planning are essential in delivering an excellent installation experience ensuring long term client retention.

ACCREDITATIONS AND INDUSTRY STANDARDS

Industry standards are constantly changing with data and cyber security key concerns for most organisations. Ensuring the Group is planning and maintaining its accreditations will mitigate the risk associated with ever changing high standards of practice.

IP PROTECTION

The barriers to entry in our software markets are significant. Therefore, we must maintain protection around our IP otherwise risk these barriers to competition. Maintaining contractual disciplines and vetting who we chose to share any level of object or source code, product knowledge and wherewithal and general secrets of how we operate are constantly monitored and reviewed. Confidentiality is a key component to managing this risk and the Group has legally binding agreements to ensure this is robust and maintained.

POST ACQUISITION RISK

The Board's stated strategy is that it is seeking to make acquisitions to complement the Company's products and services. Integrating new acquisitions involves risk resulting from poor communication, inadequate business processes, loss of staff, loss of clients and other factors. Therefore, integration risk needs to be assessed and monitored to ensure value is achieved from any business combination. Post-acquisition risk is managed by both Executive and senior management.

The Strategic Report, comprising the Strategy and Operational Review, Financial Review and Principal Risks was approved by the Board on 29 May 2018 and signed on its behalf by:

Mark Braund
Chief Executive Officer
29 May 2018

DIRECTORS AND OFFICERS

Frank Beechinor (Chairman)

Frank was appointed Chairman of the Board on 10 July 2014 and is Chairman of the Nominations Committee. He has significant corporate experience, particularly of IT and Software services and is also currently Non-Executive Chairman of dotDigital Group plc and CEO of Cadence Performance Limited. Frank was previously founder and CEO of OneClick HR plc from 1997 to 2011.

Mark Braund (Chief Executive Officer)

Mark was appointed CEO on 1 January 2016, following his stint as a Non-Executive Director appointed on 9 March 2015.

He is a former director of IBM (EMEA) and an experienced technology and business services executive with a proven ability to turn around and grow businesses. He founded, developed and then sold Barker Personnel Services to Carlisle Holdings plc and subsequently led the turnarounds of TAC Europe, Lorien plc and First Advantage Inc., all of which saw rapid increases in market share and profitability before being sold to private investors. Mark was CEO of InterQuest Group plc from April 2011 to December 2015, one of the leading digital technology contract services and recruitment specialists in the UK.

Spencer Dredge (Chief Financial Officer)

Spencer was appointed as Director on 2 September 2015. Spencer is a qualified Chartered Management Accountant and has more than a decade of experience in the Technology sector having held a number of senior positions for quoted UK technology companies, including his previous role as CFO of Castleton Technology Plc, where he helped complete the Groups restructuring. He has experience in corporate finance, playing a pivotal role in executing successful M&A programs at Redstone plc, Maxima Holdings plc and Redcentric plc.

Guy van Zwanenberg (Non-Executive Director)

Guy joined the Board on 9 March 2015 and is Chairman of the Remuneration Committee and a member of the Audit Committee and the Nominations Committee. Guy has 40 years' experience in industry and practice. He qualified as a Chartered Accountant with Grant Thornton and then spent three years working with James Gulliver. Guy subsequently moved to become UK Finance Director of an American computer accessory company which was taken public in 1989. In 1991, he established his own interim financial management business and has since been involved in a number of SME businesses providing strategic and financial help.

Guy joined Gamingking PLC in 1998 on a part time basis as Finance Director and became Company Secretary and Non-Executive Director in 2006, remaining until May 2013. He joined Quixant plc as a Non-Executive in March 2013 as part of the float team.

Guy is both a Fellow of The Institute of Chartered Accountants in England and Wales and a Chartered Director.

Diana Dyer Bartlett (Non-Executive Director)

Diana was appointed to the Board in October 2013 and is Chairman of the Audit Committee and a member of the Remuneration and Nominations Committees. Diana acted as interim FD of the Company between the end of 2014 and Spencer's appointment in September 2015.

With 30 years' experience in accountancy, investment banking and finance, Diana has an impressive track record in investments, mergers and acquisitions, corporate governance and business transformation in publicly quoted, venture capital and private equity backed companies. Her previous roles include Chief Financial Officer for Precious Cells International Limited, Company Secretary for Tullett Prebon plc, Finance Director of Pelamis Wave Power Limited and Chairman and Honorary Treasurer for BreastCancer Haven.

Diana is an Associate of the Institute of Chartered Accountants in England and Wales.

COMPANY INFORMATION AND ADVISERS

REGISTERED OFFICE

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COMPANY NUMBER

5332126

COMPANY ADVISERS

NOMINATED ADVISER AND JOINT BROKER

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JOINT BROKER

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AUDITOR

KPMG LLP
Chartered Accountants &
Statutory Auditors
Arlington Business Park
Theale
Reading
Berkshire
RG7 4SD

REGISTRAR

Share Registrars Ltd
Craven House
West Street
Farnham
Surrey
GU9 7EN

BANKER

Barclays Bank Plc
1 Churchill Place
London
E14 5HP

DIRECTORS' REPORT

The Directors' submit this report together with the accounts of RedstoneConnect plc ('the Company') and its subsidiary undertakings (together 'the Group') for the year ended 31 January 2018.

PRINCIPAL ACTIVITIES

During the year the Group's principal activities were infrastructure services, managed services and software products.

RESULTS AND DIVIDEND

The results for the year are set out in the consolidated statement of comprehensive income on page 33. The Directors do not recommend payment of a dividend (2017: £nil).

REVIEW OF BUSINESS

A review of the business of the Group, together with comments on future developments is given in the Strategic Report.

DIRECTORS AND THEIR INTERESTS

The Directors who held office during the year were as follows:

Frank Beechinor
Chairman
Mark Braund
Chief Executive Officer
Spencer Dredge
Chief Financial Officer
Diana Dyer Bartlett
Non-Executive Director
Guy van Zwanenberg
Non-Executive Director

The remuneration of the Directors who held office during the year was as follows:

DIRECTORS' REMUNERATION

	Salary	Bonus	Share Based Payment	Benefit in kind	Total	Pension	2018 Total	2017 Total
	£000	£000	£000	£000	£000	£000	£000	£000
Frank Beechinor	65	-	6	-	71	-	71	65
Mark Braund	300	50	40	4	394	38	432	365
Spencer Dredge	150	30	16	1	197	9	206	190
Diana Dyer Bartlett	40	-	4	-	44	-	44	42
Guy van Zwanenberg	40	-	2	-	42	-	42	40

DIRECTORS' REPORT continued

The interests of those Directors serving during the year ended 31 January 2018, as at the year-end, all of which are beneficial, in the share capital of the Company, were as follows:

DIRECTOR	Ordinary shares of 10p each	
	2018	2017
	No	No
Frank Beechinor	90,000	90,000
Mark Braund	144,853	144,853
Spencer Dredge	32,126	32,126
Diana Dyer Bartlett	40,000	40,000
Guy van Zwanenberg	30,000	30,000

During the year, 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 comparative figures in the table above, and throughout this report have been amended to reflect the effects of the share consolidation had it been in place at the start of the last reporting period.

The beneficial holdings include, where applicable, the holdings of connected parties.

DIRECTORS' SHARE OPTIONS

As at 31 January 2018 the Company had granted the following share options to Directors of the Company which remained outstanding at the year-end:

DIRECTOR	INSTRUMENT	NO OF ORDINARY SHARES OF 10p	EXERCISE PRICE	GRANT DATE
Frank Beechinor	Share option	100,000	92p	11/12/2015
Mark Braund	Share option	650,000	92p	11/12/2015
Spencer Dredge	Share option	260,000	92p	11/12/2015
Diana Dyer Bartlett	Share option	70,000	92p	11/12/2015
Guy van Zwanenberg	Share option	30,000	92p	11/12/2015

None of the Directors had any beneficial interest in the shares of any subsidiary companies.

The movement on Directors share warrants and options during the year is set out below:

	2018		2017	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at start of year	1,100,000	92p	1,100,000	92p
Outstanding at end of year	1,100,000	92p	1,100,000	92p
Exercisable at end of year	-	-	-	-

SHARE CAPITAL

Details of the Company's share capital are disclosed in note 25 to the financial statements.

FINANCIAL INSTRUMENTS

Details of the use of financial instruments by the Company and its subsidiary undertakings are disclosed in note 29 to the financial statements.

STATEMENT TO THE AUDITOR

So far as the Directors are aware, there is no relevant audit information (as defined by section 418 of the Companies Act 2006) of which the Company's auditor is unaware, and each Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

CORPORATE GOVERNANCE

Achieving good governance is key to the long term success of the business. It ensures we remain a responsible Company and underpins our culture and reputation as an organisation. As a Board we are conscious of our obligations to think deeply, thoroughly and on a continuing basis regarding our duties.

The Group has Non-Executive Board members with extensive experience in areas critical to the long term future success of the Company, covering a deep understanding of technology, corporate strategy, finance and investment. This experience enables the Non-Executives to add entrepreneurial leadership, with open and rigorous debate that provides a valuable external and balanced perspective to the Board. We believe that our Board members complement each other, delivering a broad and appropriate balance of skills.

BOARD OF DIRECTORS

At the year end the Board consisted of a Chairman, Chief Executive, Chief Financial Officer and two Non-Executive Directors.

The Board meets on a regular basis and the agenda of matters discussed and approved consists of matters concerned with the future direction of the business. The Board is responsible for formulating, reviewing and approving the Group's strategy, budgets and major items of expenditure.

REMUNERATION COMMITTEE

The Remuneration Committee agrees the terms and conditions, including annual remuneration, of Executive Directors and reviews such matters for other senior personnel including their participation in long term incentive schemes.

AUDIT COMMITTEE

The Audit Committee recommends the appointment, scope and fees of the external auditor, discusses issues that arise from the audit, reviews reports of the external auditors and internal control procedures and considers any financial statements before their publication. The auditor also attends meetings of the Audit Committee as required by the Committee to consider any issues arising from the audit and the auditor's work.

NOMINATIONS COMMITTEE

The Nominations Committee makes recommendations to the Board for all Board appointments and succession planning.

EMPLOYEES

The Group has continued to give full and fair consideration to applications made by disabled persons, having regard to their respective aptitudes and abilities, and to ensure that they benefit from training and career development programmes in common with all employees. The Group has continued its policy of employee involvement by making information available to employees through the medium of frequent staff meetings, together with personal appraisals and feedback sessions.

During the year the Group introduced a SAYE share incentive scheme in which all staff were invited to participate, thereby aligning their interests with those of the shareholders.

DIRECTORS' REPORT continued

SUBSTANTIAL SHAREHOLDINGS

As at the 25 May 2018, the following interests in 3% or more of the issued ordinary share capital had been notified to the Company:

SHAREHOLDER	NUMBER OF SHARES	% HOLDING
Canaccord Genuity Group	2,621,170	12.6%
JO Hambro Capital Management	2,469,999	11.9%
Herald Investment Management	1,611,987	7.8%
Close Brothers Asset Management	1,122,137	5.4%

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRS's") as adopted by the EU and applicable law and have elected to prepare the parent Company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable
- state whether they have been prepared in accordance with IFRS's as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006.

They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

LISTING

The Company's ordinary shares have been traded on London's AIM Market since 6 September 2006. Cantor Fitzgerald are the Company's Nominated Adviser, and the Company has Joint Brokers, Cantor Fitzgerald and Whitman Howard. The closing mid-market share price at 31 January 2018 was 109 pence (31 January 2017: 160 pence).

PUBLICATION OF FINANCIAL STATEMENTS

The Company's financial statements will be made available on the Company's website www.redstoneconnectplc.com. The maintenance and integrity of the website is the responsibility of the Directors. The Directors' responsibility also extends to the financial statements contained therein. Shareholders who would like to receive a copy of the financial statements by post, should apply to the Company Secretary at the Company's registered office.

ANNUAL GENERAL MEETING

Further details in relation to the Annual General Meeting shall be provided in due course.

GOING CONCERN

The Group's business activities and performance, and the financial position of the Group, its cash flows and borrowing facilities, together with the factors likely to affect its future development, performance and position, are explained in the Strategic report. Analysis of the Group's key risks is also set out in the Strategic report. Further information regarding the assessment of going concern is in note 1 to the financial statements.

After making appropriate enquiries, the Directors consider that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

AUDITOR

In accordance with section 485 of the Companies Act 2006, a resolution proposing that KPMG LLP be re-appointed as auditor will be put to the Annual General Meeting.

The Report of the Directors was approved by the Board on 29 May 2018 and signed on its behalf by:

Spencer Dredge
Director
29 May 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF REDSTONECONNECT PLC

1. OUR OPINION IS UNMODIFIED

We have audited the financial statements of RedstoneConnect Plc ("the Company") for the year ended 31 January 2018 which comprise the consolidated statement of comprehensive income, the consolidated and company statement of financial position, the consolidated statement of changes in equity, the company statement of changes in equity, the consolidated and company statement of cashflows, and the related notes, including the accounting policies in note 2.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 January 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

2. KEY AUDIT MATTERS: OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows (unchanged from 2017):

	The risk	Our Response
Systems Integration Revenue 2018: £24.2 million (2017: £24.6 million)	Substantive estimates: Revenue for installation work in the Systems Integration division is recognised by reference to the stage of completion of the contract at the end of the reporting period. This is assessed by the proportion of contract costs incurred to the total expected cost to complete. Significant judgement is required to estimate total forecast costs and changes to this estimate could give rise to material variances in the amount of revenue and margin recognised	Our procedures included: - Controls design: We attended project meetings where all contracts were discussed and cost variances investigated; - Our sector experience: We inspected those live contracts contributing the highest level of project revenue and considered estimates for total contract costs and forecast costs to complete including assessing historical forecasting trends; - Historical comparisons: We assessed the accuracy of forecasting by comparing total cost forecast to actuals; and - Assessing Transparency: We assessed the adequacy of the Group's disclosures in respect of Systems Integration revenue as a significant judgement.
Recoverability of parent Company's investment in subsidiaries 2018: £14.4 million (2017: £13.0 million)	Low risk, high value The carrying amount of the parent Company's investments in subsidiaries represents 86% (2017: 90%) of the parent Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.	Our procedures included: -Test of details: Comparing the carrying amount of 100% of investments with the relevant subsidiaries' draft balance sheets to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. -Assessing subsidiary company audits: Assessing the work performed by the subsidiary company audit teams on all of those subsidiaries and considering the results of that work, on those subsidiaries' profits and net assets.

3. OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Materiality for the Group financial statements as a whole was set at £480,000 (2017: £400,000), determined with reference to a benchmark of revenue of £47,574,000 (2017: £41,521,000), of which it represents 1.0% (2017: 1.0%). We consider total revenue to be the most appropriate benchmark as it provides a more stable measure year on year than Group profit before tax.

Materiality for the parent Company financial statements as a whole was set at £360,000 (2017: £400,000), determined with reference to a benchmark of parent Company net assets, of which it represents 3.0% (2017: 6.0%).

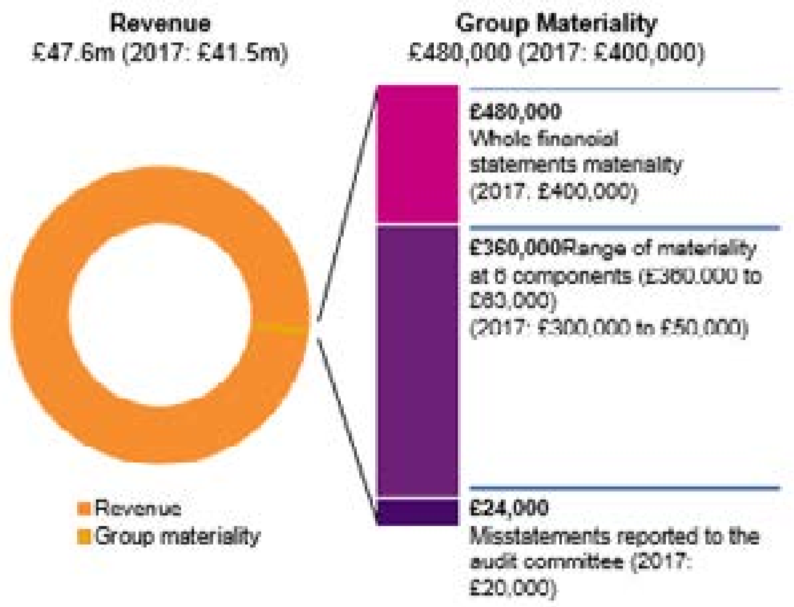
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £24,000 (2017: £20,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

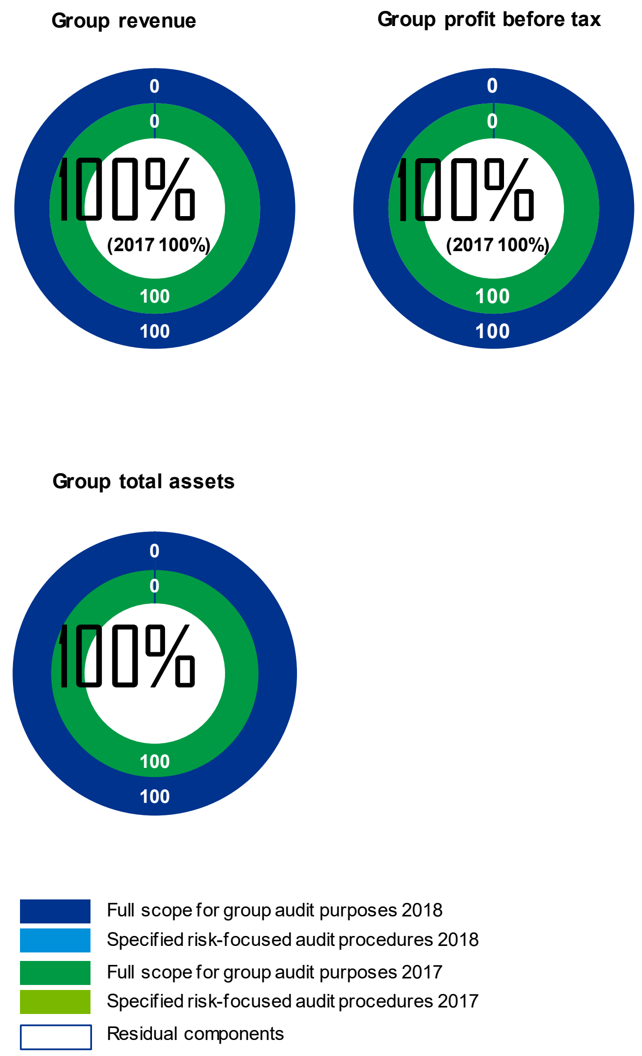
Of the Group's 9 (2017: 8) reporting components, we subjected 6 (2017: 5) to full scope audits for Group purposes.

The components within the scope of our work accounted for the percentages illustrated opposite.

For the residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team used component materialities which ranged from £360,000 to £63,000, (2017: £300,000 to £50,000), having regard to the mix of size and





INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF REDSTONECONNECT PLC continued

risk profile of the Group across the components. The work on all components, including the audit of the parent Company, was performed by the Group team.

4. WE HAVE NOTHING TO REPORT ON GOING CONCERN

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5. WE HAVE NOTHING TO REPORT ON THE OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006

6. WE HAVE NOTHING TO REPORT ON THE OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION UNDER THE COMPANIES ACT 2006, WE ARE REQUIRED TO REPORT TO YOU IF, IN OUR OPINION:

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. RESPECTIVE RESPONSIBILITIES

Directors' responsibilities

As explained more fully in their statement set out on page 27, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8. THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Derek McAllan
(Senior Statutory Auditor)
for and on behalf of KPMG LLP
Chartered Accountants & Statutory Auditors

Arlington Business Park
Theale
Reading
Berkshire
RG7 4SD
29 May 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 January 2018

	NOTES	2018	2017
		£000	£000
Revenue	4,5	47,574	41,521
Cost of sales		(34,216)	(32,297)
Gross profit		13,358	9,224
Administrative expenses		(11,787)	(8,033)
Operating profit	10	1,571	1,191
Adjusted EBITDA*		3,207	2,010
Integration and transactional items included			
within administrative expenses	8	(437)	211
Depreciation	10	(402)	(424)
Amortisation	10	(625)	(371)
Impairment of intangible assets	9	-	(146)
Share based payment charge	10	(172)	(89)
Operating profit	10	1,571	1,191
Net finance costs	12	(116)	(37)
Profit before tax		1,455	1,154
Taxation	13c	61	635
Profit for the year after tax		1,516	1,789
Discontinued operations	7	(7)	316
Profit for the year		1,509	2,105
Total comprehensive profit for the year attributable to equity holders		1,509	2,105
Basic earnings/(loss) per share			
Continuing operations	14	7.72p	11.14p
Discontinued operations	14	(0.03p)	1.97p
Total	14	7.69p	13.11p
Diluted earnings/(loss) per share			
Continuing operations	14	7.72p	10.12p
Discontinued operations	14	(0.03p)	1.79p
Total	14	7.69p	11.91p

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

The notes on pages 40 to 71 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 January 2018

	NOTES	2018	2 017
		£000	£000
ASSETS			
Non-current assets			
Goodwill	15	12,232	11,087
Other intangible assets	16	4,212	3,222
Property, plant and equipment	17	1,614	906
Deferred tax	24	34	62
Total non-current assets		18,092	15,277
Current assets			
Inventories	18	224	143
Trade and other receivables	19	13,605	8,779
Cash and cash equivalents	20	4,423	4,468
Total current assets		18,252	13,390
Total assets		36,344	28,667
EQUITY and LIABILITIES			
Capital and reserves attributable to equity shareholders			
Share capital	25	2,078	3,687
Share premium	25	-	32,589
Merger reserve	25	-	1,911
Reverse acquisition reserve		(4,236)	(4,236)
Accumulated surplus/(deficit)		24,560	(19,470)
Total equity		22,402	14,481
Current liabilities			
Overdraft	20	980	1,273
Bank loans	22	638	653
Trade and other payables	21	10,595	10,318
Corporation tax	13a	-	11
Total current liabilities		12,213	12,255
Non-current liabilities			
Provisions	23	141	169
Bank loans	22	1,588	1,762
Total non-current liabilities		1,729	1,931
Total liabilities		13,942	14,186
Total equity and liabilities		36,344	28,667

The financial statements were approved by the Board of Directors and authorised for issue on 29 May 2018.

They were signed on its behalf by:

Spencer Dredge,
Chief Financial Officer,
RedstoneConnect Plc, Company Number: 5332126

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 January 2018

	NOTES	2018	2017
Cash flows from operating activities		£000	£000
Profit for the year		1,509	2,105
Depreciation		402	424
Amortisation		625	371
Share based payment charge		172	89
Net finance costs		116	37
Taxation		(61)	(635)
Intangible asset impairment	9,16	-	146
Provisions released		(28)	(610)
Operating cash flows before movements in working capital		2,735	1,927
Decrease in inventories		92	37
Increase in receivables		(4,894)	(133)
Decrease in payables		(248)	(270)
Movement in provisions		-	(687)
Operating cash flows after movements in working capital		(2,315)	874
Tax (paid)/refunded		(54)	39
Net cash (used in)/generated from operating activities		(2,369)	913
Cash flows from investing activities			
Research and development		(1,232)	(367)
Acquisition of subsidiaries (net of cash acquired)		(1,249)	(3,140)
Acquisition of intangible assets		(176)	(138)
Acquisition of property, plant and equipment		(395)	(351)
Net cash used in investing activities		(3,052)	(3,996)
Cash flows from financing activities			
Proceeds from issues of share capital (net of issue costs)		6,240	2,979
Loan drawn		1,150	3,789
Loan repaid		(1,605)	(1,500)
Net finance costs		(116)	(37)
Net cash generated from financing activities		5,669	5,231
Net increase in cash and cash equivalents		248	2,148
Cash and cash equivalents at start of year		3,195	1,047
Cash and cash equivalents at end of year		3,443	3,195

Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments with maturity of three months or less, as adjusted for any bank overdrafts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders of the Company

	Note	Share capital	Share premium/ merger reserve	Reverse acquisition reserve	Accumulated (deficit)/ surplus	Total
		£000	£000	£000	£000	£000
At 1 February 2016		3,436	31,374	(4,236)	(21,664)	8,910
Profit for the year		-	-	-	2,105	2,105
Total comprehensive profit for the year		-	-	-	2,105	2,105
Transactions with the owners:						
Proceeds from shares issued	25	251	3,272	-	-	3,523
Share issue costs		-	(146)	-	-	(146)
Share based payment charge		-	-	-	89	89
At 31 January 2017		3,687	34,500	(4,236)	(19,470)	14,481
At 1 February 2017		3,687	34,500	(4,236)	(19,470)	14,481
Profit for the year		-	-	-	1,509	1,509
Total comprehensive profit for the year		-	-	-	1,509	1,509
Transactions with the owners:						
Proceeds from shares issued	25	433	6,067	-	-	6,500
Share issue costs		-	(260)	-	-	(260)
Capital reduction		(2,042)	(40,307)	-	42,349	-
Share based payment charge		-	-	-	172	172
At 31 January 2018		2,078	-	(4,236)	24,560	22,402

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 January 2018

	NOTES	2018	2017
		£000	£000
ASSETS			
Non-current assets			
Investment in subsidiaries	30	14,375	12,975
Tangible assets		45	3
Total non-current assets		14,420	12,978
Current assets			
Trade and other receivables	19	2,274	1,519
Cash and cash equivalents		29	-
Total current assets		2,303	1,519
Total assets		16,723	14,497
EQUITY and LIABILITIES			
Capital and reserves attributable to equity shareholders			
Share capital	25	2,078	3,687
Share premium	25	-	32,589
Merger reserve	25	-	1,911
Accumulated surplus/(deficit)		10,544	(29,938)
Total equity		12,622	8,249
Current liabilities			
Overdraft	20	-	639
Bank loans	22	588	588
Trade and other payables	21	2,283	3,204
Total current liabilities		2,871	4,431
Non-current liabilities			
Provisions	23	55	55
Bank loans	22	1,175	1,762
Total non-current liabilities		1,230	1,817
Total liabilities		4,101	6,248
Total equity and liabilities		16,273	14,497

The financial statements were approved by the Board of Directors and authorised for issue on 29 May 2018.

They were signed on its behalf by:

Spencer Dredge,
Chief Financial Officer,
Company Number: 5332126

COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 January 2018

	2018	2017
	£000	£000
Cash flows from operating activities		
Loss before taxation	(1,939)	(834)
Depreciation	10	1
Share based payment charge	72	68
Net finance costs	105	30
Provisions released	-	(610)
Operating cash flows before movements in working capital	(1,752)	(1,345)
Increase/(decrease) in receivables	123	(113)
(Decrease)/increase in payables	(1,798)	660
Movement in provisions	-	(473)
Net cash used in operating activities	(3,427)	(1,271)
Cash flows from investing activities		
Investment in subsidiary	(1,400)	(3,281)
Acquisition of property, plant and equipment	(52)	(2)
Net cash used in investing activities	(1,452)	(3,283)
Cash flows from financing activities		
Proceeds from issues of share capital (net of issue costs)	6,240	2,979
Loans drawn	-	3,850
Loans repaid	(588)	(1,500)
Net finance costs	(105)	(31)
Net cash generated from financing activities	5,547	5,298
Net increase in cash and cash equivalents	668	744
Cash and cash equivalents at start of year	(639)	(1,383)
Cash and cash equivalents at end of year	29	(639)

COMPANY STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders of the Company

	Note	Share capital	Share premium/ merger reserve	Accumulated (deficit)/ surplus	Total
		£000	£000	£000	£000
At 1 February 2016		3,436	31,374	(29,172)	5,638
Loss for the year		-	-	(834)	(834)
Total comprehensive loss for the year		-	-	(834)	(834)
Transactions with the owners:					
Proceeds from shares issued	25	251	3,272	-	3,523
Share issue costs		-	(146)	-	(146)
Share based payment charge		-	-	68	68
At 31 January 2017		3,687	34,500	(29,938)	8,249
At 1 February 2017		3,687	34,500	(29,938)	8,249
Loss for the year		-	-	(1,939)	(1,939)
Total comprehensive loss for the year		-	-	(1,939)	(1,939)
Transactions with the owners:					
Proceeds from shares issued	25	433	6,067	-	6,500
Share issue costs		-	(260)	-	(260)
Capital reduction		(2,042)	(40,307)	42,349	-
Share based payment charge		-	-	72	72
At 31 January 2018		2,078	-	10,544	12,622

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

RedstoneConnect plc is a company incorporated in England and Wales under the Companies Act 2006 and listed on the AIM market. The address of the registered office is given on page 23. The nature of the Group's operations and its principal activities are set out in the Directors' report and in the Operational review.

The financial statements are presented in pounds sterling as that is the currency of the primary economic environment in which the Group operates. There are no foreign subsidiaries in the Group.

GOING CONCERN

As detailed in the Directors' report, the Directors consider that the Company and the Group have adequate resources to continue in existence for the foreseeable future. In assessing the outlook for the Company and Group, the Board took account of the £21.6 million consideration for the proposed disposal of the Systems Integration and Managed Services divisions to Excel I.T. Services Limited, of which £19.6 million is payable on completion and a further £2.0 million by 30 November 2018, as well as the Group's £2.24 million overdraft facility.

The Directors have assessed the Group's current forecasts, taking into account reasonable changes in trading performance. The assessment considered stress tests and mitigating actions available to the Group. On the basis of this review, the Directors believe that the Group will continue to operate within the resources currently available to it. Furthermore, the Directors have reviewed the projections in accordance with the banking facility covenants and current cash flow forecasts indicate that the Group will not breach these terms in the foreseeable future. The Directors accordingly continue to adopt the going concern basis in preparing the financial statements.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of RedstoneConnect plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS's as adopted by the EU), IFRS Interpretations Committee and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention.

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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the period ended 31 January 2017 as described in those annual financial statements.

STANDARDS, AMENDMENTS TO AND INTERPRETATION OF EXISTING STANDARDS NOT YET EFFECTIVE

At the date of approval of these financial statements, the following standards, interpretations and amendments were issued but not yet mandatory for the Group and early adoption has not been applied:

International Financial reporting Standards (IFRS)

Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12
Disclosure Initiative – Amendments to IAS 7
IFRS 9 Financial Instruments
IFRS 15 Revenue from Contracts with Customers
Clarifications to IFRS 15 Revenue from Contracts with Customers
Effective date of IFRS 15 – amendment to IFRS 15
Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2
IFRS 16 Leases

All other amendments to existing standards are not yet endorsed by the EU at the date of approval of these financial statements.

As at the report date the Board are not in a position to report on the impact, if any, of the effect of adoption of the above standards.

The Group have commissioned an independent report to assess the potential financial impact of the adoption of IFRS 15 on its consolidated statements. This assessment will focus in particular on the changes in revenue recognition specific to the treatment of software licences. The majority of the Group's software licences are perpetual in nature and recognised in full on delivery; hence, the Group do not expect that the implementation of IFRS 15 will lead to a material difference in revenues reported in comparative periods.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 January each year. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

As permitted by section 408 of the Companies Act 2006 the company has elected not to present its own profit and loss account for the year. The Company reported a loss for the financial year ended 31 January 2018 of £1,939,000 (2017: loss of £834,000).

REVERSE ACQUISITION ACCOUNTING

The acquisition of Coms.com Limited in the year ended 31 January 2007 was accounted for as a reverse acquisition of RedstoneConnect plc by Coms.com Limited. The consolidated financial statements prepared following the reverse takeover were issued in the name of RedstoneConnect plc, but they are a continuance of the financial statements of Coms.com Limited. Therefore, the assets and liabilities of Coms.com Limited were recognised and measured in the consolidated financial statements at their pre-combination carrying values. The financial statements reflect the continuance of the financial statements of Coms.com Limited.

The retained earnings and other equity balances recognised in these consolidated financial statements at the time of the acquisition were the retained earnings and other equity balances of Coms.com Limited immediately before the business combination.

Under reverse acquisition accounting:

- an adjustment within shareholders' funds is required to eliminate the cost of acquisition in the issuing Company's books, and introduce a notional cost of acquiring the smaller issuing Company based on the fair value of its shares
- an adjustment is required to show the share capital of the legal parent in the consolidated balance sheet rather than that of the deemed acquirer

Both adjustments have been included in the reverse acquisition reserve.

MERGER RESERVE

The merger reserve is used when a share issue is undertaken and merger relief is available. The conditions for merger relief are when the consideration for shares in another company includes issued shares of the acquirer and on completion of the transaction, the company issuing the shares will have secured at least 90% equity holding in the acquiree.

Following a capital re-organisation in the year this reserve was transferred to accumulated funds.

REVENUE RECOGNITION

Revenue is recognised when it is probable that future economic benefits will flow to the Group and those benefits can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable and represents amounts received or receivable for goods and services provided in the normal course of business, net of discounts and VAT.

The revenue recognition criteria as set out under IAS 18 is applied to each sales transaction, to ensure revenue recognition is appropriate and consistent throughout the Group. When products are bundled together in one sales transaction, it is necessary to apply the recognition criteria to each separately identifiable component in order to reflect the substance of the transaction. The associated revenue is allocated between the constituent parts of the bundle on a relative fair value basis. When customers are offered discounts on bundled products and/or services, the combined discount is allocated to the constituent elements of the bundle, based upon market prices for each component.

The Group reports revenue under five revenue categories and the basis of recognition for each category is described overleaf:

CATEGORY AND EXAMPLES	ACCOUNTING TREATMENT
Systems integration projects Smart cabling & building installations	Revenue from system integration projects is a mix of revenue from installation works along with revenue from the sale of hardware used in those projects. Revenue generated from the sale of hardware is recognised when delivered, whilst revenue from installation works is measured and recognised by reference to the stage of completion of the contract at the end of the reporting period. In order to measure the stage of completion, an assessment is made by comparing the proportion of contract costs incurred to date to the total expected costs to complete. Revenue from such projects are typically invoiced at various stages during the contract as specified in the contract. Any revenue recognised during the period but not invoiced at the end of the reporting period is classified as 'amounts recoverable on contracts' in the balance sheet, whilst any invoiced revenue at the end of the reporting period which relates to future periods is classified as deferred income on the balance sheet.
Recurring revenue Managed services Maintenance and support contracts Software as a service DASaaS	Recurring revenue is revenue earned from customers for the provision of services, where risks and rewards are transferred to the customer over the term of a contract, with the customer getting the benefits of those services over that period. Recurring revenue is recognised on a straight-line basis over the term of the contract. Revenue invoiced at the end of the reporting period which relates to future periods is classified as deferred income on the balance sheet.
Software Perpetuity and term software licences Upgrades to licences	Software licence fees as well as specified upgrades revenue are recognised when the risks and rewards of ownership relating to the licence have been transferred and it is probable that the economic benefits associated with the transaction will flow to the Group. This is deemed to be when the goods have been delivered to the customer, either physically or electronically, and when acceptance of such products has been demonstrated by the client. In the case of term software licences, revenue is recognised in full at the point of delivery to the customer as the risk and rewards of the licences have transferred at that point to the buyer and the Group does not retain managerial involvement or effective control over the software or the licences.
Software related products Hardware	Hardware revenue is recognised when the products have been delivered to the customer.
Professional services Consultancy Installation Training Analysis and reporting	Professional services revenue combines consultancy projects as well as ad-hoc specific consultancy services. Typically ad-hoc consultancy services include installation days, training days and analysis and reporting days. These type of services are purchased in advance by clients and used when required. Revenue from these services is recognised upon delivery of the services to the client. Consultancy projects revenue is measured and recognised by reference to the stage of completion of the contract at the end of the reporting period.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost of acquisition less accumulated depreciation and impairment losses. Depreciation is provided on a straight-line basis at rates calculated to write off the cost less the estimated residual value of each asset over its expected useful economic life. The residual value is the estimated amount that would currently be obtained from disposal of the asset if the asset were already of the age and in the condition expected at the end of its useful life.

DEPRECIATION

Property, plant and equipment are depreciated using the straight-line method based on estimated useful lives.

The annual rates of depreciation for each class of depreciable asset across the Company are:

Fixtures and fittings – 20-25% straight line

Office equipment – 25-33.3% straight line

Leasehold improvements – 20% straight line

Freehold Land – 2% straight line

The carrying value is assessed annually and any impairment is charged to the income statement.

FINANCIAL ASSETS

The Group classifies its financial assets into one of the categories below, depending on the purpose for which the asset was acquired.

TRADE RECEIVABLES AND OTHER DEBTORS

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services but also incorporate other types of contractual monetary assets. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

CASH AND CASH EQUIVALENTS

These include cash in hand, deposits held at call with banks and bank overdrafts.

FINANCIAL LIABILITIES

The Group's financial liabilities are trade payables, bank borrowings and other financial liabilities. These are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method.

PROVISIONS

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

CORPORATION TAX

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

DEFERRED TAX

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

OTHER INTANGIBLE ASSETS

All intangible assets excluding goodwill are stated at cost less accumulated amortisation and any accumulated impairment losses.

GOODWILL

Goodwill represents the amount by which the fair value of the cost of a business combination exceeds the fair value of net assets acquired. Goodwill is not amortised and is stated at cost less any accumulated impairment losses.

The recoverable amount of goodwill is tested for impairment annually or when events or changes in circumstance indicate that it might be impaired. Impairment charges are deducted from the carrying value and recognised immediately in the income statement. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

RESEARCH AND DEVELOPMENT

Expenditure on research activities is expensed as incurred.

Internally-generated intangible assets arising from the development are recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably;
- an intention to complete the intangible asset and use or sell it;
- ability to use or sell the intangible asset, and
- the availability of adequate technical financial and other resources to complete the development and to use or sell the intangible asset.

ACQUIRED INTANGIBLE ASSETS

Following business combinations, the assets acquired are classified into tangible and intangible assets and fair values applied using the principles of IFRS 3. This leads to creation of intangible assets recognised on the balance sheet.

AMORTISATION

Internally-generated intangible assets are amortised on a straight-line basis over their estimated useful life. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the year in which it is incurred.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset/cash-generating unit in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost comprises materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present

NOTES TO THE FINANCIAL STATEMENTS continued

location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

SHARE BASED PAYMENTS

Where share options are awarded to employees, the fair value of the option is calculated at the date of grant and is subsequently charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Fair value is measured using an appropriate option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Where equity instruments are granted to persons other than employees, the consolidated income statement is charged with the fair value of goods and services received.

FOREIGN CURRENCY

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in pounds sterling which is also the presentation currency for the consolidated and Company financial statements. The functional currency of the Company is pounds sterling.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing at the balance sheet date.

Exchange differences arising on the settlement of monetary items and on the re-translation of monetary items are included in the income statement.

INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

LEASES

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are treated as a reduction of the lease obligation on the remaining balance of the liability. Finance expenses are recognised immediately in the income statement, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Rental leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future, which may differ from the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are set out below.

REVENUE RECOGNITION

Revenue and expenses on fixed price contracts are recognised using the percentage-of-completion method. Revenue, expenses, and ultimately profit are therefore recognised over the life of the activity of the contract. When the outcome of a contract cannot be reliably estimated then revenue can only be recognised to the extent that it is recoverable. When total expected costs exceed the total contract value the expected loss is recognised immediately. As revenue is therefore recognised on a percentage-of-completion basis which will be based on management's best estimate it is an area that requires critical estimation and judgement. The amounts recognised in the balance sheet at the year-end in respect of the percentage-of-completion approach are included as follows; accrued revenue disclosed in note 19 under 'amounts recoverable on contracts'; deferred cost of sales included in 'prepayments' disclosed in note 19; deferred income disclosed in note 21 under 'deferred income'; and accrued cost of sales disclosed in note 21 under 'accruals'.

IMPAIRMENT OF GOODWILL

The Group is required to test goodwill for potential impairment on an annual basis. The recoverable amount of goodwill relating to continuing activities is determined based on the value in use calculations which require the estimation of future cash flows and the selection of a discount rate. Actual outcomes of this calculation may vary; further information concerning issues affecting the carrying values is given in note 9.

ACQUIRED INTANGIBLE ASSETS

On acquisition of a business, the Group is required to value the assets acquired and recognise intangible assets on the balance sheet. The valuation of these assets relies on various assumptions, including future revenues and costs derived from these assets and the selection of an appropriate discount rate in order to calculate the present values of those cash flows. A detailed analysis of the valuation of assets acquired during the year is given in note 6. For material acquisitions, the Group employs expert valuers to assist in the calculation of the intangible assets.

4 SEGMENTAL REPORTING

The Group has undergone a period of transformation over the last two financial periods, with the disposal of the telecommunications business and the acquisition of Connect IB Ltd and Commensus Ltd. In order to support this, the Board have amended the segments by which it reports the business activities of the Group.

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.

YEAR ENDED 31 JANUARY 2018

	Systems Integration	Managed Services	Software	Group Overhead	Total
	£000	£000	£000	£000	£000
Revenue	24,213	18,023	5,338	-	47,574
Cost of sales	(20,436)	(12,883)	(897)	-	(34,216)
Gross Profit	3,777	5,140	4,441	-	13,358
Administrative expenses	(3,164)	(2,573)	(2,557)	(1,857)	(10,151)
Adjusted EBITDA/(LBITDA)*	613	2,567	1,884	(1,857)	3,207
Integration and transactional					
costs included within					
administrative expenses	(12)	(36)	(171)	(218)	(437)
Depreciation	(93)	(252)	(47)	(10)	(402)
Amortisation	(59)	(281)	(285)	-	(625)
Share based payment charge	(40)	(50)	(10)	(72)	(172)
Operating profit/(loss)	409	1,948	1,371	(2,157)	1,571
Net finance costs	(5)	4	(23)	(92)	(116)
Profit/(loss) before taxation	404	1,952	1,348	(2,249)	1,455
Taxation	1	34	26	-	61
Profit/(loss) after taxation	405	1,986	1,374	(2,249)	1,516

NOTES TO THE FINANCIAL STATEMENTS continued

YEAR ENDED 31 JANUARY 2017	Systems Integration	Managed Services	Software	Group Overhead	Total
	£000	£000	£000	£000	£000
Revenue	24,586	15,310	1,625	-	41,521
Cost of sales	(20,502)	(11,596)	(199)	-	(32,297)
Gross Profit	4,084	3,714	1,426	-	9,224
Administrative expenses	(3,002)	(1,755)	(1,083)	(1,374)	(7,214)
Adjusted EBITDA/(LBITDA)*	1,082	1,959	343	(1,374)	2,010
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)
Operating profit/(loss)	874	1,432	(19)	(1,096)	1,191
Net finance costs	(2)	(6)	3	(32)	(37)
Profit/(loss) before taxation	872	1,426	(16)	(1,128)	1,154
Taxation	606	6	23	-	635
Profit/(loss) after taxation	1,478	1,432	7	(1,128)	1,789

* profit for the period from continuing operations before net finance costs, tax, depreciation, amortisation, integration costs and transactional items, impairment charge and share based payments.

5 REVENUE

	2018	2017
	£000	£000
Sale of goods	6,322	1,108
Rendering of services	17,747	16,071
Construction contract revenue	23,505	24,342
Total revenue	47,574	41,521

6 ACQUISITIONS OF BUSINESSES

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.

The book value of A + K net assets acquired and their fair values are summarised below:

	Book Value	Fair Value Adjustments	Fair Value To Group
	£000	£000	£000
Intangible assets	-	207	207
Property, plant and equipment	715	-	715
Current assets	307	-	307
Current liabilities	(552)	(66)	(618)
Non-current liabilities	(266)	-	(266)
Deferred tax liability	(50)	(40)	(90)
Total net assets	154	101	255

Fair value of net assets acquired	255
Goodwill	1,145
Total consideration	1,400
Cash	1,400
Cash	1,400
Less: cash acquired	(151)
Total cash consideration net of cash acquired	1,249

The fair value of the financial assets including trade receivables with a fair value and gross contractual value of £158,000. The best estimate at acquisition date of the contractual cash flows to be collected was £110,000.

The goodwill arising from the acquisitions is not deductible for income tax purposes.

Since acquisition date Anders + Kern (U.K.) Limited contributed £2,068,000 in revenue and £25,000 to the Group's profit before taxation in the year. Had the acquisition occurred at the beginning of the year, the Group's revenue would have been £48,400,000 and the Group's profit before taxation would have been £1,487,000 for the year.

The goodwill acquired represents the value of the sales channel within the acquired business as well as potential future synergies within the Groups sales function.

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

	Fair Value To Group £000
Brand and customer relationships	207
Deferred tax liability	(40)
Total	167

The Group has applied the 'Income Approach' valuation method to identify the above acquired intangible assets.

The Income Approach focuses on the income-producing capability of the subject asset. The underlying premise of this approach is that the value of an asset can be measured by the present worth of the net economic benefit (cash receipts less cash outlays) to be received over the life of the subject asset.

The steps followed in applying this approach include estimating the expected after-tax cash flows or profits attributable to the asset over its life and converting these after-tax cash flows to present value. This has been calculated using the Discounted Cashflow Methodology ("DCF").

The discounting process uses a rate of return, which accounts for both the time value of money and investment risk factors. Finally, the present value of the after-tax cashflows over the life of the asset is totalled to arrive at an indication of Fair Value of the asset.

For the Customer relationships we have approached this by way of ascertaining the post-tax annual value of these contracts after applying an attrition rate based on historical trends.

7 DISCONTINUED OPERATIONS

	NOTES	2018	2017
		£000	£000
Revenue	4,5	-	-
Cost of sales		-	-
Gross profit		-	-
Administrative expenses		-	(1)
Adjusted LBITDA*		-	(1)
Integration and transactional costs included within administrative expenses	8	(7)	318
Depreciation	10	-	-
Amortisation	10	-	-
Impairment charge	9	-	-
Operating (loss)/profit	10	(7)	317
(Loss)/profit before tax		(7)	317
Taxation	13c	-	(1)
(Loss)/profit for the year after tax		(7)	316
(Loss)/profit for the year		(7)	316
Total comprehensive (loss)/profit for the year attributable to equity holders		(7)	316
Basic (loss)/earnings per share	14	(0.03p)	1.97p

* results for the period before net finance costs, depreciation, amortisation, integration costs and transactional items, impairment charge and share based payments.

	2018	2017
	£000	£000
Net cash flow used in operating activities	(3)	(9)
Net cash from financing activities	-	(1)
Net cash flow for the period	(3)	(10)

During 2016 the Group disposed of the trade and assets of its Telephony and Media divisions. The subsidiaries that operated within those divisions were classed as discontinued in 2016, and provisions were made against the costs to settle supplier disputes within those entities as well as for intercompany balances owing to the Group.

The £7,000 loss from discontinued operations during the year represents the deconsolidation of balance sheets, which includes provisions made in relation to supplier disputes. In 2017, all subsidiaries associated with those divisions were entered into a voluntary liquidation process, see note 30 for a full list of subsidiaries. Due to contractual obligations, one company is yet to be dissolved as at 31 January 2018.

NOTES TO THE FINANCIAL STATEMENTS continued

8 INTEGRATION, TRANSACTIONAL AND DECONSOLIDATION ITEMS

	2018	2017
	£000	£000
Integration costs/(credits)	300	(380)
Transactional costs	137	171
Deconsolidation costs/(credits)	7	(318)
	444	(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 2018, transactional items include the costs involved with the acquisition of Anders + Kern (U.K.) Limited, fees in respect of the share placing, share consolidation and capital reduction, whilst the 2017 transactional items related to the costs involved with the acquisition of Connect IB Limited and Commensus Ltd and fee's in respect of the share placing. The deconsolidation credits in 2017 represent the unwinding of supplier provisions made in 2016 after settlement was reached and £70,000 was paid during the year in relation to those disputes.

The integration, transactional and deconsolidation charge of £444,000 (2017: £527,000 credit) comprises £437,000 charge from continued operations (2017: £211,000 charge) and £7,000 from discontinued operations (2017: £318,000 credit).

9 IMPAIRMENT CHARGE

The impairment charge in 2017 relates to research and development costs capitalised in prior periods.

	NOTES	2018	2017
		£000	£000
Other intangible assets	16	-	146
		-	146

OTHER INTANGIBLE ASSETS

During 2017, the Board's impairment review resulted in an impairment of £146,000 to development costs capitalised on the original OneSpace product. Following the acquisition of Connect IB and re-engineering of the product to be what it is today as a component of our cloud platform, the 'end of life' previous version of the OneSpace product was impaired in full.

10 OPERATING PROFIT

Operating profit from all operations is arrived at after charging:

	NOTE	2018	2017
		£000	£000
Cost of Inventory is recognised as an expense		10,377	13,572
Amortisation of intangibles	16	625	371
Depreciation of property, plant and equipment	17	402	424
Staff costs	11	19,445	16,359
Share based payment charge	11	172	89
(Gain)/loss on foreign exchange		(171)	51
Rentals under operating leases		650	437
Impairment charge	9	-	146
Integration and transactional charge/(credit)	8	444	(527)
Audit fees			
-audit of the Company's financial statements		47	44
-audit of the Company's subsidiaries pursuant to legislation		50	35

The analysis of administrative expenses in the consolidated income statement by nature of expense is as follows:

- Administrative staff costs £2,952,000 (2017: £2,607,000)
- Operating leases £650,000 (2017: £437,000)
- Depreciation and amortisation £1,027,000 (2017: £795,000)
- Other operating expenses £6,394,000 (2017: £4,169,000)

NOTES TO THE FINANCIAL STATEMENTS continued

11 STAFF COSTS

The average number of employees was:

	GROUP 2018	2017
	Number	Number
Sales	43	28
Technical support	262	252
Administrative	44	37
Total employees	349	317
	£000	£000
Their aggregate remuneration comprised:		
Wages and salaries	16,963	14,355
Share based payments (see note 32)	172	89
Social security costs	1,918	1,607
Pension costs	392	308
Total remuneration	19,445	16,359

Of the above staff costs, £11,453,000 (2017: £11,180,000) were included in cost of sales in the consolidated income statement.

12 NET FINANCE COSTS

	GROUP 2018	2017
	£000	£000
Net finance costs	116	37

13A TAXATION

The Group tax charge for the year can be reconciled to the profit as disclosed in the statement of comprehensive income as follows:

	GROUP 2018	2017
	£000	£000
Profit before taxation	1,455	1,154
Taxation	61	635
Profit for the year after taxation	1,516	1,789
Tax at the UK corporation tax rate of 19.17% (2017: 20.00%)	279	231
Overseas tax payable	-	(6)
Non-deductible expenses	72	17
Unused tax losses not recognised as assets	56	129
Recognition of previously unrecognised tax losses	(61)	(624)
Research and development relief	(224)	(162)
Utilisation of previously unrecognised tax losses	(83)	(112)
Depreciation in excess of capital allowances	(39)	48
Utilisation of tax losses and group relief	(61)	(146)
Double taxation relief	-	(5)
Over provided in prior years	-	(5)
Taxation credit on continuing operations	(61)	(635)

At 31 January 2018 the Group had estimated tax losses of £10,439,000 (2017: £9,730,000) to carry forward against future profits. These tax losses arose through historical trading in specific activities within the Group, and as such, the losses are ring-fenced and can only be utilised against future profits from the same trade. The directors have assessed the recoverability of these losses and anticipate utilisation of £3,600,000 of these tax losses against future profits, and as such the deferred tax asset of £617,000 has been recorded in the balance sheet at year end (2017: £617,000).

In the 8 July 2015 Budget, the government announced a reduction in the Corporation Tax rate from 20% to 19% for the Financial Years beginning 1 April 2017, 1 April 2018 and 1 April 2019, with a further reduction from 19% to 18% for the Financial Year beginning 1 April 2020. In the 16 March 2016 Budget the Chancellor announced plans to further reduce the Corporation Tax rate to 17% for the Financial Year beginning 1 April 2020.

This will reduce the Company's future current tax charge accordingly. The deferred tax liability at 31 January 2018 has been calculated based on the rate of 17% substantively enacted at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS continued

13B DEFERRED TAXATION

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	GROUP 2018	2017
	£000	£000
Deferred tax assets	617	617
Deferred tax liabilities	(583)	(555)
Deferred tax asset	34	62
Deferred tax assets comprised of:		
Tax losses	617	617
Deferred tax liabilities arose on:		
Business combinations	(583)	(555)

13C TAXATION CHARGE

The taxation credit for the year of £61,000 (2017: £635,000 credit) related to continued operations only and is in respect of the release of deferred tax liability in relation to amortisation of intangible assets recognised as a result of business combinations.

14 EARNINGS PER SHARE

Earnings per share data is based on the Group profit/(loss) for the year and the weighted average number of ordinary shares in issue.

On 5 June 2017, the Group held its AGM at which the Shareholders approved 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 have been restated to reflect the position had the share consolidation been in affect at those reporting dates.

	2018		
	Continuing	Discontinued	Total
	£000	£000	£000
Profit/(loss) for the year	1,516	(7)	1,509
Adjustment to basic earnings/(loss):			
Integration and transactional costs	437	7	444
Tax credit on integration and transactional costs	(84)	(1)	(85)
Intangible asset amortisation	625	-	625
Deferred tax credit on intangible asset amortisation	(120)	-	(120)
Share based payment charge	172	-	172
Deferred tax credit on share based payment charge	(33)	-	(33)
Adjusted earnings attributable to owners of the Company	2,513	(1)	2,512
Number of shares	No.	No.	No.
Weighted average ordinary shares in issue	19,621,325	19,621,325	19,621,325
Weighted average potential diluted shares in issue	19,621,325	19,621,325	19,621,325
Earnings/(loss) per share			
Basic earnings/(loss) per share	7.72 pence	(0.03) pence	7.69 pence
Diluted earnings/(loss) per share	7.72 pence	(0.03) pence	7.69 pence
Adjusted earnings/(loss) per share			
Basic earnings/(loss) per share	12.81 pence	(0.01) pence	12.80 pence
Diluted earnings/(loss) per share	12.81 pence	(0.01) pence	12.80 pence

	2017		
	Continuing	Discontinued	Total
	£000	£000	£000
Profit for the year	1,789	316	2,105
Adjustment to basic earnings:			
Integration and transactional costs	(211)	(318)	(529)
Tax credit on integration and transactional costs	40	60	100
Intangible asset amortisation	371	-	371
Deferred tax credit on intangible asset amortisation	(70)	-	(70)
Impairment of intangible assets	146	-	146
Tax credit on impairment of intangible assets	(27)	-	(27)
Share based payment charge	89	-	89
Deferred tax credit on share based payment charge	(17)	-	(17)
Adjusted earnings attributable to owners of the Company	2,110	58	2,168
Number of shares	No.	No.	No.
Weighted average ordinary shares in issue	16,068,962	16,068,962	16,068,962
Weighted average potential diluted shares in issue	17,685,269	17,685,269	17,685,269
Earnings per share			
Basic earnings per share	11.14 pence	1.97 pence	13.11 pence
Diluted earnings per share	10.12 pence	1.79 pence	11.91 pence
Adjusted earnings per share			
Basic earnings per share	13.13 pence	0.36 pence	13.49 pence
Diluted earnings per share	11.93 pence	0.33 pence	12.26 pence

15 GOODWILL

	GROUP
Cost	£000
At 31 January 2016	16,558
Additions	2,363
At 31 January 2017	18,921
Additions	1,145
At 31 January 2018	20,066
Accumulated impairment charge	
At 31 January 2017	7,834
At 31 January 2018	7,834
Carrying value at 31 January 2018	12,232
Carrying value at 31 January 2017	11,087
Carrying value at 31 January 2016	8,724

	2018	2017
The carrying value of goodwill is allocated as follows:	£000	£000
Redstone Converged Solutions Ltd	8,724	8,724
Connect IB Limited	835	835
Commensus Limited	1,528	1,528
Anders + Kern (U.K) Limited	1,145	-
Carrying value	12,232	11,087

	2018	2017
The carrying value of goodwill aligns to the segments as follows:	£000	£000
Systems Integration	1,549	1,068
Managed Services	9,218	9,184
Software	1,465	835
Carrying value	12,232	11,087

FAIR VALUE

Goodwill on consolidation has been allocated for impairment testing purposes between the cash-generating units ("CGUs") and these CGU's aligned to the Group's three business segments; Systems Integration, Managed Services and Software.

On 29 May 2018 the Group announced the disposal of the Systems Integration and Managed Services divisions. The recoverable amount of the CGU's aligned to those divisions are therefore based on 'fair value less cost to sell' calculations using the projected sales proceeds, which are payable in cash on completion, less associated costs.

The recoverable amount of the CGU aligned to the Software division are based on 'value in use' calculations using cash flow projections approved by the Directors covering a three-year period and a terminal growth rate of 2% thereafter.

The projections for the CGU aligned to the Software division are based on the assumption that the Group can realise projected sales. If the projected sales do not materialise there is a risk that the total value of the intangible assets shown above would be impaired. The Company, in its approach has based its projections on key assumptions of annualised incremental growth in revenue and cost of sales of 2% (2017: 2%) with 2% (2017: 2%) attributed to administrative costs. The calculation of residual value has utilised 2% growth rates (2017: 2%). Sensitivity analysis indicates that if revenues declined by 10% (2017: 10% decline) or administrative expenses increased by 10% (2017: 10% increase), this would not give rise to an impairment charge.

A pre-tax discount rate of 13.6% (2017: 14.5%) has been used for the CGU aligned to the Software division. This rate takes into consideration the Group's cost of capital, the expected rate of return and various risks relating to the CGU. At the year end, based on these assumptions there is no indication of impairment in the remaining goodwill. Sensitivity analysis indicates that if the pre-tax discount rate increased by 1% (2017: 1%) this would not give rise to an impairment charge.

16 OTHER INTANGIBLE ASSETS

	GROUP			COMPANY
	Development costs	Other Intangible assets	Total	Other Intangible assets
	£000	£000	£000	£000
Cost or valuation				
At 31 January 2016	132	305	437	-
Additions at acquisition	-	2,925	2,925	-
Additions	367	138	505	-
Impairment	(211)	-	(211)	-
At 31 January 2017	288	3,368	3,656	-
Additions at acquisition	-	207	207	-
Additions	1,232	176	1,408	-
At 31 January 2018	1,520	3,751	5,271	-
Accumulated amortisation and impairment				
At 31 January 2016	-	128	128	-
Charge for the year	67	304	371	-
Impairment	(65)	-	(65)	-
At 31 January 2017	2	432	434	-
Charge for the year	152	473	625	-
At 31 January 2018	154	905	1,059	-
Carrying value				
At 31 January 2018	1,366	2,846	4,212	-
At 31 January 2017	286	2,936	3,222	-
At 31 January 2016	132	177	309	-

During the year, the Board conducted a review of the carrying value of the Group's intangible assets. As a result, the Group recorded a £nil (2017: £146,000 charge) impairment charge for the period, as detailed in note 9.

17 PROPERTY, PLANT AND EQUIPMENT

GROUP						
	Plant & machinery	Freehold land	Leasehold improvements	Fixtures & fittings	Computer equipment	Total
	£000	£000	£000	£000	£000	£000
Cost						
At 31 January 2016	-	-	456	79	1,055	1,590
Additions at acquisition	-	-	-	-	342	342
Additions	-	-	138	57	156	351
Disposals	-	-	(5)	-	(178)	(183)
At 31 January 2017	-	-	589	136	1,375	2,100
Additions at acquisition	38	649	-	11	17	715
Additions	8	-	37	5	345	395
Disposals	-	-	-	(76)	-	(76)
At 31 January 2018	46	649	626	76	1,737	3,134
Accumulated depreciation and impairment						
At 31 January 2016	-	-	151	25	777	953
Charge for the year	-	-	97	18	309	424
Disposals	-	-	(5)	-	(178)	(183)
At 31 January 2017	-	-	243	43	908	1,194
Charge for the year	17	9	124	36	216	402
Disposals	-	-	-	(76)	-	(76)
At 31 January 2017	17	9	367	3	1,124	1,520
Carrying value						
At 31 January 2018	29	640	259	73	613	1,614
At 31 January 2017	-	-	346	93	467	906
At 31 January 2016	-	-	305	54	278	637

During the year, the Directors concluded a review of the Group's property, plant and equipment carrying values, specifically in light of the Board's decision to vacate certain Group office locations. No impairment charge was deemed necessary to the remaining assets following the disposals during the year (2017: £nil).

Subsequent to the acquisition of Anders + Kern (U.K.) Ltd in May 2017, as part of the integration within the Group the business moved its banking facilities from Clydesdale Bank to Barclays. At the time of acquisition, A+K had bank loans with Clydesdale amounting to £0.3 million. As part of the bank transition a £0.5 million mortgage, secured against the property owned by A+K, was put in place through Barclays and the funds used in part to repay the Clydesdale loans. The Barclays mortgage loan represents 69% of the freehold land value of £0.7 million, carries a coupon of 2.5% and is repayable over three years. Repayments are £0.01 million quarterly, and represent repayment of principal and interest.

18 INVENTORIES

	GROUP 2018	GROUP 2017
	£000	£000
Finished goods	224	143

19 TRADE AND OTHER RECEIVABLES

	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
Current	£000	£000	£000	£000
Financial assets				
Trade receivables	5,741	5,177	-	-
Amounts recoverable on contracts	6,605	2,174	-	-
Other receivables	202	230	201	201
Amounts due from subsidiaries less impairment provisions	-	-	1,938	1,059
Taxes and social security costs	4	-	43	-
	12,552	7,581	2,182	1,260
Non-financial assets				
Prepayments	1,053	1,198	92	259
Total	13,605	8,779	2,274	1,519

The Directors consider that the carrying amount of trade and other receivables equals their fair value.

Amounts recoverable on contracts includes contract costs plus recognised profits of £15,194,000 (2017: £7,227,000) less progress billings of £10,742,000 (2017: £6,104,000) and retention monies.

20 CASH AND CASH EQUIVALENTS

	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
	£000	£000	£000	£000
Bank current account	4,423	4,468	29	-
Bank overdraft	(980)	(1,273)	-	(639)
Total	3,443	3,195	29	(639)

The carrying amount of these assets approximates their fair value. Interest is variable and overdrafts are payable on demand.

21 TRADE AND OTHER PAYABLES

	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
	£000	£000	£000	£000
Financial liabilities				
Trade payables	5,847	4,765	185	259
Social security and other taxes	1,492	1,601	36	379
Deferred income	731	987	-	-
Accruals	2,475	2,915	149	429
Deferred consideration	50	50	50	50
Amounts owed to subsidiary company	-	-	1,863	2,087
Total	10,595	10,318	2,283	3,204

The amounts owed to subsidiary companies are non-interest bearing and repayable on demand. The Directors consider that the carrying amount of trade and other payables equals their fair value.

NOTES TO THE FINANCIAL STATEMENTS continued

22 FINANCIAL BORROWINGS

During 2017 the Group secured a bank loan to fund the acquisition of Commensus Ltd.

The Group's banking arrangements are secured by a debenture over the assets of the principal operating businesses and cross guarantees.

Details of the repayments are set out below:

	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
	£000	£000	£000	£000
Amounts due within one year	638	653	588	588
Amounts due after one year	1,588	1,762	1,175	1,762
Total	2,226	2,415	1,763	2,350

23 PROVISIONS

The Group had provisions as follows:

GROUP	Dilapidations
	£000
Balance at 1 February 2017	169
Provisions made during the year	9
Provisions reversed during the year	(37)
Balance at 31 January 2018	141
Current	141
Non-current	-
Balance at 31 January 2018	141

At 31 January 2018 the Parent Company carried provisions relates to property dilapidations of £55,000 (2017: £55,000).

24 DEFERRED TAX ASSET

	GROUP 2018	GROUP 2017
	£000	£000
Deferred tax asset	34	62

An analysis of the above asset is set out in note 13B 'Deferred taxation'

25 SHARE CAPITAL AND RESERVES

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

The share consolidation involved 2,078,479,485 shares of 0.1 pence in the issued share capital of the Company being consolidated into 20,784,795 ordinary shares of 10 pence each, effective 6 June 2017.

At the same time, shareholders approved a Reduction of Capital which resulted in the following transactions:
(a) the Company's share premium account was transferred to the Company's accumulated deficit in distributable funds;
(b) the Company's deferred shares were cancelled and the capital redemption reserve arising was transferred to the Company's accumulated deficit; and
(c) the Company's merger reserve was transferred to the Company's accumulated deficit.

This resulted in the Company having an accumulated surplus in distributable funds of £12,410,292.

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 if, the Directors consider that it is appropriate to do so. The Reduction of Capital was approved by the Courts and became effective on 28 June 2017.

The movement in issued and fully paid ordinary share capital detailed below reflects these changes.

	2018	2017	2018	2017
	Number	Number	£000	£000
Allotted, called up and fully paid:				
Ordinary shares of 10p each	20,784,795	16,451,461	2,078	1,645
Deferred shares of 100p each	-	1,271,440	-	1,271
Deferred shares of 10p each	-	7,707,140	-	771
			2,078	3,687

MOVEMENTS IN ISSUED AND FULLY PAID ORDINARY SHARES CAPITAL

	Number	Issue Price	Share Capital	Share Premium	Merger Reserve	Total
	£000	£000	£000	£000	£000	£000
Placing and open offer	4,333,334	1.5p	433	6,067	-	6,500
Placing fee			-	(260)	-	(260)
Capital reduction			-	(38,396)	(1,911)	(40,307)
Total movement In the year	4,333,334		433	(32,589)	(1,911)	(34,067)
At 31 January 2017	16,451,461		1,645	32,589	1,911	36,145
At 31 January 2018	20,784,795		2,078	-	-	2,078

The share premium account comprises the amount subscribed for share capital in excess of nominal value.

The merger reserve arose where equity shares were allotted on the acquisition of subsidiaries and represents the difference between the fair value attributed to the share allotment in excess of the nominal value of the shares allotted.

The reverse acquisition reserve arose on the acquisition of Coms.com Limited which was accounted for as a reverse acquisition. Under IFRS the consolidated accounts of RedstoneConnect plc are treated as though they are a continuation of the consolidated accounts of Coms.com Limited. The reverse acquisition reserve represents the difference between the initial equity share capital of RedstoneConnect plc and the share capital and share premium of Coms.com Limited at the date of acquisition.

The accumulated deficit represents the cumulative loss of the Group attributable to equity shareholders of RedstoneConnect plc.

26 RETIREMENT BENEFIT SCHEMES

The Group operates a defined contribution company pension scheme for the Executive Directors and employees. The assets of the scheme are held separately from those of the Company. The annual contributions payable are charged to the income statement. For the period, pension costs incurred were £392,000 (2017: £308,000) with £188,000 (2017: £188,000) being included in cost of sales.

27 RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The transactions between the Parent and the subsidiaries during the year represent transfers of cash between the Companies.

At 31 January 2018 the Parent Company had the following balances with subsidiaries:

	2018	2017
	£000	£000
Amounts owed to subsidiaries	1,863	2,087
Amounts due from subsidiaries	(1,938)	(1,059)

REMUNERATION OF COMPANY DIRECTORS

During the year there were a number of transactions between the Company and Directors' related parties. The fees below relate to the Directors of the company and are included in the 'Directors and their interests' section of the Director's report.

Directors' fees

Directors fees of £40,000 (2017: £38,000) were charged by Warspite Limited, a company connected to Diana Dyer Bartlett, in respect of services provided by Diana Dyer Bartlett; £nil (2017: £nil) was outstanding at the year end.

Directors fees of £40,000 (2017: £38,000) were charged by VZ Limited, a company connected to Guy van Zwanenberg, in respect of services provided by Guy van Zwanenberg; £4,299 (2017: £4,211) was outstanding at the year end.

DIRECTORS' TRANSACTIONS

PRODUCTS AND SERVICES

During the year the Company did not enter into trading activities with companies or partnerships connected with the Directors.

28 COMMITMENTS

Capital commitments

There were no capital commitments at 31 January 2018 (2017: £nil).

Operating lease commitments

The Group leases office buildings and warehousing under licences/leases to occupy.

FUTURE MINIMUM LEASE PAYMENTS UNDER NON-CANCELLABLE OPERATING LEASES ARE AS FOLLOWS:	2018 Property	2018 Vehicles	2017 Property	2017 Vehicles
	£000	£000	£000	£000
Within one year	593	108	597	67
After one year but not more than 5 years	394	57	771	78
	987	165	1,368	145

29 FINANCIAL INSTRUMENTS

FINANCIAL INSTRUMENTS

In common with other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

The significant accounting policies regarding financial instruments are disclosed in the section 'Financial assets and liabilities' in note 2.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

PRINCIPAL FINANCIAL INSTRUMENTS

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

	NOTES	GROUP 2018	GROUP 2017	COMPANY 2018	COMPANY 2017
		£000	£000	£000	£000
Financial assets	19	12,552	7,581	2,182	1,260
Financial liabilities	21	10,595	10,318	2,283	3,204

There were no material differences between the fair value and the carrying amounts of the Group's financial instruments.

NOTES TO THE FINANCIAL STATEMENTS continued

FINANCIAL RISK MANAGEMENT

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function.

The overall objective of the Board is to set polices that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below.

CREDIT RISK

Credit risk is the risk that a counterparty to a transaction with the Group fails to discharge its obligations in respect of the instrument. The Group's credit risk arises on (i) transactions with customers in connection with delivery of products or services (ii) cash and cash equivalents placed with banks and financial institutions.

Management focuses strongly on working capital management and the collection of due invoices. Regular reports of overdue invoices are circulated amongst senior management and the Board reviews debtor days each month as part of the monthly reporting cycle. The risk with any one customer is limited by constant review of debtor balances and amounts receivable on contracts and action to resolve any issues preventing discharge of obligations.

The ageing analysis of trade receivables of the Group is as follows:

	TOTAL	NOT YET DUE	0-60 DAYS	60-90 DAYS	>90 DAY
	£000	£000	£000	£000	£000
2018	5,712	3,948	1,136	431	197
2017	5,218	2,754	1,093	527	844

Credit risk on cash and cash equivalents is reduced by placing funds with banks with high credit ratings.

LIQUIDITY RISK

Liquidity risk is the risk that the Group cannot meet financial liabilities when they fall due. The Group's policy for managing liquidity risk is to ensure that the business has enough financial resources to carry out its day-to-day activities at any point in time. Management believes that the cash resources on hand, together with the profits of the business, more than cover the resources needed to meet the financial liabilities of the Group.

INTEREST RATE RISK

Interest-bearing bank loans and overdrafts are recorded at fair value, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they relate.

CAPITAL

The Group considers its capital to comprise its ordinary share capital, share premium account, reverse acquisition reserve and accumulated retained surplus as its capital reserves. A summary of the amounts of capital in each of these categories is shown in the consolidated statement of changes in equity on page 36.

In managing its capital, the Group's primary objective is to provide a return for its equity shareholders through capital growth. Going forward the Group will seek to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through new share issues or the issue of debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

There have been no other significant changes to the Group's management objectives, policies and processes in the year nor has there been any change in what the Group considers to be capital.

CURRENCY RISK

The Group occasionally provides services in markets outside the UK. In most examples the material equity and financial liabilities are contracted in Sterling and hence there is no significant currency risk. In the event there is a material exposure to foreign currencies other than Sterling the Group will hedge its exposure, these events are continuously reviewed on an on-going basis.

30 FIXED ASSET INVESTMENTS

Details of the Company's subsidiaries at 31 January 2018 are as follows:

Subsidiary	Reference	Place of incorporation	Proportion of ownership interest %	Proportion of voting power held %	Nature Of Business
Comunica Holdings Limited		England	100	100	Holding company
Redstone Converged Solutions Limited	1	England	100	100	Infrastructure
Connect IB Limited		England	100	100	Software
Commensus Limited		England	100	100	Managed Services
Coms Media Limited	2	England	100	100	Media
Easter Road Holdings Limited		England	100	100	Dormant
Anders + Kern (U.K.) Limited		England	100	100	Infrastructure
Connect Labs USA Incorporated		USA	100	100	Dormant
Coms Limited		England	100	100	Dormant

Reference

1 Redstone Converged Solutions Limited is a wholly-owned subsidiary of Comunica Holdings Limited

2 Coms Media Limited is wholly owned by Coms Limited

The registered office of the subsidiaries incorporated in England is:
40 Holborn Viaduct,
London,
EC1N 2PB.

The registered office of the subsidiary incorporated in USA is:
874 Walker Road, Suite C
Dover
Kent
19904
USA

INVESTMENT IN SUBSIDIARIES	TOTAL
	£000
Cost	
At 1 February 2016	15,236
Additions	3,728
At 31 January 2017	18,964
Additions	1,400
Investments written off	(5,989)
At 31 January 2018	14,375
Accumulated amortisation and impairment	
At 1 February 2017	5,989
Investments written off	(5,989)
At 31 January 2018	-
Carrying value	
At 31 January 2018	14,375
At 31 January 2017	12,975
At 31 January 2016	9,247

The carrying value of the investment at the year-end represents investment in Redstone Converged Solutions Ltd, Connect IB Ltd, Commensus Ltd, and Anders + Kern (U.K.) Ltd all of which are wholly owned subsidiaries.

During the year Exchangext Limited and Coms.com Limited were dissolved. The investments totalling £5,989,000 were fully impaired at the point of write off.

31 OPTIONS AND WARRANTS

The Company had the following share options and warrants outstanding at 31 January 2018:

	Number	Date Granted	Price Per Share	Vesting Period
Warrants	40,000	12 Jun 13	500p	12 Jun 13 - 11 Jun 23
Options	30,000	1 Nov 13	350p	1 Feb 14 - 31 Jan 17
Options	1,309,532	11 Dec 15	92p	31 Dec 18 - 10 Dec 25
Options	199,510	1 Dec 16	127p	1 Dec 19 – 1 Jul 19
Options	125,205	1 Feb 17	127p	1 Feb 20 – 1 Sept 20

32 SHARE BASED PAYMENTS

The Group operates three equity settled share based payments plans: an EMI scheme, an Unapproved share scheme and an all employee SAYE scheme. During the year the Group issued options over 159,367 ordinary shares under the Group's SAYE scheme (2017: 236,775 under the Group's SAYE scheme). Options granted in 2016 under the EMI and Unapproved share option scheme over a total of 731,271 and 578,260 ordinary shares respectively were outstanding at the year end.

The EMI and Unapproved share option scheme incorporate the same general terms and conditions, with the EMI scheme benefiting from certain tax advantages.

At 31 January 2018 there were warrants and employee share options outstanding over a total of 1,699,446 (2017: 1,616,306) ordinary shares.

There were no options exercised during the year (2017: none).

The outstanding options at the year-end have an exercise price in the range of 92 pence to 500 pence (2017: 92 pence to 500 pence).

The weighted average remaining contractual life of the share options outstanding at the year-end is 6 years 7 months (2017: 7 years 10 months).

The expense recognised for equity-settled share-based payments during the year to 31 January 2018 was £172,000 (2017: £89,000).

	2018		2017	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at start of year	1,616,306	110p	1,385,532	110p
Granted during the year	125,205	127p	236,774	127p
Forfeited during the year	(42,065)	127p	(6,000)	350p
Outstanding at end of year	1,699,446	110p	1,616,306	110p
Exercisable at end of year	70,000	440p	70,000	440p

The fair value of the equity-settled share options granted is estimated as at the date of the grant using a Black Scholes model taking into consideration the terms upon which the options were granted. During the year ended 31 January 2018 there were options over 159,367 over ordinary shares granted (2017: 236,775).

The following table lists the inputs into the model used to calculate the fair value.

Grant date	1 February 2017
Option price	126.5p
Dividend yield	nil
Vesting period (years)	3 years
Assumed volatility at date of grant	79%
Risk-free discount rate	0.22%
Expected life of option	3 years
Fair value per option	88.9p
Share price at grant	155.0p

The expected volatility is based on historic volatility, adjusted for any expected changes to future volatility.

The 1 February 2017 grant of share options were offered to eligible employees under the Save as You Earn Scheme ('SAYE'). The SAYE scheme is a savings related share scheme whereby the employees can buy 10 pence ordinary shares in the Company for a fixed discounted price of 126.5 pence (a 20% discount to the average share price at the date of grant). The employee agrees to save a fixed monthly amount (capped at £500) over the three year term of the scheme, which at the end of the term can be used to buy shares at the fixed price.

33 SUBSEQUENT EVENTS

On 29 May 2018 the Group announced the proposed disposal of the Systems Integration and Managed Services divisions to Excel I.T. Services Limited for a total consideration of £21.6 million in cash, of which £19.6 million is payable on completion, and a further £2.0 million payable on or before 30 November 2018, subject to completion of an already contracted project by Redstone Converged Solutions Ltd ("Additional Consideration"). In addition, intercompany loans to the divisions amounting to a further £1.4 million will be waived.

The Additional Consideration will be retained by the Purchaser for working capital purposes relating to a project, which is due to complete in November 2018. In the event that the Additional Consideration is not sufficient to cover the ongoing working capital relating to the project, the Company may be required to provide additional working capital equal to any such deficit, subject to the terms of the Share Purchase Agreement.

REDSTONE CONNECT

IF YOU WOULD LIKE TO FIND OUT MORE, CONTACT US:

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