REDSTONECONNECT PLC

Annual Report for the Year Ended 31 January 2017

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HIGHLIGHTS

FINANCIAL HIGHLIGHTS:

- Profit after tax of £2.1 million (2016: loss of £2.2 million)
- Gross profit up 33% to £9.2 million (2016: £7.0 million), with an increased gross margin of 22% (2016: 17%)
- Revenue up 3.5% to £41.5 million (2016: £40.1 million)
- Adjusted EBITDA* materially ahead of management expectations, up 56% to £2.0 million (2016: £1.3 million) reflecting the successful implementation of strategy to focus on higher quality, higher margin business
- Reported Profit before tax** of £1.5 million (2016: loss of £0.8 million)
- Profit before tax from continuing operations of £1.2 million (2016: loss of £0.8 million)
- Profit after tax from continuing operations of £1.8 million (2016: loss of £0.7 million)
- Cash generated from operations of £0.9 million (2016: cash out flow of £2.7 million)
- Cash at year end of £3.2 million (2016: £1.0 million) and net cash of £0.8 million (2016: £1.0 million)
- Basic earnings per share from continuing operations of 0.11 pence (2016: loss of 0.06 pence)
- Concluded the Group's financial restructuring with the early exit of the Stokenchurch office lease saving the Group approximately £0.7m over the remainder of the lease

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

*** reported profit before tax includes; integration and transactional items, share based payment charge and £0.3 million profits in the period from discontinued operations.*

OPERATIONAL HIGHLIGHTS:

- Completed and fully integrated two diversifying and complementary acquisitions: Connect IB and Commensus, adding owned software IP and extending service capabilities
- Upgraded OneSpace which is now a strategic module of the Group's cloud based Smart buildings software platform
- Significant global master services agreements for OneSpace with UBS and UBM
- Renewal of all significant key customer Managed Service contracts which came up for renewal in the year on three to five year terms
- Key milestone achieved with Distributed Antenna System 'DAS' delivered as a service (DASaaS), with a contract secured for the design, installation and management at the London headquarters of a leading global technology group
- Strong order book and new business pipeline achieved from both new and existing customers as we move into the new financial year
- Successfully rebranded the Group to RedstoneConnect Plc

CHAIRMAN'S STATEMENT

I am delighted to present the results for the year ended 31 January 2017, a year in which the Group has continued to make significant strategic progress, achieved key operational milestones and delivered strong financial results.

The Group remains firmly on course to become a leading provider of software, technology and services in the Smart Buildings and Commercial Spaces market. The acquisition of Connect IB in March 2016 has accelerated our progress, bringing a scalable cloud-based software platform along with significant in-house 'smart building software solution' development capabilities to the Group. The combination of OneSpace, our occupancy management tool, and the Connect platform's other modules, gives us a market leading Smart Buildings platform that is unmatched by our peers, especially as it is IoT ready.

Our platform is cloud-based and highly scalable, allowing us to sell on a SaaS pricing model. We have also mandated the software team to ensure that our individual modules are 'best in class' if sold standalone as point solutions. This enables us to cross-sell and up-sell across our customer base.

There are clear sales opportunities for our newly developed software offering in both the smart building and commercial office space markets, however we are also beginning to see opportunities arise in the retail, logistics, sports stadia and government sectors. With development of our platform almost complete we will now shift our focus to building an effective infrastructure for both direct and indirect sales, both in the UK and overseas.

In addition, the Group has delivered encouraging organic growth from Redstone, our leading IT and Smart Buildings infrastructure business. Redstone operates as a Systems Integrator and Managed Service provider and continues to work with an impressive list of blue-chip enterprise clients. Both segments within Redstone have continued to trade well in the year. Our Systems Integration business delivered increased margins as a result of the strategic shift towards smart technologies and away from the commoditised end of this market. The Managed Services operation has also been successful in renewing an impressive range of key customer contracts, which will underpin a significant amount of the division's revenue over the next three to five years.

The acquisition in November 2016 of Commensus Plc, a provider of hosted managed services, not only provided a complementary fit to our existing product offering, it also introduced a higher margin business that is both scalable and accretive. The Group is now able to offer fully managed cloud-based IT services to both existing and new customers.

Finally, we completed the restructuring programme that was started in 2015, marked by the early exit of the lease for the Stokenchurch office in August 2016, along with the conclusion of a number of other legacy issues, all of which relate back to assets disposed of in the prior year. This is a key milestone for the business and has enabled management to focus fully on the future of RedstoneConnect.

BOARD AND MANAGEMENT

There have been no changes to the composition of the Board during the year. This stability has benefitted the development of the Group's strategy, which I believe is reflected in the achievements and performance during the year.

In addition to the main Board, Keith Jump's appointment during the year as Group Chief Technical Officer, following the acquisition of Connect IB has complemented the senior leadership team. The Group CTO role has strategic importance as we continue to innovate and build out the Group's software product portfolio.

OUTLOOK

We continue to make progress on improving the financial model of the business, focusing on higher quality business that generates higher margins and a stronger mix of long-term recurring revenue. The Group has a unique end-to-end product, service and software offering which continues to appeal across multiple sectors and significantly in the Smart Buildings market.

With the successful programme of software product development achieved during the year, the Group now has an enhanced offering and is well positioned to achieve further growth. We are focusing our investment on building sales capabilities, enabling the business to rapidly scale and to fully capitalise on the market opportunity by becoming a leader in the supply of smart building solutions.

I look forward to sharing more of the same with you in the future.

Frank Beechinor
Chairman
25 April 2017

OPERATIONAL REVIEW

OVERVIEW

This year has been a period of operational success for RedstoneConnect, achieving growth both organically and through the successful completion of two complementary acquisitions. In addition, we have further developed our software offering with the cloud-based platform acquired with Connect IB and have completed the integration of OneSpace, our occupancy management software, into the Connect platform suite.

Key priorities to drive future performance remain as follows:

- To grow our Smart Buildings offering through a combination of organic growth and acquisition
- To focus on developing technology-led intellectual property, in particular, focusing on the Connect platform to ensure we achieve our 'best in class' objective for each module
- To grow market share for our IP-led software solutions, deriving annuity revenues and profit from a growing installed base of customers
- To maintain Redstone's reputation as a market leader for service excellence and technical competence in its field. We will focus on continuing to provide high quality services to Redstone's clients by investing in our talented colleagues who are experts, well-versed in the Company's products and our clients' needs alongside continuing to maintain our multiple ISO and vendor accreditations
- To deliver improving profitability and cash generation

OUR BUSINESS PROPOSITION

The Group's proposition enables us to deliver end-to-end smart building design, installation, service and software applications. This offering is not matched by any of our peers to the same extent.

Our service is comprised of three segments: Systems Integration, Managed Services and Software.

Redstone, our market leading Systems Integration division, has performed well during the year, delivering higher margin business, as the mix of projects executed moves towards more complex solutions involving more innovative products, for example our work delivering in-building cellular solutions, often referred to as distributed antenna systems (DAS). Our DAS offering ensures mobile devices work anywhere within a building, typically for enterprise-scale commercial property customers and enables the servicing of multiple distributed buildings from a single, remote base station. This opens the door to converting what would otherwise be project-only engagements into long term 'DAS as a Service' ('DASaaS') opportunities, the first of which is being delivered to a large global internet business for their campus in central London.

We continue to promote our Redstone brand; its proven strength and traction over many years provides us with a market leading reputation, which continues to be reflected in the quality of contracts won by this division.

Our expertise in Smart Buildings network design and installation is also experiencing increased traction, as both landlords and occupiers recognise the material benefits to be gained from owning and occupying Smart Buildings. Our design and installation project for UBS's new headquarters at 5 Broadgate, London, which we completed in the summer of 2016, is a perfect example, as this building is recognised as one of Europe's smartest and following the successful design; installation project, we have installed both a DAS solution at the same location and our workspace management software, OneSpace.

Our Managed Services offering has also continued to deliver strong performance in the year. We have a number of long standing service engagements, typically 3-5 years' duration, all with blue chip enterprise-level customers. All of the customers with contracts due for review during the period committed to renew with us. This represents 81% of our total Managed Services contracted customer base, providing solid visibility of these revenues for the next three to five years. The acquisition of Commensus in November 2016 builds out our service proposition, adding a fully managed IT support service offering, including a 24/7 monitoring and support desk capability. This acquisition also brought with it higher margin, contracted recurring revenues delivered through Commensus' cloud platform, with complementary engineering resources to deliver on-site services. We now plan on cross-selling these services across our existing customer base and new customer engagements.

Our Software applications business is the newest division of the Group. The acquisition of Connect IB has brought to the Group a scalable cloud based software platform and whilst the platform's heritage lies in the retail sector, it is both functionally rich and fully endorsed by customers in a variety of sectors including: Pharmaceuticals, Retail, Sports and Entertainment, Financial Markets and Real Estate.

The cloud based platform is modular with core modules and strengths in: customer relationship management, analytics, 2D and 3D mapping and wayfinding, location based services including visitor management, meeting room and occupancy management, ticketing, cash/frictionless vending and car parking and content management. The platform is multi-tenanted, multi-currency and multi-lingual and has been deployed in over 28 countries.

OneSpace, our occupancy management tool, forms a module of the Connect platform, which can also be purchased standalone and is plug and play. It is a compelling proposition providing a unique approach that leverages both existing technology and new IoT innovation to deliver significant gains in space utilisation and occupancy management.

The platform has a strong Application Programming Interface ('API') engine that is product agnostic, making it flexible and versatile and leverages the platform capability of the 2D and 3D mapping engine to rapidly map any office or commercial environment, enabling quick software application deployment. As a result RedstoneConnect is now well positioned to develop first mover advantage in what the market is referring to as the 'Connected Office'; a digital environment where OneSpace seamlessly integrates with other key intelligent systems in and around buildings including visitor management, car parking, access control, lift and meeting room management, food and beverage, AV facilities, electronic signage – in fact any digital service that supports the efficient and productive use of a building by its occupants.

PERFORMANCE

The financial performance of the Company for the year is covered in more detail in the Financial Review. In the year to 31 January 2017, revenues were £41.5 million (2016: £40.1 million) slightly ahead of the prior year. More importantly however, gross profit increased by approximately 33% to £9.2 million (2016: £7.0 million), as the quality and mix of revenues improved enabling gross margin to increase to 22% (2016: 17%). This headline performance has been achieved in part through continued efficiencies in our core operations as well as the addition of software applications with significantly higher gross margins, which is starting to have a significant impact on our profitability.

ACQUISITIONS

During the year the Group successfully completed two acquisitions: Connect IB in the first half of the year and Commensus in the second part of the year.

It is pleasing to report that both acquisitions have been fully integrated into the Group and made a positive contribution to the Group's strong trading during the year, with adjusted EBITDA materially ahead of market expectations at £2.0 million.

OUTLOOK

We have made significant operational progress, are profitable, have generated positive operational cash flow, delivered a net cash position at the year end and developed a strong order book and new business pipeline for 2017.

The acquisitions made during the year are fully integrated with a period of post-acquisition development also being successfully delivered. The focus now is on scaling the business, growing margins, penetrating the market with our product and service offerings and a continued strategic focus to assess the market for further opportunities to grow both organically and by acquisition. Our restructuring is now complete and provides a stable and robust balance sheet, which the Company has not previously had in place. That, combined with our clear strategic focus leaves us well positioned to accelerate our growth aspirations.

The significant improvement in our operational performance is a clear reflection of the passion and quality of our people. On behalf of the Board, I wish to personally thank and acknowledge my colleagues for what they have achieved during 2016 and for their ongoing commitment to RedstoneConnect.

Mark Braund
Chief Executive Officer
25 April 2017

FINANCIAL REVIEW

OVERVIEW

Group trading results for the year have been strong and materially ahead when compared to the prior year. As a result of the strategic progress made during the year with acquisitions and following a successful period of restructuring, this financial review presents a new segmental view of the Group. The Board now manages the business aligned to the types of service and solutions it delivers. This differs from previous years, which were based around the separate legal entities and not service provision.

The Systems Integration division delivers projects that cover a variety of technologies and more typically are delivering smart building solutions; the Managed Services division delivers both managed services and support and maintenance services both of which drive recurring revenue and contribution; and the Software Applications division provides software solutions.

AQUISITIONS

The Company made two acquisitions during the year, Connect IB Ltd in March 2016 and Commensus Plc in November 2016.

Connect IB Ltd was acquired for a total consideration of £1.328 million, satisfied by £1.028 million of cash and £0.3 million in equity. The cash consideration was funded from a placing of ordinary shares (see Equity Financing section below for details). The equity consideration was satisfied by the issue of up to 18,507,094 ordinary shares, of which 15,422,579 were issued on completion at a market price of 1.621 pence per share and 3,084,515 were deferred and are conditional on achieving certain future sales targets. The equity consideration, for the benefit of Keith Jump founder and MD of Connect IB, is subject to a lock up agreement for a period of 36 months.

Commensus Plc was acquired for a total consideration of £2.4 million. The consideration was satisfied by £2.3 million in cash and £0.1 million in equity. The equity consideration was satisfied by the issue of 11,976,487 ordinary shares on completion at a market price of 1.23 pence per share, for senior Commensus management and is subject to lock up and orderly market arrangements for 24 months.

TRADING PERFORMANCE

Revenue for the year of £41.5m (2016: £40.1 million) increased by £1.4 million. This increased revenue was achieved as a result of the acquisitions made during the year. However, a more important and relevant performance measure is gross profit. During the year, the Group reported a 33% year on year increase in gross profit to £9.2 million (2016: £7.0 million), an increase of £2.2 million (2016: £1.8 million). The increase in gross profit resulted from strengthening margin performance across all segments and the benefit of higher margin software products.

As a result of the strong gross profit performance, adjusted EBITDA has increased in the year by 56% to £2.0 million (2016: £1.3 million). Operating profit also benefitted from the strong trading performance, coupled with the reduction in integration and transactional items, resulting in £1.2 million profit (2016: loss of £0.7 million). The Group is profitable for the first time, following its recent restructuring, recording profit after tax of £1.8 million (2016: loss of £0.7 million) from continuing activities and £2.1 million (2016: loss of £2.2 million) including discontinued operations.

YEAR ENDED 31 JANUARY 2017

	System Integration	Managed Services	Software	Group Overhead	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 /(LBITDA)*	1,082	1,959	343	(1,374)	2,010
Operating profit/(loss)					
from continuing operation	874	1,432	(19)	(1,096)	1,191
Profit/(loss) after taxation from					
continuing operations	1,478	1,432	7	(1,128)	1,789

YEAR ENDED 31 JANUARY 2016

	System Integration	Managed Services	Software	Group Overhead	Total
	£000	£000	£000	£000	£000
Revenue	23,823	16,275	-	-	40,098
Gross Profit	3,129	3,821	-	-	6,950
Gross Margin	13.1%	23.5%	-	-	17.3%
Adjusted EBITDA/(LBITDA)*	483	1,733	(4)	(924)	1,288
Operating profit/(loss) from					
continuing operation	329	1,379	(10)	(2,394)	(696)
(Loss)/profit after taxation					
from continuing operations	341	1,429	(10)	(2,456)	(696)

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

SYSTEMS INTEGRATION

The Systems Integration division has recorded strong growth in the year. Revenues of £24.6 million have increased £0.8 million from the prior year to £23.8 million. This strong revenue performance, coupled with an increase in gross margin by 350 basis points to 16.6% from 13.1%, has generated increased gross profit of £4.1 million (2016: £3.1 million). The increase in gross profit during the year, has resulted in a £0.6 million improvement in adjusted EBITDA at £1.1 million (2016: £0.5 million) and an increase of £0.6m in operating profit at £0.9 million (2016: £0.3 million).

MANAGED SERVICES

Revenues of £15.3 million (2016: 16.3 million) and gross profit of £3.7 million (2016: 3.8 million) are both marginally lower than the prior year. However, as a result of higher margin contracts delivered during the year coupled with a reduction in overheads, this division has seen an increase in adjusted EBITDA of £2.0 million (2016: £1.7 million) and operating profit of £1.4 million (2016: £1.4 million).

Encouragingly, a significant proportion of the Managed Services contracts that are delivered 'on the ground' have been renewed during the year, on three to five year terms, providing good visibility of the related revenue and contribution over the next few years.

The acquisition of Commensus towards the end of the financial year has contributed to the Managed Services divisional performance.

SOFTWARE

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

Revenues of £1.6 million (2016: £nil) generated gross profit of £1.4 million at a margin of 87.8% (2016: £nil), resulting in a positive adjusted EBITDA contribution of £0.3 million (2016: £0.01 million loss). Operating loss of £0.02 million is after impairment of intangible assets of £0.1 million and integration costs of £0.1 million.

The impairment charge has arisen as a result of the recent development of OneSpace following the acquisition of Connect IB. The charge results from the now 'end of life' previous version of the OneSpace product.

GROUP OVERHEAD

The Group reported central overheads of £1.1 million at an operating level (2016: £2.4 million). The reduction in overheads is due to charges and provisions made in the prior year, which related to the then on-going Group restructuring which is now full concluded.

INTEGRATION AND TRANSACTIONAL ITEMS

A credit of £0.2 million (2016: charge £1.4 million) has been recorded in integration and transactional items from continued operations in the year, benefitting the income statement. This credit has arisen as a result of the integration credit of £0.4 million (2016: charge of £1.1 million) being offset by transactional charges of £0.2 million (2016: £0.4 million).

The credit in relation to integration items, is primarily a result of the exit and final settlement in August 2016 of the Stokenchurch property lease. The exit of this lease gave rise to a reversal of the unused vacant property provision provided in the previous year, an analysis is provided in note 23 'Provisions'.

The transactional costs of £0.2 million incurred during the year directly relate to the two acquisitions, including the charge associated with raising the necessary funds.

TAXATION

The tax credit reported in the income statement is a result of recording a deferred tax asset during the year of £0.6 million net of the deferred tax charge associated with the amortisation of intangible assets from business combinations. The Group has the benefit of trading losses which are available to offset against future profits. As at 31 January 2017, the tax losses in the Group totalled £9.7 million (2016: £5.6 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 (2016: £nil) during the year.

DISCONTINUED ACTIVITIES

The credit to the income statement of £0.3 million recorded during the year is a result of the continued programme of restructuring, voluntarily liquidating dormant Group legal entities, specifically where the trade and assets have been previously sold. The discontinued result, represents one-off non-cash items and include the reversal of unused provisions, built up in relation to supplier disputes from legacy telecom business operations; an analysis is provided in note 23 'Provisions'.

EARNINGS PER SHARE – CONTINUING OPERATIONS

Basic earnings per share ("EPS") recorded in the year was 0.11 pence (2016: loss of 0.06 pence) - significantly ahead of the prior year. EPS on a diluted basis, allowing for employee share options and warrants, was 0.10 pence (2016: loss of 0.06 pence). An analysis is provided in note 14 'Earnings per share'.

RESEARCH AND DEVELOPMENT

During the year the Group invested £0.4 million (2016: £0.1 million) in developing owned software IP which includes OneSpace. This investment is capitalised and recorded in the balance sheet as an intangible asset. An analysis is provided in note 16 'Other intangible assets'.

INTANGIBLE ASSETS AND GOODWILL

As a result of the acquisitions of Connect IB Ltd and Commensus Plc, the Group intangible assets increased by £2.9 million and goodwill by £2.4 million. A breakdown of the intangible assets and goodwill arising on these acquisitions is provided in note 6 'Acquisitions of businesses'.

Amortisation of £0.1 million has been recognised in the income statement in respect of the acquired intangible assets.

As a result of the recent development of OneSpace, creating a new separate module in the Connect IB platform, the previous investment in OneSpace, which was also recorded as an intangible asset, with a carrying value of £0.1 million (2016: £nil) has been fully impaired during the year.

FINANCIAL REVIEW continued

CASHFLOW

Cash and cash equivalents at the end of the year was £3.2 million (2016: £1.0 million), an increase of £2.2 million. This resulted from cash flows generated from operating activities of £0.9m, £3.0m raised from finance activities, and £2.3m from bank loans offset by outflows in investing activities of £4.0m. Net cash at the year end amounted to £0.8 million (2016: £1.0 million).

Cash flows generated from operating activities of £0.9 million (2016: cash out flow of £2.7 million) resulted from strong trading performance during the year, offset by investments in working capital.

Cash out flows from investing activities of £4.0 million (2016: cash generated £2.1 million), resulted from the investments in both Connect IB and Commensus totalling £3.1 million (net of cash acquired), investment in the development of software IP including OneSpace of £0.4 million and investment in fixed and intangible assets of £0.5 million.

Cash flows generated from financing activities of £5.2m (2016: £2.0m) was made up of funds raised from the issue of new equity, net of issue costs of £3.0m (2016: £2.1 million) and debt finance of £2.3 million (2016: £nil) which was used to fund the acquisition of Commensus Plc.

During the year the Group incurred one-off cash outflows relating to legacy activities of £1.1 million. Whilst these legacy cash items relate to discontinued activities, as some of the contractual relationships resided in the parent company, these items had to be settled. It is not anticipated that this cash cost will recur. The most material item contribution to this cash outflow was the Stokenchurch property lease, with a cash cost of £0.7 million (includes cash exit cost). Other items include various supplier issues of £0.4 million in cash.

BORROWING AND BANK FACILITY

On 14 November the Group entered into new long-term bank arrangements. The facilities were established to finance the acquisition of Commensus Plc for £2.4 million via a bank loan of £2.35 million and equity consideration of £0.1 million. The Group banks with Barclays, who provided the debt finance in full. The loan is repayable over four years, with quarterly repayments, and carries a coupon of 3.5%.

As a result of the Group's new 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.

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.

EQUITY FINANCING

During the year the Company issued 250,613,352 new ordinary shares for a value of £3.0 million, net of costs. The Company issued 238,636,865 in new equity in March 2016 via a placing of 223,214,286 ordinary shares at a market price per share of 1.4 pence, raising a total of £3.0 million, net of costs. Also in March 2016, the Company issued 15,422,579 shares at a market price of 1.621 pence per share as part of the consideration paid for Connect IB Ltd. In November 2016, the Company issued 11,976,487 new ordinary shares at a market price of 1.23 pence per share, as equity consideration to part fund the Commensus acquisition. A detailed analysis is included in note 25 'Share capital and reserves'.

Spencer Dredge
Chief Financial Officer
25 April 2017

STRATEGIC REPORT

The Group continues to make excellent progress in its stated strategy of becoming a dominant player in the Smart Buildings and Smart Commercial Spaces market. We have already made notable success in our aim to positively change the revenue and related contribution mix of the Group towards higher margin annuity revenues. The gross margin reported for the year is a blended 22%, which is 500-basis points (5%) higher than the previous year at 17%. The increase in gross margin is largely attributed to the positive impact of the software division, and I expect, as we grow this area of the Group we will see a continuation of this margin improvement with a shift towards a higher blended Group gross profit margin.

Another strategic aim has been to develop our own IP and installed customer base enjoying these products and services. We have made significant progress on this front in the year, firstly with the acquisition of Connect IB and more recently with the productisation of OneSpace. This period of product development has resulted in successful global master framework agreements for OneSpace with global investment bank UBS and the global media events company UBM. 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.

Our strategy is underpinned by what we see in the market place as a shift in modern work practices towards a more flexible working environment. The age of Bring Your Own Device ('BYOD') and mobile working is becoming a reality. This 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. Staff wellbeing is becoming an increased focus of employers and it is accepted that an effective working environment creates an environment through which employers can attract and retain the best talent. 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 work place when recruiting and retaining talent. We believe a digital experience is essential to achieving employee wellbeing and retention, through better engagement with the work place, 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 work force and as digitalisation continues to gather pace.

The value in today's world of understanding business data cannot be underestimated. The Connect IB platform looks 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 a compelling return on investment from the UBM client experience, where the installation of the OneSpace product ahead of moving offices enabled, with precision, an understanding of the requirement for the new office and delivered multimillion pound savings in both capital expenditure and annual operating expense. All of these savings were generated from only the initial phase of the software deployment; further efficiencies were achieved through a further period of review. We see a whole new customer set opening up to the Group from organisations that have similar inefficiencies and a desire to improve employee wellbeing for a variety of beneficial reasons.

RISK MANAGEMENT

The divisional senior management is responsible for managing risk and assessing how this might prevent the Group from delivering its strategy with support from the Group's executive management team.

The policy is to identify the key risks which could affect the Group and to assess the appropriate mitigation, including use of insurance policies.

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

Some of the key risks and uncertainties along with the Group's approach to mitigation are as follows:

- Potential deterioration of the UK economy: this is currently relevant due to the UK's pending exit from the European Union, although this is some time away and will be mitigated through delivery of our strategy, focused on Smart Building markets, which are undergoing structural change and by focusing on selling our own IP-rich solutions that generate significant customer advantage and long term earnings visibility for the Group
- Regulatory changes, potentially relevant in light of the new legislation, which will likely be enacted following the UK's exit from the European Union: mitigated by the knowledge and agility of the Group's skilled resources, which provides us with good visibility of any likely change and enables us to react quickly to comply. As such, regulatory change can present the Group with an advantage over many of its competitors
- Failing to attract and retain the right calibre of talent: the Group operates an active talent management and development programme. Retention of skilled resource is high in both Redstone and the recently acquired Connect IB and Commensus. We continue to monitor and develop this programme to meet the ambitious requirements of the business
- Failure to control projects within their budgets including delivering the services in accordance with the project specifications and to the required standards: leveraging the Group's 30-years of experience it operates a strong process, which is continuously monitored, developed and improved by a dedicated team of talented programme and project professionals, with full senior management oversight
- Loss of ISO and vendor accreditations: the Group operates strong processes which are continuously monitored, developed and improved by a dedicated quality manager, with full senior management oversight. Vendor accreditations are managed using a process tailored to each vendor and managed by members of the senior management team
- Health and safety risk: the Group operates strong processes to safeguard staff and clients which are continuously monitored, developed and improved by a dedicated health and safety at work manager, with full senior management oversight
- Working capital risk on large construction projects: the Group negotiates milestone payments on larger contracts to mitigate working capital pressure
- Innovation risk from a fast moving and ever changing customer requirement: the Group's development is customer-centric; we are actively engaged with our target markets through industry research, events and the strong relationships we have with customers. We use this as a means to determine our product development strategy and have a small number of early stage proof of concept developments in progress with key customers to fine tune these developments before full release
- Loss of key staff: RedstoneConnect employs talented and experienced personnel and loss of such personnel would be detrimental to the business. The Board has put in place remuneration plans to incentivise staff and encourages career development where possible within the organisation and is establishing an active succession planning process; management encourage a culture of respect and integrity to create a good work environment.
- Inability to safeguard the Company's Intellectual Property: the Group owns a growing portfolio of valuable Intellectual Property. Loss of such Intellectual Property would be detrimental to the organisation; the Company manages this risk through its patent protection programme and by managing confidentiality robustly
- Loss of competitive advantage: the Group continues to innovate in its key markets, developing IP is a crucial component of this development
- Loss of good credit rating: many of our partners seek guidance from the credit scoring agencies to assess their credit risk. We monitor our credit ratings constantly and engage in dialogue with rating agencies to ensure they continue to reflect our business correctly.

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 joined the Board as 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 joined InterQuest Group plc as Chief Executive Officer in April 2011; since then he has transformed the Company into 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 recent roles include Company Secretary for Tullett Prebon plc, Finance Director of Pelamis Wave Power Limited and Chairman and Honorary Treasurer for BreastCancer Haven. She is currently CFO of Precious Cells International Limited.

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

COMPANY INFORMATION AND ADVISERS

REGISTERED OFFICE

40 Holborn Viaduct
London
EC1N 2PB

COMPANY NUMBER

5332126

COMPANY ADVISERS

NOMINATED ADVISER AND JOINT BROKER

Cantor Fitzgerald
1 Churchill Place
Canary Wharf
London
E14 5RB

JOINT BROKER

Whitman Howard
First Floor
1 – 3 Connaught House,
Mount Street,
London
W1K 3NB

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 2017.

PRINCIPAL ACTIVITES

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 income statement on page 30. The Directors do not recommend payment of a dividend (2016: £nil).

REVIEW OF BUSINESS

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

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	2017 Total	2016 Total
	£000	£000	£000	£000	£000	£000	£000	£000
Frank Beechinor	59	-	6	-	65	-	65	87
Mark Braund	302	-	40	4	346	19	365	96
Spencer Dredge	140	25	16	1	182	8	190	68
Diana Dyer Bartlett	38	-	4	-	42	-	42	127
Guy van Zwanenberg	38	-	2	-	40	-	40	33

DIRECTORS REPORT continued

The interests of those Directors serving during the year ended 31 January 2017, as at the year-end, all of which are beneficial, in the share capital of the Company, were as follows:

DIRECTOR	Ordinary shares of 0.1p each	
	2017	2016
	No	No
Frank Beechinor	9,000,000	9,000,000
Mark Braund	14,485,316	10,638,888
Spencer Dredge	3,212,652	1,819,795
Diana Dyer Bartlett	4,000,000	4,000,000
Guy van Zwanenberg	3,000,000	3,000,000

Mark Braund and Spencer Dredge both took part in the share placing in March 2016 and subscribed for 3,571,428 and 1,392,857 ordinary shares respectively. Mark Braund also purchased 275,000 ordinary shares in the open market during the year.

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

DIRECTORS' SHARE WARRANTS AND OPTIONS

As at 31 January 2017 the Company had granted the following warrants and share options to Directors and past Directors of the Company which remained outstanding at the year-end or at the date of resignation:

DIRECTOR	INSTRUMENT	NO OF ORDINARY SHARES OF 0.1P	EXERCISE PRICE	GRANT DATE
Frank Beechinor	Share option	10,000,000	0.92p	11/12/2015
Mark Braund	Share option	65,000,000	0.92p	11/12/2015
Spencer Dredge	Share option	26,000,000	0.92p	11/12/2015
Diana Dyer Bartlett	Share option	7,000,000	0.92p	11/12/2015
Guy van Zwanenberg	Share option	3,000,000	0.92p	11/12/2015
Iain Ross	Warrant	4,000,000	5.00p	10/06/2013

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:

	2017		2016	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at start of year	115,000,000	1.06p	21,380,952	3.30p
Granted during the year	-	-	111,000,000	0.92p
Forfeited during the year	-	-	(17,380,952)	2.91p
Outstanding at end of year	115,000,000	1.06p	115,000,000	1.06p
Exercisable at end of year	4,000,000	5.00p	4,000,000	5.00p

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 proceedings. We believe that our Board 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

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 their 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 programs 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 5 April 2017, the following interests in 3% or more of the issued ordinary share capital had been notified to the Company:

SHAREHOLDER	5 APRIL 2017	
Helium Special Situations Fund	259,824,283	15.79%
Henderson Global Investors	90,510,315	5.50%

DIRECTORS RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements, the Directors' report in accordance with applicable law and regulations.

Company law requires the Directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with IFRSs as adopted by the EU and applicable law. As required by the AIM Rules of the London Stock Exchange they are required to prepare the group financial statements in accordance with IFRSs 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. 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 and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping 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 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.

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 Advisor, and the Company has Joint Brokers, Cantor Fitzgerald and Whitman Howard. The closing mid-market share price at 31 January 2017 was 1.60 pence (31 January 2016: 0.52 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

The Annual General Meeting will be held at the offices of RedstoneConnect plc, 40 Holborn Viaduct, London, EC1N 2PB, the date and time of which will be confirmed 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, the Operational and Financial Review. 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 25 April 2017 and signed on its behalf by:

Spencer Dredge
Director
25 April 2017

AUDITOR'S REPORT

Independent Auditor's report to the Members of RedstoneConnect Plc

We have audited the financial statements of RedstoneConnect plc for the year ended 31 January 2017 set out on pages 30 to 67. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities statement set out on page 26, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

OPINION ON FINANCIAL STATEMENTS

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 2017 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with 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.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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.

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

Arlington Business Park
Theale
Reading
Berkshire
RG7 4SD
25 April 2017

CONSOLIDATED INCOME STATEMENT

For the year ended 31 January 2017

	NOTES	2017	2016
		£000	£000
Revenue	4,5	**41,521**	40,098
Cost of sales		**(32,297)**	(33,148)
Gross profit		**9,224**	6,950
Administrative expenses		**(8,033)**	(7,646)
Operating profit/(loss)	10	**1,191**	(696)
Adjusted EBITDA*		**2,010**	1,288
Integration and transactional items included within administrative expenses	8	**211**	(1,439)
Depreciation	10	**(424)**	(370)
Amortisation	10	**(371)**	(128)
Impairment of intangible assets	9	**(146)**	-
Share based payment charge	10	**(89)**	(47)
Operating profit/(loss)	10	**1,191**	(696)
Net finance costs	12	**(37)**	(63)
Profit/(loss) before tax		**1,154**	(759)
Taxation	13c	**635**	63
Profit/(loss) for the year after tax		**1,789**	(696)
Discontinued operations	7	**316**	(1,487)
Profit/(loss) for the year		**2,105**	(2,183)
Total comprehensive profit/(loss) for the year attributable to equity holders		**2,105**	(2,183)
Basic earnings/(loss) per share			
Continuing operations	14	**0.11p**	(0.06p)
Discontinued operations	14	**0.02p**	(0.12p)
Total	14	**0.13p**	(0.18p)
Diluted earnings/(loss) per share			
Continuing operations	14	**0.10p**	(0.06p)
Discontinued operations	14	**0.02p**	(0.12p)
Total	14	**0.12p**	(0.18p)

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

The notes on pages 37 to 67 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 January 2017

	NOTES	2017	2016
		£000	£000
ASSETS			
Non-current assets			
Goodwill	15	**11,087**	8,724
Other intangible assets	16	**3,222**	309
Property, plant and equipment	17	**906**	637
Deferred tax	24	**62**	-
		15,277	9,670
Current assets			
Inventories	18	**143**	181
Trade and other receivables	19	**8,779**	7,982
Cash and cash equivalents	20	**4,468**	2,430
		13,390	10,593
Total assets		**28,667**	20,263
EQUITY and LIABILITIES			
Capital and reserves attributable to equity shareholders			
Share capital	25	**3,687**	3,436
Share premium	25	**32,589**	29,463
Merger reserve	25	**1,911**	1,911
Reverse acquisition reserve		**(4,236)**	(4,236)
Accumulated deficit		**(19,470)**	(21,664)
Total equity		**14,481**	8,910
Current liabilities			
Overdraft	20	**1,273**	1,383
Bank loans	22	**653**	-
Trade and other payables	21	**10,318**	8,503
Corporation tax	13a	**11**	-
Provisions	23	**-**	676
		12,255	10,562
Non-current liabilities			
Provisions	23	**169**	791
Bank loans	22	**1,762**	-
		1,931	791
Total liabilities		**14,186**	11,353
Total equity and liabilities		**28,667**	20,263

The financial statements were approved by the Board of Directors and authorised for issue on 25 April 2017.
They were signed on its behalf by:

Spencer Dredge, Chief Financial Officer, 25 April 2017
Company Number: 5332126

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 January 2017

	NOTES	2017	2016
Cash flows from operating activities		**£000**	£000
Profit/(loss) for the year		**2,105**	(2,183)
Depreciation		**424**	531
Amortisation		**371**	218
Share based payment charge		**89**	47
Net finance costs		**37**	63
Taxation		**(635)**	(482)
Intangible asset impairment	9,16	**146**	-
Provisions (released)/recognised		**(610)**	589
Loss on sale of fixed assets		-	24
Loss on sale of discontinued operation, net of tax		-	576
Operating cash flows before movements in working capital		**1,927**	(617)
Decrease in inventories		**37**	32
(Increase)/decrease in receivables		**(133)**	2,394
Decrease in payables		**(270)**	(4,543)
Movement in provisions		**(687)**	-
Operating cash flows after movements in working capital		**874**	(2,734)
Tax refunded		**39**	49
Net cash generated from/(used in) operating activities		**913**	(2,685)
Cash flows from investing activities			
Disposal of assets		-	2,500
Research and development		**(367)**	-
Acquisition of subsidiaries (net of cash acquired)		**(3,140)**	-
Acquisition of intangible assets		**(138)**	(355)
Proceeds from sale of property, plant and equipment		-	23
Acquisition of property, plant and equipment		**(351)**	(56)
Net cash (used in)/generated from investing activities		**(3,996)**	2,112
Cash flows from financing activities			
Proceeds from issues of share capital (net of issue costs)		**2,979**	2,069
Loan drawn		**3,789**	-
Loan repaid		**(1,500)**	-
Net finance costs		**(37)**	(63)
Net cash generated from financing activities		**5,231**	2,006
Net increase in cash and cash equivalents		**2,148**	1,433
Cash and cash equivalents at start of year		**1,047**	(386)
Cash and cash equivalents at end of year		**3,195**	1,047

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

	NOTES	SHARE CAPITAL	SHARE PREMIUM MERGER/ RESERVE	REVERSE AQUISI-TION RESERVE	ACCUM-ULATED DEFICIT	TOTAL
		£000	£000	£000	£000	£000
At 1 February 2015		3,015	29,727	(4,236)	(19,528)	8,978
Loss for the year		-	-	-	(2,183)	(2,183)
Total comprehensive loss for the year		-	-	-	(2,183)	(2,183)
Transactions with the owners:						
Proceeds from shares issued	25	421	1,697	-	-	2,118
Share issue costs		-	(50)	-	-	(50)
Share based payment charge		-	-	-	47	47
At 31 January 2016		3,436	31,374	(4,236)	(21,664)	8,910
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**

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 January 2017

	NOTES	2017	2016
		£000	£000
ASSETS			
Non-current assets			
Investment in subsidiaries	30	**12,975**	9,247
Tangible assets		**3**	2
		12,978	9,249
Current assets			
Trade and other receivables	19	**1,519**	346
		1,519	346
Total assets		**14,497**	9,595
EQUITY and LIABILITIES			
Capital and reserves attributable to equity shareholders			
Share capital	25	**3,687**	3,436
Share premium	25	**32,589**	29,463
Merger reserve	25	**1,911**	1,911
Accumulated deficit		**(29,938)**	(29,172)
Total equity		**8,249**	5,638
Current liabilities			
Overdraft	20	**639**	1,383
Bank loans	22	**588**	-
Trade and other payables	21	**3,204**	1,437
Provisions	23	**-**	491
		4,431	3,311
Non-current liabilities			
Provisions	23	**55**	646
Bank loans	22	**1,762**	-
		1,817	646
Total liabilities		**6,248**	3,957
Total equity and liabilities		**14,497**	9,595

The financial statements were approved by the Board of Directors and authorised for issue on 25 April 2017.
They were signed on its behalf by:

Spencer Dredge, Chief Financial Officer, 25 April 2017
Company Number: 5332126

COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 January 2017

	2017	2016
	£000	£000
Cash flows from operating activities		
Loss before taxation	**(834)**	(7,913)
Depreciation and amortisation	**1**	-
Share based payment charge	**68**	44
Net finance costs	**30**	62
Provisions (released)/recognised	**(610)**	589
Operating cash flow before working capital movement	**(1,345)**	(7,218)
Increase in receivables	**(113)**	(55)
Increase in payables	**660**	3,332
Movement in provisions	**(473)**	548
Net cash used in operating activities	**(1,271)**	(3,393)
Cash flows from investing activities		
Investment in subsidiary	**(3,281)**	-
Acquisition of property, plant and equipment	**(2)**	(2)
Net cash used in investing activities	**(3,283)**	(2)
Cash flows from financing activities		
Proceeds from issues of share capital (net of issue costs)	**2,979**	2,069
Loans drawn	**3,850**	-
Loans repaid	**(1,500)**	-
Net finance costs	**(31)**	(62)
Net cash generated from financing activities	**5,298**	2,007
Net increase/(decrease) in cash and cash equivalents	**744**	(1,388)
Cash and cash equivalents at start of year	**(1,383)**	5
Cash and cash equivalents at end of year	**(639)**	(1,383)

COMPANY STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders of the Company

	NOTES	SHARE CAPITAL	SHARE PREMIUM MERGER/ RESERVE	ACCUM-ULATED DEFICIT	TOTAL
		£000	£000	£000	£000
At 1 February 2015		3,015	29,727	(21,303)	11,439
Loss for the year		-	-	(7,913)	(7,913)
Total comprehensive loss for the year		-	-	(7,913)	(7,913)
Transactions with the owners:					
Proceeds from shares issued	25	421	1,697	-	2,118
Share issue costs		-	(50)	-	(50)
Share based payment charge		-	-	44	44
At 31 January 2016		**3,436**	**31,374**	**(29,172)**	**5,638**
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**

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 22. The nature of the Group's operations and its principal activities are set out in the Directors' report and in the Operational review.

These 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 Group's £1.65 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 forseeable future. The Directors accordingly continue to adopt the going concern basis in preparing these 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 2016 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, however they will continue to review and make any necessary adjustments in line with the adoption dates.

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 2017 of £834,000 (2016: loss of £7,913,000).

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.

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 good 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 on the facing page:

CATEGORY AND EXAMPLES	ACCOUNTING TREATMENT
System 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 accrued revenue 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

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 EXCLUDING GOODWILL

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 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 options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at 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 behavioral 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.

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 Plc. 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 2017

	System 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**

YEAR ENDED 31 JANUARY 2016	System Integration	Managed Services	Software	Group Overhead	Total
	£000	£000	£000	£000	£000
Revenue	23,823	16,275	-	-	40,098
Cost of sales	(20,694)	(12,454)	-	-	(33,148)
Gross Profit	**3,129**	**3,821**	**-**	**-**	**6,950**
Administrative expenses	(2,646)	(2,088)	(4)	(924)	(5,662)
Adjusted EBITDA/(LBITDA)*	**483**	**1,733**	**(4)**	**(924)**	**1,288**
Integration and transactional costs included within administrative expenses	(3)	(10)	-	(1,426)	(1,439)
Depreciation	(112)	(253)	(5)	-	(370)
Amortisation	(39)	(88)	(1)	-	(128)
Share based payment charge	-	(3)	-	(44)	(47)
Operating profit/(loss)	**329**	**1,379**	**(10)**	**(2,394)**	**(696)**
Net finance costs	-	(1)	-	(62)	(63)
Profit/(loss) before taxation	**329**	**1,378**	**(10)**	**(2,456)**	**(759)**
Taxation	12	51	-	-	63
Profit/loss) after taxation	**341**	**1,429**	**(10)**	**(2,456)**	**(696)**

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

5 REVENUE

	2017	2016
	£000	**£000**
Sale of goods	**1,108**	236
Rendering of services	**16,071**	16,275
Construction contract revenue	**24,342**	23,587
Total revenue	**41,521**	40,098

6 ACQUISITION OF BUSINESSES

On 15 March 2016, RedstoneConnect acquired 100% of the share capital of Connect IB Limited ("Connect") for a total consideration of £1.328 million. Deal costs of £41,000 were incurred and recorded under integration and transactional items in the Income Statement. The transaction was satisfied by £1.028 million in cash and £300,000 in equity. The cash element of the consideration was financed out of the placing of 223,214,286 new ordinary shares of 0.1 pence each at a price of 1.4 pence per share, raising £3.125 million, before expenses. Equity consideration was satisfied by, 15,422,579 ordinary shares of 0.1 pence and deferred equity consideration of 3,084,516 ordinary shares of 0.1 pence each, both at a price of 1.62 pence per share.

On 16 November 2016, RedstoneConnect acquired 100% of the share capital of Commensus Plc ("Commensus") for a total consideration of £2.4 million. Deal costs of £72,000 were incurred and recorded under integration and transactional items in the Income Statement. The transaction was satisfied by £2,252,290 million in cash and £147,710 in equity. The cash element of the consideration was financed through bank borrowings, see note 22 for more details. Equity consideration was satisfied by 11,976,487 ordinary shares of 0.1 pence at a price of 1.23 pence per share.

The acquisition of Connect and Commensus is in line with RedstoneConnect's strategy of delivery performance through both organic and acquisitive growth. In addition, both companies create significant synergies for the enlarged group in terms of potential new clients for RedstoneConnect and additional products that can be sold across Redstone's existing customer base.

NOTES TO THE FINANCIAL STATEMENTS continued

The book value of Connect and Commensus net assets acquired and their fair values are summarised below:

	Connect IB Limited			Commensus Plc			Combined
	Book Value	Fair Value Adjustments	Fair Value To Group	Book Value	Fair Value Adjustments	Fair Value To Group	Fair Value To Group
	£000	£000	£000	£000	£000	£000	**£000**
Intangible assets	-	1,236	1,236	135	1,554	1,689	**2,925**
Property, plant and equipment	19	-	19	398	(79)	319	**338**
Trade receivables	258	(26)	232	307	-	307	**539**
Other current assets	146	(123)	23	346	(240)	106	**129**
Cash	50	-	50	90	-	90	**140**
Loans	(126)	-	(126)	-	-	-	**(126)**
Trade payables	(166)	-	(166)	(219)	-	(219)	**(385)**
Other current liabilities	(149)	(379)	(528)	(900)	(182)	(1,082)	**(1,610)**
Deferred tax liability	-	(247)	(247)	-	(338)	(338)	**(585)**
	32	**461**	**493**	**157**	**715**	**872**	**1,365**
Fair value of net assets acquired			493			872	**1,365**
Goodwill			835			1,528	**2,363**
Total consideration			**1,328**			**2,400**	**3,728**
Shares issued at market value			250			148	**398**
Cash			1,028			2,252	**3,280**
Contingent equity consideration			50			-	**50**
			1,328			**2,400**	**3,728**
Cash			1,028			2,252	**3,280**
Less: cash acquired			(50)			(90)	**(140)**
Total cash consideration net of cash acquired			978			2,162	**3,140**

The fair value of the financial assets include trade receivables with a fair value and gross contractual value of £539,000. The best estimate at acquisition date of the contractual cash flows to be collected was £539,000.

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

Since acquisition date Connect IB Limited contributed £1,600,000 in revenue and £83,000 to the Group's profit before taxation in the year, whilst Commensus Plc contributed £516,000 in revenue and £48,000 to the Group's profit before taxation. Had both acquisitions occurred at the beginning of the year, the Group's revenue would have been £44,000,000 and the Group's profit before taxation would have been £1,300,000 for the year.

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

	Connect IB Limited	Commensus Plc	Combined
	Fair Value To Group	Fair Value To Group	Fair Value To Group
	£000	£000	£000
Customer contracts	606	1,689	2,295
IP	630	-	630
Deferred tax liability	(247)	(338)	(585)
Total	**989**	**1,351**	**2,340**

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	2017	2016
		£000	£000
Revenue	4,5	-	5,343
Cost of sales		-	(4,264)
Gross profit		-	1,079
Administrative expenses		**(1)**	(2,791)
Adjusted LBITDA*		**(1)**	(1,712)
Integration and transactional costs included within administrative expenses	8	**318**	2,269
Depreciation	10	-	(161)
Amortisation	10	-	(90)
Impairment charge	9	-	(2,212)
Operating profit/(loss)	10	**317**	(1,906)
Profit/(loss) before tax		**317**	(1,906)
Taxation	13c	**(1)**	419
Profit/(loss) for the year after tax		**316**	(1,487)
Profit/(loss) for the year		**316**	(1,487)
Total comprehensive profit / (loss) for the year attributable to equity holders		**316**	(1,487)
Basic earnings/(loss) per share	14	**0.02p**	(0.12p)

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

	2017	2016
	£000	£000
Net cash flow used in operating activities	**(9)**	(1,729)
Net cash used in investing activities	-	2,488
Net cash from financing activities	**(1)**	-
Net cash flow for the period	**(10)**	759

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 £316,000 profit from discontinued operations during the year represents the deconsolidation of balance sheets, which includes provisions made in relation to supplier disputes. During the year, £70,000 was paid in relation to these supplier disputes. In 2017, all subsidiaries associated with those divisions have been entered into a voluntary liquidation process, see note 30 for a full list of subsidiaries.

8 INTEGRATION, TRANSACTIONAL AND DECONSOLIDATION ITEMS

	2017	2016
	£000	£000
Integration (credits)/costs	**(380)**	1,168
Transactional costs	**171**	403
Deconsolidation credits	**(318)**	(2,401)
	(527)	(830)

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 2017, transactional items include the costs involved with the acquisition of Connect IB Limited and Commensus Plc as well as fee's in respect of the share placing, whilst the 2016 transactional items related to the costs involved in disposing of the Telephony and Media divisions. The deconsolidation credits in 2016 relate to the removal of the balance sheets of the Telephony and Media divisions disposed of during the year and provisions made for onerous leases and supplier disputes. The deconsolidation credits in 2017 represent the unwinding of the balance of 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 credit of £527,000 (2016: £830,000 credit) comprises £211,000 credit from continued operations (2016: £1,439,000 charge) and £318,000 from discontinued operations (2016: £2,269,000 credit).

9 IMPAIRMENT CHARGE

The impairment charge in 2017 relates to research and development costs capitalised in prior periods.
The impairment charge in 2016 relates to discontinued operations.

	NOTES	2017	2016
		£000	£000
Goodwill	15	-	927
Other intangible assets	16	**146**	1,285
		146	2,212

GOODWILL

In 2016, Goodwill was impaired as a consequence of the performance of the Telephony Services division, which was sold on 31 May 2015 to Timico Ltd, and the Management Buy Out of the Darkside Studios business on 8 December 2015.

OTHER INTANGIBLE ASSETS

During 2016, the Board conducted a review of the carrying value of the Group's other intangible assets. As a result, the Group recorded a £1,285,000 impairment charge for the period, specific to the following:

- Intangible assets recognised in relation to the acquisition of the Actimax companies (telephony services) in February 2014.

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PROPERTY, PLANT AND EQUIPMENT

During the year, the Directors concluded a review of the carrying value of the Group's property, plant and equipment. No impairment charge was deemed necessary for the year ended 31 January 2017 (2016: no impairment recorded).

10 OPERATING PROFIT / (LOSS)

Operating (loss)/profit from all operations is arrived at after charging:

	GROUP 2017	2016
	£000	£000
Cost of Inventory is recognised as an expense	**13,572**	16,478
Amortisation of intangibles	**371**	218
Depreciation of property, plant and equipment	**424**	531
Loss/(profit) on disposal of property, plant and equipment	-	24
Staff costs (see note 11)	**16,359**	15,386
Share based payment charge	**89**	47
Loss on foreign exchange	**51**	37
Rentals under operating leases	**437**	813
Impairment charge (see note 9)	**146**	2,212
Integration and transactional credit/(charge) (see note 8)	**527**	(830)
Audit fees		
-audit of the Company's financial statements	**44**	44
-audit of the Company's subsidiaries pursuant to legislation	**35**	18

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

- Administrative staff costs £2,607,000 (2016: £5,159,000)
- Operating leases £437,000 (2016: £813,000)
- Depreciation and amortisation £795,000 (2016: £749,000)
- Other operating expenses £4,169,000 (2016: £1,732,000)

11 STAFF COSTS

The average number of employees was:

	GROUP 2017	2016
	Number	Number
Sales	**28**	35
Technical support	**252**	262
Administrative	**37**	46
	317	343
	£000	£000
Their aggregate remuneration comprised:		
Wages and salaries	**14,355**	13,520
Share based payments (see note 32)	**89**	47
Social security costs	**1,607**	1,515
Pension costs	**308**	304
	16,359	15,386

£11,180,000 (2016: £10,246,000) of the above staff costs were included in cost of sales in the consolidated income statement.

12 NET FINANCE COSTS

	GROUP 2017	2016
	£000	£000
Net finance costs	**37**	63

13A TAXATION

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

	GROUP 2017	2016
	£000	£000
Profit/(loss) before taxation	**1,154**	(759)
Taxation	**635**	63
Profit/(loss) for the year after tax	**1,789**	(696)
Tax at the UK corporation tax rate of 20.00% (2016: 20.17%)	**231**	(153)
Overseas tax payable	**(6)**	-
Non-deductible expenses	**17**	4
Unused tax losses not recognised as assets	**129**	223
Recognition of previously unrecognised tax losses	**(624)**	-
Research and development relief	**(162)**	-
Utilisation of previously unrecognised tax losses	**(112)**	(51)
Depreciation in excess of capital allowances	**48**	101
Utilisation of tax losses and group relief	**(146)**	(124)
Double taxation relief	**(5)**	-
Over provided in prior years	**(5)**	(63)
Taxation credit on continuing operations	**(635)**	(63)

At 31 January 2017 the Group had estimated tax losses of £9,730,000 (2016: £5,550,000) 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 a deferred tax asset of £617,000 has been recognised during the year (2016: £nil deferred asset recognised).

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 2017 has been calculated based on the rate of 17% substantively enacted at the balance sheet date.

13B DEFERRED TAXATION

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

	GROUP 2017	2016
	£000	£000
Deferred tax assets	**617**	-
Deferred tax liabilities	**(555)**	-
Deferred tax asset	**62**	-
Deferred tax assets comprised of:		
Tax losses	**617**	-
Deferred tax liabilities arose on:		
Business combinations	**(555)**	-

13C TAXATION CHARGE

The taxation credit for the year of £635,000 (2016: £63,000 credit) related to continued operations only and is in respect of the deferred tax on business combinations as well as the recognition of deferred tax on losses.

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.

	2017			2016		
	Continued operations	Discontinued operations	Total	Continued operations	Discontinued operations	Total
Basic earnings/(loss) per share	**0.11p**	**0.02p**	**0.13p**	(0.06p)	(0.12p)	(0.18p)
Diluted earnings/(loss) per share	**0.10p**	**0.02p**	**0.12p**	(0.06p)	(0.12p)	(0.18p)
Profit/(loss) for the year attributable to owners of the parent company (£000)	**1,789**	**316**	**2,105**	(696)	(1,487)	(2,183)

	2017	2016
Number of shares	**No**	No.
Weighted average number of ordinary shares in issue	**1,606,896,215**	1,232,295,941
Weighted average number of potentially dilutive ordinary shares in issue	**1,768,526,952**	1,232,295,941

Warrants and employee share options are non-dilutive in loss making periods.

15 GOODWILL

	GROUP
Cost	**£000**
At 31 January 2015	16,558
Additions	-
At 31 January 2016	16,558
Additions	2,363
At 31 January 2017	**18,921**
Accumulated impairment charge	
At 31 January 2016	7,834
Impairment charge	-
At 31 January 2017	**7,834**
Carrying value at 31 January 2017	**11,087**
Carrying value at 31 January 2016	8,724
Carrying value at 31 January 2015	9,651

	2017	2016
Carrying value of goodwill is allocated as follows:	**£000**	£000
Redstone Converged Solutions Ltd	**8,724**	8,724
Connect IB Limited	**835**	-
Commensus Plc	**1,528**	-
	11,087	8,724

	2017	2016
Carrying value of goodwill aligns to the segments as follows:	**£000**	£000
Systems Integration	**1,068**	8,724
Managed Services	**9,184**	-
Software	**835**	-
	11,087	8,724

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. The recoverable amount of the CGU's 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's 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% with 2% attributed to administrative costs. The calculation of residual value has utilised 2% growth rates. Sensitivity analysis indicates that if revenues declined by 10% or administrative expenses increased by 10%, this would not give rise to an impairment charge.

A pre-tax discount rate of 17.5% has been used for all CGU's. This rate takes into consideration the Group's cost of capital, the expected rate of return and various risks relating to the relevant 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% 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 2015	438	3,308	3,746	138
Additions	132	223	355	-
Disposals	(438)	(3,226)	(3,664)	(138)
At 31 January 2016	132	305	437	-
Additions at acquisition	-	2,925	2,925	-
Additions	367	138	505	-
Impairment	(211)	-	(211)	-
Disposals	-	-	-	-
At 31 January 2017	**288**	**3,368**	**3,656**	**-**
Accumulated amortisation and impairment				
At 31 January 2015	333	1,695	2,028	138
Charge for the year	22	196	218	-
Impairment	-	(1,285)	(1,285)	-
Disposals	(355)	(478)	(833)	(138)
At 31 January 2016	-	128	128	-
Charge for the year	67	304	371	-
Impairment	(65)	-	(65)	-
Disposals	-	-	-	-
At 31 January 2017	**2**	**432**	**434**	**-**
Carrying value				
At 31 January 2017	**286**	**2,936**	**3,222**	**-**
At 31 January 2016	132	177	309	-
At 31 January 2015	105	1,613	1,718	-

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 £146,000 (2016: £1,285,000 charge) impairment charge for the period, as detailed in note 9.

17 PROPERTY, PLANT AND EQUIPMENT

GROUP	Plant & machinery	Leasehold improvements	Fixtures & fittings	Computer equipment	Total
	£000	£000	£000	£000	£000
Cost					
At 31 January 2015	356	999	361	2,553	4,269
Additions	-	7	-	49	56
Disposals	(356)	(550)	(282)	(1,547)	(2,735)
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**
Accumulated depreciation and impairment					
At 31 January 2015	249	397	251	1,574	2,471
Charge for the year	46	126	29	330	531
Disposals	(295)	(372)	(255)	(1,127)	(2,049)
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**
Carrying value					
At 31 January 2017	**-**	**346**	**93**	**467**	**906**
At 31 January 2016	-	305	54	278	637
At 31 January 2015	107	602	110	979	1,798

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.

18 INVENTORIES

	GROUP 2017	GROUP 2016
	£000	£000
Finished goods	**143**	181

19 TRADE AND OTHER RECEIVABLES

	GROUP 2017	GROUP 2016	COMPANY 2017	COMPANY 2016
Current	**£000**	£000	**£000**	£000
Financial assets				
Trade receivables	**5,177**	4,182	**-**	-
Amounts recoverable on contracts	**2,174**	2,468	**-**	-
Other receivables	**230**	340	**201**	201
Amounts due from subsidiaries less impairment provisions	**-**	-	**1,059**	-
Taxes and social security costs	**-**	111	**-**	30
Accrued income	**-**	5	**-**	-
	7,581	7,106	**1,260**	231
Non-financial assets				
Prepayments	**1,198**	876	**259**	115
	8,779	7,982	**1,519**	346

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 £7,227,000 (2016: £11,340,000) less progress billings of £6,104,000 (2016: £9,453,000) and retention monies.

20 CASH AND CASH EQUIVALENTS

	GROUP 2017	GROUP 2016	COMPANY 2017	COMPANY 2016
	£000	£000	**£000**	£000
Bank current account	**4,468**	2,430	**-**	-
Bank overdraft	**(1,273)**	(1,383)	**(639)**	(1,383)
	3,195	1,047	**(639)**	(1,383)

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

21 TRADE AND OTHER PAYABLES

	GROUP 2017	GROUP 2016	COMPANY 2017	COMPANY 2016
	£000	£000	**£000**	£000
Financial liabilities				
Trade payables	**4,765**	3,257	**259**	359
Social security and other taxes	**1,601**	602	**379**	20
Deferred income	**987**	812	**-**	-
Other payables	**-**	37	**-**	-
Accruals	**2,915**	3,795	**429**	1,058
Deferred consideration	**50**	-	**50**	-
Amounts owed to subsidiary company	**-**	-	**2,087**	-
	10,318	8,503	**3,204**	1,437

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.

22 FINANCIAL LIABILITIES - BORROWINGS

During the year the Group secured a bank loan to fund the acquisition of Commensus Plc.
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 2017	GROUP 2016	COMPANY 2017	COMPANY 2016
	£000	£000	**£000**	£000
Amounts due within one year	**653**	-	**588**	-
Amounts due after one year	**1,762**	-	**1,762**	-
	2,415	-	**2,350**	-

23 PROVISIONS

GROUP	Property	Dilapidations	Other provisions	Corporate restructuring	Total
	£000	£000	£000	£000	£000
Balance at 1 February 2016	1,018	145	240	64	1,467
Provisions made during the year	-	24	-	-	24
Provisions used during the year	(563)	-	(70)	(8)	(687)
Provisions reversed during the year	(455)	-	(170)	(56)	(635)
Balance at 31 January 2017	**-**	**169**	**-**	**-**	**169**
Non-current	-	-	-	-	-
Current	-	169	-	-	169

In 2016 the directors made provision for certain offices within the Group where the lease was deemed to be onerous.
In 2017 settlement of the lease arrangement was reached and in total (net of VAT) £674,519 was paid to exit the lease. Monies held in Escrow for the rent deposit and accrued interest of £397,454 was used to part fund the settlement, these balances had been fully written off in prior years. As a result, £277,065 cash was paid in 2017 (net of VAT) to exit the lease, this was fully settled on completion of the exit agreement.

Other provisions related to customers and supplier issues where the Directors believed that there would be a likely cash outflow. During the year a payment of £70,000 was made to settle all claims, and the balance of £170,000 was released to the Statement of Comprehensive Income during the year as a discontinued item.

At 31 January 2017 the Parent Company provisions comprises; property £nil (2016: £1,018,000), dilapidations £55,000 (2016: £55,000), and corporate restructuring £nil (2016: £64,000) with the balance of the dilapidations provision £114,000 (2016: £90,000) other provisions £nil (2016: £240,000) held within the operating entities.

24 DEFERRED TAX ASSET

	GROUP 2017	2016
	£000	£000
Deferred tax	**62**	-
	62	-

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

25 SHARE CAPITAL AND RESERVES

The Company's share capital comprises:

	2017	2016	2017	2016
	Number	Number	**£000**	£000
Allotted, called up and fully paid:				
Ordinary shares of 0.1p each	**1,645,146,151**	1,394,532,799	**1,645**	1,394
Deferred shares of 1p each	**127,144,044**	127,144,044	**1,271**	1,271
Deferred shares of 0.1p each	**770,714,046**	770,714,046	**771**	771
			3,687	3,436

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 & open offer	223,214,286	1.4p	223	2,902	-	3,125
Placing fee			-	(146)	-	(146)
Acquisition consideration	15,422,579	1.621p	15	235	-	250
Acquisition consideration	11,976,487	1.233p	12	135	-	147
Total movement In the year	250,613,352		251	3,126	-	3,377
At 31 January 2016	1,394,532,799		1,394	29,463	1,911	32,768
At 31 January 2017	**1,645,146,151**		**1,645**	**32,589**	**1,911**	**36,145**

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 £308,000 (2016: £304,000) with £188,000 (2016: £204,000) 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 2017 the Parent Company had the following balances with subsidiaries:

	2017	2016
	£000	£000
Amounts owed to subsidiaries	**2,087**	-
Amounts due from subsidiaries	**(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

Director's fees of £38,000 (2016: £124,000) were paid to Warspite Limited, a company connected to Diana Dyer Bartlett, in respect of services provided by Diana Dyer Bartlett; £nil (2016: £nil) was outstanding at the year end.

Director's fees of £nil (2016: £12,000) were paid to Iridian Consulting Services Limited, a company connected to Stephen Foster, in respect of services provided by Stephen Foster; £nil (2016: £nil) was outstanding at the year end.

Director's fees of £nil (2016: £24,000) were paid to Wydelta Limited, a company connected to Mark Braund, in respect of services provided by Mark Braund, £nil (2016: £nil) was outstanding at the year end.

Director's fees of £38,000 (2016: £33,000) were paid to VZ Limited, a company connected to Guy van Zwanenberg, in respect of services provided by Guy van Zwanenberg; £4,210.60 (2016: £nil) was outstanding at the year end.

DIRECTORS' TRANSACTIONS PRODUCTS AND SERVICES

The Company entered into the following trading activities with companies or partnerships connected with Dave Breith:

• In 2016 the Group purchased marketing and website services from Blabbermouth Marketing Limited on arm's length terms. During the year no services were acquired (2016: £27,000) and the amount due to Blabbermouth at the period end was £nil (2016: £nil).

The Company entered into the following trading activities with companies or partnerships connected with Mark Braund:

* During the year the Group purchased contract personnel services from InterQuest on arm's length terms. During the year services provided amounted to £142,000 (2016: £498,000), and the amount due to InterQuest at the period end was £27,000 (2016: £342,000)

28 COMMITMENTS

a) Capital commitments

There were no capital commitments at 31 January 2017 (2016: £nil).

b) 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:	2017 Property	2017 Vehicles	2016 Property	2016 Vehicles
	£000	**£000**	£000	£000
Within one year	**597**	**67**	729	58
After one year but not more than 5 years	**771**	**78**	1,632	45
After 5 years	**-**	**-**	-	-
	1,368	**145**	2,361	103

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 2017	GROUP 2016	COMPANY 2017	COMPANY 2016
		£000	£000	**£000**	£000
Financial assets	19	**7,581**	7,106	**1,260**	231
Financial liabilities	21	**10,318**	8,503	**3,204**	1,437

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

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 DAYS
	£000	£000	£000	£000	£000
2017	**5,218**	**2,754**	**1,093**	**527**	**844**
2016	4,304	2,007	1,237	708	352

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, deferred share capital, share premium, merger reserve, reverse acquisition reserve and accumulated retained deficit 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 33.

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.

NOTES TO THE FINANCIAL STATEMENTS continued

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 2017 are as follows:

Subsidiary	Reference	Place of incorporation and operation	Proportion of ownership %	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 Plc		England	100	100	Managed Services
Coms Media Limited	2, 3	England	100	100	Media
CloudXL Limited	3	England	100	100	Dormant
CloudXL Networks Limited	3	England	100	100	Dormant
CloudXL Support Limited	3	England	100	100	Dormant
Coms.com Limited	3	England	100	100	Dormant
Coms Enterprise Limited		England	100	100	Dormant
Coms Mobile Ltd	3	England	100	100	Dormant
Premium O Limited	2,3	England	100	100	Dormant
Network Resource Limited	3	England	100	100	Dormant
Network Resource Group Limited	3	England	100	100	Dormant

Reference

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

2 Premium-O Limited and Coms Media Limited are wholly owned by Coms.com Limited

3 These subsidiaries have been entered into a voluntary liquidation process, and as such control of the entity has been transferred to Antony Batty & Company LLP Insolvency Practitioners. In 2016, the entities were deconsolidated in accordance with the Group's accounting policies resulting in a loss of £221,000.

The registered office for those entities entered into the voluntary liquidation process is:
Antony Batty & Company LLP,
Second Floor,
3 Field Court,
Gray's Inn,
London,
WC1R 5EF.

The registered office for all other subsidiaries is:
40 Holborn Viaduct,
London,
EC1N 2PB.

INVESTMENT IN SUBSIDIARIES	TOTAL
	£000
Cost	
At 1 February 2015	15,236
At 1 February 2016	15,236
Additions	3,728
At 31 January 2017	18,964
Accumulated amortisation and impairment	
At 1 February 2016	5,989
Impairment charge	-
At 31 January 2017	5,989
Carrying value	-
At 31 January 2017	**12,975**
At 31 January 2016	9,247
At 31 January 2015	9,247

The carrying value of the investment at the year-end represents investment in Redstone Converged Solutions Ltd, Connect IB Ltd and Commensus Plc, all of which are wholly owned subsidiaries.

31 OPTIONS AND WARRANTS

The Company had the following share options and warrants outstanding at 31 January 2017:

	Number	Date Granted	Price Per Share	Vesting Period
Warrants	4,000,000	12 Jun 13	5.000p	12 Jun 13 - 11 Jun 23
Options	3,000,000	1 Nov 13	3.500p	1 Feb 14 - 31 Jan 17
Options	130,953,280	11 Dec 15	0.920p	31 Dec 18 - 10 Dec 25
Options	23,677,458	1 Dec 16	1.265p	1 Dec 19 – 1 Jul 19

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 23,677,458 options under the Group's SAYE scheme (2016: 130,953,280 under the EMI and Unapproved share option scheme). Options granted in 2016 under the EMI and Unapproved share option scheme over a total of 73,127,192 and 57,826,088 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.

Total options and warrants outstanding under the EMI and Unapproved schemes at 31 January 2017 were outstanding over a total of 161,630,738 (2016: 138,553,280).

There were no options exercised during the year. The weighted average exercise price for options exercised during 2016 was 0.75 pence.

The outstanding options at the year-end have an exercise price in the range of 0.92 pence to 5.00 pence (2016: 0.92 pence to 5.00 pence).

The weighted average remaining contractual life of the share options outstanding at the year-end is 7 years 10 months (2016: 9 years 7 months).

The expense recognised for equity-settled share-based payments during the year to 31 January 2017 was £89,000 (2016: £47,000).

	2017		2016	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at start of year	138,553,280	1.100p	55,233,333	3.38p
Granted during the year	23,677,458	1.265p	130,953,280	0.92p
Lapsed during the year	-	-	(360,000)	0.50p
Forfeited during the year	(600,000)	3.500p	(42,273,333)	3.13p
Exercised during the year	-	-	(5,000,000)	0.75p
Outstanding at end of year	161,630,738	1.10p	138,553,280	1.10p
Exercisable at end of year	7,000,000	4.40p	7,600,000	4.29p

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 2017 there were 23,677,458 options granted (2016: 130,953,280). The following table lists the inputs into the model used to calculate the fair value.

Grant date	1 December 2016
Option price	1.265p
Dividend yield	nil
Vesting period (years)	3 years
Assumed volatility at date of grant	75%
Risk-free discount rate	0.22%
Expected life of option	3 years
Fair value per option	0.723p
Share price at grant	1.375p

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

The 1 December 2016 grant of share options were offered to eligible employee's under the Save as You Earn Scheme ('SAYE'). The SAYE scheme is a savings related share scheme whereby the employees can buy 0.1 pence ordinary shares in the Company for a fixed discounted price of 1.265 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.

REDSTONE CONNECT

IF YOU WOULD LIKE TO KNOW MORE

REDSTONE

t: 0845 201 0000

e: salesenquiries@redstone.com

w: redstone.com

CONNECT IB

t: 0845 0945 686

e: info@connectib.com

w: connectib.com

COMMENSUS

t: 0208 661 4652

e: sales@commensus.com

w: commensus.com