

30 November 2006

REDSTONE PLC
(“Redstone” or “the Group”)

Unaudited Interim Results for the six months ended 30 September 2006

Redstone (AIM:RED.L), a leading provider of IT & Communications solutions in the UK and Ireland, today announces its financial results for the six months ended 30 September 2006.

FINANCIAL HIGHLIGHTS

- **Revenue up by 42% to £47.4m****
- **Gross Profit up by 43% to £17.5m****
- **Gross Profit percentage up to 36.8% from 36.4%****
- **EBITDA profit of £2.9m***
- **Profit after tax for the period of £1.0m (second profitable half in succession)**
- **Net cash generated from operating activities of £1.8m**
- **£30m debt facility agreed with Barclays Bank plc (“Barclays”)**
- **Announcement of recommended offer for IDN Telecom plc (“IDN Telecom”)**

* before IFRS 2 charges and holiday pay accrual

** compared with six months ended 30 September 2005

OPERATIONAL HIGHLIGHTS

- Successful acquisitions of Symphony Telecom Holdings plc and the Tolerant group of companies
- Integration of the two businesses is progressing ahead of plan and will be materially completed by the end of December 2006
- Recommended offer for IDN Telecom which will add critical mass to the fixed line business and bring in excess of 2,000 additional B2B customers
- Significant customer wins across divisions with organisations such as Xansa and examination boards from England, Northern Ireland and Wales
- Customer retention in Telecoms good

Martin Balaam, Chief Executive Officer, Redstone, commented,

“Following the transformation of the Group last year, I am delighted to report that the Group has continued to build on the sound fundamentals of generating profits, growth and cash. We believe that the outlook for the Group is positive and the Board remains committed to delivering growth both organically and acquisitively in the developing and consolidating telecoms and IT sector.”

ENQUIRIES:

Redstone plc

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Chief Executive's Statement

I am very pleased to report that Redstone has continued to make significant progress over the six months ended 30 September 2006 and has become one of the leading IT & Communications solution providers for B2B customers within the UK and Ireland.

Financial Highlights

Solid performance has been achieved across the Group, including the recently acquired companies. Revenue increased by 42% to £47.4m (H1 FY06: £33.5m). Gross Profit increased by 43% to £17.5m (H1 FY06: £12.2m), with the gross profit percentage increasing to 36.8% from 36.4% in the comparable period last year. As a result of continued cost control EBITDA increased to £2.9m* for the period compared with a £2.0m loss for the corresponding period last year, and the Group was able to deliver a profit for the period of £1.0m. Net cash generated from operating activities was £1.8m, underpinning a strong balance sheet. The financial performance has facilitated the Group securing a new £30m facility with Barclays.

* before IFRS 2 charges and holiday pay accrual

Operational Highlights

Strategic acquisitions

During the period Redstone successfully acquired Symphony Telecom Holdings plc and the Tolerant group of companies and can report that the integration of the two businesses is progressing ahead of plan and will be materially completed by the end of December 2006.

The acquisitions of Symphony and Tolerant were key milestones in Redstone's growth strategy and, as well as approximately 11,000 additional B2B customers, brought with them three strategic elements:

1. A mobile business that is a service provider for both O2 and Vodafone in the UK, combined with a mobile distribution business servicing all five major mobile network operators in the UK: 3, O2, Orange, T-Mobile and Vodafone
2. A fixed line telecoms business which complements the existing Redstone fixed line minutes business
3. Additional scale to the Redstone Managed Solution business through the acquisition of Tolerant

The recommended offer for IDN Telecom announced separately today, will add not only additional critical mass to the fixed line Redstone Telecom business, but will also bring with it in excess of 2,000 B2B customers and a strategic alliance with the Federation of Small Businesses. Redstone will continue to seek acquisition opportunities that add scale and skills and extend the customer base. The Directors believe this to be in the best interests of shareholders as a whole.

Business growth strategy and market positioning

The strategic acquisitions to date, including the recommended offer for IDN Telecom, are key parts of a growth strategy that is designed to take full advantage of the developments within the Group's target market. Of particular note is the requirement for companies to IP-enable their telecoms networks. Given its combined competencies in both telecoms and IT services, Redstone is uniquely well positioned to enable its customers to make this transition. There is also a strong market trend towards working with one IT and communications supplier. Redstone is well positioned to fulfil this requirement with its five core business units:

Redstone Telecom provides high quality and reliable telephony network services to both the private and public sector, including inbound and outbound telephony, line rental, non geographic services, SMS and premium rate services.

Redstone Mobile is a leading service provider for O2 and Vodafone and a distributor for all five major mobile network operators.

Redstone Converged Solutions is a leading provider of converged IP solutions, with expertise in contact centres, voice and video, networks and security.

Redstone Managed Solutions provides a comprehensive portfolio of infrastructure and internet services suitable for all businesses and public sector organisations.

Redstone Technology is a leading supplier of business critical servers, enterprise storage solutions, engineering support services and professional services and consultancy.

Business development

During the first half of the financial year Redstone continued to expand its customer base, both through customer wins and also through acquisitions. Converged Solutions secured a significant contract with Xansa to provide an end-to-end contact centre solution to the Northern Ireland Water Service.

The Telecom division was selected to provide best-of-breed telecoms services to one of the country's largest contact call centres, Telecom Service Centres Limited. Managed Solutions further strengthened Redstone's position in the education sector and was awarded a three year contract with exam boards from England, Wales and Northern Ireland for the secure transfer of candidates' results.

In addition to winning new customers, Redstone has acquired a large number of B2B customers from Symphony and Tolerant, and expects to gain further B2B customers as a result of the recommended offer for IDN Telecom announced today. This will allow Redstone to build on its market position and provide an excellent opportunity for the cross selling of services. It will also ensure Redstone has sufficient critical mass to be able to tender for some of the UK's larger IT and communications projects.

Capital Restructure

The Company currently does not have any reserves available for distribution, and this prevents the payment of a dividend, should the Board consider it appropriate. In order to address this situation, the Board is proposing a reduction of the Company's share premium account which will increase the level of its distributable reserves by an equivalent amount.

The proposed reduction of the Company's share premium account requires shareholder approval and confirmation by the Court before it can become effective. The Company will be sending a Circular to shareholders in due course convening an extraordinary general meeting of shareholders for this purpose.

Outlook

The Directors believe that the outlook for the Group is positive and the Board remains committed to delivering growth both organically and acquisitively in the developing and consolidating telecoms and IT sector.

Martin Balaam
Chief Executive

30 November 2006

Consolidated Income Statement

		Six months ended 30 September 2006	Six months ended 30 September 2005	Year ended 31 March 2006
	Note	£000	£000	£000
Revenue		47,447	33,493	72,478
Cost of sales	3	(29,980)	(21,286)	(46,303)
Gross profit		17,467	12,207	26,175
Other operating income		239	210	568
Selling and distribution costs		(4,678)	(8,026)	(9,016)
Administrative expenses		(11,938)	(23,767)	(36,616)
Restructuring costs		-	(4,062)	(4,006)
Operating profit/(loss) before goodwill impairment, amortisation of intangibles and restructuring costs		2,042	(2,802)	(1,658)
Goodwill impairment		-	(16,078)	(16,078)
Amortisation of intangibles		(952)	(496)	(1,153)
Restructuring costs		-	(4,062)	(4,006)
Operating profit/(loss)		1,090	(23,438)	(22,895)
Finance income		129	138	199
Finance costs		(371)	(43)	(221)
Profit/(loss) on ordinary activities before taxation		848	(23,343)	(22,917)
Tax on profit/(loss) on ordinary activities		154	137	392
Profit/(loss) for the period (attributable to equity holders of the parent Company)		1,002	(23,206)	(22,525)
Earnings per share				
Basic and diluted earnings per share	5	0.11 p	(3.49) p	(3.22) p
Non GAAP Measures				
Gross profit % (gross profit as a percentage of revenue)		36.8	36.4	36.1
EBITDA (earnings before interest, tax, depreciation and amortisation) before goodwill impairment and restructuring costs	5	2,556	(2,189)	(374)
Basic and diluted EBITDA per share before goodwill impairment and restructuring costs		0.28 p	(0.33) p	(0.05) p

Consolidated Statement of Changes in Equity

	Called up share capital £000	Share premium account £000	Other reserves		Retained earnings £000	Total equity £000
			Merger reserve £000	Translation reserve £000		
At 1 April 2005	8,472	185,336	216		(170,313)	23,711
Loss for the period					(23,206)	(23,206)
Share-based payments					192	192
Currency translation differences				40		40
Shares issued	4,550	24,270				28,820
Costs associated with share issue		(1,507)				(1,507)
At 30 September 2005	13,022	208,099	216	40	(193,327)	28,050
Profit for the period					681	681
Share-based payments					274	274
Currency translation differences				14		14
Costs associated with share issue		1				1
At 1 April 2006	13,022	208,100	216	54	(192,372)	29,020
Profit for the period					1,002	1,002
Share-based payments					301	301
Currency translation differences				(155)		(155)
Shares issued	4,064	17,307				21,371
Costs associated with share issue		(360)				(360)
At 30 September 2006	17,086	225,047	216	(101)	(191,069)	51,179

Merger reserve

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

Translation reserve

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

Consolidated Balance Sheet

	30 September 2006 £000	30 September 2005 £000	31 March 2006 £000
Assets			
Non-current assets			
Intangible assets	63,649	35,207	32,828
Property, plant and equipment	2,645	2,826	2,449
Deferred tax asset	2,092	-	2,147
Other non-current assets	639	581	545
	69,025	38,614	37,969
Current assets			
Inventories	862	938	241
Trade and other receivables	20,661	13,848	15,490
Cash and short term deposits	7,979	7,382	5,327
	29,502	22,168	21,058
Total assets	98,527	60,782	59,027
Equity and liabilities			
Equity			
Called up share capital	17,086	13,022	13,022
Share premium account	225,047	208,099	208,100
Other reserves	115	256	270
Retained earnings	(191,069)	(193,327)	(192,372)
	51,179	28,050	29,020
Current liabilities			
Trade and other payables	28,518	24,636	23,245
Income tax payable	293	-	10
Provisions	1,711	2,188	1,989
	30,522	26,824	25,244
Non-current liabilities			
Trade and other payables	182	-	197
Provisions	1,139	2,680	1,492
Loan notes	1,439	643	643
Borrowings	9,755	-	-
Deferred tax liability	4,311	2,585	2,431
	16,826	5,908	4,763
Total equity and liabilities	98,527	60,782	59,027

Consolidated Cash Flow Statement

	Note	Six months ended 30 September 2006 £000	Six months ended 30 September 2005 £000	Year ended 31 March 2006 £000
Cash flows from operating activities				
Cash generated from operations	6	1,844	(4,089)	(5,514)
Income tax paid		(4)	(6)	(91)
Net cash flows from/(used in) operating activities		1,840	(4,095)	(5,605)
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		-	-	6
Interest received		125	155	205
Purchase of property, plant and equipment		(342)	(418)	(726)
Purchase of intangible assets		(25)	-	(133)
Acquisition of subsidiaries, net of cash acquired		(19,879)	(21,268)	(21,442)
Net cash flows used in investing activities		(20,121)	(21,531)	(22,090)
Cash flows from financing activities				
Proceeds from issue of shares		20,021	26,045	26,045
Transaction costs of issuing shares		(360)	(1,507)	(1,506)
Proceeds from borrowings		5,000	-	-
Repayment of borrowings		(3,416)	-	-
Payment of finance lease liabilities		-	(2)	-
Interest paid		(287)	(41)	(60)
Net cash flows from financing activities		20,958	24,495	24,479
Net increase/(decrease) in cash and cash equivalents		2,677	(1,131)	(3,216)
Effects of currency translation on cash and cash equivalents		(25)	-	30
Cash and cash equivalents at 1 April		5,327	8,513	8,513
Cash and cash equivalents at 30 September/31 March		7,979	7,382	5,327

Notes to the Results

1 Basis of preparation

The interim financial information is unaudited but has been reviewed by the auditors, Ernst & Young LLP, and their report to Redstone plc is set out on page 15.

The interim report has been prepared in accordance with the accounting policies and methods of computation set out in the 31 March 2006 annual financial statements which were prepared under International Financial Reporting Standards. IAS 34 'Interim Financial Reporting' has not been applied to this interim financial information.

The financial information contained in the interim report does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. Statutory accounts for the year ended 31 March 2006 have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain a statement made under Section 237(2) or Section 237(3) of the Companies Act 1985.

The interim report was approved by the Board on 30 November 2006.

2 Segment reporting
Primary reporting format – Business Segments
(a) For the six months ended 30 September 2006

	Telecom £000	Mobile Telecom £000	Converged Solutions £000	Managed Solutions £000	Technology £000	Central £000	Total £000
Revenue	16,743	8,197	13,822	4,283	4,402	-	47,447
Operating costs excluding share- based payment transactions	(14,685)	(8,130)	(14,018)	(3,977)	(4,011)	(1,261)	(46,082)
Equity-settled share based payments	(16)	-	(98)	(13)	(15)	(159)	(301)
Cash-settled share- based payments	-	-	-	-	-	26	26
Segment result	2,042	67	(294)	293	376	(1,394)	1,090
Net finance cost							(242)
Tax on profit on ordinary activities							154
Profit for the period							1,002
Assets and liabilities							
Segment assets	29,580	14,703	25,117	10,670	10,392	5,973	96,435
Unallocated assets							2,092
Total assets							98,527
Segment liabilities	7,699	4,342	9,044	4,060	1,620	5,078	31,843
Unallocated liabilities							15,505
Total liabilities							47,348
Other segment information							
Capital expenditure							
Property, plant and equipment	52	4	61	79	37	109	342
Property, plant and equipment – business combination	147	87	-	133	-	-	367
Intangible asset – software	-	-	-	-	-	25	25
Intangible assets acquired – business combination	16,103	11,343	-	4,302	-	-	31,748
Depreciation	78	10	75	238	15	98	514
Amortisation	239	85	537	14	31	46	952

The new 'Mobile Telecom' division was created following the acquisition of Symphony Telecom Holdings plc (note 4).

2 Segment reporting
(b) For the six months ended 30 September 2005

	Telecom £000	Converged Solutions £000	Managed Solutions £000	Technology £000	Central £000	Total £000
Revenue	14,065	14,814	2,033	2,581	-	33,493
Operating costs excluding share-based payment transactions, goodwill impairment and restructuring costs	(12,904)	(18,118)	(1,918)	(2,418)	(1,241)	(36,599)
Equity-settled share based payments	-	(31)	-	-	(161)	(192)
Goodwill impairment	(2,286)	(13,792)	-	-	-	(16,078)
Restructuring costs	(54)	(1,636)	(47)	(144)	(2,181)	(4,062)
Segment result	(1,179)	(18,763)	68	19	(3,583)	(23,438)
Net finance income						95
Tax on profit on ordinary activities						137
Loss for the period						(23,206)
Assets and liabilities						
Segment assets	7,779	37,416	4,785	1,104	9,698	60,782
Segment liabilities	6,804	10,502	1,800	1,056	9,342	29,504
Unallocated liabilities						3,228
Total liabilities						32,732
Other segment information						
Capital expenditure						
Property, plant and equipment	-	63	144	7	162	376
Property, plant and equipment – business combination	-	384	-	42	-	426
Intangible asset – software	-	-	-	-	133	133
Intangible assets acquired – business combination	-	20,788	-	7,879	-	28,667
Depreciation	48	109	187	16	253	613
Goodwill impairment	2,286	13,792	-	-	-	16,078
Amortisation	-	447	-	-	49	496

2 Segment reporting
(c) For the year ended 31 March 2006

	Telecom £000	Converged Solutions £000	Managed Solutions £000	Technology £000	Central £000	Total £000
Revenue	27,994	32,149	4,071	8,264	-	72,478
Operating costs excluding share-based payment transactions, goodwill impairment and restructuring costs	(25,539)	(35,667)	(3,837)	(7,602)	(2,116)	(74,761)
Equity-settled share-based payments	(10)	(114)	(12)	(17)	(313)	(466)
Cash-settled share- based payments	-	-	-	-	(62)	(62)
Goodwill impairment	(2,286)	(13,792)	-	-	-	(16,078)
Restructuring costs	(54)	(1,674)	(47)	(248)	(1,983)	(4,006)
Segment result	105	(19,098)	175	397	(4,474)	(22,895)
Net finance costs						(22)
Tax on profit on ordinary activities						392
Loss for the year						(22,525)
Assets and liabilities						
Segment assets	6,694	28,022	4,669	11,362	6,133	56,880
Unallocated assets						2,147
Total assets						59,027
Segment liabilities	6,237	10,340	2,412	1,758	6,186	26,933
Unallocated liabilities						3,074
Total liabilities						30,007
Other segment information						
Capital expenditure						
Property, plant and equipment	-	170	296	60	200	726
Property, plant and equipment acquired – business combination	-	384	-	42	-	426
Intangible asset – software	-	-	-	-	133	133
Intangible assets acquired – business combinations	-	20,788	-	7,879	-	28,667
Depreciation	217	240	337	34	456	1,284
Goodwill impairment	2,286	13,792	-	-	-	16,078
Amortisation	-	956	-	57	140	1,153

2 Segment reporting

Secondary reporting format – Geographical segments

The analyses for the six months are as follows:

	30 September 2006				30 September 2005			
	UK £000	Ireland £000	Other £000	Total £000	UK £000	Ireland £000	Other £000	Total £000
Revenue	42,066	4,408	973	47,447	29,888	2,588	1,017	33,493
Other segment information								
Segment assets	86,043	10,392	-	96,435	59,678	1,104	-	60,782
Unallocated assets				2,092				-
Total assets				98,527				60,782
Other segment information								
Capital expenditure								
Property, plant and equipment	305	37	-	342	369	7	-	376
Property, plant and equipment acquired – business combination	349	-	18	367	384	42	-	426
Intangible asset – software	25	-	-	25	133	-	-	133
Intangible assets acquired – business combination	31,748	-	-	31,748	20,788	7,879	-	28,667

The analysis for the year ended 31 March 2006 is as follows:

	31 March 2006			
	UK £000	Ireland £000	Other £000	Total £000
Revenue	62,833	8,264	1,381	72,478
Other segment information				
Segment assets	45,518	11,362	-	56,880
Unallocated assets				2,147
Total assets				59,027
Other segment information				
Capital expenditure				
Property, plant and equipment	666	60	-	726
Property, plant and equipment acquired – business combination	384	42	-	426
Intangible asset – software	133	-	-	133
Intangible assets acquired – business combination	20,788	7,879	-	28,667

3 Exceptional item

During the period, the Group concluded certain supplier negotiations which resulted in a credit received of £1,000,000, reducing the reported cost of sales by the same amount. The effect of this credit is reported within operating costs of the Telecoms Business in note 2(a).

4 Business combinations

During the period Redstone acquired five companies Symphony Telecoms Holdings plc, Tolerant Systems Limited, Net Adept Limited, Net Quest Limited and Trent Datacomms Limited. The acquisitions are subject to preliminary purchase accounting.

On 18 July 2006 Redstone acquired Symphony Telecoms Holdings plc for a total consideration, including costs, of £18.7 million, such consideration being satisfied in cash. The Company issued 381,350,000 Ordinary shares for the placing as at 18 July to finance the acquisition.

On 19 July 2006 Redstone acquired Tolerant Systems Limited, Net Adept Limited, Net Quest Limited and Trent Datacomms Limited for a total consideration, including costs, of £4.0 million, such consideration being satisfied as to 25,000,000 Redstone plc Ordinary shares for value of £1,350,000, £1,600,000 in cash and £800,000 by way of loan notes.

Following the issue of shares to fund the aforementioned acquisitions, the Ordinary share capital as at 30 September 2006 is £11,402,593, comprising 1,140,259,263 Ordinary shares (30 September 2005 and 31 March 2006: £7,339,093 comprising 733,909,263 Ordinary shares).

5 Earnings per share

Basic and diluted earnings per share are both calculated using a profit of £1,002,000 (30 September 2005: loss of £23,206,000 and 31 March 2006: loss of £22,525,000) and a weighted average number of shares of 898,225,656 (30 September 2005: 664,291,440 and 31 March 2006: 699,004,985)

There was no dilutive effect of share options at 30 September 2006, 30 September 2005 or 31 March 2006.

In addition, EBITDA (earnings before interest, tax, depreciation and amortisation) before goodwill impairment and restructuring costs per share has been shown on the grounds that it is a common metric used by the market in monitoring similar businesses. This measure is derived as follows:

	Six months ended 30 September 2006 £000	Six months ended 30 September 2005 £000	Year ended 31 March 2006 £000
Profit/(loss) for the period	1,002	(23,206)	(22,525)
Net finance costs/(income)	242	(95)	22
Tax	(154)	(137)	(392)
Depreciation	514	613	1,284
Amortisation of intangibles	952	496	1,153
Restructuring costs	-	4,062	4,006
Goodwill impairment	-	16,078	16,078
EBITDA before goodwill impairment and restructuring costs	2,556	(2,189)	(374)
IFRS 2 charges and holiday pay accrual	383	162	430
EBITDA before goodwill impairment, restructuring costs, IFRS 2 charges and holiday pay accrual	2,939	(2,027)	56

6 Cash generated from operations

	Six months ended 30 September 2006 £000	Six months ended 30 September 2005 £000	Year ended 31 March 2006 £000
Operating profit/(loss)	1,090	(23,438)	(22,895)
Adjustments for:			
Depreciation of property, plant and equipment	514	613	1,284
Amortisation of intangible assets	952	496	1,153
Goodwill impairment charge	-	16,078	16,078
Equity-settled share-based payments	301	192	466
Cash-settled share-based payments	(26)	-	62
Loss on disposal of property, plant and equipment	-	-	32
Movements in working capital			
Decrease in inventories	68	128	825
Decrease/(increase) in trade and other receivables	2,618	(496)	(2,119)
(Decrease)/increase in trade and other payables	(2,863)	566	(776)
Increase in non-current assets	(94)	(151)	(116)
(Decrease)/increase in provisions	(716)	1,923	492
Cash generated from operations	1,844	(4,089)	(5,514)

INDEPENDENT REVIEW REPORT TO REDSTONE PLC

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 September 2006 which comprises the Consolidated Income Statement, Consolidated Statement of Changes in Equity, Consolidated Balance Sheet, Consolidated Cash Flow Statement, and the related notes 1 to 6. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company having regard to guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report as required by the AIM Rules issued by the London Stock Exchange.

Review work performed

We conducted our review having regard to the guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2006.

Ernst & Young LLP
London
30 November 2006