

Redstone plc
Half Year Report
30 September 2008



Contents

1	Highlights
2	Chief Executive's Statement
7	Consolidated Income Statement
8	Consolidated Statement of Changes in Equity
9	Consolidated Balance Sheet
10	Consolidated Cash Flow Statement
11	Notes to the half-yearly financial information
18	Statement of Directors' Responsibilities
19	Independent Review Report to Redstone plc
20	Advisers

Highlights

Financial highlights

£106.0m

Revenue (2007: £96.6m)

10%

Increase in revenue

£38.2m

Gross profit (2007 restated: £36.6m)

4%

Increase in gross profit

£5.1m

Adjusted EBITDA* (2007: £6.5m)

23%

Decrease in adjusted EBITDA*

Operational highlights

Significant large scale OneNet projects completed or nearing completion.

First BSF Schools completed in Lancashire.

Telecoms Division moves away from BT/Redstone Network to give better functionality and flexibility.

Strong revenue performance in managed services as demand for security products and services rise.

Launch of "Redstone Select" tele-marketing initiative directed at cross-selling to the SME market.

Net cash outflow expected to reverse in H2 as working capital unwinds.

*Earnings before interest, tax, depreciation, amortisation, exceptional items and stock compensation charge.

Chief Executive's Statement

Introduction

As we all are aware, there has been a marked shift in the macro-economic climate and these results reflect the changes in business conditions and the strategic changes Redstone has made to counteract them. Almost all visibility around timing and delivery of retail construction projects and activities around financial services has dramatically reduced. Month on month, in common with the rest of the industry, we are seeing projects either suspended or cancelled. As a result we have implemented a cost reduction programme which will see our current cost base reduce by £7 million by the end of December 2008. We will continue to review all costs and will make further reductions in our cost base if we believe demand will fall further.

One of our goals has always been to focus on winning long-term Managed Service contracts that deliver profits and revenue visibility and we have been successful in achieving this. As part of adapting to the current business environment we have placed more emphasis on this area. This has paid dividends in terms of revenues and visibility though margins on these contracts tend to be much lower than complex ICT projects. Overall, the interim figures represent a solid performance in light of difficult trading conditions. We have been very aware of the need to prepare the business in advance of a difficult couple of years.

Market strategy

One of the main considerations with regards to our business strategy going forward is to identify where we are likely to see continued demand for our skills and product offering. There is no question that the reticence of banks to provide funding for the construction industry will continue to have an effect on our business until this situation is resolved. However, historically we have been very successful in this area and are widely considered to be the leader in the provision of IT infrastructure for major construction projects. An obvious example is the Westfield shopping centre in London; however there have also been many less high profile examples of our work in this field. However, in the knowledge that such projects will slow down in frequency in the short term at least, our focus has to be on other areas. This is where our diverse range of talents and success in major project management and delivery comes into its own.

Our strategy over the next few years:

- to increase our presence in Building Schools for the Future projects (BSF);
- to open up more opportunities in Fibre To The Home;
- to expand our activities in other areas of the Public Sector such as Local Government and the Academies programme;
- to improve the operational efficiencies of our business divisions; and
- to cross-sell our capabilities into our existing customer base.

Operational review

Telecoms

The main development in the Telecoms division is that we have migrated off the BT network which will enable the Company to save, on average, £0.1 million a month. This follows investment in a state-of-the-art IP soft switching technology that brings benefits to both Redstone and its customers. We can now switch between carriers such as BT Wholesale, Cable & Wireless, Gamma or Opal and take advantage of the best rates being offered at any one time. The new system also enables us to offer self-configuration to the customer, reducing our reliance on operators whilst simultaneously improving our customers' experience, for whom it is now easier to take advantage of the new functionality we now offer them. Examples of new features now 'in the network', include number provisioning, voice recording, voice to e-mail, call back, and tailored call routing.

Mobile

In line with the general trends in mobile, we have seen a significant increase in data traffic. It is now commonplace for people to have a phone, a blackberry and a data dongle for their laptop. Latest laptops have a built-in port for a SIM card. Similar to the wider industry, we have seen a reduction in voice traffic in terms of the number of calls made and this will put pressure on margins. However, on a positive note, we are now seeing an industry move towards revenue share per user, as opposed to operator payments per connection. Redstone strongly supports this transition in the telephony industry. The previous modus operandi of chasing the commission on connection previously encouraged service providers to push their customers to switch networks as often as possible. The new arrangement, whereby service providers take an ongoing share of user revenue, focuses the industry on building a healthier, longer term and ultimately more profitable relationship with the customer. As within our telecoms business we have continued to invest in our Mobile division to achieve further operational efficiency in this division.

Converged Solutions

We have established a leading market position in the provision of what is known as 'connected real estate' or Redstone's OneNet. As such, we have been involved in a number of prestigious developments such as Royal Ascot and several shopping centres at White City, Leicester Shires and Cabot Square. It is clear that the demand for these projects over the short term has fallen away due to the current macro-economic environment but, given the success of this relatively small, highly skilled team, we believe it is in our best interests to protect these skills. We have therefore taken steps to rationalise the operation.

Chief Executive's Statement (continued)

Redstone is still awaiting a decision on the tenders for the Birmingham BSF and Salford BSF bids, and remains one of two bidders for the ICT element of each bid. The total ICT element is expected to be worth approximately £170 million over seven years from 2011. Over the past two years Redstone has invested over £2 million in both people and the funding of the bid process and is now an established bidder with whom developers are seeking to partner for future BSF tenders. We are pleased to announce that we were recently short listed for the Blackburn BSF project.

As well as future BSF bids Redstone is actively exploring opportunities for ICT business in new markets, such as Fibre To The Home, and is currently preferred bidder at the Titanic Quarter development in Belfast.

Managed Services

I am pleased with the performance within our Managed Services division where we have seen increased activity and orders. The main focus of Managed Services is currently the connecting, securing and managing of Wide Area Networks. It is clearly a growth area as broadband wireless internet access becomes commonplace, both in business and commercial environments. This market will show continued growth particularly since it has now overcome one of its central obstacles, namely the ability to roam between WIFI cells and maintain the relationship with the original service provider.

Technology

The division concentrates on complex enterprise server and storage area networks and has had a successful year, largely due to its involvement with the fulfilment of some large government IT contracts in the Republic of Ireland. We are especially pleased with the development of our consulting practice which has grown rapidly and continues to have strong demand. We believe that even though the business is focused primarily on Public Sector customers the demand for large scale IT projects will fall next year.

Sales and marketing

Our focus will be pragmatic and on those sectors where there is demand for our services. Typically our target markets will be where major project funding is still in place, e.g. BSF and in the commercial sector products and services which can demonstrate rapid return on investment and pure cost savings.

Redstone will continue to invest in bidding for large, long-term projects that will deliver organic growth in the medium term.

In line with our strategy of increasing the level of cross-selling across divisions, one of the recent highlights within Redstone has been to launch Redstone Select. Essentially this is an outward bound telesales account management team focused on our SME customers. It is the first time Redstone has put in place a bespoke team to establish a relationship with SME customers who would often be a customer of one of our products, without realising it is Redstone. By establishing a stronger relationship with our customers we can bring to their attention our other capabilities we have and thereby enhance cross-selling.

Financial highlights

Revenues increased by 10% to £106.0 million, from £96.6 million in H108, predominantly through the Support Services contracts announced last year. These are high quality revenues with good visibility but at lower margins than the more volatile, projects based revenue streams. The Group has seen a decline in its Telecom revenues of approximately 8%, particularly within the legacy higher margin products. These were budgeted to decline, but the rate of drop-off has been higher than anticipated.

Gross profit increased by 4% to £38.2 million (H108 restated: £36.6 million), and the gross profit margin decreased to 36.0% (H108 restated: 37.9%). Adjusted EBITDA* has decreased to £5.1 million compared with £6.5 million for the corresponding period last year, a decrease of 23%.

Operating expenses excluding exceptional items increased by £3.5 million in the period to £38.2 million compared with £34.7 million in H108 (restated). In order to seek to maintain the growth achieved within the Converged Solutions division last year, £1.6 million was invested principally within the areas of Sales, Pre-Sales and project delivery.

Adjusted PBT** was £2.8 million for the period compared with £4.8 million in the corresponding period last year. The reported loss before tax was £1.8 million (H108: Profit £0.2 million) for the period after charging £3.0 million (H108: £3.0 million) for amortisation of intangibles, and a further charge of £1.6 million (H108: £1.6 million) relating to exceptional items and stock compensation charges. As a result of the increased debt facility finance charges for the period have increased from £1.1 million to £1.3 million, and include £0.2 million in relation to the fees associated with the debt refinancing and a charge for the interest rate swap. The Group has unwound deferred tax liabilities in the period which has resulted in a tax credit of £0.7 million (H108: £1.0 million). Adjusted basic EBITDA* per share has reduced from 4.52p per share to 3.48p per share, and basic earnings per share has reduced from 0.83p per share to a loss of 0.73p per share.

Net cash outflow from operating activities was £3.4 million (H108: inflow of £2.7 million). Cash as at the end of the period came to £7.2 million and net debt currently stands at £26.6 million (H108: £20.7 million).

**Earnings before interest, tax, depreciation, amortisation, exceptional items and stock compensation charge.*

***Before amortisation of intangibles, exceptional items and stock compensation charge.*

Chief Executive's Statement (continued)

Cash and debt refinancing

The Company meets its day-to-day working capital requirements through a revolving credit facility which it successfully renewed, together with its term loan, with Barclays Bank plc in August 2008 for a further four years. It has Capital repayments of £5.0 million per year, payable £2.5 million every six months from 31 December 2008.

In recent months there has been a marked shift in the macro-economic climate and almost all visibility around timing and delivery of retail construction projects and activities around financial services have dramatically reduced.

The Company is forecasting that it should be able to operate within the level of its current facility. However, given the change in the macro-economic climate, the Company felt it prudent to enter into negotiations with its bankers to ensure that its facilities and covenants are appropriate if there are any further downturns. We have received a positive response from our bankers, have agreed outline terms and expect to conclude a revised facility agreement within the next few weeks.

The net outflow for the period is a result of three major projects spanning the half year, all of which are due for completion and payment by the end of December, these being Lancashire Schools for the Future, White City and a major data centre roll out. In addition, the Group experienced significant increases in Trade Debtors during September, as many of its customers, particularly within the financial sector, delayed payment. This has now begun to ease and the net debt at 31 October 2008 had reduced by a further £4.2 million to approximately £22.4 million.

Outlook

At Redstone our principal focus is to ensure that the Group delivers a reasonable level of profitability, whilst maintaining investment for growth in what is clearly going to be a difficult trading environment for the foreseeable future. Notwithstanding the operational improvements we have made in several areas of the business, the Board believes that the market will continue to be challenging for the remainder of the current financial year, and potentially throughout the following year, until it sees its major project pipeline restored.

The Board feels this statement reflects a pragmatic assessment of the current economic environment, and will seek to ensure the Group is positioned to take advantage of improved trading conditions as and when they arise.

Martin Balaam

Chief Executive

17 December 2008

Consolidated Income Statement

	Note	Unaudited six months ended 30 September 2008 £000	Restated unaudited six months ended 30 September 2007 £000	Restated audited Year ended 31 March 2008 £000
Revenue	2	105,998	96,584	200,720
Cost of sales		(67,826)	(59,936)	(124,355)
Gross profit		38,172	36,648	76,365
Other operating income		75	77	77
Selling and distribution costs		(8,179)	(7,507)	(15,673)
Administrative expenses		(30,023)	(27,220)	(54,862)
Exceptional items	3	(560)	(945)	(2,748)
Adjusted EBITDA*		5,066	6,546	14,074
Depreciation		(1,006)	(893)	(1,849)
Amortisation of intangibles		(2,983)	(3,020)	(6,128)
Exceptional items		(560)	(945)	(2,748)
Stock compensation		(1,032)	(635)	(190)
Operating (loss)/profit		(515)	1,053	3,159
Finance income		57	251	371
Finance costs		(1,321)	(1,131)	(2,636)
Net finance cost		(1,264)	(880)	(2,265)
(Loss)/profit on ordinary activities before taxation		(1,779)	173	894
Tax on (loss)/profit on ordinary activities		719	1,033	2,338
(Loss)/profit for the period (attributable to shareholders of the parent Company)		(1,060)	1,206	3,232
Earnings per share				
Basic earnings per share	4	(0.73)p	0.83p	2.23p
Diluted earnings per share	4	(0.73)p	0.83p	2.21p
Basic adjusted EBITDA* per share		3.48p	4.52p	9.69p
Diluted adjusted EBITDA* per share		3.48p	4.51p	9.62p

*Earnings before interest, tax, depreciation, amortisation, exceptional items and stock compensation charge.

The notes on pages 11 to 17 form an integral part of this condensed consolidated half-yearly financial information.

Consolidated Statement of Changes in Equity

	Note	Called up share capital £000	Share premium account £000	Other reserves			Retained earnings £000	Total equity £000
				Merger reserve (a) £000	Capital redemption reserve (b) £000	Translation reserve (c) £000		
At 1 April 2007		14,469	17,512	216	5,683	100	33,276	71,256
Profit for the period		-	-	-	-	-	1,206	1,206
Stock compensation charge		-	-	-	-	-	476	476
Currency translation differences		-	-	-	-	14	-	14
Consideration shares		61	390	-	-	-	-	451
At 30 September 2007		14,530	17,902	216	5,683	114	34,958	73,403
Profit for the period		-	-	-	-	-	2,026	2,026
Stock compensation charge		-	-	-	-	-	401	401
Currency translation differences		-	-	-	-	(66)	-	(66)
Consideration shares		44	257	-	-	-	-	301
At 1 April 2008		14,574	18,159	216	5,683	48	37,385	76,065
Loss for the period		-	-	-	-	-	(1,060)	(1,060)
Stock compensation charge		-	-	-	-	-	1,032	1,032
Currency translation differences		-	-	-	-	(51)	-	(51)
Purchase of own shares	(d)	-	-	-	-	-	(500)	(500)
At 30 September 2008		14,574	18,159	216	5,683	(3)	36,857	75,486

(a) Merger reserve

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

(b) Capital redemption reserve

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

(c) Translation reserve

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

(d) Purchase of own shares

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

The notes on pages 11 to 17 form an integral part of this condensed consolidated half-yearly financial information.

Consolidated Balance Sheet

	Unaudited 30 September 2008 £000	Unaudited 30 September 2007 £000	Audited 31 March 2008 £000
Assets			
Non-current assets			
Intangible assets	91,461	95,545	93,953
Investments	55	202	129
Property, plant and equipment	5,335	4,273	4,623
Deferred tax asset	3,215	3,616	3,215
Other non-current assets	637	34	525
	100,703	103,670	102,445
Current assets			
Inventories	2,463	1,310	1,195
Trade and other receivables	50,396	39,583	44,598
Income tax receivable	562	10	577
Cash and cash equivalents	7,155	10,850	9,609
	60,576	51,753	55,979
Total assets	161,279	155,423	158,424
Equity and liabilities			
Equity			
Called up share capital	14,574	14,530	14,574
Share premium account	18,159	17,902	18,159
Other reserves	5,896	6,013	5,947
Retained earnings	36,857	34,958	37,385
Total equity	75,486	73,403	76,065
Current liabilities			
Trade and other payables	44,553	39,776	44,009
Deferred consideration	100	–	100
Borrowings	5,568	6,900	7,660
Provisions	442	1,862	508
	50,663	48,538	52,277
Non-current liabilities			
Trade and other payables	99	1,272	58
Derivative financial instruments	505	–	381
Borrowings	28,203	24,657	22,480
Provisions	949	216	1,070
Deferred tax liability	5,374	7,337	6,093
	35,130	33,482	30,082
Total liabilities	85,793	82,020	82,359
Total equity and liabilities	161,279	155,423	158,424

The notes on pages 11 to 17 form an integral part of this condensed consolidated half-yearly financial information.

Consolidated Cash Flow Statement

	Unaudited six months ended 30 September 2008 Note £000	Unaudited six months ended 30 September 2007 £000	Audited Year ended 31 March 2008 £000
Cash flows from operating activities			
Cash (absorbed)/generated in operations	6 (3,426)	2,635	6,769
Income tax paid/(received)	15	78	(111)
Net cash flows (used in)/generated from operating activities	(3,411)	2,713	6,658
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	4	–	80
Purchase of property, plant and equipment	(1,730)	(1,016)	(2,387)
Purchase of intangible assets	(463)	(194)	(960)
Purchase of investment	–	–	(202)
Acquisition of subsidiaries, net of cash acquired	–	(3,900)	(3,541)
Net cash flows used in investing activities	(2,189)	(5,110)	(7,010)
Cash flows from financing activities			
Proceeds from issue of shares	–	451	–
Proceeds from borrowings	7,785	4,200	6,450
Repayment of borrowings	(3,500)	(1,045)	(4,945)
Interest received	58	258	382
Interest paid	(1,197)	(1,047)	(2,347)
Net cash flows from/(used in) financing activities	3,146	2,817	(460)
Net (decrease)/increase in cash and cash equivalents	(2,454)	420	(812)
Cash and cash equivalents at 1 April	9,609	10,421	10,421
Effects of currency translation on cash and cash equivalents	–	9	–
Cash and cash equivalents at 30 September/31 March	7,155	10,850	9,609

The notes on pages 11 to 17 form an integral part of this condensed consolidated half-yearly financial information.

Notes to the half-yearly financial information

1 Basis of preparation

The interim financial information is unaudited but has been reviewed by the auditors, PricewaterhouseCoopers LLP, and their report to Redstone plc is set out on page 19.

This condensed, consolidated half-yearly financial information for the half year ended 30 September 2008 has been prepared in accordance with IAS 34, 'Interim financial reporting' as adopted by the European Union. The half-yearly consolidated financial report should be read in conjunction with the annual financial statements for the year ended 31 March 2008, which have been prepared in accordance with IFRSs as adopted by the European Union.

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 2008 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 Company meets its day-to-day working capital requirements through a revolving credit facility, which it successfully renewed, together with its term loan, with Barclays Bank plc in August 2008 for a further four years.

In recent months there has been a marked shift in the macro-economic climate and almost all visibility around timing and delivery of retail construction projects and activities around financial services have dramatically reduced.

The Company is forecasting that it should be able to operate within the level of its current facility. However, given the change in the macro-economic climate, the Company felt it prudent to enter into negotiations with its bankers to ensure that its facilities and covenants are appropriate if there are any further downturns. We have received a positive response from our bankers, have agreed outline terms and expect to conclude a revised facility agreement within the next few weeks.

Consequently, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these condensed consolidated half-yearly financial statements for the six months ended 30 September 2008.

The interim report was approved by the Board on 17 December 2008.

Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 March 2008, as described in those annual financial statements with the exception of:

Purchase of own shares through Employee Benefit Trust

Shares acquired by the Company and held in the Employee Benefit Trust are recorded as a reduction in equity and the full cost is recorded in retained earnings in accordance with SIC 12 and IAS 32.

Reclassification of admin costs relating to acquired contracts to cost of sales

Costs of £3,632,000 relating to acquired on-site support contracts are recorded within gross margin. Previously these costs have been recorded as administrative expenses, but as they are considered a direct cost of sale they are now recorded in cost of sales. The prior periods have been restated as a result of this reclassification (31 March 2008: £1,802,000 and 30 September 2007: £463,000).

Notes to the half-yearly financial information (continued)

1 Basis of preparation (continued)

New standards

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 April 2008 or later periods, but the Group has not early adopted them:

- IAS 23 (Amendment), Borrowing costs.
- IFRS 8, Operating segments.
- IAS 1, Presentation of Financial Statements (revised 2007).
- Amendment to IAS 32, Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation.
- Amendment to IFRS 2, Share-based Payment – Vesting Conditions and Cancellations.
- Amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards and IAS 27, Consolidated and Separate Financial Statements – Costs of Investment in a Subsidiary, Jointly Controlled Entity or Associate.
- Amendment to IAS 39, Financial Instruments: Recognition and Measurement – Eligible Hedged Items.
- IFRS 3, Business Combinations (Revised 2008).
- IAS 28, Investments in Associates and IAS 31 Joint Ventures – Consequential amendments arising from amendments to IFRS 3.
- IFRIC 12, Service Concession Arrangements.
- IFRIC 13, Customer Loyalty Programmes.
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.
- IFRIC 15, Agreements for the Construction of Real Estate.
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation.

IAS 1 (Revised 2007) affects the presentation of owner changes in equity and introduces a 'Statement of Comprehensive income'. The standard is required for annual periods beginning on or after 1 January 2009, and will affect Redstone plc after that date.

IFRS 8 requires segments to be reported based on internal management reporting information that are regularly reviewed by the chief operating decision maker. The standard is required for annual periods beginning on or after 1 January 2009, and will affect Redstone plc after that date.

The amendments to IFRS 2 relates to vesting conditions and cancellations for share options. None of the Company's current share-based payment schemes is affected by the amendments.

Management do not consider the remaining standards to be relevant for the Company.

2 Segment reporting

Primary reporting format – Business Segments

(a) Unaudited for the six months ended 30 September 2008

	Telecom £000	Mobile £000	Converged Solutions £000	Managed Solutions £000	Technology £000	Central £000	Total £000
Total segment revenue	22,532	17,012	52,195	8,518	5,865	–	106,122
Inter-segment revenues	–	–	(124)	–	–	–	(124)
Revenue	22,532	17,012	52,071	8,518	5,865	–	105,998
Adjusted operating costs*	(21,037)	(16,088)	(48,706)	(8,058)	(5,499)	(1,668)	(101,056)
Elimination of Inter-segment costs	–	–	124	–	–	–	124
Adjusted EBITDA*	1,495	924	3,489	460	366	(1,668)	5,066
Depreciation	(66)	(2)	(336)	(256)	(117)	(229)	(1,006)
Equity-settled stock compensation charge	(38)	(17)	(208)	(75)	(43)	(651)	(1,032)
Amortisation of intangible assets	(745)	(380)	(1,581)	(98)	(31)	(148)	(2,983)
Exceptional items	(181)	–	(53)	–	–	(326)	(560)
Segment result	465	525	1,311	31	175	(3,022)	(515)
Net finance costs							(1,264)
Tax							719
Loss for the year							(1,060)
Assets and liabilities							
Segment assets	45,360	12,377	69,696	16,130	10,899	6,817	161,279
Segment liabilities	12,589	3,229	24,120	7,455	2,519	35,881	85,793
Other segment information							
Capital expenditure							
Property, plant and equipment	802	26	212	251	52	387	1,730
Intangibles – software	–	10	33	–	–	420	463
Depreciation	66	2	336	256	117	229	1,006
Amortisation	745	380	1,581	98	31	148	2,983

*Earnings before interest, tax, depreciation, amortisation, exceptional items and stock compensation charge.

The main components of property, plant and equipment acquired in the period include a new telecoms switch at a cost of £725,000, capitalised systems development costs of £387,000 and various other IT equipment and network infrastructure assets.

Notes to the half-yearly financial information (continued)

2 Segment reporting (continued)

Primary reporting format – Business Segments (continued)

(b) Unaudited for the six months ended 30 September 2007

	Telecom £000	Mobile £000	Converged Solutions £000	Managed Solutions £000	Technology £000	Central £000	Total £000
Revenue	24,448	17,772	43,082	5,989	5,293	–	96,584
Adjusted operating costs*	(21,992)	(16,648)	(39,583)	(5,708)	(4,980)	(1,127)	(90,038)
Adjusted EBITDA*	2,456	1,124	3,499	281	313	(1,127)	6,546
Depreciation	(122)	(22)	(313)	(166)	(73)	(197)	(893)
Equity-settled stock compensation charge	(52)	(18)	(155)	(58)	(54)	(141)	(478)
Cash-settled stock compensation charge	–	–	–	–	–	(157)	(157)
Amortisation of intangible assets	(736)	(337)	(1,753)	(98)	(31)	(65)	(3,020)
Exceptional items	(266)	(85)	(83)	–	10	(521)	(945)
Segment result	1,280	662	1,195	(41)	165	(2,208)	1,053
Net finance costs							(880)
Tax							1,033
Profit for the year							1,206
Assets and liabilities							
Segment assets	47,402	12,172	66,749	12,218	11,059	5,823	155,423
Segment liabilities	17,489	4,266	22,917	4,719	2,002	30,627	82,020
Other segment information							
Capital expenditure							
Property, plant and equipment	6	13	224	239	161	373	1,016
Intangibles – software	–	–	53	–	–	141	194
Depreciation	122	22	313	166	73	197	893
Amortisation	736	337	1,753	98	31	65	3,020

*Earnings before interest, tax, depreciation, amortisation, exceptional items and stock compensation charge.

2 Segment reporting (continued)

Primary reporting format – Business Segments (continued)

(c) Audited for the year ended 31 March 2008

	Telecom £000	Mobile £000	Converged Solutions £000	Managed Solutions £000	Technology £000	Central £000	Total £000
Total segment revenue	48,248	34,937	93,045	12,297	12,314	–	200,841
Inter-segment revenues	–	–	–	–	(121)	–	(121)
Revenue	48,248	34,937	93,045	12,297	12,193	–	200,720
Adjusted operating costs*	(42,518)	(32,931)	(86,323)	(11,456)	(11,162)	(2,377)	(186,767)
Elimination of inter-segment costs	–	–	–	–	121	–	121
Adjusted EBITDA*	5,730	2,006	6,722	841	1,152	(2,377)	14,074
Depreciation	(197)	(21)	(651)	(376)	(195)	(409)	(1,849)
Equity-settled stock compensation charge	(81)	(37)	(269)	(111)	(100)	(279)	(877)
Cash-settled stock compensation charge	–	–	–	–	–	687	687
Amortisation of intangible assets	(1,446)	(738)	(3,505)	(195)	(63)	(181)	(6,128)
Exceptional items	(1,283)	(186)	(941)	(114)	(16)	(208)	(2,748)
Segment result	2,723	1,024	1,356	45	778	(2,767)	3,159
Net finance costs							(2,265)
Tax							2,338
Profit for the year							3,232
Assets and liabilities							
Segment assets	46,270	12,179	71,820	12,141	11,120	4,894	158,424
Segment liabilities	13,518	3,465	26,180	4,737	2,943	31,516	82,359
Other segment information							
Capital expenditure							
Property, plant and equipment	72	–	547	625	418	725	2,387
Property, plant and equipment acquired – business combination	18	–	–	–	–	–	18
Intangibles – software	–	83	141	135	–	601	960
Intangible assets acquired – business combinations	180	–	–	–	–	–	180
Depreciation	197	21	651	376	195	409	1,849
Amortisation	1,446	738	3,505	195	63	181	6,128

*Earnings before interest, tax, depreciation, amortisation, exceptional items and stock compensation charge.

Notes to the half-yearly financial information (continued)

3 Exceptional items

During the period, the Group has undergone further restructuring mainly to achieve synergies from recent acquisitions. The exceptional charge for the period of £560,000 (31 March 2008: £2,748,000 and 30 September 2007: £945,000) is made up of integration costs of £277,000 (31 March 2008: £323,000 and 30 September 2007: Nil), aborted transaction costs of £183,000 (31 March 2008: £81,000 and 30 September 2007: Nil), occupancy costs of £25,000 (31 March 2008: a credit of £102,000 and 30 September 2007: a credit of £44,000) and a fair value charge of £75,000 which relates to a one off non-trading item. Also included in exceptional items at 31 March 2008, was employee costs of £1,894,000 (30 September 2007: £989,000, including integration costs of £159,000), Group reorganisation costs of £92,000 and a one off cost of £460,000 for back salaries relating to acquiring the Morgan Stanley contract.

4 Earnings per share

Basic earnings per share is calculated using a loss of £1,060,000 (31 March 2008: profit £3,232,000 and 30 September 2007: profit £1,206,000) and a weighted average number of shares of 145,732,516 (31 March 2008: 145,187,433 and 30 September 2007: 144,730,066).

Diluted earnings per share, is calculated using a diluted weighted average number of shares of 145,732,516 (31 March 2008: 146,304,116 and 30 September 145,299,250). There was no dilutive effect of share options at 30 September 2008 (31 March 2008: 1,116,683 and 30 September 2007: 569,184).

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

	Unaudited six months 30 September 2008 £000	Unaudited six months 30 September 2007 £000	Audited Year ended 31 March 2008 £000
(Loss)/profit for the period	(1,060)	1,206	3,232
Net finance expense	1,264	880	2,265
Tax credit	(719)	(1,033)	(2,338)
Depreciation	1,006	893	1,849
Amortisation of intangibles	2,983	3,020	6,128
Stock compensation charge	1,032	635	190
Exceptional items	560	945	2,748
Adjusted EBITDA*	5,066	6,546	14,074

*Earnings before interest, tax, depreciation, amortisation, exceptional items and stock compensation charge.

5 Goodwill

Although there were no acquisitions made during the period the following adjustments to goodwill have been made:

	Telecom £000	Mobile £000	Converged Solutions £000	Managed Solutions £000	Technology £000	Total £000
Goodwill net carrying amount 30 September 2007	26,991	6,093	23,702	6,256	7,383	70,425
Marcom acquisition	739	–	–	–	–	739
Cost of acquisitions	113	–	131	–	–	244
Fair value adjustments	(99)	20	(334)	–	–	(413)
Goodwill net carrying amount 31 March 2008	27,744	6,113	23,499	6,256	7,383	70,995
Fair value adjustments	27	–	–	–	–	27
Goodwill net carrying amount 30 September 2008	27,771	6,113	23,499	6,256	7,383	71,022

6 Net Cash flows from operating activities

	Unaudited six months 30 September 2008 £000	Unaudited six months 30 September 2007 £000	Audited Year ended 31 March 2008 £000
Operating (loss)/profit	(515)	1,053	3,159
Adjustments for:			
Depreciation of property, plant and equipment	1,006	893	1,849
Amortisation of intangible assets	2,983	3,020	6,128
Equity-settled stock compensation charges	1,032	478	877
Cash-settled stock compensation charges	–	157	(687)
Profit/(loss) on disposal of property, plant and equipment	3	(63)	(9)
Financial assets at fair value through profit or loss	75	–	73
Movements in working capital			
Increase in inventories	(1,268)	(217)	(79)
Increase in trade and other receivables	(6,649)	(4,084)	(8,858)
Increase in trade and other payables	253	1,585	5,777
(Increase)/decrease in non-current assets	(112)	21	(470)
Decrease in provisions	(187)	(208)	(706)
Foreign exchange gains on operating activities	(47)	–	(107)
Other non-cash items	–	–	(178)
Cash generated from operations	(3,426)	2,635	6,769

Statement of Directors' Responsibilities

The Directors confirm that this condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union.

The Directors of Redstone plc are listed in the Redstone plc Annual Report and Accounts for 31 March 2008.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

Independent Review Report to Redstone plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2008, which comprises the consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules for Companies.

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM Rules for Companies.

PricewaterhouseCoopers LLP

Chartered Accountants

17 December 2008

Advisers

Financial Adviser and Broker

Investec Bank (UK) Limited, 2 Gresham Street, London EC2V 7QP

Auditors

PricewaterhouseCoopers LLP, Embankment Place, London WC2N 6RH

Solicitors

Osborne Clarke, One London Wall, London EC2Y 5EB

Registrars

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

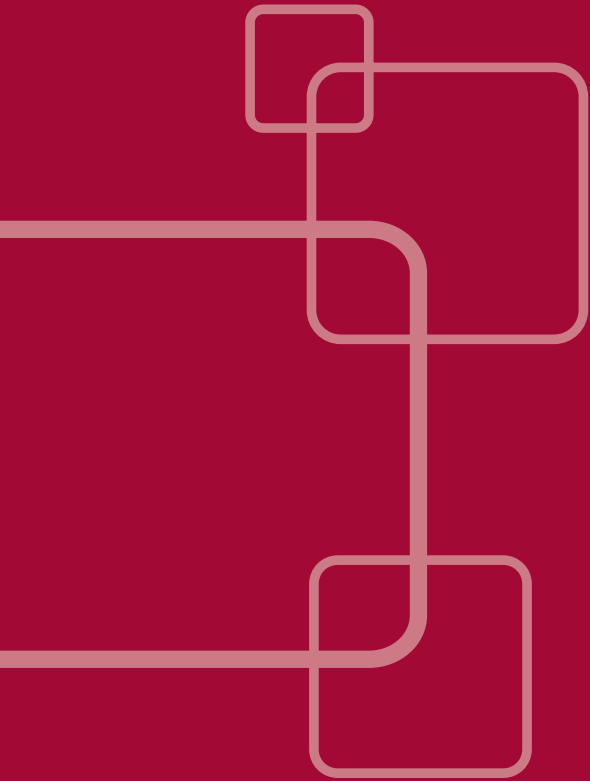
Principal Bankers

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

Company number

3336134

Further details can be found on the Redstone website at the following address: www.redstone.co.uk



Redstone plc
80 Great Eastern Street
London EC2A 3RS

T: 0845 20 10000
F: 0845 200 0099
W: www.redstone.co.uk