

Redstone plc

Interim Report

30 September 2007



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Chief Executive's Statement

I am very pleased to report that Redstone has continued to deliver substantial growth, both organically and through acquisition for the six months ended 30 September 2007. Underlying organic revenue growth from continuing operations was over 10% for the period*. The acquisitions completed at the end of FY07 of Comunica and IDN have been integrated during the period. They have brought significant operational efficiencies, whilst substantially increasing the scale and capacity of Redstone. This additional delivery capability has already enabled the Company to win substantial contracts, such as the £13m White City retail centre contract, and the support contract with JP Morgan, worth up to £13.4m over the next 5 years.

** Growth of existing operations on a comparable basis after excluding discontinued revenue streams relating to the closure of the Symphony BV office, the withdrawal of Orange from the consumer business model and the decision to cease making 3-Mobile Network sales.*

Financial highlights

Revenues have increased by 104% to £96.6m from £47.4m in H1 FY07. Gross profit has increased by 112% to £37.1m (H107: £17.5m), and the gross profit margin has also increased to 38.4% (H107: 36.8%). Following a strong period of trading and continued cost control EBITDA has increased to £6.5m* compared with £2.8m* for the corresponding period last year, an increase of 131%. Normalised PBT was £4.8m for the period, compared with £2.2m in the corresponding period last year. The reported PBT was £0.2m (H107: £0.8m) for the period after charging £3m (H1 07: £1m) for amortisation of intangibles, and a further charge of £1.6m (H107: £0.3m) relating to restructuring and share based payments charges. As a result of the increased debt facility used to finance acquisitions, finance charges for the period have increased from £0.4m to £1.1m. The Company has utilised tax losses during the period, recognised deferred tax assets and released deferred tax liabilities which has resulted in a tax credit of £1m. Adjusted basic EBITDA* earnings per share has increased from 3.15p per share to 4.52p per share, and basic earnings per share has decreased from 1.12p per share to 0.83p per share.

Redstone has available tax losses of over £70m, and expects to be able to minimise its tax charge and tax payable for the foreseeable future.

Cash generated from operating activities was £2.7m (H107: £1.8m), underpinning a strong balance sheet with cash of over £10.8m (H107: £8.0m) and net debt of £20.7m (H107: £3.2m).

** before interest, tax, depreciation, amortisation, restructuring costs and share based payment charges. Prior year adjusted EBITDA has been restated to include the holiday accrual charge.*

Operational highlights

Strategic acquisitions

Redstone successfully completed the acquisitions of IDN Telecom plc and Comunica Holdings Limited shortly before the end of FY07. During H1 FY08 these businesses have been integrated into Redstone; both performed well throughout the period.

Strategic acquisitions (continued)

These acquisitions consolidate Redstone's position as a leading provider of Integrated IT and Communications Solutions and represent key milestones in the Company's growth strategy. Specifically, the acquisitions have yielded the following benefits:

Comunica:

- Addition of scale, capacity and specialist network infrastructure solution capability to the ICT business;
- Procurement of a blue-chip client list across several key business verticals;
- Removal of a significant competitor from the converged solutions market.

IDN:

- Addition of over 2,000 corporate and SME customers;
- Increased critical mass within the fixed line telecoms and mobile divisions;
- Significant cost savings through business synergies and operational efficiencies.

Redstone will continue to seek acquisition opportunities that increase both the scale, capability and capacity of the Company such that it can meet the considerable market demand currently being witnessed for large scale ICT projects.

Business development

During the first half of this year Redstone has announced a number of significant contract wins. This is due to the strategic acquisitions made in the last two years adding scale and capacity and the focus given by management in integrating and enhancing their capability within the Group. Redstone now has both a strong track record in delivering major infrastructure contracts and the capacity to deliver projects of greater scale and complexity in the future. This is an essential step towards building a reputation for credibility and reliability that should enable Redstone to successfully bid for contracts of a similar and greater size in the future.

Some of the key contracts signed during the six month period include:

- The provision of converged IT and communications infrastructure to Highcross Quarter in Leicester, and Bristol's Cabot Circus. These two retail, residential and leisure complex developments and the contracts have an initial value of £1.6m and £1.8m respectively for a total initial value of £3.4m.
- The delivery of the initial stage of a five year project to supply University College Dublin with a complete Hewlett Packard storage system. The project is valued at up to £3.2m* over the next 5 years.

Key contracts signed following the six month period include:

- The provision of an IP solution for the Westfield shopping centre development in White City, which will be the largest in-town retail centre in Europe. The contract is worth £13m and will significantly enhance Redstone's referenceability and positioning when bidding on similar projects in the future.

- The provision of regional support services to JP Morgan worth up to £13.4m over the next 5 years. This contract demonstrates that Redstone's increased capacity is enabling the Company to secure and deliver contracts of a greater scale.
- The delivery of a Hewlett Packard storage system for Meteor Mobile Communications in Ireland. Worth £0.9m*, the contract cements Redstone's position as the leading provider of HP related technologies in Ireland and gives the Group confidence that it will be able to increase scale to offer similar services to the UK.

* Translated at a rate of Euro 1.4 to £1

Given the above successes, the Board is confident of the company continuing its ability to secure and deliver contracts of an increasing size and scale. This is evidenced by Redstone being short-listed for the Building Schools for the Future (BSF) programme in Birmingham, involving the complete rebuild or remodel of 89 Birmingham schools. The estimated capital value of the entire project (including ICT) is £820m. If successful Redstone would be supplying a complete ICT solution that will supply each school with a fully integrated IP network, communications, IT and e-learning environment. Furthermore, of the companies short-listed for this contract for the provision of the ICT solution, Redstone achieved the highest scoring during the bidding process.

Cross-Selling Opportunities

The expanded client list has produced a number of cross-selling opportunities which the Group has identified and is increasingly exploiting. Specific customers are being targeted and cross-sales account for an increasing proportion of sales and gross margin. An example of additional cross-selling revenues made during the six months was the call centre solution delivered to Telecom Service Centres (TSC), initially a Redstone Telecom customer, for a value of £0.5m.

Strategic Partnerships

Redstone has developed high quality relationships with a number of partners throughout its target verticals which have proved key in terms of winning large contracts within the ICT arena. These partnerships include Hammerson plc, enabling Redstone to bid for OneNET intelligent buildings network infrastructure contracts; Catalyst Lend Lease for the BSF contracts; and Hammerson and Westfield for the shopping centre contracts. The Group is confident that these partnerships will continue to develop and prove increasingly productive.

Business growth strategy and market positioning

Increased awareness among the UK's public and corporate sectors of the operational cost savings and efficiencies inherent in migrating to IP-enabled converged communication systems is driving strong demand in Redstone's core market. Furthermore, market trends indicate a preference among organisations to work with a single, combined IT and communications supplier. Given Redstone's core capabilities of designing, implementing and maintaining complex, IP enabled, integrated ICT solutions, the Company is uniquely positioned to benefit from the current demand from its customers to make the transition to unified IT and communication systems.

Business growth strategy and market positioning (continued)

Redstone will also look to segment its customer base so as to service better its SME customers and intends to create a single point of contact for SME's giving them access to the full suite of Redstone's IT and communication products and services.

The Company remains committed to its strategy of growth, both organically and through acquisition. This will involve the targeting of new partnerships in key business verticals and new contract opportunities of increasing size. As the Company's track record in delivering these larger-scale contracts progresses, so momentum is expected to build and the size and number of contracts available will increase. In order to meet these demands, Redstone's objective will be to continue to build scale and capacity through acquisition.

Outlook

Over the last two years Redstone has transformed itself from a niche SME focused telecoms company into a leading provider of Integrated IT and Communications solutions in the UK and Ireland at the SME and corporate levels. With a healthy pipeline of new contracts, a high proportion of recurring revenue, and key partnerships in place, the directors believe the outlook for the Group is extremely positive. The Board is confident that Redstone will continue to deliver organic growth in the future, whilst remaining committed to its strategy of further acquisitions during the current climate of convergence and consolidation amongst sector players.

Martin Balaam

Chief Executive

3 December 2007

Consolidated Income Statement

	Note	Unaudited Six months ended 30 September 2007 £000	Unaudited Six months ended 30 September 2006 £000	Audited Year ended 31 March 2007 £000
Revenue	2	96,584	47,447	112,955
Cost of sales		(59,473)	(29,980)	(71,932)
Gross profit		37,111	17,467	41,023
Other operating income		77	239	154
Selling and distribution costs		(7,507)	(4,678)	(9,993)
Administrative expenses		(27,683)	(11,938)	(28,833)
Restructuring costs	3	(945)	–	(2,792)
Adjusted EBITDA*		6,546	2,831	7,719
Depreciation		(893)	(514)	(1,241)
Amortisation of intangibles		(3,020)	(952)	(2,804)
Restructuring costs		(945)	–	(2,792)
Stock compensation		(635)	(275)	(1,323)
Operating profit/(loss)		1,053	1,090	(441)
Finance income		251	129	199
Finance costs		(1,131)	(371)	(802)
Profit/(loss) on ordinary activities before taxation		173	848	(1,044)
Tax on profit/(loss) on ordinary activities		1,033	154	1,173
Profit for the period (attributable to equity holders of the parent Company)		1,206	1,002	129
Earnings per share				
Basic & diluted earnings per share	4	0.83 p	1.12 p	0.12 p
Basic adjusted EBITDA* per share		4.52 p	3.15 p	7.42 p
Diluted adjusted EBITDA* per share		4.51 p	3.15 p	7.42 p

*earnings before interest, tax, depreciation, amortisation, restructuring costs and share based payment. Prior year adjusted EBITDA has been restated to include the holiday accrual charge.

The notes on pages 9 to 17 form an integral part of this condensed consolidated half-yearly financial information.

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	Capital redemption reserve £000	Translation reserve £000		
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
Loss for the period	–	–	–	–	–	(873)	(873)
Share-based payments	–	–	–	–	–	171	171
Currency translation differences	–	–	–	–	201	–	201
Shares issued	2,416	14,234	–	–	–	–	16,650
Consideration shares	650	3,648	–	–	–	–	4,298
Deferred share elimination (b)	(5,683)	–	–	5,683	–	–	–
Share premium cancellation (d)	–	(225,047)	–	–	–	225,047	–
Costs associated with share issue	–	(370)	–	–	–	–	(370)
At 1 April 2007	14,469	17,512	216	5,683	100	33,276	71,256
Profit for the period	–	–	–	–	–	1,206	1,206
Share-based payments	–	–	–	–	–	476	476
Currency translation differences	–	–	–	–	14	–	14
Shares issued	61	390	–	–	–	–	451
At 30 September 2007	14,530	17,902	216	5,683	114	34,958	73,403

(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) Share Premium cancellation

During the year ended 31 March 2007 the Board obtained approval to redistribute share capital reserves in order to reposition the Group and enable it to issue a dividend if the Directors decided this was in the best interests of the Group. Share Premium of £225,047,000 was eliminated against brought forward losses.

The notes on pages 9 to 17 form an integral part of this condensed consolidated half-yearly financial information.

Consolidated Balance Sheet

	Note	Unaudited 30 September 2007 £000	Unaudited 30 September 2006 £000	Audited 31 March 2007 £000
Assets				
Non-current assets				
Intangible assets	5	95,545	63,649	97,522
Investments		202	–	–
Property, plant and equipment		4,273	2,645	4,083
Deferred tax asset		3,616	2,092	3,401
Other non-current assets		34	639	55
		103,670	69,025	105,061
Current assets				
Inventories		1,310	862	1,093
Trade and other receivables		39,583	20,661	35,499
Income tax receivable		10	–	123
Cash and cash equivalents		10,850	7,979	10,421
		51,753	29,502	47,136
Total assets		155,423	98,527	152,197
Equity and liabilities				
Equity				
Called up share capital		14,530	17,086	14,469
Share premium account		17,902	225,047	17,512
Other reserves		6,013	115	5,999
Retained earnings		34,958	(191,069)	33,276
		73,403	51,179	71,256
Current liabilities				
Trade and other payables		39,776	28,518	38,164
Deferred consideration		–	–	2,849
Income tax payable		–	293	–
Borrowings		6,900	–	4,943
Provisions		1,862	1,711	868
		48,538	30,522	46,824
Non-current liabilities				
Trade and other payables		1,272	182	1,066
Provisions		216	1,139	1,417
Borrowings		24,657	11,194	23,444
Deferred tax liability		7,337	4,311	8,190
		33,482	16,826	34,117
Total equity and liabilities		155,423	98,527	152,197

The notes on pages 9 to 17 form an integral part of this condensed consolidated half-yearly financial information.

Consolidated Cash Flow Statement

	Note	Unaudited Six months ended 30 September 2007 £000	Unaudited Six months ended 30 September 2006 £000	Audited Year ended 31 March 2007 £000
Cash flows from operating activities				
Cash generated from operations	6	2,635	1,844	(274)
Income tax paid		78	(4)	(133)
Net cash flows from/(used in) operating activities		2,713	1,840	(407)
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		–	–	53
Purchase of property, plant and equipment		(1,016)	(342)	(1,466)
Purchase of intangible assets		(194)	(25)	(176)
Acquisition of subsidiaries, net of cash acquired		(3,900)	(19,879)	(44,253)
Net cash flows used in investing activities		(5,110)	(20,246)	(45,842)
Cash flows from financing activities				
Proceeds from issue of shares		451	20,021	38,021
Transaction costs of issuing shares		–	(360)	(730)
Proceeds from borrowings		4,200	5,000	22,150
Repayment of borrowings		(1,045)	(3,416)	(7,666)
Interest received		258	125	199
Interest paid		(1,047)	(287)	(802)
Net cash flows from financing activities		2,817	21,083	51,172
Net increase in cash and cash equivalents		420	2,677	4,923
Effects of currency translation on cash and cash equivalents		9	(25)	171
Cash and cash equivalents at 1 April		10,421	5,327	5,327
Cash and cash equivalents at 30 September/31 March		10,850	7,979	10,421

The notes on pages 9 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, and their report to Redstone plc is set out on page 19.

This consolidated half-yearly financial information for the half-year ended 30 September 2007 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 2007, 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 2007 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 3 December 2007.

Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 March 2007, as described in those annual financial statements with the exception of:

Long term contract accounting

Revenue from fixed price construction contracts is recognised on a percentage of completion method to the extent that the level of completion for a contract can be measured. Revenue includes expenses to the extent they are recoverable. Where the percentage of completion can not be reliably measured, revenue is recognised when specific contractual milestones are met or on project completion. This adjustment decreased opening stock on the balance sheet by £348k, there was no effect on the income statement in prior periods.

Maintenance spares

Stocks of maintenance spares are recorded at cost and written off over three years or the period of the contract to which they relate, if that is a shorter period. Maintenance spares stocks are expensed once they are consumed. The effect of this change in accounting policy has been to capitalise £112k of maintenance stock at 30 September 2007.

1 Basis of preparation (continued)

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year ending 31 March 2008.

- IFRS 7, 'Financial instruments: Disclosures', effective for annual periods on or after 1 January 2006. As this interim report contains only condensed financial statements, there is no impact in the period to 30 September 2007. This will be reassessed at year end 31 March 2008.
- IFRIC 8, 'Scope of IFRS 2', effective for annual periods beginning on or after 1 May 2006. Redstone plc already charges to the income statement fair value in accordance to IFRS 2 share-based payments.
- IFRIC 9, 'Reassessment of embedded derivatives', effective for annual periods beginning on or after 1 May 2006. This interpretation has not had a significant impact on the reassessment of embedded derivatives as the Group already assessed if embedded derivatives should be separately disclosed using consistent principles with IFRIC 9.
- IFRIC 10, 'Interim financial reporting and impairment', effective for annual periods beginning on or after 1 November 2006. There is no impairment charge in the interim period 30 September 2007 and therefore no impact on the financial statements.
- IFRIC 11, 'IFRS 2 – Group and treasury share transactions', effective for annual periods beginning on or after 1 March 2007. Management do not expect this interpretation to be relevant for the Group.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year ending 31 March 2008 and have not been early adopted:

- IFRIC 12, 'Service concession arrangements', effective for annual periods beginning on or after 1 January 2008. Management do not expect this interpretation to impact the financial statements.
- IFRIC 14, IAS 19, 'The limit on a defined benefit asset', minimum funding requirements and their interaction, effective for annual periods beginning on or after 1 January 2008. Management do not expect this interpretation to impact the financial statements.
- IAS 23 (2007), 'Borrowing costs', effective for annual periods beginning on or after 1 January 2009. Management do not expect this interpretation to impact the financial statements.
- IFRS 8, 'Operating segments', effective for annual periods beginning on or after 1 January 2009. Management do not expect this interpretation to impact the financial statements.

2 Segment reporting

Primary reporting format – Business Segments

(a) 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 share-based payments	(52)	(18)	(155)	(58)	(54)	(141)	(478)
Cash-settled share-based payments	–	–	–	–	–	(157)	(157)
Amortisation of intangible assets	(736)	(337)	(1,753)	(98)	(31)	(65)	(3,020)
Restructuring costs	(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
Intangible asset - software	–	–	53	–	–	141	194
Depreciation	122	22	313	166	73	197	893
Amortisation	736	337	1,753	98	31	65	3,020

* before interest, tax, depreciation, amortisation, restructuring costs and share based payment charges.

Notes to the half-yearly financial information (continued)

2 Segment reporting (continued)

(b) Unaudited for the six months ended 30 September 2006

	Telecom £000	Mobile £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
Adjusted operating costs*	(14,368)	(8,035)	(13,406)	(3,725)	(3,965)	(1,117)	(44,616)
Adjusted EBITDA*	2,375	162	416	558	437	(1,117)	2,831
Depreciation	(78)	(10)	(75)	(238)	(15)	(98)	(514)
Equity-settled share based payments	(16)	–	(98)	(13)	(15)	(159)	(301)
Cash-settled share-based payments	–	–	–	–	–	26	26
Amortisation of intangible assets	(239)	(85)	(537)	(14)	(31)	(46)	(952)
Segment result	2,042	67	(294)	293	376	(1,394)	1,090
Net finance cost							(242)
Tax							154
Profit for the period							1,002
Assets and liabilities							
Segment assets	29,580	14,703	25,117	10,670	10,392	8,065	98,527
Segment liabilities	7,699	4,342	9,044	4,060	1,620	20,583	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

*before interest, tax, depreciation, amortisation, restructuring costs and share based payment charges. Prior year adjusted EBITDA has been restated to include the holiday accrual charge.

2 Segment reporting (continued)

(c) Audited for the year ended 31 March 2007

	Telecom £000	Mobile £000	Converged Solutions £000	Managed Solutions £000	Technology £000	Central £000	Total £000
Revenue	36,715	25,995	29,763	10,713	9,769	–	112,955
Adjusted operating costs*	(31,676)	(24,703)	(28,726)	(9,204)	(9,127)	(1,800)	(105,236)
Adjusted EBITDA*	5,039	1,292	1,037	1,509	642	(1,800)	7,719
Depreciation	(214)	(29)	(280)	(322)	(55)	(341)	(1,241)
Equity-settled share-based payments	(51)	(2)	(17)	(39)	(40)	(323)	(472)
Cash-settled share-based payments	–	–	–	–	–	(851)	(851)
Amortisation of intangible assets	(831)	(450)	(1,232)	(130)	(63)	(98)	(2,804)
Restructuring costs	(1,215)	(341)	(1,090)	(25)	(28)	(93)	(2,792)
Segment result	2,728	470	(1,582)	993	456	(3,506)	(441)
Net finance costs							(603)
Tax							1,173
Profit for the year							129
Assets and liabilities							
Segment assets	46,440	11,821	66,786	11,886	11,904	3,360	152,197
Segment liabilities	14,963	4,372	26,595	4,067	2,088	28,856	80,941
Other segment information							
Capital expenditure							
Property, plant and equipment	87	31	247	323	288	490	1,466
Property, plant and equipment acquired							
– business combination	255	68	1,006	134	–	–	1,463
Intangible asset - software	–	–	33	–	–	143	176
Intangible assets acquired							
– business combinations	8,248	2,937	10,304	586	–	–	22,075
Depreciation	214	29	280	322	55	341	1,241
Amortisation	831	450	1,232	130	63	98	2,804

*before interest, tax, depreciation, amortisation, restructuring costs and share based payment charges. Prior year adjusted EBITDA has been restated to include the holiday accrual charge.

2 Segment reporting (continued)

Secondary reporting format – Geographical segments

The analyses for the six months are as follows:

	Unaudited 30 September 2007				Unaudited 30 September 2006			
	UK £000	Ireland £000	Other £000	Total £000	UK £000	Ireland £000	Other £000	Total £000
Revenue	90,937	5,293	354	96,584	42,066	4,408	973	47,447
Other segment information								
Segment assets	144,364	11,059	–	155,423	88,135	10,392	–	98,527
Other segment information								
Capital expenditure								
Property, plant and equipment	855	161	–	1,016	305	37	–	342
Property, plant and equipment acquired								
– business combination	–	–	–	–	349	–	18	367
Intangible asset								
– software	193	–	–	193	25	–	–	25
Intangible assets acquired								
– business combination	–	–	–	–	31,748	–	–	31,748

The analysis for the year ended 31 March 2007 is as follows:

	Audited 31 March 2007			
	UK £000	Ireland £000	Other £000	Total £000
Revenue	101,805	9,778	1,372	112,955
Other segment information				
Segment assets	140,315	11,852	30	152,197
Other segment information				
Capital expenditure				
Property, plant and equipment	1,178	288	–	1,466
Property, plant and equipment acquired				
– business combination	1,463	–	–	1,463
Intangible asset – software	176	–	–	176
Intangible assets acquired				
– business combination	22,075	–	–	22,075

3 Restructuring costs

During the period, the Group has undergone further restructuring mainly to achieve synergies from recent acquisitions. The restructuring charge for the period of £945,000 (31 March 2007 £2,792,000 and 30 September 2006: none) is employee related costs of £989,000 (31 March 2007 £2,052,000) and occupancy costs written back of £44,000 (31 March 2007: cost of £740,000).

4 Earnings per share

Basic earnings per share is calculated using a profit of £1,206,000 (30 September 2006: profit of £1,002,000 and 31 March 2007: profit of £129,000) and a weighted average number of shares of 144,730,066 (30 September 2006: 89,822,566 and 31 March 2007: 103,991,366).

Diluted earnings per share is calculated using a diluted weighted average number of shares of 145,299,250, the dilutive effect of share options at 30 September 2007 was 569,184. There was no dilutive effect of share options in either period to 30 September 2006 or 31 March 2007.

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 ended 30 September 2007 £000	Unaudited Six months ended 30 September 2006 £000	Audited Year ended 31 March 2007 £000
Profit for the period	1,206	1,002	129
Net finance costs/(income)	880	242	603
Tax	(1,033)	(154)	(1,173)
Depreciation	893	514	1,241
Amortisation of intangibles	3,020	952	2,804
Share based payment charges	635	275	1,323
Restructuring costs	945	–	2,792
Adjusted EBITDA*	6,546	2,831	7,719

*earnings before interest, tax, depreciation, amortisation, restructuring costs and share based payment charges. Prior periods adjusted EBITDA has been restated to include the holiday accrual 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	Central £000	Total £000
Goodwill net carrying amount							
31 March 2007	26,322	5,919	23,696	6,256	7,383	–	69,576
Comunica earn out	–	–	152	–	–	–	152
Fair value adjustments	329	174	(253)	–	–	–	250
Costs of acquisition	340	–	107	–	–	–	447
Goodwill net carrying amount							
30 September 2007	26,991	6,093	23,702	6,256	7,383	–	70,425
Customer contracts & related relationships, software, trademarks & licences and other intangibles							
30 September 2007	6,511	2,320	15,316	358	345	270	25,120
Intangible assets							
30 September 2007	33,502	8,413	39,018	6,614	7,728	270	95,545

6 Cash generated from operations

	Unaudited Six months ended 30 September 2007 £000	Unaudited Six months ended 30 September 2006 £000	Audited Year ended 31 March 2007 £000
Operating profit/(loss)	1,053	1,090	(441)
Adjustments for:			
Depreciation of property, plant and equipment	893	514	1,241
Amortisation of intangible assets	3,020	952	2,804
Equity-settled share-based payments	478	301	472
Cash-settled share-based payments	157	(26)	851
Loss on disposal of property, plant and equipment	(63)	–	(11)
Movements in working capital			
(Increase)/decrease in inventories	(217)	68	149
Decrease/(increase) in trade and other receivables	(4,084)	2,618	3,581
(Decrease)/increase in trade and other payables	1,585	(2,863)	(8,215)
(Increase)/decrease in non-current assets	21	(94)	492
Decrease in provisions	(208)	(716)	(1,197)
Cash generated from operations	2,635	1,844	(274)

7 Events occurring after the balance sheet date

On the 5 November 2007, Redstone acquired Marcom Communication Limited a privately owned specialist hardware reseller that also offers voice solutions. The total consideration is £700k, such consideration being satisfied in cash £350k and equity £350k.

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 2007. The only change in the period under review is that Oliver Vaughan, a Non-executive Director, resigned from the Board on 26 September 2007.

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 2007, 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 2007 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
London

3 December 2007

Advisers

Financial Adviser and Broker

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Solicitors

Osborne Clarke, One London Wall, London, EC2Y 5EB

Registrars

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Principal Bankers

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redstone

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