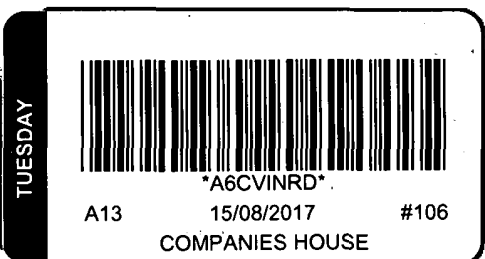


REGISTERED NUMBER: 02027207 (England and Wales)

# Redstone Converged Solutions Ltd

## Annual Report 2017



# Contents

|                                                                                 | <b>Page</b> |
|---------------------------------------------------------------------------------|-------------|
| Company information                                                             | 1           |
| Strategic report                                                                | 2           |
| Directors report                                                                | 7           |
| Statement of Directors' responsibilities in respect of the financial statements | 9           |
| Independent auditor's report to the members of Redstone Converged Solutions Ltd | 10          |
| Profit and Loss Account & Other Comprehensive Income                            | 12          |
| Balance Sheet                                                                   | 13          |
| Statement of Changes in Equity                                                  | 14          |
| Notes                                                                           | 15          |

# Company information

## Registered office

40 Holborn Viaduct  
London  
EC1N 2PB

## Company number

02027207

## Directors

B Loughrey  
M Salter  
S Williams  
S Dredge

## Company Secretary

P Myhill

## Auditor

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

# Strategic report

## Strategy, business model, risks and KPIs

### Strategy

Redstone aims to be a leader in infrastructure, Smart Buildings and IT Managed Services. This business is currently based in the UK but has also operated in some overseas locations to support existing clients. Key priorities to develop Redstone's business include:

- To maintain Redstone's reputation as a market leader for service excellence and technical competence in its field. We will focus on continuing to provide high quality services to Redstone's clients by employing expert staff who are well versed in the Company's products and our clients' needs and continuing to maintain our multiple ISO and vendor accreditations.
- To grow the Smart Buildings offering through a combination of organic growth and acquisition.
- To grow the DAS (distributed antenna system) offering through a combination of organic growth and acquisition and as an OPEX and CAPEX business model.
- To grow the already successful Managed Services business through a combination of organic growth and, where possible, acquisition.
- To grow the annuity revenue in the business.
- To deliver improving profitability and cash generation.

### Business model and risk profile

The Group's business model is to generate a return by providing an excellent service to its customers primarily in the UK but also in certain circumstances in overseas locations to support UK clients. Redstone's business focuses on higher value added products and services and to this end, it maintains the highest manufacturer accreditations.

Redstone's main activities are:

**Managed Services:** Around 38% of Redstone's revenue and 46% of the gross profit is derived from Managed Services. Managed Services encompasses the provision of outsourcing services spanning network infrastructure management, Smart Buildings support services, desktop and data centre support services and move, add and change services. Staff are normally based permanently on a client site. Contracts are generally on a long-term basis which allows services to be tailor-made and continuity of service in what are key support functions for our clients. Services are generally invoiced monthly in arrears.

**Implementation:** This comprises Cabling, DAS and Smart Buildings which contributes 62% of Redstone's revenues. Smart Buildings, at 17%, and DAS, at 2%, are small but have the potential for significant growth. The services range from adhoc intelligent solutions such as lighting projects to control energy costs to a full holistic integrated platform that offers better economic, social and environmental performance for buildings and their occupants. Systems incorporated may include LAN, One Space, DAS, Energy Management, BIM, CCTV, ACS, Pull Printing, Cashless vending and intelligent lighting. Cabling involves design and installation of structured cabling systems and intelligent infrastructure management systems. Cabling has historically been the mainstay of Redstone's business and in 2017 accounted for some 43% of its revenue. As with Smart Buildings, revenue is project based and revenue recognition and invoicing tends to be on a staged basis.

# Strategic report (continued)

## KPIs

There are a number of KPI's which the Board uses to measure the Group's progress against the business plan:

- Growth in revenue and gross margin performance
- Turnover from continued operations
- Proportion of revenue which is annuity income
- Gross Profit from continuing operations
- EBITDA
- Trading profit / (loss) after taxation
- Cash flow generated by operations and by the Group as well as the net cash/overdraft position.

## Risk management

The senior management is responsible for managing risk and assessing how this might prevent the Company from delivering its strategy. The key risks faced by the Company will continue to be reviewed at Board level to ensure risk management is monitored and implemented effectively. The policy is to identify the key risks which could affect the Company and to assess the appropriate mitigation, including use of insurance policies.

The Company could potentially be affected by a number of uncertainties and risks that are not wholly within its control. Some of the key risks and uncertainties are as follows:

- Potential deterioration of the UK economy
- Regulatory changes
- Maintaining and ensuring that the Company continues to attract and retain the right calibre of staff
- Controlling projects within their budgets including delivering the services in accordance with the project specifications and to the required standards
- Maintaining ISO and vendor accreditations
- Maintaining robust health and safety procedures to safeguard staff and clients
- Maintaining proper accounting and fiscal records to ensure the business is properly controlled
- Managing the Company's working capital requirements on big construction projects

## Principal activities, business review and future developments

During the period the company continued its principal activities of installation and maintenance of cabling infrastructure, continued the focus on growing the Smart Building offering and launched OneSpace and DAS product offerings. These will continue to be the Company's principal activities.

Management uses a range of performance measures to monitor and manage the business. Certain measures are particularly important in the generation of shareholder value and are considered key performance indicators (KPIs). Our KPIs measure past performance and provide information to allow us to manage the business.

Turnover and gross profit and net profit indicate the volume of work we have done and its profitability. KPI's for 2017 are shown in the table below, along with prior year's comparatives for continued operations.

## Strategic report (continued)

|                                         | 2017       | 2016       | % Change |
|-----------------------------------------|------------|------------|----------|
| KPIs                                    | £          | £          | %        |
| Turnover from continued operations      | 39,405,193 | 40,098,094 | (1.7%)   |
| Gross Profit from continuing operations | 7,357,159  | 6,949,872  | 5.9%     |
| EBITDA                                  | 2,840,464  | 2,212,036  | 28.4%    |
| Trading profit after taxation           | 2,610,502  | 1,759,731  | 48.3%    |
| Cash flow generated by operations       | 1,936,293  | 2,062,108  | (6.1%)   |

The key non-financial indicators monitored by the company are the ability to maintain the existing customer base, the ability to attract new customers, contract performance and the future order pipeline. The directors consider these areas to be the principal risk or uncertainty that the business faces.

There was a trading profit for the financial period before taxation of £2,003,756 (2016: £1,696,825).

Net assets of the company at the year-end were £5,822,490 (2016: £3,191,540).

The full trading results for the company's financial position at the year of the period are shown in the attached financial statements.

The RedstoneConnect PLC Group has banking facilities in place which are secured through fixed and floating charges over the Company and all property and assets of RedstoneConnect PLC group, of which the Company is a member.

### Likely future developments

Redstone is looking to build on the foundations made in this current year and is looking to achieve conservative growth in the coming year of between 3% and 5%.

It is critical that we are able to try and foresee what is happening in our market place and to have the foresight to predict, envisage, imagine and create the future evolution of technology and in the coming year our focus will be within the Smart Building and DAS arenas. This is key within our strategy so that we understand the services delivered today are as future proof as possible, and that they can be upgraded if required in order that the our business is evolving to meet the changing needs of our customers.

### Financial risk management objective and policies

The company has a variety of financial instruments including cash, trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to provide working capital for the company's operations. The existence of these financial instruments exposes the company to a number of financial risks, which are described in more detail below.

The main risks arising from the company's financial instruments are market risk (including foreign exchange risk, cash flow interest rate risk and price risk) credit risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below. These policies have remained unchanged from the previous year.

# Strategic report (continued)

## Market risk

### i) Foreign exchange risk

The company is exposed to transaction foreign exchange risk occasionally. If transaction exposures, including those associated with forecast transactions were significant, they would be hedged when known, principally using forward currency contracts. These are infrequent and whilst the aim is to achieve an economic hedge the company does not adopt an accounting policy of hedge accounting for these financial statements. Foreign exchange differences on retranslation of these assets and liabilities are taken to the profit and loss account.

### ii) Cash flow interest rate risk

The company finances its operations through a mixture of retained profits and bank borrowings. Borrowings at variable rates expose the company to cash flow interest rate risk. The company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the company calculates the impact on profit and loss of a defined interest rate shift and manages its cash flow interest rate risk by using hedges where appropriate.

### iii) Price risk

The Company is not exposed to significant commodity price risk.

## Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables, amounts recoverable on contracts and committed transactions. In order to manage credit risk the directors set individual risk limits for customers based on a combination of payment history and third party credit references. The utilisation of credit limits, ageing debt and collection history is regularly monitored with appropriate action taken by management in the event of a breach of credit limit.

## Liquidity risk

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

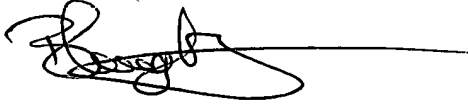
## Employees

The company's employment policies are designed to ensure that they meet the statutory, social and market practices in the UK where the company operates. The company systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the company is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the company plays a major role in maintaining its relationship with its staff.

The company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The company gives full and fair consideration to applications for employment for disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the company. If members of staff become disabled the company continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

## Strategic report (continued)

By order of the board:

A handwritten signature in black ink, appearing to be 'B Loughrey', followed by a long horizontal line extending to the right.

B Loughrey  
Director  
8th June 2017

# Directors' report

The directors present their report with the financial statements of the company for the year ended 31 January 2017.

## Research and development

During the year the company continued to be active in the development of the OneSpace product to support current and future customer requirements. This continued product investment will ensure the Redstone group will remain in a leading position within the desk utilisation and power management system arena.

## Dividends

The directors do not recommend payment of a dividend.

The total distribution of dividends for the period ended 31 January 2017 is nil (2016: nil).

## Events since the year end

Information relating to events since the end of the period is given in the notes to the financial statements.

## Directors

The directors who have held office during the year are as follows:

B Loughrey  
M Salter  
S Williams

S Dredge – Appointed 15<sup>th</sup> March 2017

## Directors' Indemnity

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company has the benefit of Directors' and Officers' liability insurance in respect of itself and its Directors which is purchased by the Company's ultimate parent company.

## Political contributions

The company made no political donations or incurred any political expenditure during the year (2016: nil).

## Disclosures in the strategic report

The following items are included within the strategic report:

### Employees

The Company's policy in respect of disabled persons regarding consideration to applications for employment, continuing their employment and their training, career development and promotion.

Action taken to introduce, maintain or develop arrangements in connection with employees, in respect of the provision of information, consultation, involvement in performance and awareness of factors affecting the Company.

## **Directors' report (continued)**

### **Risk Exposure**

Financial risk management objectives.

Exposure of the company to price risk, credit risk, liquidity risk and cash flow risk.

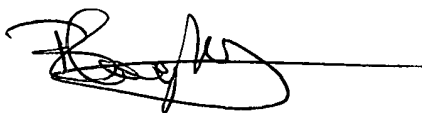
### **Disclosure of information to auditor**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### **Auditor**

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

**By order of the board:**

A handwritten signature in black ink, appearing to read 'B Loughrey', is written over a horizontal line.

**B Loughrey**

Director

8th June 2017

Registered office:  
40 Holborn Viaduct  
London  
EC1N 2PB

# Statement of Directors' responsibilities in respect of the strategic report, the Directors' report and financial statements

## Statement of Directors' responsibilities

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

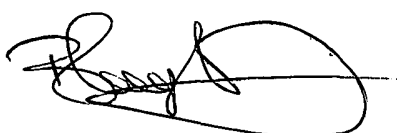
Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

**By order of the board:**



**B Loughrey**  
Director  
8th June 2017

# Independent auditors report to the members of Redstone Converged Solutions Limited

## Opinion

We have audited the financial statements of Redstone Converged Solutions Ltd ("the company") for the year ended 31 January 2017 which comprise the Profit and loss account and other comprehensive income, Balance sheet & Statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 January 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

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

## Going concern

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

## Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

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

## Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or

# Independent auditors report to the members of Redstone Converged Solutions Limited

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

We have nothing to report in these respects.

## **Directors' responsibilities**

As explained more fully in their statement set out on page 9, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## **Auditor's responsibilities**

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

## **The purpose of our audit work and to whom we owe our responsibilities**

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



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

Arlington Business Park  
Theale  
Reading  
RG7 4SD  
United Kingdom

8th June 2017

# Profit and loss account and other comprehensive income

For the year ended 31 January 2017

|                                                      | Note  | 2017             | 2016             |
|------------------------------------------------------|-------|------------------|------------------|
|                                                      |       | £                | £                |
| Revenue                                              | 2     | 39,405,193       | 40,098,094       |
| Cost of sales                                        |       | (32,048,034)     | (33,148,222)     |
| <b>Gross profit</b>                                  |       | <b>7,357,159</b> | <b>6,949,872</b> |
| Administrative expenses                              |       | (5,350,431)      | (5,252,058)      |
| <b>Operating profit</b>                              | 3     | <b>2,006,728</b> | <b>1,697,814</b> |
| Other interest receivable and similar income         |       | 118              | 113              |
| Interest payable and similar charges                 | 6     | (3,090)          | (1,102)          |
| <b>Profit on ordinary activities before taxation</b> |       | <b>2,003,756</b> | <b>1,696,825</b> |
| Tax on profit                                        | 7 (a) | 606,746          | 62,906           |
| <b>Profit for the financial year</b>                 |       | <b>2,610,502</b> | <b>1,759,731</b> |
| <b>Total other comprehensive income</b>              |       | <b>-</b>         | <b>-</b>         |
| <b>Total profit and other comprehensive income</b>   |       | <b>2,610,502</b> | <b>1,759,731</b> |

The profit for the period equates to the total comprehensive income for the year.

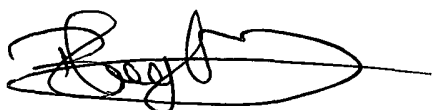
The notes form part of the financial statements

# Balance sheet

As at 31 January 2017

|                                              | Note  | 2017              | 2016             |
|----------------------------------------------|-------|-------------------|------------------|
|                                              |       | £                 | £                |
| <b>Non-current assets</b>                    |       |                   |                  |
| Intangible asset                             | 8     | 162,613           | 309,484          |
| Tangible assets                              | 9     | 563,612           | 635,468          |
| Deferred tax asset                           | 7 (c) | 617,432           | -                |
|                                              |       | <b>1,343,657</b>  | <b>944,952</b>   |
| <b>Current assets</b>                        |       |                   |                  |
| Inventories                                  | 10    | 143,397           | 180,550          |
| Trade and other debtors                      | 11    | 8,924,216         | 7,262,647        |
| Cash at bank and in hand                     |       | 4,355,137         | 2,418,844        |
|                                              |       | <b>13,422,750</b> | <b>9,862,041</b> |
| <b>Creditors</b>                             |       |                   |                  |
| Trade and other creditors                    | 12    | 8,830,236         | 7,525,773        |
| <b>Net Current Assets</b>                    |       | <b>4,592,514</b>  | <b>2,336,268</b> |
| <b>Total assets less current liabilities</b> |       | <b>5,936,171</b>  | <b>3,281,220</b> |
| Property provisions                          | 13    | 113,681           | 89,680           |
| <b>Total net assets</b>                      |       | <b>5,822,490</b>  | <b>3,191,540</b> |
| <b>Capital and reserves</b>                  |       |                   |                  |
| Called up share capital                      | 14    | 900,000           | 900,000          |
| Profit and loss account                      |       | 4,922,490         | 2,291,540        |
| <b>Shareholders' funds</b>                   |       | <b>5,822,490</b>  | <b>3,191,540</b> |

These financial statements were approved by the board of directors on 8th June 2017 and were signed on its behalf by:



**B Loughrey**

Director

8th June 2017

Company number: 02027207

The notes form part of the financial statements

# Statement of changes in equity

As at 31 January 2017

|                                                  | Called up<br>Share<br>Capital | Profit and<br>loss<br>account | Total equity     |
|--------------------------------------------------|-------------------------------|-------------------------------|------------------|
|                                                  | £                             | £                             | £                |
| Balance at 1 February 2015                       | 900,000                       | 528,968                       | 1,428,968        |
| <b>Total comprehensive income for the period</b> |                               |                               |                  |
| Profit for the year                              | -                             | 1,759,731                     | 1,759,731        |
| Total comprehensive income for the period        | -                             | 1,759,731                     | 1,759,731        |
| <b>Transactions with the owners</b>              |                               |                               |                  |
| Share based payment charge                       | -                             | 2,841                         | 2,841            |
| <b>Balance at 31 January 2016</b>                | <b>900,000</b>                | <b>2,291,540</b>              | <b>3,191,540</b> |
| Balance at 1 February 2016                       | 900,000                       | 2,291,540                     | 3,191,540        |
| <b>Total comprehensive income for the period</b> |                               |                               |                  |
| Profit for the year                              | -                             | 2,610,502                     | 2,610,502        |
| Total comprehensive income for the period        | -                             | 2,610,502                     | 2,610,502        |
| <b>Transactions with the owners</b>              |                               |                               |                  |
| Share based payment charge                       | -                             | 20,448                        | 20,448           |
| <b>Balance at 31 January 2017</b>                | <b>900,000</b>                | <b>4,922,490</b>              | <b>5,822,490</b> |

There is no other comprehensive income.

# Notes forming part of the financial statements

## 1. Accounting policies

### General Information

Redstone is a company incorporated and domiciled in the UK.

### Basis of preparing the financial statements

These financial statements have been prepared in accordance with the Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The following exemptions have been taken in these financial statements:

- Share based payments – IFRS 2 is being applied to equity instruments that were granted after 7 November 2002 and that had not vested by 1 February 2014.

The Company's ultimate parent undertaking, RedstoneConnect PLC includes the Company in its consolidated financial statements. The consolidated financial statements of RedstoneConnect PLC are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from 40 Holborn Viaduct, London, EC1N 2PB.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Comparative period reconciliations for tangible fixed assets and intangible fixed assets;
- Disclosures in respect of the compensation of Key Management Personnel;
- Financial Instruments
- Capital management: and
- New but not yet effective IFRSs

As the consolidated financial statements of RedstoneConnect PLC include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosure:

- IFRS 2 *Share Based Payments* in respect of group settled share based payments
- IFRS 13 Fair Value Measurements

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

# Notes forming part of the financial statements (continued)

## 1. Accounting policies (continued)

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below in turnover paragraph of note 1.

### Measurement convention

The financial statements are prepared on the historical cost basis and no assets or liabilities have been stated at their fair value.

### Going Concern

The directors consider that the Company has adequate resources to continue in existence for the foreseeable future. The Directors have assessed the Company's current forecasts, taking into account reasonable changes in trading performance. On the basis of this review, the Directors believe that the Company will continue to operate within the resources currently available to it. The Directors accordingly continue to adopt the going concern basis in preparing these financial statements.

### Foreign currencies

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account.

### Turnover

Turnover represents net invoiced sales of goods, excluding value added tax.

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the company and can be reliably measured. Turnover is measured at the fair value of its consideration received, excluding discounts, value added tax and other sales duty.

Turnover from fixed price construction contracts is recognised on the percentage of completion method, to the extent that the level of completion for a contract can be reliably measured. Turnover includes expenses to the extent that they are recoverable. Where the percentage of completion cannot be reliably measured, turnover is recognised when specified contractual milestones are met or on project completion. When it is probable that the total contract costs will exceed total turnover, the expected loss is recognised immediately. Turnover relating to contractual maintenance is recognised evenly over the period of the agreement.

Where costs incurred plus recognised profits less recognised losses exceed progress billings, the balance is shown as 'amounts receivable on contracts' within debtors. Where progress billings exceed costs incurred plus recognised profits less recognised losses, the balance is shown as deferred income within creditors.

# Notes forming part of the financial statements (continued)

## 1. Accounting policies (continued)

### **Tangible fixed assets**

All tangible fixed assets are recorded at cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

|                     |                                                                                 |
|---------------------|---------------------------------------------------------------------------------|
| Leasehold           | - depreciated over the length remaining on the corresponding improvements lease |
| Fixtures & fittings | - 5 years                                                                       |
| Office equipment    | - 3 years                                                                       |

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

### **Intangible Assets**

#### ***Research and development***

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the profit and loss account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

#### ***Other intangibles***

Software assets are stated at cost less accumulated amortisation and less accumulated impairment losses.

#### ***Amortisation***

Amortisation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

|                               |           |
|-------------------------------|-----------|
| Capitalised development costs | - 3 years |
| Software                      | - 3 years |

### **Inventory**

Inventory are valued at the lower of standard cost and net realisable value on a first in first out (FIFO) basis after making allowance for any obsolete or slow moving items.

# Notes forming part of the financial statements (continued)

## 1. Accounting policies (continued)

### **Amounts recoverable on contracts**

Amounts recoverable on contracts represent the gross unbilled amount for contract work performed to date. They are recognised using a cost completion percentage less a provision for foreseeable losses and less progress billings. Variations are included in contract revenue when they are reliably measurable and it is probable that the customer will approve the variation itself and the revenue arising from the variation. Claims are included in contract revenue only when they are reliably measurable and negotiations have reached an advanced stage such that it is probable that the customer will accept the claim. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Company's contract activities based on normal operating capacity. Contracts that experience losses are fully recognised as soon as those losses are foreseen.

Amounts recoverable on contracts are presented separately to trade debtors in the balance sheet. If payments received from customers exceed the income recognised, then the difference is presented as deferred income in the balance sheet.

### **Financial Assets**

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

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

**Cash and cash equivalents:** These include cash in hand, deposits held at call with banks and bank overdrafts. The Company has an overdraft facility of £1.65m shared across bank accounts held by the Company and the ultimate parent, RedstoneConnect PLC.

### **Financial Liabilities**

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

### **Provisions**

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

### **Corporation tax**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

# Notes forming part of the financial statements (continued)

## 1. Accounting policies (continued)

### **Deferred tax**

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

### **Expenses**

#### ***Operating lease payments***

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss account as an integral part of the total lease expense.

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over the shorter of estimated useful life and lease term, future instalments under such leases, net of finance charges, are included with creditors. Rentals payable are apportioned between finance element, which is charged to the profit and loss account on a reducing balance basis, and the capital element which reduces the outstanding obligation for future instalments.

### **Employee benefits**

#### ***Defined contribution plans***

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

#### ***Share based payments***

Where the Company's parent grants rights to its equity instruments to the Group's or the Company's employees, which are accounted for as equity-settled in the consolidated accounts of the parent, the Group or the Company as the case may be account for these share-based payments as equity-settled. Amounts recharged by the parent are recognised as a recharge liability with a corresponding debit to equity.

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

## Notes forming part of the financial statements (continued)

### 2. Revenue

An analysis of revenue by activity and geographical market is given below:

|                                  | 2017              | 2016              |
|----------------------------------|-------------------|-------------------|
|                                  | £                 | £                 |
| <b>By activity</b>               |                   |                   |
| Cabling infrastructure           | 17,118,922        | 17,055,471        |
| Smart building infrastructure    | 6,636,518         | 6,767,240         |
| DAS (distributed antenna system) | 811,417           | -                 |
| Consultancy                      | 19,040            | -                 |
| OneSpace                         | 24,550            | -                 |
| Managed services                 | 14,794,746        | 16,275,383        |
| <b>Total revenue</b>             | <b>39,405,193</b> | <b>40,098,094</b> |

|                               | 2017              | 2016              |
|-------------------------------|-------------------|-------------------|
|                               | £                 | £                 |
| <b>By geographical market</b> |                   |                   |
| United Kingdom                | 34,767,597        | 37,991,864        |
| Europe                        | 4,388,314         | 1,923,344         |
| Rest of world                 | 249,282           | 182,886           |
| <b>Total revenue</b>          | <b>39,405,193</b> | <b>40,098,094</b> |

### 3. Operating profit

Operating profit is stated after charging:

|                                                     | 2017       | 2016       |
|-----------------------------------------------------|------------|------------|
|                                                     | £          | £          |
| Amortisation of intangible assets                   | 221,376    | 127,997    |
| Depreciation of owned tangible fixed assets         | 387,091    | 370,190    |
| Impairment of internally developed intangible asset | 145,944    | -          |
| Staff costs                                         | 14,057,748 | 13,104,154 |
| Loss / (gain) of foreign exchange                   | (50,643)   | 39,669     |
| Operating lease costs                               |            |            |
| - Plant and machinery                               | 71,330     | 99,496     |
| - Land and buildings                                | 85,534     | 84,670     |
| Hire of equipment                                   | 41,832     | 39,130     |
| Audit fees for these financial statements           | 24,000     | 18,000     |

## Notes forming part of the financial statements (continued)

### 4. Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category was as follows:

|                              | 2017       | 2016       |
|------------------------------|------------|------------|
| <b>Number of employees</b>   |            |            |
| Administrative staff         | 24         | 19         |
| Sales and distribution staff | 242        | 226        |
|                              | <b>266</b> | <b>245</b> |

The aggregate payroll costs of these persons was as follows:

|                       | 2017              | 2016              |
|-----------------------|-------------------|-------------------|
|                       | £                 | £                 |
| Wages and salaries    | 12,419,920        | 11,525,983        |
| Social security costs | 1,382,524         | 1,297,092         |
| Pension costs         | 255,304           | 281,079           |
|                       | <b>14,057,748</b> | <b>13,104,154</b> |

£11,179,754 (2016: £10,246,261) of the above staff costs were included in cost of sales in the income statement.

### 5. Directors' emoluments

Remuneration in respect of the directors was as follows:

|                                                                  | 2017    | 2016    |
|------------------------------------------------------------------|---------|---------|
|                                                                  | £       | £       |
| Aggregate emoluments (excluding pension contributions)           | 443,039 | 551,537 |
| Value of company pension contributions to money purchase schemes | 16,230  | 23,049  |

Emoluments to highest paid director was £173,498 (2016: £234,768), and company pension contributions of £8,450 (2016: £4,500) were made to a money purchase scheme on his behalf.

## Notes forming part of the financial statements (continued)

### 6. Interest payable and similar charges

|               | 2017  | 2016  |
|---------------|-------|-------|
|               | £     | £     |
| Bank interest | 3,090 | 1,102 |

### 7. Taxation

(a) Recognised in the profit and loss account:

|                                             | 2017             | 2016            |
|---------------------------------------------|------------------|-----------------|
|                                             | £                | £               |
| <b>UK corporation tax</b>                   |                  |                 |
| Current tax on income for the period        | 10,686           | -               |
| Deferred tax movement                       | (617,432)        | -               |
| Adjustment in respect of prior periods      | -                | (62,906)        |
| <b>Tax on profit on ordinary activities</b> | <b>(606,746)</b> | <b>(62,906)</b> |

(b) Reconciliation of effective tax rate:

|                                                                   | 2017             | 2016             |
|-------------------------------------------------------------------|------------------|------------------|
|                                                                   | £                | £                |
| Profit for the year                                               | 2,003,756        | 1,696,825        |
| Taxation                                                          | (606,746)        | (62,906)         |
| <b>Profit excluding taxation</b>                                  | <b>2,610,502</b> | <b>1,759,731</b> |
| Tax using the UK corporation tax rate of 20.00%<br>(2016: 20.17%) | 400,751          | 342,193          |
| Overseas tax payable                                              | 5,754            | -                |
| Non (taxable) / deductible expenses                               | 31,845           | (6,175)          |
| Deferred tax movement                                             | (617,432)        | -                |
| Research and development relief                                   | (36,235)         | -                |
| Under / (over) provided in prior years                            | 4,932            | (62,906)         |
| Utilisation of previously unrecognized tax losses                 | (112,456)        | (50,820)         |
| Depreciation in excess of capital allowances                      | 33,213           | 100,468          |
| Double taxation relief                                            | (5,154)          | -                |
| Utilisation of tax losses and group relief                        | (311,964)        | (385,666)        |
| <b>Total tax expense</b>                                          | <b>(606,746)</b> | <b>(62,906)</b>  |

## Notes forming part of the financial statements (continued)

### 7. Taxation (continued)

(c) Recognised in the balance sheet:

|                    | 2017    | 2016 |
|--------------------|---------|------|
|                    | £       | £    |
| Deferred tax asset | 617,432 | -    |

### 8. Intangible assets

During the year the Company continued to be active in the development of the OneSpace product. The capitalised development costs meeting the required conditions allowing them to be treated as an asset are shown below:

|                                    | Software         | Development costs | Total            |
|------------------------------------|------------------|-------------------|------------------|
|                                    | £                | £                 | £                |
| <b>Cost</b>                        |                  |                   |                  |
| Balance at 1 February 2016         | 1,152,539        | 132,028           | 1,284,567        |
| Acquisitions                       | 141,677          | -                 | 141,677          |
| Additions – internally developed   | -                | 78,772            | 78,772           |
| <b>Balance at 31 January 2017</b>  | <b>1,294,216</b> | <b>210,800</b>    | <b>1,505,016</b> |
| <b>Amortisation and impairment</b> |                  |                   |                  |
| Balance at 1 February 2016         | 975,083          | -                 | 975,083          |
| Charge for the year                | 156,520          | 64,856            | 221,376          |
| Impairment                         | -                | 145,944           | 145,944          |
| <b>Balance at 31 January 2017</b>  | <b>1,131,603</b> | <b>210,800</b>    | <b>1,342,403</b> |
| <b>Net book value</b>              |                  |                   |                  |
| <b>Balance at 31 January 2017</b>  | <b>162,613</b>   | <b>-</b>          | <b>162,613</b>   |
| <b>Balance at 31 January 2016</b>  | <b>177,456</b>   | <b>132,028</b>    | <b>309,484</b>   |

#### *Amortisation*

The amortisation charge is recognised in the following line item in the profit and loss account:

|                         | 2017           | 2016           |
|-------------------------|----------------|----------------|
|                         | £              | £              |
| Administrative expenses | 221,376        | 127,997        |
|                         | <b>221,376</b> | <b>127,997</b> |

## Notes forming part of the financial statements (continued)

### 8. Intangible assets

#### *Impairment of internally developed intangible asset*

A review of the carrying amount of Development costs relating to the internally developed intangible asset resulted in an impairment of £145,944 being recognised in the year.

The carrying amount of Development costs at 31 January 2017 include impairment losses of £145,944 (2016: nil)

A review of other intangible assets at the balance sheet date indicated there was no additional impairment loss in the year ended 31 January 2017 (2016: nil).

### 9. Tangible assets

|                                   | Leasehold improvements | Fixtures & fittings | Office equipment | Total            |
|-----------------------------------|------------------------|---------------------|------------------|------------------|
|                                   | £                      | £                   | £                | £                |
| <b>Cost</b>                       |                        |                     |                  |                  |
| Balance at 1 February 2016        | 455,693                | 78,749              | 1,053,930        | 1,588,372        |
| Acquisitions                      | 137,696                | 55,717              | 121,822          | 315,235          |
| Disposals                         | (4,704)                | -                   | (178,019)        | (182,723)        |
| <b>Balance at 31 January 2017</b> | <b>588,685</b>         | <b>134,466</b>      | <b>997,733</b>   | <b>1,720,884</b> |
| <b>Depreciation</b>               |                        |                     |                  |                  |
| Balance at 1 February 2016        | 150,915                | 24,925              | 777,064          | 952,904          |
| Charge for the year               | 96,955                 | 18,209              | 271,927          | 387,091          |
| Disposals                         | (4,704)                | -                   | (178,019)        | (182,723)        |
| <b>Balance at 31 January 2017</b> | <b>243,166</b>         | <b>43,134</b>       | <b>870,972</b>   | <b>1,157,272</b> |
| <b>Net book value</b>             |                        |                     |                  |                  |
| <b>Balance at 31 January 2017</b> | <b>345,519</b>         | <b>91,332</b>       | <b>126,761</b>   | <b>563,612</b>   |
| <b>Balance at 31 January 2016</b> | <b>304,778</b>         | <b>53,824</b>       | <b>276,866</b>   | <b>635,468</b>   |

### 10. Inventory

|                                      | 2017           | 2016           |
|--------------------------------------|----------------|----------------|
|                                      | £              | £              |
| <b>Raw materials and consumables</b> | <b>143,397</b> | <b>180,550</b> |

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £85,141 (2016: £102,573). The write-down of stocks to net realisable value amounted to £20,459 (2016: £26,283). There were no reversals of write-downs within the year (2016: nil).

## Notes forming part of the financial statements (continued)

### 11. Trade and other debtors

|                                    | 2017             | 2016             |
|------------------------------------|------------------|------------------|
|                                    | £                | £                |
| <b>Current</b>                     |                  |                  |
| Trade debtors                      | 4,407,703        | 4,080,841        |
| Amounts recoverable on contracts   | 1,645,212        | 2,468,389        |
| Amounts owed by group undertakings | 2,095,226        | 1,667            |
| Prepayments                        | 776,075          | 711,750          |
| <b>Due within one year</b>         | <b>8,924,216</b> | <b>7,262,647</b> |

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

- \* Amounts recoverable on contracts includes the following:  
Contract costs plus recognised profits of £7,227,184 (2016: £11,340,220) less progress billings of £6,104,033 (2016: £9,453,303) and retention monies of £808,663 (2016: £683,947);  
Accrued managed services revenue of (£27,609) (2016: £159,714); and  
Doubtful debt provision of £258,993 (2016: £262,189).

### 12. Trade and other creditors: amounts falling due within one year

|                                    | 2017             | 2016             |
|------------------------------------|------------------|------------------|
|                                    | £                | £                |
| <b>Current</b>                     |                  |                  |
| Trade creditors                    | 4,503,414        | 3,101,301        |
| Payments received on account       | 339,536          | 715,692          |
| Amounts owed to group undertakings | 912,096          | 912,096          |
| Taxation                           | 10,686           | -                |
| Social security and other taxes    | 784,712          | 575,680          |
| Accruals                           | 2,049,511        | 2,221,004        |
| Deferred income                    | 230,281          | -                |
|                                    | <b>8,830,236</b> | <b>7,525,773</b> |

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

## Notes forming part of the financial statements (continued)

### 13. Provisions

|                                              | Repair obligations |
|----------------------------------------------|--------------------|
|                                              | £                  |
| At 1 February 2015                           | 107,681            |
| Charged / (credited) to the income statement |                    |
| - Additional provision                       | 65,490             |
| - Unused amounts reversed                    | (41,490)           |
| Used during the period                       | (42,001)           |
| At 1 February 2016                           | 89,680             |
| Charged / (credited) to the income statement |                    |
| - Additional provision                       | 24,001             |
| <b>At 31 January 2017</b>                    | <b>113,681</b>     |

The company has various property leases expiring on the 24 December 2018 and the 15 December 2019 which require the company to return the property to the landlord at the end of the tenancy in a specified condition. The above provision has been made by the management in recognition of the estimated cost of returning these premises to the condition specified in the leases based on historic property dilapidation costs and dealings with the present landlords. Until expiry of these leases these provisions will remain as management estimations.

### 14. Capital and reserves

#### Share Capital

|                                    | 2017           | 2016           |
|------------------------------------|----------------|----------------|
|                                    | £              | £              |
| <b>Ordinary shares</b>             |                |                |
| On issue at 1 February 2016        | 900,000        | 900,000        |
| <b>On issue as 31 January 2017</b> | <b>900,000</b> | <b>900,000</b> |

Allotted, called up and fully paid

|                                   | 2017           | 2016           |
|-----------------------------------|----------------|----------------|
|                                   | £              | £              |
| <b>Ordinary shares</b>            |                |                |
| <b>Ordinary shares of £1 each</b> | <b>900,000</b> | <b>900,000</b> |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

## Notes forming part of the financial statements (continued)

### 15. Ultimate parent company

The Company is a subsidiary undertaking of RedstoneConnect PLC which is the ultimate parent company incorporated in England and Wales. The ultimate controlling party is RedstoneConnect PLC.

The largest group in which the results of the Company are consolidated is that headed by RedstoneConnect PLC, incorporated in England and Wales. The smallest group in which they are consolidated is that headed by RedstoneConnect PLC incorporated in England and Wales. No other group financial statements include the results of the Company. The consolidated financial statements of these groups are available to the public and may be obtained from 40 Holborn Viaduct, London, EC1N 2PB.

### 16. Retirement benefit schemes

The Company operates a defined contribution company pension scheme for the Directors and employees. For the year, pension costs incurred were £255,304 (2016: £281,079) with £188,220 (2016: £203,988) being included in cost of sales.

### 17. Operating leases

Non-cancellable operating lease rentals are payable as follows:

|                            | 2017    | 2016    |
|----------------------------|---------|---------|
|                            | £       | £       |
| Less than one year         | 170,269 | 158,657 |
| Between one and five years | 172,443 | 237,624 |
| More than five years       | -       | -       |
|                            | 342,712 | 396,281 |

The Company leases a warehouse and motor vehicles under operating leases.

During the year £85,534 (2016: £84,670) was recognised as an expense in the profit and loss account in respect of property operating leases and £71,330 (2016: £99,496) in respect of motor vehicle operating leases.