

REDCENTRIC SOLUTIONS LIMITED

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**



REDCENTRIC SOLUTIONS LIMITED

COMPANY INFORMATION

Directors	Peter Brotherton Chris Jagusz (appointed 20 October 2017) Fraser Fisher (resigned 20 October 2017)
Company secretary	Peter Brotherton
Registered number	08322856
Registered office	Central House Beckwith Knowle Harrogate North Yorkshire HG3 1UG
Independent auditors	KPMG LLP 1 Sovereign Square Sovereign Street Leeds LS1 4DA
Bankers	Barclays Bank Plc Churchill Place London E14 5RB

REDCENTRIC SOLUTIONS LIMITED

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REDCENTRIC SOLUTIONS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2018

Introduction

Managing our customers' IT infrastructure puts Redcentric Solutions Limited ("Redcentric", "the Company") at the heart of a dynamic industry full of opportunities, balanced by the challenges that these industry changes create. For the year ended 31 March 2018, these changes were set against a difficult backdrop for the business as a result of the accounting misstatements discovered in November 2016. However, the issues uncovered have all been addressed and the group is now on a much stronger footing.

Several major customers renewed and extended the scope of their contracts, demonstrating confidence in Redcentric's ability and service levels. However, new customer acquisitions and add-on sales to existing customers were below the level required to create top-line growth.

Redcentric's many strengths – flexibility, completeness of proposition and customer relationships based on trust – are a sound basis on which the business can capitalise on the positive trends in the industry. We will need to develop our business to address declining demand in some markets, and capitalise on the opportunities in others whilst becoming more efficient. We believe we have the platform to achieve this.

Key Performance Indicators

	2018	2017
Turnover	£100.0m	£104.6m
Gross Margin (%) ⁱ	60%	58%
Adjusted EBITDA ⁱⁱ	£17.9m	£17.1m
Net Debt ⁱⁱⁱ	£28.0m	£40.3m

ⁱ Gross Margin % is calculated as gross profit (turnover less cost of sale) over revenue.

ⁱⁱ Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, non-recurring costs and share based payments.

ⁱⁱⁱ Net debt is calculated as the sum of cash less bank loans, overdrafts and other financial liabilities.

Performance

There is much to be proud of in Redcentric's operational performance over the past year. Service levels remained high allowing a high customer retention rate and we continued to attract new customers. All this was achieved during a period of leadership changes in the business and the resolution of historical issues.

We have continued to invest to maintain our leading service offerings and important accreditations. We became the first fully certified provider of Health & Social Care Network (HSCN) delivery for the UK Government with two significant security accreditations. We also upgraded our security standard to Cyber Essentials Plus and gained ISO14001 accreditation for environmental management. All these achievements are a reflection of a dedicated and committed workforce which took on a challenge to deliver outstanding service whilst managing significant change during a period of evolution and strengthening of the company.

Nevertheless, the fact remains that the business did not sell enough in the latter half of the year ended 31 March 2017 and throughout this year to generate net revenue growth. There are other sector-wide headwinds which are beginning to act against some of our service offerings as currently configured. It is a tribute to the resilience of the business that much of the resultant revenue decline was mitigated through a combination of careful management of cost of sales and a drive on efficiency. The net result of all this was revenue of £100.0m (2017: £104.6m) and adjusted EBITDA of £17.9m (2017: £17.1m).

Cost control was a key factor in our financial performance. Targeted recruitment and a limited scale redundancy programme reduced the number of UK employees from 387 in April 2017 to 347 by March 2018. We

REDCENTRIC SOLUTIONS LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2018

consolidated two London offices into one and reduced the use of third party data centres in favour of using our own facilities. Cost of sales was managed more effectively with a focus on reducing excess inventory in the network. Our Hyderabad office is a key differentiator for Redcentric, giving us access to a large pool of highly skilled professionals in a low-cost jurisdiction with exceptional infrastructure.

In addition, the Redcentric management team has been considerably strengthened with a number of appointments in the finance function, and a new Chief Information Officer appointed to drive business automation.

Challenges in the future

There are significant changes taking place in the way customers buy the types of service which Redcentric provides. For the company to grow, we must respond to these market changes, evolve our infrastructure and develop new ways to make profits from our customer relationships. This will require change in many areas of the company. We are fortunate that we have the opportunity to make these changes in the context of our successes in retaining and growing major customer relationships, and our recent wins in a major procurement programme in one of our core markets – health and social care.

Our strategy for change starts from areas of the business's strength, where Redcentric has much to build upon. Most important is our reputation for excellent service and the customer trust and loyalty that stems from it. Consequently, we have a strong customer base, with a high degree of repeat business, good product penetration and sector expertise. We have excellent infrastructure for connecting customers, enabling them to collaborate and manage their data processing and storage.

Most prominent of the sector-wide changes is the emergence of hyper cloud providers in our cloud market. Amazon Web Services (AWS) and Microsoft (Azure) offer processing and storage services in a flexible manner with low initial cost of purchase. Separately, much of the public sector is mandated to adopt the Government-sponsored Crown Hosting in preference to commercial data centres like our own. We anticipate that many public-sector entities will transfer some of their requirements to Crown Hosting or hyper cloud providers over time.

Our own data centres will increasingly host the customer-specific elements of customers' hybrid clouds - combining the hyper cloud for less sensitive work with the specialised hosting environments we manage. This trend also places a premium on the breadth and quality of our network.

The increasing complexity of customer infrastructure is another driver of change for our business. Software-as-a-service is becoming more popular among our customers, though many of them expect to retain some of their own proprietary applications for the foreseeable future. These hybrid software-as-a-service / proprietary software and dedicated / hyper cloud environments are significantly more complex to design, operate, keep secure and enhance.

The emergence of software defined networking technology offers customers more flexibility whilst increasing technical complexity. Redcentric must ensure that it is well-equipped to help its customers in this demanding environment, throughout the whole cycle from the design and sales process, to the building of the infrastructure and its subsequent operation.

Finally, customers are expecting higher levels of service including faster response times for implementation and the ability to conduct business online (sometimes in a wholly automated manner) all at increasingly competitive prices which is presenting a challenge for the industry as a whole.

Principal risks and uncertainties

Reliance on key personnel and management

The success of Redcentric is dependent on the services of key management and operating personnel. The Directors believe that the Company's future success will depend largely on its ability to retain and attract highly skilled and qualified personnel, and to expand, train and manage its employee base. There can be no guarantee that suitably skilled and qualified individuals will be retained or identified and employed. If the Company fails to retain or recruit the necessary personnel, or if the Company loses the services of any of its key executives, its

REDCENTRIC SOLUTIONS LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2018

business could be materially and adversely affected.

Competition

Redcentric operates in a highly competitive marketplace and while the Directors believe the Company enjoys significant strengths and advantages in competing for business, some of the competitors are much larger with considerable scale that could allow them to offer similar services for lower prices than the Company would be prepared to match, therefore competitors could materially adversely impact the scale of the Company's revenues and its profitability. The Company monitors competitor's activity and constantly reviews its own services and prices to ensure a competitive position in the market is maintained.

Technology

The market for Redcentric's services is in a state of constant innovation and change. The Company actively participates in a number of industry-wide forums, and devotes significant resource to the development of new services, ensuring new technologies can be incorporated and integrated with the Company's core services. The nature of the Company's services means that they are exposed to a range of technological risk, such as viruses, hacking, and an ever-changing spectrum of security risk. The Company maintains constant pro-active vigilance against such risks and maintains membership of some of the highest levels of security accreditation as part of the service it offers its customers.

Infrastructure failure

The Directors believe that one of the key differentiators that Redcentric offers is that its services are provided over its own controlled and managed infrastructure, such as its own networks and datacentres. Whilst this provides customers with comfort over resilience and reliability, the Company also is exposed to risks of infrastructure failure. A critical element of Redcentric's operating methodologies and procedures is to mitigate such risks through the careful construction, maintenance and management of its own infrastructure. All networks and datacentres have fully resilient fail-over procedures with regular testing of back-up and recovery plans.

The way forward

We are responding to the opportunities and challenges outlined above with an increased pace of change in the shape of our infrastructure, the mix of our service offerings and the cost efficiency of our operations. Shifts in our physical infrastructure are inevitable given the rise of hyper cloud providers reducing long-term demand for data centres whilst increasing customers' reliance on our networks and ability to manage complex services.

Among our prime near-term opportunities is the Health and Social Care Network (HSCN), of which Redcentric is an accredited provider. HSCN is replacing the aged N3 (the NHS National Network) in a national programme which opens markets previously unavailable to Redcentric and other service providers. As part of this programme, post year-end Redcentric won its largest ever framework agreement, the Yorkshire and Humber Public Services Network, which has the potential to add up to £20m of annual revenue. This is one of many procurements in 2018 in which Redcentric is active and seeing success.

We will use the considerable revenue streams from YHPSN and other similar contracts to invest in network and service operations for a hybrid cloud world.

We are also creating fresh propositions with Redcentric's new Cloud Transformation Practice which designs the complex hybrid environments when customers use a mix of private and clouds alongside traditional computing. This is especially relevant to existing customers because of our insight into their current infrastructure. We already manage cloud production environments which can scale rapidly in response to changing demand and we are working with lead customers on hyper cloud proofs of concept. Our very strong relationship with Microsoft as a leading Azure partner gives us access to market and product insight which we can bring to our customers. Meanwhile, customer interest in software-defined networking will be tested this year with market trials, and we are experiencing customers' increased usage and expectation of our network when they move to the hyper cloud, another source of future growth.

The movement of some public-sector customers into Crown Hosting creates project and service opportunities

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STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2018

for Redcentric. Customers need help managing these complex and risky transitions, and Redcentric is already developing its track record in this field. In parallel, a focus on selling data centre space to commercial users will help offset some of the customer losses from moves to Crown Hosting.

Our sales function is being realigned with Redcentric's business priorities. This includes new incentives to balance retention and growth of existing clients with the acquisition of new ones. Whilst it will take some months for the benefits to materialise, we are making these changes now to secure our future success. Post period-end a new sales leader was appointed to implement this strategy.

In parallel with the development of our services, we are making our operations more efficient as a response to pricing pressure. Redcentric has already implemented the first phase of Microsoft Dynamics as an ERP system which will enable us to automate delivery of many back-office services. Further investment will be required to automate customer interactions, improve speed of response and reduce costs. We have the benefit of a well-established low-cost centre in Hyderabad and are moving work there where possible and appropriate. We can do this whilst maintaining direct UK customer contact.

Outlook

The IT infrastructure market is undergoing structural changes. The adoption of the hyper cloud, software-defined networking, the public sector shift to Crown Hosting, pricing pressure, digital customer experience, along with the Health and Social Care Network framework all create opportunities and challenges in varying degrees.

Redcentric's focus is to build on our strengths of customer relationships and service platforms to shift the business to high growth markets, turn the challenge of the hyper cloud into opportunity, and mitigate the impact of some public sector customers moving to Crown Hosting.

We will continue to invest in automation to bring down costs and accelerate the pace of business, whilst expanding our resource in established low cost locations where feasible, and maintaining a UK-based direct customer experience.

We have the benefit of the assets, capabilities and customer insight needed to succeed in a rapidly changing industry – our plan is to make the most of the opportunities this presents us.

This report was approved by the board and signed on its behalf.



.....
Peter Brotherton
Director

Date: *27 August 2018*

REDCENTRIC SOLUTIONS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2018

The directors present their report and the financial statements for the year ended 31 March 2018.

Directors' responsibilities statement

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 the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 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 judgments and accounting 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;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- 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 to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Results and dividends

The profit for the year, after taxation, amounted to £5,511 thousand (2017 - £2,150 thousand).

Directors

The directors who served during the year were:

Peter Brotherton
Chris Jagusz (appointed 20 October 2017)
Fraser Fisher (resigned 20 October 2017)

Future developments

An indication of likely future developments in the business have been included in the Strategic Report.

Employee involvement

The Company's employment policies are designed to ensure that they meet statutory, social and market practices 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.

REDCENTRIC SOLUTIONS LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2018**

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Post balance sheet events

There have been no significant events affecting the Company since the year end.

Auditors

The auditors, KPMG LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board and signed on its behalf.



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Peter Brotherton
Director

Date: *27 August 2018*

REDCENTRIC SOLUTIONS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF REDCENTRIC SOLUTIONS LIMITED

Opinion

We have audited the financial statements of Redcentric Solutions Limited ("the company") for the year ended 31 March 2018 which comprise the Profit and Loss Account, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 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
- 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.

Respective responsibilities of Directors and Auditors

Directors' responsibilities

As explained more fully in the directors' statement, 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.

REDCENTRIC SOLUTIONS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF REDCENTRIC SOLUTIONS LIMITED

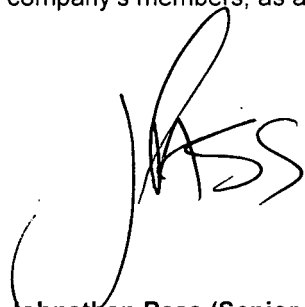
Auditor's responsibilities

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

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.



Johnathan Pass (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Leeds
LS1 4DA

Date: 27/8/2015

REDCENTRIC SOLUTIONS LIMITED

**PROFIT AND LOSS ACCOUNT AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2018**

	Note	2018 £000	2017 £000
Turnover	4	99,989	104,622
Cost of sales	31	(39,996)	(44,159)
Gross profit		59,993	60,463
Administrative expenses		(51,364)	(51,543)
Exceptional administrative expenses	6	(1,672)	(5,474)
Operating profit		6,957	3,446
Analysed as:			
Adjusted EBITDA		17,849	17,082
Exceptional costs	6	(1,672)	(5,474)
Depreciation	14	(7,768)	(7,451)
Amortisation of intangibles	13	(884)	(263)
Share based payments		(568)	(448)
		6,957	3,446
Interest payable and similar expenses		(1,452)	(1,253)
Interest receivable	10	19	1
Profit before tax		5,524	2,194
Tax on profit	12	(13)	(44)
Profit and other comprehensive income for the financial year		5,511	2,150

There were no recognised gains and losses for 2018 or 2017 other than those included in the profit and loss account and other comprehensive income.

The notes on pages 12 to 35 form part of these financial statements.

All amounts incurred in arriving at operating profit relate to continuing operations.

Certain costs in 2017 have been reclassified between cost of sales and operating expenses (see note 31).

Adjusted EBITDA is Earnings Before Interest, Tax, Depreciation and Amortisation and excluding share based payment expenses and non-recurring exception items. The Board regards Adjusted EBITDA as the key measure of underlying profitability.

REDCENTRIC SOLUTIONS LIMITED
REGISTERED NUMBER: 08322856

BALANCE SHEET
AS AT 31 MARCH 2018

	Note	2018 £000	2017 £000
Intangible assets	13	40,686	40,657
Tangible fixed assets	14	20,176	21,932
		<u>60,862</u>	<u>62,589</u>
Current assets			
Stocks	15	666	234
Debtors due within 1 year (including £6,142,000 (2017: £5,128,000) due after more than one year)	16	59,273	59,316
Cash at bank and in hand		5,799	3,176
		<u>65,738</u>	<u>62,726</u>
Creditors: amounts falling due within one year	17	(26,462)	(19,631)
Provision: amounts falling due within one year	17	-	(339)
		<u>39,276</u>	<u>42,756</u>
Net current assets			
		<u>100,138</u>	<u>105,345</u>
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	18	(30,671)	(41,092)
Provision: amounts falling due after more than one year	18	(376)	(1,207)
		<u>69,091</u>	<u>63,046</u>
Net assets			
		<u>69,091</u>	<u>63,046</u>
Capital and reserves			
Called up share capital	30	53,000	53,000
Capital redemption reserve		5,503	4,969
Profit and loss account		10,588	5,077
		<u>69,091</u>	<u>63,046</u>
Total shareholders' funds			
		<u>69,091</u>	<u>63,046</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:



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Peter Brotherton
 Director

Date: *27 August 2018*

The notes on pages 12 to 35 form part of these financial statements.

REDCENTRIC SOLUTIONS LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2018

	Called up share capital £000	Capital redemption reserve £000	Profit and loss account £000	Total equity £000
At 1 April 2016	53,000	3,994	3,901	60,895
Profit for the year	-	-	2,150	2,150
Deferred tax movements	-	-	(974)	(974)
IFRS2 Charge	-	975	-	975
At 1 April 2017	53,000	4,969	5,077	63,046
Comprehensive income for the year				
Profit for the year	-	-	5,511	5,511
IFRS2 Charge	-	534	-	534
At 31 March 2018	53,000	5,503	10,588	69,091

The notes on pages 12 to 35 form part of these financial statements.

REDCENTRIC SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

1. General information

Redcentric Solutions Limited (the "Company") is a private company incorporated, domiciled and registered in England in the UK. The registered number is 08322856 and the registered address is Central House, Beckwith Knowle, Harrogate, HG3 1UG.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies.

The following principal accounting policies have been applied:

2.2 Financial reporting standard 101 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based payment
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of IAS 7 Statement of Cash Flows
- the effects of new but not yet effective IFRSs.

2.3 Going concern

The Company meets its day to day working capital requirements through its cash reserves and borrowings. The Company's forecast and projections, taking into account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current cash reserves and borrowings. The directors have a reasonable expectations that the Company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern.

2.4 Exemption from preparing consolidated financial statements

The Company is a parent Company that is also a subsidiary included in the consolidated financial statements of its immediate parent undertaking established under the law of an EEA state and is therefore exempt from the requirement to prepare consolidated financial statements under section 400 of the Companies Act 2006.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018

2. Accounting policies (continued)

2.5 Revenue

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services and goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group does not generally bundle various services and products. When bundles occur, the revenue is allocated to each segment based on the fair value of each element within the contract.

a) Recurring revenue

The largest portion of the Group's revenue relates to a number of managed services, which the Group offers to its customers. All of the revenue in this category is contracted, and includes a full range of managed support, maintenance, subscription and service agreements. Revenue for these types of services is recognised evenly over the period of the agreement as the services are provided. The costs incurred for this revenue stream typically match the revenue pattern. Deferred income is recognised when billing occurs ahead of revenue recognition and the same applies to cost of sales. Accrued income is recognised when the revenue recognition criteria were met but in accordance with the underlying contract the sales invoice has not been issued yet. Deferred income is recognised within trade and other payables and accrued income is recognised within trade and other receivables.

b) Service revenue

These professional services include mainly installation and consultancy services. Revenue from these services is recognised in accordance with the underlying contracts. Customer acceptance of milestones is often required for the recognition of consultancy and installation revenue. The costs incurred for this revenue stream generally match the revenue pattern, however a significant portion of consultancy costs relate to staff costs, which are recognised as incurred.

The Group does not provide any of its professional services under fixed price contracts. Installations are typically completed in a very short period of time and the revenue is recognised upon completion and/or customer acceptance. Consultancy services are generally provided on a time and material basis.

c) Product sales

This revenue stream relates predominantly to the sale of third party equipment to customers, and almost always takes place in connection with the provision of other services. Revenue from the sale of product is recognised upon delivery to the customer. The costs incurred for this revenue stream match the revenue pattern.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018

2. Accounting policies (continued)

2.6 Goodwill & Intangible assets

Goodwill arises on the acquisition of subsidiary trade and assets and represents the excess of the consideration transferred (the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree) over the fair value of the identifiable net assets acquired.

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

The estimated useful lives range as follows:

Software and Licences	-	5	years (or over the contract term if shorter)
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Impairment and amortisation charges are included within the administration expenses line in the Profit and Loss Account.

2.7 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

The estimated useful lives range as follows:

Leasehold improvements	-	5 - 10	years
Office fixtures and fittings	-	4 - 5	years
Vehicles and Computer Equipment	-	3 - 5	years (or over the contract if shorter)

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Profit and Loss Account.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

2. Accounting policies (continued)

2.8 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2.9 Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

2.10 Trade payables

Trade payables are stated at their nominal value, recognised initially at fair value and subsequently valued at amortised cost.

2.11 Trade and other receivables

Trade and other receivables are recognised and carried at the lower of their original value and recoverable amounts. A provision is made where there is evidence that the balances will not be recovered in full. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Trade and other receivables are initially recognised at fair value and subsequently held at amortised cost. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows.

The Company's trade and other receivables are non-interest bearing.

2.12 Accruals and deferred income

The liability for costs which have been incurred in an accounting period but for which no invoice has been received are recognised in the period the costs relate to. Income which has been invoiced in advance of its recognition criteria being met is recognised on the balance sheet as deferred income until the recognition criteria are met.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

2. Accounting policies (continued)

2.13 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Profit and Loss Account except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Profit and Loss Account within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Profit and Loss Account within 'other operating income'.

2.14 Share based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the Profit and Loss Account over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each 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. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the Company keeping the scheme open or the employee maintaining any contributions required by the scheme).

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to Profit and Loss Account over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the Profit and Loss Account is charged with fair value of goods and services received.

2.15 Operating lease payments

Rentals paid under operating leases are charged to the Profit and Loss Account on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

2. Accounting policies (continued)

2.16 Finance lease payments

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the Profit and Loss Account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

2.17 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Profit and Loss Account when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

2.18 Interest income

Interest income is recognised in the Profit and Loss Account using the effective interest method.

2.19 Borrowing costs

All borrowing costs are recognised in the Profit and Loss Account in the year in which they are incurred.

2.20 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Profit and Loss Account in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

2.21 Taxation

Tax is recognised in the profit and loss account, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

2. Accounting policies (continued)

2.22 Exceptional items

Exceptional items are transactions that fall within the ordinary activities of the Company but are presented separately due to their size or incidence.

2.23 Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which range from 3 to 6 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

2. Accounting policies (continued)

3. Judgements in applying accounting policies and key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

- Impairment of trade debtors

The company policy is to establish a provision for impairment of trade debtors when there is evidence of a risk of non-payment.

Historically the Company has little history of non-payment arising from business failure and as such specific provisions are generally not required. A provision is created as a result of timing differences when processing renewals or where there is a risk of non-payment due to disputed debtor balances.

Following a year of significant improvement in this area, historical analysis shows that the reduced level of provisioning is adequate to cover these eventualities.

Annually the Company reviews the appropriateness of the impairment provision by taking into account ageing, known post balance sheet corrections, previous losses experienced and general economic conditions.

Management complete an exercise assessing recoverability of overdue balances based on an internal assessment of the recoverability of balances. This allows management to conduct sensitivity analysis of debtor balances and related provisions reflecting alternative potential judgements. In managements view the sensitivities conducted do not show material different outcomes with regards to the level of provision recognised.

- Impairment of accrued income

The Company assesses on an on-going basis the make-up and recovery of accrued income balances. A provision for impairment is established where there is evidence of a risk of non-payment taking in to account ageing, known post balance sheet corrections, previous losses experienced and general economic conditions.

The ageing of accrued income can vary depending on the length of project delivery schedules. Aged balances are reviewed regularly and a provision is established where a risk of non-payment has been identified.

REDCENTRIC SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

4. Turnover

The whole of the turnover is attributable to its principal activity.

All turnover arose within the United Kingdom.

	2018 £000	2017 £000
Recurring revenue	87,064	90,218
Product Sales	7,180	6,278
Services revenue	5,745	8,126
Total revenue	99,989	104,622

5. Operating Expenses

Included in profit are the following:

	2018 £000	2017 £000
Employee costs	23,860	23,261
Exceptional costs	1,672	5,474
Depreciation of tangible fixed assets: Owned Assets	5,173	5,369
Depreciation of tangible fixed assets: Leased Assets	2,595	2,082
Amortisation: Owned Assets	859	263
Amortisation: Leased Assets	25	-
Operating lease charges	2,566	3,216
Value of inventory recognised as expense	5,111	6,156

REDCENTRIC SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

6. Exceptional items

In accordance with the Company's policy of separately identifying exceptional costs, the following charges were recognised in the year:

	2018 £000	2017 £000
Professional fees associated with the forensic review and Financial Conduct Authority (FCA) investigation	672	1,291
Staff restructuring costs	868	187
Integration costs	132	471
Exceptional impairment of trade debtor balances	-	2,933
Disposal of City Fibre network	-	207
Vacant property provision	-	385
	<u>1,672</u>	<u>5,474</u>

Exceptional impairment of trade debtor balances;

- o Following the audit of the 31 March 2017 annual results, a debtor impairment charge was taken in FY17.

Professional fees associated with the forensic review and FCA investigation;

- o These costs relate to legal and forensic advice received in respect of the ongoing FCA investigation.

Staff restructuring costs;

- o During the year a restructuring exercise was undertaken which resulted in 18 redundancies.

Integration costs;

- o The integration costs relate to the integration of the City Lifeline acquisition which was undertaken in January 2016. The integration process is complete, and no further costs will be incurred in this regard.

Disposal of City Fibre network;

- o On 30 September 2016, the Company disposed of its fibre network to City Fibre Limited. This led to an exceptional charge of £0.2m in respect of the loss on disposal and legal fees.

Vacant property provision;

- o In FY17, the Birmingham and Hodderson offices were vacated, leading to a vacant property charge of £0.4m in the year.

REDCENTRIC SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

7. Auditors' remuneration

The Company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Company:

	2018 £000	2017 £000
The audit and interim review of the Company's financial statements	115	115
Tax advisory and compliance services	12	32
	<u>127</u>	<u>147</u>

8. Employees

Staff costs were as follows:

	2018 £000	2017 £000
Wages and salaries	20,655	19,993
Social security costs	2,240	2,392
Share based payments	568	448
Contributions to defined contribution plans	397	428
	<u>23,860</u>	<u>23,261</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2018 No.	2017 No.
Sales	78	81
Operations	245	277
Administration	39	28
	<u>362</u>	<u>386</u>

REDCENTRIC SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

9. Directors' remuneration

	2018 £000	2017 £000
Directors' remuneration	557	665
Amounts receivable under long term incentive schemes	40	28
Company contributions to pension plan	20	29
Benefits	-	1
Compensation for loss of office	159	30
Gain on share option exercise	59	-
Amounts paid to third parties in respect of directors' services	-	18
	835	771

The aggregate remuneration of the highest paid director was £417,000 (2017: £351,000), and company pension contributions of £10,000 (2017: £17,500) were made to a money purchase scheme on his behalf. During the year, the highest paid director exercised share options.

10. Interest receivable

	2018 £000	2017 £000
Bank interest receivable	19	1
	19	1

11. Interest payable

	2018 £000	2017 £000
Interest payable on bank loans	1,303	103
Other interest payable	6	50
Finance lease charges payable	143	1,100
	1,452	1,253

REDCENTRIC SOLUTIONS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

12. Taxation

	2018	2017
	£000	£000
Corporation tax		
Current tax on profits for the year	331	19
Adjustments in respect of previous periods	696	603
	<u>1,027</u>	<u>622</u>
Total current tax	<u>1,027</u>	<u>622</u>
Deferred tax		
Origination and reversal of timing differences	(410)	200
Adjustments in respect of prior periods	(604)	(778)
Total deferred tax	<u>(1,014)</u>	<u>(578)</u>
Taxation on profit on ordinary activities	<u>13</u>	<u>44</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018

12. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2017 - lower than) the standard rate of corporation tax in the UK of 19% (2017 - 20%). The differences are explained below:

	2018 £000	2017 £000
Profit on ordinary activities before tax	5,524	2,194
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017 - 20%)	1,050	439
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	(66)	159
Movement in unprovided tax losses	(1,000)	-
Adjustments to tax charge in respect of prior periods	-	(175)
Prior year adjustments	92	(379)
Effect of tax rate change	28	-
Share scheme deduction under Part 12 CTA 2009	(12)	-
Fixed asset timing differences	(79)	-
Total tax charge for the year	13	44

The prior year corporation tax charge relates to the resubmission of the FY15 and FY16 tax computations. The streaming of tax losses has been incorrectly applied in FY15 and FY16 tax computations and hence the reason for the prior year corporation tax adjustment.

REDCENTRIC SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018

13. Intangible assets

	Goodwill £000	Software & Licences £000	Total £000
Cost			
At 1 April 2017	39,727	4,700	44,427
Additions	-	913	913
At 31 March 2018	39,727	5,613	45,340
Amortisation			
At 1 April 2017	1,787	1,983	3,770
Charge for the year	-	884	884
At 31 March 2018	1,787	2,867	4,654
Net book value			
At 31 March 2018	37,940	2,746	40,686
At 31 March 2017	37,940	2,717	40,657

Included in software and licences are assets held under finance leases with a carrying value of £0.4m (2017: nil). Of the £0.9m intangible assets acquired in the the year, £0.4m (2017: nil) were funded using finance leases.

As the consolidated Financial Statements of Redcentric plc include the equivalent disclosures, the Company has taken the exemption under FRS 101 available in respect of certain disclosures required by IAS 36 in respect of the impairment of goodwill.

REDCENTRIC SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018

14. Tangible fixed assets

	Long-term leasehold property £000	Fixtures and fittings £000	Vehicles and Computer equipment £000	Total £000
Cost or valuation				
At 1 April 2017 (as previously stated)	13,414	343	26,310	40,067
Prior Year Adjustment	974	479	5,810	7,263
At 1 April 2017 (as restated)	14,388	822	32,120	47,330
Additions	74	193	5,745	6,012
Disposals	(566)	-	(8,028)	(8,594)
At 31 March 2018	13,896	1,015	29,837	44,748
Depreciation				
At 1 April 2017 (as previously stated)	3,628	128	14,379	18,135
Prior Year Adjustment	5,046	480	1,737	7,263
At 1 April 2017 (as restated)	8,674	608	16,116	25,398
Charge for the year on owned assets	1,418	99	6,251	7,768
Disposals	(566)	-	(8,028)	(8,594)
At 31 March 2018	9,526	707	14,339	24,572
Net book value				
At 31 March 2018	4,370	308	15,498	20,176
At 31 March 2017 (as restated)	5,714	214	16,004	21,932

Included in vehicles and computer equipment are assets held under finance leases with a carrying value of £4.9m (2017: £5.2m). Of the £6.0m fixed assets acquired in the year, £3.0m (2017: £2.5m) were funded using finance leases.

During 2018, the split of the fixed assets between classes has been aligned across the group. The result of this is to bring the published results in line with internal management reporting. None of the assets affected required any change in useful economic life. The total NBV as at 31 March 2017 of £21.9m remains unchanged from prior published accounts.

REDCENTRIC SOLUTIONS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

15. Stocks

	2018	2017
	£000	£000
Finished goods and goods for resale	687	304
Less: provision against finished goods and goods for resale	(21)	(70)
	<u>666</u>	<u>234</u>

16. Debtors

	2018	2017
	£000	£000
Due after more than one year		
Deferred tax asset (note 22)	6,142	5,128
	<u>6,142</u>	<u>5,128</u>
Due within one year		
Trade debtors	16,779	22,825
Provision for bad debts	(981)	(5,576)
Amounts owed by group undertakings	27,196	27,965
Other debtors	88	51
Corporation tax repayable	-	408
Accrued income	2,845	3,155
Prepayments	7,204	5,360
	<u>59,273</u>	<u>59,316</u>

The intercompany balance is non - interest bearing. It is measured at cost and repayable on demand.

REDCENTRIC SOLUTIONS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

17. Creditors: Amounts falling due within one year

	2018	2017
	£000	£000
Obligations under finance leases	3,125	2,369
Corporation tax	889	-
Trade creditors	8,975	7,450
Taxation and social security	2,321	1,561
Other creditors	105	183
Accruals	2,704	2,263
Provision	-	339
Deferred income	8,343	5,805
	26,462	19,970

18. Creditors: Amounts falling due after more than one year

	2018	2017
	£000	£000
Bank Loans (note 20)	27,864	37,796
Net obligations under finance leases	2,807	3,296
	30,671	41,092

REDCENTRIC SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018

19. Provisions

	Dilapidations Provision	Vacant Property Provision	Total Provision
At 1 April 2017 (as previously stated)	(273)	(1,273)	(1,546)
Prior Year Adjustment	(146)	146	-
At April 2017 (restated)	<u>(419)</u>	<u>(1,127)</u>	<u>(1,546)</u>
Charged to profit and loss account:			
Additional Provision created during the year	(50)	-	(50)
Used during the year	<u>93</u>	<u>1,127</u>	<u>1,220</u>
At 31 March 2018	<u>(376)</u>	<u>-</u>	<u>(376)</u>

Current and non-current analysis of provisions:

	Dilapidations Provision	Vacant Property Provision	2018 Total	Dilapidations Provision	Vacant Property Provision	2017 Total
Current	-	-	-	-	(339)	(339)
Non- Current	(376)	-	(376)	(273)	(934)	(1,207)
Total	<u>(376)</u>	<u>-</u>	<u>(376)</u>	<u>(273)</u>	<u>(1,273)</u>	<u>(1,546)</u>

REDCENTRIC SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

20. Loans

Analysis of the maturity of loans is given below:

	2018 £000	2017 £000
Amounts falling due 2-5 years		
Total gross payments - in more than one year, but not more than five years	28,000	38,000
Less finance charges	(136)	(204)
	<u>27,864</u>	<u>37,796</u>

At 31 March 2018, the Group was party to £68.0m of bank facilities with a termination date of 1 April 2020. The facilities comprise a revolving credit facility ("RCF") of £40.0m with a £20.0m accordion, a £2.0m overdraft facility and a £6.0m asset financing facility.

The RCF has been provided jointly by Barclays Bank PLC and The Royal Bank of Scotland PLC, with Lombard Technology Services Ltd providing the asset financing facility and Barclays Bank PLC the overdraft facility.

21. Finance leases

Future minimum lease payments for:

	2018 £000	2017 £000
Finance leases	(5,932)	(5,665)
	<u>(5,932)</u>	<u>(5,665)</u>

	2018 £000	2017 £000
Within one year	3,193	2,413
In more than one year, but not more than five years	2,828	3,385
Less finance charges included above	(89)	(133)
	<u>5,932</u>	<u>5,665</u>

REDCENTRIC SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018

22. Deferred tax assets and liabilities

	Share based payments temporary differences	Tax losses	Property, plant and equipment temporary differences	Other timing differences	Total
	£000	£000	£000	£000	£000
At 31 March 2017	49	2,725	2,344	10	5,128
Recognised in the profit and loss account	8	(1,123)	523	2	(590)
Prior year adjustment	-	1,604	-	-	1,604
At 31 March 2018	57	3,206	2,867	12	6,142

Deferred tax comprises:

	2018 £000	2017 £000
Accelerated capital allowances	2,867	2,344
Short term temporary differences	57	49
Other temporary differences	12	10
Tax losses	3,206	2,725
Deferred tax asset	6,142	5,128

REDCENTRIC SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

23. Share based payments

	Weighted average exercise price (pence) 2018	Number 2018	Weighted average exercise price (pence) 2017	Number 2017
Outstanding at the beginning of the year	80.5	10,037,417	82.4	14,230,452
Granted during the year	28.0	2,752,820	45.7	919,048
Forfeited during the year	-	-	-	-
Exercised during the year	70.0	(276,143)	58.1	(2,977,988)
Expired during the year	57.1	(2,590,973)	107.9	(2,134,095)
Outstanding at the end of the year	72.2	9,923,121	80.5	10,037,417

24. Pension commitments

The Company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £397,000 (2017: £428,000).

25. Commitments under operating leases

At 31 March 2018 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2018 £000	2017 £000
Not later than 1 year	2,686	2,264
Later than 1 year and not later than 5 years	10,211	3,142
Later than 5 years	20,400	4,586
	33,297	9,992

The operating leases relate to property, motor vehicles and office equipment, and have remaining terms of between 2 and 23 years. The amount recognised as an expense in the year is £2.6m (restated 2017: £2.6m).

None of the above leases are sublet. There are no contingent rent arrangements and the Company does not have a purchase option with respect to the above leases. The lease terms can only be extended if the terms of the underlying contracts are approved by both the Company and the lessor.

The Company had no contracted, but not provided for, capital commitments at 31 March 2018 (2017: nil)

REDCENTRIC SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

26. Related party transactions

The Company is a wholly owned subsidiary of Redcentric plc and is included in the consolidated financial statements of Redcentric plc which are publicly available. Consequently, the Company has taken advantage of the exemption under FRS101 and not disclosed transactions with other group companies.

27. Post balance sheet events

There have been no significant events affecting the Company since the year end.

28. Controlling party

The immediate and ultimate parent undertaking and controlling party is Redcentric plc, which is the parent undertaking of the smallest and largest group to consolidate these financial statements.

29. Investments

	Principal Activity	Country of Incorporation	% Ordinary share capital owned
Held directly by Redcentric Solutions Limited			
Hotchilli Internet Limited	Dormant	England and Wales	100%
Held indirectly by Redcentric Solutions Limited			
Redcentric Solutions Private Limited	Support Services	India	100%

All of the Group companies have a registered office of Central House, Beckwith Knowle, Harrogate, North Yorkshire, HG3 1UG, except Redcentric Solutions Private Limited which has a registered office of 606-611, 6th Floor, Manjeera Trinity Corporate, JNTU – Hitech City Road, Kukatpally, Hyderabad - 72

30. Share capital

	2018 £000	2017 £000
Allotted, called up and fully paid		
53,000,000 Ordinary shares of £1 each	53,000	53,000

REDCENTRIC SOLUTIONS LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018****31. Cost reclassification**

A cost reclassification was undertaken to align comparative periods with the directors' view of appropriate cost allocation.

	31 March 2017		31 March 2017
	as previously reported	Cost reclassification	as reclassified
	£000	£000	£000
Revenue	104,622	-	104,622
Cost of sales	(43,304)	(855)	(44,159)
Gross profit	61,318	(855)	60,463
Administrative expenses	(57,872)	855	(57,017)
Operating profit	3,446	-	3,446