

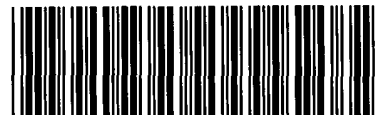
Redcentric plc

Annual Report and Financial Statements

Year ended 31 March 2017

Company Number 08397584

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Chairman's Statement

The year has been challenging following the Company's disclosure in November concerning the financial misstatements arising from past periods and the subsequent release of interim results in December 2016. Despite these events, our clients and employees have remained loyal and focused, thus ensuring that the business has continued to provide reliable services and report results in line with revised expectations.

A great deal of work has been carried out in the period. We have made a number of key appointments to ensure the ongoing strengthening and resilience of our financial management team, its processes, structure and all adjacent activities. While we continue to reinforce these activities, the overall operation of the group has largely returned to business as normal.

Summary trading results

The revenue for the year was £104.6m. Operating loss for the year was £ (3.0)m and adjusted EBITDA* was £17.3m resulting in an adjusted EBITDA margin of 16.5%. Adjusted basic EPS was 4.45p with a statutory EPS loss of (1.60)p.

Prior Year restatements

As a result of the scale of the restatements to the comparative numbers and the qualification of the audit report on the 2016 Income Statement of the Group, we have not sought to comment on comparative trading performance figures.

Board and Employees

I would like to place on record my sincere thanks to all of our employees. Despite the distractions and challenges of the events from the past few months, they have carried on their work with great dedication. This has meant that we have continued to provide our clients with the support they rightly expect.

During the second half of the year a number of changes have occurred to the Board. Tony Weaver resigned from the Board as Non-Executive Director on 1 November 2016. Tim Coleman resigned from the Board as Chief Financial Officer on 7 November 2016.

On 23 November 2016 the Company announced the appointment of Peter Brotherton ACA as Chief Financial Officer, Company Secretary and a Director of the Board. Peter has over 25 years' experience across a number of senior roles. Jon Kempster joined the Board as a Non-Executive Director on 10 January 2017 and Steve Vaughan also joined the board as a Non-Executive Director post year end on 13 June 2017. Jon brings additional financial experience to the board while Steve brings a wealth of industry experience.

These changes create a strengthened Board which is important for the long term outlook of Redcentric. Furthermore, under Peter Brotherton's stewardship, the Finance Team has also been significantly reinforced to ensure the challenges of this year cannot happen again.

Dividend

While the Group remains cash generative, the Board has decided that it is not appropriate to pay a dividend in respect of the year ended 31 March 2017. The Board will review this situation on an ongoing basis.

Outlook

It is appropriate to register our thanks for the support provided to the Group by our banks and advisers. The Board is mindful that this has been an equally difficult period for Shareholders and their ongoing support has been appreciated.

We have a strengthened Board and Management Team who are absolutely focused on ensuring Redcentric has a sustainable and successful long term future. Our strong contract base and recurring nature of our business provides a solid platform for ongoing performance and growth. There remains significant opportunity for the Company to continue to establish itself as a market leader. We see no change in our clients' operational and strategic needs being matched by the delivery of our reliable and innovative services. Therefore the Board is confident that the Group will put this difficult period behind it and progress to improve Shareholder value.

Chris Cole

Non-Executive Chairman

26 July 2017

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

Operational Review

Overview

Since it started life as a new company in April 2013, Redcentric has grown and developed into one of the leading businesses in the UK managed services market, successfully delivering critical services to over 2,000 mid-market customers. We have built a strong platform, delivering a broad range of core services to our customers, enabling them to focus on improving their own businesses. We are taking the necessary actions, following the accounting misstatements, to strengthen the business. While the business has had a turbulent period, we have weathered the storm and can now return to business as usual, focussing on sales growth and high quality customer services. The underlying business is strong, sustainable and well positioned for the future.

Redcentric's proposition

Redcentric's central aim is to provide its customers with a wide range of reliable, secure and innovative core IT services from a well-invested base of owned infrastructure. Redcentric operates highly accredited, state-of-the-art data centres in Harrogate, Reading, London and Cambridge which are connected to our network, and from which services are delivered. These are our own dedicated facilities, held on long leases, and have been fully resourced with well trained and qualified staff as well as the technology to deliver critical services to our customers. We maintain very high levels of accreditation, and undergo rigorous audits from a range of external and government bodies throughout the year.

The data centres are connected to our own fully resilient national network, providing coverage and access across the UK. From this strong base of owned managed infrastructure we are able to offer a wide range of IT managed cloud, communications and connectivity services including;

- Collaboration Services. Through IP telephony, messaging and video conferencing we help organisations enable their staff to communicate more effectively.
- Infrastructure. As a leading provider of infrastructure services, Redcentric offers a suite of Cloud services, as well as colocation, data management and virtualisation services, all offered on an "As a Service" basis.
- Connectivity Services. We are a significant service provider with a core backbone network, metro networks and extensive experience in delivering networks for a broad range of organisations.
- Applications Services. We provide packaged solutions for many sectors as well as application management services from legacy to current architecture.
- Security. We help protect customers from deliberate malicious attacks, or unintentional security threats from unauthorised devices and a range of other threats.
- Mobile. We provide a fully managed mobile service with flexibility, reliability and security.

Along with our own highly assured and actively managed services, we also offer customers the ability to operate hybrid solutions. These include operating customer premise equipment, through to private or shared cloud solutions in Redcentric's data centres, through to public cloud. These can all be managed through Redcentric's assured "single pane of glass" management platform, allowing customers complete flexibility to implement the right solution for their needs, while enabling flexibility for future change.

Redcentric's headquarters are in Harrogate, with additional offices in London, Reading, Theale, Cambridge, Hyde and Hyderabad. The Hyderabad office operates as a fully integrated part of Redcentric, with highly skilled second and third line technical engineers complementing the support teams in the UK as well as providing back office services. The Hyderabad office provides access to one of the world's largest sources of highly skilled technical staff, and provides flexibility in delivering high quality services to our customers.

Redcentric sees its mission as enabling its customers to focus on enhancing their own businesses whilst relying on a trusted partner to operate their underlying core IT infrastructure platform.

Performance

The financial performance of the company is covered in the Financial Review. We focus particularly on recurring revenue, which was £90.2m (86.2% of total revenue for the year). Despite the challenges we have faced through the year with regard to our financial misstatements of previous periods, it is important to note that we have continued to be asked to tender for business, have clients renew contracts and win new clients.

We continue to generate growth by winning new business from both existing clients and new names. The ratio remains healthy with 65% of our new wins coming from cross sell to existing customers and 35% coming from brand new clients. The sales performance throughout the year was strong, with internal sales targets being achieved and 88 new names added to the client list. Some significant wins include:

- Public Healthcare sector: a £3.4m new business win delivering network services
- Private Healthcare Sector : a £2.9m five-year contract cross-sell to provide Cloud services
- Public Sector: a £3.8m two-year contract renewal for Cloud services
- Public Sector: a £2.4m two year contract renewal

We continue to believe that ownership of our own cloud, communications and connectivity infrastructure allow us to provide our clients with the peace of mind that they need as they continue to look externally for the delivery of core IT services.

In addition we have invested heavily in ISO accreditation covering many fields including service management, business continuity and security, ensuring that our high quality team of people deliver a demonstrably exemplary service.

Acquisitions

Whilst there were no acquisitions this year, City Lifeline Ltd was acquired in January 2016 with the integration now complete and the datacentre "on-net". The Shoreditch location provides ample datacentre space. It also provides additional office space allowing for the consolidation of our London locations into a single site.

Strategy

There are multiple different views of the size of the UK IT services market, however they all indicate a very significant market, worth in excess of £100bn spend per annum. Within this market are a wide range of differing sub-sectors, from high-growth new technologies, to declining legacy markets. Redcentric is not exposed to markets in structural decline, and our focus on connectivity, infrastructure and cloud-based solutions means the markets we operate in are growing steadily.

Our strategy for future growth is simple;

- We will continue to win new customers, sell more to existing customers and renew our existing customer contracts.
- We will continue to invest in developing and enhancing our own infrastructure so that we can provide our customers with the very highest levels of security and service.
- We will use our scale to explore and invest in new technologies so that our customers can benefit from the high levels of innovation across the whole industry.

We have a stable, growing and well-funded business, operating in a growing market, and we are confident that our strategy will deliver shareholder value in the coming years.

People

Redcentric's success has always been dependent on the hard work and dedication of its employees in both the UK and India. Staff numbers have increased this year to 541, with around 150 being located in our Hyderabad office. We have invested in additional space in both our Harrogate and Hyderabad offices to support the business. We are also investing in our Shoreditch location to allow the closure of our other London office.

Our Save-As-You-Earn share-save plan has been in place since December 2014 and the Company plans to launch a third round later this year to include our staff based in India for the first time. The plan provides employees with a risk-free means of sharing in the success of the Company, and I am delighted that so many have been able to participate.

Outlook

A huge amount of work has been carried out to ensure the challenges of this year will not happen again. Significant investment in our finance department has materially strengthened the personnel and systems in place. The addition of the new back office system toward the end of the financial year will cement into place a solid scalable back office platform. The board has been strengthened both by the addition of a new Chief Financial Officer and two experienced Non-Executive directors.

The team at Redcentric remain dedicated and loyal which is key within a people business. Client loyalty has also been very positive. This has been demonstrable in both contract renewal and cross sell wins. The Company has also benefitted from 88 new name customer wins throughout the year demonstrating the appeal of the Company's market offering. The sales team delivered their target last year and the current pipeline remains healthy. Redcentric is a good business with solid market potential underpinned by a robust contract base. While being very aware of the impact from this past year for Redcentric's shareholders, the Board does believe that the business has a positive long term outlook.



Fraser Fisher
Chief Executive Officer
26 July 2017

Financial Review

Summary of results

A summary of the Group's financial performance is shown below.

	2017
	£'000
Revenue	104,623
Loss from operations	(2,995)
Basic and Diluted earnings per share	(1.60p)
Dividend (p)	0p
Adjusted financial performance measures	
Adjusted EBITDA	17,273
Adjusted EBITDA margin	16.5%
Adjusted profit from operations	8,250
Adjusted Basic earnings per share	4.45p
Adjusted Diluted earnings per share	4.32p
Other key performance indicators	
Net debt (including finance leases)	£39.5m
Operating cash flows to adjusted EBITDA	54.7%

Accounting misstatements

Net assets and net debt

Following an internal review by the Company's Audit Committee in relation to the interim results for the six months ended 30 September 2016, materially misstated accounting balances in the Group's balance sheet were discovered.

The Board acted promptly and appointed Deloitte and Nabarro to carry out an independent forensic review. The majority of misstatements arose in the group's main subsidiary, Redcentric Solutions Limited. The forensic review found that both net assets and net debt as at 31 March 2016 had been materially misstated. The misstatements arose due a combination of wilful misstatement and poor application of basic accounting controls and processes. The investigation did not find any evidence of theft.

The review found that net assets as at 31 March 2016 had been overstated by £14.9m (subsequently revised to £15.8m as per note 28). A number of accounting policies and practices, specifically those in respect of cost accrual, cost deferment and revenue recognition had been incorrectly applied.

Net debt at 31 March 2016 had been understated by £12.5m. The forensic review uncovered misstatements regarding the timing of cash receipts and cash payments. Cash receipts from customers received post year end had been incorrectly recorded as having been received pre year end and cash payments to suppliers pre year end had been incorrectly recorded as being made post year end.

In addition to the accounting errors and misstatements, supplier payments had been very significantly delayed in order to present a better net debt position (cash flows and net debt below).

Income statement prior year comparative figures

The scale and complexity of the misstatements, along with the length of time over which the misstatement occurred, meant that the forensic review took a significant time to complete and a level of judgement was applied to the allocation of profit reduction over a number of accounting periods. The forensic review focused on the 30 September 2016 and 31 March 2016 balance sheets and additional work was undertaken by the Company to analyse and attribute the accounting misstatements back to 31 March 2015.

Whilst the audits of the subsidiary companies had been completed, the statutory accounts for the year ended 31 March 2016 were not filed at the same time as the Redcentric plc group accounts. Given the material misstatements discovered, the Group's subsidiary accounts had to be re-audited by the predecessor auditor, PwC. This was a very time consuming exercise and was completed when the subsidiary accounts were drawn up again and filed with Companies House on 28 April 2017. Whilst all of the Group's subsidiaries received unqualified audit reports on the Statements of Financial position, the Statement of Comprehensive income of Redcentric Solutions Limited received a qualified opinion as the company's former auditors, PwC, were unable to form an opinion within reasonable timescales. The directors took the view that the time and cost of the further investigations necessary to provide sufficient audit evidence would be disproportionate, and this conclusion also applies to the comparative consolidated Statement of Comprehensive Income within these financial statements, leading to a qualified opinion being issued by KPMG.

As a result of the scale of the restatements to the comparative numbers and the qualification of the audit report on the 2016 income statement, we have not sought to comment on comparative trading figures.

Remedial plan

The forensic review identified a number of process and control failings which required prompt rectification action. Significant progress has been made in improving the financial control environment post the forensic review:

- The finance team has been significantly strengthened in terms of numbers, experience and capability.
- Significantly enhanced financial controls have been applied across the business.
- Clear cash cut off policies are rigorously applied.
- The replacement of the multiple legacy back office systems is underway and a fully integrated Microsoft platform will be implemented by the start of the next financial year.

Bank refinancing

As a result of the accounting misstatements, the Group's historical financial results had to be restated and this meant that previously reported banking covenant ratios had been breached.

The Group received covenant waivers for the historical breaches from its Banking Syndicate (Barclays, NatWest and Lombard) and a revised facilities agreement was signed on 27 April 2017.

The revised facilities agreement was broadly in line with the original agreement save with an increased margin.

Financial Conduct Authority investigation

On 17 March 2017, the Financial Conduct Authority ("FCA") notified Redcentric that it had commenced an investigation in connection with the Company's publication of accounting

information and other announcements concerning its financial position. This followed the completion of an independent forensic review commissioned by the Board of Redcentric.

Redcentric is co-operating fully with the FCA and other relevant authorities concerning this matter.

Acquisitions and amortisation of intangibles

No acquisitions were undertaken during the year. In relation to the previous year's acquisitions, with the exception of the City Lifeline Ltd finance function, the Calyx Managed Services Ltd and City Lifeline Ltd businesses were fully integrated into the group's principal subsidiary Redcentric Solutions Ltd.

In the year ended 31 March 2017 the Group recorded an amortisation charge of £6.2m against a £6.0m restated charge in the previous year. The increase in amortisation reflected a full years charge for City Lifeline (2 months in the year ended 31 March 2016).

Capital expenditure and depreciation

Capital expenditure for the year at £8.6m was broadly consistent with the previous year.

The depreciation charge for the year was £7.5m, reflecting the higher levels of capital expenditure in the last two financial years.

Non-recurring items

Non-recurring costs amounted to £5.5m (Restated 31 March 2016: £6.7m) and comprise:

	2017	2016 Restated
	£000	£000
Non-recurring impairment of trade debtor balances	2,933	-
Professional fees associated with the forensic review and Financial Conduct Authority (FCA) investigation	1,291	-
Integration and restructuring costs	658	3,028
Vacant property provisions	385	1,698
Disposal of City Fibre network	207	-
Settlement of supplier claims		1,954
	5,474	6,680

The accounting irregularities experienced at the start of the financial year resulted in inadequate credit management during part of the year, causing a significant build-up of overdue and uncollected debt. This together with a reassessment of the basis for credit risk provisioning has resulted in one-off credit losses of £2.9m being recorded during the year ended 31 March 2017.

A non-recurring charge of £1.3m was incurred in respect of professional fees paid to Deloitte and Nabarro relating to the forensic exercise and FCA investigation.

Integration and restructuring costs relate primarily to the final operational integration of the City Lifeline and Calyx businesses.

During the year, the Birmingham and Hoddesdon offices were vacated and this led to a vacant property charge of £0.4m in the year.

During the year the Group disposed of its fibre network to City Fibre Limited and this resulted in an exceptional charge of £0.2m in respect of the loss on disposal and legal fees.

The settlement of supplier claims resulted from a software licence audit in respect of prior years.

Cash flows / Net debt

A summary of the cash flows for the year are as follows:

Operating cash flow before non-recurring costs and movements in working capital	17,273
Working capital movements	(7,831)
Non-recurring costs	(3,159)
Corporation tax received	71
Net cash inflow from operating activities	6,354
Cash flows from investing activities	
Proceeds on disposal of property, plant and equipment	5,000
Purchase of property, plant and equipment	(6,744)
Net cash outflow from investing activities	(1,744)
Cash flows from financing activities	
Dividends paid to shareholders	(4,406)
Interest paid	(1,209)
Repayment of borrowings	(2,435)
Drawdown on revolving credit facility	10,000
Proceeds of issue of shares less costs of issue	1,731
Net cash inflow from financing activities	3,681
Net increase (decrease) in cash and cash equivalents	8,291
Opening cash and cash equivalents (as restated)	(3,970)
Net increase (decrease) in cash and cash equivalents	8,291
Effect of exchange rates	19
Cash and cash equivalents	4,340

The cash flow statement is dominated by the £9.6m catch up in creditor balances. The delayed payments included trade creditors and payroll creditors. Post the forensic review, the group has had a policy of paying its suppliers in accordance with their terms and this explains the £9.6m cash outflow.

Taxation

The corporation tax charge for the year reflects the offset of available tax trading losses brought forward.

Share based payments

The Group recorded a charge for share based payments during the year of £1.1m. Of this amount, £0.5m related to staff schemes and £0.6m to historic options. The staff charge for the year declined largely as a result of options lapsing due to leavers.

EPS

The statutory basic and diluted earnings per share ("EPS") in the year was (1.60)p. The Group also calculates an adjusted EPS figure to measure underlying performance, which excludes the effect of amortisation of acquired intangibles, share option charges and non-recurring costs, and applies a normalised tax charge. Adjusted basic EPS was 4.45p with adjusted diluted EPS 4.32p.

Dividends

During the year Redcentric returned £4.4m to shareholders in the form of dividends. Whilst the group remains cash generative, the board has decided that it is not appropriate to pay a dividend in respect of the year ended 31 March 2017. The board will review this situation on an ongoing basis.

Change of Auditor

KPMG were appointed as the Group's auditors on 15 May 2017.

Peter Brotherton
Chief Financial Officer
26 July 2017



DIRECTORS' PROFILES

Non-executive Directors

CHRIS COLE

Independent Non-Executive Chairman

Chris Cole was appointed as a Non-Executive Director and Chairman of Redcentric with effect from 1 September 2014. Chris has a strong track record and experience with quoted companies, having successfully led WSP Group plc as CEO and subsequently Non-Executive Chairman and Ashtead Group plc as Non-Executive Chairman. Chris, as a Chartered Engineer, founded and led the development of WSP both organically and acquisitively into a global consultancy with 10,000 people operating in 40 countries. Following WSP's merger with Genivar, Inc. in August 2012, Chris is the Non-Executive Chairman of the new engaged company, WSP Global Inc. listed on the Toronto Stock Exchange.

In addition to the above Chris is the Non-Executive Chairman of Applus Services SA and Tracsis plc.

DAVID PAYNE

Independent Non-Executive Director

David Payne was appointed as a non-executive Director of Redcentric on 19 February 2013. David has a varied background of management and entrepreneurship in the IT, leisure, and property industries. For 20 years after leaving university he worked for Juliana's, a leisure company that floated on the main market of the London Stock Exchange in 1983. David was subsequently recruited by a venture capital fund to become chairman of Virtuality Limited, a company at the forefront of developing virtual reality. He oversaw the successful flotation of this company on the main market of the London Stock Exchange in 1994 and then left to devote more time to the development of a quoted property company.

David is Chairman of the Remuneration and Nomination Committees and a member of the Audit Committee, and was the Senior Independent Non-executive Director to 24 July 2017. David is also Chairman of Castleton Technology plc.

STEPHEN PUCKETT

Independent Non-Executive Director

Stephen Puckett was appointed as a Non-Executive Director on 17 November 2014. Stephen has a wealth of senior boardroom experience in a number of listed companies, and was Group Finance Director at Michael Page International plc from 2001 to 2012. Stephen is also Non-Executive Chairman of Hydrogen Group plc and a Non-Executive Director of ITE Group plc and Chairman of the Audit Committee, and is a Director of the charity Kingston Carers Network. Stephen is Chairman of the Audit Committee and is a member of the Remuneration and Nominations Committees.

JON KEMPSTER

Independent Non-Executive Director

Jon Kempster was appointed as a Non-Executive Director on 10 January 2017. Jon was until recently the Chief Financial Officer at Utilitywise, an AIM listed energy consultancy, and is currently a Non-Executive Director of JVM Group, a private company selling construction equipment in Russia. Prior to these two roles, Jon was Chief Financial Officer to Wincanton plc, the logistics and distribution Group, from 2010 to 2012. From 2006 to 2010 Jon was Chief Financial Officer of Delta plc.

Jon is an ACA qualified chartered accountant and will join the Audit, Remuneration and Nominations Committees.

STEPHEN VAUGHAN

Non-Executive Director

Stephen Vaughan was appointed as a Non-Executive Director on from 13 June 2017. Through his career, Stephen has held a number of executive and non-executive roles focused on the technology sector. He currently has two non-executive roles, sitting on the Board of ECSC plc, the AIM-listed cyber security services provider, and Progressive Equity Research, the paid-for equity research house.

Until 2015, Stephen was Chief Executive of Phoenix IT plc, the main-market listed IT Infrastructure Services business, and since then has been non-executive director of Mobica, a software development company, and Chairman of NetNames, the internet services and online brand management company. He has previously been Chief Executive at Communis plc and Synstar plc.

Stephen is a member of the Remuneration, Audit and Nomination Committees, and is the Senior Independent Non-executive Director as of 24 July 2017.

Executive Directors

FRASER FISHER

Chief Executive Officer

Fraser Fisher was appointed a Director of Redcentric on 8 April 2013, and became CEO on 9 November 2015. Fraser is an experienced IT business leader having successfully built and sold profitable businesses in the sector. Fraser was most recently Managing Director of Redstone with responsibility for leading its managed services offering while integrating Maxima Holdings plc. Prior to his appointment at Redstone, Fraser had a number of senior roles, including Managing Director at Maxima and was latterly responsible for developing its offshore support function in Hyderabad.

Prior to his appointment at Maxima, Fraser founded and was Managing Director of Centric Networks Limited, a mid-market managed and hosted services provider and was a founding Director of Netforce Group plc, an ISP and managed services provider.

PETER BROTHERTON

Chief Financial Officer

Peter Brotherton was appointed as Chief Financial Officer on 28 November 2016. Peter is a senior and experienced Chief Financial Officer with over 25 years' experience across a number of senior finance roles. Peter's two previous roles were as Chief Financial Officer of Gametech and Chief Financial Officer at PKR Group.

Prior to those two roles, from 2011 to 2014, Peter was Chief Financial Officer and then Chief Executive of Meucci Solutions NV. Meucci Solutions was an international telecommunications and managed services business. During his time at Meucci Solutions, the business saw strong sales and EBITDA growth while also extensively reviewing its central financial control function.

Peter also had senior finance roles at Varla (UK) Limited, Cell Structures Group plc and spent five years at Kingston Communications plc, becoming Director of Finance. Peter trained at KPMG.

Corporate Governance

As an AIM listed company Redcentric plc is not required to comply with the principles and provisions of the UK Corporate Governance Code published by the Financial Reporting Council in September 2014, however the Board of Redcentric plc is committed to the principles of good corporate governance and follows, so far as is practicable and appropriate in view of the Group's size, stage of development and the nature of the Company the provisions of the UK Corporate Governance Code and complies with the provisions of the QCA Guidelines.

The Board of Directors

At the financial year end the Board comprised the non-executive Chairman, Chris Cole; the Chief Executive, Fraser Fisher; the Chief Financial Officer, Peter Brotherton; and non-executive Directors David Payne, Jon Kempster and Stephen Puckett.

Post the year end, Stephen Vaughan joined the Board as a non-executive director.

The business and management of the Company and its subsidiaries are the collective responsibility of the Board. At each meeting, the Board considers and reviews the trading performance of the business. The Board has a formal written schedule of matters reserved for its review and approval. These include the approval of the annual budget, major capital expenditure, investment proposals, the interim and annual results, and a review of the overall system of internal control and risk management.

There are three standing Board Committees: Audit, Nominations and Remuneration. Each of these Committees acts within defined terms of reference. Additional information is set out later in this report and also in the Directors' Remuneration Report in respect of the Remuneration Committee.

Authority for the execution of the approved policies, business plan and daily running of the business is delegated to the executive Directors.

David Payne is the Senior Independent non-executive Director and served throughout the year in this position.

All Directors have access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures and applicable rules and regulations are observed. The Board has a procedure whereby any Director may seek, through the Company Secretary, independent professional advice, at the Company's expense, in furtherance of his duties.

Formal agendas and reports are provided to the Board on a timely basis in advance of Board and Committee meetings and the Chairman ensures that all Directors are properly briefed on issues to be discussed at Board meetings. Directors are able to obtain further advice or seek clarity on issues raised at the meetings from within the Company or from external sources.

The Company's Articles of Association require that a minimum of one third of the Directors must seek re-appointment at the next Annual General Meeting. Given the exceptional year it is the board's intention that all Directors will stand for election.

Nominations Committee

The Nominations Committee consists of David Payne (Chairman), Stephen Puckett and Jon Kempster.

For nominations, the Committee meets as and when necessary to consider the appointment of new executive and non-executive Directors.

A process is in place for the appointment of new Directors involving, if felt appropriate, the use of external consultants followed by meetings with both the Committee and subsequently with the Board as a whole.

This ensures that the selection process is both formal and objective. The Committee has formal terms of reference (available on request from the Company Secretary) and meets at least once a year to review succession planning at both Board and senior management level across the Group.

Remuneration Committee

The Remuneration Committee consists of David Payne (Chairman), Stephen Puckett and Jon Kempster.

Details of the Committee and its policies are set out in the Directors' Remuneration Report on pages 17 to 19. The Committee has formal terms of reference (available on request from the Company Secretary).

Audit Committee

The Audit Committee consists of Stephen Puckett (Chairman), Jon Kempster and David Payne.

The Committee has formal terms of reference (available on request from the Company Secretary). These include the recommendation of, appointment, re-appointment and removal of the external auditors, the review of the scope and results of the external annual audit by the auditors, their cost effectiveness, independence and objectivity. The Committee also reviews the nature and extent of any non-audit services provided by the external auditors. In addition, the Committee reviews the effectiveness of internal controls, considers the need for an internal audit function and considers any major accounting issues and reports on such matters to the Board. The Committee reviews the integrity of the financial statements and formal announcements. A whistle-blowing arrangement exists whereby matters can be confidentially reported to the Committee. The executive Directors are not members of the Committee but attend the meetings by invitation, as necessary, to facilitate its business.

The Chief Financial Officer monitors the level and nature of non-audit services and specific assignments are flagged for approval by the Audit Committee as appropriate. The Audit Committee reviews non-audit fees and considers implications for the objectivity and independence of the relationship with the external auditors.

The Board is satisfied that the Chairman of the Audit Committee has recent and relevant financial experience necessary to meet the requirements of the Corporate Governance Code.

Internal control

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The implementation and maintenance of the risk management and internal control systems are the responsibility of the executive Directors and senior management. The internal control system is designed to manage risk rather than eliminate it and can therefore only provide reasonable and not absolute assurance against material misstatement or loss. In accordance with the guidance set out in the Turnbull Guidance on Internal Control, the Group has an on-going process for identifying, evaluating and managing the significant risks faced by it.

The Group is committed to maintaining high standards of business conduct and operates under an established internal control framework covering financial, operational and compliance controls. This is achieved through an organisational structure that has clear reporting lines and delegated authorities. The management and monitoring of risk and performance occurs at multiple levels throughout the Group. In addition, the Group maintains written processes to control expenditure, authorisation limits, purchase ordering, sales order intake, project management, inventories and assets.

The Board receives monthly financial information which includes key performance and risk indicators and the Chief Executive Officer and the Chief Financial Officer report on significant changes in the business and the external marketplace to the extent they represent significant risk. There is an established budgetary

system with an annual budget approved by the Board. The Board reviews the results against budget, forecasts and prior year actual figures together with other business measures on a monthly basis.

The principal treasury related risks are documented and approved by the Board. Details of any derivatives and financial instruments are set out in notes 18 and 19 to the financial statements.

Relations with shareholders and investors

Copies of the Annual Report and Financial Statements are issued to all shareholders who have requested them and copies are available on the Group's website www.redcentricplc.com. The Half Year Report is also available on the Group's website. The Group makes full use of its website to provide information to shareholders and other interested parties. The Company Secretary also deals with a number of written or e-mailed enquiries throughout the year.

Shareholders are given the opportunity to raise questions at the Annual General Meeting and the Directors are available both prior to and after the meeting for further discussion with shareholders.

During the year, the Chief Executive Officer and the Chief Financial Officer met with institutional investors after the announcement of the preliminary and interim results. Additional meetings were arranged during the year by the Group's brokers Numis Securities Limited and finnCap Limited. Feedback arising from these meetings was communicated to the Board and the Company Secretary also reports to the Board if there is feedback from other shareholders.

David Payne, as Senior Independent non-executive Director, is available to shareholders if they wish to raise any matters that contact through the normal channels of non-executive Chairman, Chief Executive Officer, Chief Financial Officer or Company Secretary has failed to resolve or for which such contact is inappropriate.

Substantial shareholders

As at 31 March 2017 and 30 June 2017 (being the latest practicable date before the publication of the report) the Company had been notified of the following significant interests in its Ordinary, voting share capital:

	31 March 2017 Number	31 March 2017 %	30 June 2017 Number	26 May 2017 %
Coltrane Asset Management LP	21,231,691	14.26	22,231,961	14.93
Kestrel Partners LLP	17,001,468	11.42	19,662,913	13.21
Mr John Stanislas Albert Radziwill	14,909,662	10.02	14,909,662	10.02
Schroder Investment Management	13,348,327	8.97	13,348,237	8.97
Slater Investments	8,954,221	6.02	8,905,307	5.98
Mr Richard Griffiths	8,542,965	5.74	8,648,435	5.81
Commerzbank AG	5,975,494	4.01	4,855,859	3.26
Eugenia II Investment Holdings	4,746,043	3.19	5,540,495	3.72
Hargreaves Lansdown Asset Mgt	3,265,703	2.19	2,939,756	1.97
Hargreave Hale	3,253,249	2.19	2,527,794	1.70

Directors' Remuneration Report (unaudited unless stated otherwise)

Remuneration Committee

The Remuneration Committee comprises David Payne (Chairman), Stephen Puckett and Jon Kempster (Tony Weaver until his exit date). The Committee makes recommendations to the Board, within agreed terms of reference, on the remuneration and other benefits, including bonuses and share options, of the executive Directors. In considering the remuneration for the year, the Committee consulted with the executive Directors about its proposals. The Board sets the fees payable to the non-executive Directors.

Remuneration policy

The Group is committed to maximising shareholder value over time. Each year, the Remuneration Committee reviews the incentive and reward packages for the executive Directors to ensure that they are aligned with the Company's objectives and are appropriate to attract, retain and motivate management behaviour in support of the creation of shareholder value.

Basic salary and benefits

Basic salaries are reviewed on a discretionary basis.

The benefits provided for each executive Director may include:

- i. life assurance cover of 4 times salary;
- ii. private medical insurance for themselves, their spouse and their children;
- iii. a contribution to a private pension plan.

Performance related bonus

The Remuneration Committee determines the criteria for the award of performance bonuses for the executive Directors in advance of each year. The bonuses are non-pensionable. Non-executive Directors do not receive a bonus.

Share options

Executive Directors are entitled to participate in the Company share option schemes. The Remuneration Committee approves the granting of any share options.

Fees

The Board, within the limits stipulated by the Articles of Association and following recommendation by the executive Directors, determines non-executive Directors' fees. The Chairman receives a fee of £70,000 with the other non-executive Directors receiving a fee of £35,000, with an additional fee of £5,000 for chairing a Board committee.

Service contracts

The Chief Executive Officer has a service contract with a provision for termination notice period of twelve months, with the Chief Financial Officer having a termination notice period of six months.

Non-executive Directors have letters of appointment. Appointments can be terminated with between one and six months' notice. The remuneration of the non-executive Directors takes the form solely of fees which

are not pensionable.

The details of the executive and non-executive Directors' service contracts are summarised below:

	Date of contract	Notice period (months)
Executive Directors		
Fraser Fisher	8 April 2013	12
Peter Brotherton	28 November 2016	6 ¹
Non-executive Directors		
David Payne	19 February 2013	6
Chris Cole	1 September 2014	6
Stephen Puckett	17 November 2014	6
Jon Kempster	10 January 2017	6
Stephen Vaughan	13 June 2017	6
Tony Weaver (resigned November 2016)	11 February 2013	1

¹12 months in the event of a takeover.

The service contracts continue until notice on either side is given.

Directors' remuneration (audited)

The remuneration of the Directors in respect of the year was as follows:

	Basic salary, allowances and fees £000	Bonus £000	Payment for loss of office £'000	Benefits £000	Pension £000	2017 Total £000	2016 Total £000
Executive							
Fraser Fisher	350	-	-	1	18	369	429
Peter Brotherton (Appointed November 2016)	57	28	-	-	3	88	-
Tim Coleman (Resigned November 2016)	170	-	30	-	8	208	310
Non-executive							
Chris Cole	70	-	-	-	-	70	70
David Payne	40	-	-	-	-	40	40
Stephen Puckett	40	-	-	-	-	40	40
Tony Weaver (Resigned November 2016)	18	-	-	-	-	18	138
Jon Kempster (Appointed January 2017)	5	-	-	-	-	5	-
Total	750	28	30	1	29	838	1,027

(a) Directors' emoluments for Tony Weaver were paid to Mathian Ltd, a company controlled by MXC Capital Limited, which is a related party. Further details are provided in note 25.

Share options (audited)

Details of share options in the Company held by the Directors during the year are as follows:

		Exercise Price (p)	Balance 31 Mar 2016	Granted	Exercised	Forfeited / Expired	Transferred	Balance 31 Mar 2017
Fraser Fisher	(a)	70	761,143	-	485,000	-	-	276,143
	(b)	80	581,968	-	-	-	-	581,968
	(c)	107	16,822	-	-	-	-	16,822
Tim Coleman	(d)	112	1,100,000	-	-	(1,100,000)	-	-
	(c)	107	16,822	-	-	(16,822)	-	-
Peter Brotherton	(e)	nil	-	161,905	-	-	-	161,905
Tony Weaver	(f)	32	846,494	-	-	-	(846,494)	-

Further information regarding the options noted above is set out below.

(a) The options were granted under the Company's EMI scheme. 294,623 of the options are qualifying options, and 466,520 are non-qualifying under the terms of the scheme. For all of the options, the performance conditions have been met, the options have vested and are exercisable.

(b) The options were granted under the Company's EMI scheme, and all of the options are non-qualifying under the terms of the scheme. The earliest vesting date for the options was 15 November 2016 and they are subject to the achievement of performance conditions related to the achievement of a pre-defined level of share price growth.

(c) The options were granted pursuant to the Company's HMRC approved Save-As-You-Earn Option Plan 2014, under which employees contribute a monthly amount which is saved over three years to buy shares. The options are exercisable from 31 March 2018. There are no performance conditions. Tim Coleman's options lapsed upon his resignation from the company.

(d) The options were granted under an unapproved share option contract, and lapsed when Tim Coleman resigned from the company.

(e) The options were granted under the Company's Long Term Incentive Plan ("LTIP"). The options will vest on 21 June 2019 subject to the achievement of performance conditions related to the achievement of a pre-defined level of share price growth.

(f) The options were granted under the Company's EMI scheme as non-qualifying options. These were transferred to MXC Capital Ltd and were subsequently exercised in January 2017.

Share price

The market price of the Company's shares on 31 March 2017 was 87p per share. The highest and lowest market prices during the year were 200p and 63p respectively.

David Payne

Chairman, Remuneration Committee

On behalf of the Board

26 July 2017

Strategic Report

Review of the business

A detailed review of the business is set out in the Chairman's Statement on pages 2 to 3 and in the Operational Review on pages 4 to 7. The Financial Review is set out on pages 8 to 13. Included in these reviews are comments on the key performance indicators that are used by the Board on a monthly basis to monitor and assess the performance of the business. These key performance indicators are: the level of revenue, recurring revenue proportion, adjusted EBITDA*, adjusted EBITDA margin, the ratio of net bank debt to adjusted EBITDA and adjusted earnings per share.

The consolidated Group income statement for the year is set out on page 31. Operating loss was £3.0m and adjusted EBITDA* of the Group for the year was £17.3m.

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

Principal risks and uncertainties

Identifying, evaluating and managing the principal risks and uncertainties facing the Group is an integral part of the way Redcentric does business. There are policies and procedures in place throughout the operations, embedded within our management structure and as part of our normal operating processes.

Market and economic conditions are recognised as one of the principal risks in the current trading environment. This risk is mitigated by the monitoring of trading conditions and the constant search for ways to achieve new efficiencies in the businesses without impacting levels of service.

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 Group'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 Group fails to retain or recruit the necessary personnel, or if the Group loses the services of any of its key executives, its business could be materially and adversely affected.

Competition

Redcentric operates in a highly competitive marketplace and while the Directors believe the Group 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 Group would be prepared to match, therefore competitors could materially adversely impact the scale of the Group's revenues and its profitability. The Group 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 Group 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 Group's core services. The nature of the Group'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 Group 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 Group 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.

Strategy

The market for IT managed services in the UK is highly fragmented, and is served by a broad spectrum of businesses from global telecommunication companies through hardware and software providers, system integrators and a range of independent managed service providers of varying sizes through to companies providing individual elements of the IT managed services spectrum. The market is growing, driven by the continued move towards off-premise solutions and mobile access to secure services.

Redcentric positions itself in the market as being able to combine the benefits of proprietary network and data centres with a flexible and technically skilled workforce able to deliver and support critical services and solutions in a highly secure environment.

Redcentric seeks to differentiate itself in three distinct ways:

- Innovation – innovation in the design and delivery of services;
- Reliability – the right technical skills, organised in the right way, to give predictable high quality results; and
- Value – service offerings that are designed to offer value for money to mid-market customers.

Through these differentiators, Redcentric aims to attract new customers and to deepen and broaden the relationship with existing customers. The Board's strategy for growth comprises;

- Ongoing investment in expanding and enhancing our own infrastructure so that we can provide our customers with the very highest levels of security and service
- Effective use of our scale and resources to explore and invest in new technologies so that our customers can benefit from the high levels of innovation across the whole industry

The board believes that Redcentric's position between the very large system integrators and network operators, and the smaller competitors that may lack delivery structure, reputation, reliability and financial strength is a very compelling one. Redcentric has a strong and reliable set of core infrastructure, and has developed a delivery model that provides assurance and certainty for customers.

By order of the Board

Peter Brotherton
Company Secretary



26 July 2017

Directors' Report

The Directors present their annual report together with the audited financial statements for the year ended 31 March 2017.

Principal activity

The principal activity of the Group during the year was the supply of IT managed services. The Company is a holding company.

The Strategic Report on page 23 contains a review of the business, future developments and the principal risks and uncertainties.

Directors

The following were Directors of Redcentric plc during the year and at the date of approval of these financial statements:

Chris Cole
Stephen Puckett
David Payne
Fraser Fisher
Peter Brotherton (Appointed 28 November 2016)
Jon Kempster (Appointed 10 January 2017)
Stephen Vaughan (Appointed 13 June 2017)
Tony Weaver (Resigned 1 November 2016)
Tim Coleman (Resigned 6 November 2016)

As at 31 March 2017 the Directors beneficial interests and those of their families in the ordinary share capital of the Company were as follows:

	31 March 2017 Number of shares	31 March 2016 Number of shares
Fraser Fisher	106,807	90,557
David Payne	100,626	100,626

Relevant Directors will retire in accordance with the terms of the articles of the Company and, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting.

Details of the Directors' contracts, remuneration and share options granted are set out in the Directors' Remuneration Report on pages 43 to 44.

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 also purchased and maintained Directors' and Officers' liability insurance throughout the financial year in respect of itself and its Directors.

Staff policy

The Group's employment policies are designed to ensure that they meet the statutory, social and market practices where the Group operates. The Group 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 Group is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the Group plays a major role in maintaining its relationship with its staff.

The Group 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 Group 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 Group. If members of staff become disabled the Group continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

Employees

The average number of employees employed during the year was as follows:

	Male	Female	Total
Directors	5	-	5
Senior managers	4	3	7
Other employees	427	102	529
Total average headcount	436	105	541

Share scheme

The Group believes that having an effective employee share ownership programme helps to align employees' interests with shareholders, and provides an effective tool in attracting, retaining and motivating staff. In November 2014 the Group launched the HMRC approved Redcentric plc Save-As-You-Earn Option Plan 2014. Under the Plan, employees contribute a monthly amount which is saved over three years to buy shares in the Company at a pre-determined price.

Since inception, there have been two awards of options under the plan. On 14 December 2015 the Company granted options over a total of 163,905 ordinary shares to 62 employees. These options are available for exercise from 31 March 2019, with an exercise price of 154p, which is a 20% discount to the average closing price on the three days ending 20 November 2015, the last trading date before the launch of the Plan on 23 November 2015. On 17 December 2014, the Company granted options over a total of 1,134,886 ordinary shares of 0.1p each to 180 employees. The options are available for exercise from 31 March 2018, with an exercise price of 107p.

The Group intends to grant options under the plan to eligible employees in future years. As at 31 March 2017, the following options had been granted under the plan:

Grant date	Exercise price	Options granted	Options exercised	Options cancelled	Options remaining
17 December 2014	107p	985,824	-	262,785	723,039
14 December 2015	154p	158,529	-	70,002	88,527
Total		1,144,353	-	332,787	811,566

Annual General Meeting

The Annual General Meeting will be held at 11am at CMS Cameron McKenna Nabarro Olswang LLP, Cannon Place, 78 Cannon Street, London, EC4N 6AF on 4 September 2017.

Dividend

While the Group remains cash generative, the Board has decided that it is not appropriate to pay a dividend in respect of the year ended 31 March 2017. The Board will review this situation on an ongoing basis.

Financial risk management objectives and policies

The Company's financial risk management objectives and policies are described in note 18 to the financial statements.

Disclosure of information to auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 25. Having made enquiries of fellow Directors, each of these Directors confirms that:

- To the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Group's auditors are unaware; and
- Each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Group's auditors are aware of that information.

Subsequent events

There have been no significant events between the balance sheet date and the date of approval of these accounts.

Future developments

Future developments and current trading and prospects are set out in the Chairman's Statement and in the Operational and Financial Reviews.

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to:

1. Select suitable accounting policies and then apply them consistently;
2. Make judgements and estimates that are reasonable and prudent;
3. For the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
4. for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
5. Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its 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 Group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board



Peter Brotherton
Company Secretary

26 July 2017

Central House
Beckwith Knowle
Harrogate
HG3 1UG

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF REDCENTRIC PLC

We have audited the financial statements of Redcentric Plc for the year ended 31 March 2017 set out on pages 29 to 32. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page z, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit 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.

Basis for qualified opinion on financial statements

During the year ended 31 March 2017 the Audit Committee discovered a number of materially misstated balances in the Group's accounting records. The directors commissioned an independent forensic review, which identified a significant reduction in the previously reported net assets as at 31 March 2016 and 31 March 2015. During the preparation of the 31 March 2017 financial statements, the directors identified additional misstatements in the previously reported group financial statements. Consequently the group has recognised multiple prior year adjustments, as further explained in note 28 to the financial statements, thus reducing net assets as at 31 March 2016^a and 31 March 2015 by £15,771,000 and £4,413,000 respectively, and reducing the profit for the year ended 31 March 2016 by £9,451,000.

Certain key individuals no longer work for the group and the directors have assessed that further investigation into the above misstatements would represent a disproportionate cost and effort to the business. As a result, the directors have not been able to distinguish whether certain of the adjustments, which in aggregate resulted in a £9,451,000 reduction in profit and net assets, related to the year ended 31 March 2016 or to prior periods, and consequently the income statement effect of these adjustments has been recognised wholly within the income statement for the year ended 31 March 2016.

We were appointed as auditors subsequent to the 2016 year end and due to the above circumstances we were unable to obtain sufficient appropriate audit evidence in relation to these misstatements. Any adjustments would have a consequential effect on the group's profit for the year ended 31 March 2016 and its net assets at 31 March 2015.

Qualified opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 March 2017;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

In our opinion, except for the possible effect solely on the comparative information for the year ended 31 March 2016 and as at 31 March 2015 of the matters described in the basis for qualified opinion on financial statements paragraph, the group financial statements:

- give a true and fair view of the group's state of affairs as at 31 March 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

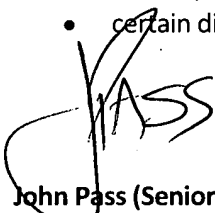
- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

In respect solely of the limitation on our work relating to the comparative group information for the year ended 31 March 2016 and as at 31 March 2015, described above, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records had not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made.



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

27 July 2017

Consolidated Income Statement

For the year ended 31 March

		2017	Restated 2016
	Note	£000	£000
Revenue	2	104,623	102,363
Cost of sales		(43,304)	(44,553)
Gross profit		61,319	57,810
Operating expenditure		(64,314)	(62,756)
Operating Loss		(2,995)	(4,946)
Analysed as:			
Adjusted EBITDA*		17,273	14,380
Depreciation	10	(7,507)	(5,294)
Amortisation of intangibles	11	(6,207)	(6,016)
Non-recurring costs	5	(5,474)	(6,680)
Share-based payments	22	(1,080)	(1,336)
		(2,995)	(4,946)
Finance costs	6	(1,253)	(1,195)
Loss on ordinary activities before taxation		(4,248)	(6,141)
Tax (charge)/ credit on profit on ordinary activities	8	1,870	1,946
Loss for the year (attributable to owners of the parent)		(2,378)	(4,195)
Earnings per share			
Basic and diluted earnings per share	9	(1.60)p	(2.89)p

*Earnings before interest, tax, depreciation, amortisation, non-recurring costs and share-based payments
The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

	2017 £000	Restated 2016 £000
Loss for the year	(2,378)	(4,195)
Exchange differences arising on re-translation of foreign subsidiary	94	(7)
Total comprehensive income	(2,284)	(4,202)

Consolidated Statement of Changes in Equity

	Called up share capital £000	Share premium £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
At 31 March 2015 - previously reported	145	62,668	(9,454)	41,378	94,737
Prior year adjustments	-	-	-	(4,413)	(4,413)
At 31 March 2015 – restated	145	62,668	(9,454)	36,965	90,324
Loss for the year (restated)	-	-	-	(4,195)	(4,195)
Other comprehensive gain (loss) – before tax	-	-	-	(7)	(7)
Total comprehensive income for the year	-	-	-	(4,202)	(4,202)
<i>Transactions with owners:</i>					
Issue of new shares	1	999	-	-	1,000
Dividends to shareholders	-	-	-	(5,806)	(5,806)
IFRS2 Charge	-	-	-	1,336	1,336
Deferred tax on SBP	-	-	-	(965)	(965)
At 31 March 2016	146	63,667	(9,454)	27,328	81,687
Loss for the year	-	-	-	(2,378)	(2,378)
Other comprehensive gain (loss) – before tax	-	-	-	94	94
Total comprehensive income	-	-	-	(2,284)	(2,284)
<i>Transactions with owners:</i>					
Issue of new shares	3	1,728	-	-	1,731
Dividends to shareholders	-	-	-	(4,406)	(4,406)
IFRS2 Charge	-	-	-	975	975
Deferred tax on SBP	-	-	-	(974)	(974)
At 31 March 2017	149	65,395	(9,454)	20,639	76,729

Consolidated Statement of financial position

As at 31 March 2017

	Note	2017 £000	Restated 2016 £000	Restated 2015 £000
Assets				
Non-current assets				
Property plant and equipment	10	21,998	26,026	23,630
Intangible assets	11	88,725	94,191	80,501
		110,723	120,217	104,133
Current assets				
Inventories		234	429	-
Trade and other receivables	12	25,839	31,038	16,474
Corporation tax receivable		369	531	-
Cash and short term deposits	13	4,340	-	3,295
		30,782	31,998	19,769
Total assets		141,505	152,215	123,902
Equity and liabilities				
Equity				
Called up share capital	20	149	146	145
Share premium account		65,395	63,667	62,668
Capital redemption reserve		(9,454)	(9,454)	(9,454)
Retained earnings		20,639	27,328	36,965
Total equity		76,729	81,687	90,324
Non-current liabilities				
Provisions	21	1,207	1,940	489
Borrowings	16	41,092	31,389	9,412
Deferred tax liability	8	2,112	3,110	31
		44,411	36,439	9,932
Current liabilities				
Overdraft	13	-	3,970	-
Trade and other payables	14	17,247	27,407	20,909
Corporation tax payable		-	-	1,518
Borrowings	16	2,779	2,378	1,033
Provisions	21	339	334	186
		20,365	34,089	23,646
Total liabilities		64,776	70,528	33,578
Total equity and liabilities		141,505	152,215	123,902

The notes on pages 33 to 70 are an integral part of these financial statements. The consolidated financial statements of Redcentric Plc (Registration Number 08397584) on pages 31 to 70 were approved by the Board on 26 July 2017 and are signed on its behalf by:

Fraser Fisher, Director

Peter Brotherton, Director

Consolidated Cash Flow Statement

For the year ended 31 March

	Note	2017 £000	2016 £000
<i>Cash flows from operating activities</i>			
Loss before taxation		(4,248)	(6,141)
Net finance expense		1,253	1,195
Operating loss		(2,995)	(4,946)
Depreciation and amortisation		13,714	11,310
Non-recurring items		5,474	6,680
Share based payments		1,080	1,336
Operating cash flow before non-recurring costs and movements in working capital		17,273	14,380
Non-recurring costs and NI on share based payments		(3,159)	(5,081)
Operating cash flow before movements in working capital		14,114	9,299
Decrease (increase) in inventories		196	(429)
Decrease (increase) in trade and other receivables		1,589	(11,456)
(Decrease) increase in trade and other payables		(9,616)	833
Cash generated from operations		6,283	(1,753)
Corporation tax received		71	(244)
Net cash inflow from operating activities		6,354	(1,997)
<i>Cash flows from investing activities</i>			
Acquisition of subsidiaries net of cash acquired		-	(13,777)
Proceeds on disposal of property, plant and equipment		5,000	-
Purchase of property, plant and equipment		(6,744)	(8,158)
Net cash outflow from investing activities		(1,744)	(21,935)
<i>Cash flows from financing activities</i>			
Dividends paid to shareholders		(4,406)	(5,806)
Interest paid		(1,209)	(1,127)
Repayment of borrowings		(2,435)	-
Drawdown on revolving credit facility		10,000	22,600
Proceeds of issue of shares less costs of issue		1,731	1,000
Net cash inflow from financing activities		3,681	16,667
Net increase (decrease) in cash and cash equivalents		8,291	(7,265)
Opening cash and cash equivalents (as restated)		(3,970)	3,295
Net increase (decrease) in cash and cash equivalents		8,291	(7,265)
Effect of exchange rates		19	-
Cash and cash equivalents		4,340	(3,970)

Notes to the Consolidated Financial Statements

Year ended 31 March 2017

1 Accounting policies – Group

Redcentric plc is a public limited company incorporated and domiciled in England and Wales, whose shares are publicly traded on the AIM division of the London Stock Exchange. Redcentric plc was incorporated on 11 February 2013, and admitted to AIM on 24 April 2013.

The principal activity of the Group is the supply of IT managed services.

The principal accounting policies, which have been applied consistently in the preparation of these consolidated financial statements throughout the period and by all subsidiary companies, are set out below:

1.1 Basis of preparation

The consolidated financial statements of Redcentric plc have been prepared on the going concern basis and in accordance with EU adopted International Financial Reporting Standards (IFRS), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention.

The Directors are required to be satisfied that the Group has adequate resources to continue in business for the foreseeable future. The validity of this assumption depends on the ability of the Group to meet its cash flow forecasts and the continuing support of its bankers by providing adequate overdraft facilities and of its debt holders and shareholders. On 27 April 2017 the Group signed a revised banking facility agreement which runs until 2 April 2020. A high proportion of the Group's revenue is recurring in nature, which provides good visibility of future cash-flows. However, there can be no absolute certainty that the Group will achieve its cash flow forecasts. The present cash flow forecasts indicate that the Group will be able to operate within its banking facilities for at least 12 months from the date of approval of these financial statements. For these reasons the Directors believe the going concern basis to be appropriate.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 1.25 in the accounting policies.

1.2 Basis of consolidation

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

Business Combinations under Common Control

Business combinations under common control are accounted for in the consolidated financial statements from the date the Group obtains the ownership interest. Assets and liabilities are recognised upon consolidation at their historic carrying amount in the consolidated financial statements of the ultimate parent entity, Redcentric plc. Any difference between the fair value of the consideration paid and the amounts at which the assets and liabilities are recorded is recognised directly as a common control reserve.

1.3 Intangible assets

Goodwill

Goodwill arises on the acquisition of subsidiaries 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. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net asset of the subsidiary, in the case of a bargain purchase, the difference is recognised directly to the income statement.

For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Other intangible assets

Other intangible assets are carried at cost less accumulated amortisation and impairment losses (note 1.5).

Other intangible assets acquired separately from a business are carried initially at cost. An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably.

Intangible assets with a finite life are amortised on a straight-line basis over their expected useful lives, as follows:

Customer contracts and related relationships	5–15 years
Trademarks	5 years

Impairment and amortisation charges are included within the administrative expenses line in the income statement.

1.4 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value (note 1.5). The cost includes the original price of the asset and the cost attributable to bringing the asset to its current working condition for its intended use.

Depreciation, down to residual value, is calculated on a straight-line basis over the estimated useful life of the asset which is reviewed on an annual basis.

Motor vehicles	3 years
Leasehold improvements	5 years or over lease term if shorter
Network infrastructure, equipment, fixtures and fittings	2-20 years

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is de-recognised.

1.5 Impairment of assets

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. As at the acquisition date any goodwill acquired is allocated to each of the cash generating units expected to benefit from the business combination's synergies. Impairment is determined by assessing the recoverable amount of the cash generating unit to which the goodwill relates. When the recoverable amount of the cash generating unit is less than the carrying amount, including goodwill, an impairment loss is recognised.

Other intangible assets and property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate the carrying values may not be recoverable. In addition, the carrying value of capitalised development expenditure is reviewed for impairment annually. If any such indication exists and where the carrying amounts exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount.

The recoverable amount of intangible assets and property, plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined by the cash generating unit to which the asset belongs. Fair value less costs to sell is, where known, based on actual sales price net of costs incurred in completing the disposal.

Non-financial assets that were impaired in the previous periods are annually reviewed to assess whether the impairment is still relevant.

1.6 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from proceeds.

1.7 Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Assets funded through finance leases are capitalised as property, plant and equipment and depreciated over the shorter of their useful economic life and the lease term. The resulting lease obligations are included in borrowings net of finance charges. Interest costs on finance leases are charged to the income statement.

1.8 Current and deferred income tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided for on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profits will be available against which deductible temporary differences carried forward tax credits or tax losses can be utilised.

1.9 Trade and other receivables

Trade and other receivables are recognised and carried at the lower of their original value and recoverable amounts. 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 Group's trade and other receivables are non-interest bearing.

1.10 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.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

1.11 Foreign currencies

The functional and presentation currency of Redcentric plc is Pounds Sterling (£) and the Group conducts the majority of its business in Sterling.

Transactions in foreign currencies are initially recorded in the functional currency by applying the rate of exchange ruling

at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement, except for differences on monetary assets and liabilities that form part of the Group's net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the profit or loss.

1.12 Trade payables

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

1.13 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.

1.14 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Vacant property

The Group currently has a number of vacant properties. Provisions have been recognised to cover the rents, business rates and service charges for the period that each property is expected to be vacant, being up to the lease expiry or break clause if earlier. Provisions are calculated using the contracted rates of rents and service charges on each individual lease arrangement.

Dilapidations

The dilapidation provisions are built up over the life of the associated lease based on estimates of costs of work required to fulfil the Group's contractual obligation under the lease agreements to return the property to the same condition as at the commencement of the lease.

1.15 Pensions

The Group operates a defined contribution scheme. Pension costs are charged directly to the income statement in the period to which they relate on an accruals basis. The Group has no further payment obligations once contributions have been paid.

1.16 Share-based payment transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value of the award at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date at which the relevant employees become fully entitled to the award. Fair value is determined by an external valuer using an appropriate pricing model for which the assumptions are approved by the Directors. In valuing equity-settled transactions, only vesting conditions linked to the market price of the shares of the Company are considered.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting described above. The movement in the cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the existing charge is recognised immediately. In addition an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification.

No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

The Group does not operate any cash settled share based payment schemes.

1.17 Financial assets

The Group classifies its financial assets as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'cash and cash equivalents', and other receivables which are expected to be settled in cash.

1.18 Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised in the finance cost line in the income statement.

1.19 Finance costs

Loans are carried at fair value of initial recognition, net of unamortised issue costs of debt. These costs are amortised over the loan term.

All other borrowing costs are recognised in the income statement on an accruals basis, using the effective rate method.

1.20 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.

1.21 Other income

Finance income

Income is recognised on an accrual basis using the effective interest method.

1.22 Non-recurring costs

It is the policy of the Group to identify certain costs separately on the face of the Income Statement in order that the underlying profitability of the business can be clearly understood. These costs are identified as Non-recurring costs, and comprise;

- (a) Professional fees incurred in sourcing and completing acquisitions and disposals
- (b) Professional fees incurred in restructuring and refinancing acquisitions
- (c) Integration costs which are incurred by the Group when integrating one trading business into another, including rebranding of acquired businesses
- (d) Redundancy costs, including employment related costs of staff made redundant up to the date of their leaving as a consequence of integration
- (e) Property costs such as lease termination penalties and vacant property provisions and third party advisor fees
- (f) Non-cash accounting charges relating to aligning accounting policies of acquired businesses with the Group where traditional fair value accounting methods are not appropriate.
- (g) Other non-recurring costs

For further detail refer to note 5.

1.23 Holiday pay accrual

It is the Group policy to accrue for holiday pay to the extent of the total amount that would be paid out if all employees of the Group left the business at its reporting date.

1.24 Segmental reporting

The Chief Operating Decision Maker ("CODM") has been identified as the Group Chief Executive and the Chief Financial Officer. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Executive Board assess the performance of the operating segments based on adjusted EBITDA. Information provided to the Executive Board is measured in a manner consistent with that in the Financial Statements.

1.25 Critical accounting estimates and assumptions

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 Group 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 Group tests annually whether trade debtors have suffered any impairment. A provision for impairment is established when there is evidence of a risk on non-payment, taking in to account ageing, known post balance sheet corrections, previous losses experienced and general economic conditions.

- Estimated impairment of goodwill and intangible assets

The Group tests annually whether goodwill and intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1.5. The recoverable amount has been determined based on value-in-use calculations. These calculations require the use of estimates (note 11).

- Deferred tax

The Group has substantial tax losses and unclaimed capital allowances carried forward. A deferred tax asset has been recognised in connection with trading losses carried forward to the extent that they are foreseen as being recoverable based on future profitability of the Group which is based on projections. A 10% fall in the forecast available

profits would not result in a reduction in the deferred tax asset recognised.

- Initial recognition of intangible assets on acquisition

Following an acquisition, the Group undertakes an assessment of the fair values attributable to the assets acquired, including an assessment of any intangible assets acquired. Valuation of such intangible assets includes the use of judgements, which are made based on historical experience. The resultant assets are included as part of the fair value balance sheet of the acquired company, and are tested for impairment as noted above.

1.26 New and amended standards adopted by the Group

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year that had a material impact on the group.

A number of standards and interpretations issued by the IASB are effective for financial statements after this reporting period, including IFRS 9 'Financial instruments' and IFRS 15 'Revenue from contracts with customers', both of which are effective for annual periods beginning on or after 1 January 2018, and IFRS 16 'Leases' which is effective for annual periods beginning on or after 1 January 2019. The Group is in the process of assessing the impact that the application of these standards and interpretations will have on the Group's financial statements.

1.27 General information and basis of preparation

The Group prepares its annual consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations endorsed by the European Union (EU) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial information contained within this preliminary announcement is unaudited and has been prepared under the historical cost convention.

The financial information included in this preliminary announcement does not include all the disclosures required by IFRS or the Companies Act 2006 and accordingly it does not itself comply with IFRS or the Companies Act 2006. The unaudited consolidated financial information in this report has been prepared in accordance with the accounting policies disclosed in the Group's 2016 Annual report and accounts.

The financial information set out in this announcement does not constitute the company's statutory accounts within the meaning of Section 434 of the companies Act 2006 for the years ended 31 March 2016 or 31 March 2017.

Whilst the financial information for the year ended 31 March 2016 is derived from the statutory accounts for that year, which have been delivered to the Registrar of Companies, a number of adjustments have been made in respect of material misstatements to the numbers presented in the Group's 2016 annual report. These adjustments to the 31 March 2016 annual report, as set out in note 7, will be reported as prior period restatements within the statutory accounts for the year ended 31 March 2017.

Because of uncertainty as to the extent to which these adjustments relate to the year ended 31 March 2016, or to the year ended 31 March 2015, or to earlier periods, the annual report for the year ending 31 March 2017 will include a qualified audit opinion in respect of the comparative income statement and cash flow statement (for the year ended 31 March 2016) and also in relation to the opening balance sheet as at 1 April 2015.

The statutory accounts for the year ended 31 March 2017 will be finalised on the basis of the financial information presented by the Directors in this unaudited preliminary announcement and will be delivered to the Registrar of Companies following the Annual General Meeting.

The financial information contained within this preliminary announcement was approved by the Board on 29 June 2017 and has been agreed with the Company's auditors for release. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements which is available on the Group's investor website.

The preliminary announcement will be published on the Company's website. The maintenance and integrity of the website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

2 Segment reporting

IFRS 8 requires operating segments to be identified on the basis of the internal financial information reported to the Chief Operating Decision Maker (CODM). The Group's CODM is deemed to be the Executive Directors on the Board, who are primarily responsible for the allocation of resources to segments and the assessment of performance of the segments. The CODM assess profit performance principally through adjusted profit measures consistent with those disclosed in the Annual Report and Accounts.

Previously the Group has identified the operating segments of the Group as the separate product offerings or markets in which the Group operates, being recurring, product and service revenue. Recurring revenue is derived from the provision of the Group's services to customers under long-term agreements, including data, connectivity, hosting, cloud and support services. Services revenue is derived from the provision of consultancy or installation services regarding the provision and set-up of a new service. Product revenues are derived from the sale of third party products, which comprises mostly hardware.

During the year, the Board has changed the way in which it reviews the results of the business, such that it now believes that the Group comprises a single reporting segment being the provision of managed services to customers. Whilst the Board still reviews revenue streams of the three categories separately, the operating costs and operating asset base used to derive these revenue streams are the same for all three categories and are presented as such in the Group's internal reporting to the CODM.

3 Expenses by nature	2017 £000	2016 £000
Amortisation of acquired intangible assets	6,207	6,016
Depreciation – owned assets	5,424	4,061
Depreciation – assets held under finance lease	2,082	1,233
Share-based payments	1,080	1,336
Operating lease payments	2,637	3,307
Employee benefits expense, excluding share based compensation	25,350	27,516

4 Auditors' remuneration

Below are the fees payable to the auditors and their associates:

	2017 £000	2016 £000
Audit services - KPMG		
Fees payable to Company auditor and its associates for the audit of parent company and consolidated financial statements	110	-
Fees payable to Company auditor and its associates for other services:		
The audit of Company's subsidiaries	115	-
Tax advisory and compliance services	32	-
Total	257	-

	2017 £000	2016 £000
Audit services - PWC		
Fees payable to Company auditor and its associates for the audit of parent company and consolidated financial statements	-	30
Fees payable to Company auditor and its associates for other services:		
The audit of Company's subsidiaries	-	96
Tax advisory and compliance services	-	54
Total	-	180

5 Non recurring costs

In accordance with the Group's policy of separately identifying non-recurring costs, the following charges were recognised in the year:

	2017 £000	Restated 2016 £000
Non-recurring impairment of trade debtor balances	2,933	-
Professional fees associated with the forensic review and Financial Conduct Authority (FCA) investigation	1,291	-
Integration and restructuring costs	658	3,028
Vacant property provisions	385	1,698
Disposal of City Fibre network	207	-
Settlement of supplier claims		1,954
	5,474	6,680

The accounting irregularities experienced at the start of the financial year resulted in inadequate credit management during part of the year, causing a significant build-up of overdue and uncollected debt. This together with a reassessment of the basis for credit risk provisioning has resulted in one-off credit losses of £2.9m being recorded during the year ended 31 March 2017.

A non-recurring charge of £1.3m was incurred in respect of professional fees paid to Deloitte and Nabarro relating to the forensic exercise and the FCA investigation and Integration & restructuring costs relate primarily to the final integration of the City Lifeline and Calyx businesses.

The vacant property provision relates solely to the Birmingham and Hoddesdon offices which were vacated during the year. This resulted in a non-recurring charge of £0.4m

During the year the Group disposed of its fibre network to City Fibre Limited and this resulted in a non-recurring charge of £0.2m in respect of the loss on disposal and legal fees.

Prior year non-recurring costs relate to the acquisition and integration of Calyx and City Lifeline.

The settlement of supplier claims resulted from a software licence audit in respect of prior years.

6 Finance costs

	2017	Restated 2016
<i>Finance costs</i>	£000	£000
Interest payable on bank loans and overdrafts	1,185	1,127
Amortisation of loan arrangement fees	68	68
	1,253	1,195

7 Employee benefits expense

	2017	Restated 2016
	£000	£000
Staff costs for the year, including executive Directors, amounted to:		
Wages and salaries	21,449	23,150
Social security costs	2,392	2,621
Pension costs	428	409
Share options granted to Directors and employees	1,080	1,336
	25,350	27,516

Average monthly number of people (including executive Directors) employed:

	2017	2016
Operations	427	376
Selling and distribution	81	95
Administration	33	50
	541	521

These numbers as split as follows:

	2017	2016
UK	386	374
India	155	147
	541	521

7 Employee benefits expense (continued)

The remuneration of the Directors in respect of the year was as follows:

	Basic salary, allowances and fees £000	Bonus £000	Payment for loss of office £'000	Benefits £000	Pension £000	2017 Total £000	2016 Total £000
<i>Executive</i>							
Fraser Fisher	350	-	-	1	18	369	429
Peter Brotherton (Appointed Nov 2016)	57	28	-	-	3	88	-
Tim Coleman (Resigned Nov 2016)	170	-	30	-	8	208	310
<i>Non-executive</i>							
Chris Cole	70	-	-	-	-	70	70
David Payne	40	-	-	-	-	40	40
Stephen Puckett	40	-	-	-	-	40	40
Tony Weaver (Resigned Nov 2016)	18	-	-	-	-	18	138
Jon Kempster (Appointed Jan 2017)	5	-	-	-	-	5	-
Total	750	28	30	1	29	838	1,027

(a) Directors' emoluments for Tony Weaver were paid to Mathian Ltd, a company controlled by MXC Capital Limited, which is a related party. Further details are provided in note 25.

Share options (audited)

Details of share options in the Company held by the Directors during the year are as follows:

	Exercise Price (p)	Balance 31 Mar 2016	Granted	Exercised	Forfeited / Expired	Transferred	Balance 31 Mar 2017
Fraser Fisher	(a) 70	761,143	-	(485,000)	-	-	276,143
	(b) 80	581,968	-	-	-	-	581,968
	(c) 107	16,822	-	-	-	-	16,822
Tim Coleman	(d) 112	1,100,000	-	-	(1,100,000)	-	-
	(c) 107	16,822	-	-	(16,822)	-	-
Peter Brotherton	(e) nil	-	161,905	-	-	-	161,905
Tony Weaver	(f) 32	846,494	-	-	-	(846,494)	-

Further information regarding the options noted above is set out below.

(a) The options were granted under the Company's EMI scheme. 294,623 of the options are qualifying options, and 466,520 are non-qualifying under the terms of the scheme. For all of the options, the performance conditions have been met, the options have vested and are exercisable.

(b) The options were granted under the Company's EMI scheme, and all of the options are non-qualifying under the terms of the scheme. The earliest vesting date for the options was 15 November 2016 and they are subject to the achievement of performance conditions related to the achievement of a pre-defined level of share price growth.

(c) The options were granted pursuant to the Company's HMRC approved Save-As-You-Earn Option Plan 2014, under which employees contribute a monthly amount which is saved over three years to buy shares. The options are exercisable from 31 March 2018. There are no performance conditions. Tim Coleman's options lapsed upon his resignation from the company.

(d) The options were granted under an unapproved share option contract, and lapsed when Tim Coleman resigned from the company.

(e) The options were granted under the Company's Long Term Incentive Plan ("LTIP"). The options will vest on 21 June 2019 subject to the achievement of performance conditions related to the achievement of a pre-defined level of share price growth.

(f) The options were granted under the Company's EMI scheme as non-qualifying options. These were transferred to MXC Capital Ltd and were subsequently exercised in January 2017.

Share price

The market price of the Company's shares on 31 March 2017 was 87p per share. The highest and lowest market prices during the year were 200p and 63p respectively.

8 Tax on profit on ordinary activities

(a) Tax on profit on ordinary activities

	2017 £000	2016 £000
Current income tax:		
Current income tax	64	47
Prior year adjustment	38	(1,914)
Deferred tax:		
Origination and reversal of timing differences		
– Deferred tax asset: prior year adjustments	312	677
– Deferred tax asset: current year	200	752
– Deferred tax liability: prior year adjustments	(501)	-
– Deferred tax liability: current year	(1,983)	(1,508)
Total income tax charge/(credit) reported in the income statement	(1,870)	(1,946)

(b) Reconciliation of the total income tax charge/ (credit)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2017 £000	2016 £000
Profit before taxation	(4,248)	(6,141)
Profit multiplied by the UK standard rate of corporation tax of 20%	(850)	(1,228)
Expenses not deductible for tax purposes	286	65
Movement in unprovided tax losses	(847)	-
Prior year adjustments	(151)	(1,237)
Effect of tax rate change	(318)	454
Impact of overseas tax rates	10	-
Total income tax charge/(credit) reported in the income statement	(1,870)	(1,946)

(c) Deferred tax

Deferred Tax

	2017 £000	2016 £000
Deferred tax liability	(7,267)	(9,751)
Deferred tax assets	5,155	6,641
Net deferred tax liability at 31 March	(2,112)	(3,110)

8 Tax on profit on ordinary activities (continued)

(d) Deferred tax liability

	2017 £000	2016 £000
Opening balance	9,751	9,330
Acquisition of subsidiaries	-	1,743
Acquired with subsidiaries	-	186
Recognised in the income statement	(1,983)	(1,508)
Prior year adjustment	(501)	-
-At 31 March	7,267	9,751

Deferred tax liabilities arose in respect of the amortisation of intangible assets recognised on acquisitions made.

(e) Deferred tax assets

	India – deferred tax asset £000	Share based Payments temporary differences £000	Tax losses £000	Property, plant and equipment temporary differences £000	Other timing differences £'000	Total £000
At 31 March 2016 (Restated)	27	947	4,943	724	-	6,641
Recognised in the income statement	-	76	525	(800)	(1)	(200)
Prior year adjustment	-	-	(2,743)	2,420	11	(312)
Recognised in equity	-	(974)	-	-	-	(974)
At 31 March 2017	27	49	2,725	2,344	10	5,155

Deferred tax assets have been recognised where it is the view of the Directors that it is probable that there will be future sustainable taxable profits from which prior tax losses can be offset. This is based on projections of future taxable profits and indicators such as the level of orders that support the Directors' projections.

The Group has an unrecognised deferred tax asset of £1.1m which relates to trading losses. The deferred tax asset has not been recognised due to the uncertainty of its ultimate recoverability.

Deferred tax assets have been netted off with deferred tax liabilities on the face of the Balance sheet. This is because the Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority, being the UK's HMRC. The Group operates as one tax group and settles its tax liabilities on a net basis. This is not expected to change in the foreseeable future.

At Summer Budget 2015, the government announced legislation setting the Corporation Tax main rate (for all profits except ring fence profits) at 19% for the years starting the 1 April 2017, 2018 and 2019 and at 18% for the year starting 1 April 2020. At Budget 2016, the government announced a further reduction to the Corporation Tax main rate (for all profits except ring fence profits) for the year starting 1 April 2020, setting the rate at 17%.

The Group has no open tax position at 31 March 2017.

9 Earnings per share

Basic earnings per share has been calculated using loss after tax for the year of £2,4m (2016: £4,2m) and a weighted average number of shares of 147,026,140 (2016: 145,223,982). The dilutive effect of share options at 31 March 2017 increased the weighted average number of shares to 151,093,267 (2016: 153,314,134).

In addition the Board uses adjusted earnings per share figure, which has been calculated to reflect the underlying performance of the business. This measure is derived as follows:

	2017 £000	Restated 2016 £000
Statutory earnings	(2,378)	(4,195)
Tax charge / (credit)	(1,870)	(1,946)
Amortisation of acquired intangibles**	5,944	5,553
Share based payments	1,080	1,336
Non-recurring costs	5,474	6,680
Adjusted earnings before tax	8,250	7,428
Notional tax charge at standard rate of 20%/21%	(1,650)	(1,560)
Adjusted earnings	6,600	5,868
Weighted average number of shares in issue	148,448,225	145,223,982
Weighted dilutive effect of options and warrants in issue	4,295,881	8,090,152
Diluted weighted average number of shares in issue	152,744,106	153,314,134
Statutory diluted and basic earnings per shares	(1.60)p	(2.89)p
Adjusted basic earnings per share	4.45p	4.04p
Adjusted diluted earnings per share	4.32p	3.83p
***Amortisation charge per P&L	(6,207)	(6,016)
Amortisation of software	263	463
Customer contracts and related relationships	(5,944)	(5,553)

The Board feels that the adjusted EBITDA and adjusted EPS measures give a better view of the ongoing performance of the business as these measures exclude non-recurring costs.

10 Property, plant and equipment

	Motor Vehicles £000	Leasehold improvements £000	Network infrastructure, equipment, fixtures and fittings £000	Total £000
<i>Cost</i>				
At 31 March 2015	87	477	30,858	31,422
Additions	-	61	8,968	9,029
Acquired with subsidiaries	-	140	1,928	2,068
At 31 March 2016	87	678	41,754	42,519
Prior year adjustments	-	-	(3,839)	(3,839)
At 31 March 2016 – (Restated)	87	678	37,915	38,680
Additions	1	147	8,484	8,632
Disposals	(45)	-	(6,364)	(6,409)
Exchange differences	-	-	45	45
At 31 March 2017	43	825	40,080	40,948
<i>Accumulated depreciation</i>				
At 31 March 2015	(47)	(108)	(7,870)	(8,025)
Charge for the year ended 31 March 2016	-	(152)	(5,673)	(5,825)
At 31 March 2016	(47)	(260)	(13,543)	(13,850)
Prior year adjustments charge	-	2	529	531
Prior year adjustments re-classification	-	-	665	665
At 31 March 2016 – (Restated)	(47)	(258)	(12,349)	(12,654)
Charge for the year ended 31 March 2017	(37)	(293)	(7,176)	(7,506)
Disposals	45	-	1,207	1,252
Exchange differences	-	-	(42)	(42)
At 31 March 2017	(39)	(551)	(18,360)	(18,950)
<i>Net book amount</i>				
At 31 March 2016 – (Restated)	40	420	25,566	26,026
At 31 March 2017	4	274	21,720	21,998

Included in network infrastructure and equipment are assets held under finance leases with a carrying value of £5.2m at 31 March 2017 (2016: £5.7m). Of the £8.6m fixed assets acquired in the year, £2.5m were funded using finance leases (2016 Restated: £4.1m).

11 Intangible Assets

	Goodwill £000	Customer contracts and related relationships £000	Trademarks £000	Software & Licenses £000	Total £000
<i>Cost</i>					
At 31 March 2015 (Restated)	37,691	52,614	275	2,062	92,973
Acquisition of subsidiaries	5,578	9,683	-	-	15,261
Additions	-	-	-	1,900	1,900
At 31 March 2016 (Restated)	43,269	62,297	275	3,962	109,803
Additions	-	-	-	738	738
FOREX difference on carrying value	-	3	-	-	3
At 31 March 2017	43,269	62,300	275	4,700	110,544
<i>Accumulated amortisation and impairment</i>					
At 31 March 2015 (Restated)	-	(8,219)	(120)	(1,257)	(9,596)
Amortisation charge for the year ended 31 March 2016	-	(5,493)	(60)	(463)	(6,016)
At 31 March 2016	-	(13,712)	(180)	(1,720)	(15,612)
Impairment	-	-	-	-	
Amortisation charge for the year ended 31 March 2017	-	(5,884)	(60)	(263)	(6,207)
At 31 March 2017		(19,596)	(240)	(1,983)	(21,819)
Carrying amount at 31 March 2016 (Restated)	43,269	48,585	95	2,242	94,191
Carrying amount at 31 March 2017	43,269	42,704	35	2,717	88,725

Customer contracts have a weighted average remaining amortisation period of 7 years and 11 months (2016: 8 years and 11 months).

Intangible assets are reviewed for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is tested for impairment at least annually.

The recoverable amount of the Recurring CGU was based on a value in use calculation using budgeted cash flow projections for the period to 31 March 2018 and extrapolated for a further four years by growth rates applicable to the unit. A terminal value based on a perpetuity calculation using 2% real growth was then added. Discount rates were then applied to these projections reflecting management's expected risk profile for the CGU.

In addition to revenue growth, the key assumptions used in the impairment testing were as follows:

- Gross margin percentage of c.60%;
- Pre-tax discount rate of 11.0%; and
- Terminal growth rate percentage of 2%.

11 Intangible Assets (continued)

The assumption of margins remaining flat after the budget period is based on the assumption that a mix of cost savings in service delivery will be offset by competitive market influences, which is line with management's experience and historical patterns.

A pre-tax discount rate of 11.0% (post-tax 9.3%) was applied to the CGU which reflects management's risk-adjusted estimate of the weighted average cost of capital. The CGU has a significant element of recurring revenue through maintenance contracts and this reduces the risk inherent in the business.

Over the five year period, revenues are projected to grow at an average of 10.1%. These growth rates were determined based on management's past experience and the detailed analysis of market trends.

A reasonably possible adverse movement in any of the above key assumptions made would not give rise to impairment.

12 Trade and other receivables

	2017 £000	2016 £000
Trade receivables	22,826	29,808
Less: provision for impairment of trade receivables	(5,576)	(7,005)
Trade receivables – net	17,250	22,803
Other receivables	56	14
Prepayments	5,378	3,797
Accrued income	3,155	4,424
	25,839	31,038

As at 31 March 2017, trade receivables of £5.6m (Restated 2016: £7.0m) were impaired and fully provided for. The Directors monitor the quality of the receivables not impaired and believe them to be recoverable. The non-impaired receivables are fully performing and relate to independent customers with no history of default. The individually impaired receivables relate to receivables over 365 days, customers in financial difficulty, customer acceptance issues and cancelled contracts.

As at 31 March 2017, net trade receivables of £8.3m were past due. In the table below, these comprise the receivables over 30 days, which relate to a number of independent customers for whom there is no recent history of default. Due to the prior year restatements a comparison is not available. The ageing analysis of trade receivables is as follows:

Days overdue	2017 Gross £000	2017 Provision £000	2017 £000
1-30 days	2,950	(266)	2,684
31-60 days	2,220	(532)	1,688
61-90 days	704	(169)	535
91-180 days	3,277	(988)	2,289
Over 180 days	4,580	(3,520)	1,060
	13,731	(5,475)	8,256

12 Trade and other receivables (continued)

In addition to the £5.5m provision against overdue debt there is a further £0.1m provided against debt not yet due.

The provision is calculated by management on a specific basis based on their best estimate of recoverability taking into account the age and specific circumstances relating to the debtor. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security. The carrying amounts of the Group's trade and other receivables are denominated in pounds.

Movements on the Group provision for impairment of trade receivables as at 31 March 2017 are as follows:

	2017 £000
Balance at the start of the period	7,005
Utilisation of impairment provision	(5,639)
Creation of Impairment provision treated as exceptional costs	2,933
Creation of impairment provision treated as operating costs*	1,277
At 31 March	5,576

Due to the prior year restatements a comparison is not available.

*The creation and release of a provision for impaired receivables has been included in 'administrative expenses' in the income statement. Amounts charged to the allowance account are generally written-off, when there is no expectation of recovering additional cash.

The other asset classes within trade and other receivables do not contain impaired assets.

13 Cash and cash equivalents

	2017 £000	Restated 2016 £000
Cash at bank	4,340	(3,970)

The Group's cash is held at accounts with Barclays Bank PLC, which has a Standard and Poor's rating of A.

14 Trade and other payables

	2017	Restated 2016
	£000	£000
<i>Current</i>		
Trade payables	7,483	8,678
Other payables	104	1,013
Taxation and social security	1,591	4,292
Accruals	2,264	9,541
Deferred income	5,804	3,883
	17,246	27,407

15 Commitments and contingencies

a) Operating leases

Future aggregate minimum annual lease payments under non-cancellable operating leases as at 31 March are as follows:

	Land and buildings 2017 £000	Plant and machinery 2017 £000	Land and buildings 2016 £000	Plant and machinery 2016 £000
Not later than 1 year	2,095	169	2,411	197
After 1 year but not more than 5 years	3,040	102	7,078	92
After 5 years	4,586	-	7,733	-
	9,721	271	17,222	289

The Group's operating leases relate to property, motor vehicles and office equipment, and have remaining terms of between 1 and 24 years. The amount recognised as an expense in the year is £2.6m (2016: £3.3m).

None of the above leases are sublet by the Group. There are no contingent rent arrangements and the Group 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 Group and the lessor.

(b) Capital commitments

The Group had no contracted but not provided for capital commitments at 31 March 2017 (2016: £nil).

16 Borrowings

	2017 £000	Restated 2016 £000
<i>Non-current</i>		
Bank loan	38,000	28,308
Finance leases	3,296	3,353
Unamortised loan arrangement fee	(204)	(272)
Total non-current	41,092	31,389
<i>Current</i>		
Finance leases	2,456	2,239
Term Loans	323	139
Total current	2,779	2,378

At 31 March 2017 the Group was party to £71.0m 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 £5.0m 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.

As part of the loan refinancing the Group's banking syndicate agreed to waive historical covenant breaches. The breaches arose due to the restatement of the 2016 accounts and the very significant decrease of trade payables following the cessation of cash window dressing through delaying payments to suppliers.

Fair value of non-current borrowings

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying value 2017 £000	Fair value 2017 £000	Carrying value 2016 £000	Fair value 2016 £000
<i>Non-current</i>				
Bank loan	38,135	34,495	28,674	26,344

Fair values are based on discounted cash flows, using an effective interest rate based on the borrowing rates at 31 March 2017 of 3.4% (2016: 2.15%).

Finance leases

	Present value 2017 £000	Finance charges 2017 £000	Future lease payments 2017 £000	Present value 2016 £000	Finance charges 2016 £000	Future lease payments 2016 £000
Not later than 1 year	2,456	132	2,588	2,237	154	2,391
After 1 year but not more than 5 years	3,296	89	3,385	3,355	239	3,594
	5,752	221	5,973	5,592	393	5,985

17 Financial instruments by category

The objectives of the Group's treasury activities are to manage financial risk, secure cost-effective funding where necessary and minimise adverse effects of fluctuations in the financial markets on the value of the Group's financial assets and liabilities, on reported profitability and on cash flows of the Group.

The Group's principal financial instruments for fundraising are bank borrowings, overdraft facilities and loans. The Group has various other financial instruments such as cash, trade receivables and trade payables that arise directly from its operations.

	Carrying value 2017 £000	Fair value 2017 £000	Carrying value Restated 2016 £000	Fair value Restated 2016 £000
<i>Assets</i>				
Trade receivables	17,250	17,250	22,803	22,803
Other receivables and prepayments	5,434	5,434	3,811	3,811
Other current assets	3,730	3,730	5,384	5,384
Cash and cash equivalents	4,340	4,340	-	-
Total	30,754	30,754	31,998	31,998
<i>Liabilities</i>				
Trade payables	7,483	7,483	8,678	8,678
Other payables and accruals	2,367	2,367	10,554	10,554
Other current liabilities	7,735	7,735	8,509	8,509
Borrowings	43,871	43,871	37,737	37,737
Other non-current liabilities	3,319	3,319	5,050	5,050
Total	64,775	64,775	70,258	70,258

18 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange, fair value interest rate risk, cash flow interest rate risk, and price risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out centrally under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investments of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates within the UK and foreign exchange risk arises from certain transactions with counterparties denominated in foreign currencies. This is not a significant risk for the Group.

(ii) Cash flow risk

The Group receives interest on cash and cash equivalents and pays interest on its borrowings.

Borrowings at variable rates expose the Group to cash flow interest rate risk. During the year ended 31 March 2017 the Group's borrowings at variable rate were denominated in Pounds Sterling with interest linked to Sterling interest rates.

18 Financial risk management (continued)

The Group 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 Group calculates the impact on profit or loss of a defined interest rate shift and manages its cash flow interest rate risk accordingly.

Based on the simulations performed, the impact on post-tax profit and equity of a +/- 1% shift in the interest rate would be not be material. The simulation is done on a quarterly basis to verify that the maximum loss potential is within the limit given by management.

(iii) Price risk

The Group is not exposed to significant commodity or security price risk.

(b) Credit risk

Credit risk arises from cash and cash equivalents, as well as credit exposures to customers. Individual risk limits are set based on internal and external ratings in accordance with limits set by the divisions and review by the Board where appropriate. The utilisation of credit limits is regularly monitored with appropriate action taken by management in the event of a breach of credit limit.

Post the forensic review and the subsequent re-audit of the 2016 subsidiaries and 2017 Group audit, the Board has adopted a more rigorous and prudent approach to debtor provisioning.

(c) Liquidity risk

Management monitors rolling forecasts of the Group's undrawn borrowing facility and cash and cash equivalents based on expected cash flow. The Group's liquidity management policy involves projecting cash flows and considering the level of liquid assets necessary to meet these.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. These amounts disclosed in the table are the contracted undiscounted cash flows. Balances within 12 months equal their carrying balances as the impact of discounting is not significant.

	Within 1 year £000	1–5 years £000	Total £000
At 31 March 2017			
Borrowings		38,000	38,000
Finance leases	2,456	3,296	5,752
Trade and other payables	7,483		7,483
Term loans	323		323
At 31 March 2016 (Restated)			
Borrowings	-	28,308	28,308
Finance leases	2,239	3,353	5,592
Trade and other payables	8,678	-	8,678
Term loans	139		139

19 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's future growth and its ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Group operates in the managed services sector which, generally, does not require substantial fixed asset investments. Consequently, the Group is financed predominantly by equity.

In order to maintain or adjust the capital structure the Group has previously both issued new shares and borrowed using bank facilities. The Group monitors capital on the basis of the ratio of net bank debt to adjusted EBITDA. Net debt is calculated as total bank borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents, and adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, non-recurring costs and share-based payments. The Group's strategy is to maintain the ongoing ratio at below 2.5x, although the bank facilities can accommodate a higher ratio. The ratio was comfortably below this level throughout the year, and at 31 March 2017 was 2.2x.

The bank facilities referred to in Note 16 contain various covenants relating to EBITDA, interest cover, net debt and cash flow, which the Group monitors on a monthly basis. The Group adopts a risk-averse position with respect to borrowings, and maintains a significant amount of head-room in its bank facilities to ensure that any unexpected situations do not create financial stress.

The Group has committed to a progressive dividend policy, and intends to return a proportion of free cash-flow to shareholders each year in the form of dividends, whilst retaining a prudent amount of capital in the business to fund potential future expansion and to provide operational flexibility. The Group also grants share options to Directors and other selected employees. However, these do not have a significant impact on the Group's capital structure.

20 Called up share capital

	Allotted and fully paid Number	£'000
At 31 March 2015	144,728,908	145
New shares issued	1,152,277	1
At 31 March 2016	145,881,185	146
New shares issued	2,977,988	3
At 31 March 2017	148,859,173	149

The number of share authorised is the same as the number of shares issued. Ordinary shareholders have the right to attend, vote and speak at meetings, receive dividends, and receive a return on assets in the case of a winding up.

Share issues

During the year the following shares were issued:

	2017 Number	2016 Number
Issued on the exercise of share options	2,977,988	354,251
Issued on the exercise of warrants	-	798,026
	2,977,988	1,152,277

20 Called up share capital (continued)

As at 31 March 2017 the Company had a total of 350,000 warrants in issue with an exercise price of 36p. The warrants were issued to Barclays Bank PLC on demerger in April 2013 in exchange for warrants previously held in Redstone Plc, and can be converted to shares at any time before the sale of the entire share capital of the Company.

21 Provisions

	Dilapidations provision	Vacant property provision	Total provision
	£000	£000	£000
At 31 March 2015	642	33	675
Charged/(credited) to Income statement:			
Additional provisions created during the year	-	1,698	1,698
Used during the year	(49)	(50)	(99)
At 31 March 2016	593	1,681	2,274
Used during the year	(320)	(408)	(728)
At 31 March 2017	273	1,273	1,546

The provisions have been discounted to present value using a risk free discount rate. The remaining terms of these property leases range from 1 to 6 years.

Current and non-current analysis of provisions:

	2017			2016		
	Dilapidations provision	Vacant property provision	Total provision	Dilapidations provision	Vacant property provision	Total provision
	£000	£000	£000	£000	£000	£000
Current	-	339	339	-	334	334
Non-current	273	934	1,207	593	1,347	1,940
Total	273	1,273	1,546	593	1,681	2,274

22 Share-based payment plans

Share-based payments

During the year the Group recognised an expense for the following share-based payments:

	2017 £000	Restated 2016 £000
Equity-settled share-based charge arising from share options*	975	1,336
National insurance and other charges arising on share options	105	-
	1,080	1,336

* This is an IFRS 2 charge arising from share options issued in terms of a share-based payment plan.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year.

Options	2017 Number of options	2017 WAEP	2016 Number of options	2016 WAEP
Outstanding at the start of the year	14,230,452	82.4p	14,567,621	82.3p
Issued in the year	919,048	45.7p	163,905	154.0p
Exercised in the year	(2,977,988)	58.1p	(354,251)	102.1p
Lapsed in the year	(2,132,787)	107.9p	(146,823)	108.7p
Outstanding at the end of the year	10,037,417	80.5p	14,230,452	82.4p

The weighted average fair value of the options granted in the year ended 31 March 2017 was 45.7p (2016: 154.0p) per option. During the year ended 31 March 2017 there were new grants of 919,048 options (2016: 163,905 options) which were issued under the Company's Long Term Incentive Plan ("LTIP").

The weighted average remaining contractual life for the share options outstanding at 31 March 2017 is 5 years and 9 months (2016: 7 years and 3 months). The range of exercise prices for options outstanding at the end of the year was 0p to 154p. Share options outstanding at the end of the year with approximate remaining average life are as follows:

Range of prices	Number 31 March 2017	Life at 31 March 2017	Number 31 March 2016	Life at 31 March 2016
0p	419,048	2 years, 3 months	-	-
32p	-	-	1,692,988	7 years, 1 month
70p	276,143	6 years, 1 month	761,143	7 years, 1 month
80p	7,581,968	6 years, 8 month	7,581,968	7 years, 7 months
84p	500,000	1 years, 3 months	-	-
102p	225,000	6 years, 11 months	1,500,000	7 years, 11 months
112p	-	-	1,100,000	8 years, 5 months
117p	225,000	7 years, 8 months	450,000	8 years, 8 months
107p	721,731	1 years, 6 months	985,824	2 years, 6 months
154p	88,527	2 years, 6 months	158,529	3 years, 6 months
	10,037,417	5 years, 9 months	14,230,452	7 years, 3 months

22 Share-based payment plans (continued)

The following table illustrates the status of the options outstanding at the end of the year:

Options	2017 Number of options	2017 WAEP	2016 Number of options	2016 WAEP
Performance conditions satisfied	276,143	70p	2,668,417	53.5p
Subject to performance conditions	8,951,616	78p	10,417,682	86.4p
Save-As-You-Earn	809,658	112.1p	1,144,353	113.5p
Outstanding at the end of the year	10,037,417	80.5p	14,230,452	82.4p

The fair value of the equity-settled share options granted is estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs into the model used for the year ended 31 March 2017 and 31 March 2016. No change has been made to the assumptions used for valuing options granted before 31 March 2014.

Grant date	Apr 2013	Nov 2013	Mar 2014	Aug & Nov 2014	SAYE Dec 2014	SAYE Dec 2015	LTIP Dec 2016	Type 1 special award Dec 2016	Type 2 special award Dec 2016
Option exercise price	70p	80p	102p	117p	107p	154p	0p	84p	84p
Dividend yield (%)	3.0	3.0	3.0	2.9 & 2.7	2.4	2.1	3.4	3.4	3.4
Vesting period (years)	1-3	3.6	2.3 – 3.6	0.3 – 2.7	3.0	3.0	2.5	1	2
Assumed volatility at date of grant (% p.a.)	50%	50%	50%	37% & 36%	34%	27%	46%	46%	46%
Risk-free discount rate	0.5-1.0%	1.1%	0.8-1.3%	0.8-1.4%	1.0%	1.0%	0.1%	0.1%	0.2
Expected life of option	6.2 years	3.6 years	3.6 years	2.6-3.7 years	3.7 years	3.7 years	2.5	2.5	3
Fair value per option	14.2p – 20.5p	32.6p	40.9p – 46.5p	32.3p – 41.4p	48.8p	44.0p	81.6	27.1	29.1
Share price at grant	64.0p	83.5p	113.5p	119.5p – 130.5p	145.5p	188.0p	87.5	87.5	87.5

23 Pensions

The Group operates a defined contribution pension scheme for eligible employees. The charge for the year ended 31 March 2017 was £0.4m (2016: £0.4m). At the year-end there was a pension's creditor of £0.1m (2016: £0.1m)

24 Subsidiaries

As at 31 March 2017, the Company had the following subsidiary undertakings:

	Principal activity	Country of incorporation	% Ordinary share capital owned
Held directly by Redcentric plc			
Redcentric Holdings Limited	Holding company	England and Wales	100%
Redcentric Solutions Limited	Managed Services	England and Wales	100%
Held indirectly			
Redcentric Solutions Private Limited	Support services	India	100%
Redcentric MS Limited	Dormant*	England and Wales	100%
Redcentric Managed Solutions Limited	Dormant*	England and Wales	100%
Redcentric Communications Limited	Dormant*	England and Wales	100%
Hotchilli Internet Limited	Dormant*	England and Wales	100%
Redcentric US Limited	Dormant	USA	100%
Calyx Managed Services Limited	Dormant	England and Wales	100%
City Lifeline Limited	Dormant	England and Wales	100%
City Lifeline Data Centre Limited	Dormant*	England and Wales	100%

All of the Company's subsidiaries have been consolidated in the Group financial statements.

All of the Group companies have a registered office of Central House, Beckwith Knowle, Harrogate 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

* The companies marked with an asterisk are exempt from filing audited accounts under s394A of the Companies Act 2006 as they have been dormant throughout the period.

25 Related parties

The Group has taken exemption not to disclose transactions with entities wholly-owned by the Group.

Directors' emoluments are disclosed in the Remuneration Report.

MXC Capital

The Group has engaged MXC Advisory LLP to provide corporate finance advice and consultancy. MXC Advisory LLP is owned by MXC Capital Limited ("MXC"), which is an AIM quoted merchant bank specialising in investing in technology companies. MXC is a shareholder in Redcentric plc and has options over the ordinary shares of Redcentric plc (as disclosed below and in note XX) and therefore its interests are aligned with Redcentric plc's other shareholders. Tony Weaver, a Director of Redcentric plc, has an interest in MXC. Under the terms of the agreement, a fee representing a maximum of 2.5 per cent. of the enterprise value of successful transactions consulted upon is payable by the Company to MXC.

During the year, fees of £97,500 were paid to MXC (2016: £497,124), which included £17,500 (2016: £137,629) for Tony Weaver's Director's fees, £80,000 (2016: £59,495) for the provision of corporate finance advice, and £nil (2016:

£300,000) for advisory fees in respect of the acquisition of Calyx.

25 Related parties (continued)

As at 31 March 2017 MXC has the following interest in shares and options over ordinary shares in the Company:

	Quantity	Grant date	Exercise price	Expiry date
Ordinary shares				
Options (a)	1,692,988	18 April 2013	32p	18 April 2023
Options (b)	7,000,000	15 November 2013	80p	15 November 2023

- (a) The performance conditions with respect to 564,330 of these options have been met, and the options have fully vested. There is a performance condition in respect of 1,128,658 options linked to the occurrence of a qualifying transaction that will deliver a predefined return to shareholders. 846,494 of the options are held by Tony Weaver as a Trustee under a Declaration of Trust, the beneficiary of which is MXC Capital Ltd.
- (b) The options have a performance condition which allows the option to be exercised if the average mid-market closing price of the shares for the preceding 10 working days at any point after 15 November 2016 is greater than 112.4p.

Other

There were no other transactions with related parties in the year to 31 March 2017 other than those disclosed in note 29.

The balances outstanding at 31 March 2016 in respect of related parties was £30,000 payable to MXC.

26 Dividends

	2017 £000	2016 £000
Amounts recognised as distributions to Shareholders in year:		
Final dividend for year ended 31 March 2016 of 3.0p (2015: 3.0p) per share	4,406	3,618
Interim dividend for year ended 31 March 2017 (2016: 1.5p) per share	-	2,188
	4,406	5,806

The Company paid a final dividend in respect of the year to 31 March 2016 of 3.0p per ordinary share on 16 September 2016, with a total payment value of £4.4m.

27 Subsequent events

On 27 April 2017, the Group refinanced its loan facilities, details of which are summarised in the Financial Review on page 11.

There have been no other significant events between the balance sheet date and the date of approval of these accounts.

28 Error restatement

On 7 November 2016 Redcentric plc ('the Group') announced that an internal review by the Group's audit committee had discovered misstated balances in the Group's accounting records and consequently a forensic review of the Group's net assets was undertaken. Furthermore as part of the forensic review, work was undertaken to validate the previously reported net debt position of the Group.

The findings of the forensic review identified a reduction in net assets of the Group of £14.9m. This misstatement relates to prior periods and subsequently the prior year comparatives have been restated with net assets at 1 April 2015 reducing by £6.0m and as at 31 March 2016 by £14.5m.

Subsequent to this review, the Board have completed a further review of net assets as at 31 March 2016 as part of the finalisation of the 2017 annual report. As a result of this investigation further restatements have been recognised:

- relating to the consolidation of the Group's Indian subsidiary.
- Other items, predominantly in relation to misstatement of and taxation and deferred taxation balances.

The cumulative impact of the above adjustments on reported profit for the year ended 31 March 2016 was assessed to be £9.5m.

The following disclosure provides further detail of the composition of these adjustments, with reference to the affected primary statement captions where possible.

Impact of forensic review

Certain assets of the Group recognised as PPE were identified as relating to inventory. Accordingly these assets were reclassified from PPE to inventory (2016: £497k).

Certain amounts relating to accrued income and trade receivables were identified as being irrecoverable. As a result further provisions against receivables balances were recognised and other balances were adjusted against revenue. Overall, this reduced trade and other receivable balances (2016: £1,555k).

Certain customer receipts were recognised in advance of the date of the clearing of associated cash receipts. This resulted in an overstatement of cash and cash equivalents and an understatement of net debt (2016: £8,242k).

In addition, certain cash payments relating to trade creditors were recorded in the wrong period, resulting in an overstatement of cash and cash equivalents and an understatement of net debt (2016: £4,240k).

Certain costs relating to the year ended 31 March 2016 and 31 March 2015 had not been recorded as liabilities at the relevant period end. This resulted in an understatement of trade creditor and accrual balances (2016: £3,193k), along with associated cost of sales and operating expenses balances.

The deferred tax effect of the above items is £2,375k, driven by the increase in tax losses.

These forensic adjustments are consistent with those that were reflected in the financial statements of Redcentric Solutions Limited at 31 March 2016.

India

The assets and liabilities of the Group relating to a subsidiary company, Redcentric Solutions Private Ltd, were previously not consolidated into the Group's financial statements.

The impact of this restatement is an increase in net assets of £0.4m as at 31 March 2016 with a corresponding increase in profit after tax as at 31 March 2016 of £0.4m.

Other

Certain assets of the Group relating to capitalised software were identified to have been recognised as part of property, plant and equipment instead of as an intangible asset. Accordingly management have reclassified these assets from PPE to intangible assets (2016: £2,242k).

In addition, certain purchases of property plant and equipment were recorded in the wrong period, resulting in an understatement of assets and trade payables (2016: £41k).

A further adjustment to reduce the intangibles balance by £317k has been recorded at 31 March 2016, relating to a reduction in carrying value.

Certain items of expenditure were incorrectly capitalised within the inventory caption and an adjustment was

required to correct this (2016: £68k).

Further amounts relating to accrued income and trade receivables were identified as being irrecoverable. As a result further provisions against receivables balances were recognised in addition to the writing off of certain balances, reducing trade and other receivable balances (2016: £3,604k).

Borrowings falling due within one year were reclassified to the current liabilities caption (£523k).

A corporation tax receivable was not recorded (2016: £531k), and an increase to the deferred tax liability (2016: £356k) was recognised as a result of these other adjustments being recorded.

The forensic review identified certain costs relating to the year ended 31 March 2016 and 31 March 2015 as not having been recorded at the relevant period end. However some of these costs had already been accrued for and therefore needed to be reversed to avoid double counting. This adjustment resulted in a reduction of trade creditor and accrual balances (2016: £2,500k), along with associated cost of sales and operating expenses balances.

The accounting misstatements are discussed on pages 8-9 of the financial performance review. The impact of the prior year adjustments on the Groups income, equity and cash flows arising from the restatement exercise are summarised on page 64 – 65.

28 Error restatement

Reconciliation of Consolidated Statement of Income

For the year ended 31 March 2016

	As previously reported	Error restatement	Restated 2016
	£000	£000	£'000
Revenue	109,526	(7,163)	102,363
Cost of sales	(45,050)	496	(44,554)
Gross profit	64,476	(6,667)	57,810
Operating expenditure	(56,037)	(6,717)	(62,756)
Adjusted EBITDA*	25,844	(11,464)	14,380
Depreciation	(5,825)	531	(5,294)
Amortisation of acquired intangibles	(5,548)	(468)	(6,016)
Non-recurring costs	(4,591)	(2,089)	(6,680)
Share-based payments	(1,441)	105	(1,336)
Operating profit/ (loss)	8,439	(13,385)	(4,946)
Finance costs	(995)	(199)	(1,194)
Profit/ (loss) on ordinary activities before taxation	7,444	(13,584)	(6,141)
Tax charge on profit on ordinary activities	(2,188)	4,134	1,946
Profit/ (loss) for the year (attributable to owners of the parent)	5,256	(9,451)	(4,195)

28 Error restatement (Continued)

Reconciliation of Consolidated Balance Sheet

As at 31 March 2016

	As previously reported £000	Forensic Review £000	India Consolidation £000	Other £000	Restated 2016 £000
Assets					
Non-current assets					
Property plant and equipment	28,669	(497)	56	(2,202)	26,026
Intangible assets	92,285	-	21	1,885	94,191
	120,954	(497)	77	(317)	120,217
Current assets					
Inventories	-	497	-	(68)	429
Trade and other receivables	35,762	(1,555)	435	(3,604)	31,038
Corporation tax receivable	-	-	-	531	531
Cash and short term deposits	8,492	(8,492)	-	-	-
	44,254	(9,550)	435	(3,141)	31,998
Total assets	165,208	(10,047)	512	(3,458)	152,215
Equity and liabilities					
Equity					
Called up share capital	146	-	-	-	146
Share premium account	63,667	-	-	-	63,667
Capital redemption reserve	(9,454)	-	-	-	(9,454)
Reserves	43,099	(14,856)	399	(1,314)	27,328
Total equity	97,458	(14,856)	399	(1,314)	81,687
Non-current liabilities					
Provisions	1,940	-	-	-	1,940
Borrowings	31,912	-	-	(523)	31,389
Deferred tax liability	5,139	(2,375)	(10)	356	3,110
	38,991	(2,375)	(10)	(167)	36,439
Current liabilities					
Overdraft	-	3,991	(21)	-	3,970
Trade and other payables	26,570	3,193	144	(2,500)	27,407
Borrowings	1,855	-	-	523	2,378
Provisions	334	-	-	-	334
	28,759	7,184	123	(1,977)	34,089
Total liabilities	67,750	4,809	113	(2,144)	70,528
Total equity and liabilities	165,208	(10,047)	512	(3,458)	152,215

28 Error restatement (Continued)**Reconciliation of Consolidated Balance Sheet**

As at 31 March 2015

	As previously reported £000	Error restatement £'000	Restated 2015 £000
Assets			
Non-current assets			
Property plant and equipment	23,397	233	23,630
Intangible assets	82,572	(2,069)	80,503
	105,969	(1,836)	104,133
Current assets			
Inventories	-	-	-
Trade and other receivables	18,350	(1,876)	16,474
Corporation tax receivable	-	-	-
Cash and short term deposits	3,199	96	3,295
	21,549	(1,780)	19,769
Total assets	127,518	(3,616)	123,902
Equity and liabilities			
Equity			
Called up share capital	145	-	145
Share premium account	62,668	-	62,668
Capital redemption reserve	(9,454)	-	(9,454)
Retained Earnings	41,378	(4,413)	36,965
Total equity	94,737	(4,413)	90,324
Non-current liabilities			
Provisions	489	-	489
Borrowings	9,412	-	9,412
Deferred tax liability	1,631	(1,600)	31
	11,532	(1,600)	9,932
Current liabilities			
Overdraft	-	-	-
Trade and other payables	18,542	2,367	20,909
Corporation tax payable	1,488	30	1,518
Borrowings	1,033	-	1,033
Provisions	186	-	186
	21,249	2,397	23,646
Total liabilities	32,781	2,393	33,578
Total equity and liabilities	127,518	(3,616)	123,902

28 Error restatement (Continued)

Reconciliation of Consolidated Cash Flow

For the year ended 31 March 16

	As previously reported £000	Error Restatement £000	Restated 2016 £000
Cash flows from operating activities			
Profit/(Loss) before taxation	7,444	(13,585)	(6,141)
Net finance expense	995	200	1,195
Operating loss	8,439	(13,385)	(4,946)
Depreciation and amortisation	11,373	(63)	11,310
Non-recurring items	4,591	2,089	6,680
Share based payments	1,441	(105)	1,336
Operating cash flow before non-recurring costs and movements in working capital	25,844	(11,464)	14,380
Non-recurring costs and NI on share based payments	(3,066)	(2,015)	(5,081)
Operating cash flow before movements in working capital	22,778	(13,479)	9,299
Decrease (increase) in inventories	-	(429)	(429)
Decrease (increase) in trade and other receivables	(17,412)	5,956	(11,456)
(Decrease) increase in trade and other payables	10,716	(9,883)	833
Cash generated from operations	16,082	(17,835)	(1,753)
Corporation tax received	-	(244)	(244)
Net cash inflow from operating activities	16,082	(18,079)	(1,997)
Cash flows from investing activities			
Acquisition of subsidiaries net of cash acquired	(19,348)	5,571	(13,777)
Purchase of property, plant and equipment	(9,030)	872	(8,158)
Net cash outflow from investing activities	(28,378)	6,443	(21,935)
Cash flows from financing activities			
Dividends paid to shareholders	(5,806)	-	(5,806)
Interest paid	(927)	(200)	(1,127)
Drawdown on revolving credit facility	23,323	(723)	22,600
Proceeds of issue of shares less costs of issue	1,000	-	1,000
Net cash inflow from financing activities	17,590	(923)	16,667
Net increase (decrease) in cash and cash equivalents	5,294	(12,559)	(7,265)
Opening cash and cash equivalents (as restated)	3,199	96	3,295
Net increase (decrease) in cash and cash equivalents	5,294	(12,559)	(7,265)
Effect of exchange rates	-	-	-
Cash and cash equivalents	8,492	(12,462)	(3,970)

28 Error restatement (Continued)

Reconciliation of Earnings per share

For the year ended 31 March 16

	Previously reported 2016 £000	Error restatement £000	Restated 2016 £000
Statutory earnings	5,256	(9,451)	(4,195)
Tax charge / (credit)	2,188	(4,134)	(1,946)
Amortisation of acquired intangibles	5,548	5	5,553
Share based payments	1,441	(105)	1,336
Non-recurring costs	4,591	2089	6,680
Adjusted earnings before tax	19,024	(11,596)	7,428
Notional tax charge at standard rate of 21%	(3,805)	2,435	(1,560)
Adjusted earnings	15,029	(9,161)	5,868
Weighted average number of shares in issue	145,223,982		145,223,982
Weighted dilutive effect of options and warrants in issue	8,090,152		8,090,152
Diluted weighted average number of shares in issue	153,314,134		153,314,134
Statutory diluted and basic earnings per shares	3.62p		(2.89)p
Adjusted basic earnings per share	10.48p		4.04p
Adjusted diluted earnings per share	9.93p		3.83p

29 Business combinations (in the year ended 31 March 2016)

29.1 Acquisition of Calyx

On 10 April 2015, Redcentric completed the acquisition of Calyx Managed Services Ltd ("Calyx") for an enterprise valuation of £12.0m. Calyx was acquired from MXC Capital following a period of significant restructuring, which included the disposals of the Break Fix and Carrier Services divisions. The remaining business was a focused IT managed services and professional and infrastructure services business. Calyx's portfolio of services and its range of customers are an excellent strategic addition for Redcentric.

The acquisition is considered a related party transaction under the AIM Rules for Companies on the basis that MXC is a substantial shareholder in the Company and Tony Weaver, a Director of Redcentric, is a substantial shareholder of MXC. In addition, Redcentric agreed a corporate finance advisory fee of £300,000 to MXC for advisory services in relation to the acquisition under an existing engagement with MXC, which is retained as corporate finance adviser to the Company (further details are in note 26 to the financial statements). The payment of the advisory fee is considered to be a related party transaction under the AIM Rules for Companies.

The book value of the Calyx net assets acquired and their fair values are summarised below:

	Book value £000	Fair value adjustments £000	Fair value to Group £000
Intangible assets	-	6,673	6,673
Deferred tax asset	-	1,587	1,587
Trade and other receivables	1,676	(93)	1,583
Prepayments	1,475	(192)	1,283
Cash and loans	5,465	-	5,465
Deferred revenue	(2,476)	-	(2,476)
Trade and other payables	(790)	-	(790)
Accrued costs and tax	(1,433)	-	(1,433)
Deferred tax liability	-	(1,201)	(1,201)
Net assets	3,917	6,774	10,691
Fair value of net assets			10,691
Goodwill			4,834
Total purchase consideration paid in cash			15,525

The fair value adjustments relate to the recognition of newly identified intangible assets, and the writing off of unrecoverable debtors and accrued revenue. The purchase consideration paid included an adjustment to reflect the cash proceeds of £4.9m from the disposal of the Break Fix and Carrier Services divisions and an adjustment of £1.5m to reflect certain lease liabilities.

On acquisition the Directors assessed the business acquired to identify any intangible assets. Customer contracts and related relationships met the criteria for recognition as intangible assets as they have a measurable fair value, being the amount for which an asset would be exchanged between knowledgeable and willing parties in an arm's length transaction. For the customer contracts and related relationships the provisional fair value of the intangible assets was calculated by using the discounted cash flows arising from the existing contract base for the business. The reasonable economic life of the customer relationships was assumed to be ten years, and has been discounted using a rate of 10.6%. The identifiable intangible asset was valued at £6.7m.

The goodwill arising on the acquisition is attributable to the expected synergies.

From the date of acquisition to 31 March 2016, Calyx achieved revenue of £6.7m and a profit before taxation of £0.6m. As Calyx was acquired close to the start of the year, the revenue and profit before tax if Calyx had been consolidated for the full year would not be materially different.

29.2 Acquisition of City Lifeline

On 28 January 2016, Redcentric completed the acquisition of City Lifeline Ltd ("City Lifeline") for an enterprise valuation of £4.8m from its founders.

City Lifeline is an established business, which has been trading for over 20 years. It was originally set up as a disaster recovery and back-up site, and has been developed over the years into an independent data centre offering hosting and colocation services from its well-connected and well-invested location in Tech City, London. The principal rationale behind the acquisition was to acquire a London data centre, enhancing Redcentric's go-to-market proposition based on the ownership and control of the underlying infrastructure from which services are delivered.

The book value of the City Lifeline net assets acquired and their fair values are summarised below:

	Book value £000	Fair value adjustments £000	Fair value to Group £000
Intangible assets	-	3,010	3,010
Property, plant and equipment	2,068	-	2,068
Trade and other receivables	94	-	94
Prepayments	216	-	216
Cash and loans	1,352	-	1,352
Borrowings	(722)	-	(722)
Trade and other payables	(251)	-	(251)
Accrued costs and tax	(330)	(383)	(713)
Deferred tax liability	(187)	(542)	(729)
Net assets	2,239	2,085	4,324
Fair value of net assets			4,324
Goodwill			744
Total purchase consideration paid in cash			5,068

The fair value adjustments relate to the recognition of newly identified intangible assets, a provision for contractual staff bonuses which were crystallised at the point of acquisition, and a provision for corporation tax.

On acquisition the Directors assessed the business acquired to identify any intangible assets. Customer contracts and related relationships met the criteria for recognition as intangible assets as they have a measurable fair value, being the amount for which an asset would be exchanged between knowledgeable and willing parties in an arm's length transaction. For the customer contracts and related relationships the provisional fair value of the intangible assets was calculated by using the discounted cash flows arising from the existing contract base for the business. The reasonable economic life of the customer relationships was assumed to be ten years, and has been discounted at a rate of 10%. The identifiable intangible asset was valued at £3.0m.

The goodwill arising on the acquisition is attributable to the additional data centre capacity acquired and expected synergies.

From the date of acquisition to 31 March 2016, City Lifeline achieved revenue of £0.6m and a profit before taxation of £0.1m. If City Lifeline had been consolidated for the full year it would have achieved revenue of £3.5m and profit before tax of £0.3m.

Redcentric plc

Company Balance Sheet

As at 31 March

		2017	2016
	Note	£000	£000
Fixed assets			
Investments	2	101,031	100,056
Current liabilities			
Creditors – amounts falling due within one year	3	(11,873)	(9,198)
Net current liabilities		(11,873)	(9,198)
Net assets		89,158	90,858
Capital and reserves			
Called up share capital	4	149	146
Share premium account		65,395	63,667
Share option reserve		4,969	3,994
Retained earnings		18,645	23,051
Total shareholders' funds		89,158	90,858

The notes on pages 70 to 73 are an integral part of these financial statements. The financial statements on pages 68 to 73 were approved by the Board on 26 July 2017 and are signed on its behalf by:



Fraser Fisher, Director



Peter Brotherton, Director

Company Statement of Changes in Equity

	Called up share capital	Share premium	Reserves	Total equity
	£000	£000	£000	£000
At 31 March 2015	145	62,668	31,515	94,328
<i>Transactions with owners:</i>				
Issue of new shares	1	999	-	1,000
Dividends to shareholders	-	-	(5,806)	(5,806)
Capital contribution related to share based payment for subsidiaries			1,336	1,336
At 31 March 2016	146	63,667	27,045	90,858
<i>Transactions with owners:</i>				
Issue of new shares	3	1,728	-	1,731
Dividends to shareholders	-	-	(4,406)	(4,406)
Share Based Payments (SBP)	-	-	975	975
At 31 March 2017	149	65,395	23,614	89,158

Notes to the Company Financial Statements

1 Accounting policies (FRS 101)

Redcentric plc has taken advantage of the exemption provided under Section 408 of the Companies Act 2006 not to disclose the Company profit and loss account. Redcentric plc has taken advantage of the exemption provided under Section 404 of the Companies Act 2006 not to disclose the Company statement of cash-flows. The result of the Company for the year was £nil (2016: £nil).

Redcentric plc is a public limited company incorporated and domiciled in England and Wales, whose shares are publicly traded on the AIM division of the London Stock Exchange. Redcentric plc was incorporated on 11 February 2013, and admitted to AIM on 24 April 2013.

The principal accounting policies, which have been applied consistently throughout the year in the preparation of the financial statements:

(a) Basis of accounting

The financial statements have been prepared under the historical cost convention in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom.

(b) Basis of preparation

The financial statements have been prepared on a going concern basis in accordance with FRS 101.

The Directors have assessed going concern for the Company, taking into account that it operates as part of the Redcentric plc Group.

On 1 April 2015 the Group entered into new banking facilities, which run until 2 April 2020. A high proportion of the Group's revenue is recurring in nature, which provides good visibility of future cash-flows. The present cash flow forecasts indicate that the Group will be able to operate within the present banking facilities for at least 12 months from the date of approval of these financial statements. For these reasons the Directors believe the going concern basis to be appropriate.

(c) Investments in subsidiaries

Investments are initially recognised at cost, being the fair value of the consideration given. The carrying value of investments is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

(d) Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

(e) Foreign currencies

The functional and presentation currency of Redcentric plc is Pounds Sterling.

Transactions in foreign currencies are initially recorded in the functional currency by applying the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss.

(f) Employees and Directors emoluments

The Company had no employees during the period. The Directors emoluments are paid by other Group entities. Their remuneration is disclosed in this annual report.

2 Investments

	2017 £000	2016 £000
Investments in subsidiaries	96,062	96,062
Capital contribution related to share-based payments for subsidiaries	4,969	3,994
	101,031	100,056

As part of the forensic review discussed in note 28 to the Group financial statements it was noted that the presentation of the fixed asset investment note in 2016 had classified £2,658,000 as direct investment in subsidiaries as opposed to increases in capital contributions. This classification has been correct in the year ended 31 March 2017 as stated above.

At 31 March 2017, the Company had the following subsidiary undertakings:

	Principal activity	Country of incorporation	% Ordinary share capital owned
Held directly by Redcentric plc			
Redcentric Holdings Limited	Holding company	England and Wales	100%
Redcentric Solutions Limited	Managed Services	England and Wales	100%
Held indirectly			
Redcentric Solutions Private Limited	Support services	India	100%
Redcentric MS Limited	Dormant*	England and Wales	100%
Redcentric Managed Solutions Limited	Dormant*	England and Wales	100%
Redcentric Communications Limited	Dormant*	England and Wales	100%
Hotchilli Internet Limited	Dormant*	England and Wales	100%
Redcentric US Limited	Dormant	USA	100%
Calyx Managed Services Limited	Dormant	England and Wales	100%
City Lifeline Limited	Dormant	England and Wales	100%
City Lifeline Data Centre Limited	Dormant*	England and Wales	100%

* The companies marked with an asterisk are exempt from filing audited accounts under s394A of the Companies Act 2006 as they have been dormant throughout the period.

All of the Group companies have a registered office of Central House, Beckwith Knowle, Harrogate 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

The Company does not have any associate operations

3 Creditors – amounts falling due within one year

	2017 £000	2016 £000
Amounts owed to subsidiaries	11,873	9,198

Amounts due to Group undertakings are unsecured, interest-free and have no fixed payment terms.

4 Called up share capital

	Allotted and fully paid Number	£'000
At 31 March 2015	144,728,908	145
New shares issued	1,152,277	1
At 31 March 2016	145,881,185	146
New shares issued	2,977,988	3
At 31 March 2017	148,859,173	149

The number of share authorised is the same as the number of shares issued. Ordinary shareholders have the right to attend, vote and speak at meetings, receive dividends, and receive a return on assets in the case of a winding up.

Share issues

During the year the following shares were issued:

	2017 Number	2016 Number
Issued on the exercise of share options	2,977,988	354,251
Issued on the exercise of warrants	-	798,026
	2,977,988	1,152,277

As at 31 March 2017 the Company had a total of 350,000 warrants in issue with an exercise price of 36p. The warrants were issued to Barclays Bank PLC on demerger in April 2013 in exchange for warrants previously held in Redstone Plc, and can be converted to shares at any time before the sale of the entire share capital of the Company.

5 Auditors' remuneration

The Company audit fee is £110,000 (2016: £24,000). This fee was borne by another Group company.

6 Related parties

The Group has taken exemption not to disclose transactions with entities wholly-owned by the Group.

Directors' emoluments are disclosed in the Remuneration Report.

MXC Capital

Up until 30 November 2016, the Group engaged MXC Advisory LLP to provide corporate finance advice and consultancy. MXC Advisory LLP is owned by MXC Capital Limited ("MXC"), which is an AIM quoted merchant bank specialising in investing in technology companies. MXC was a shareholder in Redcentric plc and still has options over the ordinary shares of Redcentric plc and therefore its interests are aligned with Redcentric plc's other shareholders. Tony Weaver, is a former Director of Redcentric plc, has an interest in MXC. Under the terms of the agreement, a fee representing a maximum of 2.5 per cent. of the enterprise value of successful transactions consulted upon is payable by the Company to MXC.

During the year, fees of £97,500 were paid to MXC (2016: £497,124), which included £17,500 (2016: £137,629) for Tony Weaver's Director's fees, £80,000 (2016: £59,495) for the provision of corporate finance advice, and £nil (2016: £300,000) for advisory fees in respect of the acquisition of Calyx. The acquisition of Calyx from MXC on 10 April 2015 for an Enterprise Value of £12.0m was a related party transaction.

As at 31 March 2017 MXC has the following interest in shares and options over ordinary shares in the Company:

	Quantity	Grant date	Exercise price	Expiry date
Ordinary shares	-	-	-	-
Options (a)	1,692,988	18 April 2013	32p	18 April 2023
Options (b)	7,000,000	15 November 2013	80p	15 November 2023

- (a) The performance conditions with respect to 564,330 of these options have been met, and the options have fully vested. There is a performance condition in respect of 1,128,658 options linked to the occurrence of a qualifying transaction that will deliver a predefined return to shareholders. 846,494 of the options are held by Tony Weaver as a Trustee under a Declaration of Trust, the beneficiary of which is MXC Capital Ltd.
- (b) The options have a performance condition which allows the option to be exercised if the average mid-market closing price of the shares for the preceding 10 working days at any point after 15 November 2016 is 112.4p plus 12% p.a. with effect from that date.

Other

There were no other transactions with related parties in the year to 31 March 2017 other than as described in note 29 of the group financial statements.

The balances outstanding at 31 March 2017 in respect of related parties was £30,000 payable to MXC.