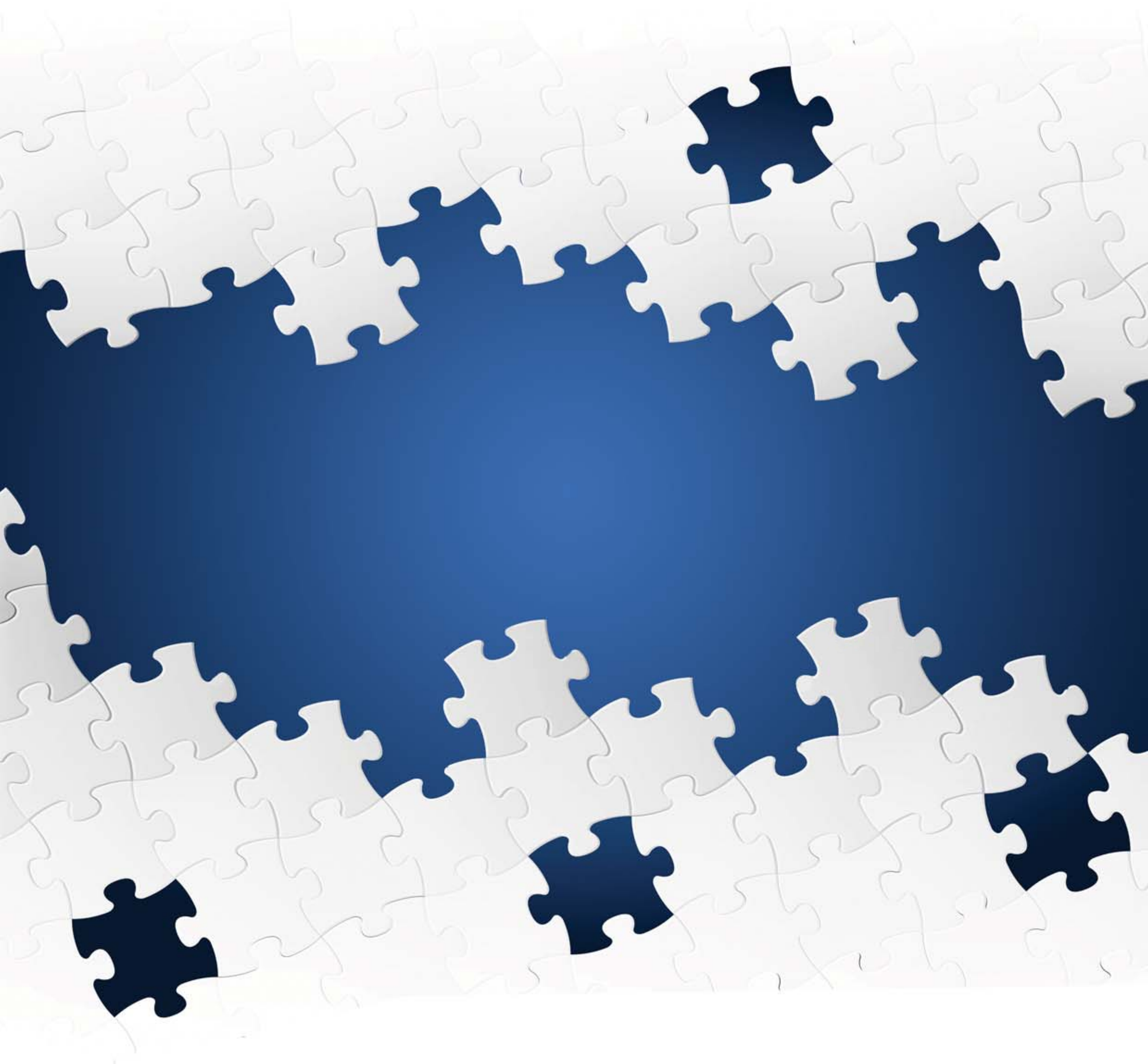
pinnacle Technology Group PLC



ANNUAL REPORT & ACCOUNTS
SEPTEMBER 2014

Pinnacle Technology Group focuses on the business market for IT and communications services across the UK.

It operates as a value added reseller and integrator, and is focused on providing these services, both as an integrated offering to the SME market, and more broadly to the mid-market, public sector, and resellers/partners.

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HIGHLIGHTS OF THE YEAR

The major highlights of the year to 30th September 2014 are as follows:

- Revenues of £8.4m for the year (2013: £10.1m)
- Adjusted EBITDA losses of £512k (2013: loss £769k)
- Gross profit of £2.67m for the year (2013: £3.26m)
- Loss for the period after tax fell to £1.8m (2013: loss £2.7m)
- Recurring and renewable revenues remain high at 88%, providing a strong base for the Company.
- Total liabilities fell £804k to £2.6m (2013: £3.4m)
- Intangible assets revised to £992k (2013: £1.8m)
- New Chief Executive Officer appointed March 2014 with business and operational review announced
- Post period end, successful Placing and Open Offer raising approximately £560,000 (before expenses)

* Note: Recurring and renewable revenues relate to customers who have entered into ongoing or fixed term contracts with the group to supply services for a duration exceeding 1 month.

CHAIRMAN'S STATEMENT

The year ending 30th September 2014 was one in which we made great progress towards solving the many problems which have been well-documented in the previous annual reports.

The robust actions taken by the Board, including the appointment of a new Chief Executive Officer on the 26th March 2014, are reducing losses and supporting the recovery of the business.

The operational review initiated by the new CEO to sharpen the focus of the business, to accelerate the return to profitable revenue growth and to reduce costs is making positive headway and the business now has a clearer focus and strategy on market positioning, customer base and products to be offered. Progress on each aim is outlined in further detail later in this document.

The business was further strengthened in November 2014 with the successful Placing and Open Offer, raising circa £560,000 (before expenses) to support both general working capital and to support investment in the company. It was pleasing that the new shares issued were at a nil discount to the mid-market price of 6.5p pence.

Financial Highlights

The results for the year as a whole, though still unsatisfactory, were a material improvement on the previous year. Losses for the year were £1.8m, including £0.8m of additional amortisation and impairment of intangible assets.

Whilst we experienced a 17% decline in group revenues, this reduction arose from re-focussing away from unprofitable business, from the result of increased competition in the IT Security market, and from the previously reported impact of wilful misconduct. Pleasingly, post period end, Pinnacle Technology was awarded costs with respect to the court actions that subsequently arose and these are now being pursued.

At an operational level, we continued to refocus and simplify the business during the year and to exit from unprofitable revenue streams. This is reflected in the reduction in Adjusted EBITDA losses, down 33% in the year to £512k (2013: £769k) although a further £281k of exceptional items were incurred during this process. All of these steps helped move the business towards an EBITDA positive position, which remains a key focus of the management team.

The loss for the year and the associated exceptional items necessitated £858k of cash during the year, resulting in a further fund raise of £416k (after expenses) in February 2014. The group balance sheet continues to show the impact of a number of poor acquisitions made during 2011, where loss making businesses were acquired for relatively small consideration but with significant liabilities. The acquisitions have not delivered the returns anticipated at the time of purchase and have consumed funds to repay the inherited net liabilities of the businesses. The net asset position of the group at year end was £352k and to support the balance sheet and to fund future growth plans we successfully raised £560k before expenses in November 2014.

People

It has been a time of change for Pinnacle's staff, as they adapt to new management and a renewed focus. The Board recognises the importance of their contribution to the successful turnaround of Pinnacle Technology, and would like to thank them for their commitment to the business and their professionalism during the past year.

Outlook

Whilst the Board has recognised from the outset that turning around Pinnacle Technology will take time, as demonstrated by these results, the Board continues to work to stabilise revenues in the business and to position the company to becoming EBITDA positive. Throughout the year the business has been addressing loss making lines of business, reducing costs, and management attention is now increasingly focussed on profitable revenue growth. Although further time and efforts are still required to restructure the Group into the appropriate form for its operations, the opportunities available to Pinnacle Technology and the early signs of progress coming from the initiatives outlined in more detail later in this report underpin the Board's confidence in the future prospects of the Company.

James Dodd, Chairman

STRATEGIC REPORT – STRATEGIC REVIEW

Introduction

The past year has been highly significant for Pinnacle Technology. The business is undergoing a challenging turnaround, as it addresses legacy issues whilst positioning itself for growth in the highly competitive business IT and communications market.

As outlined in the Chairman's statement, Group revenues for the year fell 17% to £8.4m (2013: £10.1m). However adjusted EBITDA losses reduced by 33% to £512k and the loss after tax for the period was £1.77m following an £0.8m non-cash write down of intangible assets. Specifically for the second half of the year to September 2014, operating losses before tax fell 32% to £751k compared to a loss of £1.2m in the six months to March 2014.

Strategy

The Company's strategy is to provide IT and communications services UK wide, principally as a value added reseller and integrator. These services are provided primarily to Small and Medium Enterprise clients ("SME"), to whom the group offers all of their IT and communications needs; with the broader enterprise mid-market and public sector representing opportunity for additional growth. Pinnacle targets these markets with both a direct sales force, and through our partners/resellers.

Pinnacle Technology offers a wide range of IT managed services and communications solutions, represented by five major product lines: IT Services; IT Security; Telecommunications services; Cloud Services and Data Connectivity (including broadband); and Mobile services.

The Board believes that shareholder returns will be maximised in the longer term by growing both organically and through appropriate acquisition, in what is a fragmented market. However, our immediate operational focus remains on returning the business to financial health by ensuring that we exploit the rich product portfolio to generate greater sales volumes, now that unprofitable lines of business are being addressed and costs reduced in the business.

KEY PERFORMANCE INDICATORS

We monitor a number of metrics, both financial and non-financial, on a monthly basis. The most important of these are as follows:

- Revenue: £8.4m for the year to 30 September 2014 (2013: £10.1m)
- Recurring and renewable revenues: 88% for the year to 30 September 2014 (2013: 85%)
- Gross profit: £2.7m for the year to 30 September 2014 (2013: £3.3m)
- Gross margin percentage: 31.8% for the year to 30 September 2014 (2013: 32.1%)
- Adjusted EBITDA: negative £512k for the year to 30 September 2014 (2013: negative £769k)
- Number of employees: 41 for the year to 30 September 2014 (2013: 58)
- Cash at 30th September 2014: £173k for the year to 30 September 2014 (2013: £588k)

STRATEGIC REPORT – BUSINESS REVIEW

The operational review of the business has led to the rationalisation of various activities and products offered by the group, alongside a modified sales approach and selected investment in systems and processes to deliver a superior customer experience.

Approach to the Market

The business has until recently focussed on growth by cross-selling the Group's products and services in to our existing client base, strengthening our enduring relationships with existing clients. This approach to the market has many attractions, and should support our ambition of becoming our customers' trusted advisor for all their IT and communications requirements of particular relevance in the SME market.

Our recurring and renewable revenues, at 88% (2013: 85%), demonstrate the strength of our client proposition and provide a strong platform for the Company to grow.

While cross-selling remains a cornerstone of our sales approach, we recognise that, where commercial returns are attractive, certain market segments must be tackled with a renewed focus on new client acquisition and a sales and marketing effort to drive revenue growth. Furthermore, given the strength of our product offering, many of these new clients- particularly SMEs- will, in turn, provide scope for cross-selling in the future.

In order to deliver our strategic objectives, the Board has overhauled the approach of our sales team, with a geographic restructuring to ensure adequate coverage of our target client base and appropriate oversight from the Senior Management Team. Within each sales function there is a mixture of both field and office-based sales heads, to ensure that the appropriate sales approach can be taken for clients. The sales team has also undergone additional training to heighten the team's effectiveness while our sales data has been overhauled to improve the accuracy and quantity of our sales targets.

In addition to our internal sales and marketing capabilities within the business, the Group has continued to sell via third parties and other ventures, bringing additional scale to the business.

In our work to return the business to profitable revenue growth, we have ensured that funds raised during November 2014 are being used to support growth initiatives, such as the appointment of a specialist B2B IT telemarketing and demand generation company, Astute Limited, to deliver additional revenue.

During the year, we have made several client wins including Abelour Childcare Trust (IT Services), Tesco Mobile (Inbound call services) and United Utilities Plc (IT Security).

Product Portfolio

The business and operational review has resulted in a clearer strategy for the Company, supported by a clearer product portfolio with deepened relationships with key suppliers.

IT Services

Revenue from IT Services for the year to September 2014 was £946,960 (2013: £1,328,978), representing 11% of revenues (2013: 13%).

Pinnacle's approach to IT Services is built upon the design, implementation, ongoing support and maintenance of IT solutions to business customers. Pinnacle Technology also provides cloud services, professional services and hardware/software where required. It therefore provides clients with impartial advice, being neither a cloud-only provider, nor solely basing the proposition on being an 'on premise' supplier. The group has been able to support a number of clients through their technology refresh cycle, providing professional services, equipment and ongoing support contracts.

Whilst Pinnacle has significant expertise and experience in providing IT Services, where Pinnacle does not have infrastructure or capability in-house, partnerships with leading industry players such as Microsoft, Iomart, ScoLocate and HP are used.

It is notable that many IT Services customers trust Pinnacle Technology to deliver all their IT and communications needs, and are loyal. IT Services customers bought an average of 1.6 additional non-IT products from Pinnacle, and in total 64% of the IT Services revenue was recurring in nature.

IT Security

Revenue from IT Security for the year to September 2014 was £1,388,904 (2013: £2,199,986), representing 17% of revenues (2013: 22%).

As noted in the annual results for FY 2013, the IT Security Solutions business has been downsized to improve overall group profitability, including the closure of Aware Distribution Ltd which accounted for £237,931 of the reduction in H1-2014 revenues.

The focus of the IT Security Business has traditionally been in areas of the market subject to fierce competition. Following the reduction in operating costs, this operating segment is now much leaner. The revenues in this segment are cyclical, with customers acquiring software licenses for durations of between 1 and 5 years on a renewals basis. The renewal of these contracts has been maintained at a steady rate, albeit in some cases at lower margin.

Pinnacle Technology sells IT Security solutions to both SMEs and enterprise clients, and has relationships with some of the leading vendors in the market such as Arcserve and McAfee. We maintain Platinum Partner status with Sophos, who are rated by Gartner as Magic Quadrant leaders for Unified Threat Management (UTM), Mobile, Data Protection and Endpoint. Post period end, Pinnacle Technology has attained McAfee ACE accreditation, further strengthening our IT Security credentials.

Cloud Services and Data Connectivity

Revenue from Cloud Services and Data Connectivity for the year to September 2014 was £2,185,996 (2013: £2,394,460), representing 26% of revenues (2013: 24%).

Data connectivity, such as the supply of broadband connections, plays an important role in the overall Pinnacle proposition. For the SME market it is a key component for providing all of a client's IT and communications needs, and for the mid-market enterprise market it is a useful cross-sell opportunity when broadening a relationship or constituting part of a broader solution.

As a reseller of networks rather than an asset owner, Pinnacle partners with a number of industry players to procure at best commercial price. These relationships include BT, Talk Talk, Gamma and Virgin Media. As part of the business and operational review, in September 2014 Pinnacle was pleased to announce a strategic partnership with Easynet that is resulting in the transformation and enhancement of Pinnacle's legacy network estate. In addition to reducing complexity and costs within the business, the arrangement also enables Pinnacle to sell enhanced broadband speeds at greater value.

Pinnacle Technology also supplied infrastructure for a number of major UK sporting events in the summer of 2014. As noted in the half year report, over the years Pinnacle has reported substantial revenues within this segment through supplying broadcasters and event organisers with specialised communication services, however development of this business requires extensive industry knowledge and non-standard delivery channels. In June 2014 Pinnacle announced that it entered into an agreement with Pinnacom Limited to develop opportunities in this sector on commercially attractive terms, retaining core connectivity sales to the media industry and co-marketing rights, without absorbing the costs associated with seasonal business fulfilment. Whilst this arrangement will have initially only a modest but positive cash impact, we are confident Pinnacom's expertise in the sector will produce greater profits for Pinnacle than would otherwise be possible.

Telecommunications Services

Revenue from telecommunications services for the year to September 2014 was £3,350,356 (2013: £3,699,497), representing 40% of revenue (2013: 36%). Customer retention rates remain strong but the segment reflects a diminishing market. Price changes and regulatory developments impact this segment, including in particular the simplification of non-geographic numbers being driven by Ofcom coupled with the implementation of the EU Directive on Consumer Rights implemented in June 2014. Pinnacle is protected at the gross margin level to a degree since, being a reseller of services rather than an infrastructure owner, wholesale prices are reduced commensurately.

Mobile Solutions

Our overall proposition to SMEs - endeavouring to provide all the IT and communications needs - is complemented by offering mobile services. Revenue from Mobile Solutions for the year to September 2014 was £536,150 (2013: £515,760), representing 6% of revenues (2013: 5%). Mobile services are offered on EE, Vodafone UK, Telefonica O2 and via Gamma.

Post period end, Pinnacle entered in to discussions with O2 and other providers of mobile services regarding the ongoing provision of the Company's mobile and digital services offering.

Operational Infrastructure

For some time the business has operated its own datacentre near Glasgow. As part of the business and operational review, it has been decided to exit this facility during 2015 as part of a wider infrastructure refresh and simplification project. The business will locate its core services in data centres operated by dedicated data centre operators, and at the same time refresh networking equipment and virtualise IT infrastructure. The funding for this work was part of the November 2014 raise, and as a result the project is now underway. Savings from not operating our own datacentre are expected to commence later in the 2015 financial year.

The group has also undertaken a number of IT system improvements during the year: as mentioned earlier, the deployment of a new CRM and ticketing system is underway, which in time will replace all the legacy customer management systems. The group has invested in improving critical internal systems, harmonising practices across different locations, and rolling out collaboration tools, such as Microsoft Lync.

STRATEGIC REPORT – BUSINESS REVIEW (CONTINUED)

People

The importance of the team working at Pinnacle Technology has already been highlighted in the Chairman's statement: the Board is grateful for their hard work and commitment during a difficult turnaround. It is recognised that the future success of the business is substantially dependent on attracting skilled staff to, and motivating those already in, the business. The year saw a renewed focus on people in the organisation with two major foci. Firstly, we set out to improve the integration across the business to foster a culture of collaboration. As the business has come together through acquisition, different businesses contributed different ways of working, and different cultures. Measures have been taken to integrate everyone in Pinnacle as part of one team, under the Pinnacle Technology brand. Secondly, whilst being aware of costs, internal policies have been introduced to support an improved culture within the business.

Income Statement

As noted in the Business Review, revenue declined from £10.1m in 2013 to £8.4m in 2014 due primarily to a 37% fall in revenues in the IT Security segment and a 29% fall in IT Services revenues compared to 2013, although it is recognised that the six months to September 2014 was only 2.6% below the six months figure to March 2014, reflecting some stabilising of revenues over the year.

The Company achieved a gross profit of £2.67m (2013: £3.26m) with the gross margin percentage decreasing slightly to 31.8% of revenue (2013: 32.1%). The table below analyses this further and shows that gross profits increased to £1.40m in the six months to September 2014, up 10.0% on the six months figure to March 2014, mainly as a result of improved buying prices from suppliers.

	6 months to 30 September 2014	6 months to 31 March 2014	Year to 30 September 2014	Year to 30 September 2013
	Unaudited	*Unaudited*	*Audited*	*Audited*
Revenue	£4,149,810	£4,258,556	£8,408,366	£10,138,681
Cost of Sales	(£2,750,939)	(£2,987,488)	(£5,738,427)	(£6,882,004)
Gross profit	£1,398,871	£1,271,068	£2,669,939	£3,256,677
	33.7%	29.8%	31.8%	32.1%
Operating Expenses	(£2,150,308)	(£2,456,108)	(£4,606,416)	(£5,692,145)
Operating Loss	(£751,437)	(£1,185,040)	(£1,936,477)	(£2,435,468)
Adjusted EBITDA	(£241,929)	(£269,882)	(£511,811)	(£769,103)
Amortisation of Intangible assets	(£175,028)	(£195,671)	(£370,699)	(£391,165)
Depreciation	(£154,978)	(£155,871)	(£310,849)	(£187,751)
Exceptional costs	£14,241	(£294,849)	(£280,608)	(£419,536)
Impairment of Intangible assets	(£200,716)	(£261,806)	(£462,522)	(£691,404)
Share based payments	£41,728	(£6,961)	£34,767	(£13,922)
Embedded fair value in loans	-	-	-	£18,529
Impairment of Associate	(£34,755)	-	(£34,755)	-
Share of Profit of Associate	-	-	-	£18,884
Operating Loss	(£751,437)	(£1,185,040)	(£1,936,477)	(£2,435,468)

The Income Statement shows that Operating Expenses fell £1.1m during the year to £4.6m (2013: 5.7m) as a result of the cost reduction program implemented in 2013.

STRATEGIC REPORT – FINANCIAL REVIEW

Adjusted EBITDA

The Adjusted Earnings before Tax, Interest, Depreciation and Amortisation (Adjusted EBITDA) figure is a key measure for the Directors and closely reflects the cash impact of underlying trade of the business before exceptional costs. The Adjusted EBITDA figure for the year to September 2014 was negative £512k, an improvement of £257k over the same figure for 2013 (negative £769k), a 34% year-on-year improvement.

Amortisation and Impairment of Intangible Assets

Pinnacle has grown mostly as a result of acquisitions and under IFRS accounting rules is required to separately measure the expected future cashflows from the acquired customer bases at the date of acquisition and represent this future value as an intangible asset in the Consolidated Statement of Financial Position. The accounting policy of the Group is to amortise this intangible asset value over a maximum of 10 years from the date of acquisition. This annual non-cash write down is recorded as Amortisation in the Income Statement for the Group and was £371k for 2014, compared to £391k in 2013.

In preparing the expected future cashflow's from the acquired customer bases for the purpose of the annual impairment review, the Directors use a customer retention rate of 80% per annum. In preparing the Intangible Asset value each year, we measure the actual retention rate for each customer base acquired and where this is less than the 80% retention figure expected, we use the lower actual figure to calculate the future expected cashflows. Where expected future cashflows from a customer base are higher than originally expected, then we do not adjust the intangible assets upwards, but instead leave this benefit to enhance the future profit performance of the group.

This lower actual customer retention rate generates an additional non-cash Amortisation charge to the Income Statement and is shown as an Impairment of Intangible Assets. This figure for the year to September 2014 is £463k, compared to £691k in the year to September 2013. This charge, whilst non-cash affecting, reflects the lower than originally expected performance from customer bases acquired in the acquisitions of RMS Managed ICT Security Limited and Online Computer Developments Limited.

Depreciation

Historically, the Group has invested in tangible assets such as IT equipment, fixtures and fittings and its own Voice over Internet (VoIP) software platform. Each year, the company makes a charge to the Income Statement representing the diminution in value of these tangible assets during the financial year. The Directors choose an appropriate depreciation policy per individual class of asset, ranging from 33% to 20% of the gross cost of the asset per annum. This charge is shown as Depreciation in the Income Statement.

During the year, The Directors decided to accelerate the depreciation of its own VoIP software platform, Sipswitch, which lacks some of the more advanced features of other "off the shelf" alternatives on the market. The Depreciation charge for the year to September 2014 was £311k, compared to £188k in 2013.

Exceptional Costs

As the Group continues to re-focus and restructure the business it incurs a number of one-off exceptional costs in settling employment contracts and negotiating and recruiting replacements. In addition, the Group has incurred a significant amount of legal fees defending the wilful misconduct by a former vendor and a number of former employees. These costs do not reflect the normal trade of the business and are therefore shown separately on the face of the Income Statement. As noted in the Chairman's statement, post period end Pinnacle Technology was awarded costs with respect to the court actions that subsequently arose and these are now being pursued as far as reasonably possible towards full recovery.

STRATEGIC REPORT – FINANCIAL REVIEW (CONTINUED)

Statement of Financial Position

The Group Statement of Financial Position has been depleted by the losses sustained during the financial years to September 2013 and September 2014. The dominant figure on the Statement of Financial Position remains the Intangible Assets of the customer bases acquired in prior years, which are shown at £992k (2013: £1.8m) which is not uncommon in a business formed as a result of acquisition.

Investment

The Group continues to hold a 40% investment in a private company Stripe21 Limited, which owns and manages a VoIP platform and has a data centre presence in London Telehouse and London RedBus. The Stripe21 business continues to generate profitable revenues as it continues its journey to recover the investments it has made in creating its own VoIP software platform during its set-up phase.

In calculating the fair value of the investment in Stripe21, the Directors consider the financial performance of the company each year but are cognisant of the fact that the Statement of Financial Position dated 30 June 2014 shows that the Stripe21 business is some way away from being able to pay a dividend to Pinnacle. In recognition of this, the Directors have taken the decision to reduce the fair value of the investment in Stripe21 down to cost for the time being. This has resulted in an impairment of the Stripe21 investment by £35k in this financial year.

Cash

The Statement of Financial Position at 30 September 2014 shows a positive cash available balance of £173k at year end. In addition to this, the Group had overdraft facilities available to it of £80k from HSBC Bank Plc. An existing overdraft of £50,000 from the Bank of Scotland was repaid in full on 15th September and the facility closed. The overdraft balance reported on the face of the accounts includes cheques sent but which were un-cleared at the year end. Funds were transferred after year end to cover the cheques as they cleared.

On 21 November 2014, the Group raised £564,470 (before expenses) by way of a placing and open offer to shareholders. This fund raise delivered the cash required to fund the growth initiatives for the 2014/15 financial year and to give additional cover for working capital during the year.

Property Plant and Equipment

The Company has continued to invest and refresh our IT systems and infrastructure to support the business as it grows. As a people based business, the company is not dependent on heavy asset investment to deliver service to our customers. During the year the company invested £89k in additional fixed assets for the group. The company continues to invest in systems and assets to support the growth of the business.

Stock

The Company does not need to carry a large amount of stock and spares to run our business. Given the fast moving nature of hardware and devices, we prefer to buy stock to order to support the IT service side of our business. This ensures best customer value and avoids losses associated with holding obsolete stock.

Board Changes

On 6th December 2013, Alan Bonner, founder and former CEO of Pinnacle Technology Group Plc announced that he was standing down from his position and would not re-apply for re-election at the next AGM on 26th March 2014.

Therefore, following the AGM on 26th March 2014 the Group announced the appointment of Nicholas Scallan as successor. Nicholas Scallan joined Pinnacle as CEO following a number of years in a senior position at Virgin Media Group Plc.

Nomad and Broker

On 2 September 2013, the company appointed Nplus1 Singer Advisory LLP, as its Nominated Advisor and Broker on a retained basis, replacing Zeus Capital LLP.

Group Locations

The Group operates from a number of locations across the United Kingdom. The Directors match the length and nature of lease to the particular requirements of the location, giving due regard to planned headcount changes including any future growth plans.

Litigation

On 31 March 2014 Pinnacle Technology became aware that a third party was engaging in business solicitation activity which was in contravention of prior contractual agreements. That activity was immediately addressed by court proceedings which resulted in certain interim orders and undertakings being granted in court on 4 April 2014 to protect Pinnacle Technology's interests. Further detail of these proceedings is given within the Principal Risks and Uncertainties section below.

As a prudent measure, all legal costs to date have been expensed to the income statement and are recorded within the Exceptional Items, even though it is expected that the majority of these costs will be recoverable. The company will continue to monitor legal costs, given the variability dependent on the amount of work undertaken, and expert accountancy advice might additionally be required if damages cannot be resolved. No estimate of the damages payable by the defendants has been taken in to the full year results.

PRINCIPAL RISKS AND UNCERTAINTIES

Section 417(3) of the Companies Act 2006 provides that the strategic report must contain a description of the principal risks and uncertainties facing the business. The board has established a formal process to identify risks and uncertainties through the production and maintenance of a risk register. There are a number of principal risks and uncertainties which have been identified as a result of this process which could have a material impact on the Group's future performance, with the following risks being the most significant to the business.

At all times, the board seeks to mitigate these risks and uncertainties. However, the risks listed do not necessarily comprise all those associated with the Group. In particular the Company's performance may be affected by changes in market or economic conditions and in legal, regulatory, and tax requirements.

If any of the following risks were to materialise, the company's business, financial condition, results or future operations could be materially adversely affected. Additional risks and uncertainties not presently known to the Directors, or which the Directors currently deem immaterial may also have an adverse effect upon the Company.

Financial risks are also detailed in note 22.

Risks relating to the Group and its business

Service Delivery and Reliance on Key Systems and Equipment
The Group provides an essential service to an extensive client base many of whom rely on the provision of that service in order to run their businesses. Any diminution in the level of service could have serious consequences for customer acquisition and retention, and therefore on the Group's business, operation and financial position. The Group's business relies on various key systems and equipment, including software and hardware.

Mitigation: For services delivered in-house, the Group continually monitors performance and the availability of its IT systems and network connections, and replaces obsolete equipment as appropriate. Where possible the Group sustains automatic failover systems in parallel to live systems to ensure high-availability of critical services. Staff service level responses are continually measured and reported.

Key Suppliers
The Group is dependent on suppliers for the continued operation of its business. The most significant of which are those for electricity, core and access bandwidth, servers, physical space, IP addresses, software licenses, equipment, maintenance and the delivery of calls and access from licensed fixed line and mobile operators. A failure of one or more suppliers to provide services to the Group could severely impact or inhibit the Group from providing services to its clients, and thereby having an adverse effect on the Group's business, operational and financial position.

Mitigation: The Group regularly monitors the selection and subsequent service level performance of its key third –party suppliers to ensure that bought-in services retain the highest level of quality, service uptime and availability.

Technology
The Group operates in a fast developing technology market and certain technologies, including hardware and software, which exist today may well be obsolete faster than expected in the future. This would have a negative impact on the Group, which would be exposed to higher costs or lower margins, not necessarily recoverable from its clients.

Mitigation: The Group continues to research and monitor technological developments within the market segments that it operates in to assess the impact on the solutions that it offers customers. The Directors seek to both develop new, and maintain good, trading relations with a number of the key suppliers in each technology area, so that it can continue to offer the latest and most relevant services from best of breed technology providers.

Competition

A deteriorating financial climate might cause buying decisions to move more in the direction of a price-based sale compared to a value-based sale. Competitive threats exist by nature of operating in the technology market, the number of competitors in the market and the ease of market entrance. There is a risk that larger more highly capitalised competitors may pose a threat to the Company's ability to win new business or to maintain its current client base. Competitors with greater resources, financial and or technological, may win business which the Company might expect to retain or receive.

Mitigation: A careful watch is maintained on competitors to enable the Group to react quickly to any change in circumstance or market conditions. The Directors regularly perform "build versus buy" comparisons in each market segment, to ascertain the optimal mix of in-house and third party delivered services .Where the Group can leverage its technical expertise or business know-how to deliver a competitive or price advantage in a particular market, then it will continue to invest in its own infrastructure and service delivery teams. Where the Group cannot consistently compete in a price-based market, or the activity is not considered to be an area of core expertise, the Directors will partner with best of breed suppliers on a wholesale basis to continue to offer best value to its customers.

Litigation

Whilst the Group takes precautions to avoid or minimise the likelihood of any legal proceedings or claims, the Directors cannot preclude the possibility of litigation being brought against the Group.

There can be no assurance that claimants in any litigation proceedings will not be able to devote substantially greater financial resources to any litigation proceedings or that the Group will prevail in any such litigation. Any litigation, whether or not determined in the Group's favour or settled by the Group, may be costly and may divert the efforts and attention of the Group's management and other personnel from normal business operations.

Particular attention is drawn to the ongoing litigation concerning the wilful misconduct of various formerly closely associated parties, as disclosed in the Company's interim results for the six months ended 31 March 2014. Pinnacle Cloud Solutions Limited ("PCS") is the pursuer in two actions in the Court of Session in Edinburgh. The first action (court reference CA90/14) was raised against the company now known as Braveheart Technology Limited and three former employees ("the Braveheart action") and the second action (court reference CA91/14) was raised against the company now known as MacLellan Property Limited ("the MacLellan Property action"). In the Braveheart action, PCS seeks various interdicts preventing the defenders from trading under various names; preventing the defenders from contacting customers of PCS in certain circumstances; preventing the defenders from disclosing certain confidential information relating to PCS's business; compelling the defenders to disclose certain information to PCS; for payment by the defenders to PCS of £400,000; and for the expenses of the action to be awarded to PCS. In the MacLellan Property action, PCS seeks the recovery of various items of property which are or were in the possession of MacLellan Property Limited. Further Court proceedings will be required.

Post period end and following further hearings, PCS has secured an as yet undefined award of costs in its favour in relation to both court actions and which PCS now intend to pursue as far as reasonably possible towards full recovery.

Mitigation: The Group seeks professional advice and guidance from its legal advisors on all major contractual matters to minimise the risk of any future litigation. The Directors maintain appropriate insurance policies in place to ensure that it can meet significant legal costs in matters relating to any litigation relating to its trade, products, employment matters or the conduct of its senior executives.

Dependence on key executives and personnel

The Group's development and prospects are dependent upon the continued services and performance of its Directors, senior management and other key personnel. The loss of the services of any of the Directors, senior management or key personnel or a substantial number of talented employees or key consultants, could cause disruption or the loss of experience, skills or customer relationships of such personnel, which could have a material adverse effect on the Group's business, financial condition and results of operations.

Mitigation: The Remuneration Committee annually reviews the performance and appropriate remuneration structure of the Executive Director and Key Senior Management team, giving due regard to median market remuneration levels. The Remuneration Committee supports the close alignment of shareholder and Executive objectives and actively seeks to incorporate share-based remuneration as part of its Executive and Senior Management reward package.

Ability to recruit and retain skilled personnel

The Group believes that it has the appropriate incentive structures to attract and retain the calibre of employees necessary to ensure the efficient management and development of the Group. However, any difficulties encountered in retaining or hiring appropriate employees and the failure to do so may have a detrimental effect upon the trading performance of the Group. The ability to attract new employees with the appropriate expertise and skills cannot be guaranteed.

Mitigation: A robust recruitment process is in place for all Group employees to ensure that the required skills are available to the Group. In addition, internal review processes and management consultations have been established to ensure, as far as possible, employees are motivated and that suitable remuneration structures are in place.

Malicious Activity and Data Protection

The Group operates in the technology sector and, as a result, has information assets that could be compromised, disrupted or lost as a result of malicious activity. This could severely impact or inhibit the Group from providing services to its clients; this could result in the loss of or make public client or Pinnacle confidential information; could cause Pinnacle reputational damage, and in all cases thereby having an adverse effect on the Group's business, operational and financial position.

Mitigation: The Group operates protective equipment to defend against malicious attacks; staff policies are in place to enforce good practice on data security; and the group has in place procedures to ensure that information assets are secured as far as reasonably possible.

Banking and Capital

The Group is dependent on its bankers and financial suppliers for the provision of general banking services, including credit and the BACS payment system. In the event of the Group's bankers withdrawing their facilities from the Group, or suffering a failure of their own services, the Group's business, operational and financial position would be adversely impacted. The Group's cash resources are finite and its borrowing facilities are limited. Although the group carefully manages its ongoing administrative expenses, there is no guarantee that the group will achieve monthly profitability (before the amortisation of intangibles). A deterioration in the working capital position of the business could have an adverse impact on the Group's business, operational and financial position. It may be desirable for the Company to raise additional capital by way of the further issue of Ordinary shares to enable the Company to progress through further stages of development. Any additional equity financing may be dilutive to shareholders.

Banking and Capital (continued)
Mitigation: The Directors recognise the importance of maintaining a policy of careful cash management and ensuring that any investment in future growth delivers a profitable return for shareholders. Cash collections, invoiced revenues, supplier credit and performance against cash budgets are measured regularly by the Executive Director and Senior Management. The Group continues to explore all sources of working capital and funding to ensure it is best placed to

be able to deliver against its stated strategy. The Group meets regularly with its bankers and share and discuss the actual performance and future projections of the business. Any decision to raise additional capital would be carefully considered both in terms of the purposes for which it is being raised, and the most appropriate way in which any such capital should be obtained.

Bad Debts
The customer base is mainly made up of SME customers, who are one of the groups most impacted during economic downturns and/or tightening of general credit availability. Although the Group has not experienced any material increase in bad debt, this does not mean that there will not be an increase in the future, with subsequent adverse impact on the Group's business, financial and operational position.

Mitigation: The Group monitors overdue payments and reports regularly overdue debtor payments to the Board. Where a customer falls behind and is unable to agree a suitable payment proposal, the Group will cease to provide services to protect itself against non-payment or bad debt. The Group retains the services of an external debt collection agency who pursues unpaid debts on behalf of the Group on instruction. The Group also retain the services of an external credit score agency which allows new customers to be credit checked before services commence and who automatically monitor and report any future changes in the credit worthiness or payment history of existing customers.

Sales and Marketing
The Group is reliant on effective sales and marketing to maintain its existing clients and to grow. A failure or underperformance on sales and marketing would adversely impact the Group's business, financial and operational position.

Mitigation: The Group maintains and updates a database of all customers, contacts, contracts and potential sales opportunities in its Customer Relationship Management (CRM) system. The system records and monitors all sales and marketing activity by person, company, contact and opportunity and allows the Group to effectively manage its relationship with existing and prospective customers. The Senior Managers regularly forecast sales performance by person and monitor sales pipeline figures to enable the business to plan future performance.

Regulatory Compliance
The Group provides services, some of which are in regulated markets. The Group must maintain compliance to any applicable regulations. The regulated services may also be affected by price increases or decreases. In either instance there is therefore the risk of an adverse impact on the Group's business, financial and operational position.

Mitigation: The Group supports the proper regulation of the IT and telecommunications industry to maintain fair and free competition amongst companies within the sector. The Group carefully monitors proposed or adopted regulatory changes to assess the impact that such changes have on its business operations or its customers.

General risks
The Group's Ordinary Shares are traded on AIM rather than the main market of the London Stock Exchange. An investment in shares traded on AIM may carry a higher risk than an investment in shares listed on the Official List of the UK Listing Authority and traded on the main market of the London Stock Exchange.

DIRECTORS' BIOGRAPHIES

Dr James Dodd, Non-Executive Chairman

A member of the Securities Institute and the Institute of Physics, James is currently a member of Oriel Securities' Advisory Board, providing advice and assistance to Oriel on developing its business and relationships. James also serves on the Board of the Apollo Submarine Cable System Ltd, the joint venture between Vodafone Group plc and Alcatel-Lucent SA.

James has over 30 years' experience in both public and private equity markets focusing on telecommunications and related technology industries. James was the Founder and Chairman of ETT, a data networking company which he led through several financing rounds and which was successfully acquired by GTT Communications Inc. (NYSE: GTT). From 2002 to 2012, James was Co-founder and a Managing Director of Anthem Corporate Finance, which successfully conducted a variety of M&A, and financing transactions in the TMT and other sectors.

Nicholas Scallan, Chief Executive Officer

Nicholas is Chief Executive Officer of the Pinnacle Technology Group, having been appointed CEO on 26th March 2014. Prior to joining Pinnacle, Nicholas was most recently Director of Customer Solutions at Virgin Media Business. He spent nine years at Virgin Media, holding a number of commercial and operational roles including P&L management of the data products portfolio, customer engineering, and has overseen a number of organisational restructuring activities. Before Virgin Media, Nicholas was at Energis, responsible for broadband, data and internet related programmes. In The Netherlands he held the position of Networks Director for Enertel NV, and was involved in the sale of the business to a Dutch venture capital group. He studied Electrical Engineering at the University of Strathclyde, is a Chartered Engineer and a member of the Institute of Engineering and Technology.

Dr Tom Black, Non-Executive Director

Tom is co-founder and Non-Executive Chairman of Digital Barriers plc, an AIM-listed business focused on the surveillance sector and which operates in the global Homeland Security Market. Prior to setting-up Digital Barriers in 2009, Tom spent over 20 years with Detica Group plc, following studies at the Universities of Strathclyde and Oxford. He joined the business in 1984 and was appointed Chief Executive in 1995. Tom then led the £12m management buyout of Detica in 1997 and the Group's flotation on the London Stock Exchange in April 2002. He then oversaw the acquisition of Detica by BAE Systems in 2008 for £538m. Tom is also a Non-Executive Director of Herald Investment Trust plc (an investor in Pinnacle Group) and a Trustee of the Black Family Charitable Trust.

DIRECTORS' REPORT

The Directors present their Annual Report on the affairs of the Group, together with the financial statements and auditor's report for the year ended 30 September 2014.

The purpose of the Annual Report is to provide information to members of the Company. The Company, its Directors, employees, agents and advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. It contains certain forward looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results to differ from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and except to the extent required by applicable regulations, or by law, the Group undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.

Principal Activities

The principal activities of the Group are the provision of IT and communications services to the UK business market. Further information can be found in the Strategic Report pages 4 to 16.

Corporate Governance

The statement on Corporate Governance on pages 23 to 25 is included in the directors' report by way of reference.

Results and dividends

The Group's loss on ordinary activities after taxation was £1,773,870 (2013: -£2,709,343). The audited financial statements of the Group are set out on pages 31 to 66. The Directors do not propose a dividend for the year ended 30 September 2014 (2013: £nil).

Strategic Review

The information satisfying the Strategic Review requirements is set out in this report on pages 4 and 5.

Going Concern

After making the necessary enquiries, the Directors believe that it is appropriate to continue to apply the going concern basis in preparing the financial statements.

Directors

The present membership of the Board is as follows:

Dr James Dodd, Non-Executive Chairman
Nicholas Scallan, Chief Executive Officer
Dr Tom Black, Non-Executive Director

The names and biographical details of the current Directors of the Company are given on page 17. All non-executive Directors are considered to be independent. Dr James Dodd and Dr Tom Black were appointed to the Board on 26th March 2013, and Nicholas Scallan on 26th March 2014. In accordance with the Company's articles of association, Nicholas Scallan will offer himself for re-election at the forthcoming Annual General Meeting.

Details of Directors' interests in the Company's shares, service contracts and remuneration are set out in the report of the Board to the members on Directors' remuneration on pages 26 to 28. No Director has a material interest in any significant contract with the Company or any of its subsidiaries during the year.

The Company maintains liability insurance for its Directors and Officers. The Directors and Officers have also been granted a qualifying third party indemnity provision under the Companies Act 2006. That indemnity provision has been in force throughout the year and remains in force at the date of this report.

Substantial shareholdings

As of 17 February 2015 the following substantial shareholding interests had been notified to the Company:

	Number of ordinary shares	Percentage held
Herald Investment Management Ltd	3,974,358	8.64%
Dr. Tom Black (NED)	3,765,137	8.18%
Octopus Investments	3,221,972	7.00%
Dr. James Dodd (Chairman, NED)	3,161,538	6.87%
A J Bonner	2,740,065	5.95%
Hargreave Hale	2,533,077	5.50%
Living Bridge	2,500,000	5.43%
D Giddens	2,189,466	4.76%
Huntingtower Capital	1,840,464	4.00%
P Goodland	1,782,737	3.87%
Sir David Jones CBE	1,680,000	3.65%
MXC Capital	1,555,470	3.38%

Share capital

The share capital during the year and the number of ordinary shares reserved for issue are shown in Note 17 to the consolidated financial statements. As at the date of this report, 46,018,435 ordinary shares of 1pence each were in issue and fully paid with an aggregate nominal value of £460,184.

The holders of ordinary Shares are entitled to receive the Company's reports and accounts, to attend and speak at general meetings of the Company, to appoint proxies, and to exercise voting rights. To be effective, electronic and paper proxy appointments and voting instructions must be received at the Company's registered office or such other place in the United Kingdom specified in the relevant notice of meeting, not later than 48 hours before a general meeting. Subject to applicable statutes, there are no restrictions on transfer or limitations on the holding of Ordinary Shares and no requirements for prior approval of any transfers other than:

- Certain restrictions may from time to time be imposed by laws and regulations (for example insider trading laws); and
- Pursuant to the Company's share dealing code whereby the Directors and certain senior employees of the Company require approval to deal in the Company's shares.

None of the shares carry any special rights with regard to control of the Company. There are no known arrangements under which financial rights are held by a person other than the holder of the shares and no known agreements on restrictions on share transfers or on voting rights.

A provision of the Company's share options and awards, granted to employees under such schemes, allow for any non-lapsed share options to vest on a change of control of the Company.

Issue of Shares

At the General Meeting held on 26th March 2014 shareholders granted authority to the Board under the Articles and section 551 of the Companies Act 2006 (the 'Act') to exercise all powers of the Company to allot relevant securities up to an aggregate amount of up to 15% of the authorised share capital of the Company/up to the amount specified in the resolutions. At the same meeting shareholders granted authority to the Board under the Articles and section 570 of the Act to exercise all powers of the Company to allot relevant securities wholly for cash up to an aggregate amount of up to 10% of the share capital, without application of the statutory pre-emption rights contained in Section 561(1) of the Act.

It is proposed at the forthcoming AGM to grant the authority to allot relevant securities up to an aggregate nominal amount of 33% of the nominal value of the current issued share capital. It is proposed to also seek authority under section 570 of the Act to exercise all powers of the Company to allot relevant securities wholly for cash up to an aggregate amount of up to 10% of the nominal value of the current issued share capital, without application of the statutory pre-emption rights contained in Section 561(1) of the Act, provided that this authority shall expire on the conclusion of the Annual General Meeting of the Company to be held in 2016. These two authorities sought comply with the Investment Management Association's Share Capital Management Guidelines (July 2014).

Purchase of Deferred Shares

The Directors believe that this may be of future benefit in areas such as tidying up some of the legacy issues around the Deferred Share Capital of the Parent Company. As such, the Directors will propose a resolution at the next Annual General Meeting that the Company be authorised, pursuant to section 694 of the Companies Act 2006 and article 12 of the Company's Articles of Association, to enter into a contract for the off-market purchase of its deferred shares of £0.009 each in its capital for an aggregate price of one penny for cancellation. The terms of this are set out on the AGM Notice on pages 75 to 82. Such authority would expire on the conclusion of the Annual General Meeting of the Company to be held in 2016.

Post Balance Sheet Events

On 21st November 2014, Pinnacle held a General Meeting at which shareholders were asked to consider resolutions in connection with a Placing and Open Offer, which were subsequently approved, enabling the Group to raise £564,470 through a Placing and Open Offer through the issue of 8,684,147 new Ordinary Shares at a price of 6.5p, to further accelerate the Group's strategy.

N+1 Singer LLP acted as sole broker on the placing and placed 7,461,535 new ordinary shares with Directors and existing institutional shareholders at 6.5p to raise £485,000 before expenses. Further funds were raised via an open offer at 6.5p to qualifying shareholders on the basis of one new ordinary share for every 21 existing shares held. Pinnacle received valid acceptances from qualifying shareholders in respect of 1,222,612 Open Offer Shares - approximately 69 percent of the maximum available, and equal to £79,470. Of the total funds raised, Pinnacle's Board of Directors subscribed for approximately £217,000 of new shares.

Employees

As at the date of this report, the Group employed 40 people in the United Kingdom.

The Company depends on the skills and commitment of its employees in order to achieve its objectives. All colleagues are regularly informed on matters affecting them and the wider business through a variety of means including participation at regular team meetings, periodic 'all hands' calls chaired by the CEO, and the distribution to everyone in the business of appropriate press releases and stock market announcements.

The Board is committed to ensuring that a culture free from discrimination and harassment remains embedded within the business and discrimination of any sort is not tolerated. Proper consideration is given to applications for employment from disabled people who are employed whenever suitable vacancies arise. Wherever practicable, colleagues who become disabled during employment are retained.

The Group practices equality of opportunities for all employees, irrespective of ethnic origin, religion, political opinion, gender, marital status, disability, age or sexual orientation.

Whilst the business does not have a gender diversity policy, it is notable that the sector in which we operate has often been male dominated. Below the Board, the Senior Management Team is 20% female, and across the business 26% of our people are women.

Financial risk management and objectives

Details of financial risk management and objectives are contained in Note 22 to the consolidated financial statements.

Financial instruments

The Group's financial instruments comprise cash and liquid resources, commercial bank loans, finance leases and invoice discount finance, together with various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Group's operations. The main interest rate risk to the Group is that arising from variable interest rates, linked to the group's overdraft facilities.

The Group's borrowings at 30 September 2014 comprise finance leases totalling £33,305 (2013: £66,789) and bank overdraft and credit card facilities with HSBC totaling £89,000. However the overdraft balance recorded in the balance sheet at 30th September 2014 was £116,137 due to cheques having being sent out but which remained un-cleared at that point. Funds were transferred in the new financial year to cover these payments as they cleared. The interest rates on the finance leases are fixed for the term of the lease at between 7.5% and 12%. Interest on the bank overdraft facility is 5.2% per annum above the bank base rate.

Invoice Finance

As part of the acquisition of RMS ICT Security Limited in October 2011, the group acquired an invoice finance arrangement with ABN Amro Bank. The facility allows up to 70% of qualifying invoices to be advanced to the group for cashflow purposes, the advance being repaid on customer receipt or 90 days following advance, whichever is the earlier. At year end 30 September 2014 the amount advanced to RMS Managed ICT Security Limited was £116,986.

Significant Agreements - Change of Control

A provision of the Company's share options and awards, granted to employees under such schemes, allow for any non-lapsed share options to vest on a change of control of the Company.

A change in control of the Company following a takeover bid may cause a number of other agreements to which the Company or its subsidiaries are party to take effect, alter or terminate. These include client contracts, leases and supplier contracts. No other individual contract is considered to be significant in terms of its potential impact on the business of the Group as a whole.

Research and Development

The Group operates a limited number of proprietary or commercially available software applications. The Group is committed to the continued research and development of such applications that enhance the services and solutions available to customers, where they demonstrate potential to generate future profitable revenue streams.

Environmental policy

The Group acknowledges the importance of environmental matters and where possible uses environmentally friendly policies in all its offices such as recycling and energy-efficient practices.

The group has rolled out IT tools to colleagues' desktops that enable greater collaboration and conferencing facilities, to minimise unnecessary travel between Group offices and to embrace the wider cultural and integration benefits that arise from the use of such tools.

Health and Safety

The Group aims to provide and maintain a safe working environment for all colleagues and visitors to its premises, and to comply with all relevant Health and Safety legislation. Health and Safety matters are delegated to representatives within the business, who can raise any issues arising via a number of means, including the corporate risk register whose highest rated risks are reviewed periodically by the Board.

Charitable and Political Donations

The Group has made no political donations in the year (2013: nil). Charitable donations were nil (2013: nil) however time was expended on charity through the introduction of an 'annual charity day' policy in May 2014 for all colleagues within the business, enabling them to dedicate one day per annum to charitable works.

Awareness of relevant audit information

Each of the directors who held office at the date of approval of this directors' report confirms that, so far as he is aware:

- there is no relevant audit information of which the auditors are unaware, and
- the directors have taken all the steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Annual General Meeting

Notice of the Annual General Meeting to be held on the 27 March 2015 is set out on pages 75 to 82. Information relating to certain of the resolutions is given or referred to in the notes forming part of the notice.

Independent Auditors

The Group had been audited since 2004 by Grant Thornton UK LLP. In accordance with both good corporate governance and the fact that there was an increasing logistical and cost challenge in a Northampton-based finance function being audited by a team based in Glasgow, the Board conducted an audit tender, resulting in the appointment of Nexia Smith & Williamson as auditors to the group on 29 October 2014.

The Board is grateful for the many years of audit service from Grant Thornton UK LLP, who confirmed in a letter to the Board on 29th October that there were no circumstances connected with their ceasing to hold office that they considered should be brought to the attention of the members or creditors of the company.

There are no contractual obligations in place that restrict our choice of statutory auditor.

Nexia Smith & Williamson offers themselves for reappointment as auditors in accordance with section 489 of the Companies Act 2006 and a resolution will be proposed at the forthcoming Annual General Meeting.

by order of the Board

WJM Secretaries Limited — Company Secretary — 19 February 2015

CORPORATE GOVERNANCE REPORT

The board is committed to ensuring that proper standards of corporate governance operate. As an AIM listed company the Pinnacle Technology Group 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 the Company is committed to the principles of good corporate governance and complies with the provisions of the Quoted Companies Alliance's Corporate Governance Code for Small and Mid-Sized Quoted Companies.

The Board

The board is responsible for the setting the overall strategy of the business, reviewing management performance, and ensuring the Group has sufficient financial and human resources to meet its objectives. It directs the Group's activities in an effective manner through general board meetings and monitors performance through timely and relevant reporting procedures. Where it deems necessary, the board requests reports on specific areas outside the normal reporting regime.

The Chairman is responsible for the leadership of the Board and ensuring its effectiveness. The board at present comprises one executive (the Chief Executive Officer) and two non-executive directors. The size of the board is considered to be appropriate to the current size and character of the Group. The non-executive directors are independent of management and any business or other relationships which could interfere with the exercise of their independent judgment. The roles of chairman and chief executive are separate appointments and it is board policy that this will continue.

Operational management of the Group is delegated to the Executive Director (CEO) and the Senior Management Team, who meet regularly to review current business performance, sales activity, operational projects, customer service, human resourcing matters and other day to day activities.

The board has established two standing committees, the audit committee and the remuneration committee. Membership of both the audit committee and the remuneration committee is exclusively non-executive. A nominations committee would be established should it be required. Tom Black is chairman of the remuneration committee and James Dodd of the audit committee. Terms of reference for the committees were updated during the course of 2014 and copies are available on request.

A separate report on directors' remuneration is set out on pages 26 to 28. This is to be approved by the shareholders at the annual general meeting.

In accordance with the company's Articles of Association, Nicholas Scallan offers himself for re-election to the Board at the forthcoming Annual General Meeting.

Attendance at Board and Committee Meetings

In the year the Board met on 11 scheduled occasions; further meetings and conference calls were held when necessary.

The following table summarises the number of scheduled board and committee meetings held during the year and the attendance record of individual directors:

	Board		Audit		Remuneration	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
J Dodd	11	11	3	3	2	2
T Black	11	11	3	3	2	2
N Scallan (appointed 26 Mar 2014)	6	6	2	2	1	1
A Bonner (resigned 26 Mar 2014)	6	6	-	-	-	-

The Group Finance Director was invited to attend all Board meetings and Audit Committee meetings.

Accountability and audit

The board considers that the annual report presents a balanced and understandable assessment of the Group's performance and prospects. The audit committee has written terms of reference setting out its authority and duties and has meetings at least once a year with the external auditors. The audit committee reviews the independence and objectivity of the external auditors. The committee reviews the nature and amount of the non-audit work undertaken by the auditors to satisfy itself that there is no effect on their independence. The committee is satisfied that Nexia Smith & Williamson is independent.

Internal financial control

The Group has established policies covering the key areas of internal financial control and the appropriate procedures, controls, authority levels and reporting requirements which must be applied throughout the Group. The key procedures that have been established in respect of internal financial control are as follows:

- Financial reporting: there is in place a comprehensive system of financial reporting based on the annual budget which the board approves. The results for the Group as a whole and each business segment are reported monthly, along with an analysis of key variances. Year-end forecasts are updated on a regular basis.

- Investment appraisal: applications for capital expenditure are made in a prescribed format which places emphasis on the commercial and strategic as well as the financial justification. All significant projects require specific board approval.

No system can provide absolute assurance against material misstatement or loss but the Group's systems are designed to provide reasonable assurance as to the reliability of financial information, ensuring proper control over income and expenditure, assets and liabilities.

Relations with shareholders

The company values the views of its shareholders and recognises their interest in the Group's strategy and performance, board membership and quality of management. The company believes it is important to explain business development and financial results to its shareholders, to understand shareholder concerns, and to ensure that suitable arrangements are in place to ensure a balanced understanding of the issues and concerns of major shareholders.

The principal method of communication with private investors is via the company's annual report and accounts, interim reports, the AGM and other relevant announcements that are maintained on the Group's investor website, www.pinn.uk.com. As appropriate business-related announcements may also be published there if the Group considers them to be of significant interest to shareholders.

The annual general meeting is used to communicate with all shareholder and investor groups, and they are encouraged to participate. The chairmen of the audit and remuneration committees are available to answer questions. Separate resolutions are proposed on each issue so that they can be given proper consideration and there are resolutions to receive the annual report and accounts and the report on directors' remuneration. The company counts all proxy votes and will indicate the level of proxies lodged on each resolution, after it has been dealt with by a show of hands.

The Chairman, non-executive Director and Chief Executive Officer are primarily responsible for investor relations, supported by the Finance Director.

Meetings are held with major institutional shareholders to discuss strategy, financial performance and investment activity immediately after the full year and interim results announcements. All the non-executive directors are available to meet with major shareholders if such meetings are required. Both James Dodd and Tom Black attended such meetings in the year. Feedback from such meetings with shareholders is provided to the Board to ensure that the Directors have a balanced understanding of the issues and concerns of major shareholders.

Board Appointments

No further Board appointments were made during the year.

REMUNERATION REPORT

The remuneration committee has given consideration to the Quoted Companies Alliance Code when framing its remuneration policy.

Remuneration committee

The remuneration committee determines, on behalf of the board, the Group's policy for executive remuneration and the individual remuneration packages for the executive director. In setting the Group's remuneration policy, the remuneration committee considers a number of factors, including the following:

- salaries and benefits available to executive directors of comparable companies;
- the need to attract and retain executives of an appropriate calibre; and
- the continued commitment of executives to the Group's success through appropriate incentive schemes.

The committee meets at least once a year, and attendance for the year is shown in the table on page 24. The Chief Executive Officer is invited to give advice to the committee for matters other than those concerning himself.

Remuneration of executive director

The remuneration package of the only executive director comprises the following elements:

- Base salary
  The remuneration committee sets the base salary to reflect responsibilities and the skill, knowledge and experience of the individual. The executive director does not receive a director's fee.

- Bonus scheme
  The executive director is eligible to receive a bonus on top of his basic salary dependent on individual and Group performance at the discretion of the remuneration committee. Performance conditions are set to ensure they are relevant and stretching.

- Car allowance
  There is no car allowance provision for the executive director.

- Pensions
  There is no pension provision for the executive director. This will change in accordance with the provisions of the new pensions regulations, once the company falls within the remit of the legislation.

- Share options
  The executive director is entitled to participate in share option schemes.

- Other benefits
  The executive director is a member of the company's child care voucher scheme (at no cost to the company).

The executive director is engaged under a service contract which requires a notice period of 12 months.

Remuneration of non-executive directors

The fees paid to the non-executive directors are determined by the board. They are not entitled to receive any bonus or other benefits. Non-executive directors' letters of appointment are on a 3 month rolling basis.

REMUNERATION REPORT (CONTINUED)

Directors' remuneration

Details of individual directors' emoluments for the year (excluding employers national insurance contributions) are as follows:

	Salary and fees paid or receivable	Bonus paid or receivable	Pension contributions	Other benefits	2014 total	2013 total
	£	£	£	£	£	£
Non- Executive						
W Allan (resigned 26 March 2013)	-	-	-	-	-	17,500
J Anderson (resigned 26 March 2013)	-	-	-	-	-	5,000
T Black	30,000	-	-	-	30,000	15,462
J Dodd	42,000	-	-	-	42,000	21,646
Executive						
N Scallan (appointed 26 March 2014)	70,000	-	-	5,195	75,195	-
A Bonner (resigned 26 March 2014)	175,269	-	-	(30,901)	144,368	96,660
Totals	317,269	-	-	(25,706)	291,563	156,268

Notes: Included in "Other benefits" in the table of Directors' remuneration above, are the costs of share options issued in accordance with IFRS 2 Share Based Payments to the Directors as follows:

	2014	2013
	£	£
Name of Director		
N Scallan (appointed 26 March 2014)	5,195	-
A Bonner (resigned 26 March 2014)	(30,901)	7,511

The reduction in "Other benefits" recorded against A Bonner, reflects the reversal of the accrued charges for Share Based payments recorded against his name since 2010 which lapsed during the year.

Directors' interests in shares

The interests of the Directors' in the ordinary shares of the Company at 30 September 2014 together with their interests at 1 October 2013 were as follows:

	2014	2013
	£	£
Name of Director		
W Allan (resigned 26 Mar 2013)	57,143	57,143
A Bonner (resigned 26 Mar 2014)	2,275,224	2,275,224
J Anderson (resigned 26 Mar 2013)	14,286	14,286
T Black	2,147,737	882,096
J Dodd	1,512,308	246,667
N Scallan (appointed 26 Mar 2014)	270,019	-

Directors' interests in share options

The interests of the Directors in options over the ordinary shares of the Company at 30 September 2014 together with their interests at 1 October 2013 (or date of appointment if later) were as follows:

	1 October 2013	Granted in the year	Lapsed during the year	30 September 2014	Exercise Price	Date when Exercisable	Expiry date
N Scallan	-	1,000,000	-	1,000,000	15.60p	26-Mar-16	26-Mar-24
A J Bonner	545,455	-	545,455	-	13.75p	01-Jul-10	Lapsed
A J Bonner	150,000	-	150,000	-	30.00p	09-Jul-11	Lapsed

Options granted to N Scallan on 26 March 2014 were issued at a 20% premium to mid-market share price at the time the options were granted in order to deliver shareholder value. Options issued prior to this date were issued at a 25% premium to mid-market share price at the time the options were granted. When these options were issued, the Remuneration Committee regarded absolute shareholder return as a valid performance criteria relating to all options granted, based on the fact that the Group was not trading profitably and its share price had fallen materially.

Two Directors of the Company's subsidiaries have been granted options over the shares of the Company as follows:

	1 October 2013	Granted in the year	Lapsed during the year	30 September 2014	Exercise Price	Date when Exercisable	Expiry date
D Giddens	83,333	-	-	83,333	30.00p	09-Jul-11	09-Jul-19
B McMillan	20,000	-	20,000	-	30.00p	09-Jul-11	Lapsed

Of the total options granted to Directors, 1,000,000, options over the Ordinary Shares in the Company have been granted to Nicholas Scallan under the terms of the Company's approved EMI share option scheme and options over 83,333 Ordinary Shares in the Company have been granted under the terms of the Company's unapproved share option scheme.

No other Directors have been granted share options in the shares of the Company or other Group companies. The mid-market price of the Company's shares at the end of the financial period was 7.9p and the range of prices during the period was between 22.9p and 6.6p.

By order of the Board

Dr Tom Black
Chairman, Remuneration Committee
19 February 2015

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). The Directors have elected to prepare the company financial statements under UK Generally Accepted Accounting Practice ("UK GAAP").

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 parent company and of the group and of the profit or loss of the group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgments and accounting estimates that are reasonable and prudent
- state whether applicable IFRSs and UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions, disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for ensuring that the Directors' Report and other information included in the Annual Report is prepared in accordance with United Kingdom company law. They are also responsible for ensuring that the Annual Report includes information required by the AIM Market Rules.

Legislation in the United Kingdom governing the preparation and the dissemination of the accounts and other information included in annual reports may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PINNACLE TECHNOLOGY GROUP PLC

We have audited the group financial statements of Pinnacle Technology Group Plc for the year ended 30th September 2014 which comprise the Group Statement of Comprehensive Income, the Group Statement of Financial Position, the Group Statement of Cash Flows, the Group Statement of Changes in Equity and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 Statement of directors' responsibilities set out on page 29, the directors are responsible for the preparation of the group 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 group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council (FRC) 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 FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 30 September 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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:

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

Other matter

We have reported separately on the parent company financial statements of Pinnacle Technology Group Plc for the year ended 30 September 2014.

Andrew Bond
Senior Statutory Auditor
for and on behalf of Nexia Smith & Williamson Statutory Auditor, Chartered Accountants
25 Moorgate, London EC2R 6AY
19 February 2015

CONSOLIDATED INCOME STATEMENT
for the year ended 30 September 2014

	Note	Year ended 2014 £	Year ended 2013 £
Revenue	3	8,408,366	10,138,681
Cost of sales		(5,738,427)	(6,882,004)
Gross profit		2,669,939	3,256,677
Operating expenses		(4,606,416)	(5,692,145)
Operating loss		(1,936,477)	(2,435,468)
Adjusted EBITDA		(511,811)	(769,103)
Amortisation of Intangible Assets	8	(370,699)	(391,165)
Depreciation	10	(310,849)	(187,751)
Exceptional costs relating to acquisitions and restructure		(280,608)	(419,536)
Impairment of intangible assets	8	(462,522)	(691,404)
Share based payments	6	34,767	(13,922)
Embedded fair value in convertible loan	16	-	18,529
Impairment of investment in associate	9	(34,755)	-
Share of profit from associate	9	-	18,884
Operating Loss		(1,936,477)	(2,435,468)
Interest receivable		918	9,532
Interest payable		(13,286)	(13,326)
Net Finance expense	5	(12,368)	(3,794)
Loss before tax		(1,948,845)	(2,439,262)
Taxation	18	174,975	(270,081)
Loss for the period from continuing operations attributable to the equity holders of the parent		(1,773,870)	(2,709,343)
Loss per share - basic and fully diluted	7	(4.98p)	(9.46p)

All losses are attributable to continuing operations. The notes on pages 35 to 66 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 September 2014

	Year ended 2014 £	Year ended 2013 £
Loss for the year from total operations	(1,773,870)	(2,709,343)
Total comprehensive loss for the year	(1,773,870)	(2,709,343)
Attributable to equity holders of the parent	(1,773,870)	(2,709,343)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 September 2014

	Note	2014 £	2013 £
Non-current assets			
Intangible assets	8	992,096	1,825,317
Investments in Associated Companies	9	165,300	200,055
Property, plant and equipment	10	227,568	448,969
Deferred tax asset	11	-	-
Total non-current assets		1,384,964	2,474,341
Current assets			
Inventories	13	46,278	91,222
Trade and other receivables	14	1,297,465	1,920,179
Cash and cash equivalents	15	173,240	587,651
Total current assets		1,516,983	2,599,052
Total assets		2,901,947	5,073,393
Liabilities			
Short term borrowings		(143,659)	(174,719)
Trade and other payables		(1,442,538)	(1,483,256)
Other taxes and social security costs		(122,942)	(266,427)
Accruals and other payables		(615,599)	(999,474)
Total current liabilities	16	(2,324,738)	(2,923,876)
Non-current liabilities			
Long term borrowings	16	(17,148)	(47,005)
Deferred tax liability	11	(208,340)	(383,316)
Total liabilities		(2,550,226)	(3,354,197)
Net assets		351,721	1,719,196
Equity			
Share capital	17	6,862,250	6,816,166
Share premium account		6,774,870	6,379,792
Merger reserve		283,357	283,357
Other reserve		32,024	66,791
Fair value adjustment		(1,064,130)	(1,064,130)
Retained earnings		(12,536,650)	(10,762,780)
Total equity		351,721	1,719,196

These financial statements were approved and authorised for issue by the Board of Directors on 19 February 2015.
Signed on behalf of the Board of Directors by Nicholas Scallan Chief Executive Officer

The accompanying accounting policies and notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September 2014

	Share Capital	Share premium	Merger Reserve	Other reserve	Fair Value	Retained earnings	Total
At 1 October 2012	5,825,055	4,343,553	283,357	52,869	(1,064,130)	(8,053,437)	1,387,267
Loss and total comprehensive loss for the period	-	-	-	-	-	(2,709,343)	(2,709,343)
Transactions with owners							
Share Issue	991,111	-	-	-	-	-	991,111
Share based payments	-	-	-	13,922	-	-	13,922
Premium on Share Issue	-	2,098,889	-	-	-	-	2,098,889
Expenses on Share Issue	-	(62,650)	-	-	-	-	(62,650)
Total Transactions with owners	991,111	2,036,239	-	13,922	-	-	3,041,272
Total movements	991,111	2,036,239	-	13,922	-	(2,709,343)	331,929
Equity at 30 September 2013	6,816,166	6,379,792	283,357	66,791	-1,064,130	-10,762,780	1,719,196
At 1 October 2013	6,816,166	6,379,792	283,357	66,791	(1,064,130)	(10,762,780)	1,719,196
Loss and total comprehensive loss for the period	-	-	-	-	-	(1,773,870)	(1,773,870)
Transactions with owners							
Share Issue	46,084	-	-	-	-	-	46,084
Share based payments	-	-	-	(34,767)	-	-	(34,767)
Premium on Share Issue	-	403,238	-	-	-	-	403,238
Expenses on Share Issue	-	(8,160)		-	-	-	(8,160)
Total Transactions with owners	46,084	395,078	-	(34,767)	-	-	406,395
Total movements	46,084	395,078	-	(34,767)	-	(1,773,870)	(1,367,474)
Equity at 30 September 2014	6,862,250	6,774,870	283,357	32,024	(1,064,130)	(12,536,650)	351,721

The accompanying accounting policies and notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 30 September 2014

	2014	2013
	£	£
Cash flows from operating activities		
Loss before taxation	(1,948,845)	(2,439,262)
Adjustments for:		
Depreciation	310,849	187,751
Amortisation	370,699	391,165
Impairment of intangible assets	462,522	691,404
Share of (profit)/loss from associate	34,755	(18,884)
Share option charge	(34,767)	13,922
Fair value adjustment for convertible loan	-	(18,529)
Interest expense	12,368	3,794
(Increase)/Decrease in trade and other receivables	622,713	413,966
Decrease in inventories	44,944	271,946
Decrease in trade payables, accruals and other creditors	(626,791)	(1,449,555)
Net cash flow used in operating activities	(751,553)	(1,952,282)
Cash flows from investing activities		
Purchase of property, plant and equipment	(89,448)	(141,634)
Sale of property, plant and equipment	-	1,821
Interest received	918	9,532
Net cash used in investing activities	(88,530)	(130,281)
Cash flows from financing activities		
Issue of shares	449,322	2,950,000
Receipt of invoice discount finance during the year	1,901,371	2,115,218
Repayment of invoice discount finance during the year	(1,827,659)	(2,389,018)
Repayment of convertible loans and bank loans	(36,436)	(15,096)
Payment of finance lease liabilities	(33,484)	(62,650)
Interest paid	(13,286)	(21,419)
Expenses paid in connection with share issue	(8,160)	(13,326)
Net cash from financing activities	431,668	2,563,709
Net (decrease)/increase in cash	(408,415)	481,146
Cash at bank and in hand at beginning of period	465,518	(15,628)
Cash at bank and in hand at end of period	57,103	465,518
Comprising:		
Cash at bank and in hand	173,240	587,651
Bank overdrafts	(116,137)	(122,133)
	57,103	465,518

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Pinnacle Technology Group plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on the inside back cover of this report. The principal activity of the group is the provision of IT and telecommunications solutions to businesses in the United Kingdom. The financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which each of the Group's subsidiaries operates.

1.1. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations endorsed by the European Union (EU) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention. The measurement bases and principal accounting policies of the Group are set out below. The principal accounting policies of the Group have remained unchanged from the previous year.

The Board acknowledges the significant cash outflow from operations in the current year and continue to review the markets it operates in and its ongoing cost base. This continued re-focus and restructure of the business has added £281k in restructuring and exceptional costs in the current year. On 21 November 2014 the Directors raised £564,470 (before expenses) by way of a private placing and an open offer to shareholders. The impact of this fund raise on the forecasts of the business, indicate that there is no requirement for additional funds for the group to continue under its core business model. However, the current Board have also committed to investing a minimum of £100,000 should the business require it in the next twelve months and has signed representations confirming this prior to approval and signing of the group accounts.

On the basis of a review of cash balances, banking facilities and the ability to call on certain shareholders to subscribe to an issue of new shares, together with a review of forecasts and sensitised cash flows, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of signing the financial statements. The Directors recognise that the Group must achieve and maintain monthly profitability for the business to cover its cost base and remain within its finance facilities. The accounting policies that have been applied in the opening balance sheet have also been applied throughout all periods presented in these financial statements.

1.2. New standards and interpretations of existing standards that are not yet effective and have not been adopted early by the Group

At the date of authorisation of these financial statements, the following new standards, amendments and interpretations are currently in issue but are not effective except for accounting periods commencing after 30 September 2014. The Group has not adopted these standards early and they are not expected to have a material impact on the Group's consolidated financial statements: New standards and interpretations

- Amendment to IFRS 11: Acquisition of an Interest in a Joint Operation. *
- Amendments to IAS 27 Separate Financial Statements. *
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. *
- IFRS 15 Revenue from Contracts with Customers *
- International Financial Reporting Standard for Small and Medium-sized Entities (cannot yet be adopted in the UK)

* These standards above have not yet been endorsed by the European Union.

The financial statements for the year ended 30 September 2014 were approved by the Board of Directors on 19 February 2015.

2. Principal Accounting Policies

a) Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 30 September 2014. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

Unrealised gains on transactions between the Group and its subsidiaries or associates are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Acquisitions of subsidiaries are dealt with using the acquisition method. The acquisition method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated statement of financial position at their fair values, which are also used as the cost bases for subsequent measurement in accordance with the Group accounting policies.

Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group’s share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

Associates are those entities over which the Group has significant influence but which are neither subsidiaries nor interests in joint ventures. Investments in associates are recognised initially at cost and subsequently accounted for using the equity method and are reviewed for impairment annually. Acquired investments in associates are also subject to purchase method accounting. However, any goodwill or fair value adjustment attributable to the share in the associate is included in the amount recognised as investment in associates.

All subsequent changes to the share of interest in the equity of the associate are recognised in the Group's carrying amount of the investment. Changes resulting from the profit or loss generated by the associate are reported in "share of profits of associates" in the consolidated income statement and therefore affect net results of the Group. The Board resolved during the year to recognise only the Group’s share of distributable profits generated by its associate on grounds of prudence.

These changes include subsequent depreciation, amortisation or impairment of the fair value adjustments of assets and liabilities.

Items that have been recognised directly in the associate's equity are recognised in the consolidated equity of the Group. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of associates have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

b) Goodwill

Goodwill representing the excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired is capitalised and reviewed annually for impairment. Goodwill is carried at cost less accumulated impairment losses. Refer to Principal Accounting Policy (j) for a description of impairment testing procedures.

c) Revenue and revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group’s activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

c) Revenue and revenue recognition (continued)

The Group recognises revenue when the amount of revenue can be reliably measured; it is probable that future economic benefits will flow from the transaction and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies, such as revenue clawback provisions or final customer sign-off, relating to the sale have been resolved. The Group bases its estimates on prior experience, taking into consideration the type of customer and the type of transaction.

The Group recognises five segments for monitoring and reporting purposes:

- IT Services
- IT Security Solutions
- Cloud Services and Data Connectivity
- Telecommunication Services
- Mobile Services

IT Services

Revenue attributable to the maintenance and support of systems is invoiced in accordance with the contract and recognised on a straight-line basis over the support period. Deferred income arises where services are invoiced in advance of performance. The amount is released to the income statement in subsequent periods with reference to the stage of completion of the transaction at the Statement of Financial Position date, calculated on a cost basis. IT Consultancy, hardware sales and on-site installation support are recognised in the income statement in full upon successful delivery or installation at the customer premises.

IT Security Solutions

Revenue attributable to the maintenance and support of IT Security software and hardware solutions is invoiced in accordance with the contract and recognised on a straight-line basis over the support period. Revenue from the sale and installation of hardware and associated licences is recognised in the income statement when the significant risks and rewards of ownership have passed to the buyer, usually on installation or software licence renewal date. Deferred income arises where services are invoiced in advance of performance. Accrued Income arises where service installation has been completed but not invoiced at the Statement of Financial Position date. The amount is released to the income statement in subsequent periods with reference to the stage of completion of the transaction at the Statement of Financial Position date. The stage of completion is determined using the cost method, which recognises revenues based on the costs incurred at the Statement of Financial Position date.

Cloud Services and Data Connectivity

Installation and Set-Up Revenues are invoiced in advance but are not recognised as Revenue in the income statement until the service goes live. Thereafter, Cloud Services and Data Connectivity Revenues principally consist of contracted monthly or quarterly rentals in advance in accordance with the contracts and are recognised on a straight-line basis over the support period. Deferred income arises where services are invoiced in advance of performance. The amount is released to the income statement in subsequent periods with reference to the stage of completion of the transaction at the Statement of Financial Position date. The stage of completion is determined using the cost method, which recognises revenues based on the costs incurred at the Statement of Financial Position date.

For cloud and data connectivity solutions for short-term events, Revenues are primarily invoiced in arrears after the service goes live in accordance with the contract. Accrued Income arises where service installation has been completed but not invoiced at the Statement of Financial Position date.

Telecommunications services

Fixed line network services for voice principally consist of service and usage charges. Service charges are recognised evenly over the period to which the service relates. Usage charges are recognised in the period when the service is received by the customer. Where period discounts are offered, the discount is spread evenly over the contract.

c) Revenue and revenue recognition (continued)

The Group sells and installs telephony systems. Revenue from the sale and installation of hardware and associated licences is recognised in the income statement when the significant risks and rewards of ownership have passed to the buyer, usually on installation. External costs associated with the installation are recorded as work-in-progress until the revenue has been recognised. Revenue in respect of licences is only recognised where there are no ongoing obligations. Where ongoing obligations exist revenue is deferred and recognised in the income statement in the appropriate period. The system may be sold as part of a package including network services and maintenance. Customer discounts, such as free maintenance or free line rental for a period of the contract, are apportioned between the system sale and the associated service based on sales value.

The Group provides maintenance services for telephony systems. Revenue is recognised evenly over the contract period. Fees charged to customers for the provision of maintenance and support services are recognised on a straight line basis over the period of the related agreement.

Revenue from the sale and installation of hardware is recognised in the income statement when the significant risks and rewards of ownership have passed to the buyer, usually on installation. Costs associated with this revenue are recognised in the same month.

Mobile solutions

Mobile network services (voice and data) principally consist of service and usage charges. Service charges are recognised evenly over the period to which the service relates. Usage charges are recognised in the period when the service is received by the customer. This applies to customer mobile contracts sold via our Mobile Virtual Network Operator (MVNO) agreement and also for customer contracts sold direct with the mobile network providers.

Where period discounts are offered, the discount is spread evenly over the contract. Commissions receivable from mobile network operators for new connections or the resigning of an existing contract are recognised in line with the fulfilment of the associated obligation. Separate provision is made for any anticipated liabilities.

Revenue from the sale of mobile hardware is recognised in the income statement when the significant risks and rewards of ownership have passed to the buyer. Costs associated with this revenue are recognised in the same month.

d) Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the Statement of Financial Position date. All exchange differences are recognised in the income statement.

e) Property, plant and equipment

Property, plant and equipment, which include motor vehicles, are stated at cost, net of depreciation and any provision for impairment. The depreciation policy is contained in Principal Accounting Policy (h).

f) Disposal of assets

The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the income statement.

g) Exceptional items

Items that are material and non-operating or non-recurring in nature are presented as exceptional items in the income statement, within the relevant account heading. Items that may give rise to classification as exceptional items include, but are not limited to, significant Group restructuring and rationalisation programmes, asset impairments, profits or losses on the disposal of businesses, negative goodwill, transaction fees and re-measurement of contingent consideration.

Share based payments are presented as exceptional items in the income statement regardless of materiality, on the basis that they are recorded in other reserves, outside of retained reserves movements on the statement of financial position and that they may result in an exchange of equity instruments at some future date.

g) Exceptional items (continued)

Other items presented as exceptional items relate to the share of profit from the associate business Stripe21, where historically the group recognised a percentage of the profit before tax as an increase in fair value of its investment, by way of its significant shareholding but recognising that it does not have overall control of the performance of that business. On 30 September 2014, the group performed a fair-value calculation of its investment in Stripe21 and agreed to impair this investment by £34,755, down to cost, recognising that the Stripe21 business may not be in a position to pay a cash dividend in the foreseeable future.. The Group also present movements in fair value adjustments relating to assets and liabilities as exceptional items due to their non-cash and non-operating nature.

h) Depreciation

Depreciation is calculated on a straight line basis so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Plant and equipment –three to five years
IT equipment –three to four years
Fixtures, fittings and leasehold improvements –three to four years
Motor vehicles –three to four years
Software development –five years

Material residual value estimates are updated as required, but at least annually.

i) Intangible assets

Intangible assets mainly comprise the fair value of customer bases and other identifiable assets acquired which are not included on the balance sheets of the acquired companies. A fair value calculation is carried out based on evaluating the net recurring income stream from each type of intangible asset. Intangibles are initially recognised at fair value, and subsequently carried at this fair value, less accumulated amortisation and impairment. The following items were identified as part of the acquisitions of entities by the Group.

- Maintenance contracts amortised over 10 years
- Customer lists to be amortised over 5 to 10 years
- Custom Voice over internet systems to be valued and amortised over a maximum of 10 years.

The allocation of fair values to the tangible assets and the identification and valuation of intangible assets affects the calculation of goodwill recognised in respect of an acquisition and as such represents a key source of estimation uncertainty. Refer to Principal Accounting Policy t) below.

j) Impairment testing of goodwill, other intangible assets and property, plant and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at cash generating unit (CGU) level. Goodwill is allocated to those CGU's that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows.

Impairment reviews are carried out using multi-year cash flow projections from the approved budgets of the Group. These are discounted using a 20% weighted average cost of capital, reflecting the time value of money and the nature and risks of the CGU. Where the CGU contains a customer base, then this asset is discounted further using an annual customer retention ratio to reflect the assumed diminution of revenues from a customer base over time. The customer retention ratio used is measured separately by CGU and is calculated as the lower of the actual customer base retention ratio experienced and 80% per annum.

Cash flows measured over a maximum of 10 years, as opposed to the previous policy of a maximum of 5 years. The term and customer retention ratio is attributed separately to each asset and is assessed by the Board at the time of acquisition.

j) Impairment testing of goodwill, other intangible assets and property, plant and equipment (continued)

Following a sustained period of improved customer retention and cash flows generated from customer acquisitions, the Directors revised the term over which cash flow projections are measured in 2010. Customer bases acquired after 1 October 2008 have Goodwill and other intangible assets with an indefinite useful life, and those intangible assets not yet available for use, are tested for impairment at least annually. All individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses are credited to the carrying amount of the relevant asset. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

k) Leased assets

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease. All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight line basis over the lease term. Lease incentives are spread over the term of the lease.

l) Inventories and work in progress

Inventories are stated at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. The cost is calculated using the FIFO basis. Work in progress relates to costs incurred on part completed work.

m) Taxation

Current tax is the tax currently payable based on taxable results for the year. Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets. Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity, in which case the related deferred tax is also charged or credited directly to equity.

n) Financial assets

Financial assets are divided into categories as appropriate, although we currently only have a single category being loans and receivables. Financial assets are assigned to categories by management on initial recognition, depending on the purpose for which the investments were acquired.

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. All financial assets are initially recognised at fair value, plus transaction costs. De-recognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each reporting date.

n) Financial assets (continued)

Interest and other cash flows resulting from holding financial assets are recognised in the income statement when receivable. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment.

n) Financial assets (continued)

Any change in their value through impairment or reversal of impairment is recognised in the income statement. A provision against trade receivables is made when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

o) Cash and cash equivalents

Cash at bank and in hand comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

p) Financial liabilities

Financial liabilities are obligations to pay cash or other financial instruments and are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in 'finance cost' in the income statement. Loan notes are raised for support of long-term funding of the Group's operations. The financial liability arising on the loan notes is carried at amortised cost. The embedded derivative, which represents an embedded prepayment option, is carried at fair value.

Finance charges, including premiums payable on settlement or redemption, and direct issue costs are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Dividend distributions payable to equity shareholders are included in 'other short-term financial liabilities' when the dividends are approved in general meeting prior to the reporting date.

q) Equity

Equity comprises the following:

- 'Share capital' represents the nominal value of equity shares.
- 'Share premium' represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- 'Merger reserve' represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue, in connection with acquisitions.
- 'Other reserve' represents equity-settled share-based employee remuneration until such share options are exercised.
- 'Fair Value Adjustment' represents the difference between the market value at the date of issue of shares to satisfy acquisitions and the value agreed with the vendors relating to these acquisitions.
- 'Retained earnings reserve' represents retained profits and accumulated losses.

r) Employee benefits

Share-Based Payment – Equity settled

All material share-based payment arrangements are recognised in the financial statements. All goods and services received in exchange for the grant of any share-based remuneration are measured at their fair values. Fair values of employee services are indirectly determined by reference to the fair value of the share options awarded. Their value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

r) Employee benefits (continued)

All share-based remuneration is ultimately recognised as an expense in the income statement with a corresponding credit to 'other reserve'. If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates.

Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.
Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital and share premium.

s) Pension

The Group makes payments to defined contribution retirement benefit plans that are charged as an expense as they fall due. Payments are made on the basis of a percentage of qualifying salary for certain employees to personal pension schemes. The total charge to the income statement for the period was £8,383 (2013: £4,500). There were no overdue contributions payable at the reporting date (2013: £nil).

t) Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Group's accounting policies

The allocation of fair values to the tangible assets and the identification and valuation of intangible assets affects the goodwill and the assignment of that to each cash generating unit, recognised in respect of the acquisition. Estimates and judgements around the allocation of fair values 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.

Key sources of estimation uncertainty

The key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Intangible assets

Intangible assets are non-physical assets which have been obtained as part of an acquisition and which have an identifiable future economic benefit to the Group at the point of acquisition. Customer bases are valued at acquisition by measuring the future discounted cash flows over a five year or ten year period from the date of acquisition, depending on class and date of acquisition and assumes diminution for retention at 80% per annum, using a 20% weighted average cost of capital. IT systems and software development are valued at cost.

This policy is applied across all CGU's except for RMS, where customers renew their IT Security contracts on specific renewal date and for a fixed term of up to five years. For this customer base we apply the historical IT Security contract renewal rate of 61.2% to contract renewals in years one and two and then further diminish this renewal rate by 61% every two years, resulting in a 18.2% customer retention ratio in years nine and ten.

Determining whether intangible assets are impaired requires the judgement of whether there is an impairment indicator. Management consider losses in acquired subsidiaries to be an impairment indicator and perform regular tests to measure the future cash flows to ensure that the loss is due to operating costs, restructuring costs and not a result of the performance of the intangible assets.

The key judgement for the carrying value of intangible assets is the cash flows associated with the intangible assets and the weighted average cost of capital. Each of the intangible assets held by the Group is measured regularly to ensure that they generate discounted positive cash flows. Where there is indication of impairment, the intangible asset is impaired by a charge to the income statement. Further details on the impairment tests are shown in note j) above and Note 8.

Going concern

The Board acknowledges the significant cash outflow from operations in the current year and continue to review the markets it operates in and its ongoing cost base. This continued re-focus and restructure of the business has added £281k in restructuring and exceptional costs in the current year. The impact of this reduction in costs on the forecasts indicate that there is no requirement for additional funds for the group to continue under its core business model. The current Board have however committed to investing a minimum of £100,000 should the business require it in the next twelve months and has signed representations confirming this prior to approval and signing of the group accounts.

3. Segment Reporting

The chief operating decision-maker has been identified as the Chief Executive Officer ("CEO") of the Company. The CEO reviews the Group's internal reporting in order to assess performance and to allocate resources. The Directors present below the results for 2014 and 2013 comparisons, based on the reportable operating segments which remain unchanged from the prior year.

The Group currently has five reportable segments:

- IT Services – this segment provides IT support, consultancy, installation and hardware solutions to SME companies.
- IT Security Solutions – this segment provides a range of IT applications, maintenance, sale and installation of hardware and licenses in addition to consultancy and support services in order to secure data and assets for corporate and enterprise companies.
- Cloud Services and Data Connectivity – this segment provides leased lines, data connectivity, wireless solutions, data centre and hosting services, VoIP and other cloud based applications to business customers.
- Telecommunication Services – this sector covers a range of telecommunications services including calls, line rental and telephone system maintenance.
- Mobility Solutions – this segment provides a range of mobile services and solutions to SME companies.

Information regarding the operation of the reportable segments is included below. The CEO assesses the performance of the operating segments based on revenue and a measure of Earnings before Interest, Depreciation and Amortisation (EBITDA) before any allocation of Group overheads or charges for share based payments. Segments are measured below on this basis.

Recurring and renewable reporting segments refer to customers who have entered into ongoing or fixed term contracts with the group to supply services for a duration exceeding 1 month.

The CEO believes that such information is the most relevant in evaluating the results of the segment. The Group's EBITDA for the year has been calculated after deducting Group overheads from the EBITDA of the five segments as reported internally. The Group overheads include the cost of the Board, the costs of maintaining a listing on AIM, legal and professional fees, and the costs of shareholder communications including the costs of retaining a Nominated Advisor and a Broker.

The segment information is prepared using accounting policies consistent with those of the Group as a whole.The performance of the Group is reviewed by the Chief Executive Officer on a segment basis and have been disclosed. All segments are continuing operations. No customer accounts for more than 10% of external revenues. Inter-segment transactions are accounted for using an arms-length commercial basis.

The majority of assets and liabilities of the Group are pooled centrally and are shared across all operating segments as required, based on demand over time. For this reason, apportionment of assets and liabilities cannot be measured accurately across segments and are therefore not disclosed.

3. Segment Reporting (continued)

3.1 Analysis of revenue

	2014 £	2013 £
By operating segment		
IT Services	946,960	1,328,978
IT Security Solutions	1,388,904	2,199,986
Cloud Services and Data Connectivity	2,185,996	2,394,460
Telecommunication Services	3,350,356	3,699,497
Mobility Solutions	536,150	515,760

	2014 £	2013 £
Continuing operations	8,408,366	10,138,681
Total revenue	8,408,366	10,138,681

By destination	2014 £	2013 £
United Kingdom	8,408,366	10,138,681
Total revenue	8,408,366	10,138,681

By origin	2014 £	2013 £
Continuing operations		
Pinnacle Telecom plc	694,889	736,420
Accent Telecom UK Limited	3,675,017	4,019,338
Solwise Telephony Limited	911,686	1,155,210
Pinnacle Cloud Solutions Limited	1,737,871	1,957,890
RMS Managed ICT Security Limited	1,354,693	1,842,644
Other group companies	34,210	427,179
Total revenue	8,408,366	10,138,681

By recurring nature	2014 £	2013 £
Recurring and Renewable - continuing operations	7,427,131	8,658,536
Non-Recurring - continuing operations	981,235	1,480,145
Total revenue	8,408,366	10,138,681

3.2 Analysis of net loss after tax

3.2.1 By business sector	2014 £	2013 £
IT Services		
Adjusted EBITDA	198,503	32,403
Depreciation	(39,315)	(23,619)
Amortisation	(59,908)	(69,118)
Impairment	(122,831)	(75,887)
Exceptional Items	(5,910)	(27,761)
Finance Costs	(2,785)	(951)
(Loss) / Profit from operations before tax	(32,246)	(164,933)
IT Security Solutions		
Adjusted EBITDA	(466,844)	(582,106)
Depreciation	(26,868)	(26,881)
Amortisation	(179,200)	(180,753)
Impairment	(203,213)	(531,198)
Exceptional Items	(43,680)	(100,627)
Finance Costs	(665)	(1,246)
(Loss) / Profit from operations before tax	(920,470)	(1,422,811)
Cloud Services and Data Connectivity		
Adjusted EBITDA	225,414	(67,528)
Depreciation	(140,227)	(74,323)
Amortisation	(78,735)	(86,921)
Impairment	(109,183)	(67,455)
Exceptional Items	(22,829)	(52,902)
Embedded Fair Value in Convertible Loan	-	18,529
Finance Costs	(3,780)	(2,072)
(Loss) / Profit from operations before tax	(129,340)	(332,672)
Telecommunication Services		
Adjusted EBITDA	(478,483)	(184,598)
Depreciation	(101,141)	(58,463)
Amortisation	(41,380)	(42,897)
Impairment	(27,296)	(16,864)
Exceptional Items	(186,388)	(221,669)
Finance Costs	(5,549)	(6,222)
(Loss) / Profit from operations after amortisation	(840,237)	(530,713)
Mobility Solutions		
Adjusted EBITDA	45,221	272
Depreciation	(4,154)	(4,463)
Amortisation	(11,475)	(11,475)
Exceptional Items	(21,802)	(16,579)
Finance Costs	(498)	(608)
(Loss) / Profit from operations after amortisation	7,292	(32,853)
Head office	141,131	(225,361)
Continuing operations	(1,773,870)	(2,709,343)
Total losses	(1,773,870)	(2,709,343)

3.2.2 By destination

	2014 £	2013 £
United Kingdom	(1,773,870)	(2,709,343)

3.2.3 By origin

	2014 £	2013 £
Pinnacle Telecom plc	(246,891)	(324,019)
Accent Telecom UK Limited	508,715	48,266
Solwise Telephony Limited	(197,535)	(155,484)
Pinnacle Cloud Solutions Limited	(438,766)	(375,672)
RMS Managed ICT Security Limited	(517,808)	(800,376)
Head Office and other group companies	(510,886)	(710,893)
Loss from continuing operations before exceptional items	(1,403,171)	(2,318,178)
Amortisation	(370,699)	(391,165)
Total losses	(1,773,870)	(2,709,343)

3.2.4 By recurring nature

	2014 £	2013 £
Recurring and renewable - continuing operations	(1,314,198)	(2,279,556)
Non-Recurring - continuing operations	(88,973)	(38,622)
Loss from continuing operations before amortisation and discontinued	(1,403,171)	(2,318,178)
Amortisation	(370,699)	(391,165)
Total losses	(1,773,870)	(2,709,343)

3.2.5 Significant customer revenue

Pinnacle has a diverse and broad customer base, incorporating both public and private sector business customers, from a wide range of industry sectors, operating in the enterprise, corporate and SME markets. The group was not reliant upon any one single customer to contribute more than 10% of its revenue in the financial year to September 2014 or to September 2013.

4. Operating loss

	2014 £	2013 £
Loss from operations is stated after charging:		
Depreciation of owned assets	(310,849)	(187,751)
Other operating lease rentals:		
– buildings	(82,703)	(141,302)
Auditors' remuneration: - audit of parent company	(15,000)	(10,500)
- audit of subsidiary companies	(30,000)	(36,750)

5. Finance income and finance costs

Finance cost includes all interest-related income and expenses. The following amounts have been included in the income statement line for the reporting periods presented:

	2014 £	2013 £
Interest income resulting from short-term bank deposits	918	9,532
Finance income	918	9,532
Interest expense resulting from:		
- Convertible loan	-	1,200
- finance leases	3,567	3,367
- bank overdrafts	5,373	5,098
- other commercial loans	4,346	2,634
- overdue taxation	-	1,027
Finance costs	13,286	13,326

6. Employee costs

6.1 Directors and employees

At 30 September 2014 the Group employed 35 staff. The average number of staff employed by the Group during the financial year amounted to 41 as follows:

	2014	2013
Number of management staff	11	11
Number of operational staff	30	54
Total	41	65

Employee numbers are stated including Directors.

6.2 Employee remuneration

	2014 £	2013 £
Wages and salaries	1,553,572	2,151,292
Pension Contributions	8,383	4,500
Share option costs	(34,767)	13,922
Social security costs	187,001	202,563
Total	1,714,189	2,372,277

6.3. Share-based remuneration

The Company has an HMRC approved EMI share option scheme as part of the remuneration of senior management. There is also an unapproved share option scheme in place which is used where the individuals do not fall under the rules of the approved scheme. The maximum term of current arrangements under the EMI scheme ends on 1 July 2018.

The unapproved scheme has no set term and the current arrangements continue until further notice. In both schemes, upon vesting, each option allows the holder to purchase one ordinary share at the pre-agreed option price. All share-based employee remuneration will be settled in equity. The Group has no legal or other obligation to repurchase or settle the options. The performance criteria attached to the outstanding options is based on total shareholder return. The share options were issued at a 25% premium to the mid-market price at the time of issue to ensure shareholder value.

	Number	2014 weighted average exercise price P	Number	2013 Weighted average exercise price P
Outstanding at 1 October	1,028,788	21.55p	1,048,788	21.72p
Granted	1,000,000	15.60p	-	-
Lapsed	(715,455)	17.61p	(20,000)	30.00p
Outstanding at 30 September	1,313,333	19.04p	1,028,788	21.55p

During the year 545,455 share options granted on 1 June 2008 and 170,000 share options granted on 9 July 2009 lapsed as a result of employee leavers. At 30 September 2014, Pinnacle Technology Group plc has granted the following outstanding share options:

Date Granted	Balance 2014	Movement during the year	Balance 2013	Exercise Price p	Dates Excercisable	Remaining contractual life (months)
1 December 2003	6,667	-	6,667	300.00p	1 December 2005 - 30 November 2014	14
1 June 2008	100,000	(545,455)	645,455	13.75p	1 July 2010 - 1 July 2018	57
9 July 2009	206,667	(170,000)	376,667	30.00p	9 July 2011 - 9 July 2019	69
26 March 2014	1,000,000	1,000,000	-	15.60p	26 March 2017 – 26 March 2024	114

6.3 Share-based remuneration (continued)

In total (£34,767) of share-based remuneration expense has been included in the consolidated income statement for 2014 (2013: £13,922). The fair value of options granted was calculated using the Black Scholes option pricing model, incorporating the following key assumptions:

	2014				2013		
Number of options	1,000,000	206,667	100,000	6,667	376,667	645,455	6,667
Volatility	75%	75%	75%	50%	75%	75%	50%
Spot Price (p)	15.60p	30.00p	13.75p	300.0p	30.00p	13.75p	300.0p
Interest rate	2.50%	4.50%	4.50%	4.52%	4.50%	4.50%	4.52%
Dividend yield	0%	0%	0%	0%	0%	0%	0%
Vesting period (years)	2	2	3	1	2	3	1
Option value weighted average exercise price	17.6p	21.7p	16.7p	300.0p	21.7p	16.7p	300.0p

6.4 Directors

Details of individual Directors' emoluments for the year (including employers national insurance contributions shown below) are as follows:

	Fees and salaries		Bonus		Employers NI contributions		Other Benefits		Totals (incl. Employers NI)	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	£	£	£	£	£	£	£	£	£	£
Non- Executive										
W Allan	-	17,500	-	-	-	2,415	-	-	-	19,915
J C Anderson	-	5,000	-	-	-	367	-	-	-	5,367
T Black	30,000	15,462	-	-	3,042	1,072	-	-	33,042	16,534
J Dodd	42,000	21,646	-	-	4,698	1,925	-	-	46,698	23,571
Executive										
A Bonner	175,269	85,800	-	-	23,638	21,018	(30,901)	10,860	168,006	117,678
N Scallan	70,000	-	-	-	8,460	-	5,195	-	83,655	-
Totals	317,269	145,408	-	-	39,838	26,797	(25,706)	10,860	331,401	183,065

D Giddens, a director of a subsidiary company received fees during the year of £66,667 (2013: £66,667). Benefits include the costs of share options issued in accordance with IFRS 2 Share Based Payments to the Directors of the Company as follows:

6.3 Share-based remuneration (continued)

Name of Director	2014 £	2013 £
N Scallan (appointed 26 March 2014)	5,195	-
A Bonner (resigned 26 March 2014)	(30,901)	7,511

7. Total and continuing loss per share

	2014 £	2013 £
Loss attributable to ordinary shareholders	(1,773,870)	(2,709,343)
	Number	Number
Weighted average number of ordinary shares in issue	35,604,548	28,631,639
Basic and diluted loss per share (pence)	4.98p	9.46p

Both the basic and diluted earnings per share have been calculated using the net loss after taxation attributable to the shareholders of Pinnacle Technology Group plc as the numerator. On 26 March 2013 at the Annual General Meeting, the company passed an ordinary resolution for a 1-for-100 share consolidation, whereby the ordinary shares on the Company were sub-divided and reclassified as follows:

1. Every one hundred ordinary shares of £0.001 were consolidated on a 100:1 basis into one £0.1 ordinary shares
2. Each £0.1 ordinary shares were subdivided into (a) one £0.01 ordinary shares; and (b) one £0.09 Deferred Shares
3. The £0.09 Deferred Shares were subdivided into ten £0.009 Deferred Shares

No share certificates were issued in respect of deferred shares, or the ordinary shares of £0.1 As a result of the share consolidation, the weighted average number of outstanding shares used for basic earnings per share amounted to 28,631,639 shares (2012: 21,486,964), both figures being shown post consolidation. Due to the losses incurred by the Group the share options are anti-dilutive.

8. Intangible assets

Fair value at acquisition	Date of acquisition	2014 £	2013 £
Explore IT Limited - Maintenance Contracts	04-Sep-2006	100,000	100,000
Pinnacle Telecom plc - billing system	08-Jun-2007	150,000	150,000
Pinnacle Telecom plc - customer base	08-Jun-2007	443,163	443,163
Sports Club Telecom Limited - customer base	25-Jun-2007	123,946	123,946
Colloquium Limited - customer base	04-Jun-2008	136,444	136,444
Accent Telecom UK Limited - customer base	11-Jun-2011	459,000	459,000
Solwise Telephony Limited - customer base	13-Jan-2011	291,300	291,300
Multilayer Limited – customer base	01-Jul-2011	45,000	45,000
MacLellan IT Limited – customer base	10-Aug-2011	602,791	602,791
Online Computer Developments Limited – customer base	06-Oct-2011	626,506	626,506
RMS Managed ICT Security Limited – Goodwill	10-Oct-2011	206,425	206,425
RMS Managed ICT Security Limited – customer base	10-Oct-2011	1,682,392	1,682,392
		4,866,967	4,866,967

8. Intangible assets (continued)

Amortisation to date:

	2014 £	2013 £
Explore IT Limited - Maintenance Contracts	(100,000)	(100,000)
Pinnacle Telecom plc - billing system	(150,000)	(150,000)
Pinnacle Telecom plc - customer base	(443,163)	(443,163)
Sports Club Telecom Limited - customer base	(123,946)	(123,946)
Colloquium Limited - customer base	(136,444)	(136,445)
Accent Telecom UK Limited - customer base	(300,441)	(254,541)
Solwise Telephony Limited - customer base	(155,491)	(126,361)
Multilayer Limited – customer base	(14,622)	(10,122)
MacLellan IT Limited – customer base	(193,878)	(133,599)
Online Computer Developments Limited – customer base	(187,952)	(125,301)
RMS Managed ICT Security Limited – customer base	(504,718)	(336,478)
	(2,310,655)	(1,939,956)

Impairment to date:

	2014 £	2013 £
Online Computer Developments Limited – customer base	(162,070)	(129,388)
MacLellan IT Limited – customer base	(408,913)	(168,638)
RMS Managed ICT Security Limited – customer base	(993,233)	(803,668)
	(1,564,216)	(1,101,694)
Carrying amount at 30 September	992,096	1,825,317

Intangible assets:

	2014 £	2013 £
Net intangible assets at 1 October 2013 and 1 October 2012 respectively	1,825,317	2,907,886
Impairment of intangible assets	(462,522)	(691,404)
Amortisation in period	(370,699)	(391,165)
Net intangible assets at 30 September 2014 and 30 September 2013 respectively	992,096	1,825,317

Intangible assets are non-physical assets which have been obtained as part of an acquisition and which have an identifiable future economic benefit to the Group at the point of acquisition. Prior to 1 October 2011, the Group's policy was for customer lists, IT systems and Maintenance contracts to be amortised over a maximum of 5 years from the date of acquisition. Following a review of this policy and in light of improved actual customer retention rates experienced since 30 September 2008, the Group has amended its policy from 1 October 2010 onwards as follows:

	Intangible Assets Acquired Prior to 30 September 2008	Intangible Assets Acquired 01 October 2008 onwards
- Goodwill – reviewed for impairment annually		
- Maintenance contracts to be amortised over a period	5 years	10 years
- Customer lists to be amortised over a period of	5 years	10 years
- Custom IT and billing systems to be amortised over a period of	5 years	10 years

8. Intangible assets (continued)

Intangible assets	Goodwill	Maintenance contracts	IT and billing systems	Customer lists	Total
	£	£	£	£	£
Cost					
At 1 October 2012	206,425	100,000	280,000	4,280,542	4,866,967
Additions	-	-	-	-	-
At 1 October 2013	206,425	100,000	280,000	4,280,542	4,866,967
Additions	-	-	-	-	-
At 30 September 2014	206,425	100,000	280,000	4,280,542	4,866,967
Accumulated amortisation					
At 1 October 2012	-	(100,000)	(193,392)	(1,255,399)	(1,548,791)
Charge for the year	-	-	(13,000)	(378,165)	(391,165)
At 1 October 2013	-	(100,000)	(206,392)	(1,633,564)	(1,939,956)
Charge for the year		-	(13,000)	(357,699)	(370,699)
At 30 September 2014	-	(100,000)	(219,392)	(1,991,263)	(2,310,655)

Impairment	Goodwill	Maintenance contracts	IT and billing systems	Customer lists	Total
At 1 October 2012 and 1 October 2013	(206,425)	-	-	(895,269)	(1,101,694)
Charge for the year	-	-	-	(462,522)	(462,522)
At 30 September 2014	(206,425)	-	-	(1,357,791)	(1,564,216)
Carrying amount					
At 30 September 2012	-	-	86,608	2,821,278	2,907,886
At 30 September 2013	-	-	73,608	1,751,709	1,825,317
At 30 September 2014	-	-	60,608	931,488	992,096

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at cash generating unit (CGU) level. Goodwill is allocated to those assets that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows. The term and customer retention ratio is attributed separately to each asset and is assessed by the Board at the time of acquisition. As a result, where there is an impairment indicator in accordance with IAS 36, some assets are tested individually for impairment and some are tested at cash generating unit level. Each year, management compare the resulting cash flow projections by CGU to the carrying value of goodwill. Any material variance in this calculation results in an impairment charge to the income statement.

Customer bases are assessed annually for impairment but on an individual basis by measuring the actual post-acquisition cash flows of individual customers purchased from the date of acquisition and projecting these cash flows forward over time, using a 20% weighted average cost of capital and a customer retention ratio of 80% per annum. This policy is applied across all CGU's except for RMS, where customers renew their IT Security contracts on specific renewal date and for a fixed term of up to five years. For this customer base we apply the historical IT Security contract renewal rate of 61.2% to contract renewals in years one and two and then further diminish this renewal rate by 61% every two years, resulting in a 18.2% customer retention ratio in years nine and ten.

The Group compares the projected cash flows to the actual cash flows generated from the acquired customer bases in order to identify any impairment of the asset. The calculations are sensitive to movements in both the weighted average cost of capital and the customer retention ratio. Sensitivities have been run on cash flow forecasts for all CGU's. Management are satisfied that the key assumptions of revenue and EBITDA growth rates are achievable and that reasonable possible changes to those key assumptions would not lead to the carrying amount of the relevant CGU exceeding the recoverable amount. Sensitivities have also been run on the discount rate applied and management are satisfied that a reasonable increase in the discount rate would not lead to the carrying amount of the relevant CGU exceeding the recoverable amount as follows:

In performing calculations for the customer bases as at 30 September 2014, an impairment provision of £462,522 (2013: £691,404) was considered necessary. The provision at 30 September 2014 related to the customer bases of RMS Managed ICT Security Limited of £189,565 and Online Computer Developments Limited of £32,682. The remaining £240,275 relates to the impairment of the MacLellanIT customer base acquired in August 2011, which has been impacted by the result of wilful misconduct by the vendor and a number of former employees of the Group.

	Holding	Country of Incorporation	Shares	Nature of business
Pinnacle Cloud Solutions Limited	100%	Scotland	Ordinary	IT Services and Connectivity
Pinnacle Telecom plc	100%	Scotland	Ordinary/Preference	Telecommunications
Online Computer Developments Ltd	100%	Scotland	Ordinary/Preference	IT Services
Accent Telecom UK Limited	100%	England and Wales	Ordinary/Preference	Telecommunications
RMS Managed ICT Security Ltd	100%	England and Wales	Ordinary/Preference	IT Security
Solwise Telephony Limited	100%	England and Wales	Ordinary/Preference	Cloud Services
Aware Distribution Limited *	100%	England and Wales	Ordinary/Preference	Retail Distribution
Sipswitch Limited	100%	England and Wales	Ordinary/Preference	Voice over Internet

* Following a strategic review in July 2013, the company decided to cease trading in Aware Distribution Limited as at 31 October 2013, the business being considered a non-core activity.

9. Associate company

As part of the acquisition of Accent Telecom UK Limited in 2010, the Group acquired a 40% investment in the ordinary share capital of Stripe21 Limited, a company registered in England and Wales. Historically, this has been accounted for using the equity method where the investment in Stripe21 was initially recognised at cost and has its carrying amount adjusted to recognise the Group's share of the profit or loss of Stripe21, after the date of acquisition. However, on 30 September 2014, the group performed a fair-value calculation of its investment in Stripe21 and agreed to impair this investment by £34,755 down to cost, recognising that the Stripe21 business may not be in a position to pay a cash dividend in the foreseeable future. Stripe21 Limited has an accounting reference date of 30 June.

	2014 £	2013 £
Fair value of investment in associated company – Stripe21 Limited	200,055	181,171
Impairment of investment in associated company – Stripe21 Limited	(34,755)	-
Share of profit/(loss) from associate	-	18,884
Investment in associated company at 30 September	165,300	200,055

In the year to June 2014, the unaudited accounts of Stripe21 Limited reported revenue of £525,052 (2013: £555,646) and profit after tax of £78,496 (2013: £47,209), reducing its negative net assets position, created as a result of its high start-up costs, from negative £150,467 to negative £73,928 during the year. Assets reported at June 2014 were £195,180 (2013: £208,618), and liabilities were £269,108 (2013: £334,690). The reporting date of 30th June is historic, and the difference between the reporting date of the Group and its associate, for Group reporting purposes, is not considered to be material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Property, plant and equipment

	IT Equipment	Fixtures and fittings and leasehold improvements	Plant, machinery and motor vehicles	Software and VOIP Platform	Total
	£	£	£	£	£
Cost of assets					
At 1 October 2013	954,285	155,079	99,397	472,727	1,681,488
Additions	10,039	48,057	-	31,352	89,448
At 30 September 2014	964,324	203,136	99,397	504,079	1,770,936

	IT Equipment	Fixtures and fittings and leasehold improvements	Plant, machinery and motor vehicles	Software and VOIP Platform	Total
	£	£	£	£	£
Cost of assets					
At 1 October 2012	918,676	155,079	55,039	416,727	1,545,521
Additions	35,609	-	50,025	56,000	141,634
Disposals	-	-	(5,667)	-	(5,667)
At 30 September 2013	954,285	155,079	99,397	472,727	1,681,488

	IT Equipment	Fixtures and fittings and leasehold improvements	Plant, machinery and motor vehicles	Software and VOIP Platform	Total
	£	£	£	£	£
Depreciation					
At 1 October 2013	817,261	125,621	49,064	240,573	1,232,519
Charge for the year	87,359	3,040	17,749	202,701	310,849
At 30 September 2014	904,620	128,661	66,813	443,274	1,543,368

	IT Equipment	Fixtures and fittings and leasehold improvements	Plant, machinery and motor vehicles	Software and VOIP Platform	Total
	£	£	£	£	£
Depreciation					
At 1 October 2012	749,330	121,502	40,826	136,909	1,048,567
Charge for the year	67,931	4,119	8,238	103,664	183,952
At 30 September 2013	817,261	125,621	49,064	240,573	1,232,519
Net Book value at 30 September 2014	59,704	74,474	32,585	60,805	227,568
Net Book value at 30 September 2013	137,024	29,458	50,333	232,154	448,969
Net Book Value at 30 September 2012	169,346	33,577	14,213	279,818	496,954

11. Deferred tax assets and liabilities

	Deferred tax on acquired Intangibles	Deferred tax on tax losses	Total
	£	£	£
Deferred tax (asset) / liability recognised at 30 September 2012	621,335	(508,100)	113,235
Adjustments in relation to prior periods charged in the year	(10,679)	-	(10,679)
Charged / (credited) to income statement	(252,414)	508,100	255,686
Change in tax rates	25,074	-	25,074
Deferred tax (asset) / liability recognised at 30 September 2013	383,316	-	383,316

	Deferred tax on acquired Intangibles	Deferred tax on tax losses	Total
	£	£	£
Deferred tax (asset) / liability recognised at 30 September 2013	383,316	-	383,316
Adjustments in relation to prior periods charged in the year	(1)	-	(1)
Charged / (credited) to income statement	(174,975)	-	(174,975)
Deferred tax (asset) / liability recognised at 30 September 2014	208,340	-	208,340

12. Leases

12.1. Finance leases

Pinnacle Technology Group plc has finance leases which relate to assets used within the Group. The net carrying amount of the assets held under the leases is £33,305 (2013: £65,668). The assets are included under IT Equipment and Motor Vehicles. The amounts held under hire purchase agreements are secured on the assets concerned. Future minimum lease payments as at 30 September 2014:

	Within 1 year	1 to 5 years	More than 5 years	Total
	£	£	£	£
Finance lease payments due	23,232	10,432	-	33,664

Gross finance lease payments, including interest due over the term, equate to £44,066. Of this amount, £30,416 is due within 1 year, and £13,650 in 1 to 5 years.

12.2. Operating leases

The Group's minimum operating lease payments all relate to land and buildings as follows:

Land and buildings	Within 1 year £	1 to 5 years £	More than 5 years £	Total £
As at 30 September 2014	42,390	12,760	-	55,150
As at 30 September 2013	44,813	3,600	-	48,413

Lease payments recognised as an expense during the year amounted to £82,703 (2013: £141,302). No sublease income is expected as all assets held under lease agreements are used exclusively by the Group. The terms left on the non-cancellable leases can be summarised as follows:

	Rented since	Non-cancellable term left
Property		
101 Abercorn Street, Paisley	1995	6 months
Victory House, Northampton	2013	4 months
Genesis Centre, Stoke on Trent	2013	3 months
Queenslie Court, Glasgow	2011	20 months

Operating leases do not contain any contingent rent clauses. None of the operating lease agreements contain renewal of purchase options or escalation clauses or any restrictions regarding dividends, further leasing or additional debt.

13. Inventories

	2014 £	2013 £
Consumables	25,102	76,434
Work in Progress	21,176	14,788
Inventories	46,278	91,222

14. Trade and other receivables

	2014 £	2013 £
Trade receivables	841,990	1,129,097
Prepayments and accrued income	455,475	791,082
	1,297,465	1,920,179

Trade receivables at the reporting date comprise amounts receivable from the provision of IT and telecommunications services. The average credit period taken on the provision of these services is 34 days (2013: 38 days). Trade receivables are stated net of an impairment for estimated irrecoverable amounts of £110,986 (2013: £139,828). This impairment has been determined by reference to known issues. Write offs are made when the irrecoverable amount becomes certain. The carrying value of trade and other receivables approximates to their fair value. The bad debt provision as at 1st October 2013 was £139,828. During the year £58,120 of bad debt was written off against the provision, and a further provision of £29,278 made resulting in the bad debt provision of £110,986 as at 30th September 2014.

14. Trade and other receivables (continued)

At 30 September 2014 trade receivables amounting to £275,210 (2013: £400,018) were past due but not impaired.
The past due balance is calculated by reference to specific terms agreed with each customer. The age of trade receivables not impaired is as follows:

	2014 £	2013 £
Not past due (less than 30 days)	478,468	699,648
30 – 59 days	176,624	198,652
60 – 89 days	49,322	132,294
90 – 119 days	28,506	54,278
120 days +	109,070	44,225
	841,990	1,129,097

Credit risk

The Group's main risk relates to trade receivables which are stated net of the provisions above. No collateral is held as security against these debtors and the carrying value represents the fair value. The Group does not identify specific concentrations of credit risk with regards to trade and other receivables, as the amounts recognised represent a large number of receivables from various customers, including some government and public authorities.

15. Cash and cash equivalents

	2014 £	2013 £
Cash at bank and in hand	173,240	587,651
Bank overdraft facilities	(116,137)	(122,133)
Cash and cash equivalents	57,103	465,518

Cash balances are held with a small number of counter parties. The cash figure at 30 September 2014 can be attributed to the losses for the year although the Group continued to manage and forecast cashflows on a specific customer and suppliers basis throughout the year, and particularly at the year end. The majority of bank accounts are held with HSBC plc. The bank facility with HSBC is secured by Directors guarantee and a fixed and floating debenture over company assets.

On 21 November 2014, the Group raised £564,470 (before expenses) by way of a private placing and an open offer to shareholders.

16.1. Trade and other payables

	2014	2013
	£	£
Bank overdrafts	116,137	122,133
Bank loans	11,366	32,802
Finance lease liability	33,305	66,789
	160,808	221,724
Less non-current portion of liabilities	(17,148)	(47,005)
Short-term borrowings	143,659	174,719
Trade payables	1,442,538	1,483,256
Invoice finance	116,986	43,274
Commercial loans – short term element	4,290	9,004
Accruals and other payables	494,323	932,196
Convertible loan notes – short term element	-	15,000
Other taxes and social security costs	122,942	266,427
Total current liabilities	2,324,738	2,923,876

Note 12.1 contains further information on the finance lease liability.

On 30 September 2009, Pinnacle created £250,000 unsecured convertible loan notes in units of £5,000. On 30 September 2009, notes for a nominal value of £125,000 were issued at par. The loan notes are not transferable and may be redeemed (in whole or in part) by Pinnacle, at its sole discretion, at any time. The loan notes will become repayable on demand in the event of a specified default by Pinnacle. On 20 October 2011, £105,000 of these original loan notes were converted to equity at 15% discount to the mid-price at the time of the conversion. The fair value of this conversion was £123,529.

On 6 October 2011, Pinnacle created further £500,000 unsecured convertible loan notes in units of £2,000. The loan notes are not transferable and may be redeemed (in whole or in part) by Pinnacle, at its sole discretion, at any time. The loan notes will become repayable on demand in the event of a specified default by Pinnacle. All loan notes are convertible into ordinary shares by Pinnacle at any time after the second anniversary following issue, or alternatively by the holders of the loan notes at any time following the period of thirty days after the second anniversary of the loan note.

The conversion price is at a discount of 15% to the mid-market price per ordinary share as at close of business on the date five days after service of the relevant conversion notice, subject to a minimum of nominal value. The ordinary shares to be issued will rank pari-passu in all respects with the ordinary shares in issue. A provision for the embedded derivative has been made in the accounts, representing a provision for the Group’s option to repay the loan notes in cash prior to the second anniversary.

On 29 September 2013, following agreement with the loan note holders, cancelled £100,000 of loan notes relating to the outstanding payments for the acquisition of RMS Managed ICT Security Limited, in return for an issue of 777,778 ordinary shares at a price of 18p per share in full and final settlement of all outstanding liabilities.

On 31 October 2013, at the request of the loan note holder, the company repaid £15,000 in cash in settlement of £15,000 convertible loan notes. The directors considered the fair value of loan notes to be nil at 30 September 2014 (£15,000 at 30 September 2013)

Interest accrued on the loan notes at 10% per annum, from 30 September 2009 to the earlier of the date of redemption and the date of conversion. The interest accrues on a day to day basis and is payable monthly in arrears.

Convertible Loan Notes	2014 £	2013 £
i. 30 September 2009 unsecured loan notes (units of £5,000) Maximum issuable value £250,000		
Balance at 1 October	-	15,000
Balance at 30 September	-	15,000

	2014 £	2013 £
ii. 6 October 2011 unsecured loan notes (units of £2,000) Maximum issuable value £500,000		
Balance at 1 October	-	111,229
(Cancelled)/issued - Acquisition of RMS Managed ICT Security Limited	-	(100,000)
Fair value adjustment - embedded derivative	-	(11,229)
Balance at 30 September	-	-
Convertible Loan Note Balance	-	15,000

16.2. Long-term borrowings

	2014 £	2013 £
Convertible loan notes – long term element	-	-
Finance leasing liability – long-term element	10,072	38,207
Commercial loan – long term element	7,076	8,798
Effective repayment to acquire investment – long term element	-	-
Long-term financial liabilities	17,148	47,005

17. Share capital and reserves

17.1. Share capital

On 26 March 2013 at the Annual General Meeting, the company passed an ordinary resolution for a 1-for-100 share consolidation, whereby the ordinary shares on the Company were sub-divided and reclassified as follows:

1. Every one hundred ordinary shares of £0.001 were consolidated on a 100:1 basis into one £0.1 ordinary shares
2. Each £0.1 ordinary shares were subdivided into (a) one £0.01 ordinary shares; and (b) one £0.09 Deferred Shares
3. The £0.09 Deferred Shares were subdivided into ten £0.009 Deferred Shares

No share certificates were issued in respect of deferred shares, or the ordinary shares of £0.1. As a result of the share consolidation, the weighted average number of outstanding shares used for basic earnings per share amounted to 35,604,548 shares (2013: 28,631,639), both figures being shown post consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17.1. Share capital (continued)

Following the share consolidation on 26 March 2013, the share capital of Pinnacle Technology Group plc consisted of ordinary shares with a par value of £0.01 and deferred shares with a par value of £0.09. All ordinary shares are equally eligible to receive dividends and the repayment of capital, and represent one vote at the shareholders' meeting of Pinnacle Technology Group plc. The deferred shares carry no voting rights and are not eligible to receive dividends or repayment of capital.

Shares issued and fully paid	2014 £	2013 £
– beginning of year	6,816,166	5,825,055
– issued during year	46,084	991,111
Shares issued and fully paid	6,862,250	6,816,166

Share Capital Allotted, called up and fully paid

At 30 September 2012	Ordinary Shares £	Deferred Shares £	Total Equity £
31,948,077 Ordinary shares of £0.01 each	319,481	-	319,481
720,989,728 Deferred Shares of £0.009 each	-	6,488,907	6,488,907
777,778 Ordinary shares of £0.01 each issued 27 September 2013	7,778		
At 30 September 2013	327,259	6,488,907	6,816,166
4,608,433 Ordinary shares of £0.01 each issued 19 February 2014	46,084	-	46,084
At 30 September 2014	373,343	6,488,907	6,862,250

17.2 Retained earnings reserve

	2014 £	2013 £
Retained earnings reserve at 1 October 2013	(10,762,780)	(8,053,437)
Loss for the year	(1,773,870)	(2,709,343)
Retained earnings reserve at 30 September 2014	(12,536,650)	(10,762,780)

17.3. Merger reserve

The Group has taken advantage of the merger relief provisions in relation to the acquisition of Solwise Telephony Limited. The Merger reserve represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue, in connection with acquisitions.

17.4. Fair Value Adjustment

Movements in the fair value adjustment reserve are created when there is a difference between the fair value of the shares issued as per the Sale and Purchase Agreement and the market value of the shares on completion of acquisition. No movements were recorded in the year.

18. Income tax

The tax (charge)/credit represents:	2014 £	2013 £
Origination and reversal of timing differences	174,975	(270,081)
Tax (charge)/credit	174,975	(270,081)

The relationship between expected tax expense based on the effective tax rate of Pinnacle Technology Group plc of 22% (2013: 21%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2014 £	2013 £
Result for the year before tax	(1,948,845)	(2,439,262)
Tax rate (23% to 31/03/2014 and 21% from 30/09/2014)	22%	23.5%
Expected tax expenses	(428,746)	(573,227)
Adjustment for:		
Non-deductible expenses	204	7,962
Movement in unprovided deferred tax relating to fixed assets	44,038	33,742
Movement in unprovided deferred tax relating to losses	201,197	297,039
Release of deferred tax asset provided on losses	-	508,100
Change in tax rates	-	25,074
Adjustments on consolidation – pre-acquisition losses etc	8,331	(17,930)
Prior year adjustments	-	(10,679)
Actual tax payable/(rebate) net	174,975	(270,081)

The Group has unrecognised deferred tax assets in respect of tax losses carried forward totaling £1,450,569 (2013: £1,406,071).

19. Related party transactions

As part of the acquisition of Accent Telecom UK Limited, the Group acquired a 40% share of the equity of an associated company, Stripe21 Limited. During the year, Accent Telecom UK Limited purchased services totalling £235,674 (2013: £244,540) from Stripe21 Limited, recorded as cost of sales in the consolidated income statement. In addition, Stripe21 purchased telecom services from Accent Telecom UK Limited of £2,595 (2013: £1,557) during the year of which none remained an unpaid trade receivable at year end.

In addition to his remuneration, CEO Nicholas Scallan received share based payments of £5,195 in 2014 (2013: Nil). There are no other related party transactions recorded during the year to 30 September 2014 or to 30 September 2013.

20. Contingent liabilities

There were no contingent liabilities at 30 September 2014 or 30 September 2013.

21. Capital commitments

There were no capital commitments at 30 September 2014 or 30 September 2013.

22. Risk management

The Group finances its activities through equity, loan notes and bank funds. No speculative treasury transactions are undertaken and during the last two years no derivative contracts were entered into. Financial assets and liabilities include those assets and liabilities of a financial nature, namely cash and borrowings. The Group is exposed to a variety of financial risks arising from its operating activities, which are monitored by the Directors and are reported in the principal risks and uncertainties contained within the Strategic Report on Page 13.

22.1. Cash and liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group policy throughout the year has been to ensure continuity of funding by a combination of loan note funding and available bank facilities.

22.2. Interest rate risk

The interest rate on the Group's cash at bank is determined by reference to the bank rate. The Group has agreed bank overdraft and credit card facilities with HSBC of £89,000. (2013: £154,000). The interest rate charged on finance leases and commercial loan is a fixed rate agreed at the time of signing the agreement.

22.3. Capital risk management

The Group's policy on capital structure is to maintain a level of gross cash available, which the Board considers to be adequate to fund a range of potential EBITDA movements, taken from a series of business projections, that allow the Group to invest in areas that may deliver future benefit to investors and to fund its existing operations. Consequently, the Group makes use of banking facilities, invoice discount finance and finance lease arrangements to help fund any capital requirements, in order to maintain that level of gross cash. The group currently has £89,000 of bank facilities available with HSBC. In addition, the group has a maximum £450,000 invoice discount facility available with ABN Amro, which allows up to 70% of qualifying revenues to be advanced on invoice to customers.

22.3. Capital risk management (continued)

The Group manages its capital to ensure that trading entities in the Group will be able to continue as going concerns, while maximising the returns to shareholders through the organisation of cash, debt and equity balances. The capital structure of the Group consists of cash at bank and in hand, debt and equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings as disclosed in the statement of changes in equity on page 33.

The directors seek to promote recurring revenues to a wide range of business customers, to reduce the risks associated with fluctuations in the UK economy and to increase the long term value to customers and shareholders. If required, the Group will subsidise one-off connection fees in order to generate contracted recurring revenues and secure longer term business relationships with customers.

The declaration and payment by the Group of any future dividends on the Ordinary Shares and the amount will depend on the results of the Group's operations, its financial condition, cash requirements, future prospects, profits available for distribution and other factors deemed to be relevant at the time.

Given the Group's stage of development, the Directors do not envisage that the Group will pay dividends in the foreseeable future and intend to reinvest surplus funds in the development of the Group's business. The Board will regularly review the appropriateness of its dividend policy.

During the year, the Group has made use of invoice finance in order to expedite cash available to the business from sales of IT Security software licences, hardware and equipment, this cash being used to reduce working capital tied up in one-off revenues and to purchase equipment at competitive prices from suppliers where the Group does not have a credit account.

In order to maintain or adjust the capital structure, the Group may adjust the amount of any pay-outs to the shareholders, return capital to the shareholders, issue new shares, make borrowings or sell assets to reduce debt.

22.4. Credit risk

The Group's policy is to monitor trade and other receivables and avoid significant concentrations of credit risk. The principal credit risk arises from trade receivables. Aged receivables reports are reviewed monthly and any balances greater than 60 days are reported to the CEO. The credit control function follows a policy of sending reminder letters that start once an invoice is over 30 days overdue. These culminate in a legal letter with the threat of legal action. In a limited number of cases, legal action has been pursued. An aged analysis of receivables is shown in Note 14 to the financial statements.

22.5. Risk Management Analysis

The information below provides an analysis of the financial assets and liabilities within the scope of IAS 39 Financial Instruments: Recognition and Measurement, required by IFRS 7 Financial Instruments: Disclosure. An analysis of the principal sums, relevant to an analysis of risk management, is as follows:

22.5. Risk Management Analysis (continued)

2014	Loans and receivables £	Non-financial assets £	Total £
Trade and other receivables	841,990	-	841,990
Other current assets	-	46,278	46,278
Cash at bank and in hand	173,240	-	173,240
	1,015,230	46,278	1,061,508

2013	Loans and receivables £	Non-financial assets £	Total £
Trade and other receivables	1,129,097	-	1,129,097
Other current assets	-	91,222	91,222
Cash at bank and in hand	587,651	-	587,651
	1,716,748	91,222	1,808,970

	Other financial liabilities at amortised cost £	Other liabilities not within scope of IAS 39 £	Balance Sheet Total £
2014			
Trade and other payables	2,180,230	-	2,180,230
Deferred tax liability	-	208,340	208,340
Invoice finance liability – current	116,986	-	116,986
Finance lease liability – current	-	23,232	23,232
Commercial loans – current	4,290	-	4,290
Convertible loan notes – current	-	-	-
Finance lease liability – non-current	-	10,072	10,072
Commercial loans – non-current	7,076	-	7,076
	2,308,582	241,644	2,550,226

22.5. Risk Management Analysis (continued)

2013			
Trade and other payables	2,828,017	-	2,828,017
Deferred tax liability	-	383,316	383,316
Invoice finance liability – current	43,274	-	43,274
Finance lease liability – current	-	28,581	28,581
Commercial loans – current	9,004	-	9,004
Convertible loan notes – current	15,000	-	15,000
Finance lease liability – non-current	-	38,207	38,207
Commercial loans – non-current	8,798	-	8,798
	2,904,093	450,104	3,354,197

	£	£	£	£	£	£
	0 to 60 days	61 days to 6 months	6 months to 12 months	12 months to 2 years	2 Years to 5 Years	Total
2014						
Trade payables	829,301	425,379	135,003	52,855	-	1,442,538
Long-term borrowings	715	1,430	2,145	-	-	4,290
Finance lease liabilities	3,872	7,744	11,616	10,432	-	33,664
	833,888	434,553	148,764	63,287	-	1,480,492

	£	£	£	£	£	£
	0 to 60 days	61 days to 6 months	6 months to 12 months	12 months to 2 years	2 Years to 5 Years	Total
2013						
Trade payables	961,267	337,139	184,850	-	-	1,483,256
Long-term borrowings	1,501	3,001	4,502	8,798	-	17,802
Finance lease liabilities	4,764	9,527	14,290	28,582	9,626	66,789
	967,532	349,667	203,642	37,380	9,626	1,567,847

23. Post balance sheet events

On 21st November 2014, Pinnacle held a General Meeting at which shareholders were asked to consider resolutions in connection with a Placing and Open Offer, which were subsequently approved, enabling the Group to raise £564,470 through a Placing and Open Offer through the issue of 8,684,147 new Ordinary Shares at a price of 6.5p, to further accelerate the Group's strategy.

N+1 Singer LLP acted as sole broker on the placing and placed 7,461,535 new ordinary shares with Directors and existing institutional shareholders at 6.5p to raise £485,000 before expenses. Further funds were raised via an open offer at 6.5p to qualifying shareholders on the basis of one new ordinary share for every 21 existing shares held. Pinnacle received valid acceptances from qualifying shareholders in respect of 1,222,612 Open Offer Shares - approximately 69 percent of the maximum available, and equal to £79,470. Of the total funds raised, Pinnacle's Board of Directors subscribed for approximately £217,000 of new shares.

24. Ultimate controlling party

There is no ultimate controlling party.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PINNACLE TECHNOLOGY GROUP PLC (PARENT COMPANY)

We have audited the parent company financial statements of Pinnacle Technology Group Plc for the year ended 30 September 2014 which comprise the Parent company balance sheet and the related notes 1 to 12. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).
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 Statement of directors' responsibilities set out on page 29, the directors are responsible for the preparation of the parent company 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 parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council (FRC'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 FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2014;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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 opnion:

- adequate accounting records have 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; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the group financial statements of Pinnacle Technology Group Plc for the year ended 30 September 2014.

Andrew Bond
Senior Statutory Auditor
for and on behalf of Nexia Smith & Williamson
Statutory Auditor, Chartered Accountants
25 Moorgate, London, EC2R 6AY

19 February 2015

BALANCE SHEET (PARENT COMPANY)
as at 30 September 2014

	Note	2014 £	2013 £
Fixed Assets			
Intangible assets	3	-	482,233
Tangible assets	4	-	-
Fixed asset investments	5	1,064,130	1,064,130
Total fixed assets		1,064,130	1,546,363
Current Assets			
Debtors	6	513,208	1,708,100
Cash at bank and in hand		-	548,850
Total current assets		513,208	2,256,950
Creditors: amounts falling due within one year	7	(1,017,277)	(1,019,987)
Net current (liabilities) / assets		(504,069)	1,236,963
Total assets less current liabilities		560,061	2,783,326
Net Assets		560,061	2,783,326
Capital and reserves			
Called up share capital	9	6,862,250	6,816,166
Share premium account	10	6,774,870	6,379,792
Merger reserve		283,357	283,357
Profit and loss account	10	(13,360,416)	(10,695,989)
Shareholders' funds	11	560,061	2,783,326

Approved by the Board and authorised for issue on 19 February 2015.

Nicholas Scallan
Director

The accompanying accounting policies and notes form part of these financial statements.

COMPANY NUMBER: 05259846

NOTES TO THE FINANCIAL STATEMENTS (PARENT COMPANY)

1. Accounting policies

1.1. Accounting convention

The financial statements are prepared under the historical cost convention.

1.2. Profit and loss account

The Parent Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in the financial statements. The Parent Company's loss for the year was £2,664,427 (2013: £2,695,421).

1.3. Compliance with accounting standards

The financial statements are prepared in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), which have been applied consistently (except as otherwise stated).

1.4. Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Computer equipment – straight line over 3 years.

1.5. Investments

Fixed asset investments are stated at cost less provision for diminution in value.

1.6. Pensions

The Company does not currently offer a pension scheme for the benefit of its employees.

1.7. Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations different from those in which they are included in the accounts.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

1.8 Share based remuneration

The Company issues equity-settled share based payments to certain employees. The fair value of the shares granted is recharged to the Company's subsidiaries and is calculated at the grant date, based on an estimate of the shares that will ultimately vest, using the Black Scholes model and in accordance with FRS 20.

2. Auditor remuneration

Fees payable to the Company's auditor for the audit of the Parent Company's annual accounts was £15,000 (2013: £10,500).

NOTES TO THE FINANCIAL STATEMENTS (PARENT COMPANY)

3. Intangible Assets

On 1 August 2011, as part of the acquisition of the business and assets of MacLellan IT Limited, the Group purchased goodwill of £602,791 in relation to the customer base, which has been accounted for in accordance with FRS10. This was being amortised to the profit and loss account of the parent company over 10 years on a straight line basis. However, following the wilful misconduct of employees and previously associated parties, the decision was made to fully expense the remaining balance to the profit and loss account.

Intangible Assets	2014 £	2013 £
Cost	602,791	602,791
Amortisation		
Brought forward	120,558	60,279
Charge for the year	482,233	60,279
At 30 September	602,791	120,558
Net book value At 30 September	-	482,233

4. Tangible fixed assets	£
Cost	
At 1 October 2013 and at 30 September 2014	6,165
Depreciation	
At 1 October 2013	6,165
Charge for the year	-
At 30 September 2014	6,165
Net book value	
At 30 September 2013 and 30 September 2014	-

5. Fixed asset investments

Cost	
At 1 October 2013	6,965,822
Additions for the year – share based payments	(34,767)
At 30 September 2014	6,931,055
Provisions for diminution in value	
At 1 October 2013	5,901,692
Charge for the year	(34,767)
At 30 September 2014	5,866,925
Net book value	
At 30 September 2014	1,064,130

5. Fixed asset investments (continued)

Company	Country of registration or incorporation	Shares held Class	%
Subsidiary undertakings			
Pinnacle Cloud Solutions Limited	Scotland	Ordinary	100
Explore IT Limited	England and Wales	Ordinary	100
Pinnacle Technology Consulting Limited (1)	Scotland	Ordinary	100
I G Software Limited	England and Wales	Ordinary	100
Pinnacle Telecom plc	Scotland	Ordinary/Preference	100
Pinnacle Mobile Limited	England and Wales	Ordinary	100
Colloquium Limited	Scotland	Ordinary/Preference	100
MacLellan IT Limited (formerly Pinnacle Data Limited)	England and Wales	Ordinary	100
Straiton Group Management Limited (2)	Scotland	Ordinary	100
Pinnacle Group Limited	Scotland	Ordinary	100
Glen Group Limited (3)	Scotland	Ordinary	100
ICT Investments Limited	Scotland	Ordinary	100
Multilayer Limited (formerly Pinnacle ICT Limited)	England and Wales	Ordinary	100
Straiton Resourcing Limited	Scotland	Ordinary	100
Straiton Learning Services Limited	Scotland	Ordinary	100
Accent Telecom UK Limited	England and Wales	Ordinary	100
Sipswitch Limited	England and Wales	Ordinary	100
Solwise Telephony Limited	England and Wales	Ordinary	100
Online Computer Developments Limited	Scotland	Ordinary	100
Aware Distribution Limited	England and Wales	Ordinary	100
RMS Managed ICT Security Limited	England and Wales	Ordinary	100
Sports Club Telecom Limited	Scotland	Ordinary	100

NOTES TO THE FINANCIAL STATEMENTS (PARENT COMPANY) (CONTINUED)

The aggregate amount of capital and reserves and the results of these undertakings for the last relevant financial year were:

Company	Principal Activity	Net Assets	Profit / (Loss) for the year
Pinnacle Cloud Solutions Limited	Telecommunications / IT services	(2,776,112)	(165,810)
Pinnacle Technology Consulting Limited (1)	IT consultancy	804,289	-
I G Software Limited	IT consultancy	170,705	-
Pinnacle Telecom plc	Telecommunications	(619,748)	(246,891)
Solwise Telephony Limited	Telecommunications	(348,347)	(197,535)
Accent Telecom UK Limited	Telecommunications	1,069,338	508,715
Sipswitch Limited	Voice over Internet	(26,346)	-
Straiton Group Management Limited (2)	Holding company	(177,411)	-
Pinnacle Group Limited	Holding company	460,000	-
Online Computer Developments Limited	IT consultancy	(207,656)	-
RMS Managed ICT Security Limited	IT Security	(2,030,019)	(328,243)
Aware Distribution Limited	Retail Distribution	(147,198)	1,598
Explore IT Limited	Dormant	(242,394)	-
Pinnacle Mobile Limited	Dormant	(73,401)	-
Sports Club Telecom Limited	Dormant	33,185	-
Colloquium Limited	Dormant	(230,637)	-
Glen Group Limited (3)	Dormant	2	-
ICT Investments Limited	Dormant	24,522	-
Multilayer Limited (formerly Pinnacle ICT Limited)	Dormant	2	-
MacLellan IT Limited (formerly Pinnacle Data Limited)	Dormant	2	-
Straiton Resourcing Limited	Dormant	2	-
Straiton Learning Services Limited	Dormant	2	-

1 *Formerly Eclectic Group Limited*
2. *Formerly Eclectic Holdings Limited*
3. *Formerly Pinnacle Technology Group Limited*

6. Debtors	2014 £	2013 £
Amounts owed by subsidiary undertakings	478,505	1,671,352
Prepayments and accrued income	34,703	36,748
	513,208	1,708,100

7. Creditors: amounts falling due within one year	2014 £	2013 £
Trade creditors	73,951	72,735
Other taxes and social security costs	20,296	37,693
Convertible loan notes – short term element	-	15,000
Bank Overdraft	40,008	
Accruals and deferred income	883,022	894,559
	1,017,277	1,019,987

8. Pension and other post-retirement benefit commitments

No contributions to company pension schemes were made during the year (2013: Nil).

9. Share capital

On 26 March 2013 at the Annual General Meeting, the company passed an ordinary resolution for a 1-for-100 share consolidation, whereby the ordinary shares on the Company were sub-divided and reclassified as follows:

1. Every one hundred ordinary shares of £0.001 are consolidated on a 100:1 basis into one £0.1 ordinary shares
2. Each £0.1 ordinary shares are subdivided into (a) one £0.01 ordinary shares; and (b) one £0.09 Deferred Shares
3. The £0.09 Deferred Shares are subdivided into ten £0.009 Deferred Shares

No share certificates were issued in respect of deferred shares, or the ordinary shares of £0.1. As a result of the share consolidation, the weighted average number of outstanding shares used for basic earnings per share amounted to 35,604,548 shares (2013: 28,631,639), both figures being shown post consolidation

Share Capital - Allotted, called up and fully paid

At 30 September 2012	Ordinary Shares £	Deferred Shares £	Total Equity £
31,948,077 Ordinary shares of £0.01 each	319,481	-	319,481
720,989,728 Deferred Shares of £0.009 each	-	6,488,907	6,488,907
777,778 Ordinary shares of £0.01 each issued 27 September 2013	7,778	-	7,778
At 30 September 2013	327,259	6,488,907	6,816,166
4,608,433 Ordinary Shares of £0.01 each issued 19 February 2014	46,084	-	46,084
At 30 September 2014	373,343	6,488,907	6,862,250

10. Statement of movements on reserves

	Share premium account £	Profit and loss account £
Balance at 1 October 2013	6,379,792	(10,695,989)
Share Premium – premium on shares issued during the year	395,078	-
Loss for the year	-	(2,664,427)
Balance at 30 September 2014	6,774,870	(13,360,416)

11. Reconciliation of movements in shareholders' funds

	2014 £	2013 £
Opening shareholders' funds at 1 October	2,783,326	2,451,397
Loss for the financial year	(2,664,427)	(2,695,421)
Issue of shares on placing	46,084	991,111
Share Premium – premium on shares issued during the year	395,078	2,036,239
Net increase/(depletion) in shareholders' funds	2,223,265	331,929
Closing shareholders' funds at 30 September	560,061	2,783,326

12. Related party transactions

As part of the acquisition of Accent Telecom UK Limited, the Group acquired a 40% share of the equity of an associated company, Stripe21 Limited. During the year, Accent Telecom UK Limited purchased services totalling £235,674 (2013: £244,540) from Stripe21 Limited, recorded as cost of sales in the consolidated income statement. In addition, Stripe21 purchased telecom services from Accent Telecom UK Limited of £2,595 (2013: £1,557) during the year of which none remained an unpaid trade receivable at year end.

In addition to his remuneration, CEO Nicholas Scallan received share based payments of £5,195 in 2014 (2013: Nil). There are no other related party transactions recorded during the year to 30 September 2014 or to 30 September 2013.

The Parent Company is exempt from disclosing transactions between group companies due to the subsidiaries being wholly owned by the Parent Company.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the annual general meeting of Pinnacle Technology Group PLC (the "**Company**") will be held at the offices of N+1 Singer LLP, 1 Bartholomew Lane, London EC2N 2AX at 10:30AM (GMT) on Friday 27 March 2015 (the "**AGM**") for the following purposes:

Ordinary Business:

To consider and, if thought fit, pass the resolutions 1 to 3, which will be proposed as ordinary resolutions:

1. Adoption of financial statements

That the report of the directors of the Company (the "**Directors**") and the financial statements for the year ended 30 September 2014 together with the independent auditor's report be received and adopted.

2. Re-election of retiring Director

That Nicholas Scallan, who retires as a Director by rotation in accordance with the Company's Articles of Association, be re-elected as a Director.

3. Appointment of auditor

That Nexia Smith & Williamson Audit Limited be appointed as auditor of the Company until the conclusion of the next general meeting before which accounts are laid, and that their remuneration be agreed by the Directors.

Special Business:

To consider and, if thought fit, pass the following resolutions, of which resolution 4 will be proposed as an ordinary resolution, and resolutions 5 to 7 will be proposed as special resolutions:

4. Directors' authority to allot shares and equity securities

That, in substitution for any equivalent authorities and powers granted to the Directors prior to the passing of this resolution, the Directors be and are generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the "**Act**") to exercise all powers of the Company to allot shares in the Company, and grant rights to subscribe for or to convert any security into shares of the Company (such shares, and rights to subscribe for or to convert any security into shares of the Company being "**relevant securities**") up to an aggregate nominal amount of £153,394.78, provided that, unless previously revoked, varied or extended, this authority shall expire on the conclusion of the Annual General Meeting of the Company to be held in 2016, except that the Company may at any time before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to such an offer or agreement as if this authority had not expired.

5. Directors' power to disapply pre-emption rights

That, subject to the passing of resolution 4 above, the Directors be and they are empowered pursuant to section 570(1) of the Companies Act 2006 (the "Act") to allot equity securities (as defined in section 560(1) of the Act) of the Company wholly for cash pursuant to the authority conferred by Resolution 4 above as if section 561(1) of the Act did not apply to such allotment, provided that:

(a) the power conferred by this resolution shall be limited to:

(i) the allotment of equity securities in connection with an offer of equity securities to the holders of ordinary shares in the capital of the Company in proportion as nearly as practicable to their respective holdings of such shares, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems arising under the laws or requirements of any overseas territory or by virtue of shares being represented by depository receipts or the requirements of any regulatory body or stock exchange or any other matter whatsoever; and

(ii) the allotment, otherwise than pursuant to sub-paragraph (i) above, of equity securities up to an aggregate nominal value equal to £46,018.43; and

(b) unless previously revoked, varied or extended, this power shall expire on the conclusion of the Annual General Meeting of the Company to be held in 2016 except that the Company may before the expiry of this power make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if this power had not expired.

6. Authority to make off market purchase of all deferred shares

That the entry by the Company be authorised, pursuant to section 694 of the Companies Act 2006 and article 12 of the Company's Articles of Association, to enter into a contract for the off-market purchase of all of the deferred shares of £0.009 each in its capital for cancellation, provided that:

(a) the contract is on the same terms as the draft contract made available for inspection at the Company's registered office from the date of this Notice until the conclusion of the AGM, and also during the AGM itself; and

(b) the aggregate price payable for all of the deferred shares shall be one pence sterling in accordance with article 3A of the Company's Articles of Association,

and such authority shall expire on the conclusion of the Annual General Meeting of the Company to be held in 2016.

7. Amendments to the Company's Articles of Association

That, subject to the passing of Resolution 6 above and the completion of the off-market purchase of all of the deferred shares of £0.009 each in the capital of the Company referred to in that Resolution, the Articles of Association of the Company be amended as follows:

- Article 1 shall be amended to read as follows:

  "Neither the regulations in Schedule 3 to The Companies (Model Articles) Regulations 2008 (as amended) nor any Table A regulations under any former enactment relating to companies shall apply to the Company."

- The definition of "Act" shall be deleted from Article 2.
- The definition of "Operator" in Article 2 shall be amended to refer to "Euroclear UK & Ireland Limited" in place of "CRESTCO Limited".
- The words "Section 40 of the Act or" shall be deleted from the definition of "Securities Seal" in Article 2.
- The words "the Act" shall be deleted from the definition of "Statutes" in Article 2.
- The words "the Act" in the third last paragraph of Article 2 shall be amended to read "the 2006 Act".
- The words "Sections 162A to G of the Act or" shall be deleted from the last paragraph of Article 2.
- Article 3 shall be amended to read as follows:
- "The issued share capital of the Company as at the date of adoption of these Articles is £460,184.36 divided into 46,018,436 Ordinary Shares of £0.01 each ("Ordinary Shares")."
- Article 3A shall be deleted.
- Article 5 shall be amended to read as follows:

  Subject to the provisions of the Statutes relating to authority, pre-emption rights and otherwise and of any resolution of the Company in General Meeting passed pursuant thereto, the Directors may allot and issue shares (with or without conferring a right of renunciation), grant options over or otherwise dispose of them to such persons, at such times and on such terms as they think proper.

- Article 36 shall be deleted and subsequent Articles shall be re-numbered accordingly.
- The words "and without assigning any reason therefor" shall be deleted from Article 37.
- The word "Extraordinary" shall be deleted from the second paragraph of Article 46.
- The heading of Article 47 shall be amended to read "General Meetings, and both instances of the words "an Extraordinary General Meeting" in that article shall be replaced with the words "a General Meeting".
- The words "an Extraordinary General Meeting" shall be deleted from Article 48.2 and replaced with the words "any other General Meeting".

7. Amendments to the Company's Articles of Association (continued)

- Article 49.3 shall be amended to read as follows:

  "In the case of any General Meeting, the notice shall specify the general nature of such business. If any resolution is to be proposed as a Special Resolution, the notice shall contain a statement to that effect along with the full text of the Special Resolution."

- Article 50 shall be deleted and subsequent Articles shall be re-numbered accordingly.

- The figure of £75,000 in the first sentence of Article 75 will be amended to £115,000.

- Article 82 shall be amended to read as follows:

- "Any provision of the Statutes which would have the effect of rendering any person ineligible for appointment as a Director on account of his not having reached any specified age shall apply to the Company."

- The words "by reason of age" shall be deleted from the first sentence of Article 85.

- Article 86.4 shall be amended to read as follows:
  "Where such Director holds executive office has attained any fixed retirement age applicable to him as holder of such office."

- The words "the Act" in Article 95.1 shall be amended to read "the 2006 Act".

- The words "for the time being in the United Kingdom and" shall be deleted from article 98.

- Article 127.4 shall be amended to read as follows:
  "The Directors shall not proceed with any election unless the Company has sufficient authority to allot and issue shares and sufficient reserves or funds that may be capitalised to give effect to it after the basis of allotment is determined."

- The word "unissued" shall be deleted from the last sentence of Article 127.6

- The words "an Extraordinary" shall be deleted from the first sentence of Article 143 and be replaced with the words "a Special".

The Directors believe that the resolutions described in this Notice are in the best interests of the Company and its shareholders as a whole. They recommend you give them your support by voting in favour of all the resolutions, as they intend to in respect of their own beneficial shareholdings.

19 February 2015
By Order of the Board

Registered Office:
5 Fleet Place
London
EC4M 7RD

WJM Secretaries Limited
Company Secretary

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

Notes

Appointment of proxies
All members holding ordinary shares are entitled to attend, speak and vote at the meeting. Such members may appoint a proxy to attend, speak and vote instead of them. A proxy need not also be a member of the Company but must attend the AGM in order to represent his appointer. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares (so a member must have more than one share to be able to appoint more than one proxy). A form of proxy is enclosed. The notes to the form of proxy include instructions on how to appoint the Chairman of the AGM or another person as proxy. To be effective the form must reach the Company's registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY not less than 48 hours before the time for holding the meeting or adjourned meeting.

Corporate representatives
Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that they do not do so in relation to the same shares.

Record date
Only those persons registered in the register of members of the Company at 6pm on 25 March 2015 (or if the AGM is adjourned, 48 hours before the time fixed for the adjourned AGM) shall be entitled to attend and vote at the AGM in respect of the number of shares registered in their name at that time. Any changes to the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the AGM.

Other matters
Please note that communications regarding the matters set out in this Notice of Annual General Meeting will not be accepted in electronic form.

Voting rights
As at 18 February 2015 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 46,018,435 ordinary shares of £0.01 each which carry one vote each and 720,989,728 deferred shares of £0.009 each which do not carry the right to vote. Therefore, the total voting rights in the Company as at 18 February 2015 are 46,018,435.

Documents available for inspection
The following documents are available for inspection at the Company's registered office during the usual business hours on any weekday (Saturday, Sunday or public holidays excluded) from the date of this Notice until the conclusion of the AGM and will also be available for inspection at the place of the AGM from 10:00AM on the day of the AGM until its conclusion:

(1) draft contract for the off-market purchase of all of the deferred shares in the capital of the Company; and

(2) a print of the Articles of Association of the Company showing proposed amendments.

Explanatory notes to the business of the AGM

The notes on the following pages give an explanation of the proposed resolutions.

Resolutions 1 to 4 inclusive are proposed as ordinary resolutions. This means that for each of these resolutions to be passed, more than half of the votes cast must be in favour of the resolution.

Resolutions 5 to 7 inclusive are proposed as special resolutions. This means that for each of these resolutions to be passed, at least three quarters of the votes cast must be in favour of the resolution.

Resolution 1 – Annual report and accounts

The Directors must lay the Company's accounts, the Directors' report and the Auditor's report before the shareholders in a general meeting. A copy of the accounts and reports are available on the Company's website for investors at http://www.pinn.uk.com.

Resolution 2 – Re-election of Director

Article 84 of the Company's Articles of Association require that one third of the Directors shall retire at each AGM. The Director or Directors to retire are those who have been longest in office since their last re-election or appointment.

Nicholas Scallan is the Director who is required to retire at the AGM. Mr Scallan offers himself for re-election at the AGM.

A biography of each director is included in the annual report and accounts.

Resolution 3 – Appointment and remuneration of Auditor

The Company is required to appoint an auditor at each general meeting at which accounts are laid before the shareholders, to hold office until the end of the next such meeting.

Resolution 3 proposes the appointment of Nexia Smith & Williamson Audit Limited as the Company's auditor and seeks authority for the Directors to decide the auditor's remuneration.

Resolution 4 – Renewal of authority to allot shares

The purpose of this resolution is to confer upon the Directors the power to allot shares. Section 551 of the Companies Act 2006 provides that the Directors may not allot new shares (other than pursuant to employee share schemes) without shareholder approval.

Resolution 4 would give the Directors authority to allot shares up to an aggregate nominal amount equal of £153,394.78. This amount represents approximately one-third of the issued ordinary share capital of the Company as at 18 February 2015, the latest practicable date prior to publication of this Notice.

This authority would expire at the conclusion of the next Annual General Meeting of the Company to be held in 2016, unless previously renewed, revoked or varied by the Company in a general meeting.

The authority sought would comply with the Investment Association's *Share Capital Management Guidelines* (July 2014).

Resolution 5 – Disapplication of pre-emption rights

Section 561(1) of the Companies Act 2006 provides that if the Directors wish to allot any equity securities for cash, the Company must first offer them to existing shareholders in proportion to their existing shareholdings (unless the shares are being allotted in connection with an employee share scheme) (a "pre-emptive offer").

However there may be occasions when the Directors may need the flexibility to finance business opportunities by the issue of ordinary shares without having to make a pre-emptive offer to existing shareholders.

The purpose of this Resolution is to allow the Directors to allot shares for cash as if section 561(1) of the Companies Act 2006 did not apply pursuant to the allotment authority sought in Resolution 4 either:

- where shares are allotted pursuant to a pre-emptive offer - Resolution 5(a)(i); or
- where shares are allotted other than pursuant to a pre-emptive offer – Resolution 5(a)(ii) – such allotments are limited to a total nominal value of £46,018.43, representing approximately 10% of the Company's issued ordinary share capital as at 18 February 2015, the latest practicable date prior to publication of this Notice.

The power conferred by this Resolution would expire at the conclusion of the next Annual General Meeting of the Company to be held in 2016, unless previously renewed, revoked or varied by the Company in a general meeting.

The power sought would comply with the Pre-Emption Group's *Statement of Principles* on *Disapplying Pre-emption Rights* (July 2008).

Resolution 6 – Authority to make off market purchase of all deferred shares

The deferred shares in the capital of the Company have been created as a result of a number of capital reorganisations. The deferred shares do not carry any right to vote or to receive dividends and their right to receive a distribution of capital is such that they may be regarded as having no economic value.

The Company proposes to simplify the Company's share capital by purchasing all of the deferred shares for cancellation in accordance with articles 3A and 12 of its Articles of Association.

The rights attached to the deferred shares set out in article 3A of the Company's Articles of Association allow the Company to purchase all of the deferred shares for the amount of one pence sterling in aggregate. The Company is also authorised to appoint a person to act as agent for all of the holders of the deferred shares to complete the transfer and receive the consideration of one pence sterling on their behalf. Subject to Resolution 6 being passed, the Company proposes to authorise one of the Directors to act as agent for all of the holders of the deferred shares in this regard.

A copy of the draft contract for the purchase by the Company of all the deferred shares for consideration of one pence sterling in aggregate is available for inspection at the Company's registered office from the date of this Notice until the conclusion of the AGM and will also be available for inspection at the AGM.

Resolution 7 - Amendments to the Company's Articles of Association

This Resolution proposes amendments to the Company's Articles of Association.

It is conditional on Resolution 6 being passed by the members since a number of the proposed amendments relate to the removal of references to deferred shares which would be purchased by the Company and cancelled if Resolution 6 is passed.

The Articles of Association are being amended to remove references to authorised share capital and the related concept of unissued shares given that the concept of authorised share capital has been abolished by the Companies Act 2006.

Article 36, which deals with the suspension of the registration of share transfers, is now redundant because section 771 of the Companies Act 2006 requires share transfers to be registered as soon as reasonably practicable.

The Companies Act 2006 has changed the terminology that applies to shareholders' meetings and the term Extraordinary General Meetings is no longer used.

It is not necessary to distinguish between different types of business at shareholders' meetings and so Article 50 is to be deleted.

Article 75 currently restricts the aggregate remuneration of the Company's non-executive directors to £75,000. It is proposed to increase that limit to £115,000 to allow the appointment of an additional non-executive director if the board believes there is an appropriate candidate.

Previously directors were required to retire at age 70 but this is no longer the case and so Articles 82 and 85 are to be amended accordingly.

DIRECTORS, SECRETARY AND ADVISERS

Directors	Dr James Dodd, Non-Executive Chairman Tom Black, Non-Executive Director Nicholas Scallan, Chief Executive Officer
Secretary	WJM Secretaries Limited 302 St Vincent Street Glasgow, G2 5RZ
Company number	05259846
Registered office	5 Fleet Place London EC4M 7RD
Nominated adviser and broker	N+1 Singer LLP 1 Bartholomew Lane London EC2N 2AX
Solicitors	Charles Russell LLP 5 Fleet Place London EC4M 7RD Wright, Johnston & Mackenzie LLP 302 St Vincent Street Glasgow G2 5RZ
Registered auditors	Nexia Smith & Willamson 25 Moorgate London EC2R 6AY
Bankers	HSBC Bank plc Commercial Centre St Clair House Bedford Road Northampton NN4 7AA
Registrars	Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS13 8AE

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