

Pinnacle Technology Group plc ("Pinnacle" or the "Company")
Interim Results for the six months ended 31 March 2014

Pinnacle Technology Group plc (AIM: PINN), the AIM listed IT managed services provider, today announces its unaudited interim results for the six months ended 31 March 2014.

Financial Summary	Unaudited 6 months to 31 Mar 2014 £	Unaudited 6 months to 31 Mar 2013 £
Revenue	4,258,556	5,364,034
Gross Profit	1,271,068	1,599,449
Adjusted EBITDA*	(269,882)	(84,004)
Cash	575,616	2,134,098
Net Assets	1,054,030	3,372,718
Earnings/Loss**	(1,095,624)	(909,360)
Exceptional one-off costs	(294,849)	(100,623)

Operational Highlights

- Revenues of £4,258,556 for the six month period (H1-2013: £5,364,034)
- Recurring revenues remain high at 88% providing a strong base for the Company (H1-2013: 87%)
- Adjusted EBITDA losses of -£269,882 (H1-2013: -£84,004), a reduction from H2-2013 loss of -£685,099.
- Loss for the period is -£1,095,624 (H1-2013: -£909,360), a reduction from H2-2013 loss of -£1,799,983
- The loss in the H1-2014 period arising predominantly by non-trading/non-cash related accounting items.
- Appointment of new Chief Executive officer in March 2014.
- Comprehensive business and operational review underway.

Commenting on the results, Nicholas Scallan, the Pinnacle CEO stated:

“Since I joined Pinnacle in early March, I have been greatly encouraged by our impressive customer base, passionate employees and exciting product capabilities. During that period we have been carefully reviewing the company with three key aims in mind; accelerating a return to profitable revenue growth, sharpening the focus of the business, and continuing to reduce costs. Whilst significant progress in turning the business around will take time to achieve, in looking ahead we believe that this review will result in a leaner, more focused organisation that we are confident will return to profitable revenue growth. The early signs of trading improvement are evident in recent months”.

*Adjusted EBITDA is measured as Earnings before interest, taxation, depreciation, amortisation of intangibles, exceptional costs in relation to acquisition costs, share of results of associates and the embedded fair value adjustment in the convertible loan. H1-2013 = the six months ended 31 March 2013, H2-2013 = the six months ended 30 September 2013, H1-2014 = the six months ended 31 March 2014.

** Loss represents the net loss after tax from continuing operations for the period.

All company announcements can be found at www.pinn.uk.com

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About Pinnacle

Pinnacle Technology Group plc (AIM: PINN) offers a wide range of IT managed services and solutions.

We are specialists in Managed Support Services, Unified Communications and Collaboration, IT Security, Communications and Mobility, Software as a Service (SaaS) and Infrastructure services.

Through the accumulation of years of experience in leading edge innovation, dedicated support, and impartial expertise, Pinnacle is best placed to design and deliver cost effective new technology solutions for its customers. Pinnacle works with some of the most prestigious organisations in the UK, who rely on us to deliver robust, bespoke technical solutions that deliver sustained value.

CHAIRMAN'S STATEMENT

These disappointing results reflect the work-in-progress of a difficult and protracted turnaround for Pinnacle. The current board inherited a substantially loss-making business built up from a wide variety of disparate acquisitions which had never been integrated into an efficient corporate structure. Furthermore time and resource had been committed to an inappropriate sales strategy which resulted in increased costs and declining sales across nearly all segments.

Also, over the last year, a significant proportion of management time has been spent on dealing with the wilful misconduct of various formerly closely associated parties, which has resulted in certain legal actions. As described later in the operational report, court proceedings are in progress.

On a brighter note, under the leadership of the new CEO, the company is undertaking an operational review to conserve cash, accelerate the return to profitable revenue growth, increase the focus of the business, and continue to reduce costs. The early fruits of this review are being seen with an improved trading position in recent months. Underpinning this more positive outlook, Pinnacle Technology retains a strong customer base, engendered by years of trust in our ability to securely deliver innovative IT and communications solutions.

As we continue to implement our focused turnaround strategy, we would like to recognise the support and contribution of all of our customers, suppliers, shareholders and particularly our staff in helping us to achieve positive change.

Dr James Dodd

CHAIRMAN

25 June 2014

BUSINESS AND OPERATIONAL REVIEW

The six month period for H1-2014 reflects the decisions made by the Board to take robust action to reduce on-going costs, particularly in part of the IT Security Solutions business. This is reflected in the reduction in revenues attributable to the segment, which accounted for 81% of the overall decline in group revenues comparing H1-2014 with H1-2013.

Recurring revenues were maintained at the high rate of 88%, which provides the group with a strong platform. Many of Pinnacle Technology's SME customers rely on the group for their IT and communications needs, and this loyalty drives not only the opportunity to maintain recurring revenues but to cross and up-sell to these customers. Customers who take multiple products and services from Pinnacle account for some 45% of the customer base. This is now supported by a sales strategy that more appropriately balances customer contact between 'desk' based sales heads and those out visiting customers in person.

Under the leadership of the new CEO, the company is undertaking a comprehensive business and operational review to accelerate the return to profitable revenue growth, increase the focus of the business, and continue to reduce costs. Pinnacle Technology retains a strong customer base, which has developed enduring trust in our ability to securely deliver innovative IT and communications solutions.

IT Services

Revenue from IT Services for the 6 months to 31 March 2014 was £598,061 (H1-2013 £629,067), representing 14% of revenues.

Pinnacle's approach to IT Services is built upon the design, implementation, ongoing support and maintenance of IT solutions to business customers. Pinnacle Technology can also supply 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 Dell 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. Business customers buying IT Services increased by 4% in the six month period to March 2014, the majority of whom are in Scotland.

Recent customer successes in this segment post the period end include the addition of Aberlour Child Care Trust as a valued new customer; and we are delighted to have secured the renewal of our existing contract with Scottish Autism during May.

Pinnacle has not traditionally sought new customers in this segment outside of Scotland in recent years due to operational constraints. As part of the business and operational review, the opportunity for profitable growth outside of Scotland using the strong Pinnacle IT Services proposition will be tested, without further material operational cost impact.

IT Security Solutions

Revenue from IT Security Solutions for the 6 months to 31 March 2014 was £502,988 (H1-2013 £1,397,246), a decrease from the previous year of 64%. IT Security Solutions represented 11.8% of revenues (H1-2013 26.0%).

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 price competitiveness. 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 CA 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.

This opportunity for stabilisation and sustained revenues in this segment is now clearer- the focus on software with cyclical revenues has not historically leveraged the wider Pinnacle proposition or existing customer base. IT security, including the cyber threat, is a concern relevant to all businesses and the market is maturing beyond end point security solutions to the deployment of broader unified threat management systems (UTM), mobile data protection and security solutions. The requirement for these solutions is frequently accompanied with the need for professional deployment services, customer training and so forth. There is therefore significant commonality developing in the market between Pinnacle's overarching IT Services portfolio, with its emphasis on deployment and ongoing support of a customer's IT infrastructure, and the broad trends in the Security Solutions segment. This therefore represents an opportunity for the business, growing through existing sales channels and harnessing the potential of the Company's operating capabilities.

Pinnacle Technology is delighted that post period end, United Utilities plc upgraded their existing services with the business in May; and recent customer project wins include Baxters Food Group.

Cloud Services and Data Connectivity

Revenue from Cloud Services and data Connectivity for the 6 months to 31 March 2014 was £1,163,537 (H1-2013 £1,209,632), representing 27.3% of revenues (H1-2013 22.6%).

Data connectivity, such as the supply of broadband connections, plays a logical role in the overall Pinnacle proposition. 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. These monthly recurring revenue streams are often part of a wider customer solution or cross-sell to an existing customer. This focus on a value proposition has resulted, for instance, with the renewal (after the end of the half year) of our Secure VPN Service for a national hotel chain, connecting over 50% of their sites in the UK for remote monitoring, sold via the Hentland Group who provide Fire and Security solutions to the UK Hotel and Leisure market sectors.

Pinnacle Technology is also supplying infrastructure for a number of major UK sporting events this summer, on behalf of major broadcasters. Whilst many major sites hosting such events have permanent connectivity in place, a small number of locations- not typically used for broadcast purposes- require temporary connections that Pinnacle is able to service.

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. Pinnacle is pleased to announce that it has 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.

Pinnacom Ltd has been established by a former employee and a well-known industry supplier, both of whom have long standing experience and relationships in the events business. Whilst this arrangement will have initially only a modest but positive cash impact, we are confident their expertise in the sector will produce greater profits for Pinnacle than would otherwise be possible. Pinnacom has recently been awarded contracts for motor sport and major UK festival events.

Telecommunications Services

Revenue from Telecommunications Services for the 6 months to 31 March 2014 was £1,732,561 (H1-2013 £1,853,285) representing 40.7% of revenue (H1-2013 34.6%).

As noted in the FY13 annual report, customer retention rates remain strong but the segment reflects a diminishing market. Price changes and regulatory developments impact this segment, however Pinnacle is protected at the gross margin level to a degree, as being a reseller of services rather than infrastructure owner, wholesale prices are reduced commensurately.

Of note in this segment is the simplification of non-geographic numbers being driven by Ofcom coupled with the EU Directive on Consumer Rights. The latter came in to force in June 2014. It is not expected that there will be a material earnings impact for Pinnacle arising in the short term from the implementation of the EU Directive on Consumer Rights, however it is predicted that it will drive structural change in the usage of non-geographic numbers and Pinnacle is monitoring developments closely.

Mobile Solutions

Our overall proposition to SMEs - endeavoring to provide all the IT and communications needs- is complemented by offering mobile services.

Revenue from Mobile for the 6 months to 31 March 2014 was £261,409 (H1-2013 £274,804), representing 6.1% of revenue (H1-2013 5.1%). Pinnacle continues to derive these revenues from services offered by EE, Vodafone UK, Telefonica O2 and Gamma.

a) FINANCIAL REVIEW

Revenue analysis for the period is as follows:

Analysis of revenue	6 months	6 months	6 months	12 months
	to	to	to	to
	Mar-14	Sep-13	Mar-13	Sep-13
	£	£	£	£
By business sector				
IT Services	598,061	699,911	629,067	1,328,978
IT Security Solutions	502,988	802,740	1,397,246	2,199,986
Cloud Services and Data Connectivity	1,163,537	1,184,828	1,209,632	2,394,460
Telecommunication Services	1,732,561	1,846,212	1,853,285	3,699,497
Mobile Solutions	261,409	240,956	274,804	515,760
Continuing operations	4,258,556	4,774,647	5,364,034	10,138,681

Note: In the full year accounts to September 2013, we revised the classification of a number of products from IT Services into Data Connectivity resulting in the re-statement of revenues by product reported to March 2013.

88% of revenues are now recurring and renewable (H1-2013 87%).

Gross Profit

In the half year we achieved a gross profit of £1,271,068 (H1-2013 £1,599,449) and a gross profit percentage of 29.8% (H1-2013 29.8%).

EBITDA and Net Loss

The Adjusted EBITDA for the period was -£269,882 (H1-2013 -£84,004, H2-2013 -£685,099). This sharp reduction in EBITDA losses reflects the measures taken to improve group profitability described elsewhere in this report.

Whilst we look to minimize the period between investment and payback, it is inevitable that our investment in sales, marketing and operational development of the business will result in short-term losses, until we recoup the investment from sales of new contracted recurring revenues over time.

The net loss in the business is generated predominantly by non-cash accounting items representing Amortisation of Intangible Assets (£195,671), Depreciation (£155,871), Impairment of intangible assets (£261,806), Exceptional costs (£294,849) and Share based payments (£6,961).

Impairment of intangible assets

Where the expected future cash flows from a customer base are lower than originally expected, we make an additional charge to the income statement in the form of impairment. For H1-2014 we have charged £261,806 to the income statement as an impairment. This charge, whilst non-cash affecting, reflects a reduction in future cashflows expected from a hosted product in our Cloud Services and Data Connectivity Segment, and a previous acquisition in the IT Services segment.

Costs relating to acquisitions and restructure

As we continue to rationalise the business for profitable growth, we have incurred a number of one-off staff termination costs and associated legal fees. Exceptional costs for this period equate to -£294,849 (HY1 2013 -£100,623) which includes settlement fees of £118,400 for the former CEO Alan Bonner and write down costs of £32,966 associated with the closure of Aware Distribution Limited. In addition to legal fees incurred of £23,151 in the period, we have also made an additional provision for legal and litigation fees of £98,131 relating to ongoing disputes commenced before and during March 2014.

Administration Expenses

As a result of previous acquisition activities, the group still has legacy integration challenges from a systems and property portfolio perspective and we will take the opportunity to cease property leases when appropriate.

After the end of the half-year period H1-2014, the group exited another staffed premise resulting in ongoing savings to the group of £24,000 p.a. The group now operates principally from three offices (Glasgow, Stoke-on-Trent and Northampton), all of which are appropriate to the business.

Operational expenses for the period were £2,456,108 (H1-2013 £2,681,135) down £225,027, 8% mainly as a result of reduced headcount costs following a restructure in October 2013. On 31st March 2014, the business had headcount of 43 (H1-2013, 68 heads).

This process of cost reduction has continued post the period end and, as at 23rd June, the business had 39 employees including contractors and temporary staff as we move towards profitable growth.

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. As part of those proceedings on 4 April 2014 awards of legal costs were made in favour of Pinnacle Technology. Those court proceedings continue.

Whilst the matter will be an unwelcome distraction for the management team in the short term, the Company and its legal advisors are both confident of success; and are working on maximising the return of legal costs and damages arising from this situation. Regardless, provision is made in full in these Interim results for the estimated legal costs, a figure that has been verified with our legal advisors. 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 Interim results.

Issue of Equity and Cash Balance

On 19th February 2014, the Group raised £449,322, before expenses, from the Company's directors, senior management, CEO designate and certain institutional shareholders through the issue of 4,608,433 new ordinary shares of 1p each at 9.75 pence per ordinary share, representing a small premium to the closing mid-market price on the day. The funds raised were used for general working capital purposes, supporting the net cash outflow from operating activities of £417,828, including the exceptional one-off costs of the re-structure of the business during the period for profitable growth.

Post Period Balance Sheet Events

There have been a number of relevant updates on the business for shareholder's attention following 31st March, and these are detailed throughout this report.

CONSOLIDATED INCOME STATEMENT
for the six month period ended 31 March 2014

	Note	6 months to March 2014 £	6 months to March 2013 £	Year to Sept 2013 £
Revenue	3	4,258,556	5,364,034	10,138,681
Cost of sales		(2,987,488)	(3,764,585)	(6,882,004)
Gross profit		1,271,068	1,599,449	3,256,677
Operating expenses		(2,456,108)	(2,681,135)	(5,692,145)
Operating profit/(loss)		(1,185,040)	(1,081,686)	(2,435,468)
Adjusted EBITDA		(269,882)	(84,004)	(769,103)
Amortisation of Intangible Assets	5	(195,671)	(205,142)	(391,165)
Depreciation		(155,871)	(81,382)	(187,751)
Exceptional costs		(294,849)	(100,623)	(419,536)
Impairment of intangible assets	5	(261,806)	(603,574)	(691,404)
Share based payments		(6,961)	(6,961)	(13,922)
Embedded fair value in convertible loan		-	-	18,529
Share of profit from associate		-	-	18,884
Operating Loss		(1,185,040)	(1,081,686)	(2,435,468)
Interest receivable		615	417	9,532
Interest payable		(7,269)	(14,096)	(13,326)
Net Finance expense		(6,654)	(13,679)	(3,794)
Loss before tax		(1,191,694)	(1,095,365)	(2,439,262)
Taxation		96,070	186,005	(270,081)
Loss for the period from continuing operations	3	(1,095,624)	(909,360)	(2,709,343)
Discontinued operations				
Loss for the period from discontinued operations		-	-	-
Loss for the year attributable to the equity holders of the parent		(1,095,624)	(909,360)	(2,709,343)
Loss per share				
- basic and fully diluted – continuing	4	(3.30)p	(3.83)p	(9.46)p
- basic and fully diluted – discontinued	4	0.00p	0.00p	0.00p
- basic and fully diluted – total	4	(3.30)p	(3.83)p	(9.46)p

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 March 2014

	Note	At March 2014 £	At March 2013 £	At Sept 2013 £
Non-current assets				
Intangible assets	5	1,367,840	2,099,170	1,825,317
Investments in Associated Companies		200,055	181,171	200,055
Property, plant and equipment		298,189	477,979	448,969
Deferred tax asset		-	508,100	-
Total non-current assets		1,866,084	3,266,420	2,474,341
Current assets				
Inventories		122,495	557,818	91,222
Trade and other receivables		1,470,520	1,940,484	1,920,179
Cash and cash equivalents		575,616	2,134,098	587,651
Total current assets		2,168,631	4,632,400	2,599,052
Total assets		4,034,715	7,898,820	5,073,393
Liabilities				
Short term borrowings		(114,475)	(112,651)	(174,719)
Trade and other payables		(1,369,927)	(2,039,545)	(1,483,256)
Other taxes and social security costs		(203,134)	(660,901)	(266,427)
Accruals and other payables		(981,658)	(1,195,682)	(999,474)
Total current liabilities		(2,669,194)	(4,008,779)	(2,923,876)
Non-current liabilities				
Long term borrowings		(24,245)	(82,493)	(47,005)
Deferred tax liability		(287,246)	(435,330)	(383,316)
Total liabilities		(2,980,685)	(4,526,602)	(3,354,197)
Net assets		1,054,030	3,372,218	1,719,196
Equity				
Share capital		6,862,250	6,808,388	6,816,166
Share premium account		6,757,206	6,247,570	6,379,792
Merger reserve	7	283,357	283,357	283,357
Other reserve		73,751	59,830	66,791
Fair value adjustment		(1,064,130)	(1,064,130)	(1,064,130)
Retained earnings	6	(11,858,404)	(8,962,797)	(10,762,780)
Total equity		1,054,030	3,372,218	1,719,196

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six month period ended 31 March 2014

	6 months to March 2014 £	6 months to March 2013 £	Year to Sept 2013 £
Loss for the year from total operations	(1,095,624)	(909,360)	(2,709,343)
Total comprehensive negative income for the year	(1,095,624)	(909,360)	(2,709,343)
Attributable to equity holders of the parent	(1,095,624)	(909,360)	(2,709,343)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for six month period ended 31 March 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	-	-	-	-	-	(1,095,264)	(1,095,624)
Transactions with owners							
Share Issue	46,084	-	-	-	-	-	46,084
Share based payments	-	-	-	6,961	-	-	6,961
Premium on Share Issue	-	403,238	-	-	-	-	403,238
Expenses on Share Issue	-	(25,825)	-	-	-	-	(25,825)
Total Transactions with owners	46,084	377,413	-	6,961	-	-	430,458
Total movements	46,084	377,413	-	6,961	-	(1,095,624)	(665,166)
Equity at 31 March 2014	6,862,250	6,757,205	283,357	73,752	(1,064,130)	(11,858,404)	1,054,030

CONSOLIDATED STATEMENT OF CASH FLOWS
for the six month period ended 31 March 2014

	At March 2014 £	At March 2013 £	At Sept 2013 £
Cash flows from operating activities			
Loss before taxation	(1,191,694)	(1,095,365)	(2,439,262)
<u>Adjustments for:</u>			
Depreciation	155,871	81,382	187,751
Amortisation	195,671	205,142	391,165
Impairment of intangible assets	261,806	603,574	691,404
Share of (profit)/loss from associate	-	-	(18,884)
Share option charge	6,961	6,961	13,922
Fair value adjustment for convertible loan	-	-	(18,529)
Interest expense	6,654	13,679	3,794
Decrease/(increase) in trade and other receivables	449,659	393,661	413,966
Increase in inventories	(31,273)	(194,651)	271,946
Increase/(decrease) in trade payables, accruals and other creditors	(271,483)	(628,821)	(1,449,555)
Net cash flow from operating activities	(417,828)	(614,438)	(1,952,282)
Cash flows from investing activities			
Acquisition of business assets, net of cash acquired	-	(41,277)	-
Capitalisation of software development costs	-	(36,000)	-
Purchase of property, plant and equipment	(5,185)	(30,292)	(141,634)
Sale of property, plant and equipment	-	-	1,821
Interest received	615	417	9,532
Net cash used in investing activities	(4,570)	(107,152)	(130,281)
Cash flows from financing activities			
Issue of shares	449,322	2,950,000	2,950,000
Receipt of invoice discount finance in the period	953,977	1,003,067	2,115,218
Repayment of invoice discount finance in the period	(878,083)	(1,003,164)	(2,389,018)
Repayment of convertible loans and bank loans	(15,096)	(7,548)	(15,096)
Expenses paid in connection with share issue	(25,825)	(62,650)	(62,650)
Payment of finance lease liabilities	(21,419)	(9,921)	(21,419)
Interest paid	(7,269)	(14,096)	(13,326)
Net cash from financing activities	455,607	2,855,688	2,563,709
Net (decrease)/increase in cash	33,209	2,149,726	481,146
Cash at bank and in hand at beginning of period	465,518	(15,628)	(15,628)
Cash at bank and in hand at end of period	498,727	2,134,098	465,518
<u>Comprising:</u>			
Cash at bank and in hand	575,616	2,134,098	587,651
Bank overdrafts	(76,889)	-	(122,133)
	498,727	2,134,098	465,518

NOTES TO THE FINANCIAL STATEMENTS
for the six month period ended 31 March 2014

1. General Information

Pinnacle Technology Group plc is a company incorporated in the United Kingdom under the Companies Act 2006. 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.

2. Basis of preparation

This interim financial information has been prepared in accordance with the Company's accounting policies as disclosed in the financial statements for the year ended 30 September 2013. Pinnacle Technology Group plc is a company incorporated in England (registered number 05259846) and trades in the UK from office locations across England and Scotland.

The address of its registered office is 5 Fleet Place, London, EC4M 7RD and its principal place of business is 1 Queenslie Court, Summerlee Street, Glasgow, G33 4DB. The company is listed on the AIM market of the London Stock Exchange under ticker symbol PINN. The interim statements were approved by the Board of Directors on 25 June 2014.

3. Segment Reporting

The segment information is prepared using accounting policies consistent with those of the Group as a whole and all segments are continuing operations.

In addition to the measurement of recurring and non-recurring contracted revenue streams, the group currently recognises five major segments for monitoring and reporting purposes as follows:

- IT services
- IT Security solutions
- Cloud Services and Data Connectivity
- Telecommunications services
- Mobility Solutions

	6 months to March 2014	6 months to March 2013	12 months to September 2013
	£	£	£
3.1 Analysis of revenue			
By business sector			
IT Services	598,061	629,067	1,328,978
IT Security Solutions	502,988	1,397,246	2,199,986
Cloud Services and Data Connectivity	1,163,537	1,209,632	2,394,460
Telecommunication Services	1,732,561	1,853,285	3,699,497
Mobility Solutions	261,409	274,804	515,760
Continuing operations	4,258,556	5,364,034	10,138,681
Total revenue	4,258,556	5,364,034	10,138,681
By destination			
United Kingdom	4,258,556	5,364,034	10,138,681
Total revenue	4,258,556	5,364,034	10,138,681

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the six month period ended 31 March 2014

3.1 Analysis of revenue (continued)	6 months to March 2014 £	6 months to March 2013 £	12 months to September 2013 £
By origin			
Continuing operations			
Pinnacle Telecom plc	388,578	405,481	736,420
Accent Telecom UK Limited	1,821,049	2,090,490	4,019,338
Solwise Telephony Limited	409,762	572,912	1,155,210
Pinnacle Cloud Solutions Limited	974,652	925,614	1,957,890
RMS Managed ICT Security Limited	636,601	1,131,450	1,842,644
Other group companies	27,914	238,087	427,179
Total revenue	4,258,556	5,364,034	10,138,681
By recurring nature			
Recurring and Renewable - continuing operations	3,750,787	4,684,495	8,658,536
Non-Recurring - continuing operations	507,769	679,539	1,480,145
Total revenue	4,258,556	5,364,034	10,138,681
	6 months to March 2014 £	6 months to March 2013 £	12 months to September 2013 £
3.2 Analysis of net loss after tax			
3.2.1 By business sector			
IT Services			
Adjusted EBITDA	138,147	17,305	32,403
Depreciation	(22,996)	(7,982)	(23,619)
Amortisation	(61,485)	(75,109)	(69,118)
Impairment	(194,698)	-	(75,887)
Exceptional Items	-	-	(27,761)
Finance Costs	(667)	(404)	(951)
(Loss) / Profit from operations before tax	(141,699)	(66,190)	(164,933)
IT Security Solutions			
Adjusted EBITDA	(247,595)	(102,476)	(582,106)
Depreciation	(16,115)	(11,556)	(26,881)
Amortisation	(94,441)	(94,441)	(180,753)
Impairment	-	(603,574)	(531,198)
Exceptional Items	(61,388)	(23,602)	(100,627)
Finance Costs	(989)	(278)	(1,246)
(Loss) / Profit from operations before tax	(420,528)	(835,927)	(1,422,811)
Cloud Services and Data Connectivity			
Adjusted EBITDA	(50,190)	(30,475)	(67,528)
Depreciation	(68,285)	(49,422)	(74,323)
Amortisation	(16,815)	(16,815)	(86,921)
Impairment	(67,108)	-	(67,455)
Exceptional Items	(15,115)	-	(52,902)
Embedded Fair Value in Convertible Loan	-	-	18,529
Finance Costs	(1,222)	(1,013)	(2,072)
(Loss) / Profit from operations before tax	(218,735)	(97,725)	(332,672)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the six month period ended 31 March 2014

3.2 Analysis of net loss after tax (continued)	6 months to March 2014 £	6 months to March 2013 £	12 months to September 2013 £
Telecommunication Services			
Adjusted EBITDA	(106,869)	257,605	(184,598)
Depreciation	(46,381)	(10,359)	(58,463)
Amortisation	(22,950)	(18,777)	(42,897)
Impairment	-	-	(16,864)
Exceptional Items	(204,025)	(72,320)	(221,669)
Finance Costs	(2,874)	(9,222)	(6,222)
(Loss) / Profit from operations before tax	(383,099)	146,927	(530,713)
Mobility Services			
Adjusted EBITDA	(10,316)	16,687	272
Depreciation	(2,094)	(2,063)	(4,463)
Amortisation	-	-	(11,475)
Impairment	-	-	-
Exceptional Items	(14,321)	(4,701)	(16,579)
Finance Costs	(241)	(649)	(608)
(Loss) / Profit from operations before tax	(26,972)	9,274	(32,853)
Head office	95,409	(65,719)	(225,361)
Total losses	(1,095,624)	(909,360)	(2,709,343)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the six month period ended 31 March 2014

3.2 Analysis of net loss (continued)**3.2.2 By destination**

	6 months to March 2014	6 months to March 2013	12 months to September 2013
	£	£	£
United Kingdom	(1,095,624)	(909,360)	(2,709,343)

3.2.3 By origin

	6 months to March 2014	6 months to March 2013	12 months to September 2013
	£	£	£
Pinnacle Telecom plc	(23,724)	(95,940)	(324,019)
Accent Telecom UK Limited	221,812	361,908	48,266
Solwise Telephony Limited	(282,702)	15,090	(155,484)
Pinnacle Cloud Solutions Limited	(272,086)	(40,386)	(375,672)
RMS Managed ICT Security Limited	(185,936)	(762,063)	(800,376)
Head Office and other group companies	(357,317)	(182,827)	(710,893)
Loss from continuing operations before amortisation after Net impairment of intangibles	(899,953)	(704,218)	(2,318,178)
Amortisation	(195,671)	(205,142)	(391,165)
Total losses	(1,095,624)	(909,360)	(2,709,343)

3.2.4 By recurring nature

	6 months to March 2014	6 months to March 2013	12 months to September 2013
	£	£	£
Recurring - continuing operations	(729,384)	(679,110)	(2,279,556)
Non-Recurring - continuing operations	(170,569)	(25,108)	(38,622)
Profit from continuing operations before amortisation after Net Impairment of Intangibles	(899,953)	(704,218)	(2,318,178)
Amortisation	(195,671)	(205,142)	(391,165)
Total losses	(1,095,624)	(909,360)	(2,709,343)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the six month period ended 31 March 2014

4 Loss per share	6 Months to 31 March 2014 £	6 Months to 31 March 2013 £	Audited 12 Months to 30 September 2013 £
Basic and fully diluted	3.30	3.83p	9.46p
Loss attributable to ordinary shareholders	1,095,624	909,360	2,709,343
Weighted average number of shares in issue: Basic and fully diluted	33,230,889	23,712,811	28,631,639

On 15 April 2013, following an ordinary resolution passed at the AGM on 26 March 2013, the Company successfully completed a share capital reorganisation, in which every one hundred existing ordinary Shares of 0.1p each were consolidated into one new ordinary share of 1p each. All voting and dividend rights attached to the new 1p ordinary Shares remaining the same. All earnings per share figures in this document are shown post capital reorganisation.

5. 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. The Group's policy regarding assessing impairment of intangible assets remains the same as disclosed in the financial statements for the year ended 30 September 2012

Prior to 1 October 2010, 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 amended its policy from 1 October 2010 onwards as follows:

	Acquired Prior to 30 September 2008	Acquired 01 October 2008 onwards
- 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 Voice over internet systems to be amortised over a period of	5 years	10 years

	6 Months to 31 March 2014 £	6 Months to 31 March £	Audited 12 months to 30 £
Net intangible assets at start of period	1,825,317	2,907,886	2,907,886
Intangible asset additions		-	-
Impairment in the period	(261,806)	(603,574)	(691,404)
Amortisation in the period	(195,671)	(205,142)	(391,165)
Net intangible assets at period end	1,367,840	2,099,170	1,825,317

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the six month period ended 31 March 2014

6. Profit and loss reserve

	6 Months to 31 March 2014 £	6 Months to 31 March 2013 £	Audited 12 months to 30 September 2013 £
Opening deficit	(10,762,780)	(8,053,437)	(8,053,437)
Loss for the period	(1,095,624)	(909,360)	(2,709,343)
Closing deficit	(11,858,404)	(8,962,797)	(10,762,780)

7. Merger reserve

The Group has taken advantage of the merger relief provisions in relation to the acquisition of Solwise Telephony. 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 the acquisitions.

8. 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 6 month period to 31 March 2014, Accent Telecom UK Limited purchased services totalling £121,784 (6 months to 31 March 2013: £164,743 and 12 months to 30 September 2013: £244,540) from Stripe21 Limited, recorded as cost of sales in the consolidated income statement for each period.

9. Statutory accounts

These financial statements do not constitute statutory accounts. The information is unaudited and has not been reviewed by the auditors. The statutory accounts for the year ended 30 September 2013, contained an unqualified audit report and are filed with the Registrar of Companies.