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 further significant cash outflow from operations in the current year and has subsequently reviewed the markets it operates in and cost savings available. The Board has also reviewed forecasts and sensitised cash flows covering a variety of scenarios, including and excluding the delivery of scale by means of acquisition. Consequently, as described in the Chairman's Statement on Page 3, the Board are in very advanced negotiations with a number of complementary businesses and are currently exploring all fund raising options open to them. Members of the Board have however committed to investing a minimum of £350,000, 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 this review, the Directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for at least the next twelve months from the date of signing the financial statements. Accordingly, the Directors believe that it is appropriate to continue to apply the going concern basis in preparing the financial statements.

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 2015. 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:

- IFRS 9 Financial Instruments (replacement of IAS 39) *
- IFRS 15 Revenue from Contracts with Customers *
- IFRS 16 Leases *

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

The financial statements for the year ended 30 September 2015 were approved by the Board of Directors on 21 January 2016.

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 2015. 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.

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. In accordance with the terms of the Business Partner Agreements disclosed in Note 9.1, the Group accounts for all sales introduced from Business Partners as the principal and recognises both the revenue and cost of sales through the Consolidated Income Statement.

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. 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. In this scenario, the full one-off cost of connection is recorded as a Cost of Sale in the income statement on installation of the service and is offset in the same month, only by the one-off subsidised Revenue amount charged to the customer, where applicable.

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.

c) Revenue and revenue recognition (continued)

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.

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 services
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 Statement of Financial Position on Page 35.

g) Exceptional items

Items that are material and 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.

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 2015, the Group performed a fair-value calculation of its investment in Stripe21 and agreed to impair this investment by £64,892, recognising that the Stripe21 business may not be in a position to pay a cash dividend in the foreseeable future and the goodwill inherent in the underlying investment is impaired. 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.

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

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 estimated 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.

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.

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.

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. Bank overdraft facilities, to the extent that they are utilised, are not offset against cash at bank and in hand and are shown in short-term liabilities in the Consolidated Statement of Financial Position.

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.

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.

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.
- 'Capital redemption reserve' represents the nominal value of cancelled deferred shares.
- '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).

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 £5,475 (2014: £8,383). There were no overdue contributions payable at the reporting date (2014: £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 58% to contract renewals in years one and two and then further diminish this renewal rate by 58% every year, resulting in a less than 1% customer retention ratio in years nine and ten.

t) Critical accounting judgements and key sources of estimation uncertainty (continued)

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 further significant cash outflow from operations in the current year and has subsequently reviewed the markets it operates in and cost savings available. The Board has also reviewed forecasts and sensitised cash flows covering a variety of scenarios, including and excluding the delivery of scale by means of acquisition. Consequently, as described in the Chairman's Statement on Page 2, the Board are in very advanced negotiations with a number of complementary businesses and are currently exploring all fund raising options open to them. Members of the Board have however committed to investing a minimum of £350,000, 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 this review, the Directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for at least the next twelve months from the date of signing the financial statements. Accordingly, the Directors believe that it is appropriate to continue to apply the going concern basis in preparing the financial statements.

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 2015 and 2014 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.
- Mobile Services – 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.

3. Segment Reporting (continued)

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 Adviser 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

	2015 £	2014 £
By operating segment		
IT Services	1,214,851	946,960
IT Security Solutions	1,043,085	1,388,904
Cloud Services and Data Connectivity	2,263,685	2,185,996
Telecommunication Services	2,885,404	3,350,356
Mobile Services	476,615	536,150
Total Revenue	7,883,640	8,408,366

	2015 £	2014 £
Continuing operations	7,883,640	8,408,366
Total revenue	7,883,640	8,408,366

By destination	2015 £	2014 £
United Kingdom	7,883,640	8,408,366
Total revenue	7,883,640	8,408,366

By origin	2015 £	2014 £
Continuing operations		
Pinnacle Telecom plc	1,873,208	694,889
Accent Telecom UK Limited	2,832,967	3,675,017
Solwise Telephony Limited	-	911,686
Pinnacle Cloud Solutions Limited	2,037,066	1,737,871
RMS Managed ICT Security Limited	1,129,250	1,354,693
Other group companies	11,149	34,210
Total revenue	7,883,640	8,408,366

By recurring nature	2015 £	2014 £
Recurring and Renewable - continuing operations	6,688,281	7,427,131
Non-Recurring - continuing operations	1,195,359	981,235
Total revenue	7,883,640	8,408,366

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Segment Reporting (continued)

3.2 Analysis of Operating Loss before tax

3.2.1 By business sector	2015 £	2014 £
IT Services		
EBITDA	(11,095)	198,503
Depreciation	(67,548)	(39,315)
Amortisation	(40,041)	(59,908)
Impairment	(34,126)	(122,831)
Exceptional Items	-	(5,910)
Finance Costs	(1,027)	(2,785)
Loss from operations before tax	(153,837)	(32,246)
IT Security Solutions		
EBITDA	(265,866)	(466,844)
Depreciation	(27,441)	(26,868)
Amortisation	(172,178)	(179,200)
Impairment	(118,860)	(203,213)
Exceptional Items	-	(43,680)
Finance Costs	(227)	(665)
Loss from operations before tax	(584,572)	(920,470)
Cloud Services and Data Connectivity		
EBITDA	204,079	225,414
Depreciation	(61,218)	(140,227)
Amortisation	(51,397)	(78,735)
Impairment	(30,334)	(109,183)
Exceptional Items	-	(22,829)
Finance Costs	(1,042)	(3,780)
Profit / (Loss) from operations before tax	60,088	(129,340)
Telecommunication Services		
EBITDA	(94,768)	(478,483)
Depreciation	(36,759)	(101,141)
Amortisation	(35,328)	(41,380)
Impairment	(7,584)	(27,296)
Exceptional Items	-	(186,388)
Finance Costs	(4,130)	(5,549)
Loss from operations after amortisation	(178,569)	(840,237)
Mobile Services		
EBITDA	98,377	45,221
Depreciation	(4,807)	(4,154)
Amortisation	(11,475)	(11,475)
Exceptional Items	-	(21,802)
Finance Costs	(527)	(498)
Profit from operations after amortisation	81,568	7,292
Head office	(476,720)	141,131
Continuing operations	(1,252,042)	(1,773,870)
Total losses	(1,252,042)	(1,773,870)

3. Segment Reporting (continued)

3.2.2 By Destination

	2015 £	2014 £
United Kingdom	(1,252,042)	(1,773,870)

3.2.3 By origin

	2015 £	2014 £
Pinnacle Telecom plc	(290,946)	(246,891)
Accent Telecom UK Limited	298,158	508,715
Solwise Telephony Limited	-	(197,535)
Pinnacle Cloud Solutions Limited	(152,269)	(438,766)
RMS Managed ICT Security Limited	(286,081)	(517,808)
Head Office and other group companies	(510,484)	(510,886)
Loss from operations before exceptional items	(941,622)	(1,403,171)
Amortisation	(310,420)	(370,699)
Total losses	(1,252,042)	(1,773,870)

3.2.4 By recurring nature

	2015 £	2014 £
Recurring and renewable	(869,453)	(1,314,198)
Non-Recurring	(72,169)	(88,973)
Loss from operations before amortisation.	(941,622)	(1,403,171)
Amortisation	(310,420)	(370,699)
Total losses	(1,252,042)	(1,773,870)

3.2.5 Significant customer revenue

Pinnacle Technology 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 2015 or to September 2014.

4. Operating loss

	2015 £	2014 £
Loss from operations is stated after charging:		
Depreciation of owned assets	(197,773)	(310,849)
Amortisation and impairment to intangibles	(501,323)	(833,221)
Other operating lease rentals:		
– buildings	(81,580)	(82,703)
Auditor's remuneration: - audit of parent company	(16,500)	(15,000)
- audit of subsidiary companies	(47,500)	(30,000)
- non-audit related services	(1,500)	-

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:

	2015 £	2014 £
Interest income resulting from short-term bank deposits	96	918
Finance income	96	918
Interest expense resulting from:		
- Finance leases	3,768	3,567
- Bank overdrafts	3,115	5,373
- Other commercial loans	-	4,346
- Overdue taxation	8	-
Finance costs	6,891	13,286

6. Employee costs

6.1 Directors and employees

At 30 September 2015 the Group employed 35 staff. The average number of staff employed by the Group during the financial year amounted to 42 as follows:

	2015	2014
Number of management staff	11	11
Number of operational staff	31	30
Total	42	41

Employee numbers are stated including Directors.

6.2 Employee remuneration

	2015 £	2014 £
Wages and Salaries	1,459,282	1,553,572
Pension Contributions	5,475	8,383
Share Option Costs	10,330	(34,767)
Social Security Costs	155,131	187,001
Total	1,630,218	1,714,189

6.3. Share-based payments

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 25 March 2025. The approved EMI scheme expires on 13 February 2016 and no further share can be granted under this scheme. The Directors will apply for a new HMRC approved scheme within the next twelve months.

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. Where share options have been granted at an exercise price above zero, the exercise price has been set at a premium of between 15% and 28% of the mid-market price at the time of issue, to ensure shareholder value. .

	2015 Number	2015 Weighted average exercise price P	2014 Number	2014 Weighted average exercise price P
Outstanding at 1 October	1,313,333	19.04p	1,028,788	21.55p
Granted	1,036,614	2.76p	1,000,000	15.60p
Lapsed	(6,667)	300.00p	(715,455)	17.61p
Outstanding at 30 September	2,343,280	10.50p	1,313,333	19.04p

During the year 1,036,614 share options were granted on 25 March 2015 and 6,667 share options granted on 1 December 2003 lapsed in accordance with the share issue documents. At 30 September 2015, Pinnacle Technology Group plc has granted the following outstanding share options:

Date Granted	Balance 2015	Movement during the year	Balance 2014	Exercise Price p	Dates Exercisable	Remaining contractual life (months)
1 December 2003	-	(6,667)	6,667	300.00p	1 December 2005 - 30 November 2014	-
1 June 2008	100,000	-	100,000	13.75p	1 July 2010 - 1 July 2018	33
9 July 2009	206,667	-	206,667	30.00p	9 July 2011 - 9 July 2019	45
26 March 2014	1,000,000	-	1,000,000	15.60p	26 March 2017 – 26 March 2024	102
25 March 2015	367,384	367,384	-	7.80p	25 March 2018 – 25 March 2025	114
25 March 2015	669,230	669,230	-	0.00p	25 March 2018 – 25 March 2025	114

6.3 Share-based payments (continued)

In total £19,016 of share-based remuneration expense has been included in the consolidated income statement for 2015 (2014: credit £34,767).

	Note	2015 £	2014 £
Share Options	6.3	10,330	(34,767)
Share Warrants	6.5	8,686	-
Total		19,016	(34,767)

The fair value of options granted was calculated using the Black Scholes option pricing model, incorporating the following key assumptions:

	2015				
Number of options	669,230	367,384	1,000,000	206,667	100,000
Volatility	75%	75%	75%	75%	75%
Exercise Price (p)	0.00p	7.80p	15.60p	30.00p	13.75p
Spot Price (p)	6.75p	6.75p	13.00p	23.50p	11.00p
Interest rate	2.50%	2.50%	2.50%	4.50%	4.50%
Dividend yield	0%	0%	0%	0%	0%
Vesting period (years)	3	3	3	2	3
Option value weighted average exercise price	11.1p	15.6p	17.7p	24.7p	13.8p
Option value weighted average spot price	10.1p	12.6p	16.8p	19.4p	11.0p

	2014			
Number of options	1,000,000	206,667	100,000	6,667
Volatility	75%	75%	75%	50%
Exercise Price (p)	15.60p	30.00p	13.75p	300.00p
Spot Price (p)	13.00p	23.50p	11.00p	225.0p
Interest rate	2.50%	4.50%	4.50%	4.52%
Dividend yield	0%	0%	0%	0%
Vesting period (years)	3	2	3	1
Option value weighted average exercise price	17.7p	24.7p	13.8p	300.0p
Option value weighted average spot price	16.8p	19.4p	11.0p	225.0p

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)	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	£	£	£	£	£	£	£	£	£	£
Non- Executive										
S Duckworth	7,727	-	-	-	205	-	-	-	7,932	-
T Black	30,000	30,000	-	-	3,021	3,042	-	-	33,021	33,042
J Dodd	42,000	42,000	-	-	4,677	4,698	-	-	46,677	46,698
Executive										
A Bonner	51,478	175,269	-	-	6,554	23,638	-	(30,901)	58,032	168,006
N Scallan	120,000	70,000	-	-	15,115	8,460	11,639	5,195	146,754	83,655
Totals	251,205	317,269	-	-	29,572	39,838	11,639	(25,706)	292,416	331,401

Benefits include the costs of share options issued in accordance with IFRS 2 Share Based Payments to the Directors of the Company as follows:

Name of Director	2015 £	2014 £
N Scallan (appointed 05 March 2014)	11,639	5,195
A Bonner (resigned 26 March 2014)	-	(30,901)

6.5 Share Warrant Instrument

In consideration of its agreement to partially underwrite the Placing of £0.86million on 14 May 2015, MXC Capital were granted warrants over 5% of the Share Capital of the Group. The Warrant Instrument provides that the number of Warrants created under the terms of this Instrument shall at all times be equal to 5% of the issued share capital of the Company. This figure of 5% will be reduced pro rata by any allotment and issue of new Ordinary Shares pursuant to any partial exercise of Warrants during the 7 year exercise period.

The Warrants are exercisable at the price of 6.50p and shall be exercisable over a 7 year period from 28 April 2015 on the following terms:

(i) the Warrants vesting a third per annum over the first 3 years;
(ii) 50 per cent of the Warrants vesting in any year (one third) becoming exercisable immediately and the remaining 50 per cent. of the Warrants only becoming exercisable subject to a 12% per annum compound growth in the Company's share price above 6.50p.

Certain provisions are contained in the warrant instrument to provide for the entire award being exercisable on a takeover of the Company.

6.5 Share Warrant Instrument (continued)

Date Granted	Balance 2015	Movement during the year	Balance 2014	Exercise Price p	Dates Exercisable	Remaining contractual life (months)
28 April 2015	2,959,128	2,959,128	-	6.50p	28 April 2018 to 28 April 2022	79
Totals	2,959,128	2,959,128	-	6.50p		79

The fair value of share warrants was calculated using the Black Scholes option pricing model, incorporating the following key assumptions:

	2015
Number of options	2,959,128
Volatility	75%
Spot Price (p)	6.50p
Interest rate	4.50%
Dividend yield	0%
Vesting period (years)	3
Warrant value weighted average exercise price	6.50p

7. Total and continuing loss per share

	2015 £	2014 £
Loss attributable to ordinary shareholders	(1,252,042)	(1,773,870)
	Number	Number
Weighted average number of ordinary shares in issue	49,924,907	35,604,548
Basic and diluted loss per share (pence)	2.51p	4.98p

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.

8. Intangible assets

Fair value at acquisition	Date of acquisition	2015 £	2014 £
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

8. Intangible assets (continued)

Fair value at acquisition	Date of	2015 £	2014 £
Online Computer Developments Limited – customer	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

Amortisation to date:

	2015 £	2014 £
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)	(136,444)
Accent Telecom UK Limited - customer base	(346,341)	(300,441)
Solwise Telephony Limited - customer base	(184,621)	(155,491)
Multilayer Limited – customer base	(19,122)	(14,622)
MacLellan IT Limited – customer base	(193,878)	(193,878)
Online Computer Developments Limited – customer base	(250,603)	(187,952)
RMS Managed ICT Security Limited – customer base	(672,957)	(504,718)
	(2,621,075)	(2,310,655)

Impairment to date:	2015 £	2014 £
Online Computer Developments Limited – customer base	(190,297)	(162,070)
MacLellan IT Limited – customer base	(408,913)	(408,913)
Solwise Telephony Limited - customer base	(47,608)	-
RMS Managed ICT Security Limited – customer base	(1,108,301)	(993,233)
	(1,755,119)	(1,564,216)
Carrying amount at 30 September	490,773	992,096

8. Intangible assets (continued)

Intangible assets:	2015 £	2014 £
Net intangible assets at 1 October 2014 and 1 October 2013 respectively	992,096	1,825,317
Impairment of intangible assets	(190,903)	(462,522)
Amortisation in period	(310,420)	(370,699)
Net intangible assets at 30 September 2015 and 30 September 2014 respectively	490,773	992,096

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 is to amortise Customer lists, Maintenance contracts, IT and billing systems over a maximum of 10 years from the date of acquisition.

Intangible assets	Goodwill £	Maintenance contracts £	IT and billing systems £	Customer lists £	Total £
Cost					
At 1 October 2013	206,425	100,000	280,000	4,280,542	4,866,967
Additions	-	-	-	-	-
At 1 October 2014	206,425	100,000	280,000	4,280,542	4,866,967
Additions	-	-	-	-	-
At 30 September 2015	206,425	100,000	280,000	4,280,542	4,866,967
Accumulated amortisation					
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 1 October 2014	-	(100,000)	(219,392)	(1,991,263)	(2,310,655)
Charge for the year		-	(13,000)	(297,420)	(310,420)
At 30 September 2015	-	(100,000)	(232,392)	(2,288,683)	(2,621,075)

Impairment	Goodwill £	Maintenance contracts £	IT and billing systems £	Customer lists £	Total £
At 1 October 2013	(206,425)	-	-	(895,269)	(1,101,694)
Charge for the year	-	-	-	(462,522)	(462,522)
At 1 October 2014	(206,425)	-	-	(1,357,791)	(1,564,216)
Charge for the year	-	-	(47,608)	(143,295)	(190,903)
At 30 September 2015	(206,425)	-	(47,608)	(1,501,086)	(1,755,119)
Carrying amount					
At 30 September 2014	-	-	60,608	931,488	992,096
At 30 September 2015	-	-	-	490,773	490,773

8. Intangible assets (continued)

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 57.9% to contract renewals in years one and two and then further diminish this renewal rate by 58% every year, resulting in a less than 1% 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 2015, an impairment provision of £190,903 (2014: £462,522) was considered necessary. The provision at 30 September 2015 related to the customer bases of RMS Managed ICT Security Limited of £115,068 and Online Computer Developments Limited of £28,227. The remaining £47,608 relates to the impairment of the Sipswitch IT platform acquired in January 2010, which lacks some of the more advanced features of other "off the shelf" alternatives on the market.

	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

In accordance with IAS 28 an Associate Company is defined as an entity over which the investor has significant influence, which can be defined as an entity holding directly or indirectly (e.g. through subsidiaries) 20 per cent or more of the voting power of the investee. The Group holds a number of minority investments in trading Company's outside of the Group structure and the Directors carefully consider each investment annually, to ascertain whether the investment and business relationship with each investment company demonstrates a significant influence.

9. Associate company (continued)

The existence of significant influence is usually evidenced in one or more of the following ways:

(a) representation on the board of Directors or equivalent governing body of the investee;
(b) participation in policy-making processes, including participation in decisions about dividends or other distributions;
(c) material transactions between the entity and its investee;
(d) interchange of managerial personnel; or
(e) provision of essential technical information.

As part of the acquisition of Accent Telecom UK Limited in 2009, the Group acquired a 40% investment in the ordinary share capital of Stripe21 Limited, a company registered in England and Wales. The investment in Stripe21 carries a Board position and the ordinary shares rank for dividend alongside all other ordinary shareholders. Accordingly, the Directors consider the investment in Stripe21 to be an Associate Company. During the year, Accent Telecom UK Limited purchased services from Stripe21 Limited totalling £282,864 (2014: £235,674), recorded as cost of sales in the consolidated income statement. Stripe21 made no purchases from Accent Telecom UK Limited (2014: £1,557) during the year.

Historically, the investment in Stripe21 had been accounted for using the equity method, where the investment was initially recognised at cost and had its carrying amount adjusted annually to recognise the Group's share of the profit or loss of Stripe21. On 30 September 2014, the group performed a fair-value calculation of its investment in Stripe21 and agreed to impair this investment value by £34,755, reducing the investment to £165,300 equivalent to the book value of its initial investment in the Associate company.

On 30 September 2015, the group performed a further fair-value calculation of its investment in Stripe21 and agreed to impair this investment by a further £64,892, recognising that the Stripe21 business may not be in a position to pay a cash dividend in the foreseeable future and the goodwill inherent in the underlying investment is impaired. Stripe21 Limited has an accounting reference date of 30 June.

	2015 £	2014 £
Fair value of investment in associated company – Stripe21 Limited	165,300	200,055
Impairment of investment in associated company – Stripe21 Limited in the year	(64,892)	(34,755)
Investment in associated company at 30 September	100,408	165,300

In the year to June 2015, the unaudited management accounts of Stripe21 Limited reported revenue of £533,443 (2014: £525,052) and profit after tax of £62,755 (2014: £78,496), reducing its negative net assets position, created as a result of its high start-up costs, from negative £73,928 to negative £11,173 during the year. Assets reported at June 2015 were £172,907 (2014: £195,180), and liabilities were £184,079 (2014: £269,108). 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.

9.1 Business Partner Arrangements

As part of the acquisition of Accent Telecom UK Limited in 2009, the Group acquired a 30% investment in each of two Company's registered in England and Wales, Accent Telecom North Limited and Accent Telecom South Limited. The trading relationship between these entities and the Group is governed by a Business Partner Agreement, signed between the Group, the entity and their Directors, prior to acquisition by the Group. The investment in each company are in ordinary B shares, which carry Board representation and 30% of the voting rights, but are not entitled to dividend payments. In each case, the Ordinary A shares are held by the Directors of the entities, who have majority voting rights and rights to dividend payments. Given the Group's inability to share in the profits or dividends generated in the Business Partner entities, the Directors have determined that the investments should not be accounted for as Associate Company's.

9.1 Business Partner Arrangements (continued)

The Business Partner Agreements grant the entities Non-Exclusive rights to sell all products and services of the Group, on an open-book basis, with each entity being entitled to a share, ranging from 50% to 80% of the gross profit on any sales introduced to the Group. These costs are shown as Operating Expenses of the Group.

In determining whether these investments should be held as Associate's, the Directors also considered whether a principal or agent arrangement is applicable to either Business Partner entity. Whilst in some cases, the end-user agreement is held between the Business Partner entity and the end-user, the Business Partner Agreement delegates all responsibility for invoicing, collection, servicing and performance of the agreement to the Group. During the year, Gross profit of £292,773 was recorded in the Consolidated Income Statement, in respect of sales to end-user customers where the end-user agreements were in the name of the Business Partners. This Gross profit represents 12.6% of the Gross profit of the Group.

In all cases, in accordance with the terms of the Business Partner Agreements, the Group accounts for sales as the principal and recognises both the revenue and cost of sales through the Consolidated Income Statement. In all cases, Accent Telecom North Limited and Accent Telecom South Limited account for these sales as agent in their annual accounts. The Directors have considered the provisions of IAS 18 and have judged that this is the most appropriate accounting treatment under the Business Partner Agreements.

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 2014	964,324	203,136	99,397	504,079	1,770,936
Additions	77,761	1,350	-	40,691	119,802
Disposals	(681,401)	(151,477)	(50,014)	(60,279)	(943,171)
At 30 September 2015	360,684	53,009	49,383	484,491	947,567

	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Property, plant and equipment (continued)

	IT Equipment	Fixtures and fittings and leasehold improvements	Plant, machinery and motor vehicles	Software and VOIP Platform	Total
	£	£	£	£	£
Depreciation					
At 1 October 2014	904,620	128,661	66,813	443,274	1,543,368
Charge for the year	78,091	5,520	12,666	101,496	197,773
Disposal	(686,894)	(122,170)	(49,895)	(60,279)	(919,238)
At 30 September 2015	295,817	12,011	29,584	484,491	821,903

	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
Net Book value at 30 September 2015	64,867	40,998	19,799	-	125,664
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

11. Deferred tax assets and liabilities

	Deferred tax on acquired Intangibles	Total
	£	£
Deferred tax liability credited at 30 September 2013	383,316	383,316
Adjustments in relation to prior periods charged in the year	(1)	(1)
Credited to income statement	(174,975)	(174,975)
Deferred tax liability at 30 September 2014	208,340	208,340
Adjustments in relation to changes in tax rate	-	-
Credited to income statement	(110,185)	(110,185)
Deferred tax liability at 30 September 2015	98,155	98,155

12. 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 2015	25,108	2,332	-	27,440
As at 30 September 2014	42,390	12,760	-	55,150

Lease payments recognised as an expense during the year amounted to £81,580 (2014: £82,703). 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:

Property	Rented since	Non-cancellable term left
101 Abercorn Street, Paisley	1995	3 months
Victory House, Northampton	2014	7 months
Genesis Centre, Stoke on Trent	2014	3 months
Queenslie Court, Glasgow	2011	8 months

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 £22,307 (2014: £33,305). 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 2015:

	Within 1 year £	1 to 5 years £	More than 5 years £	Total £
Finance lease payments due on IT Equipment	6,606	8,250	-	14,856
Finance lease payments due on Motor Vehicles	7,451	-	-	7,451
Total finance lease payments due	14,057	8,250	-	22,307

Gross finance lease payments, including interest due over the term, equate to £28,494. Of this amount, £18,081 is due within 1 year, and £10,413 in 1 to 5 years.

12.2. Operating leases

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

	2015 £	2014 £
Consumables	6,090	25,102
Work in Progress	1,275	21,176
Inventories	7,365	46,278

14. Trade and other receivables

	2015 £	2014 £
Trade receivables	685,748	841,990
Prepayments and accrued income	775,263	455,475
	1,461,011	1,297,465

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 26 days (2014: 34 days). Trade receivables are stated net of an impairment for estimated irrecoverable amounts of £77,614 (2014: £110,986). 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 2014 was £110,986. During the year £64,448 of bad debt was written off against the provision, and a further provision of £31,076 was made, resulting in a carrying bad debt provision of £77,614 as at 30th September 2015.

At 30 September 2015 trade receivables amounting to £172,323 (2014: £275,210) 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:

	2015 £	2014 £
Not past due (less than 30 days)	377,877	478,468
30 – 59 days	149,743	176,624
60 – 89 days	61,514	49,322
90 – 119 days	46,066	28,506
120 days +	50,548	109,070
	685,748	841,990

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

	2015 £	2014 £
Cash at bank and in hand	640,838	173,240
Bank overdraft facilities	(47,534)	(116,137)
Cash and cash equivalents	593,304	57,103

Cash balances are held with a small number of counter parties. 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 overdraft facility with HSBC is secured by Director guarantee and a fixed and floating debenture over company assets.

16. Trade and other payables

	2015 £	2014 £
Bank overdrafts	47,534	116,137
Bank loans	6,119	11,365
Finance lease liability	22,307	33,305
	75,960	160,807
Less non-current portion of liabilities	(10,079)	(17,148)
Short-term borrowings	65,881	143,659
Trade payables	1,486,429	1,442,538
Invoice finance	75,599	116,986
Accruals and other payables	529,223	498,613
Other taxes and social security costs	158,910	122,942
Total current liabilities	2,316,042	2,324,738

Note 12.1 contains further information on the finance lease liability.

16.1. Long-term borrowings

	2015 £	2014 £
Finance leasing liability – long-term element	8,250	10,072
Commercial loan – long-term element	1,829	7,076
Long-term financial liabilities	10,079	17,148

17. Share capital and reserves

17.1. Share capital

Shares issued and fully paid	2015 £	2014 £
– beginning of year	6,862,250	6,816,166
– issued during year	218,483	46,084
– cancelled – see Capital Redemption Reserve	(6,488,907)	-
Shares issued and fully paid	7,080,733	6,862,250

Share Capital Allotted, called up and fully paid

At 30 September 2013	Ordinary Shares £	Deferred Shares £	Total Equity £
32,725,855 Ordinary shares of £0.01 each	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
8,684,147 Ordinary shares of £0.01 each issued 20 November 2014	86,842	-	86,842
1 Ordinary share of £0.01 issued 27 March 2015	0.01	(6,488,907)	(6,488,907)
13,164,122 Ordinary shares of £0.01 each issued 14 May 2015	131,641	-	131,641
At 30 September 2015	591,826	-	591,826

17.2 Capital Redemption Reserve

At the Company's Annual General Meeting on 27 March 2015, the Company was authorised 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. A single new Ordinary share of £0.01 was issued by the Company on that date to finance the off-market purchase. In accordance with Section 733 of the Companies Act 2006, this cancellation of shares creates a Capital Redemption Reserve. Article 3 of the Companies (Reduction of Share Capital) Order 2008 (SI 2008/1915) allows such reduction to be treated as a realised profit and is therefore may be used to distribute to shareholders or used to buy back shares.

17.3 Retained earnings reserve

	2015 £	2014 £
Retained earnings reserve at 1 October 2014	(12,536,650)	(10,762,780)
Loss for the year	(1,252,042)	(1,773,870)
Retained earnings reserve at 30 September 2015	(13,788,692)	(12,536,650)

17.4 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.

17.5 Share Based Payments (Other Reserve)

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.

17.6. 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 credit represents:	2015 £	2014 £
Origination and reversal of timing differences	110,184	174,975
Deferred tax credit	110,184	174,975

The relationship between expected tax expense based on the effective tax rate of Pinnacle Technology Group plc of 20.5% (2014: 22%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2015 £	2014 £
Result for the year before tax	(1,362,226)	(1,948,845)
Tax rate (21% to 31/03/2015 and 20% from 30/09/2015)	20.5%	22%
Expected tax expenses	(279,256)	(428,747)
Adjustment for:		
Non-deductible expenses	1,981	204
Movement in unprovided deferred tax relating to fixed assets	18,578	44,038
Movement in unprovided deferred tax relating to losses	154,360	201,197
Change in tax rates	(9,920)	-
Adjustments on consolidation – pre-acquisition losses etc	4,073	8,331
Total tax credit	(110,184)	(174,975)

The Group has unrecognised deferred tax assets in respect of tax losses carried forward totalling £1,572,663 (2014: £1,450,569).

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 totaling £282,864 (2014: £235,674) from Stripe21 Limited, recorded as cost of sales in the consolidated income statement. Stripe21 made no purchases from Accent Telecom UK Limited (2014: £2,595) during the year. Whilst not Associated Company's, Accent Telecom UK Limited also holds a 30% share of the equity in Accent Telecom North Limited and Accent Telecom South Limited. These transactions are disclosed in more detail in Note 9.1.

Following the appointment of MXC Capital as financial advisers to the Company in April 2015, the Group purchased services totaling £12,729 during the year (2014: £Nil). MXC Capital acquired 10% of the Group's shares and have warrants over 5% of the Group's shares and is considered to have significant influence over the Group.

In addition to his remuneration, CEO Nicholas Scallan received share based payments of £11,639 in 2015 (2014: £5,195). The bank facility with HSBC is secured by Director guarantee and a fixed and floating debenture over company assets. There are no other related party transactions recorded during the year to 30 September 2015 or to 30 September 2014.

20. Contingent liabilities

There were no contingent liabilities at 30 September 2015 or 30 September 2014.

21. Capital commitments

There were no capital commitments at 30 September 2015 or 30 September 2014.

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 up to £89,000. (2014: £89,000). 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 36.

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)

2015	Loans and receivables £	Non-financial assets £	Total £
Trade and other receivables	685,748	-	685,748
Other current assets	-	7,365	7,365
Cash at bank and in hand	640,838	-	640,838
	1,326,586	7,365	1,333,951

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

	Other financial liabilities at amortised cost £	Other liabilities not within scope of IAS 39 £	Balance Sheet Total £
2015			
Trade and other payables	2,222,095	-	2,222,095
Invoice finance liability – current	75,599	-	75,599
Finance lease liability – current	-	18,081	18,081
Commercial loans – current	4,290	-	4,290
Finance lease liability – non-current	-	10,413	10,413
Commercial loans – non-current	1,830	-	1,830
	2,303,814	28,494	2,332,308

22.5. Risk Management Analysis (continued)	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
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

	£ 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
2015						
Trade payables	726,022	554,477	93,334	112,596	-	1,486,429
Long-term borrowings	715	1,430	2,145	1,830	-	6,120
Finance lease liabilities	2,343	4,686	7,028	8,250	-	22,307
	729,080	560,593	102,507	122,676	-	1,514,856

	£ 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

23. Post balance sheet events

On 7th December 2015 the company announced that Dr. James Dodd would be stepping down from Chairman, on the same day with immediate effect appointed Gavin Lyons as Executive Chairman.

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 2015 which comprise the Parent company balance sheet and the related notes 1 to 14. 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 32, 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 2015;
- 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 2015.

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

21 January 2016

BALANCE SHEET (PARENT COMPANY)
as at 30 September 2015

	Note	2015 £	2014 £
Fixed Assets			
Intangible assets	3	-	-
Tangible assets	4	-	-
Fixed asset investments	5	109,960	1,064,130
Total fixed assets		109,960	1,064,130
Current Assets			
Debtors	6	71,870	513,208
Cash at bank and in hand		543,497	-
Total current assets		615,367	513,208
Creditors: amounts falling due within one year	7	(225,390)	(1,017,277)
Net current assets / (liabilities)		389,977	(504,069)
Total assets less current liabilities		499,937	560,061
Net Assets		499,937	560,061
Capital and reserves			
Called up share capital	9	591,826	6,862,250
Share premium account	12	7,839,475	6,774,870
Capital Redemption Reserve	11	6,488,907	-
Merger reserve		283,357	283,357
Other reserve	10	51,040	-
Profit and loss account	12	(14,754,668)	(13,360,416)
Shareholders' funds	13	499,937	560,061

Approved by the Board and authorised for issue on 21 January 2016.

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 £1,394,252 (2014: £2,664,427).

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 £16,500 (2014: £15,000).

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	2015 £	2014 £
Cost	602,791	602,791
Amortisation		
Brought forward	602,791	120,558
Charge for the year	-	482,233
At 30 September	602,791	602,791
Net book value At 30 September	-	-

4. Tangible fixed assets

	£
Cost	
At 1 October 2014 and at 30 September 2015	6,165
Depreciation	
At 1 October 2014	6,165
Charge for the year	-
At 30 September 2015	6,165
Net book value	
At 30 September 2014 and 30 September 2015	-

5. Fixed asset investments

Cost	
At 1 October 2014	6,931,055
Additions for the year – share based payments	(64,892)
At 30 September 2015	6,866,163
Provisions for diminution in value	
At 1 October 2014	5,866,925
Charge for the year	889,278
At 30 September 2015	6,756,203
Net book value	
At 30 September 2015	109,960

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
Loyal IT Limited (3)	Scotland	Ordinary	100
Glen Group Limited (4)	Scotland	Ordinary	100
ICT Investments Limited (5)	Scotland	Ordinary	100
Multilayer Limited (formerly Pinnacle ICT Limited)	England and Wales	Ordinary	100
Straiton Resourcing Limited (6)	Scotland	Ordinary	100
Straiton Learning Services Limited (7)	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

5. Fixed asset investments (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	(2,487,002)	(124,137)
Pinnacle Technology Consulting Limited (1)	IT consultancy	804,289	-
I G Software Limited	IT consultancy	170,705	-
Pinnacle Telecom plc	Telecommunications	(1,142,635)	(290,946)
Solwise Telephony Limited	Telecommunications	(348,347)	-
Accent Telecom UK Limited	Telecommunications	1,302,604	233,266
Sipswitch Limited	Voice over Internet	(32,652)	(489)
Straiton Group Management Limited (2)	Holding company	(177,411)	-
Loyal IT Limited (3)	Holding company	460,000	-
Online Computer Developments Limited	IT consultancy	(207,656)	-
RMS Managed ICT Security Limited	IT Security	(2,201,032)	(171,013)
Aware Distribution Limited	Retail Distribution	(137,198)	-
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 (4)	Dormant	2	-
ICT Investments Limited (5)	Dormant	24,523	-
Multilayer Limited (formerly Pinnacle ICT Limited)	Dormant	2	-
MacLellan IT Limited (formerly Pinnacle Data Limited)	Dormant	2	-
Straiton Resourcing Limited (6)	Dormant	2	-
Straiton Learning Services Limited (7)	Dormant	2	-

1 Formerly Eclectic Group Limited 2. Formerly Eclectic Holdings Limited 3. Formerly Pinnacle Group Limited
4. Formerly Pinnacle Technology Group Limited 5. Formerly Soluis IT Limited 6. Formerly Eclectic Resourcing Limited
7. Formerly Eclectic Learning Services Limited

6. Debtors

	2015 £	2014 £
Amounts owed by subsidiary undertakings after impairment	-	478,505
Prepayments and accrued income	71,870	34,703
	71,870	513,208

7. Creditors: amounts falling due within one year

	2015 £	2014 £
Trade creditors	121,925	73,951
Other taxes and social security costs	17,845	20,296
Bank Overdraft	-	40,008
Accruals and deferred income	85,620	883,022
	225,390	1,017,277

8. Pension and other post-retirement benefit commitments

No contributions to company pension schemes were made during the year (2014: Nil).

9. Share capital

Shares issued and fully paid	2015 £	2014 £
– beginning of year	6,862,250	6,816,166
– issued during year	218,483	46,084
– cancellation of 720,989,728 deferred shares of £0.009 each	(6,488,907)	-
Shares issued and fully paid	591,826	6,862,250

Share Capital Allotted, called up and fully paid

At 30 September 2013	Ordinary Shares £	Deferred Shares £	Total Equity £
32,725,855 Ordinary shares of £0.01 each	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
8,684,147 Ordinary shares of £0.01 each issued 20 November 2014	86,842	-	86,842
1 Ordinary share of £0.01 issued 27 March 2015	0.01	-	0.01
Cancellation of 720,989,728 Deferred Shares of £0.009 each	-	(6,488,907)	(6,488,907)
13,164,122 Ordinary shares of £0.01 each issued 14 May 2015	131,641	-	131,641
At 30 September 2015	591,826	-	591,826

At the Company's Annual General Meeting on 27 March 2015, the Company was authorised 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. A single new Ordinary share of £0.01 was issued by the Company on that date to finance the off-market purchase.

10. Other Reserve

10.1 Shared 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 25 March 2025. The approved EMI scheme expires on 13 February 2016 and no further share can be granted under this scheme. The Directors will apply for a new HMRC approved scheme within the next twelve months.

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. Where share options have been granted at an exercise price above zero, the exercise price has been set at a premium of between 15% and 28% of the mid-market price at the time of issue, to ensure shareholder value.

10.1 Shared based remuneration (continued)

Share Options	Number	2015 Weighted average exercise price P	Number	2014 Weighted average exercise price P
Outstanding at 1 October	1,313,333	19.04p	1,028,788	21.55p
Granted	1,036,614	2.76p	1,000,000	15.60p
Lapsed	(6,667)	300.00p	(715,455)	17.61p
Outstanding at 30 September	2,343,280	10.50p	1,313,333	19.04p

During the year 1,036,614 share options were granted on 25 March 2015 and 6,667 share options granted on 1 December 2003 lapsed in accordance with the share issue documents. At 30 September 2015, Pinnacle Technology Group plc has granted the following outstanding share options:

Date Granted	Balance 2015	Movement during the year	Balance 2014	Exercise Price p	Dates Exercisable	Remaining contractual life (months)
1 December 2003	-	(6,667)	6,667	300.00p	1 December 2005 - 30 November 2014	-
1 June 2008	100,000	-	100,000	13.75p	1 July 2010 - 1 July 2018	33
9 July 2009	206,667	-	206,667	30.00p	9 July 2011 - 9 July 2019	45
26 March 2014	1,000,000	-	1,000,000	15.60p	26 March 2017 – 26 March 2024	102
25 March 2015	367,384	367,384	-	7.80p	25 March 2018 – 25 March 2025	114
25 March 2015	669,230	669,230	-	0.00p	25 March 2018 – 25 March 2025	114

In total £51,040 of share-based remuneration expense has been included in the consolidated income statement for 2015 (2014:Nil).

	Note	2015 £	2014 £
Share Options	10.1	42,354	-
Share Warrants	10.3	8,686	-
Total		51,040	-

10.1 Shared based remuneration (continued)

The fair value of options granted was calculated using the Black Scholes option pricing model, incorporating the following key assumptions:

	2015				
Number of options	669,230	367,384	1,000,000	206,667	100,000
Volatility	75%	75%	75%	75%	75%
Exercise Price (p)	0.00p	7.80p	15.60p	30.00p	13.75p
Spot Price (p)	6.75p	6.75p	13.00p	23.50p	11.00p
Interest rate	2.50%	2.50%	2.50%	4.50%	4.50%
Dividend yield	0%	0%	0%	0%	0%
Vesting period (years)	3	3	3	2	3
Option value weighted average exercise price	11.1p	15.6p	17.7p	24.7p	13.8p
Option value weighted average spot price	10.1p	12.6p	16.8p	19.4p	11.0p

	2014			
Number of options	1,000,000	206,667	100,000	6,667
Volatility	75%	75%	75%	50%
Exercise Price (p)	15.60p	30.00p	13.75p	300.00p
Spot Price (p)	13.00p	23.50p	11.00p	225.00p
Interest rate	2.50%	4.50%	4.50%	4.52%
Dividend yield	0%	0%	0%	0%
Vesting period (years)	3	2	3	1
Option value weighted average exercise price	17.7p	24.7p	13.8p	300.0p
Option value weighted average spot price	16.8p	19.4p	11.0p	225.0p

10.2 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)	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	£	£	£	£	£	£	£	£	£	£
Non- Executive										
S Duckworth	7,727	-	-	-	205	-	-	-	7,932	-
T Black	30,000	30,000	-	-	3,021	3,042	-	-	33,021	33,042
J Dodd	42,000	42,000	-	-	4,677	4,698	-	-	46,677	46,698
Executive										
A Bonner	51,478	175,269	-	-	6,554	23,638	-	(30,901)	58,032	168,006
N Scallan	120,000	70,000	-	-	15,115	8,460	11,639	5,195	146,754	83,655
Totals	251,205	317,269	-	-	29,572	39,838	11,639	(25,706)	292,416	331,401

10.2 Directors (continued)

Benefits include the costs of share options issued in accordance with IFRS 2 Share Based Payments to the Directors of the Company as follows:

Name of Director	2015 £	2014 £
N Scallan (appointed 05 March 2014)	11,639	5,195
A Bonner (resigned 26 March 2014)	-	(30,901)

10.3 Share Warrant Instrument

In consideration of its agreement to partially underwrite the Placing of £0.86million on 14 May 2015, MXC Capital were been granted warrants over 5% of the Share Capital of the Group. The Warrant Instrument provides that the number of Warrants created under the terms of this Instrument shall at all times be equal to 5% of the issued share capital of the Company. This figure of 5% will be reduced pro rata by any allotment and issue of new Ordinary Shares pursuant to any partial exercise of Warrants during the 7 year exercise period. The Warrants are exercisable at the price of 6.50p and shall be exercisable over a 7 year period from 28 April 2015 on the following terms:

(i) the Warrants vesting a third per annum over the first 3 years;
(ii) 50 per cent. of the Warrants vesting in any year (one third) becoming exercisable immediately and the remaining 50 per cent. of the Warrants only becoming exercisable subject to a 12% per annum compound growth in the Company's share price above 6.50p.

Certain provisions are contained in the warrant instrument to provide for the entire award being exercisable on a takeover of the Company.

Date Granted	Balance 2015	Movement during the year	Balance 2014	Exercise Price p	Dates Exercisable	Remaining contractual life (months)
28 April 2015	2,959,128	2,959,128	-	6.50p	28 April 2018 to 28 April 2022	79
Totals	2,959,128	2,959,128	-	6.50p		79

The fair value of share warrants was calculated using the Black Scholes option pricing model, incorporating the following key assumptions:

	2015
Number of options	2,959,128
Volatility	75%
Spot Price (p)	6.50p
Interest rate	4.50%
Dividend yield	0%
Vesting period (years)	3
Warrant value weighted average exercise price	6.50p

11. Capital Redemption Reserve

At the Company's Annual General Meeting on 27 March 2015, the Company was authorised 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. A single new Ordinary share of £0.01 was issued by the Company on that date to finance the off-market purchase. In accordance with Section 733 of the Companies Act 2006, this cancellation of shares creates a Capital Redemption Reserve. Article 3 of the Companies (Reduction of Share Capital) Order 2008 (SI 2008/1915) allows such reduction to be treated as a realised profit and is therefore may be used to distribute to shareholders or used to buy back shares.

12. Statement of movements on reserves

	Share premium account £	Capital Redemption Reserve £	Profit and loss account £
Balance at 1 October 2014	6,774,870	-	(13,360,416)
Share Premium – premium on shares issued during the year (net of expenses)	1,064,605	-	-
Cancellation of 720,989,728 Deferred Shares of £0.009 each	-	6,488,907	
Loss for the year	-	-	(1,394,252)
Balance at 30 September 2015	7,839,475	6,488,907	(14,754,668)

13. Reconciliation of movements in shareholders' funds

	2015 £	2014 £
Opening shareholders' funds at 1 October	560,061	2,783,326
Loss for the financial year	(1,394,252)	(2,664,427)
Issue of shares on placing	218,483	46,084
Other Reserve – Share Based Payment	51,040	-
Share Premium – premium on shares issued during the year (net of expenses)	1,064,605	395,078
Net depletion in shareholders' funds	(60,124)	(2,223,265)
Closing shareholders' funds at 30 September	499,937	560,061

14. Related party transactions

Following the appointment of MXC Capital as financial advisers to the Company in April 2015, the Group purchased services totaling £12,729 during the year (2014: £Nil). MXC Capital currently hold 10% of the Group's shares and have warrants over 5% of the Group's shares and have warrants over 5% of the Group's shares and is considered to have significant influence over the Group.

In addition to his remuneration, CEO Nicholas Scallan received share based payments of £11,639 in 2015 (2014: £5,195). There are no other related party transactions recorded during the year to 30 September 2015 or to 30 September 2014.

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

DIRECTORS, SECRETARY AND ADVISERS

Directors	Gavin Lyons, Executive Chairman Dr James Dodd, Non-Executive Director Tom Black, Non-Executive Director Simon Duckworth, OBE DL, 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 EC2A 2AX
Solicitors	Charles Russell LLP 5 Fleet Place London EC4M 7RD
	Wright, Johnston & Mackenzie LLP 302 St Vincent Street Glasgow G2 5RZ
Registered auditor	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