STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of the profit or loss of the Group and parent company for that period. In preparing these financial statements, the Directors are required to:

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

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

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

The maintenance and integrity of the Group's web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the information contained in the accounts since they were initially presented on the web site.

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

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

We have audited the group financial statements of Pinnacle Technology Group Plc for the year ended 30 September 2013 which comprise the consolidated income statement, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of comprehensive income, consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of directors' responsibilities set out on page 30, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 30 September 2013 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

Other matter

We have reported separately on the parent company financial statements of Pinnacle Technology Group Plc for the year ended 30 September 2013.

Andrew Howie
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Glasgow

17th February 2014

CONSOLIDATED INCOME STATEMENT
for the year ended 30 September 2013

	Note	Year ended 2013 £	Year ended 2012 £
Revenue	3	10,138,681	12,710,446
Cost of sales		(6,882,004)	(8,750,124)
Gross profit		3,256,677	3,960,322
Operating expenses		(5,692,145)	(5,058,014)
Operating loss		(2,435,468)	(1,097,692)
Adjusted EBITDA		(769,103)	284,554
Profit relating to bargain purchase of OCD		-	140,883
Profit relating to contingent consideration		-	90,000
EBITDA before exceptional costs and restructure costs		(769,103)	515,437
Amortisation of Intangible Assets	8	(391,165)	(464,960)
Depreciation	10	(187,751)	(153,049)
Exceptional costs relating to acquisitions and restructure		(419,536)	(564,292)
Impairment of intangible assets	8	(691,404)	(410,290)
Share based payments	6	(13,922)	(13,921)
Embedded fair value in convertible loan	16	18,529	(11,229)
Share of profit from associate	9	18,884	4,612
Operating Loss		(2,435,468)	(1,097,692)
Interest receivable		9,532	3,257
Interest payable		(13,326)	(21,123)
Net Finance expense	5	(3,794)	(17,866)
Loss before tax		(2,439,262)	(1,115,558)
Taxation	18	(270,081)	218,264
Loss for the period from continuing operations attributable to the equity holders of the parent		(2,709,343)	(897,294)
Loss per share			
- basic and fully diluted	7	(9.46p)	(4.18p)

All losses are attributable to continuing operations. The notes on pages 36 to 67 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 September 2013

	Year ended 2013 £	Year ended 2012 £
Loss for the year from total operations	(2,709,343)	(897,294)
Total comprehensive loss for the year	(2,709,343)	(897,294)
Attributable to equity holders of the parent	(2,709,343)	(897,294)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 September 2013

	Note	2013 £	2012 £
Non-current assets			
Intangible assets	8	1,825,317	2,907,886
Investments in Associated Companies	9	200,055	181,171
Property, plant and equipment	10	448,969	496,954
Deferred tax asset	11	-	508,100
Total non-current assets		2,474,341	4,094,111
Current assets			
Inventories	13	91,222	363,167
Trade and other receivables	14	1,920,179	2,334,145
Cash and cash equivalents	15	587,651	129,229
Total current assets		2,599,052	2,826,541
Total assets		5,073,393	6,920,652
Liabilities			
Short term borrowings		(174,719)	(261,781)
Trade and other payables		(1,483,256)	(2,178,867)
Other taxes and social security costs		(266,427)	(685,449)
Accruals and other payables		(999,474)	(1,574,251)
Total current liabilities	16	(2,923,876)	(4,700,348)
Non-current liabilities			
Long term borrowings	16	(47,005)	(211,702)
Deferred tax liability	11	(383,316)	(621,335)
Total liabilities		(3,354,197)	(5,533,385)
Net assets		1,719,196	1,387,267
Equity			
Share capital	17	6,816,166	5,825,055
Share premium account		6,379,792	4,343,553
Merger reserve		283,357	283,357
Other reserve		66,791	52,869
Fair value adjustment		(1,064,130)	(1,064,130)
Retained earnings		(10,762,780)	(8,053,437)
Total equity		1,719,196	1,387,267

These financial statements were approved and authorised for issue by the Board of Directors on 17 February 2014.
Signed on behalf of the Board of Directors by:

A J Bonner
Chief Executive Officer
The accompanying accounting policies and notes form an integral part of these financial statements.
COMPANY NUMBER: 05259846

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September 2013

	Share Capital	Share premium	Merger Reserve	Other reserve	Fair Value	Retained earnings	Total
At 1 October 2011	5,667,056	4,044,052	283,357	38,948	(1,064,130)	(7,156,143)	1,813,140
Loss and total comprehensive loss for the period	-	-	-	-	-	(897,294)	(897,294)
Transactions with owners							
Share Issue	157,999	-	-	-	-	-	157,999
Share based payments	-	-	-	13,921	-	-	13,921
Premium on Share Issue		312,001					312,001
Expenses on Share Issue	-	(12,500)	-	-	-	-	(12,500)
Total Transactions with owners	157,999	299,501	-	13,921	-	-	471,421
Total movements	157,999	299,501	-	13,921	-	(897,294)	(425,873)
Equity at 30 September 2012	5,825,055	4,343,553	283,357	52,869	(1,064,130)	(8,053,437)	1,387,267
At 1 October 2012	5,825,055	4,343,553	283,357	52,869	(1,064,130)	(8,053,437)	1,387,267
Loss and total comprehensive loss for the period	-	-	-	-	-	(2,709,343)	(2,709,343)
Transactions with owners							
Share Issue	991,111	-	-	-	-	-	991,111
Share based payments	-	-	-	13,922	-	-	13,922
Premium on Share Issue	-	2,098,889	-	-	-	-	2,098,889
Expenses on Share Issue	-	(62,650)	-	-	-	-	(62,650)
Total Transactions with owners	991,111	2,036,239	-	13,922	-	-	3,041,272
Total movements	991,111	2,036,239	-	13,922	-	(2,709,343)	331,929
Equity at 30 September 2013	6,816,166	6,379,792	283,357	66,791	(1,064,130)	(10,762,780)	1,719,196

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

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 30 September 2013

	2013	2012
	£	£
Cash flows from operating activities		
Loss before taxation	(2,439,262)	(1,115,558)
Adjustments for:		
Depreciation	187,751	153,049
Amortisation	391,165	464,960
Impairment of intangible assets	691,404	410,290
Share of (profit)/loss from associate	(18,884)	(4,612)
Share option charge	13,922	13,921
Fair value adjustment for convertible loan	(18,529)	11,229
Bargain purchase of subsidiary	-	(140,883)
Contingent consideration in relation to acquisitions	-	(90,000)
Interest expense	3,794	17,867
Movements on deferred tax	-	(225,403)
(Payment)/Receipt of corporation tax	-	(16,956)
Increase/(decrease) in trade and other receivables	413,966	(13,652)
Increase in inventories	271,946	(33,250)
Increase/(decrease) in trade payables, accruals and other creditors	(1,449,555)	(23,053)
Net cash flow from operating activities	(1,952,282)	(592,051)
Cash flows from investing activities		
Acquisition of business assets, net of cash acquired	-	(356,943)
Purchase of property, plant and equipment	(141,634)	(132,871)
Sale of property, plant and equipment	1,821	-
Interest received	9,532	3,257
Net cash used in investing activities	(130,281)	(486,557)
Cash flows from financing activities		
Issue of shares	2,950,000	365,000
Receipt of invoice discount finance during the year	2,115,218	4,410,761
Repayment of invoice discount finance during the year	(2,389,018)	(4,093,687)
Repayment of convertible loans and bank loans	(15,096)	(15,290)
Expenses paid in connection with share issue	(62,650)	(12,500)
Payment of finance lease liabilities	(21,419)	(22,612)
Interest paid	(13,326)	(21,123)
Net cash from financing activities	2,563,709	610,459
Net (decrease)/increase in cash	481,146	(468,059)
Cash at bank and in hand at beginning of period	(15,628)	452,431
Cash at bank and in hand at end of period	465,518	(15,628)
Comprising:		
Cash at bank and in hand	587,651	129,229
Bank overdrafts	(122,133)	(144,857)
	465,518	(15,628)

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, except for fair value of certain financial instruments. The measurement bases and principal accounting policies of the Group are set out below. The principal accounting policies of the Group have remained unchanged from the previous year.

The Board acknowledges the significant cash outflow from operations in the current year and has undertaken a review during the year which has significantly reduced the group's cost base which can be managed going forward. This has added £420k in restructuring and exceptional costs in the current year and reduced the ongoing cost base by £963k per annum.

The impact of this reduction in costs on the forecasts indicate that there is no requirement for additional funds for the group to continue under its core business model. The current Board, together with the incoming Chief Executive Officer, have however committed to investing a minimum of £175,000 should the business require it in the next twelve months and have signed representations confirming this prior to approval and signing of the group accounts.

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

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

At the date of authorisation of these financial statements, the following new standards, amendments and interpretations are currently in issue but are not effective except for accounting periods commencing after 30 September 2013. 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 (no mandatory effective date)
- IFRS 10 Consolidated Financial Statements (effective 1 January 2013**)
- IFRS 11 Joint Arrangements (effective 1 January 2014**)
- IFRS 12 Disclosure of Interests in Other Entities (effective 1 January 2014**)
- IFRS 13 Fair Value Measurements (effective 1 January 2014**)
- IAS 27 (Revised), Separate Financial Statements (effective 1 January 2014**)
- IAS 28 (Revised), Investments in Associates and Joint Ventures (effective 1 January 2014**)
- Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (effective 1 January 2014)
- IFRIC Interpretation 21 Levies (effective 1 January 2014)
- Transition Guidance - Amendments to IFRS 10, IFRS 11 and IFRS 12 (effective 1 January 2014**)
- Investment Entities - Amendments to IFRS 10, IFRS 12 and IAS 27 (effective 1 January 2014)
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36) (effective 1 January 2014)
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39) (effective 1 January 2014)
- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19) (effective 1 July 2014)

** 1 January 2014 for European Union adoption of IFRS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The financial statements for the year ended 30 September 2013 were approved by the Board of Directors on 17 February 2014.

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 2013. 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 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. 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.

c) Revenue and revenue recognition (continued)

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

The Group recognises five segments for monitoring and reporting purposes:

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

IT Services

Revenue attributable to the maintenance and support of systems is invoiced in accordance with the contract and recognised on a straight-line basis over the support period. Deferred income arises where services are invoiced in advance of performance. The amount is released to the income statement in subsequent periods with reference to the stage of completion of the transaction at the balance sheet date, calculated on a cost basis.

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 balance sheet date. The amount is released to the income statement in subsequent periods with reference to the stage of completion of the transaction at the balance sheet date. The stage of completion is determined using the cost method, which recognises revenues based on the costs incurred at the balance sheet 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 balance sheet date. The stage of completion is determined using the cost method, which recognises revenues based on the costs incurred at the balance sheet date.

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

Telecommunications services

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

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.

c) Revenue and revenue recognition (continued)
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 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 balance sheet date. All exchange differences are recognised in the income statement.

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

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

g) Exceptional items

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

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

Other items presented as exceptional items relate to the share of profit from the associate business Stripe21, where the group recognises a percentage of the profit before tax, by way of its significant shareholding but recognises that it does not have overall control of the performance of that business. 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 years
IT equipment –three years
Fixtures, fittings and leasehold improvements –three years
Motor vehicles –three 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 u) below.

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

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

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

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

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.

n) Financial assets (continued)

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

o) Cash and cash equivalents

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

p) Financial liabilities

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

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

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

q) Equity

Equity comprises the following:

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

r) Employee benefits

Share-Based Payment – Equity settled

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

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 £4,500 (2012: £9,456). There were no overdue contributions payable at the reporting date (2012: £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 77.1% to contract renewals in years one and two and then further diminish this renewal rate by 77% every two years, resulting in a 27.2% customer retention ratio in years nine and ten.

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

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

Going concern

The Board acknowledges the significant cash outflow from operations in the current year and has undertaken a review during the year which has significantly reduced the group's cost base which can be managed going forward. This has added £420k in restructuring and exceptional costs in the current year and reduced the ongoing cost base by £963k per annum.

The impact of this reduction in costs on the forecasts indicate that there is no requirement for additional funds for the group to continue under its core business model. The current Board, together with the incoming Chief Executive Officer, have however committed to investing a minimum of £175,000 should the business require it in the next twelve months and have signed representations confirming this prior to approval and signing of the group accounts.

On 17 February 2014, the group announced the appointment of a new Chief Executive Officer, Nicholas Scallan from 3rd March 2014. Should the strategic review envisaged in 2014 conclude that a growth strategy should be pursued then there is confidence from the Board that additional funds could be raised from a number of shareholders.

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 2013 and revised 2012 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 and consultancy services in order to secure data and assets for corporate and enterprise companies.
- Cloud Services and Data Connectivity – this segment provides leased lines, data connectivity, wireless solutions, data centre and hosting services, VoIP and other cloud based applications to business customers.
- Telecommunication Services – this sector covers a range of telecommunications services including calls, line rental and telephone system maintenance.
- Mobility Solutions – this segment provides a range of mobile services and solutions to SME companies.

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

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

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

The segment information is prepared using accounting policies consistent with those of the Group as a whole.

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

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

3. Segment Reporting (continued)

3.1 Analysis of revenue	2013	2012
	£	£
By operating segment		
IT Services	1,328,978	1,456,063
IT Security Solutions	2,199,986	3,729,640
Cloud Services and Data Connectivity	2,394,460	2,930,336
Telecommunication Services	3,699,497	4,055,705
Mobility Solutions	515,760	538,702
Continuing operations	10,138,681	12,710,446
Total revenue	10,138,681	12,710,446
By destination		
United Kingdom	10,138,681	12,710,446
Total revenue	10,138,681	12,710,446

By origin	2013	2012
	£	£
Continuing operations		
Pinnacle Telecom plc	736,420	1,056,378
Accent Telecom UK Limited	4,019,338	4,234,176
Solwise Telephony Limited	1,155,210	1,678,634
Pinnacle Cloud Solutions Limited	1,957,890	1,217,211
RMS Managed ICT Security Limited	1,842,644	3,574,547
Other group companies	427,179	949,500
Total revenue	10,138,681	12,710,446
By recurring nature		
Recurring and Renewable - continuing operations	8,658,536	10,031,303
Non-Recurring - continuing operations	1,480,145	2,679,143
Total revenue	10,138,681	12,710,446

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3.2 Analysis of net loss after tax

3.2.1 By business sector	2013 £	2012 £
IT Services		
Adjusted EBITDA	32,403	(101,764)
Depreciation	(23,619)	(13,438)
Amortisation	(69,118)	(102,522)
Impairment	(75,887)	-
Exceptional Items	(27,761)	(80,750)
Finance Costs	(951)	(740)
(Loss) / Profit from operations before tax	(164,933)	(299,214)
IT Security Solutions		
Adjusted EBITDA	(582,106)	145,688
Depreciation	(26,881)	(22,101)
Amortisation	(180,753)	(160,966)
Impairment	(531,198)	(280,902)
Exceptional Items	(100,627)	(264,766)
Finance Costs	(1,246)	(1,895)
(Loss) / Profit from operations before tax	(1,422,811)	(584,942)
Cloud Services and Data Connectivity		
Adjusted EBITDA	(67,528)	372,933
Depreciation	(74,323)	(96,309)
Amortisation	(86,921)	(93,281)
Impairment	(67,455)	(129,388)
Exceptional Items	(52,902)	(18,000)
Embedded Fair Value in Convertible Loan	18,529	-
Finance Costs	(2,072)	1,768
(Loss) / Profit from operations before tax	(332,672)	37,723
Telecommunication Services		
Adjusted EBITDA	(184,598)	508,802
Depreciation	(58,463)	(16,895)
Amortisation	(42,897)	(108,191)
Impairment	(16,864)	-
Exceptional Items	(221,669)	-
Finance Costs	(6,222)	(2,061)
(Loss) / Profit from operations after amortisation	(530,713)	381,656
Mobility Services		
Adjusted EBITDA	272	35,769
Depreciation	(4,463)	(4,306)
Amortisation	(11,475)	-
Exceptional Items	(16,579)	
Finance Costs	(608)	(274)
(Loss) / Profit from operations after amortisation	(32,853)	31,189
Head office	(225,361)	(463,706)
Continuing operations	(2,709,343)	(897,294)
Total losses	(2,709,343)	(897,294)

3.2.2 By destination

United Kingdom	(2,709,343)	(897,294)

3.2.3 By origin

	2013 £	2012 £
Pinnacle Telecom plc	(324,019)	(170,419)
Accent Telecom UK Limited	48,266	446,969
Solwise Telephony Limited	(155,484)	33,348
Pinnacle Cloud Solutions Limited	(375,672)	(139,136)
RMS Managed ICT Security Limited	(800,376)	(292,236)
Head Office and other group companies	(710,893)	(310,860)
Loss from continuing operations before exceptional items	(2,318,178)	(432,334)
Amortisation	(391,165)	(464,960)
Total losses	(2,709,343)	(897,294)

3.2.4 By recurring nature	2013 £	2012 £
Recurring and renewable - continuing operations	(2,279,556)	(423,062)
Non-Recurring - continuing operations	(38,622)	(9,272)
Loss from continuing operations before amortisation and discontinued	(2,318,178)	(432,334)
Amortisation	(391,165)	(464,960)
Total losses	(2,709,343)	(897,294)

3.2.5 Significant customer revenue

Pinnacle has a diverse and broad customer base, incorporating both public and private sector business customers, from a wide range of industry sectors, operating in the enterprise, corporate and SME markets. The group was not reliant upon any one single customer to contribute more than 10% of its revenue in the financial year to September 2013 or to September 2012.

4. Operating loss	2013 £	2012 £
Loss from operations is stated after charging:		
Depreciation of owned assets	(187,751)	(153,049)
Other operating lease rentals:		
– buildings	(141,302)	(133,246)
Auditors' remuneration: - audit of parent company	(10,500)	(10,200)
- audit of subsidiary companies	(36,750)	(35,600)

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:

	2013 £	2012 £
Interest income resulting from short-term bank deposits	9,532	3,257
Finance income	9,532	3,257
Interest expense resulting from:		
- Convertible loan	1,200	11,500
- finance leases	3,367	4,892
- bank overdrafts	5,098	3,052
- other commercial loans	2,634	1,579
- overdue taxation	1,027	100
Finance costs	13,326	21,123

6. Employee costs

6.1 Directors and employees

At 30 September 2013 the Group employed 58 staff. The average number of staff employed by the Group during the financial year amounted to 65 as follows:

	2013	2012
Number of management staff	11	10
Number of operational staff	54	55
Total	65	65

Employee numbers are stated including Directors.

6.2 Employee remuneration

	2013 £	2012 £
Wages and salaries	2,151,292	2,197,994
Pension Contributions	4,500	10,120
Share option costs	13,922	13,921
Social security costs	202,563	226,030
Total	2,372,277	2,448,065

6.3. Share-based remuneration

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

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

	2013 Number	2013 weighted average exercise price P	2012 Number	2012 Weighted average exercise price P
Outstanding at 1 October	1,048,788	21.72p	1,048,788	21.72p
Granted	-	-	-	-
Lapsed	(20,000)	30.00p	-	-
Outstanding at 30 September	1,028,788	21.55p	1,048,788	21.72p

During the year 20,000 share options granted on 9 July 2009 lapsed as a result of employee leavers.

At 30 September 2013, Pinnacle Technology Group plc has granted the following outstanding share options:

Date Granted	Balance 2012	Movement during the year	Balance 2013	Exercise Price p	Dates Excercisable	Remaining contractual life
1 December 2003	6,667	-	6,667	300.00p	1 December 2005 - 30 November 2014	14
1 June 2008	645,455	-	645,455	13.75p	1 July 2010 - 1 July 2018	57
9 July 2009	396,667	(20,000)	376,667	30.00p	9 July 2011 - 9 July 2019	69

6.3 Share-based remuneration (continued)

In total £13,922 of share-based remuneration expense has been included in the consolidated income statement for 2013 (2012: £13,921). The fair value of options granted was calculated using the Black Scholes option pricing model, incorporating the following key assumptions:

	2013			2012		
Number of options	376,667	645,455	6.667	396,667	645,455	6,667
Volatility	75%	75%	50%	75%	75%	50%
Spot Price (p)	30.00p	13.75p	300.0p	30.00p	13.75p	300.0p
Interest rate	4.50%	4.50%	4.52%	4.50%	4.50%	4.52%
Dividend yield	0%	0%	0%	0%	0%	0%
Vesting period (years)	2	3	1	2	3	1
Option value weighted average exercise price	185.0p	86.9p	147.0p	185.0p	86.9p	147.0p

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)	
	2013 £	2012 £	2013 £	2012 £	2013 £	2012 £	2013 £	2012 £	2013 £	2012 £
Non- Executive										
W Allan	17,500	35,000	-	-	2,415	4,830	-	-	19,915	39,830
J C Anderson	5,000	10,000	-	-	367	1,380	-	-	5,367	11,380
T Black	15,462	-	-	-	1,072	-	-	-	16,534	-
J Dodd	21,646	-	-	-	1,925	-	-	-	23,571	-
Executive										
A Bonner	85,800	85,800	-	4,100	21,018	12,406	10,860	9,272	117,678	111,578
Totals	145,408	130,800	-	4,100	26,797	18,616	10,860	9,272	183,065	162,788

D Giddens, a director of a subsidiary company received fees during the year of £66,667 (2012: £66,667). Benefits include the costs of share options issued in accordance with IFRS 2 Share Based Payments to the Directors of the Company as follows:

Name of Director	2013 £	2012 £
A J Bonner	7,511	7,512

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Total and continuing loss per share	2013 £	2012 £
Loss attributable to ordinary shareholders	(2,709,343)	(897,294)

	Number	Number
Weighted average number of ordinary shares in issue	28,631,639	21,486,964
Basic and diluted loss per share (pence)	9.46p	4.18p

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

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

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

8. Intangible assets

Fair value at acquisition	Date of	2013 £	2012 £
Explore IT Limited - Maintenance Contracts	04-Sep-2006	100,000	100,000
Pinnacle Telecom plc - billing system	08-Jun-2007	150,000	150,000
Pinnacle Telecom plc - customer base	08-Jun-2007	443,163	443,163
Sports Club Telecom Limited - customer base	25-Jun-2007	123,946	123,946
Colloquium Limited - customer base	04-Jun-2008	136,444	136,444
Accent Telecom UK Limited - customer base	11-Jun-2011	459,000	459,000
Solwise Telephony Limited - customer base	13-Jan-2011	291,300	291,300
Multilayer Limited – customer base	01-Jul-2011	45,000	45,000
MacLellan IT Limited – customer base	10-Aug-2011	602,791	602,791
Online Computer Developments Limited – customer base	06-Oct-2011	626,506	626,506
RMS Managed ICT Security Limited – Goodwill	10-Oct-2011	206,425	206,425
RMS Managed ICT Security Limited – customer base	10-Oct-2011	1,682,392	1,682,392
		4,866,967	4,866,967
Amortisation to date:			
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		(136,445)	(115,978)
Accent Telecom UK Limited - customer base		(254,541)	(208,641)
Solwise Telephony Limited - customer base		(126,361)	(97,231)
Multilayer Limited – customer base		(10,122)	(5,622)
MacLellan IT Limited – customer base		(133,599)	(73,320)
Online Computer Developments Limited – customer base		(125,301)	(62,651)
RMS Managed ICT Security Limited – customer base		(336,478)	(168,239)
		(1,939,956)	(1,548,791)

Impairment to date:	2013 £	2012 £
Online Computer Developments Limited – customer base	(129,388)	(129,388)
MacLellan IT Limited – customer base	(168,638)	-
RMS Managed ICT Security Limited – customer base	(803,668)	(280,902)
	(1,101,694)	(410,290)
Carrying amount at 30 September	1,825,317	2,907,886

Net intangible assets at 1 October	2,907,886	1,267,813
Intangible asset additions	-	2,515,323
Impairment of intangible assets	(691,404)	(410,290)
Amortisation in period	(391,165)	(464,960)
	1,825,317	2,907,886

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

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

Intangible assets

	Goodwill £	Maintenance contracts £	IT and billing systems £	Customer lists £	Total £
Cost					
At 1 October 2011	-	100,000	280,000	1,971,644	2,351,644
Additions	206,425	-	-	2,308,898	2,515,323
At 1 October 2012	206,425	100,000	280,000	4,280,542	4,866,967
Additions	-	-	-	-	-
At 30 September 2013	206,425	100,000	280,000	4,280,542	4,866,967
Accumulated amortisation					
At 1 October 2011	-	(100,000)	(181,446)	(802,385)	(1,083,831)
Charge for the year	-	-	(11,946)	(453,014)	(464,960)
At 1 October 2012	-	(100,000)	(193,392)	(1,255,399)	(1,548,791)
Charge for the year		-	(13,000)	(378,165)	(391,165)
At 30 September 2013	-	(100,000)	(206,392)	(1,633,564)	(1,939,956)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Intangible assets (continued)

Impairment	Goodwill	Maintenance contracts	IT and billing systems	Customer lists	Total
At 1 October 2011 and 1 October 2012	(206,425)	-	-	(203,865)	(410,290)
Charge for the year	-	-	-	(691,404)	(691,404)
At 30 September 2013	(206,425)	-	-	(895,269)	(1,101,694)
Carrying amount					
At 30 September 2012	-	-	86,608	2,821,278	2,907,886
At 30 September 2013	-	-	73,608	1,751,709	1,825,317

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 77.1% to contract renewals in years one and two and then further diminish this renewal rate by 77% every two years, resulting in a 27.2% customer retention ratio in years nine and ten.

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

In performing calculations for the customer bases as at 30 September 2013, an impairment provision of £691,404 (2012: £410,290) was considered necessary. The provision at 30 September 2013 relating to the customer bases of MacLellan IT Limited £168,638 and RMS Managed ICT Security Limited £522,766 and the provision at 30 September 2012 relating to Online Computer Developments Limited £129,388 and RMS Managed ICT Security Limited £280,902.

In calculating the potential future cashflows from MacLellanIT Limited this year, the directors noted that whilst there was no discernable reduction in the retention rates in that acquired customer base, that a revision in the associated costs and expected asset usage over the term resulted in an impairment of £168,638 in this year. For RMS Managed ICT Security Limited, the customer retention ratio fell to 77% in the year, which is 3% lower than the 80% retention rate used in calculating the original intangible asset. This reduction in retention rate, when combined with a revision in the associated costs and expected asset usage over the term, resulted in an impairment of £522,766 in this year.

9. Group Investments

9.1 Principal subsidiary undertakings

	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.

9.2 Associate company

As part of the acquisition of Accent Telecom UK Limited in 2010, the Group acquired a 40% investment in the ordinary share capital of Stripe21 Limited, a company registered in England and Wales. This is being accounted for using the equity method where the investment in Stripe21 was initially recognised at cost and has its carrying amount adjusted to recognise the Group's share of the profit or loss of Stripe21, after the date of acquisition. Stripe21 Limited has an accounting reference date of 30 June.

	2013 £	2012 £
Fair value of investment in associated company – Stripe21 Limited	181,171	176,559
Share of profit/(loss) from associate	18,884	4,612
Investment in associated company at 30 September	200,055	181,171

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 2012	918,676	155,079	55,039	416,727	1,545,521
Additions	35,609	-	50,025	56,000	141,634
Additions by acquisition	-	-	-	-	-
Disposals	-	-	(5,667)	-	(5,667)
At 30 September 2013	954,285	155,079	99,397	472,727	1,681,488

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Property, plant and equipment (continued)

Cost of assets	IT Equipment	Fixtures and fittings and leasehold improvements	Plant, machinery and motor vehicles	Software and VOIP Platform	Total
At 1 October 2011	673,547	142,499	55,039	344,727	1,215,812
Additions	80,405	12,580	-	-	92,985
Additions by acquisition	165,974	-	-	72,000	237,974
Disposals	(1,250)	-	-	-	(1,250)
At 30 September 2012	918,676	155,079	55,039	416,727	1,545,521

	IT Equipment £	Fixtures and fittings and leasehold improvements £	Plant, machinery and motor vehicles	Software and VOIP Platform	Total £
Depreciation					
At 1 October 2012	749,330	121,502	40,826	136,909	1,048,567
Additions by acquisition	-	-	-	-	-
Charge for the year	67,931	4,119	12,037	103,664	187,751
Disposals	-	-	(3,799)	-	(3,799)
At 30 September 2013	817,261	125,621	49,064	240,573	1,232,519

Depreciation	IT Equipment £	Fixtures and fittings and leasehold improvements £	Plant, machinery and motor vehicles £	Software and VOIP Platform £	Total £
At 1 October 2011	615,831	118,273	29,265	64,909	828,278
Charge for the year	133,499	3,229	11,561	72,000	220,289
At 30 September 2012	749,330	121,502	40,826	136,909	1,048,567
Net Book value at 30 September 2013	137,024	29,458	50,333	232,154	448,969
Net Book value at 30 September 2012	169,346	33,577	14,213	279,818	496,954

11. Deferred tax assets and liabilities

	Deferred tax on acquired Intangibles	Deferred tax on tax losses	Total
	£	£	£
Adjustments in relation to prior periods charged in the year	291,597	-	291,597
Recognised on acquisitions	531,046	(216,503)	314,543
Charged / (credited) to income statement	(201,308)	(291,597)	(492,905)
Deferred tax (asset) / liability recognised at 30 September 2012	621,335	(508,100)	113,235

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

12. Leases

12.1. Finance leases

Pinnacle Technology Group plc has finance leases which relate to assets used within the Group. The net carrying amount of the assets held under the leases is £65,668 (2012: £35,137). 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 2013:

	Within 1 year	1 to 5 years	More than 5 years	Total
	£	£	£	£
Finance lease payments due	28,581	38,208	-	66,789

Gross finance lease payments, including interest due over the term, equate to £83,579.

12.2. Operating leases

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

Land and buildings	Within 1 year	1 to 5 years £	More than 5 years £	Total £
As at 30 September 2013	44,813	3,600	-	48,413
As at 30 September 2012	115,279	34,031	-	149,310

Lease payments recognised as an expense during the year amounted to £141,302 (2012: £133,246). No sublease income is expected as all assets held under lease agreements are used exclusively by the Group. The terms left on the non-cancellable leases can be summarised as follows:

	Rented since	Non-cancellable term left
Property		
101 Abercorn Street, Paisley	1995	6 months
Victory House, Northampton	2013	7 months
Home Farm, Kelty	2011	3 months
Innovation Hose, Stoke on Trent	2013	3 months
Queenslie Court, Glasgow	2011	16 months

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

13. Inventories

	2013 £	2012 £
Consumables	76,434	118,457
Work in Progress	14,788	244,710
Inventories	91,222	363,167

14. Trade and other receivables

	2013 £	2012 £
Trade receivables	1,129,097	1,565,333
Prepayments and accrued income	791,082	768,812
	1,920,179	2,334,145

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 38 days (2012: 42 days). Trade receivables are stated net of an impairment for estimated irrecoverable amounts of £139,828 (2012: £130,888). 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.

14. Trade and other receivables (continued)

At 30 September 2013 trade receivables amounting to £400,018 (2012: £531,281) 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:

	2013 £	2012 £
Not past due (less than 30 days)	699,648	939,395
30 – 59 days	198,652	301,437
60 – 89 days	132,294	148,755
90 – 119 days	54,278	98,762
120 days +	44,225	76,984
	1,129,097	1,565,333

14. Trade and other receivables (continued)

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

	2013 £	2012 £
Cash at bank and in hand	587,651	129,229
Bank overdraft facilities	(122,133)	(144,857)
Cash and cash equivalents	465,518	(15,628)

On 6th February 2013, the Group announced that it had issued 883,333,333 of new ordinary shares of 0.1p each to raise £2.65 million before expenses, by way of a placing that was oversubscribed. The funds are being raised from both existing and new investors.

Cash balances are held with a small number of counter parties. The cash figure at 30 September 2013 can be attributed to the additional funds raised by way of the placing above, although the Group continued to manage and forecast cashflows on a specific customer and suppliers basis throughout the year, and particularly at the year end. The majority of bank accounts are held with HSBC plc. The bank facility with HSBC is secured by Directors guarantee and a fixed and floating debenture over company assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16.1. Trade and other payables	2013	2012
	£	£
Bank overdrafts	122,133	144,857
Payments in relation to acquisition of RMS Managed ICT Security Ltd	-	259,319
Bank loans	32,802	32,899
Finance lease liability	66,789	36,408
	221,724	473,483
Less non-current portion of liabilities	(47,005)	(211,702)
Short-term borrowings	174,719	261,781
Trade payables	1,483,256	2,178,867
Invoice finance	43,274	317,075
Commercial loans – short term element	9,004	15,290
Accruals and other payables	932,196	1,159,332
Effective repayment to acquire investment – short term element	-	82,554
Convertible loan notes – short term element	15,000	-
Other taxes and social security costs	266,427	685,449
Total current liabilities	2,923,876	4,700,348

Note 12.1 contains further information on the finance lease liability.

The fair values of the trade and other payables has not been disclosed as due to their short duration, management considers the carrying amounts recognised in the Statement of Financial Position to be a reasonable approximation of their fair value.

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

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

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

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

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

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

Convertible Loan Notes	2013 £	2012 £
i. 30 September 2009 unsecured loan notes (units of £5,000) Maximum issuable value £250,000		
Balance at 1 October	15,000	143,529
Fair value adjustment - embedded derivative	-	-
Redeemed in the year for cash	-	(5,000)
Converted to equity in the year	-	(123,529)
Balance at 30 September	15,000	15,000

	2013 £	2012 £
ii. 6 October 2011 unsecured loan notes (units of £2,000) Maximum issuable value £500,000		
Balance at 1 October	111,229	-
(Cancelled)/issued - Acquisition of RMS Managed ICT Security Limited	(100,000)	100,000
Fair value adjustment - embedded derivative	(11,229)	11,229
Balance at 30 September	-	111,229
Convertible Loan Note Balance	15,000	126,229

16.2. Long-term borrowings	2013 £	2012 £
Convertible loan notes – long term element	-	126,229
Finance leasing liability – long-term element	38,207	17,328
Commercial loan – long term element	8,798	19,264
Effective repayment to acquire investment – long term element	-	48,881
Long-term financial liabilities	47,005	211,702

17. Share capital and reserves

17.1. Share capital

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17.1. Share capital (continued)

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

Shares issued and fully paid	2013 £	2012 £
– beginning of year	5,825,055	5,667,056
– issued during year	991,111	157,999
Shares issued and fully paid	6,816,166	5,825,055
Shares authorised but not issued at 30 September	2,183,834	3,174,945
Total equity shares authorised at 30 September	9,000,000	9,000,000

Total equity shares authorised

At 30 September 2011 and 30 September 2012	Ordinary Shares £	Deferred Shares £	Total Equity £
2,386,420,000 Ordinary shares of £0.001 each	2,386,420	-	2,386,420
3,000,000,000 Ordinary shares of £0.001 each authorised 31 March 2011	3,000,000	-	3,000,000
401,508,895 Deferred Shares of £0.009 each	-	3,613,580	3,613,580
	5,386,420	3,613,580	9,000,000
100:1 Share Conversion on 26 March 2013			
5,386,420,000 Ordinary shares of £0.001 each, converted:	(5,386,420)	-	(5,386,420)
into 53,864,200 Ordinary shares of £0.01 each	538,642	-	538,642
into 538,642,000 Deferred Shares of £0.009 each	-	4,847,778	4,847,778
At 30 September 2013	538,642	8,461,358	9,000,000

Allotted, called up and fully paid

At 30 September 2011	Ordinary Shares £	Deferred Shares £	Total Equity £
2,025,427,905 Ordinary shares of £0.001 each	2,025,428	-	2,025,428
186,047,091 Ordinary shares of £0.001 each issued during the year	186,047	-	186,047
401,508,895 Deferred Shares of £0.009 each	-	3,613,580	3,613,580
At 30 September 2012	2,211,475	3,613,580	5,825,055
100,000,000 Ordinary shares of £0.001 each issue 10 December 2012	100,000	-	100,000
883,333,333 Ordinary shares of £0.001 each issued 6 February 2013	883,333	-	883,333
At 26 March 2013			
3,194,808,329 Ordinary shares of £0.001 each, converted:	(3,194,808)	-	(3,194,808)
into 31,948,077 Ordinary shares of £0.01 each	319,481	-	319,481
into 319,480,833 Deferred Shares of £0.009 each	-	2,875,327	2,875,327
777,778 Ordinary shares of £0.01 each issued 27 September 2013	7,778		
At 30 September 2013	327,259	6,488,907	6,816,166

17.2 Share premium	2013 £	2012 £
Balance brought forward	4,343,553	4,044,052
Share premium on private placing for shares	2,098,889	243,333
Share premium on conversion of loan notes	-	68,668
Less broker fees relating to placing	(62,650)	(12,500)
Balance carried forward	6,379,792	4,343,553

17.3 Retained earnings reserve

	2013 £	2012 £
Retained earnings reserve at 1 October 2011	(8,053,437)	(7,156,143)
Loss for the year	(2,709,343)	(897,294)
Retained earnings reserve at 30 September 2012	(10,762,780)	(8,053,437)

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. Fair Vale Adjustment

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

18. Income tax

The tax (charge)/rebate represents:	2013 £	2012 £
UK corporation tax on profits of the period	-	-
Total current tax	-	-
Adjustment for overprovision in prior periods	-	16,956
Origination and reversal of timing differences	(270,081)	201,308
Tax (charge)/rebate	(270,081)	218,264

18. Income tax (continued)

The relationship between expected tax expense based on the effective tax rate of Pinnacle Technology Group plc of 21% (2012: 23%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2013 £	2012 £
Result for the year before tax	(2,439,262)	(1,115,558)
Tax rate (24% to 31/03/2013 and 23% from 30/09/2013)	23.5%	25%
Expected tax expenses	(573,227)	(278,890)
Adjustment for:		
Non-deductible expenses	7,962	204,503
Non taxable gain relating to acquisitions	-	(57,721)
Movement in unprovided deferred tax relating to fixed assets	33,742	13,146
Movement in unprovided deferred tax relating to losses	297,039	(149,622)
Release of deferred tax asset provided on losses	508,100	-
Change in tax rates	25,074	-
Tax losses carried forward	-	-
Adjustments on consolidation – pre-acquisition losses etc	(17,930)	33,364
Prior year adjustments	(10,679)	16,956
Actual tax payable/(rebate) net	(270,081)	218,264

The Group has unrecognised deferred tax assets in respect of tax losses carried forward totalling £1,406,071 (2012: £693,805).

19. Related party transactions

As part of the acquisition of Accent Telecom UK Limited, the Group acquired a 40% share of the equity of an associated company, Stripe21 Limited. During the year, Accent Telecom UK Limited purchased services totalling £244,540 (2012: £279,336) from Stripe21 Limited, recorded as cost of sales in the consolidated income statement. In addition, Stripe21 purchased telecom services from Accent Telecom UK Limited of £1,557 (2012: £7,474) during the year of which none remained an unpaid trade receivable at year end.

In addition to his remuneration, CEO Alan Bonner received share based payments of £7,511 in 2013 (2012: 7,512). On 1 February 2013, Pinnacle Technology Group plc made a payment of £37,000 to the Witness Corporation Limited, a company in which Non-Executive Chairman Dr James Dodd is involved, for consultancy fees relating to the acquisition of RMS Managed ICT Limited in October 2011. There are no other related party transactions recorded during the year to 30 September 2013 or to 30 September 2012.

20. Contingent liabilities

There were no contingent liabilities at 30 September 2013 or 30 September 2012.

21. Capital commitments

There were no capital commitments at 30 September 2013 or 30 September 2012.

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 a reported in the principal risks and uncertainties contained within the Strategic Report on Page 16.

22.1. Cash and liquidity risk

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

22.2. Interest rate risk

The interest rate on the Group's cash at bank is determined by reference to the bank rate. The Group has agreed bank overdraft and credit card facilities with HSBC of £89,000 and HBoS of £65,000. (2012: £154,000). The interest rate charged on finance leases and commercial loan is a fixed rate agreed at the time of signing the agreement.

22.3. Capital risk management

The Group's policy on capital structure is to maintain a level of gross cash available, which the Board considers to be adequate to fund a range of potential EBITDA movements, taken from a series of business projections, that allow the Group to invest in areas that may deliver future benefit to investors and to fund its existing operations. Consequently, the Group makes use of banking facilities, invoice discount finance and finance lease arrangements to help fund any capital requirements, in order to maintain that level of gross cash. The group currently has £189,000 of bank facilities available with HSBC and HBoS. 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.

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 34.

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 a 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 early 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 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.

When managing capital, the Group's objectives are to safeguard the Group's ability to continue as a going concern in order to provide returns for the shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. This includes aspects of managing the credit rating. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 15 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:

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

2012	Loans and receivables £	Non-financial assets £	Total £
Trade and other receivables	1,565,333	-	1,565,333
Other current assets	-	363,167	363,167
Cash at bank and in hand	129,229	-	129,229
	1,694,562	363,167	2,057,729

	Other financial liabilities at amortised cost £	Other liabilities not within scope of IAS 39 £	Balance Sheet Total £
2013			
Trade and other payables	2,828,017	-	2,828,017
Deferred tax liability	-	383,316	383,316
Invoice finance liability – current	43,274	-	43,274
Finance lease liability – current	-	28,581	28,581
Commercial loans – current	9,004	-	9,004
Convertible loan notes – current	15,000	-	15,000
Finance lease liability – non-current	-	38,207	38,207
Commercial loans – non-current	8,798	-	8,798
	2,904,093	450,104	3,354,197

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22.5. Risk Management Analysis (continued)

	Other financial liabilities at amortised cost £	Other liabilities not within scope of IAS 39 £	Balance Sheet Total £
2012			
Trade and other payables	4,140,121	-	4,140,121
Deferred tax liability	-	621,335	621,335
Invoice finance liability – current	317,075	-	317,075
Finance lease liability – current	-	19,080	19,080
Commercial loans – current	15,290	-	15,290
Deferred Consideration – RMS Managed ICT Security Ltd - current	82,554	-	82,554
Convertible loan notes – non-current	115,000	11,229	126,229
Finance lease liability – non-current	-	17,328	17,328
Commercial loans – non-current	17,608	-	17,608
Deferred Consideration – RMS Managed ICT Security Ltd – non-current	176,765		176,765
	4,864,413	668,972	5,533,385

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

	£ 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
2012						
Trade payables	1,921,863	191,641	19,163	46,200	-	2,178,867
Long-term borrowings	-	-	-	115,000	-	115,000
Finance lease liabilities	3,180	6,360	9,540	17,328	-	36,408
	1,925,043	198,001	28,703	178,528	-	2,330,275

23. Post balance sheet events

Management Change planned

On 6 December 2013 the Board issued a trading update for the financial results to 30 September 2013. In the announcement Alan Bonner announced his intention to seek a successor for the Pinnacle Chief Executive role. In the announcement Alan Bonner was hopeful that the Board could soon appoint a new Chief Executive to help us achieve our objectives, ensuring a smooth transition in the best interests of our customers, staff and all other stakeholders.

Closure of Aware Distribution

On 31 October 2013, all trading activity in Aware Distribution Limited was ceased. As part of the strategic review carried out by the Group in July 2013, the retail software distribution business was deemed to be non-core and so the decision was taken to wind down all business activities with closure targeted for 31 October 2013. This objective was achieved and the business became dormant at 31 October 2013. Aware Distribution Limited contributed £427,179 of revenue in 2013 (2012: £155,093) and made an operating losses in 2013 of £101,511 (2012: £9,353).

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 2013 which comprise the parent company balance sheet and the related notes. 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 30, 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 Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

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 2013;
- 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 opinion:

- 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 2013.

Andrew Howie
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP, Statutory Auditor, Chartered Accountants, Glasgow 17th February 2014

BALANCE SHEET (PARENT COMPANY)
as at 30 September 2013

	Note	2013 £	2012 £
Fixed Assets			
Intangible assets	3	482,233	542,512
Tangible assets	4	-	-
Fixed asset investments	5	1,064,130	1,064,130
Total fixed assets		1,546,363	1,606,642
Current assets			
Debtors	6	1,708,100	2,114,869
Cash at bank and in hand		548,850	8,648
Total current assets		2,256,950	2,123,517
Creditors: amounts falling due within one year	7	(1,019,987)	(1,115,392)
Net current (liabilities) / assets		1,236,963	1,008,125
Total assets less current liabilities		2,783,326	2,614,767
Creditors: amounts falling due after one year	8	-	(163,370)
		2,783,326	2,451,397
Capital and reserves			
Called up share capital	10	6,816,166	5,825,055
Share premium account	11	6,379,792	4,343,553
Merger reserve		283,357	283,357
Profit and loss account	11	(10,695,989)	(8,000,568)
Shareholders' funds	12	2,783,326	2,451,397

Approved by the Board and authorised for issue on 17 February 2014.

A J Bonner
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 and cash flow statement

The Parent Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account and cash flow statement in the financial statements. The Parent Company's loss for the year was £2,695,421.
(2012: £883,372).

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 £10,500 (2012: £10,200).

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 is being amortised to the profit and loss account of the parent company over 10 years on a straight line basis.

Intangible Assets	£
Cost	
At 1 October 2012 and at 30 September 2013	602,791
Depreciation	
At 1 October 2012	60,279
Charge for the year	60,279
At 30 September 2013	120,558
Net book value	
At 30 September 2012	542,512
Net book value	
At 30 September 2013	482,233

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

4. Tangible fixed assets	£
Cost	
At 1 October 2012 and at 30 September 2013	6,165
Depreciation	
At 1 October 2012	6,165
Charge for the year	-
At 30 September 2013	6,165
Net book value	
At 30 September 2012 and 30 September 2013	-

Note: On 1 August 2011, the Group acquired tangible assets of £66,976 as part the acquisition of business and assets of MacLellan IT Limited and these were transferred to Pinnacle Cloud Solutions Limited at book value and are recorded in the statutory accounts of that company.

5. Fixed asset investments	Shares in subsidiary undertakings £
Cost	
At 1 October 2012	6,951,900
Additions for the year – share based payments	13,922
At 30 September 2013	6,965,822
Provisions for diminution in value	
At 1 October 2012	5,887,770
Charge for the year	13,922
At 30 September 2013	5,901,692
Net book value	
At 30 September 2013	1,064,130

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
Sports Club Telecom Limited	Scotland	Ordinary	100

5. Subsidiary undertakings (continued)

Company	Country of registration or incorporation	Shares held Class	%
Colloquium Limited	Scotland	Ordinary/Preference	100
MacLellan IT Limited (formerly Pinnacle Data Limited)	England and Wales	Ordinary	100
Straiton Group Management Limited (2)	Scotland	Ordinary	100
Pinnacle Group Limited	Scotland	Ordinary	100
Glen Group Limited (3)	Scotland	Ordinary	100
ICT Investments Limited	Scotland	Ordinary	100
Multilayer Limited (formerly Pinnacle ICT Limited)	England and Wales	Ordinary	100
Straiton Resourcing Limited	Scotland	Ordinary	100
Straiton Learning Services Limited	Scotland	Ordinary	100
Accent Telecom UK Limited	England and Wales	Ordinary	100
Sipswitch Limited	England and Wales	Ordinary	100
Solwise Telephony Limited	England and Wales	Ordinary	100
Online Computer Developments Limited	Scotland	Ordinary	100
Aware Distribution Limited	England and Wales	Ordinary	100
RMS Managed ICT Security Limited	England and Wales	Ordinary	100

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

Company	Principal activity	Capital and reserves 2013 £	Profit/(loss) for the year 2013 £
Pinnacle Cloud Solutions Limited	Telecommunications / IT services	(2,610,302)	(248,505)
Pinnacle Technology Consulting Limited (1)	IT consultancy	804,289	-
I G Software Limited	IT consultancy	170,705	-
Pinnacle Telecom plc	Telecommunications	(372,857)	(324,019)
Solwise Telephony Limited	Telecommunications	(150,912)	(155,484)
Accent Telecom UK Limited	Telecommunications	560,623	48,266
Sipswitch Limited	Voice over Internet	(26,346)	-
Straiton Group Management Limited (2)	Holding company	(177,411)	-
Pinnacle Group Limited	Holding company	460,000	-
Online Computer Developments Limited	IT consultancy	(207,656)	-
RMS Managed ICT Security Limited	IT Security	(1,701,776)	(232,317)
Aware Distribution Limited	Retail Distribution	(148,796)	(139,443)
Explore IT Limited	Dormant	(242,394)	-
Pinnacle Mobile Limited	Dormant	(73,401)	-
Sports Club Telecom Limited	Dormant	33,185	-
Colloquium Limited	Dormant	(230,637)	-
Glen Group Limited (3)	Dormant	2	-
ICT Investments Limited	Dormant	24,522	-
Multilayer Limited (formerly Pinnacle ICT Limited)	Dormant	2	-
MacLellan IT Limited (formerly Pinnacle Data Limited)	Dormant	2	-
Straiton Resourcing Limited	Dormant	2	-
Straiton Learning Services Limited	Dormant	2	-

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

6. Debtors

	2013 £	2012 £
Amounts owed by subsidiary undertakings	1,671,352	2,072,571
Prepayments and accrued income	36,748	42,298
	1,708,100	2,114,869

7. Creditors: amounts falling due within one year

	2013 £	2012 £
Trade creditors	72,735	89,563
Other taxes and social security costs	37,693	124,642
Convertible loan notes – short term element	15,000	-
Deferred consideration on acquisition of RMS Managed ICT Security Limited – short term element	-	84,720
Accruals and deferred income	894,559	816,467
	1,019,987	1,115,392

8. Creditors: amounts falling due after more than one year

	2013 £	2012 £
Convertible loan notes – long term element	-	115,000
Deferred consideration on acquisition of RMS Managed ICT Security Limited –long term element	-	48,370
Analysis of loans		
Wholly repayable within five years	-	163,370

On 30 September 2009, Pinnacle created £250,000 unsecured convertible loan notes in units of £5,000. On 30 September 2009, notes for a nominal value of £125,000 were issued at par. On 20th October 2011, in accordance with the terms, £105,000 of loan notes were converted into ordinary shares of Pinnacle at a price of 31.5p each, representing a discount of 15% to the closing price on the day prior to conversion. The loan notes are not transferable and may be redeemed (in whole or in part) by Pinnacle, at its sole discretion, at any time. The loan notes become repayable on demand in the event of a specified default by Pinnacle.

On 6 October 2011, Pinnacle created a further £500,000 unsecured convertible loan notes in units of £2,000. The loan notes are not transferable and may be redeemed (in whole or in part) by Pinnacle, at its sole discretion, at any time. The loan notes became repayable on demand in the event of a specified default by Pinnacle.

All loan notes are convertible into ordinary shares by Pinnacle at any time after the second anniversary following issue, or alternatively by the holders of the loan notes at any time following the period of thirty days after the second anniversary of the loan note. Interest accrues on the loan notes at 10% per annum, from 30 September 2009 to the earlier of the date of redemption and the date of conversion. The interest accrues on a day to day basis and is payable monthly in arrears.

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

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

8. Creditors: amounts falling due after more than one year (continued)

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

9. Pension and other post-retirement benefit commitments

No contributions to company pension schemes were made during the year (2012: Nil).

10. Share capital

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

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

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

Shares issued and fully paid	2013 £	2012 £
– beginning of year	5,825,055	5,667,056
– issued during year	991,111	157,999
Shares issued and fully paid	6,816,166	5,825,055
Shares authorised but not issued at 30 September	2,183,834	3,174,945
Total equity shares authorised at 30 September	9,000,000	9,000,000

Total equity shares authorised

At 30 September 2011 and 30 September 2012	Ordinary Shares £	Deferred Shares £	Total Equity £
2,386,420,000 Ordinary shares of £0.001 each	2,386,420	-	2,386,420
3,000,000,000 Ordinary shares of £0.001 each authorised 31 March 2011	3,000,000	-	3,000,000
401,508,895 Deferred Shares of £0.009 each	-	3,613,580	3,613,580
	5,386,420	3,613,580	9,000,000
100:1 Share Conversion on 26 March 2013			
5,386,420,000 Ordinary shares of £0.001 each, converted:	(5,386,420)	-	(5,386,420)
into 53,864,200 Ordinary shares of £0.01 each	538,642	-	538,642
into 538,642,000 Deferred Shares of £0.009 each	-	4,847,778	4,847,778
At 30 September 2013	538,642	8,461,358	9,000,000

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

Allotted, called up and fully paid

At 30 September 2011	Ordinary Shares £	Deferred Shares £	Total Equity £
2,025,427,905 Ordinary shares of £0.001 each	2,025,428	-	2,025,428
186,047,091 Ordinary shares of £0.001 each issued during the year	186,047	-	186,047
401,508,895 Deferred Shares of £0.009 each	-	3,613,580	3,613,580
At 30 September 2012	2,211,475	3,613,580	5,825,055
100,000,000 Ordinary shares of £0.001 each issue 10 December 2012	100,000	-	100,000
883,333,333 Ordinary shares of £0.001 each issued 6 February 2013	883,333	-	883,333
At 26 March 2013			
3,194,808,329 Ordinary shares of £0.001 each, converted:	(3,194,808)	-	(3,194,808)
into 31,948,077 Ordinary shares of £0.01 each	319,481	-	319,481
into 319,480,833 Deferred Shares of £0.009 each	-	2,875,327	2,875,327
777,778 Ordinary shares of £0.01 each issued 27 September 2013	7,778		
At 30 September 2013	327,259	6,488,907	6,816,166

11. Statement of movements on reserves

	Share premium account £	Profit and loss account £
Balance at 1 October 2012	4,343,553	(8,000,568)
Share Premium – premium on shares issued during the year	2,036,239	-
Loss for the year	-	(2,695,421)
Balance at 30 September 2013	6,379,792	(10,695,989)

12. Reconciliation of movements in shareholders' funds

	2013 £	2012 £
Opening shareholders' funds at 1 October	2,451,397	2,877,269
Loss for the financial year	(2,695,421)	(883,372)
Issue of shares on placing	991,111	157,999
Share Premium – premium on shares issued during the year	2,036,239	299,501
Net increase/(depletion) in shareholders' funds	331,929	(425,872)
Closing shareholders' funds at 30 September	2,783,326	2,451,397

13. Related party transactions

As part of the acquisition of Accent Telecom UK Limited, the Group acquired a 40% share of the equity of an associated company, Stripe21 Limited. During the year, Accent Telecom UK Limited purchased services totalling £244,540 (2012: £279,336) from Stripe21 Limited, recorded as cost of sales in the consolidated income statement. In addition, Stripe21 purchased telecom services from Accent Telecom UK Limited of £1,557 (2012: £7,474) during the year of which none remained an unpaid trade receivable at year end.

In addition to his remuneration, CEO Alan Bonner received share based payments of £7,511 in 2013 (2012: 7,512). On 1 February 2013, Pinnacle Technology Group plc made a payment of £37,000 to the Witness Corporation Limited, a company in which Non-Executive Chairman Dr James Dodd is involved, for consultancy fees relating to the acquisition of RMS Managed ICT Limited in October 2011. There are no other related party transactions recorded during the year to 30 September 2013 or to 30 September 2012.

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

NOTICE OF ANNUAL GENERAL MEETING FOR PINNACLE TECHNOLOGY GROUP plc
Registered in England and Wales with registered number 5259846

NOTICE IS HEREBY GIVEN that the Ninth Annual General Meeting of the Company will be held at the offices of N+1 Singer Capital Markets Limited. 1 Bartholomew Lane, London. EC2N 2AX , on 26 March 2014 at 2:00pm for the purpose of considering and, if thought fit, passing the following resolutions, of which resolutions 1-4 will be proposed as Ordinary Resolutions and resolutions 5 to 7 will be proposed as a Special Resolutions:

ROUTINE BUSINESS - Ordinary Resolutions

1. To receive the report of the directors and the financial statements for the year ended 30 September 2013 together with the report of the auditors thereon.
2. To approve the report of the board to the members on directors' remuneration for the year ended 30 September 2013.
3. To re-appoint Grant Thornton UK LLP as the auditors.
4. To authorise the directors to agree the remuneration of the auditors.

SPECIAL BUSINESS - Ordinary Resolutions

5. To Appoint Dr James Dodd, as a director and Non Executive Chairman of the Company.
6. To Appoint Dr Tom Black, as a director and Non Executive Director of the Company.

SPECIAL BUSINESS - Special Resolution

7. That:

a) in accordance with section 551 of the Companies Act 2006 (the "2006 Act"), the Directors be generally and unconditionally authorised to allot shares or grant rights to subscribe for or to convert any security into shares in the Company ("Rights") in the Company up to an aggregate nominal amount of up to a maximum of 15% of the authorised share capital of the Company provided that this authority shall, unless renewed, varied or revoked by the Company, expire on the date of the Annual General Meeting of the Company to be held in 2015 or 15 months after the date of the passing of this resolution (whichever is the earlier) save that the Company may, before such expiry, make an offer or agreement which would or might require shares to be allotted or Rights to be granted and the Directors may allot shares or grant Rights in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

This authority is in substitution for all previous authorities conferred on the Directors in accordance with section 80 of the Companies Act 1985 or section 551 of the 2006 Act.

b) the directors of the Company be and are hereby empowered pursuant to section 570 of the 2006 Act to allot equity securities (within the meaning of section 560 of the 2006 Act) of the Company for cash pursuant to the general authority conferred on the Directors by paragraph (a) of this resolution as if section 561(1) of the 2006 Act did not apply to such allotment, provided that this power shall:

I. be limited to the allotment of equity securities up to an aggregate nominal amount of up to a maximum of 15% the unissued share capital of the Company; and
II. expire on the date of the Annual General Meeting of the Company to be held in 2015 or 15 months after the date of the passing of this resolution (whichever is the earlier) (unless renewed, varied or revoked by the Company prior to or on that date) save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

Registered office:
5 Fleet Place
London
EC4M 7RD

By order of the Board
WJM Securities Limited
Company Secretary

Dated: 17 February 2014

Notes:

1. A member is entitled to appoint another person as his proxy to attend and speak and vote on his behalf at the meeting. A shareholder may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. The proxy need not be a member of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact Computershare Investor Services plc on 0870 707 1017.

2. To be valid a form of proxy, together with a power of attorney or other authority, if any, under which it is executed or a notarially certified copy thereof, must be deposited at the offices of Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol BS99 6ZY not less than 48 hours before the time for holding the meeting or adjourned meeting.

3. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of any other joint holders. For these purposes, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.

4. In the case of a corporation, the form of proxy must be executed under its common seal or signed on its behalf by a duly authorised attorney or duly authorised officer of the corporation.

5. The Company, pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at the close of business on 24 March 2014 shall be entitled to attend and vote, whether in person or by proxy, at the Annual General Meeting, in respect of the number of Ordinary Shares registered in their name at that time. Changes to entries in the register of members after the close of business on 24 March 2014 shall be disregarded in determining the rights of any person to attend or vote at the Annual General Meeting. If the Annual General Meeting is adjourned, entitlements to attend and vote will be determined by reference to the register of members of the Company as at the close of business two days before the time of the adjourned meeting.

6. Completion and return of the form of proxy will not preclude members from attending or voting in person at the meeting if they so wish.

7. As at 17 February 2014 (being the last business day prior to the publication of this notice) the Company's issued voting share capital consists of 32,725,855 Ordinary Shares, carrying one vote each. Therefore, the total voting rights in the Company as at 17 February 2014 are 32,725,855.

NOTICE OF ANNUAL GENERAL MEETING FOR PINNACLE TECHNOLOGY GROUP plc (CONTINUED)

THIS PAGE IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to the action to be taken, please consult you stockbroker, bank manager, solicitor, accountant or other professional adviser authorised under the Financial Services and Markets Act 2000 immediately.

If you have sold or otherwise transferred all your Ordinary Shares in Pinnacle Technology Group plc, please forward this circular and enclosed notice of Extraordinary General Meeting at once to your stockbroker or other agent through whom you made the sale for transmission to the purchased or transferee.

PINNACLE TECHNOLOGY GROUP plc

(Incorporated in England and Wales under the Companies Act 1985 with registered number 05259846)

EXPLANATORY NOTES TO THE RESOLUTIONS

ROUTINE BUSINESS

The following notes explain the items of routine business.

Resolution 1 (Receipt of reports and accounts)
The directors must lay the annual accounts and the respective reports of the directors and auditors before shareholders at an Annual General Meeting.

Resolution 2 (To approve the directors' remuneration report)
Shareholders are asked to approve the directors' remuneration report, which may be found in the annual report on pages 23 to 25. This resolution is an advisory one and no entitlement to remuneration is conditional on the resolution being passed.

Resolution 3 (Appointment of auditors)
At each general meeting at which accounts are laid before the members, the Company is required to appoint auditors to serve until the next such meeting. Grant Thornton UK LLP have indicated their wish to continue as the Company's auditors.

Resolution 4 (Agreement of auditors' remuneration)
The directors are seeking authority to agree the remuneration of Grant Thornton UK LLP as the Company's auditors.

SPECIAL BUSINESS

In addition to the routine business of the Company, there will be the following items of special business at the Annual General Meeting.

Resolution 5 (Appointment of Non Executive Chairman)
Appoint Dr James Dodd, as a director and Non Executive Chairman of the Company.

Resolution 6 (Appointment of Non Executive Director)
Appoint Dr Tom Black, as a director and Non Executive of the Company.

Resolution 7 (Authority to issue Ordinary Shares and waiver of Pre-emption Rights)
By resolution 7(a), you are asked to give the directors authority to allot share capital up to 15% of the maximum authorised share capital. This authority shall remain in force until the 2015 AGM or for 15 months (whichever is earlier).

By resolution 7(b), you are asked to give the directors authority to disapply the statutory pre-emption rights in favour of existing shareholders in respect of share allotments in the Company. This authority shall remain in force until the 2015 AGM or for 15 months (whichever is earlier).

Yours faithfully

Dr James Dodd
Non-Executive Chairman

DIRECTORS, SECRETARY AND ADVISERS

Directors	Tom Black, Non-Executive Chairman Alan J Bonner, Chief Executive Officer Dr James Dodd, Non-Executive Director
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 Singers 1 Bartholomew Lane London EC2N 2AX
Solicitors	Charles Russell LLP 5 Fleet Place London EC4M 7RD Wright, Johnston & Mackenzie LLP 302 St Vincent Street Glasgow G2 5RZ
Registered auditors	Grant Thornton UK LLP 95 Bothwell Street Glasgow G2 7JZ
Bankers	HSBC Bank plc Commercial Centre St Clair House Bedford Road Northampton NN4 7AA Bank of Scotland 47 High Street Dalkeith Midlothian EH22 1JA
Registrars	Computershare Investor Services plc The Pavilions Bridgwater Road Bristol BS99 6ZZ