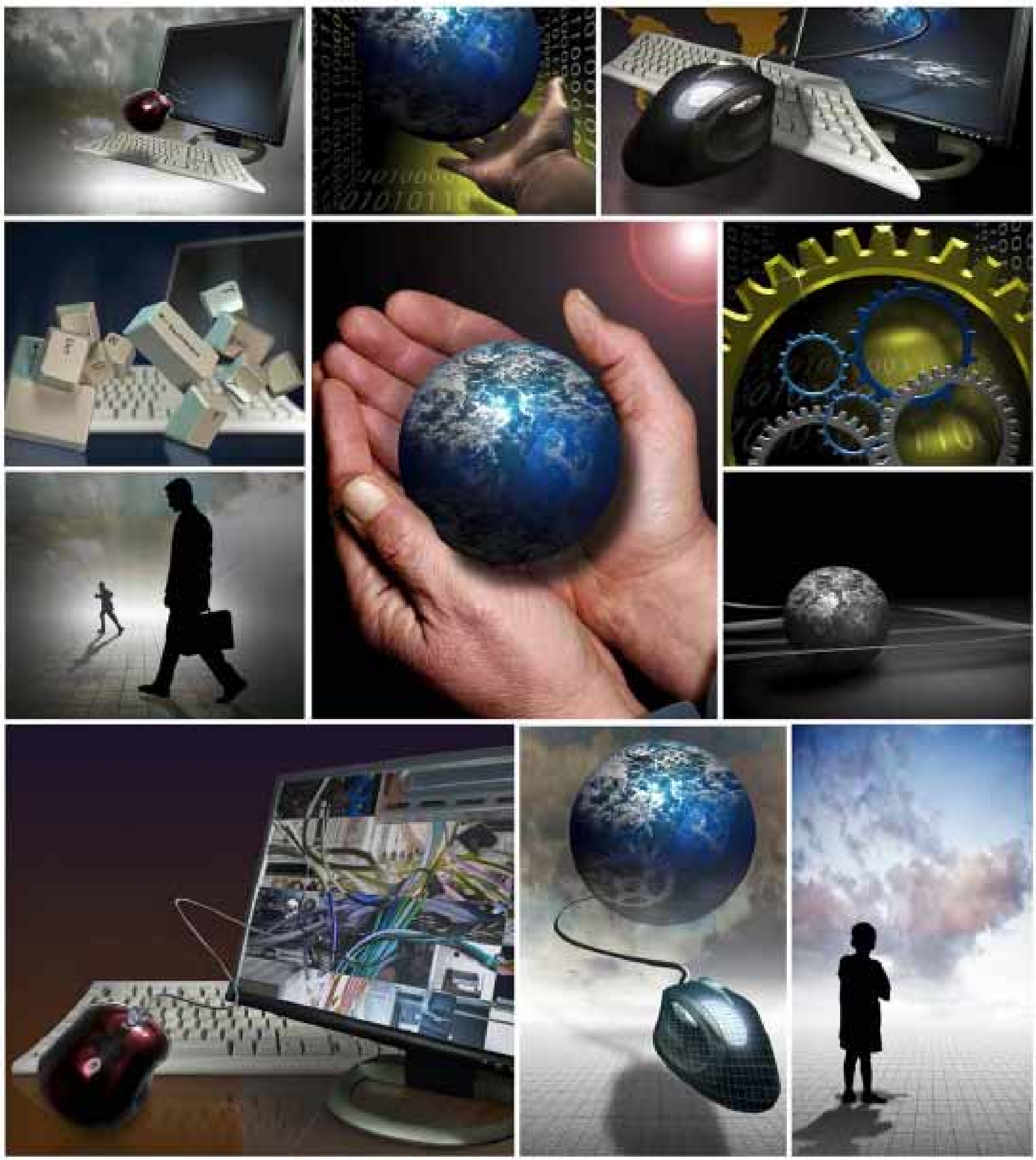
Pinnacle Telecom Group plc

Report & Accounts

30 September 2009



PINNACLE TELECOM GROUP PLC
(formerly Glen Group Plc)
REPORT AND FINANCIAL STATEMENTS 30 SEPTEMBER 2009
COMPANY NUMBER: 05259846

Pinnacle Telecom Group plc is a value added, solutions based provider of telecommunications services including IP solutions. It focuses on the SME market where it provides a wide range of customer solutions including telecommunications calls, access and consultancy, IT support, mobile solutions both voice and data and hosted broadband voice services.

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HIGHLIGHTS

Key points:

Transforming year with month-on-month operating profits (as defined below) at year end:

- Turnover increased by 113% to £3,192,222 (2008: £1,495,267). Accent Telecom UK Limited, acquired in June 2009, contributed £1,154,067 to the 2009 turnover.

- Gross profit increased by 85% to £991,169 compared to £535,966 in the previous year.

- The year on year operating loss, before non-cash IFRS adjustments and before the share of results of associated companies, materially improved from a loss of £898,150 in 2008 to a loss of £582,816 in 2009, a reduction of 35%. Second half-year operating losses, before IFRS adjustments and the share of results of associated companies, reduced by 64% compared to the first half-year. The 2009 operating loss of £582,816 can be broken down into a first half-year operating loss of £413,695, as reported in the half-year statement, and a second half-year operating loss of £169,121, a significant improvement.

- The loss retained for full year amounts to £897,063 (2008: £1,630,930), a reduction of 45% compared to 2008.

- Unaudited management accounts, in the four months from 1 September 2009 to 31 December 2009 (the latest information available) show that the group has been operating at a modest month-on-month profit (measured as the consolidated profit before interest and taxation but before non-cash IFRS adjustments and the share of results of associated companies). During the same period, the group has also been producing positive operating cash flow as measured by positive consolidated earnings before interest, taxation, depreciation and amortisation ("EBITDA").

- Consolidation and integration of group businesses included closing the group's Edinburgh offices after the year end.

Group name change;

- Name changed from Glen Group plc to Pinnacle Telecom Group plc which more clearly reflects the current business emphasis.

Non-Executive Chairman:

- Bill Allan, former CEO of Thus Group plc, appointed Non-Executive Chairman with effect from the conclusion of the Annual General Meeting.

Major acquisitions completed;

- Acquisition of Accent Telecom UK Ltd in June 2009 was fully integrated into Pinnacle within 90 days. Since the year end, a second important acquisition of Solwise Telephony Limited and its wholly owned subsidiary Sipswitch Limited was brought to a successful completion. In both cases, the acquisitions were all-share transactions, satisfied by the issue of shares at the relevant mid-market price.

Cash:

- Cash at year end stood at £586,222 (2008: £545,521) helped by the issue of a loan note for £125,000 and the micro management of cash during the year, and particularly at the year end.

Issue of convertible loan notes of £125,000 at year end, with further commitment in place:

- Successful issue of Convertible Loan Notes ("the Notes"), at the end of the financial year, raising £125,000 for working capital. Other than the Notes, the group remains debt free. Certain shareholders have agreed to subscribe to additional loan notes to the value of £125,000 if the group requires additional funding within the next 12 months.

Successful delivery of group strategy;

- The recent acquisitions demonstrate the execution of the group strategy to seek out well-priced and timely acquisitions of telecommunications resellers and dealers which are capable of adding value to the group, with emphasis in the deployment of next generation Internet Protocol ("IP") based technologies. We intend to exploit the IP technology acquired through the acquisition of Sipswitch Ltd in January 2010.

CHAIRMAN'S STATEMENT

Despite difficult economic conditions, the group has had a transforming year.

A key objective of the Board has been to change the group's revenue dynamics from non-recurring project based revenues to recurring revenues. This strategy has taken two years to play out, but has been successful with 88% (2008: 33%) of revenues now recurring and turnover back at the levels it was at approximately two years ago, just before the sale of our project based IT businesses.

A further major objective has been to bring the group to an overall profit. I am delighted that this has been achieved and in the four months from 1 September 2009 to 31 December 2009 (the latest information available) the unaudited management accounts of the group show that the group is operating at a modest profit (measured as the consolidated profit before interest and taxation but before non-cash IFRS adjustments and associated company results). During the same period, the group has also been producing positive operating cash flow as measured by positive consolidated earnings before interest, taxation, depreciation and amortisation ("EBITDA"). It has achieved this within its existing cash resources and, other than convertible loan notes issued at the very end of the financial year and more fully explained in the Business Review, the group has no debt.

A major highlight of this year has been the acquisition of Accent Telecom UK Ltd and its associated companies, acquired during June 2009. With a turnover more than double that of Pinnacle, this acquisition delivered scale to the business. The results for the full year reflect only four months contribution from Accent. Scale through acquisition gives the group better pricing with its key suppliers, and also allows duplicated activities to be removed, resulting in cost savings.

Since the year end, we were pleased to be able to acquire Solwise Telephony Ltd and Sipswitch Ltd, a wholly owned subsidiary. Although Pinnacle has been delivering IP based voice solutions to its customers for over two years, further significant development costs to enhance the functionality of the existing system have been saved as a direct result of this acquisition. By acquiring Sipswitch, the group has acquired a fully functioning Internet Protocol ("IP") based set of customer solutions, including sophisticated hosted solutions. This avoids the group from paying out royalties to third parties, which could become significant as IP solutions take hold in the market, as they undoubtedly will. As an important reseller, Solwise also added approximately 600 business customers to the approximately 1,000 business customers, mainly SME, within the group.

Our strategy is focused on seeking out well-priced and timely acquisitions of telecommunications resellers and dealers which are capable of adding value to the group. Emphasis in the deployment of next generation IP based technologies, particularly in exploiting the technology acquired through the acquisition of Sipswitch Ltd in January 2010, will continue to be an important focus, particularly as BT drives to deliver all its customer solutions in an IP environment. In this respect, change is inevitable.

The group will also continue to expand its operations organically. As the customer base grows, through both acquisition and organic growth, the increasing number of services available to the operating companies coupled with an increasing customer base, gives us the opportunity to cross-sell our various services. It is a well known fact that the more services that a customer takes from a single supplier, the more loyal they are to that supplier.

It is interesting to reflect on one of the comments that I made in my statement last year. I stated that for 2009, our first priority had to be organic growth and tight cash management. We have achieved both, but we have also seen a recovering share price, up over 300% in the year, which has opened a door to acquisitions where we can use our equity, rather than our cash. As we move forward, we shall continue to seek out acquisitions where we can use our shares as currency, always remembering that we have a need to add value to our business.

A great deal has been achieved in 2009, and I believe that, on a personal front, it is also time for change particularly as the group has now reached month-on-month profitability. I have therefore decided to step down from the Chair and from the Board and I will not be seeking re-election at the forthcoming AGM.

I set up the original business as a private company start-up in early 2002. In late 2004 I put the company onto the AIM market and I have spent the last five years developing the business and building the executive team. I am pleased to announce that William Allan has agreed to join the board as Non-Executive Chairman with effect from the conclusion of the AGM. Bill, aged 56, was the former CEO of Thus Group plc from February 1999 to September 2008. Thus was one of the largest independent alternative network carriers in the UK until it was acquired by Cable and Wireless plc in September 2008. Prior to his role at Thus, Bill also worked for Cable and Wireless for 26 years and he has significant experience in the telecom space. I wish him well.

I will not be losing touch with Pinnacle, as I will continue to provide consulting services and mentoring advice to the group until at least 31 May 2011 under the terms of my existing consulting agreement. I would like to thank Alan Bonner, the CEO, and his team for the important contribution that they have made to the 2009 results and I wish them well as we move into the new decade.

Graham J Duncan MA CA
Chairman
18 February 2010

BUSINESS REVIEW

Introduction

Pinnacle has made strong progress in 2009. This can be confirmed by looking at the key objectives we set out at the beginning of the 2009 financial year, which were to reduce costs, conserve our cash resources, increase our turnover, and turn the business profitable on a month-on-month basis. I am pleased to report that we have achieved all these objectives. According to our unaudited management accounts, profitability was recorded in the month of September 2009, and through to 31 December 2009 (the latest information available) the group continues to show a modest profit (measured as profit before interest and taxation but before the impact of non-cash IFRS adjustments and the results of associated companies).

The group has no bank debt, but also has limited borrowing facilities, the effects of which made operating the business with limited cash reserves a challenging experience, exacerbated by the economic conditions as a result of the credit crunch. However, we have successfully delivered organic growth during the year, although growth from the all-share acquisition of Accent Telecom UK Ltd ("Accent") in June 2009 has been a key highlight, bringing the group 250 new business customers and 40% ownership of Stripe 21 Ltd ("Stripe"), a next generation IP network provider based in Dorking. In the financial statements Stripe has been treated as an associated company with 40% of its relevant results included in the group income statement covering the period since it was acquired by Pinnacle as a result of the acquisition of Accent.

Since the year end, in another all-share transaction, we acquired Solwise Telephony Ltd and its wholly owned subsidiary Sipswitch Ltd, which will be of major importance to the group as we continue to evolve our business away from traditional telephony onto next generation IP telephony. As BT roll out their IP network across the UK, it is inevitable that IP based solutions will become the universal standard for delivering converged services to customers both in the UK and worldwide. The push to deliver voice over IP (commonly known as VoIP, broadband voice or hosted telephony) will be relentless. Sipswitch has developed its own proprietary VoIP system based on open standards, and the acquisition of this business also includes the intellectual property rights to the proprietary aspects of this technology solution. Owning the rights to the IPR avoids us having to pay royalties to third party vendors, or continue the development of Pinnacle's existing VoIP platform, the costs of which could become material over time. Solwise Telephony and Sipswitch added an additional 600 business customers and we look forward to further deployments of the Sipswitch technology throughout the course of 2010.

A key part of our integration strategy is to look for cost savings and margin enhancements across the enlarged group. Acquisitions unavoidably add costs to our operating expenses post acquisition, but one of our objectives is to be able to take costs out of the combined businesses by removing duplicative costs. Since the year end, we have successfully migrated our IT business to Paisley, near Glasgow and finance functions have moved to Northampton. This has enabled us to close our Edinburgh office, which means our Scottish presence is now concentrated in Paisley, which is the home of our Scottish based ISP, Colloquium Ltd, acquired by Pinnacle in June 2008. The acquisitions both during the 2009 financial year and after the year end have given us good coverage across England, and we would expect future acquisitions to enhance that coverage, as well as add value to the group as a whole.

Key Performance Indicators

1) Turnover

   Turnover more than doubled over the year from £1,495,267 to £3,192,222. This was helped significantly by the acquisition of Accent in June 2009 which has contributed £1,154,067 to the 2009 turnover. Approximately 88% of turnover is recurring income from a customer base of approximately 1,000 SMEs at the year end.

2) Gross Profit

   The overall gross profit for the full year was £991,169 (2008: £535,966) representing a gross profit to sales percentage of 31.0% (2008: 35.8%). The drop in gross margin was fully predicted and outlined to shareholders in our half-yearly report. Our margins vary considerably depending on both the service delivered and the channel that service is delivered through. At one end of the market, usually found in the delivery of services to sizeable resellers, the gross margin can drop to single figures usually in a range 5% to 10%. However, delivering a complex IP based solution, where we can add significant value to the customer, can deliver gross margins in excess of 50%. Increasingly, we are focusing our sales efforts in this more complex area, although we continue to believe that the more traditional "calls and access" business will remain important for some time.

3) Operating Loss

   In the full year we have incurred an operating loss of £890,856 (2008: £1,068,394), after amortisation of intangibles and the results of associated companies. In 2009, we decided to accelerate the write down of our billing system, an intangible asset, and we have fully written off the carrying cost of the current billing system amounting to a write down of £110,000 during the year, most of which came in the second half.

Following the acquisition of Accent, it became clear that the existing billing system needed overhaul, and the most cost effective way of delivering the enhanced functionality we required was to use a new system from a third party vendor. The new system, which will be installed across all relevant companies during 2010, also incorporates certain interfaces required by our network suppliers which, when operational, will give the group wider access to their services portfolios. The total amortisation cost for 2009 is £312,445, including the billing system write down, (2008: £170,244) and this has had a significant bearing on the overall result for the year.

IFRS accounting requires us to carefully consider the carrying value of our intangible assets and forces amortisation of these assets. Acquisitions also require us to consider whether the goodwill that we have acquired (basically the difference between the net assets of the business acquired and the price paid) should be recognised and allocated in our financial statements as other intangible assets, such as a customer base, billing system and so on which would not necessarily be recognised in the accounts of the acquired business. An acquisition led strategy only goes to exacerbate the issue as acquisitions, in our experience, are always above the underlying net assets acquired.

We view these adjustments as technical, and they have no bearing on cash. Accordingly, we believe that the best measure of operating profit or loss should be before striking the amortisation charge.

For the year, the operating loss before intangibles and the results of associated companies is £582,816 (2008: £898,150). Very importantly, the operating loss in 2009 can be broken down into a first half operating loss of £413,695, as reported in our half year statement, and a second half operating loss of £169,121, a material improvement. The second half has been helped by the acquisition, during June 2009, of Accent and its subsequent integration into Pinnacle.

4) Administration Expenses

Our administration expenses remain carefully controlled, but will increase with acquisitions. For 2009 the administration expenses were £1,573,985 (2008: £1,434,116). It is pleasing to note that the head office losses have been reduced from £715,419 in 2008 to £394,452 in 2009.

5) EBITDA (Earnings before interest, taxation, depreciation and amortisation)

EBITDA (earnings before interest, taxation, depreciation and amortisation) is often taken as an important performance measurement, and we regard EBITDA as a key performance indicator. Although there is no requirement to disclose EBITDA, we believe that, because of its importance, it should be part of our disclosure. For 2009, EBITDA was negative £499,429, which compares favourably with the 2008 figure which stood at negative £838,790. Importantly, EBITDA for the second half of 2009 was negative £121,150 compared to first half EBITDA of negative £378,279, a meaningful improvement.

6) Balance Sheet

At 30 September 2009, the group had net assets of £921,645 (2008: £1,155,947). Included in this figure are intangible assets, being the written down value of customer bases and maintenance contracts acquired, of £864,123 (2008: £717,568). During the year we added £459,000 to the intangible balance, allocated to the value of customer bases, relating to the acquisition of Accent.

Following due consideration, we have recognised a balance sheet carrying value of £165,300 relating to Accent's 40% investment in Stripe 21 Ltd, which has been recognised in the financial statements as an associated company. Since its acquisition, the relevant share of the profits of Stripe amounts to £4,405, which are included in the group income statement.

We are writing down the value of the customer bases and maintenance contracts over five years from the relevant acquisition date. As already stated, we have expensed the entire carrying value of our current billing system.

7) Cash

Cash balances at the year end stood at £586,222 (2008: £545,521). This figure has been helped by the micro management of cash during the year, and particularly at the year end. The cash balances remain a key performance indicator of the Board, and checks are in place to bring any costs of significance, including capital projects, to the Board ahead of any commitments being incurred.

8) Capital Expenditure

The capital expenditure requirements of the group are modest. Excluding assets acquired through acquisitions, in the year to 30 September 2009 total capital expenditure amounted to £33,432 (2008: £9,850).

Risks

Like all businesses, the group is exposed to risk. Undernoted are the key risks which are considered by the Board. This list is not exhaustive, and should not be taken as being the only risks attached to the business going forward.

- *Working capital*
  The group's cash resources are finite and its borrowing facilities are limited. Although the group has achieved monthly profitability (before the amortisation of intangibles), there is no guarantee that it will remain in profit. The directors recognise that the group must remain profitable for the business to cover its cost base and remain within its finance resources.

  The Board seeks to mitigate this risk by carefully managing the cash resources of the group.

- *People*
  As in many businesses, the ability to hire and retain good people is fundamental to the success of the business. Given the current economic climate, such individuals may be less willing to move to a small business than might otherwise be the case in times of prosperity. This includes quality sales personnel. The Board uses its contacts and significant experience in the recruitment and selection of employees. Acquisitions also bring people and talent which we can utilise.

- *Bad debts*
  The customer base is mainly made up of SME customers, who are one of the groups feeling the effects of the economic downturn. Although we have not yet experienced any material lift in bad debt, that does not mean to say that there will not be an increase in 2010 as companies continue to realign their cost base. A majority of customers are signed on direct debit which allows us very quickly to know when a customer defaults, and so take appropriate action.

  We are particularly exposed to a dealer or reseller running into difficulties as suppliers would require to be paid irrespective of the status of the dealer or reseller. On a positive note, we have reduced debtor days from 78 in 2008 to 56 in 2009 which, given the current climate, is a very satisfactory achievement.

- *Competition*
  We pride ourselves in being competitive coupled with having the ability to deliver a solutions based service that enhances the customer's business. The deteriorating climate might cause buying decisions to move more in the direction of a price based sale compared to a value based sale. Although we have not experienced this, we may do so in the future.

All businesses carry technology risks, the risks of business interruption, the ability to get credit from suppliers on suitable terms and so on. The above is not an exhaustive list, and it should not be taken as such, but it does cover certain key areas which the Board continues to focus on.

Financing

The group relies on credit from suppliers on reasonable commercial terms. The main creditors tend to be significant companies. The group does not, at this time, rely on the banking market and is therefore somewhat shielded from the difficulties associated with overdraft and other loan facilities. From time to time, the group has taken out leasing for plant and vehicles and will continue to do so when required. The group owns no property.

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 transferrable 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.

BUSINESS REVIEW (continued)

The loan notes are convertible into ordinary shares by Pinnacle at any time after 30 September 2011, or by the holders of the loan notes at any time following the period of thirty days after 30 September 2011. 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.

Certain shareholders have agreed to subscribe to additional loan notes to the value of £125,000 should the group require additional funding within the next 12 months.

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. The group's main credit exposure lies with sums due from customers. Where at all possible, the main telecom operating companies within the group seek to sign customers up on direct debit, which provides tighter control over cash flow.

Non-Executive Chairman

As stated in the Chairman's Statement, Graham is stepping down from the Non-Executive Chairman role in favour of Bill Allan. I would like to thank Graham for his invaluable assistance and his wise counsel since I became CEO in May 2008. Before that, Graham built the Company from a start-up and his determination to create a telecommunications and IT services business which was capable of being scaled has created the foundation upon which we can now move forward. I am very glad that I will continue to be able to access his services as an important consultant and mentor to the group, under the terms of his existing consulting agreement, until at least 31 May 2011. I believe the combination of Graham and Bill will be of tremendous value to the business and I look to the future with great optimism.

Summary

2009 has been a transforming year that saw us build solid foundations. From this base we will follow our defined growth strategy to seek out well-priced and timely acquisitions. We aim to develop a wide range of next generation communications services, where the emphasis is on IP based technologies, delivering to our customers, solutions that improve productivity, lower costs and save money, particularly for businesses that have more than one location.

Alan J Bonner
Chief Executive Officer
18 February 2010

CORPORATE GOVERNANCE

The Board is committed to ensuring that proper standards of corporate governance operate and has established governance procedures and policies that are considered appropriate to the nature and size of the Group.

Directors and the Board

The Board directs the Group's activities in an effective manner through attendance at regular monthly Board meetings and monitors performance through timely and relevant reporting procedures. Where it deems it necessary, the Board requests reports on specific areas outwith the normal reporting regime. All Directors have access to advice from the Company Secretary and, if required, independent professionals at the Company's expense. Training is available for new and other Directors as necessary.

The Board at present comprises one Executive and two Non-Executive Directors. The roles of Chairman and Chief Executive are separate appointments and it is Board policy that this will continue.

The Board has established two committees: the audit committee and the remuneration committee. It will also set up a nominations committee when the need arises. Membership of both the audit committee and the remuneration committee is made up of the two Non-Executive Directors. John C Anderson is Chairman of the audit committee and Graham J Duncan of the remuneration committee. Bill Allan will assume the role taken by Graham J Duncan from the date of his appointment.

A separate report on Directors' remuneration is set out on pages 9 to 11. Under the Company's articles of association, the nearest number to (but not exceeding) one third of the Board shall retire each year by rotation.

Board attendance, accountability and audit

The Board considers that the annual report presents a balanced and understandable assessment of the Group's performance and prospects. The audit committee has written terms of reference setting out its authority and duties and has meetings, at which the Executive Director also has the right to attend, at least two times a year with the external auditors. The audit committee reviews the independence and objectivity of the external auditors. The committee reviews the nature and amount of the non-audit work undertaken by the auditors to satisfy itself that there is no effect on its independence. The committee is satisfied that Grant Thornton UK LLP is independent.

Going concern

On the basis of a review of cash balances, banking facilities and the ability to call on certain shareholders to subscribe to additional loan notes, together with a review of forecasts and sensitised cash flows for the Group, 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 continue to deliver monthly profitability for the business to cover its cost base and remain within its finance facilities.

Internal financial control

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

- Financial reporting: There is in place a comprehensive system of financial reporting based on the annual budget which the Board approves. The results for the Group as a whole and each business sector are reported monthly, along with an analysis of key variances. Year-end forecasts are updated on a regular basis.
- Investment appraisal: Applications for capital expenditure are made in a format which places emphasis on the commercial and strategic as well as the financial justification. All significant projects require specific Board approval. No system can provide absolute assurance against material misstatement or loss, but the Group's systems are designed to provide reasonable assurance as to the reliability of financial information, ensuring proper control over income and expenditure, assets and liabilities.

Relations with shareholders

The Company values the views of its shareholders and recognises their interest in the Group's strategy and performance, Board membership and quality of management. The AGM will be used to communicate with all shareholder and investor groups, and they are encouraged to participate. The Chairmen of the audit and remuneration committees will be available to answer questions. Separate resolutions are proposed on each issue so that they can be given proper consideration and there is a resolution to receive the annual report and accounts. The Company counts all proxy votes and will indicate the level of proxies lodged on each resolution, after it has been dealt with by a show of hands.

Relations with shareholders (continued)

The Group fully complies with AIM Rule 26 and uses its website at www.pinnacletelecomgroup.co.uk as a means of providing information to shareholders and other related parties. The Company's annual report and accounts, interim reports and other relevant announcements are now available on this website.

Risk management

The Group is exposed to a variety of financial risks arising from its operating activities which are monitored by the Directors. These are more fully explained in Note 21 to the financial statements.

REPORT OF THE BOARD TO THE MEMBERS ON DIRECTORS' REMUNERATION

The committee has given consideration to the Combined Code issued by the Financial Services Authority in framing its remuneration policy. As the Company is admitted to AIM, it is not required to comply with the provisions of Chapter 6 of Part 15 of the Companies Act 2006.

The following disclosures are voluntary.

Remuneration committee

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

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

The committee meets at least once each year.

Remuneration of the Executive Director

The remuneration package of the Executive Director during the year comprised the following elements:

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

- Bonus scheme
  The Executive Director is eligible to receive a bonus of up to 75% of base salary dependent on individual and group performance relative to the annual budgets. Bonus payments are at the discretion of the remuneration committee.

- Car allowance and other benefits
  The Executive Director is entitled to a car allowance.

- Pensions
  There is no pension provision for the Executive Director.

The Executive Director is engaged under a service contract which requires a notice period of 12 months.

Remuneration of Non-Executive Directors

The fees paid to the Non-Executive Directors are determined by the Board and include a basic fee. Due to the size of the Group, no additional fees are paid in respect of committee chairmanships and they are not entitled to receive any bonus or other benefits.

The Non-Executive Chairman has been awarded share options, and he also entered into a three-year consulting contract effective 1 June 2008. These arrangements will remain in place following his retirement from the Chair.

The Non-Executive Chairman has a letter of appointment specifying an initial period of 12 months. Thereafter, the Non-Executive Chairman's letter of appointment is on a three-month rolling basis. Graham J Duncan will not seek re-election at the forthcoming AGM. The other Non-Executive Director letter of appointment is on a three-month rolling basis.

REPORT OF THE BOARD TO THE MEMBERS ON DIRECTORS' REMUNERATION (CONTINUED)

Directors' remuneration

Details of individual Directors' emoluments for the year are as follows:

	Fees and salaries		Bonus		Pensions		Benefits		Totals	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	£	£	£	£	£	£	£	£	£	£
Non- Executive										
E M Hagman	-	10,833	-	-	-	-	-	978	-	11,811
P J Ford	-	8,750	-	-	-	-	-	-	-	8,750
D Hewitt	-	5,417	-	-	-	-	-	-	-	5,417
J C Anderson	10,000	1,667	-	-	-	-	-	-	10,000	1,667
G J Duncan	35,000	11,667	-	-	-	-	869	290	35,869	11,957
Executive										
G J Duncan	-	66,083	-	41,627	-	37,120	-	2,978	-	147,808
A Bonner	85,800	28,600	35,156	14,063	-	-	5,971	1,584	126,927	44,247
Totals	130,800	133,017	35,156	55,690	-	37,120	6,840	5,830	172,796	231,657

Notes:

1) *Eric M Hagman resigned from the Board on 31 May 2008*
2) *Peter J Ford did not seek re-election at the 2008 AGM and resigned from the Board on 9 May 2008*
3) *David Hewitt was appointed to the Board on 28 February 2008, and resigned on 1 August 2008*
4) *John C Anderson was appointed to the Board on 1 August 2008*
5) *Graham J Duncan ceased to be an executive director on 31 May 2008, and was appointed Non-Executive Chairman effective 1 June 2008*
6) *Alan J Bonner was appointed group CEO and joined the Board on 1 June 2008*

In addition to his remuneration as Chairman, Graham J Duncan received consulting fees under the terms of a contract for services of £56,667 (2008: £20,000).

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

	2009	2008
	£	£
Name of Director		
E M Hagman*	-	978
G J Duncan	869	290
A J Bonner	5,368	1,584
Total	6,237	2,852

** Resigned from the Board on 31 May 2008*

Directors' interests in shares

The interests of the Directors in the ordinary shares of the Company at 30 September 2009 together with their interests at 1 October 2008 were as follows:

	2009	2008
	£	£
Name of Director		
A J Bonner	172,791,257	122,727,273
G J Duncan	22,821,314	22,821,314
J C Anderson	-	-

Of the 22,821,314 ordinary shares in which G J Duncan is interested, 4,422,324 (2008:4,422,324) ordinary shares are registered in the name of Margaret H Duncan, Mr. Duncan's wife, and 5,182,967 (2008: 5,182,967) ordinary shares are registered in the name of Duncan Ventures Limited, an entity in which Mr. and Mrs. Duncan are interested.

Directors' interests in loan notes

The interests of the Directors in the loan notes of the Company, referred to in note 15, at 30 September 2009 together with their interests at 1 October 2008 were as follows:

	2009 £	2008 £
Name of Director		
A J Bonner	25,000	-
G J Duncan	-	-
J C Anderson	5,000	-

Directors' interests in share options

The interests of the current Directors in options over the ordinary shares of the Company at 30 September 2009 together with their interests at 1 October 2008 (or date of appointment if later) were as follows:

	1 October 2008	Granted	Lapsed	30 September 2009	Exercise Price	Date when Exercisable	Expiry date
A J Bonner	54,545,455	-	-	54,545,455	0.1375p	01-Jul-10	01-Jul-18
A J Bonner	-	15,000,000	-	15,000,000	0.3000p	09-Jul-11	09-Jul-19
G J Duncan	10,000,000	-	-	10,000,000	0.1375p	01-Jul-10	01-Jul-18

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

	1 October 2008	Granted	Lapsed	30 September 2009	Exercise Price	Date when Exercisable	Expiry date
D Giddens	-	8,333,333	-	8,333,333	0.3000p	09-Jul-11	09-Jul-19
B McMillan	-	2,000,000	-	2,000,000	0.3000p	09-Jul-11	09-Jul-19

All options granted are dependent on increasing shareholder value above 25% of the mid-market share price at the time the options were granted. The Remuneration Committee has taken absolute shareholder return as a valid performance criteria relating to all options granted.

Out of the total options granted to Directors, 66,545,455 options over the Ordinary Shares in the Company have been granted under the terms of the Company's approved EMI share option scheme and options over 18,333,333 Ordinary Shares in the Company have been granted under the terms of the Company's unapproved share option scheme.

No other Directors have been granted share options in the shares of the Company or other group companies. The mid-market price of the Company's shares at the end of the financial period was 0.235p and the range of prices during the period was between 0.04p and 0.38p.

By order of the Board
Graham J Duncan MA CA
Chairman, Remuneration Committee
18 February 2010

COMPANY NUMBER: 05259846

The Directors present their report on the affairs of the Group, together with the financial statements and auditors' report for the year ended 30 September 2009.

Principal activity

The principal activity of the Group is the provision of telecommunications and IT solutions to businesses within the United Kingdom.

Business review and future developments

A review of the results and development of the business for the year and of future developments in the business is contained within the Chairman's Statement on page 2 and the Business Review on pages 3 to 6. The major key performance indicators that the Directors monitor are turnover, gross margin, total group overheads, EBITDA, cash and capital expenditure.

Results and dividends

The Group's loss on ordinary activities after taxation was £897,063 (2008: £1,630,930). The audited financial statements of the Group are set out on pages 23 to 45. The Directors do not propose a dividend for the year ended 30 September 2009 (2008: £Nil).

Directors and their interests

The present membership of the Board is as follows:

Graham J Duncan, Non-Executive Chairman
Alan J Bonner, Chief Executive Officer
John C Anderson, Non-Executive Director

Graham J Duncan has indicated that he will not seek re-election at the forthcoming Annual General Meeting. In accordance with the Company's articles of association, Alan J Bonner will offer himself for re-election at the forthcoming Annual General Meeting. Details of Directors' interests in the Company's shares during the year, including changes to the makeup of the Board during the year, are set out in the report of the Board to the members on Directors' remuneration on pages 9 to 11.

Acquisitions

During the year the Company acquired the entire issued share capital of Accent Telecom UK Limited, which provides internet and telecommunications services, mainly in the SME sector. Further details are contained in Note 2.1 to the consolidated financial statements.

Substantial shareholdings

At 17 February 2010 the following interests in three per cent or more of the issued ordinary share capital had been notified to the Company:

	Number of ordinary shares	Percentage held
D Giddens	178,273,709	10.47
P Goodland	178,273,709	10.47
A J Bonner	172,791,257	10.15
S Dronfield	84,136,855	4.94
S Patel (1)	75,356,571	4.43
J Alexander (2)	75,356,571	4.43

1 Includes the interests of his wife, N Patel
2. Includes the interests of his wife, R Alexander

Share capital

The share capital during the year and the number of ordinary shares reserved for issue are shown in Note 16 to the consolidated financial statements.

Post balance sheet event
On 12 January 2010, the Company acquired the entire issued share capital of Solwise Limited and its wholly owned subsidiary Sipswitch Limited. Full details can be found in Note 23.

Employee involvement
All companies use an Intranet system as a source of information on the Group and developments within the Group, including updates on the Group's strategy and details of new products and services provided by the Group. Information about all products and services is also available on the websites of the operating companies.

Employment of disabled persons
Full and fair consideration is given to applications for employment made by disabled persons having regard to their particular aptitudes and abilities. Appropriate training is arranged for disabled persons, including retraining for alternative work of employees who become disabled, to promote their career development within the organisation.

Supplier payment policy and practice
The Company and its subsidiaries agree the terms of payment when negotiating the terms and conditions for their transactions with their suppliers. Payment is made in compliance with those terms, subject to the terms and conditions of the relevant transaction having been met by the supplier. Trade creditor days of the Group at 30 September 2009, calculated in accordance with the requirements of the Companies Act 2006, were 56 days (2008: 59 days). This represents the ratio, expressed in days, between amounts invoiced to the Company and its subsidiaries in the year by their suppliers and the amounts due, at the year-end, to trade creditors falling due for payment within one year.

Financial risk management and objectives
Details of financial risk management and objectives are contained in Note 21 to the consolidated financial statements.

Financial instruments
The Group's financial instruments comprise cash and other liquid resources together with receivables and payables that arise directly from operations. The main purpose of these instruments is to provide finance for group operations. The financial risk policies and objectives of the Group are detailed in Note 21 to the consolidated financial statements.

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

Directors' statement
In so far as the Directors are aware there is no relevant information of which the Company's auditors are unaware and the Directors have taken all reasonable steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors
Grant Thornton UK LLP offers themselves for reappointment as auditors in accordance with section 489 of the Companies Act 2006 and a resolution will be proposed at the forthcoming Annual General Meeting.

By order of the Board

WJM Secretaries Limited
Company Secretary
18 February 2010

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 in the United Kingdom requires the Directors to prepare financial statements for each financial year. Under that law, and as required by the AIM rules, the Directors have elected to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. The Directors have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for the Group's system of internal financial control, 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 annual report is prepared in accordance with company law in the United Kingdom and includes information required by the rules of the AIM market of the London Stock Exchange.

As far as each of the Directors is aware:

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website, which is also compliant with Rule 26 of the AIM Rules for Companies. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

We have audited the group financial statements of Pinnacle Telecom Group plc for the year ended 30 September 2009 which comprise the consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement 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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 14, 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 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 APB's website at www.frc.org.uk/apb/scope/UKNP.

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 2009 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRS 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 Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the parent company financial statements of Pinnacle Telecom Group plc for the year ended 30 September 2009.

Robert Hannah
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Edinburgh

18 February 2010

PRINCIPAL ACCOUNTING POLICIES

a) Basis of preparation

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

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

On the basis of a review of cash balances, banking facilities and the ability to call on certain shareholders to subscribe to additional loan notes, 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 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.

The International Accounting Standards Board and the International Financial Reporting Interpretations Committee have issued the following standards and interpretations with an effective date after the date of these financial statements:

IAS 1 Presentation of Financial Statements (revised 2007) (effective 1 January 2009)
IAS 23 Borrowing Costs (revised 2007) (effective 1 January 2009)
IAS 27 Consolidated and Separate Financial Statements (revised 2008) (effective 1 July 2009)
Amendment to IFRS 2 Share-based Payment - Vesting Conditions and Cancellations (effective 1 January 2009)
Amendment to IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items (effective 1 July 2009)
Improvements to IFRSs (effective 1 January 2009 other than certain amendments effective 1 July 2009)
IFRS 3 Business Combinations (revised 2008) (effective 1 July 2009)
IFRS 8 Operating Segments (effective 1 January 2009)
IFRS 7 Financial instruments: Disclosures – Improving Disclosures and Financial Instruments (Amendments) (effective 1 January 2009)
IFRIC 18 * Transfers of Assets from Customers (effective 1 July 2009)
IAS 39 & IFRIC 9 Embedded Derivatives (Amendment) (effective 30 June 2009)

** Not endorsed by the EU as at the date of approval of these financial statements.*

The Group is following an acquisition led strategy. The revised IFRS 3 will be applied prospectively to all business combinations on or after 1 October 2009. Whilst it is not possible to estimate the outcome of adoption, the key features of the revised IFRS 3 include a requirement for acquisition–related costs to be expensed and not included in the purchase price, and for contingent consideration to be recognised at fair value on the acquisition date (with subsequent changes recognised in the income statement and not as a change to goodwill). The standard also changes the treatment of non-controlling interests (formerly minority interests) with an option to recognise these at full fair value as at the date control is obtained, with gains and losses recognised in the income statement. Depending on the size of acquisitions completed (if any) the requirement to expense acquisition-related costs could have a material impact on the Group.

The amendment to IFRS 7 which is mandatory for periods beginning on or after 1 January 2009 requires enhanced disclosures about fair value measurements and liquidity risk. Among other things, the new disclosures:

- clarify that the existing IFRS 7 fair value disclosures must be made separately for each class of financial instrument
- add disclosure of any change in the method for determining fair value and the reasons for the change
- establish a three-level hierarchy for making fair value measurements
- add disclosure, for each fair value measurement in the statement of financial position, of which level in the hierarchy was used and any transfers between levels

PRINCIPAL ACCOUNTING POLICIES (continued)

a) Basis of preparation (continued)

IFRS 8 requires disclosure based on information presented to the Board on the financial performance of the Group's operating segments. The Group has applied IFRS 8 for its accounting period commencing 1 October 2008.

The revised IAS 1 will have no impact on the measurement of the Group's results or net assets but will result in certain changes in the presentation of the Group's financial statements from 1 October 2009 onwards. A Statement of Comprehensive Income, which can be presented in one of two ways, will be required, and the Statement of Changes in Equity will no longer be a primary statement.

IAS 23 has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional provisions in the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date of 1 October 2009. No changes will be made for borrowing costs incurred prior to this date that have been expensed.

IAS 27 revised is effective for annual periods beginning on or after 1 July 2009, with earlier application only permitted when the revised IFRS 3 is applied. The revised standard applies retrospectively with some exceptions. IAS 27 revised no longer restricts the allocation to minority interest of losses incurred by a subsidiary to the amount of the non-controlling equity investment in the subsidiary. A partial disposal of equity interest in a subsidiary that does not result in a loss of control will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to any gain or loss. Where there is loss of control of a subsidiary, any retained interest will have to be re-measured to fair value, which will impact the gain or loss recognised on disposal. The Group is currently assessing the impact on its financial statements from adopting IAS 27 revised.

The Directors do not anticipate that the adoption of the remaining standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

b) Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 30 September 2009. 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 padopted by the Group.

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase 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 balance sheet at their fair values, which are also used as the 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.

b) Basis of consolidation (continued)

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.

c) 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 (k) for a description of impairment testing procedures.

d) Revenue and revenue recognition

Revenue represents the value of work performed during the period plus the recognised value of sales in respect of maintenance and support contracts for the respective period, excluding VAT and trade discounts. Revenue from telecommunications services is based on the use of the relevant telecommunication services over the period. 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.

e) 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 other exchange differences are dealt with through the income statement.

f) 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 (i).

g) 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. The gain or loss arising from the sale or revaluation of held for sale assets is included in "Loss for the year from discontinued operations" in the income statement. Any revaluation surplus remaining in equity on disposal of the asset is transferred to the profit and loss reserve.

h) Discontinued operations

A discontinued operation is a cash generating unit, or a group of cash generating units, that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or

h) Discontinued operations (continued)

- is a subsidiary acquired exclusively with a view to resale.

The disclosures for discontinued operations in the current and prior year relate to all operations that have been discontinued by the balance sheet date for the latest period presented.

i) 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 – over three years
IT equipment – over three years
Fixtures and fittings and leasehold improvements – over three years
Motor vehicles – over three years

Material residual value estimates are updated as required, but at least annually, whether or not the asset is revalued.

j) Intangible fixed 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 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 5 years
Billing software – amortised over 5 years
Customer base – amortised over 5 years

k) 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 level.

Goodwill is allocated to those cash generating units 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.

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.

l) 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

PRINCIPAL ACCOUNTING POLICIES (continued)

l) Leased assets (continued)

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.

m) 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 and the cost is calculated using the FIFO basis. Work in progress relates to costs incurred on part completed work.

n) 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 balance sheet 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.

o) Financial assets

Financial assets are divided into the following categories: loans and receivables. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

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.

Derecognition 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 balance sheet date.

Interest and other cash flows resulting from holding financial assets are recognised in the income statement when receivable, regardless of how the related carrying amount of financial assets is measured.

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

o) Financial assets (continued)

provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

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.

p) Cash and cash equivalents

Cash and cash equivalents 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.

q) 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. They are recognised initially at fair value, net of direct issue costs. Financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

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 balance sheet date.

r) 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.
- 'Profit and loss reserve' represents retained profits and accumulated losses.

s) Employee benefits

- Defined Contribution Pension Plan

The pension costs charged against profits are the contributions payable to the scheme in respect of the accounting period. A defined contribution plan is a pension plan under which the Group pays a fixed contribution into an independent entity. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution.

- 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

s) Employee benefits (continued)

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.

t) Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Group's accounting policies

The Group has made one acquisition during the year, being Accent Telecom UK Limited. 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 the 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 balance sheet 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

Determining whether intangible assets are impaired requires the judgement of whether there is an impairment indicator. Management are satisfied there is no impairment indicator and the loss reported by the Group for the year is not an impairment indicator. Although overall loss making the gross profit for the Group is positive. The loss is due to group 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. Each of the intangible assets held by the Group continues to generate positive cash flows and therefore management are satisfied there is no impairment indicator.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value.

CONSOLIDATED INCOME STATEMENT
for the year ended 30 September 2009

	Note	Year ended 2009 £	Year ended 2008 £
Revenue	3	3,192,222	1,495,267
Cost of sales		(2,201,053)	(959,301)
Gross profit		991,169	535,966
Administrative expenses		(1,573,985)	(1,434,116)
Operating loss before amortisation of intangibles and share of profit from associated company		(582,816)	(898,150)
Share of profit from associate	9	4,405	-
Amortisation of intangibles		(312,445)	(170,244)
Operating loss	4	(890,856)	(1,068,394)
Interest receivable		618	4,150
Interest payable		(4,927)	(2,761)
Finance costs	5	(4,309)	1,389
Loss before tax		(895,165)	(1,067,005)
Taxation	17	462	2,183
Loss for the period from continuing operations		(894,703)	(1,064,822)
Discontinued operations			
Loss for the period from discontinued operations		(2,360)	(566,108)
Loss for the year		(897,063)	(1,630,930)
Loss per share			
- basic and fully diluted - continuing	7	(0.07)p	(0.09)p
- basic and fully diluted - discontinued	7	0.00p	(0.05)p
- basic and fully diluted - total	7	(0.07)p	(0.14)p

CONSOLIDATED INCOME STATEMENT (continued)
for the year ended 30 September 2009

Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA)	Year ended 2009	Year ended 2008
	£	£
Operating loss	(890,856)	(1,068,394)
Add back amortisation	312,445	170,244
Add back depreciation	78,982	59,360
EBITDA for the year	(499,429)	(838,790)

CONSOLIDATED BALANCE SHEET
for the year ended 30 September 2009

	Note	2009 £	2008 £
Assets			
Intangible assets	8	864,123	717,568
Investments in Associated Companies	9	169,705	-
Property, plant and equipment	10	134,332	134,012
Total non-current assets		1,168,160	851,580
Current assets			
Inventories	12	25,745	344
Trade and other receivables	13	929,848	333,372
Cash and cash equivalents	14	586,222	545,521
Total current assets		1,541,815	879,237
Total assets		2,709,975	1,730,817
Liabilities			
Short term borrowings		(3,480)	(6,936)
Trade and other payables		(882,854)	(353,698)
Other taxes and social security costs		(93,996)	(22,759)
Accruals and other payables		(644,242)	(191,477)
Total current liabilities	15	(1,624,572)	(574,870)
Non-current liabilities			
Long term borrowings	15	(163,758)	-
Total liabilities		(1,788,330)	(574,870)
Net assets		921,645	1,155,947
Equity			
Share capital		5,316,488	4,807,680
Share premium account		3,238,902	3,207,593
Merger reserve		114,392	-
Other reserve		11,104	2,852
Fair value adjustment		(1,064,130)	(1,064,130)
Profit and loss reserve		(6,695,111)	(5,798,048)
Total equity	16	921,645	1,155,947

These financial statements were approved by the Board of Directors on 18 February 2010. 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.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September 2009

	Share capital	Share premium	Merger reserve	Other reserve	Fair value	Retained earnings	Total
At 1 October 2007	4,807,680	3,207,593	-	16,544	(1,064,130)	(4,167,118)	2,800,569
Loss and total recognised income and expense for the period	-	-	-	-	-	(1,630,930)	(1,630,930)
Recognised directly in equity							
Share based payments	-	-	-	2,852	-	-	2,852
Lapse of share options	-	-	-	(16,544)			(16,544)
Net change directly in equity	-	-	-	(13,692)	-	-	(13,692)
Total movements	-	-	-	(13,692)	-	(1,630,930)	(1,644,622)
Equity at 30 September 2008	4,807,680	3,207,593	-	2,852	(1,064,130)	(5,798,048)	1,155,947
At 1 October 2008	4,807,680	3,207,593	-	2,852	(1,064,130)	(5,798,048)	1,155,947
Loss and total recognised income and expense for the period	-	-	-	-	-	(897,063)	(897,063)
Recognised directly in equity							
Share Issue	508,808	-	-	-	-	-	508,808
Premium on Share Issue	-	-	152,642	-	-	-	152,642
Expenses recovered on prior year disposal *	-	31,309	-	-	-	-	31,309
Expenses incurred on acquisition	-	-	(38,250)	-	-	-	(38,250)
Share based payments	-	-	-	8,252	-	-	8,252
Net change directly in equity	508,808	31,309	114,392	8,252	-	-	662,761
Total movements	508,808	31,309	114,392	8,252	-	(897,063)	(234,302)
Equity at 30 September 2009	5,316,488	3,238,902	114,392	11,104	(1,064,130)	(6,695,111)	921,645

Note
* *Relates to VAT recovered on expenses on prior year disposal group*

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

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 30 September 2009

	2009	2008
	£	£
Cash flows from operating activities		
Operating loss (including discontinued operations)	(893,216)	(1,643,269)
Adjustments for:		
Depreciation	78,982	59,360
Amortisation	312,445	170,244
Share of profit from associate	(4,405)	-
Other non-cash items	-	19,396
Payment / (receipt) of corporation tax	10,421	(3,253)
(Increase) / decrease in inventories	(25,401)	22,180
(Increase) / decrease in trade and other receivables	(596,476)	1,396,227
(Decrease) / increase in trade payables, accruals and other creditors	1,032,851	(1,494,631)
Net cash flow from operating activities	(84,799)	(1,473,746)
Cash flows from investing activities		
Purchase of property, plant and equipment	(18,432)	(9,850)
Sale of property, plant and equipment	-	2,360
Disposal of subsidiary company	-	2,635,857
Acquisition of subsidiaries, net of cash acquired	46,586	(130,400)
Net cash used in investing activities	28,154	2,497,967
Cash flows from financing activities		
Interest paid	(4,927)	(10,821)
Interest received	618	20,287
Receipt of convertible loans	125,000	-
Repayment of borrowing	-	(101,403)
Receipt from finance leases less repayment	(19,889)	(44,242)
Net cash from / (used in) financing activities	100,802	(136,179)
Net increase in cash	44,157	888,042
Cash and cash equivalents at beginning of period	538,585	(349,457)
Cash and cash equivalents at end of period	582,742	538,585
Cash and cash equivalents comprise:		
Cash and cash equivalents	586,222	545,521
Bank overdrafts	(3,480)	(6,936)
	582,742	538,585

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

Pinnacle Telecom Group plc, a public limited company, is the Group's Ultimate Parent Company. It is incorporated in England and Wales. The address of Pinnacle Telecom Group plc's registered office is 5 Fleet Place, London EC4M 7RD. Its principal place of business is Compthall, Brightons, Falkirk, FK2 0RW.

The financial statements for the year ended 30 September 2009 were approved by the Board of Directors on 18 February 2010.

2. Acquisitions

2.1. Acquisition of Accent Telecom UK Limited

On 11 June 2009, Pinnacle Telecom plc acquired 100% of the share capital of Accent Telecom UK Limited, a company registered in England and Wales. The total cost of acquisition includes the components stated below. The purchase price of £661,450 was satisfied by the issue of 508,807,826 shares at 0.13 pence per share, being the mid-market price at the close of business on 9 June 2009. With the exception of intangible assets and the investment in associated company, no adjustments have been made to the book values of the assets and liabilities at acquisition. The book value of intangible assets in Accent Telecom UK Limited at acquisition was nil. This can be analysed as follows:

	Book Cost £	Fair Value £
Assets		
Non-current assets		
Investment in associated company	220,000	165,300
Property, plant and equipment	45,871	45,871
	265,871	211,171
Intangible assets	-	459,000
	265,871	670,171
Current assets		
Inventories	14,008	14,008
Trade and other receivables	439,622	439,622
Cash and cash equivalents	86,389	86,389
Total current assets	540,019	540,019
Total assets	805,890	1,210,190
Current liabilities		
Trade and other payables	290,414	290,414
Other taxes and social security costs	1,227	1,227
Other creditors and accruals	233,750	233,750
Total current liabilities	525,391	525,391
Total non-current liabilities	23,349	23,349
Total liabilities	548,740	548,740
Net assets	257,150	661,450

Turnover and operating loss of the company acquired for the post acquisition period was £1,154,067 and £25,655, respectively.

3. Segment Reporting

3.1 Analysis of revenue

	2009	2008
	£	£
By business sector		
Mobile services	332,249	168,227
IT	571,270	126,546
Other communication services	2,288,703	1,200,494
Continuing operations	3,192,222	1,495,267
IT - discontinued operations	-	1,686,652
Total revenue	3,192,222	3,181,919
By destination		
United Kingdom	3,192,222	3,181,919
Total revenue	3,192,222	3,181,919
By origin		
Continuing operations		
Pinnacle Telecom plc	1,177,169	811,281
Accent Telecom UK Limited (11 June to 30 September)	1,154,067	-
Colloquium Limited	396,253	88,304
Sports Club Telecom Limited	274,026	300,909
Explore IT Limited	104,684	126,545
Other group companies	86,023	168,228
	3,192,222	1,495,267
Discontinued operations		
Eclectic Group Limited and I G Software Limited - discontinued operations	-	1,686,652
Total revenue	3,192,222	3,181,919
By recurring nature		
Recurring - continuing operations	2,811,137	1,039,157
Non-Recurring - continuing operations	381,085	456,110
	3,192,222	1,495,267
Non-Recurring - discontinued operations	-	1,686,652
Total revenue	3,192,222	3,181,919

3.2 Analysis of net loss after tax

	2009	2008
3.2.1 By business sector	£	£
Mobile services		
Loss from operations before amortisation	(17,842)	(81,502)
IT		
Loss from operations before amortisation	(151,978)	(33,890)
Amortisation	(47,289)	(20,000)
Loss from operations after amortisation	(199,267)	(53,890)
Other communication services		
Loss from operations before amortisation	(56,020)	(213,202)
Amortisation	(265,156)	(150,244)
Loss from operations after amortisation	(321,176)	(363,446)
Head office	(356,418)	(565,984)
Continuing operations	(894,703)	(1,064,822)
IT - discontinued operations	(2,360)	(566,108)
Total losses	(897,063)	(1,630,930)
3.2.2 By destination		
United Kingdom	(897,063)	(1,630,930)
3.2.3 By origin		
Pinnacle Telecom plc	12,555	(96,347)
Accent Telecom UK Limited (11 June to 30 September)	(25,654)	-
Colloquium Limited	(116,443)	(43,251)
Sports Club Telecom Limited	(8,662)	33,169
Explore IT Limited	(49,602)	(36,730)
Head Office and other group companies	(394,452)	(751,419)
Loss from continuing operations before exceptional items	(582,258)	(894,578)
Amortisation	(312,445)	(170,244)
Eclectic Group Limited and I G Software Limited - discontinued operations	(2,360)	(566,108)
Total losses	(897,063)	(1,630,930)

3.2.4 By recurring nature

	2009 £	2008 £
Recurring - continuing operations	(573,096)	(429,690)
Non-Recurring - continuing operations	(9,162)	(464,888)
Loss from continuing operations before exceptional items	(582,258)	(894,578)
Amortisation	(312,445)	(170,244)
Non-Recurring - discontinued operations	(2,360)	(566,108)
Total losses	(897,063)	(1,630,930)

3.3 Analysis of assets and liabilities

	Mobile	IT	Other telecommunications services	Discontinued operations	Total
Assets					
Intangible assets	-	142,333	721,790	-	864,123
Investments in Associated Companies	-	169,705	-	-	169,705
Property, plant and equipment	3,447	68,194	62,691	-	134,332
Total non-current assets	3,447	380,232	784,481	-	1,168,160
Current assets					
Inventories	-	4,456	21,289	-	25,745
Trade and other receivables	16,219	63,710	847,278	2,641	929,848
Cash and cash equivalents	29,521	61,178	492,630	2,893	586,222
Total current assets	45,740	129,344	1,361,197	5,534	1,541,815
Total assets	49,187	509,576	2,145,678	5,534	2,709,975
Liabilities					
Short term borrowings	-	(473)	(3,007)	-	(3,480)
Trade and other payables	(30,198)	(121,288)	(713,662)	(17,707)	(882,855)
Other taxes and social security costs	(385)	(18,384)	(75,002)	(224)	(93,995)
Accruals and other payables	(2,220)	(67,384)	(574,384)	(254)	(644,242)
Total current liabilities	(32,803)	(207,529)	(1,366,055)	(18,185)	(1,624,572)
Total non-current liabilities	-	-	(163,758)	-	(163,758)
Total liabilities	(32,803)	(207,529)	(1,529,813)	(18,185)	(1,788,330)
Net assets	16,384	302,047	615,865	(12,651)	921,645

4. Operating loss

	2009 £	2008 £
Loss from operations is stated after charging:		
Depreciation of owned fixed assets	78,415	59,360
Other operating lease rentals:		
– buildings	48,391	70,953
– office equipment	1,413	1,413
Auditors' remuneration: - audit	29,000	47,100

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:

	2009 £	2008 £
Interest income resulting from short-term bank deposits	618	4,150
Finance income	618	4,150
Interest expense resulting from:		
- finance leases	2,854	-
- bank loans	192	288
- bank overdrafts	86	2,322
- overdue taxation	1,795	151
Finance costs	4,927	2,761

6. Employee costs

6.1 Directors and employees

The average number of staff employed by the Group during the financial year amounted to:

	2009	2008
Number of management staff	5	6
Number of operational staff	18	24
Total	23	30

Employee numbers are stated including Directors.

6.2 Employee remuneration

	2009 £	2008 £
Wages and salaries	839,041	1,186,710
Share option costs	8,252	2,852
Social security costs	5,993	158,368
Pension – defined contribution plans	-	51,406
Total	853,286	1,399,336

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. 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 holder can only exercise the option if the share price exceeds 25% of the share price at the time the option was granted.

	2009		2008	
	Number	weighted average exercise price £	Number	weighted average exercise price £
Outstanding at 1 October	65,212,122	0.00167	18,166,667	0.01052
Granted	39,666,666	0.003	64,545,455	0.001375
Lapsed	-		(17,500,000)	-
Outstanding at 30 September	104,878,788	0.00167	65,212,122	0.00167

At 30 September 2009, Pinnacle Telecom Group plc has granted the following outstanding share options:

	2009			2008		
	Number	weighted average exercise price £	weighted average remaining contractual life Months	Number	weighted average exercise price £	weighted average remaining contractual life Months
Earliest exercise date						
2005	666,667	0.03	62	666,667	0.03	74
2010	64,545,455	0.001375	105	64,545,455	0.001375	117
2011	39,666,666	0.003	117	-	-	-

In total £8,252 of employee remuneration expense has been included in the consolidated income statement for 2009 (2008: £2,852). The fair value of options granted was calculated using the Black Scholes option pricing model incorporating the following key assumptions:

6.3. Share-based remuneration (continued)

	2009			2008	
Number of options	39,666,666	64,545,455	666,667	64,545,455	666,667
Volatility	75%	75%	50%	75%	50%
Spot Price	0.003	0.001375	0.03	0.001375	0.03
Interest rate	4.50%	4.50%	4.52%	4.50%	4.52%
Dividend yield	0%	0%	0%	0%	0%
Vesting period (years)	2	3	1	3	1
Option value weighted average exercise price	£0.0185	£0.00869	£0.0147	£0.00869	£0.0147

6.4 Directors

Details of individual Directors' emoluments for the year are as follows:

	Fees and salaries		Bonus		Pensions		Benefits		Totals	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	£	£	£	£	£	£	£	£	£	£
Non- Executive										
E M Hagman	-	10,833	-	-	-	-	-	978	-	11,811
P J Ford	-	8,750	-	-	-	-	-	-	-	8,750
D Hewitt	-	5,417	-	-	-	-	-	-	-	5,417
J C Anderson	10,000	1,667	-	-	-	-	-	-	10,000	1,667
G J Duncan	35,000	11,667	-	-	-	-	869	290	35,869	11,957
Executive										
G J Duncan	-	66,083	-	41,627	-	37,120	-	2,978	-	147,808
A Bonner	85,800	28,600	35,156	14,063	-	-	5,971	1,584	126,927	44,247
Totals	130,800	133,017	35,156	55,690	-	37,120	6,840	5,830	172,796	231,657

In addition to his remuneration as Chairman, Graham J Duncan received consulting fees under the terms of a contract for services of £56,667 (2008: £20,000). D Giddens, a director of a subsidiary company received fees during the year of £28,888 (2008: Nil) under the terms of a contract for services.

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

	2009	2008
	£	£
Name of Director		
E M Hagman*	-	978
G J Duncan	869	290
A J Bonner	5,368	1,584
Total	6,237	2,852

** Resigned from the Board on 31 May 2008*

7. Total and continuing loss per share

	2009 £	2008 £
Loss attributable to ordinary shareholders – continuing operations	894,703	1,064,822
Loss attributable to ordinary shareholders – discontinued operations	2,360	566,108
Loss attributable to ordinary shareholders	897,063	1,630,930

	Number	Number
Weighted average number of ordinary shares in issue	1,363,702,413	1,194,099,084
Loss per share (pence) – continuing operations	0.07	0.09
Loss per share (pence) – discontinued operations	0	0.05
Loss per share (pence) – total	0.07	0.14

Both the basic and diluted earnings per share have been calculated using the net loss after taxation attributable to the shareholders of Pinnacle Telecom Group plc as the numerator. The weighted average number of outstanding shares used for basic earnings per share amounted to 1,363,702,413 shares (2008: 1,194,099,804) following the issue of 508,807,806 shares as part of the acquisition of Accent Telecom UK Limited on 11 June 2009. Due to the losses incurred by the Group the share options are anti-dilutive.

8. Intangible assets

Fair value at cost	Date of acquisition	2009 £	2008 £
Explore IT Limited - Maintenance Contracts	04 September 2006	100,000	100,000
Pinnacle Telecom plc - billing system	08 June 2007	150,000	150,000
Pinnacle Telecom plc - customer base	08 June 2007	443,163	443,163
Sports Club Telecom Limited - customer base	25 June 2007	123,946	123,946
Colloquium Limited - customer base	04 June 2008	136,444	136,444
Accent Telecom UK Limited - customer base	11 June 2009	459,000	-
		1,412,553	953,553
Amortisation to date:			
Explore IT Limited - Maintenance Contracts		60,000	40,000
Pinnacle Telecom plc - billing system		150,000	40,000
Pinnacle Telecom plc - customer base		206,810	118,177
Sports Club Telecom Limited - customer base		55,775	30,986
Colloquium Limited - customer base		34,111	6,822
Accent Telecom UK Limited - customer base		41,734	-
		548,430	235,985
Carrying amount at 30 September		864,123	717,568
Net intangible assets at 1 October		717,568	751,368
Intangible asset additions		459,000	136,444
Amortisation in period		(312,445)	(170,244)
Net intangible assets at 30 September		864,123	717,568

8. Intangible assets (continued)

Intangible assets are non-physical assets which have been obtained as part of an acquisition and which have an identifiable future economic benefit to the Group at the point of acquisition. The Group's policy is for the:

- Maintenance contracts to be amortised over 5 years
- Customer lists to be amortised over a period of 5 years
- Custom billing systems to be valued and amortised over a maximum of 5 years.

For the purposes of assessing impairment, assets are grouped at the lowest level 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 level. During the year the custom billing platform was assessed for future suitability for the enlarged Group and it was decided to fully write-down the asset and replace the system with a third party product.

9. Group Investments

9.1 Principal subsidiary undertakings

The Group's principal subsidiary undertakings are as follows:

	Holding	Country of incorporation	Class of share capital	Nature of business
Subsidiary undertakings				
Glen Communications Limited	100%	Scotland	Ordinary	Telecommunications
Pinnacle Telecom plc	100%	Scotland	Ordinary/Preference	Telecommunications
Pinnacle Mobile Limited	100%	England and Wales	Ordinary	Telecommunications
Sports Club Telecom Limited	100%	Scotland	Ordinary	Telecommunications
Colloquium Limited	100%	Scotland	Ordinary	Telecommunications
Accent Telecom UK Limited	100%	England and Wales	Ordinary/Preference	Telecommunications
Explore IT Limited	100%	England and Wales	Ordinary	IT Services
Pinnacle Group Limited	100%	Scotland	Ordinary	Holding company

9.2 Associate company

As part of the acquisition of Accent Telecom UK Limited, the Group acquired a 40% investment in the ordinary share capital of Stripe21 Limited, a company registered in England and Wales. The investment in the associate company is carried using the fair value of the identifiable assets at 30 September 2009 and is adjusted for the Group share of revenues and expenses in the year. Stripe21 Limited has an accounting reference date of 30 June.

	2009 £	2008 £
Fair value of investment in associated company – Stripe21 Limited	165,300	-
Share of profit from associate	4,405	-
Investment in associated company at 30 September	169,705	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Property, plant and equipment

	IT Equipment	Fixtures and fittings and leasehold improvements	Plant, machinery and motor vehicles	Total
	£	£	£	£
Cost of assets				
At 1 October 2008	476,990	117,336	27,020	621,346
Additions	417	18,015	15,000	33,432
Additions by acquisition	101,497	-	-	101,497
At 30 September 2009	578,904	135,351	42,020	756,275
Cost of assets				
At 1 October 2007	237,665	56,330	9,130	303,125
Additions	8,425	1,425	-	9,850
Additions by acquisition	233,260	59,581	17,890	310,731
Disposals	(2,360)	-	-	(2,360)
At 30 September 2008	476,990	117,336	27,020	621,346

	IT Equipment	Fixtures and fittings and leasehold improvements	Plant, machinery and motor vehicles	Total
	£	£	£	£
Depreciation At 1 October 2008	379,405	84,252	23,677	487,334
Additions by acquisition	55,626	-	-	55,626
Charge for year	54,619	18,986	5,378	78,983
At 30 September 2009	489,650	103,238	29,055	621,943
Depreciation				
At 1 October 2007	162,659	29,473	5,861	197,993
Additions by acquisition	172,991	42,033	15,481	230,505
Charge for year	44,279	12,746	2,335	59,360
Disposals	(524)	-	-	(524)
At 30 September 2008	379,405	84,252	23,677	487,334
Net book value at 30 September 2009	89,254	32,113	12,965	134,332
Net book value at 30 September 2008	97,585	33,084	3,343	134,012

11. Leases

11.1. Finance leases

Pinnacle Telecom 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 £39,361 (2008: £Nil). The assets are included under IT Equipment and Motor Vehicles.

Future minimum lease payments as at 30 September 2009:

	Within 1 year £	1 to 5 years £	More than 5 years £	Total £
Finance lease payments due	20,306	23,141	-	43,447

11.2. 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 2009	34,200	44,400	–	78,600
As at 30 September 2008	44,700	73,650	–	118,350

Lease payments recognised as an expense during the year amounted to £45,901 (2008: £70,953). 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		
6 Straiton View, Loanhead, Edinburgh	2006	2 months
10a Cheyne Walk, Northampton	2006	21 months
101 Abercorn Street, Paisley, Glasgow	1995	6 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. The property at Loanhead, Edinburgh was vacated after the year end.

12. Inventories

	2009 £	2008 £
Consumables	15,506	344
Work in Progress	5,781	-
Inventories	25,745	344

13. Trade and other receivables

	2009 £	2008 £
Trade receivables	560,780	268,995
Prepayments and accrued income	369,068	64,377
	929,848	333,372

Trade debtors at the balance sheet date comprise amounts receivable from the provision of IT and telecommunications services. The average credit period taken on the provision of these services is 56 days (2008: 78 days). Trade receivables are stated net of an impairment for estimated irrecoverable amounts of £169,566 (2008: £91,888). 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.

At 30 September 2009 trade receivables amounting to £308,295 (2008: £155,756) were past due but not impaired.

The age of trade receivables not impaired is as follows:

	2009 £	2008 £
Not past due (less than 30 days)	252,485	113,239
30 – 59 days	123,217	26,432
60 – 89 days	54,383	21,041
90 – 119 days	44,481	12,746
120 days +	86,214	95,537
	560,780	268,995

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.

14. Cash and cash equivalents

	2009 £	2008 £
Cash at bank and in hand	586,222	545,521

Cash balances are held with a small number of counter parties. The figure at 30 September 2009 has been helped by the micro-management of cash during the year, and particularly at the year end.

The majority of bank accounts are held with Royal Bank of Scotland plc.

15.1. Trade and other payables

	2009 £	2008 £
Bank overdrafts	-	5,336
Bank loans	-	1,600
Finance lease liability	43,447	-
	43,447	6,936
Less non-current portion of finance leases	(38,758)	-
Short-term borrowings	3,480	6,936
Trade payables	882,854	353,698
Accruals and other payables	644,242	191,477
Other taxes and social security costs	93,996	22,759
Trade and other payables	1,624,572	574,870

Note 11.1 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 balance sheet to be a reasonable approximation of their fair value.

15.2. Long-term borrowings

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 transferrable 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.

The loan notes are convertible into ordinary shares by Pinnacle at any time after 30 September 2011, or by the holders of the loan notes at any time following the period of thirty days after 30 September 2011. 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. Certain shareholders have agreed to subscribe to additional loan notes to the value of £125,000 if the Group requires additional funding in the next twelve months.

The directors consider the fair value of the loan notes not to be materially different from the issue price of £125,000, which was on 30 September 2009. 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.

	2009 £	2008 £
Convertible Loan Notes	125,000	‘-
Finance leasing liability – long-term element	38,758	-
Long-term financial liabilities	163,758	-

16. Share capital and reserves

16.1. Share capital

The share capital of Pinnacle Telecom Group plc consists of ordinary shares with a par value of £0.001 and deferred shares with a par value of £0.009. All ordinary shares are equally eligible to receive dividends and the repayment of capital, and represent one vote at the shareholders' meeting of Pinnacle Telecom Group plc. The deferred shares carry no voting rights and are not eligible to receive dividends or repayment of capital.

	2009 £	2008 £
Shares issued and fully paid		
– beginning of year	4,807,680	4,807,680
– issued during year	508,808	–
Shares issued and fully paid	5,316,488	4,807,680
Shares authorised but not issued at 30 September	683,512	1,192,320
Total equity shares authorised at 30 September	6,000,000	6,000,000

The authorised and issued share capital can be summarised as follows:

	2009 £	2008 £
Total equity shares authorised		
2,386,420,000 Ordinary shares of £0.001 each	2,386,420	2,386,420
401,508,895 Deferred shares of £0.009 each	3,613,580	3,613,580
	6,000,000	6,000,000
Shares issued and fully paid		
1,702,907,630 Ordinary shares of £0.001 each	1,702,908	1,194,100
401,508,895 Deferred shares of £0.009 each	3,613,580	3,613,580
	5,316,488	4,807,680

16.2. Share premium

	2009 £	2008 £
Balance brought forward	3,207,593	3,207,593
Expenses recovered on group disposal *	31,309	-
Balance carried forward	3,238,902	3,207,593

Note

* *Relates to VAT recovered on expenses on prior year disposal group*

16.3 Profit and loss reserve

	2009 £	2008 £
Profit and loss account at 1 October 2008	(5,798,048)	(4,167,118)
Loss for the year	(897,063)	(1,630,930)
Profit and loss account at 30 September 2009	(6,695,111)	(5,798,048)

16.4. Merger reserve

The Group has taken advantage of the merger relief provisions in relation to the acquisition of Accent Telecom UK 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. Income tax expenses

The tax charge represents:	2009 £	2008 £
UK corporation tax on profits of the period	–	535
Total current tax	–	535
Adjustment for prior year taxation	(462)	(2,718)
Tax charge	(462)	(2,183)

The relationship between expected tax expense based on the effective tax rate of Pinnacle Telecom Group plc at 28% (2008: 28%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2009 £	2008 £
Result for the year before tax	(897,525)	(1,633,113)
Tax rate	28%	28%
Expected tax expenses	(251,307)	(457,272)
Adjustment for:		
Non-deductible expenses	3,629	553,619
Small companies relief	14	–
Depreciation in excess of capital allowances	9,404	2,842
Utilisation of tax losses	(37,982)	(53,680)
Chargeable gains	–	57,818
Tax losses carried forward	329,553	24,585
Adjustments on consolidation – pre-acquisition losses etc	(53,773)	(129,397)
Prior year adjustments	–	(2,718)
Other short-term timing differences	–	2,020
Actual tax rebate net	(462)	(2,183)

17. Income tax expenses (continued)

The Group has unrecognised deferred tax assets in respect of tax losses carried forward totalling £1,184,789 (2008: £248,220). The Group has not yet provided deferred tax liabilities in respect of intangible assets totalling £241,934 (2008: £200,919).

18. 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 £101,100 (2008: Nil) from Stripe21 Limited, recorded as cost of sales in the consolidated income statement.

In addition to his remuneration as Chairman, Graham J Duncan received consulting fees under the terms of a contract for services of £56,667 (2008: £20,000). In connection with sale of the assets and business of Eclectic Group Limited on 31 December 2007, that company paid a bonus of £191,000 to John Nicoll, its Managing Director. There are no other related party transactions recorded during the year to 30 September 2009 or to 30 September 2008.

19. Contingent liabilities

There were no contingent liabilities at 30 September 2009 or 30 September 2008.

20. Capital commitments

There were no capital commitments at 30 September 2009 or 30 September 2008.

21. 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, investments and borrowings. The Group is exposed to a variety of financial risks arising from its operating activities, which are monitored by the Directors.

21.1. 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.

21.2. Interest rate risk

The interest rate on the Group's cash at bank is determined by reference to the bank rate. The Group does not operate any bank borrowings or overdraft facilities, except that as part of the acquisition of Accent Telecom UK Limited the Group adopted an unused £25,000 bank overdraft facility with HSBC (2008: £Nil).

21.3. Capital risk management

The Group manages its capital to ensure that 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 and cash equivalents, 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 26.

21.4. 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 13 to the financial statements.

21.5. 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 balance sheet sums, relevant to an analysis of risk management, is as follows:

	Loans and receivables	Non-financial assets	Balance Sheet Total
	£	£	£
2009			
Trade and other receivables	929,848	-	929,848
Other current assets	-	25,745	25,745
Cash and cash equivalents	586,222	-	586,222
	1,516,070	25,745	1,541,815

	Loans and receivables	Non-financial assets	Balance Sheet Total
	£	£	£
2008			
Trade and other receivables	333,372	-	333,372
Other current assets	344	-	344
Cash and cash equivalents	545,521	-	545,521
	879,237	-	879,237

	Other financial liabilities at amortised cost	Other liabilities not within scope of IAS 39	Balance Sheet Total
	£	£	£
2009			
Trade and other payables	1,591,771	-	1,591,771
Long-term borrowings - current position	-	12,494	12,494
Finance lease liability - current	20,306	-	20,306
Long-term borrowings - non-current	125,000	15,617	140,617
Finance lease liability - non-current	23,141	-	23,141
	1,760,218	28,111	1,788,329

	Other financial liabilities at amortised cost	Other liabilities not within scope of IAS 39	Balance Sheet Total
	£	£	£
2008			
Trade and other payables	567,934	5,336	573,270
Long-term borrowings - current position	-	1,600	1,600
	567,934	6,936	574,870

21.5. Risk Management Analysis (continued)

	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
2009						
Trade payables	372,240	143,856	106,369	-	-	622,465
Long-term borrowings	-	-	-	-	125,000	125,000
Finance lease liabilities	5,467	10,933	16,400	32,800	5,958	71,558
	377,707	154,789	122,769	32,800	130,958	819,023

	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
2008						
Trade payables	132,431	138,392	1,476	81,399	-	353,698
Long-term borrowings	-	-	-	-	1,600	1,600
Finance lease liabilities	-	-	-	-	-	-
	132,431	138,392	1,476	81,399	1,600	355,298

22. Ultimate controlling party

There is no ultimate controlling party.

23. Post Balance Sheet Event

On 12 January 2010, the Company acquired the entire issued share capital of Solwise Telephony Limited, and its wholly owned subsidiary Sipswitch Limited. Solwise Telephony Limited is an OFCOM registered switchless telecom reseller of line rentals and calls. The total consideration was £204,915, satisfied by the issue of 35,950,000 ordinary shares in Pinnacle Telecom Group plc at a price of 0.57 pence per share. The total consideration was apportioned to initial consideration and loan shares as follows:

- 31,746,843 of ordinary shares were issued as initial consideration.
- A further 4,203,157 ordinary shares ("the loan shares") were issued in connection with loans owed by Solwise to certain vendors, amounting to £23,958 in aggregate. The loans were assigned from Solwise to the Company and were capitalised through the issue to the lenders of ordinary shares in the capital of the Company.

The acquisition agreement allows for deferred consideration with earn out provisions to be awarded, based on earnings before interest and taxation (“EBIT”) for the years ending 30 September 2010 and 30 September 2011. For the year ending 2010, additional consideration of £15,000 will be payable in ordinary shares for every £10,000 of EBIT above £40,000. For the year ending 2011, additional consideration of £15,000 will be payable in ordinary shares for every £10,000 of EBIT above £60,000. The total deferred consideration cannot exceed £295,085 in total over the two year end periods.

Due to the proximity of this acquisition to the date of the financial statements, it is not practical to determine the fair value of identifiable assets acquired. These values will be considered in due course.

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

We have audited the parent company financial statements of Pinnacle Telecom Group plc for the year ended 30 September 2009 which comprise the parent company balance sheet, the parent company reconciliation of movements in shareholders' funds 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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 14, 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 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 APB's website at ww.frc.org.uk/apb/scope/UKNP.

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 2009;
- 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 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 matters

We have reported separately on the group financial statements of Pinnacle Telecom Group plc for the year ended 30 September 2009.

Robert Hannah
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants,
Edinburgh

18 February 2010

BALANCE SHEET (PARENT COMPANY)
as at 30 September 2009

	Note	2009 £	2008 £
Fixed Assets			
Tangible assets	4	139	1,890
Fixed asset investments	5	2,235,835	1,574,385
Total non-current assets		2,235,974	1,576,275
Current assets			
Debtors	6	726,126	1,463,013
Cash and cash equivalents		135,927	28,473
Total current assets		862,053	1,491,486
Creditors: amounts falling due within one year	7	(987,252)	(847,684)
Net current (liabilities) / assets		(125,199)	643,802
Total assets less current liabilities		2,110,775	2,220,077
Creditors: amounts falling due within one year	8	(125,000)	-
		1,985,775	2,220,077
Capital and reserves			
Called up share capital	10	5,316,488	4,807,680
Share premium account	11	3,238,902	3,207,593
Merger reserve	11	114,392	-
Profit and loss account	11	(6,684,007)	(5,795,196)
Shareholders' funds	12	1,985,775	2,220,077

Approved by the Board and authorised for issue on 18 February 2010.

A J Bonner
Director

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

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 480 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 £888,811. (2008: £2,900,083).

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 taxation is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

2. Auditor remuneration

Fees payable to the Company's auditor for the audit of the Parent Company's annual accounts was £7,000 (2008: £12,400).

3. Taxation

	2009 £	2008 £
Factors affecting the tax charge for the year		
Loss on ordinary activities before taxation	(888,811)	(2,461,010)
multiplied by standard rate of UK corporation tax of 28% (2008: 28%)	(248,867)	(689,083)
Effects of:		
Multi-deductible expenses	–	548,772
Depreciation in excess of capital allowances	(154)	351
Tax losses carried forward	249,021	(51,420)
Group relief surrendered	–	333
Adjustments to previous periods	–	66
Chargeable gains	–	191,047
	248,867	689,149
Current tax charge	–	66

4. Tangible fixed assets

	£
Cost	
At 1 October 2008 and at 30 September 2009	6,165
Depreciation	
At 1 October 2008	4,275
Charge for the year	1,751
At 30 September 2009	6,026
Net book value	
At 30 September 2009	139
At 30 September 2008	1,890

5. Fixed asset investments

	Shares in subsidiary undertakings £
Cost	
At 1 October 2008	5,451,192
Additions – Accent Telecom UK Limited	661,450
At 30 September 2009	6,112,642
Provisions for diminution in value	
At 1 October 2008	3,876,807
Charge for the year	-
At 30 September 2009	3,876,807
Net book value	
At 30 September 2009	2,235,835

Company	Country of registration or incorporation	Shares held Class	%
Subsidiary undertakings			
Glen Communications 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
Straiton Group Management Limited (2)	Scotland	Ordinary	100
Pinnacle Group Limited	Scotland	Ordinary	100

5. Fixed asset investments (continued)

Subsidiary undertakings (continued)

Colloquium Limited	Scotland	Ordinary/Preference	100
Glen Group Limited (3)	Scotland	Ordinary	100
ICT Investments Limited	Scotland	Ordinary	100
Pinnacle ICT Limited	England and Wales	Ordinary	100
Pinnacle Data 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

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

Company	Principal activity	Capital and reserves 2009 £	Profit/(loss) for the year 2009 £
Glen Communications Limited	Telecommunications	(1,740,241)	(66,282)
Explore IT Limited	IT services	(239,030)	(49,602)
Pinnacle Technology Consulting Limited (1)	IT consultancy	804,299	(136)
I G Software Limited	IT consultancy	263,754	(2,223)
Pinnacle Telecom plc	Telecommunications	7,140	112,752
Pinnacle Mobile Limited	Telecommunications	(85,675)	(70,286)
Sports Club Telecom Limited	Telecommunications	18,202	(8,395)
Accent Telecom UK Limited	Telecommunications	171,952	(25,655)
Colloquium Limited	ISP and telecommunications	(165,738)	(116,443)
Straiton Group Management Limited (2)	Holding company	(176,203)	–
Pinnacle Group Limited	Holding company	460,000	–
Glen Group Limited (3)	Dormant	2	–
ICT Investments Limited	Dormant	24,522	–
Pinnacle ICT Limited	Dormant	2	–
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 Telecom Group Limited

6. Debtors

	2009 £	2008 £
Amounts owed by subsidiary undertakings	708,927	1,432,719
Other debtors	-	11,787
Prepayments and accrued income	17,199	18,507
	726,126	1,463,013

7. Creditors: amounts falling due within one year

	2009 £	2008 £
Bank loans and overdrafts	-	1,600
Trade creditors	107,276	68,970
Corporation tax	3,266	66
Other taxes and social security costs	33,499	7,621
Other creditors	-	13,750
Accruals and deferred income	843,211	755,677
	987,252	847,684

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

	2009 £	2008 £
Convertible loan notes	125,000	-
Analysis of loans		
Wholly repayable within five years	125,000	-

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 transferrable 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.

The loan notes are convertible into ordinary shares by Pinnacle at any time after 30 September 2011, or by the holders of the loan notes at any time following the period of thirty days after 30 September 2011. 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.

Certain shareholders have agreed to subscribe to additional loan notes to the value of £125,000 if the group requires additional funding within the next 12 months.

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.

9. Pension and other post-retirement benefit commitments

Defined contribution	2009 £	2008 £
Contributions payable by the Company for the year	-	37,120

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

10. Share capital

	2009 £	2008 £
Authorised		
2,386,420,000 Ordinary shares of £0.001 each	2,386,420	2,386,420
401,508,895 Deferred shares of £0.009 each	3,613,580	3,613,580
	6,000,000	6,000,000
Allotted, called up and fully paid		
1,194,099,804 Ordinary shares of £0.001 each	1,194,100	1,194,100
508,807,826 Ordinary shares of £0.001 each issued during the year	508,808	
401,508,895 Deferred shares of £0.009 each	3,613,580	3,613,580
	5,316,488	4,807,680

11. Statement of movements on reserves

	Share premium account £	Profit and loss account £
Balance at 1 October 2008	3,207,593	(5,795,196)
Expenses recovered from disposal of discontinued operations in prior year *	31,309	-
Loss for the year	-	(888,811)
Balance at 30 September 2009	3,238,902	(6,684,007)

Note

* *Relates to VAT recovered on expenses on prior year disposal group*

12. Reconciliation of movements in shareholders' funds

	2009 £	2008 £
Opening shareholders' funds at 1 October	2,220,077	5,120,160
Loss for the financial year	(888,811)	(2,900,083)
Issue of shares on acquisition	508,808	-
Share Premium – expenses recovered from prior year disposal of discontinued operations	31,309	-
Merger reserve – premium on shares issued on acquisition	152,642	-
– expenses on share issue	(38,250)	-
Net depletion in shareholders' funds	(234,302)	(2,900,083)
Closing shareholders' funds at 30 September	1,985,775	2,220,077

The Company has taken advantage of the merger relief provisions in relation to the acquisition of Accent Telecom UK 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.

13. Directors emoluments

	2009 £	2008 £
Emoluments for qualifying services	172,796	208,705
Company pension contributions to money purchase schemes	-	37,120
	172,796	245,825

Emoluments disclosed above include the following amounts paid to the highest paid Director:

	2009 £	2008 £
Emoluments for qualifying services	126,927	139,376
Company pension contributions to money purchase schemes	-	37,120

14. Employees

Number of employees

The average monthly number of employees (including Directors) during the year was:

	2009 Number	2008 Number
Management	3	3
Administration	-	1
	3	4

	2009 £	2008 £
Employment costs		
Wages and Salaries	223,305	220,417
Social security Costs	22,213	28,183
Other pension costs	-	42,539
	245,518	291,139

NOTICE OF ANNUAL GENERAL MEETING FOR PINNACLE TELECOM GROUP plc (formerly Glen Group plc)
Registered in England and Wales with registered number 5259846

NOTICE IS HEREBY GIVEN that the Fifth Annual General Meeting of the Company will be held at the offices of Wright, Johnston & Mackenzie LLP, 18 Charlotte Square, Edinburgh, EH2 4DF, on 29 March 2010 at 2.30 p.m. for the purpose of considering and, if thought fit, passing the following resolutions, of which resolutions 1-5 will be proposed as Ordinary Resolutions and resolutions 6 and 7 will be proposed as Special Resolutions:

ROUTINE BUSINESS

Ordinary Resolutions

1. To receive the report of the directors and the financial statements for the year ended 30 September 2009 together with the report of the auditors thereon.
2. To re-elect Mr Alan J Bonner, a director who retires by virtue of rotation and, being eligible, offers himself for re-election.
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 Mr William Allan as a director and Non Executive Chairman of the Company.

Special Resolutions

6. That the authorised share capital of the Company be and hereby is increased from £6,000,000 to £9,000,000 by the creation of 3,000,000,000 Ordinary Shares of £0.001 each.
7. That:

(a) That, 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 the unissued 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 2011 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 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 2011 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
Dated: 18 February 2010

By order of the Board
WJM Secretaries Limited
Company Secretary

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 27 March 2010 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 27 March 2010 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 2010 (being the last business day prior to the publication of this notice) the Company's issued voting share capital consists of 1,738,857,630 Ordinary Shares, carrying one vote each. Therefore, the total voting rights in the Company as at 17 February 2010 are 1,738,857,630.

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.

Resolutions 2 (Re-election of director)

Under the Articles of Association of the Company, one director must resign by rotation each year, by virtue of the fact that Graham J Duncan is not standing for re-election; another director must resign at the next Annual General Meeting. Alan J Bonner has put himself up for resignation and is therefore standing for re-election. You are therefore asked to re-elect Mr Bonner as a director of the Company.

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 director)

As announced on 18th February 2010, the Company proposes to appoint William Allan, former CEO of Thus Group plc, as a director and Non-Executive Chairman of the Company with effect from the conclusion of the Annual General Meeting. Under the Articles of Association of the Company, the appointment of a director requires to be approved by Ordinary Resolution. You are asked to vote in favour of this resolution accordingly.

Resolution 6 (Increase in Authorised Share Capital)

You are asked to approve the increase the authorised share capital in the Company from £6,000,000 to £9,000,000 by creating new Ordinary Shares with an aggregate nominal value of £3,000,000. The proposed increase will give the Company sufficient shares to facilitate further acquisitions.

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 the maximum authorised share capital. This authority shall remain in force until the 2011 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 2011 AGM or for 15 months (whichever is earlier).

DIRECTORS, SECRETARY AND ADVISERS

Directors	Graham J Duncan, Non-Executive Chairman Alan J Bonner, Chief Executive Officer John C Anderson, 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	Zeus Capital Limited 3 Ralli Court West Riverside Manchester M3 5FT
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 1-4 Atholl Crescent Edinburgh EH3 8LQ
Bankers	The Royal Bank of Scotland plc Commercial Centre 100 West George Street Glasgow G2 1PP Bank of Scotland 47 High Street Dalkeith Midlothian EH22 1JA
Registrars	Computershare Investor Services plc The Pavilions Bridgwater Road Bristol BS99 6ZZ