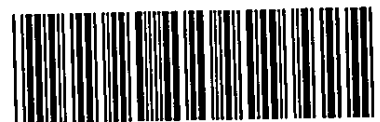


**Report and Accounts  
Pinnacle Telecom Group Plc  
30 September 2011**

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**PINNACLE TELECOM GROUP PLC**  
**REPORT AND FINANCIAL STATEMENTS 30 SEPTEMBER 2011**  
**COMPANY NUMBER 05259846**

Pinnacle Telecom Group plc focuses on the business market across the UK Driven by leveraging organic opportunities as well as through targeted acquisitions, we provide a wide range of converged managed solutions including Managed Support Services, Unified Communications and Collaboration, Communications and Mobility, Software as a Service (SaaS) and Infrastructure services.

Pinnacle's strategy is predicated on cross-selling the five elements of our converged managed services offering The objective is to cross-sell all of the group's services into our existing customer base, which strengthens our customer's reliance on the company, increases our profit per customer and dramatically decreases the likelihood of our customer's switching to a competitor.

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## HIGHLIGHTS

### Financial benchmarks

- 110% increase in operating profit (2) to £165,299 (2010 £78,647)
- 67% increase in positive EBITDA (1) to £249,880 (2010 £149,379)
- 18% increase in gross profit to £2,464,529 (2010 £2,089,457) a rise of £375,072
- 60% decrease in the loss for the year (3), falling to £98,305 (2010 £246,072)
- 29% increase in turnover of 1,913,546 to £8,522,079 (2010 £6,608,533)
- 740% combined turnover growth since 2007
- 84% of turnover now relates to recurring and contracted revenues

### Acquisitions

- Acquired the Business and Assets of an IP CCTV business, delivering combined resilient and "always on" 3G and IP connectivity, for high-profile CCTV monitoring to companies such as Sotheby's, Unipart and Hilton Hotels
- Acquired the Business and Assets of MacLellan IT Limited, a well established profitable IT company for 186,046,491 shares at a premium of 58% per share, equivalent to £669,767. MacLellan are delivering increased IT consultancy and support revenues in Scotland

### Balance sheet highlights

- Positive cash at the year-end of £452,431 (2010 £697,189)
- Maiden positive operating cash flows from operating activities of £25,752 compared to negative £154,377 in 2010
- Added £647,791 of intangible assets, following on from the addition of £205,567 in 2010, which helps strengthen the group's IT asset base
- 52% increase in group net assets to £1,813,140 (2010 £1,319,743), an increase of £493,397

### BBC high-profile contracts

We continue to supply the BBC with voice and data services for high-profile and prestigious events, which included the Royal Wedding during 2011. We also have confirmed orders in place for London Olympics 2012 as we support the BBC as the host broadcaster to the world's media.

### Strategy

Our strategy of cross-selling the five elements of our converged managed services offering is now delivering positive results. The objective is to cross-sell all the group's services into our existing customer base, which strengthens our customer's reliance on the company, increases our profit per customer and dramatically decreases the likelihood of our customer's switching to a competitor.

### Notes

- 1 EBITDA is defined as Earnings before interest, taxation, depreciation, amortisation of intangibles, exceptional acquisition costs, share of results of associates and the embedded fair value adjustment in the convertible loan
- 2 Operating profit is measured before amortisation of intangibles, exceptional acquisition costs, share of results of associates and the embedded fair value adjustment in the convertible loan
- 3 Loss for the year is measured after all costs, including the costs of discontinued operations relating to previous years

**CHAIRMAN'S STATEMENT**

“The Group has acquired additional core skills and continued to innovative. We are proud of the solutions we offer and of the progress we have made.”

**Bill Allan, Chairman**

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This is my second year as Chairman of your company, and I am pleased to announce rapid growth and focused determination in the pursuit of our goals. We set objectives in 2010 to build a value added solutions based business of substance through the leverage of organic opportunities and targeted acquisitions. Since the beginning of that year your company has grown revenues by over 266% and broadened its appeal to a larger segment of the UK telecommunications market. More importantly, the transformation of Pinnacle from traditional telephony into a provider of IP and bespoke services has been successful and winning new business.

This year the Group acquired MacLellan IT Limited and Multilayer Limited to complement our existing product set and skills. This activity was closely followed in October 2011 by the acquisitions of Online Computer Developments Limited and RMS Managed ICT Security Limited. We expect these acquisitions alone to add revenues of about £5 million during 2012.

Although growth by acquisition consumes management time and focus, our organic growth and ability to innovate has not been neglected. This financial year we were proud to participate in some high profile and prestigious events where we provided voice and data solutions for the General Election, the Papal Visit to the UK, and the Royal Wedding. These events reinforce our ability to operate under pressure and to high levels of quality customer service.

The Group continues to carefully manage its balance sheet and cash resources. Our maiden operating profit from last year more than doubled to £165,299, and positive net cashflow from operating activities was achieved for the first time. These were notable achievements.

Our focus for this year is to integrate the acquisitions and build on our core strengths. We now have a product set that gives us additional profile in the market, with additional skills to enhance and develop our services for the years ahead. I have been greatly impressed by Alan Bonner and his team for their hard work and dedication. This has been a tough year for the UK - but a tough year in which your company became more strongly positioned to compete and grow its business in the UK telecommunication market. I look forward with optimism to the year ahead.

Further detail and comment on the results for the full year are contained in the Chief Executive's Review.

**Bill Allan**  
**CHAIRMAN**  
20 February 2012

## CHIEF EXECUTIVE'S REVIEW

"2011 has been another very successful year."

**"Our strategy is working"**

**Alan Bonner, Chief Executive Officer**

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### Introduction

I am delighted to report that our strategy is working and 2011 has been another very successful year

Over the last few years, we have seen a convergence of technologies from the IT, data, telecoms and mobile industries, and in 2010, through the leverage of organic opportunities and targeted acquisitions, we set about transforming Pinnacle Telecom Group Plc from a well respected telecommunications service provider, into a converged managed services provider. Convergence in our space is where a combination of multiple technologies comes together in a new form, to create secure, next generation IP based solutions. Where previously separate IT, telecoms, connectivity, mobile, and data services have been merged into a single multi-media solution, we have seen that customers have been able to deliver increased productivity at a much lower cost, which enables them to differentiate themselves from their competitors in their chosen market. The delivery of a single multi-media solution allows us to deliver converged managed services for our customers, specifically tailored to their business needs across their whole organisation.

We are convinced that Pinnacle will continue to differentiate itself through the delivery of our converged managed services strategy and by cross-selling solutions to our customers. In our view, it is not acceptable to promote a single product alone, today's customers demand value for money and search out suppliers who can deliver flexible solutions. Customers are busy and know what they want – namely a supplier who can understand their needs, will evaluate the technology, design, implement and manage a solution that delivers against their objectives.

### Strategy

Our strategy is predicated on cross-selling the five elements of our converged managed services offering (as detailed below), and is now delivering positive results. The objective is to cross-sell all of the group's services into our existing customer base, which strengthens our customer's reliance on the company, increases our profit per customer and dramatically decreases the likelihood of our customer's switching to a competitor.

Converged managed services offering

- 1) Managed Support Services
- 2) Unified Communications and Collaboration
- 3) Communications and Mobility
- 4) Software as a Service (SaaS)
- 5) Infrastructure services

## CHIEF EXECUTIVE'S REVIEW (CONTINUED)

### 1) Managed Support Services

Managed Support Services focuses on IT support and consists of five revenue streams, 1) installation and deployment, 2) desktop support, 3) server support, 4) network support and 5) break/fix

We realised that in order to roll out our converged managed services strategy; we needed to increase our IT capability across the group. To this end, we successfully acquired MacLellan IT in August 2011 and followed that with the acquisition of Online Computer Developments in October 2011, these two acquisitions have been integrated into our previous IT business of Explore IT Ltd

With these recent acquisitions, we have set about increasing our overall IT revenues from the group's customers, and in line with our objectives to move our revenues from being almost exclusively generated from traditional telephony, into revenues generated from a converged managed service offering, 2011 certainly signals a shift in the allocation of business resources to this objective. At 30 September 2011, we have seen a quantum shift in the cost of group resources dedicated to our IT offerings, increasing from £639,855 in 2010 to £1,542,881 in September 2011 and further demonstrates our commitment in this regard. We hope that in 2012, revenues from Managed Support Services will be much closer to the combined revenues from Mobile and Telecoms

### 2) Unified communications & collaboration

Unified communications and collaboration consists of six revenue streams, 1) hosted voice (VoIP), 2) conferencing services, 3) call centre applications, 4) inbound call services, 5) mobility solutions, 6) call recording solutions

In order to deploy our unified communications offering, we acquired Solwise Telephony and Sipswitch in January 2010

Through successful delivery of our unified communications and collaboration solutions, we earn trust from our customers, which in turn leads to new opportunities for us to supply additional services or bid for new contracts. It is through this cycle that we earn our status as a Trusted Advisor to our customers. We have seen the results of this approach by building solutions for some high profile and prestigious events, including voice and data solutions for the UK General Election and Papal Visit in 2010 and of course the Royal Wedding in 2011

### 3) Connectivity and mobility

Pinnacle's heritage is in connectivity and mobility, which consists of seven revenue streams: 1) Broadband services, 2) MPLS, 3) Ethernet, 4) SIP Trunks, 5) Voice minutes, 6) Fixed line rental, 7) Mobile services

Whilst on the face of it there seems little to measure between competing offerings in a crowded market, in the area of connectivity and mobility, we challenge the bigger players through our value proposition and have increased revenues whilst maintaining margins. For us to deliver solutions in this way, we need exceptional people and robust vendor relationships. We also need a deep understanding and control of the underlying technologies that come together to make the connectivity solution. Our preference is to own the solution from end-to-end, but where we do have to partner, we make sure that we select only the best vendors, those who can support us to deliver a seamless service to the customer

### 4) Software as a Service (SaaS)

SaaS is the new world of cloud computing, it allows us to leverage our data centre assets and deliver recurring revenue, which is derived from monthly subscriptions by customers having access to software applications that are hosted in the cloud and residing in our data centres. There are eight revenue streams to our SaaS offering, 1) Security, 2) Digital content, 3) Vertical markets, 4) CRM, 5) Business process, 6) Supply chain, 7) Business intelligence, 8) Business productivity suites

Buoyed by lower start-up and maintenance costs compared to on-premises application deployments, as well as the ability to distribute and share applications and documents through the cloud, businesses' appetite for SaaS applications is increasing and will become a large percentage of the group's turnover over time, particularly in the hosted desktop and CRM space

## CHIEF EXECUTIVE'S REVIEW (CONTINUED)

### 5) Infrastructure Services

Infrastructure services are another opportunity for us to leverage our data centre assets. Consisting of the following four revenue streams, 1) Colocation and hosting, 2) Platforms as a service (PaaS), 3) Infrastructure as a Service (IaaS), 4, Data security – data backup, disaster recovery, business continuity

A good example of leveraging our data centre assets is the acquisition of an IP CCTV business we made in July 2011. The UK CCTV market was an area that we felt we needed to break into because we see it as essentially an ISP business, this allows us to host the required IP CCTV hardware in our data centres at no extra cost to the company.

Most businesses demand round the clock CCTV surveillance from external monitoring companies and it was these monitoring companies that we sought to target as we entered this new service area. However, the key differentiator for us was service resilience. By offering a reliable IP connection with failsafe technology to 2G and 3G as a backup, we have developed a unique and innovative solution, combining IP and 2G/3G data into a single solution with seamless automatic failover. We now deliver a completely outsourced remote security and surveillance service, sending threat alerts back to the control centre. With this offering, we now supply Sotheby's, Unipart and Hilton Hotels to name but a few and look to develop these services further during the coming months and years.

Each of the five key elements in our converged managed services offering above make use of the skills and expertise we have developed in each of the three underlying industry disciplines of Mobile, IT and telecommunications services. You will find a breakdown of the performance in each discipline in Note 4 to the accounts.

Our strategy of cross-selling our customers the five elements of our converged managed services, differentiates us from our competitors who in the main only sell products. We sell solutions, a mutually agreed-upon answer to a customer's problem with measurable, often transformational improvements.

### Growth

By effectively executing our strategy, we managed to follow up on the success of last year and more than doubled the maiden operating profit we achieved in 2010 (before amortisation and exceptional costs), delivering £165,299 for the year to 2011 (2010 £78,647). There is often a balance for a growing company like ours, between profit preservation and investment in growth, but I am satisfied that we have achieved a good mix and believe we have given ourselves a solid base on which to grow in 2012.

In 2011 we achieved revenue growth of 29% over the previous year, delivering £8,522,079 of sales for the period. With 84% of turnover now coming from monthly recurring contracts, this stable and recurring revenue base allows us to grow the business in other more opportunistic and one-off areas, such as government contracts, education, health and the financial and professional service sectors. Of course, we always look to supplement one-off sales with new and ongoing contracts for support, maintenance and professional services, however, as we execute our plan to cross-sell converged managed services for our customers, I would expect to see the volume of recurring revenues grow overall, but I also expect to see the percentage of non-recurring revenues increase in 2012.

2011 has also been another very successful year from our telecommunications revenues, which grew by a further 33% over 2010 levels to just under £7m. Much of this increase in turnover was as a result of further developing our partnership with the BBC, other world broadcasters, media and event companies.

2011 year saw our revenues from mobile sales fall 15% on 2010 levels, down to £565,460 from £663,551 in 2010. This reflects the overall reduction seen in the commercial terms being offered to business partners from the mobile networks, plus a general fall in mobile hardware refresh rates from our customers. Mobile network providers have also moved away from connection bonuses, onto a longer-term revenue share model, which realigns our sales efforts and rewards high retention rates.

Gross margin from revenues fell from 30.4% in 2010, to 28.9% in 2011, in the main, this was due to lower margins from inbound non-geographic numbers, which followed a reduction in call rates to 0845 and 0870 numbers. Overall though, with the introduction of higher margin professional service revenues towards the later part of 2011 and continuing into 2012, we expect to be able to maintain regular margins in excess of 30% on an ongoing basis.

## CHIEF EXECUTIVE'S REVIEW (CONTINUED)

In 2011, due to an increase in headcount as a result of recent acquisitions, we saw a 14% increase in Administration Expenses of £288,420 over 2010. As business customers increasingly adopt converged technologies, combining telephony and IT into a single managed solution, we recognise the importance of increasing our intellectual capital as an organisation. Our sales effort stretches across the UK and we increasingly need technical staff to support our customer solutions across the country. We have seen that the SME market prefers to outsource IT and technical development of their business systems to specialist managed service providers such as Pinnacle and it is this space that we seek to develop further.

It is a testimony to the staff within Pinnacle that since September 2009, we have achieved 266% increase in revenues with only a 52% increase in Administration Expenses over the same period.

We still strive to achieve our first overall positive profit before tax, but the amortisation of acquired intangible assets as a result of growing partly through acquisition, creates a challenge in that respect. Nonetheless, we remain convinced that a strategy of acquiring complementary products, people and innovation into the group at the right price delivers enhanced shareholder value.

### Customer Retention

We strive for excellence in our service delivery whilst constantly looking to improve the way we do business, this approach enables us to increase the value in our service offering, and in this way, we successfully punch above our weight and win business from much larger competitors. However, we never underestimate the importance of excellent customer account management, and retention is a key area of focus within a service sector like ours. We regularly monitor the retention of customers on a monthly basis. For a business like ours, where we always look to cross-sell multiple product solutions to our customers, this is an important measure of our success and client surveys give us valuable insight into our customer experience.

Each year as part of the audit, we are required to look in detail at the performance of acquired customers who have come into the group. This year and for the second year running, as a result of buying additional products and services from other group companies, we have seen that customer bases acquired in 2009 and 2010 have actually increased their overall revenue with the group. This most recent customer retention review prompted us to amend our intangible asset amortisation policy for acquired customer bases post September 2008, as the Directors felt that writing the value of these customer bases down to the profit and loss account over a period of five years was too aggressive, given the actual positive retention rates seen. We have therefore, chosen to amortise the remaining value of customer bases and intellectual property acquired since September 2008 over the maximum allowed of ten years. This change reduced the amortisation charge in the period by £82,702.

As our strategy of cross-selling the five elements of our converged managed services proposition takes hold, it is becoming more and more common for customers to take service from many areas of our offering within three years of joining us. This is testimony to our account management and customer service efforts. Cross-selling increases our profit per customer and dramatically decreases the likelihood of our customer's switching to a competitor, thereby improving our customer retention.

### Acquisitions

It has been a successful year on the acquisition front, the range of products and services that we now have in our portfolio allows us to offer converged managed solutions, covering all areas of design, implementation, training and ongoing management. We have a track record of successfully integrating acquisitions into the group and these additions further increased the group's intellectual capital and technical service offering. We are fortunate to have assembled such a great team of skilled and motivated individuals.

The acquisition of an IP CCTV business in July 2011 allowed us to break into the CCTV market. In 2010, the value of the CCTV market is believed to have increased by an estimated 3% to £1.2bn. We see IP CCTV as essentially an ISP business, this allows us to host the required IP CCTV hardware in our data centres at no extra cost to the company.

**CHIEF EXECUTIVE'S REVIEW (CONTINUED)**

The acquisitions of MacLellan IT Limited and Online Computer Developments Limited in August 2011 and October 2011 respectively, were important milestones. It is one thing to develop and sell innovative technical solutions to our customers, but the implementation and post-sales support of these solutions is arguably the most important value added service. These acquisitions brought us a solid base of technical staff with a wide range of desktop, server and virtualisation experience. All our research shows that these are the areas where customers will increase spend over the next five years. Equally important, these acquisitions give us a strong foothold in the IT services market in Scotland, expanding our reach across Glasgow, Edinburgh and Fife, from our offices in Paisley, Glasgow and Dunfermline. This puts us in the right place, working hand in hand with our customers to deliver new technologies into their business as they grow and granting us trusted advisor status with all of our customers.

This move to develop IT revenues by your Company does not mean that we have forsaken our traditional telephony background. We are experts in connectivity and voice solutions. It is this experience gained over many years, which when coupled with our IT expertise, puts us in first place to cross-sell converged managed solutions to the UK business community. There is no sign that revenues in the telephony sector will disappear, although ultimately, over the next ten years, we do see most companies moving from traditional voice, to voice over IP solutions. For us, traditional telephony is the cash generative elder in our portfolio of services and gives us the free cash flow to invest in new and emerging solution based revenues.

On the 9th October 2011, we successfully completed the acquisition of RMS Managed ICT Security Limited ("RMS"), which was recently voted McAfee Partner of the Year and can boast a customer base of some of the most prestigious and well-respected organisations in the world. These larger corporate customers trust and rely on RMS to deliver and manage their security solutions and lock down their networks from attack. We are truly delighted to have secured this acquisition, RMS has a very different customer profile to the rest of the group companies and we see this as an opportunity to develop high-end cross-selling opportunities of the enlarged customer portfolio into this sector.

Whilst a large percentage of the RMS revenues come from recurring security software solutions, our value-add in this growing market is professional services. We differentiate in this area through our expertise from pre-sale design, through to regular health-checks, audits, stress testing, ongoing training and service management. We invest a lot of business resources to ensure sure that our engineers are fully accredited and trained in all current and developing technologies, and our relationship with our Vendor partners is key in this respect.

Whilst I expect to grow revenues organically, we will continue to seek out well-priced and timely acquisitions in synergistic markets to help underpin our organic growth efforts.

**High-Profile Contracts**

This year saw us deliver connectivity solutions to over 170 media events across the UK, supporting broadcasts to countries all over the world. None were more memorable than the voice and data broadcasting solutions we supplied for the Royal Wedding in April 2011. This event captured the hearts of the nation and enthralled the rest of the world in a display of true British ceremony. It was a major contract win for us and whilst it was extremely high-profile, it came with no margin for error. For the BBC, CNN (USA), Seven Network (Australia) and Global Television Network (Canada), we supplied services opposite Buckingham Palace at Canada Gate, the Mall and Horse Guards Road, along Whitehall and Downing Street and opposite Westminster Abbey. I am extremely proud of the solution that we delivered at this historic event. I am delighted to report that the solutions we deployed were delivered without a glitch.

This year also saw us move into data and connectivity market for UK sporting events with the development of a new relationship with IMG Media ("IMG"). IMG is the world's largest independent producer and distributor of sports programming. For IMG in 2011 we delivered for voice and data networks for The Women's Golf Open at Carnoustie, the Dunhill Links Championship at Carnoustie, St Andrews and Kingsbarns, and the Johnnie Walker Classic Championship held at Gleneagles.

We expect to continue to win contracts of this nature and were delighted to announce (post year-end) our involvement in the London 2012 Olympic and Paralympic Games.

**CHIEF EXECUTIVE'S REVIEW (CONTINUED)****Summary**

In summary, 2011 has been another very successful year

We have progressed with our strategy to build a converged managed services business of scale, by cross-selling our customers the five elements of our converged managed services proposition and we are now starting to see positive results coming through

In the year ended 30 September 2011, we increased our operating profit by 110%, EBITDA by 67%, gross profit by 18% and turnover by 29%. We have now delivered 740% growth in turnover since 2007 and at the same time enhanced shareholder value

In July we acquired the Business and Assets of an IP CCTV business delivering combined resilient and "always on" IP and 3G connectivity, for high-profile IP CCTV monitoring. We now supply companies such as Sotheby's, Unipart and Hilton Hotels. In August we acquired the Business and Assets of MacLellan IT Limited, a well established profitable IT company for 186,046,491 shares at a premium of 58% per share, equivalent to £669,767. MacLellan are delivering increased IT consultancy and support revenues in Scotland

We continue to supply the BBC with voice and data services for high-profile and prestigious events, delivering solutions to over 170 media events in 2011, which included the Royal Wedding. We also have confirmed orders in place for the London 2012 Olympic and Paralympic Games, supporting the BBC as the host broadcaster to the world's media

As a small company surrounded by industry giants, we continually punch above our weight and I would like to take this opportunity to thank each and everyone who contributed to the result in 2011. We can be extremely proud of the solutions that have been deployed and the service we deliver to our customers

Importantly however, whilst the period to 30th September 2011 has been a very successful year, we have made significant progress post year-end. Our strategy is working and I look forward to further updating you of our progress as the year unfolds

**Alan J Bonner**  
**CHIEF EXECUTIVE OFFICER**  
20 February 2012

## **CORPORATE GOVERNANCE**

As the company is listed on AIM it is not required to comply with the provisions of the UK Corporate Governance Code, which is mandatory for companies with a primary listing on the main market of the London Stock Exchange. This code, among other things, sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders.

Although the company is not required to comply with the provisions of the Code, 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.

Your board considers that at this stage in the Group's development, the expense of full compliance with the UK Corporate Governance Code is not appropriate.

### **Directors and the board**

The board directs the Group's activities in an effective manner through 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 independent professionals at the Group'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 size of the board is considered to be appropriate to the current size and character of the Group. The non-executive directors are independent of management and any business or other relationships which could interfere with the exercise of their independent judgment. The roles of chairman and chief executive are separate appointments and it is board policy that this will continue.

The board has established two committees, the audit committee and the remuneration committee. Membership of both the audit committee and the remuneration committee is exclusively non-executive. A nominations committee will be established should it be required. Bill Allan is chairman of the remuneration committee and John Anderson of the audit committee.

A separate report on directors' remuneration is set out on pages 11 to 13, this is to be approved by the shareholders at the annual general meeting.

Under the company's articles of association, the nearest number to one third of the board shall retire each year by rotation.

### **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 once a year with the external auditors. The audit committee reviews the independence and objectivity of the external auditors. The committee reviews the nature and amount of the non-audit work undertaken by the auditors to satisfy itself that there is no effect on their independence. The committee is satisfied that Grant Thornton UK LLP are independent.

### **Risk management**

The board has established a risk register which is formally reviewed during each calendar year.

### **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, 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.

**CORPORATE GOVERNANCE (CONTINUED)****Internal financial control**

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

- Financial reporting: there is in place a comprehensive system of financial reporting based on the annual budget which the board approves. The results for the Group as a whole and each business segment are reported monthly, along with an analysis of key variances. Year-end forecasts are updated on a regular basis.
- Investment appraisal: applications for capital expenditure are made in a prescribed format which places emphasis on the commercial and strategic as well as the financial justification. All significant projects require specific board approval.

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

**Relations with shareholders**

The company values the views of its shareholders and recognises their interest in the Group's strategy and performance, board membership and quality of management.

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

The company uses its website, [www.pinnacletelecomgroup.co.uk](http://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 maintained on the website.

**Attendance at Board and Committee Meetings**

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

	Board		Audit		Remuneration	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
W Allan	11	11	1	1	1	1
J C Anderson	11	11	1	1	1	1
A Bonner	11	11	-	-	-	-

## REPORT OF THE BOARD TO THE MEMBERS ON DIRECTORS' REMUNERATION

The remuneration committee has given consideration to the UK Corporate Governance Code issued by the Financial Reporting Council in framing its remuneration policy. As the company is listed on AIM, it is not required to comply with the provisions of Section 412 of the Companies Act 2006. The following disclosures are voluntary as is resolution 2 to approve this report at the annual general meeting.

### Remuneration committee

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

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

The committee meets at least once a year.

### Remuneration of executive director

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

- **Base salary**  
The remuneration committee sets the base salary to reflect responsibilities and the skill, knowledge and experience of the individual. The executive director does not receive a director's fee.
- **Bonus scheme**  
The executive director is eligible to receive a bonus on top of his basic salary dependent on individual and Group performance at the discretion of the remuneration committee. Performance conditions are set to ensure they are relevant and stretching.
- **Car allowance**  
The executive director is entitled to a car allowance.
- **Pensions**  
There are no pension provisions for the executive director.
- **Share options**  
The executive director is entitled to participate in share option schemes.
- **Other benefits**  
The executive director receives private medical insurance.

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

### Remuneration of non-executive directors

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

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

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

	Salary and fees paid or receivable	Bonus paid or receivable	Pension contributions	Other benefits	2011 total	2010 total
	£	£	£	£	£	£
<b>Non- Executive</b>						
W Allan	31,904	-	-	-	31,904	18,000
J C Anderson	10,000	-	-	-	10,000	10,000
<b>Executive</b>						
A Bonner	85,800	11,000	-	8,895	105,695	143,169
<b>Totals</b>	<b>127,704</b>	<b>11,000</b>	<b>-</b>	<b>8,895</b>	<b>147,599</b>	<b>171,169</b>

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

	2011 £	2010 £
<b>Name of Director</b>		
A J Bonner	7,512	7,512
<b>Total</b>	<b>7,512</b>	<b>7,512</b>

**Directors' interests in shares**

The interests of the Directors' in the ordinary shares of the Company at 30 September 2011 together with their interests at 1 October 2010 were as follows

	2011 £	2010 £
<b>Name of Director</b>		
W Allan	5,714,286	5,714,286
A J Bonner	189,076,972	187,076,972
J C Anderson	1,428,571	1,428,571

**Directors' interests in loan notes**

The interests of the Directors in the loan notes of the Company, referred to in note 16, at 30 September 2011 together with their interests at 1 October 2010 were as follows

	2011 £	2010 £
<b>Name of Director</b>		
A J Bonner	25,000	25,000
J C Anderson	-	5,000

**REPORT OF THE BOARD TO THE MEMBERS ON DIRECTORS' REMUNERATION (CONTINUED)****Directors' interests in share options**

The interests of the current Directors in options over the ordinary shares of the Company at 30 September 2011 together with their interests at 1 October 2010 (or date of appointment if later) were as follows

	1 October 2010	Granted	Lapsed	30 September 2011	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

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

	1 October 2010	Granted	Lapsed	30 September 2011	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. When these options were issued, the Remuneration Committee regarded absolute shareholder return as a valid performance criteria relating to all options granted, based on the fact that the Group was not trading profitably and its share price had fallen materially. The Remuneration Committee do, however, regard adjusted EBITDA as the key performance measurement and future options, if any, will take due regard of this measurement.

Of the total options granted to Directors, 71,545,455 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 8,333,333 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 347p and the range of prices during the period was between 0 475p and 0 30p.

By order of the Board

**Bill Allan**  
Chairman, Remuneration Committee  
20 February 2012

**DIRECTORS' REPORT**  
**for the year ended 30 September 2011****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 2011

**Principal activity**

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

**Business review**

The business review contained within the Chairman's Statement on page 2 and the Chief Executive's review on pages 3 to 8, together with the key performance indicators and principal risks and uncertainties disclosed below have been provided by the directors in accordance with the Companies Act 2006

The Company has disclosed the main trends and factors likely to affect the future development, performance and position of the business

**Key performance indicator review**

The major key performance indicators that the Directors monitor are turnover, EBITDA, gross margin, total Group overheads, cash and capital expenditure

- Turnover increased by £1.9m on 2010 levels, increasing contracted recurring revenues to 84% during the year
- Adjusted EBITDA, which excludes exceptional items, was up £100,501 in the year, an increase of 67% over 2010
- Gross margin increased by £375,072 on the previous year, representing 28.9% of revenues
- Total administration costs increased by only 14% or £288,420 during the year, despite supporting revenue growth of 29% over the same period
- Cash at the year-end amounted to £452,431, following investment of £143,274 in capital assets and development and £55,606 repayment of prior financing activities, including interest
- The Group delivered its maiden net positive cash flow from operating activities to support the investment program

**Principal risks and uncertainties**

Section 417(3) of the Companies Act 2006 provides that the business review must contain a description of the principal risks and uncertainties. The board has established a formal process to identify risks and uncertainties through the production and maintenance of a risk register. There are a number of principal risks and uncertainties which have been identified as a result of this process which could have a material impact on the Group's future performance. At all times, the board seeks to mitigate these risks and uncertainties. These are not all the risks which the board has identified but those principal risks and uncertainties that the Directors currently consider to be the most material. In addition to these risks Note 23 contains details of financial risks

- **Working capital**

**Risk** 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

**Mitigation** The board seeks to mitigate this risk by carefully managing the costs and cash resources of the Group. Cash is micro managed on a day to day basis by the senior management team

**DIRECTORS' REPORT (CONTINUED)**

- **People**

**Risk** 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.

**Mitigation** 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. The board and senior management regularly review employee salaries and benefits in line with those offered for commensurate roles in the market to aid retention.

- **Reputational damage**

**Risk** The Group provides an essential service to an extensive client base many of whom rely on the provision of that service in order to run their businesses. Any diminution in the level of service could have serious consequences for customer acquisition and retention.

**Mitigation** Our high level of recurring revenue and our low level of customer attention are evidence of our ability to provide the level of service required and maintain our reputation in the market. Solutions that are high profile or with critical deadlines are handled by senior management as part of a project delivery team, headed by a Director.

- **Key suppliers**

**Risk** The Group is dependent on certain key suppliers for the continued operation of its business. The most significant of which are those for electricity, bandwidth, servers and the delivery of calls and access from licensed operators, particularly BT.

**Mitigation** In all cases these supplies are obtained from reputable organisations chosen after a thorough selection process. In the case of BT, we rely on the regulatory framework provided by the regulator, OFCOM. The Group actively seeks to maintain good relationships with its chosen suppliers. The Group also seeks to maintain either several sources of supply or alternative sources of supply.

- **Bad debts**

**Risk** 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 2012 as companies continue to realign their cost base. 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.

**Mitigation** 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. Those that are not on direct debit are also carefully monitored and the Group takes appropriate action to recover older debt including engaging with a debt collection agency to recover delinquent debt.

- **Competition**

**Risk** We pride ourselves in being competitive coupled with having the ability to deliver a solutions based service that enhances the customer's business. Although the economic outlook has marginally strengthened since 2010, a 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.

**Mitigation** We deliver a complete communications solution to the customer which, in many cases, is cheaper than legacy products. Our disconnect rate is modest. Due to the nature of VoIP technology, competition exists from the traditional telecom reseller market as well as from IT services businesses. However, the Group considers this as an opportunity as well as a competitive threat, as most of these businesses do not have their own proprietary IP platform. To mitigate downward pressure on price, the Group sets out to buy services at the highest point in the value chain and will source supply direct from wholesale network providers, where it cannot own the infrastructure from end to end.

**DIRECTORS' REPORT (CONTINUED)**

- **Technology**

**Risk** As we move towards an IP solution for our customers' needs, there is an increasing technology risk, particularly with the reliability and speed of broadband, which is of fundamental importance to the customer solution. The development of IP is moving very quickly, and certain technologies which exist today may well be obsolete quicker than expected in the future. This would have a negative impact on the Group who would be exposed to higher costs, not necessarily recoverable from the client.

**Mitigation** The VoIP platform developed by Sipswitch gives the Group ownership of a proprietary solution. Solwise is able to undertake technology development to its own account and does not rely on third parties for its VoIP solution.

- **Financing**

**Risk** 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.

**Mitigation** The Group continues to carefully monitor its cash resources, and its forward plans are regularly updated. Should the board believe that additional capital is required, it would move quickly to achieve this.

The above is not an exhaustive list, and it should not be taken as such, but it does cover the principal areas of risk and uncertainties which the board continues to focus on.

**Results and dividends**

The Group's loss on ordinary activities after taxation was £190,293 (2010 £270,739). The audited financial statements of the Group are set out on pages 21 to 50. The Directors do not propose a dividend for the year ended 30 September 2011 (2010 £Nil).

**Directors and their interests**

The present membership of the Board is as follows:

William Allan, Non-Executive Chairman  
 Alan J Bonner, Chief Executive Officer  
 John C Anderson, Non-Executive Director

In accordance with the Company's articles of association, William Allan 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 make up of the Board during the year, are set out in the report of the Board to the members on Directors' remuneration on pages 11 to 13.

**Acquisitions**

During the year the Company acquired the business assets of Multilayer Limited, a provider of resilient IP-CCTV solutions and MacLellan IT Limited, a highly regarded IT Managed Services provider covering East Scotland. Post year end, the Group also acquired Online Computer Development Limited, an IT Managed Services provider focused on West Scotland and IT Security experts RMS Managed ICT Security Limited.

**Substantial shareholdings**

At 18 February 2012 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	190,273,709	9.10
A J Bonner	189,076,972	9.05
Huntingtower Limited	184,046,491	8.90
P Goodland	178,273,709	8.53
S Dronfield	84,136,855	4.03
S Patel (1)	74,556,571	3.57

<sup>1</sup> Includes the interests of his wife, N Patel

**DIRECTORS' REPORT (CONTINUED)****Share capital**

The share capital during the year and the number of ordinary shares reserved for issue are shown in Note 17 to the consolidated financial statements

**Post balance sheet events**

On 6 October 2011, the Company acquired the entire issued share capital of Online Computer Developments Limited, an IT services company based in Scotland. Also on 10 October 2011, the Company also acquired Stoke on Trent based IT security experts, RMS Managed ICT Security. Full details can be found in Note 24

**Employee involvement**

All companies within the Group 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 2011, calculated in accordance with the requirements of the Companies Act 2006, were 47 days (2010: 53 days). Trade creditor days of the Parent Company at 30 September 2011, were 36 days (2010: 81 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 23 to the consolidated financial statements

**Financial instruments**

The Group's financial instruments comprise cash and liquid resources and finance leases together with various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Group's operations. The main risk to the Group is interest rate risk arising from floating rate interest rates

The Group's borrowings at 30 September 2011 comprise finance leases totalling £23,857 (2010: £49,653). The interest rates on the finance leases are fixed for the term of the lease at between 7.5% and 12%

On 30 September 2009, Pinnacle created £250,000 unsecured convertible loan notes in units of £5,000. On 30 September 2010, notes for a nominal value of £125,000 were issued at par. The loan notes are not transferable and may be redeemed (in whole or in part) by Pinnacle, at its sole discretion, at any time. The loan notes become repayable on demand in the event of a specified default by Pinnacle

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

All loan notes are convertible into ordinary shares by Pinnacle at any time after the second anniversary following issue, or alternatively by the holders of the loan notes at any time following the period of thirty days after the second anniversary of the loan notes. The interest accrues on a day to day basis and is payable monthly in arrears

The directors consider the value of the loan notes to be £138,529 taking into consideration the principal sum of £120,000 and the fair value of the early prepayment option, should the loan be converted into shares, less the present value of the interest payable in arrears as governed by IAS32. Additional information on financial instruments is included in Note 16

**DIRECTORS' REPORT (CONTINUED)****Research and Development**

As part of the acquisitions of Sipswitch Limited in 2010 and MacLellan IT Limited in 2011, the Group acquired a number of proprietary software applications. The Group is committed to the continued research and development of advanced technical applications that enhance the services and solutions available to customers, where they demonstrate potential to generate future profitable revenue streams.

**Political and charitable donations**

The Group did not make any charitable or political donations in either the current or the previous year.

**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.

**Awareness of relevant audit information**

So far as each of the directors, at the time the report is approved, is aware

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

**Website disclaimer**

The maintenance and integrity of the Pinnacle Telecom Group plc website is the responsibility of the directors. The work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in the other jurisdictions.

**Annual General Meeting**

Notice of the Annual General Meeting is set out on pages 59 to 62. Information relating to certain of the resolutions is given or referred to in the notes forming part of the notice.

**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

20 February 2012

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the Annual Report of the Group and the Parent Company Financial Statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Parent Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting 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 adequate accounting records that are sufficient to show and explain the company's transactions and 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 safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**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 2011 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

**Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 19, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

**Opinion on financial statements**

In our opinion the Group financial statements

- give a true and fair view of the state of the Group's affairs as at 30 September 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

**Opinion on other matter prescribed by the Companies Act 2006**

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

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following. Under the Companies Act 2006 we are required to report to you if, in our opinion

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

**Other matter**

We have reported separately on the parent company financial statements of Pinnacle Telecom Group plc for the year ended 30 September 2011.



Andrew Howie  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
1 - 4 Atholl Crescent,  
Edinburgh  
EH3 8LQ

20 February 2012

**CONSOLIDATED INCOME STATEMENT**  
for the year ended 30 September 2011

	Note	Year ended 2011 £	Year ended 2010 £
<b>Revenue</b>	4	8,522,079	6,608,533
Cost of sales		(6,057,550)	(4,519,076)
<b>Gross profit</b>		2,464,529	2,089,457
Administrative expenses		(2,299,230)	(2,010,810)
Operating profit before amortisation of intangibles and exceptional costs		165,299	78,647
Share of profit/(loss) from associate	10	8,684	(1,830)
Exceptional costs relating to acquisition	3	(23,031)	(18,216)
Embedded fair value adjustment in convertible loan	16	(10,062)	(8,467)
Amortisation of intangibles		(239,195)	(296,206)
<b>Operating loss</b>	5	(98,305)	(246,072)
Interest receivable		349	3
Interest payable		(19,360)	(22,495)
Finance costs	6	(19,011)	(22,492)
<b>Loss before tax</b>		(117,316)	(268,564)
Taxation	18	(997)	18,904
<b>Loss for the period from continuing operations</b>	19	(118,313)	(249,660)
<b>Discontinued operations</b>			
Loss for the period from discontinued operations		(71,980)	(21,079)
<b>Loss for the year</b>		(190,293)	(270,739)
<b>Loss per share</b>			
- basic and fully diluted - continuing	8	(0 01)p	(0 01)p
- basic and fully diluted - discontinued	8	0 00p	0 00p
- basic and fully diluted - total	8	(0 01)p	(0 01)p

**CONSOLIDATED INCOME STATEMENT (CONTINUED)**  
for the year ended 30 September 2011

	Year ended 2011	Year ended 2010
<b>Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA)</b>		
	£	£
Operating loss	(98,305)	(246,072)
Add back amortisation	239,195	296,206
Add back depreciation	108,990	99,244
<b>EBITDA for the year</b>	<b>249,880</b>	<b>149,379</b>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
for the year ended 30 September 2011

	Year ended 2011	Year ended 2010
	£	£
Loss for the year from total operations	(190,293)	(270,739)
Total comprehensive negative income for the year	(190,293)	(270,739)
Attributable to equity holders of the parent	(190,293)	(270,739)

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
as at 30 September 2011

	Note	2011 £	2010 £
<b>Non-current assets</b>			
Intangible assets	9	1,267,813	859,217
Investments in Associated Companies	10	176,559	167,875
Research and Development Asset	11	220,544	195,834
Property, plant and equipment	11	166,989	136,244
<b>Total non-current assets</b>		<b>1,831,905</b>	<b>1,359,170</b>
<b>Current assets</b>			
Inventories	13	97,661	73,190
Trade and other receivables	14	1,576,303	1,220,871
Cash and cash equivalents	15	452,431	697,189
<b>Total current assets</b>		<b>2,126,395</b>	<b>1,991,250</b>
<b>Total assets</b>		<b>3,958,300</b>	<b>3,350,420</b>
<b>Liabilities</b>			
Short term borrowings		(9,976)	(27,115)
Trade and other payables		(1,092,069)	(968,006)
Other taxes and social security costs		(170,162)	(176,814)
Accruals and other payables		(844,071)	(649,614)
<b>Total current liabilities</b>	16	<b>(2,116,278)</b>	<b>(1,821,549)</b>
Non-current liabilities			
Long term borrowings	16	(28,882)	(209,128)
<b>Total liabilities</b>		<b>(2,145,160)</b>	<b>(2,030,677)</b>
<b>Net assets</b>		<b>1,813,140</b>	<b>1,319,743</b>
<b>Equity</b>			
Share capital		5,667,056	5,481,009
Share premium account		4,044,052	3,560,331
Merger reserve		283,357	283,357
Other reserve		38,948	25,026
Fair value adjustment		(1,064,130)	(1,064,130)
Profit and loss reserve		(7,156,143)	(6,965,850)
<b>Total equity</b>	17	<b>1,813,140</b>	<b>1,319,743</b>

These financial statements were approved and authorised for issue by the Board of Directors on 20 February 2012  
Signed on behalf of the Board of Directors by

  
A J Bonner  
Chief Executive Officer

The accompanying accounting policies and notes form an integral part of these financial statements  
**COMPANY NUMBER 05259846**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
for the year ended 30 September 2011

	Share capital	Share premium	Merger Reserve	Other reserve	Fair value	Retained earnings	Total
<b>At 1 October 2009</b>	5,316,488	3,238,902	114,392	11,104	(1,064,130)	(6,695,111)	921,645
Loss and total comprehensive loss for the period and expense for the period	-	-	-	-	-	(270,739)	(270,739)
<b>Transactions with owners</b>							
Share Issue	164,521	-	-	-	-	-	164,521
Share based payments	-	-	-	13,922	-	-	13,922
Premium on Share Issue	-	321,429	168,965	-	-	-	490,394
<b>Total Transactions with owners</b>	<b>164,521</b>	<b>321,429</b>	<b>168,965</b>	<b>13,922</b>	<b>-</b>	<b>-</b>	<b>668,837</b>
<b>Total movements</b>	<b>164,521</b>	<b>321,429</b>	<b>168,965</b>	<b>13,922</b>	<b>-</b>	<b>(270,739)</b>	<b>398,098</b>
<b>Equity at 30 September 2010</b>	<b>5,481,009</b>	<b>3,560,331</b>	<b>283,357</b>	<b>25,026</b>	<b>(1,064,130)</b>	<b>(6,965,850)</b>	<b>1,319,743</b>
<b>At 1 October 2010</b>	5,481,009	3,560,331	283,357	25,026	(1,064,130)	(6,965,850)	1,319,743
Loss and total comprehensive loss for the period and expense for the period	-	-	-	-	-	(190,293)	(190,293)
<b>Transactions with owners</b>							
Share Issue	186,047	-	-	-	-	-	186,047
Share based payments	-	-	-	13,922	-	-	13,922
Premium on Share Issue	-	483,721	-	-	-	-	483,721
<b>Total Transactions with owners</b>	<b>186,047</b>	<b>483,721</b>	<b>-</b>	<b>13,922</b>	<b>-</b>	<b>-</b>	<b>683,690</b>
<b>Total movements</b>	<b>186,047</b>	<b>483,721</b>	<b>-</b>	<b>13,922</b>	<b>-</b>	<b>(190,293)</b>	<b>493,397</b>
<b>Equity at 30 September 2011</b>	<b>5,667,056</b>	<b>4,044,052</b>	<b>283,357</b>	<b>38,948</b>	<b>(1,064,130)</b>	<b>(7,156,143)</b>	<b>1,813,140</b>

**Note**

\* Represents the difference between the fair value of the customer base measured using IFRS2 and the actual consideration paid for the assets of the business

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
for the year ended 30 September 2011

	2011 £	2010 £
<b>Cash flows from operating activities</b>		
Loss before taxation	(117,316)	(268,564)
<u>Adjustments for</u>		
Depreciation	108,990	99,244
Amortisation	239,195	296,206
Share of (profit)/loss from associate	(8,684)	1,830
Share option charge	13,922	13,922
Fair value adjustment for convertible loan	10,062	8,467
Interest expense	19,011	22,492
Payment of corporation tax	(997)	-
Increase in trade and other receivables	(318,467)	(216,973)
Increase in inventories	(24,471)	(42,445)
Increase/(decrease) in trade payables, accruals and other creditors	104,507	(68,556)
<b>Net cash flow from operating activities</b>	<b>25,752</b>	<b>(154,377)</b>
<b>Cash flows from discontinued activities</b>		
Loss of discontinued activities before taxation	(71,980)	(21,079)
<b>Cash flows from investing activities</b>		
Acquisition of business assets, net of cash acquired	(45,000)	(20,525)
Capitalisation of Software Development costs	(68,000)	
Purchase of property, plant and equipment	(30,274)	(93,377)
Interest received	349	3
<b>Net cash used in investing activities</b>	<b>(142,925)</b>	<b>(113,899)</b>
<b>Cash flows from financing activities</b>		
Issue of shares	-	450,000
Repayment of convertible loans	(5,000)	-
Payment of finance lease liabilities	(31,245)	(23,703)
Interest paid	(19,360)	(22,495)
<b>Net cash from financing activities</b>	<b>(55,605)</b>	<b>403,802</b>
Net (decrease)/increase in cash	(244,758)	114,447
Cash and cash equivalents at beginning of period	697,189	582,742
<b>Cash and cash equivalents at end of period</b>	<b>452,431</b>	<b>697,189</b>
Cash and cash equivalents comprise		
Cash and cash equivalents	452,431	697,189
Bank overdrafts	-	-
	<b>452,431</b>	<b>697,189</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1 General information

Pinnacle Telecom Group plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on the inside back cover of this report. The nature of the Group's operations and its principal activities are set out in the Chief Executive's Review and Directors' report. The financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which each of the Group's subsidiaries operates.

#### 1.1. Basis of preparation

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

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

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.

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

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:

IFRS 9 Financial Instruments (effective 1 January 2013)  
Prepayments of a Minimum Funding Requirement

These standards are not yet effective and have not been adopted early by the Group, neither are they expected to have any material impact on the Group's consolidated financial statements.

The financial statements for the year ended 30 September 2011 were approved by the Board of Directors on 20 February 2012.

## 2 Principal Accounting Policies

### a) Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 30 September 2011. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

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

Acquisitions of subsidiaries are dealt with 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### a) Basis of consolidation (continued)

Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Associates are those entities over which the Group has significant influence but which are neither subsidiaries nor interests in joint ventures. Investments in associates are recognised initially at cost and subsequently accounted for using the equity method. Acquired investments in associates are also subject to purchase method accounting. However, any goodwill or fair value adjustment attributable to the share in the associate is included in the amount recognised as investment in associates.

All subsequent changes to the share of interest in the equity of the associate are recognised in the Group's carrying amount of the investment. Changes resulting from the profit or loss generated by the associate are reported in "share of profits of associates" in the consolidated income statement and therefore affect net results of the Group.

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

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

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

### b) Goodwill

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

### c) Revenue and revenue recognition

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

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

The Group recognises three segments for monitoring and reporting purposes:

- Mobile services
- IT
- Other telecommunications services

#### **Mobile services**

Mobile network services (voice and data) principally consist of service and usage charges. Service charges are recognised evenly over the period to which the service relates. Usage charges are recognised in the period when the service is received by the customer.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****c) Revenue and revenue recognition (continued)****IT**

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.

**Other telecommunications services**

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

The Group sells and installs telephony systems. Revenue from the sale and installation of hardware and associated licences is recognised in the income statement when the significant risks and rewards of ownership have passed to the buyer, usually on installation. External costs associated with the installation are recorded as work-in-progress until the revenue has been recognised. Revenue in respect of licences is only recognised where there are no ongoing obligations. Where ongoing obligations exist revenue is deferred as appropriate. The system may be sold as part of

a package including network services and maintenance. Customer discounts, such as free maintenance or free line rental for a period of the contract, are apportioned between the system sale and the associated service based on sales value.

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

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

**d) Foreign currencies**

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. All other exchange differences are dealt with through the income statement.

**e) Property, plant and equipment**

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

**f) Disposal of assets**

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

**g) 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
- is a subsidiary acquired exclusively with a view to resale

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****g) Discontinued operations (continued)**

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

**h) Depreciation**

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

Plant and equipment –three years

IT equipment –three years

Fixtures, fittings and leasehold improvements –three years

Motor vehicles –three years

Software development –five years

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

**i) 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 to 10 years
- Customer lists to be amortised over 5 to 10 years
- Custom Voice over internet systems to be valued and amortised over a maximum of 10 years

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

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at cash generating unit 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. Impairment reviews are carried out using five year cash flow projections, with a 15% weighted average cost of capital. Cash flows from acquired customer bases are assumed to decrease at a rate of 20% per annum. Goodwill and other intangible assets with an indefinite useful life, and those intangible assets not yet available for use, are tested for impairment at least annually. All individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

**k) Leased assets**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****k) Leased assets (continued)**

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

**l) Inventories and work in progress**

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

**m) Taxation**

Current tax is the tax currently payable based on taxable results for the year.

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

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

**n) 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 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****o) 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

**p) Financial liabilities**

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

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

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

**q) Equity**

Equity comprises the following

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

**r) Employee benefits**

Share-Based Payment – Equity settled

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

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

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

**s) Critical accounting judgements and key sources of estimation uncertainty*****Critical judgements in applying the Group's accounting policies***

The Group has made two business asset acquisitions during the year from Multilayer Limited and MacLellan IT 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****s) Critical accounting judgements and key sources of estimation uncertainty (continued)**

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**

Intangible assets are non-physical assets which have been obtained as part of an acquisition and which have an identifiable future economic benefit to the Group at the point of acquisition. Customer bases are valued at acquisition by measuring the future discounted cashflows over a five year period from the date of acquisition assuming diminution for retention at 80% per annum, using a 15% weighted average cost of capital. IT systems and software development are valued at cost.

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

The key judgement for the carrying value of intangible assets is the cash flows associated with the intangible assets. Each of the intangible assets held by the Group continues to generate discounted 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.

**Share-based payments**

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they were granted. Judgement is required in determining the most appropriate valuation model for a grant of equity instruments depending on the terms and conditions of the grant. Management are also required to use certain assumptions in determining the most appropriate inputs to the valuation model including expected life of the option, volatility, risk free rate and dividend yield. The assumptions and models used are fully disclosed in note 7.

**Contingent consideration**

Under IFRS 3 Business combinations, contingent consideration is included in the cost of a business combination to the extent that it is deemed probable and can be measured reliably. This requires management to assess the probability and to estimate the financial impact of events on which consideration is contingent.

**3 Acquisitions****3.1. Acquisition of Multilayer Limited**

On 7 July 2011, Pinnacle Telecom Plc acquired the customer agreements and intellectual property rights residing in Multilayer Limited for a total consideration of £45,000 in cash. The acquisition of this IP CCTV business allowed the Group to enter the CCTV market at low cost and enhances the offering to Group customers. 100% of the consideration relates to the customer base and was satisfied in full prior to 30 September 2011. Exceptional costs in relation to the transaction were £3,081.

In the twelve months prior to acquisition, Multilayer Limited generated IP CCTV revenues of £106,957, but was loss making. Following the successful integration of the core IP technology into the Paisley Data Centre, this business is cash generative. As a result of this acquisition, the IP CCTV customer base generated revenues of £26,529 between 7 July 2011 and 30 September 2011.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****3.1 Acquisition of Multilayer Limited (continued)**

It is not possible to separately identify the revenues, costs and operating profits of the assets acquired with any degree of certainty, for the period 1 October 2010 to 6 July 2011 for disclosure under IFRS3(R) as only part of the trading assets of Multilayer Limited were acquired by the Group

**3.2 Acquisition of MacLellan IT Limited**

On 1 August 2011, the Group acquired the business and assets of MacLellan IT Security Limited for a total consideration of £669,767 satisfied by the issue of 186,041,491 ordinary shares at a price of 0.36p per share, being the mid-market price per share at the close of business on 29 July 2011. The sellers are unable to dispose of any shares, subject to certain exceptions, until a 20 month period has elapsed after completion

The acquisition delivered a solid base of technical staff with a wide range of desktop, server and virtualisation experience to allow the Group's to further develop its plan of cross-selling reciprocal business into the customer base

The total purchase price of £669,767 was allocated as £602,791 for the intangible asset relating to the customer base, £60,279 for the intellectual property rights relating to the Mainstay leisure management application, £5,893 relating to tangible fixed assets and £804 to stock items. Exceptional costs in relation to the transaction were £12,450

As a result of this acquisition, the MacLellan IT customer base generated revenues of £132,214 between 1 August 2011 and 30 September 2011. It is not possible to separately identify the revenues, costs and operating profits of the assets acquired with any degree of certainty, for the period 1 October 2010 to 31 July 2011 for disclosure under IFRS3(R) as only part of the trading assets of MacLellan IT Limited were acquired by the Group

**4 Segment Reporting**

The chief operating decision-maker has been identified as the Chief Executive Officer ("CEO") of the Company. The CEO reviews the Group's internal reporting in order to assess performance and to allocate resources. The Company has determined its operating segments based on these reports

The Group currently has three reportable segments

- Mobile services – this segment provides a range of mobile services and solutions to micro and SME companies
- IT – this segment provides a wide range of IT focused solutions to both SME and middle market companies, including Voice over IP ("VoIP") implementations
- Other – this sector covers a range of telecommunications services including calls and line rental

Information regarding the operation of the reportable segments is included below. The CEO assesses the performance of the operating segments based on revenue and a measure of Earnings before Interest, Depreciation and Amortisation (EBITDA) before any allocation of Group overheads or charges for share based payments. Segment EBITDA is used to measure performance as the CEO believes that such information is the most relevant in evaluating the results of the segment. The Group's EBITDA for the year has been calculated after deducting Group overheads from the EBITDA of the three segments as reported internally. The Group overheads include the cost of the Board, the costs of maintaining a listing on AIM, legal and professional fees, and the costs of shareholder communications including the costs of retaining a Nominated Advisor and a Broker

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

The assets and liabilities of the Group are also reviewed by the chief operating decision-maker on a segment basis and have been disclosed. All segments are continuing operations. No customer accounts for more than 10% of external revenues. Inter-segment transactions are accounted for using an arms-length commercial basis

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

<b>4 1 Analysis of revenue</b>	2011	2010
	£	£
<b>By business sector</b>		
Mobile services	565,460	663,551
IT	1,042,036	742,070
Other telecommunications services	6,914,583	5,202,912
<b>Continuing operations</b>	<b>8,522,079</b>	<b>6,608,533</b>
<b>Total revenue</b>	<b>8,522,079</b>	<b>6,608,533</b>
<b>By destination</b>		
United Kingdom	8,522,079	6,608,533
<b>Total revenue</b>	<b>8,522,079</b>	<b>6,608,533</b>
	2011	2010
	£	£
<b>By origin</b>		
<b>Continuing operations</b>		
Pinnacle Telecom plc	1,538,436	1,327,003
Accent Telecom UK Limited	4,890,938	3,504,104
Solwise Telephony Limited	1,294,080	1,008,372
Pinnacle Cloud Solutions Limited (formerly Glen Communications Limited)	798,625	48,295
Other group companies	-	720,759
	<b>8,522,079</b>	<b>6,608,533</b>
<b>Total revenue</b>	<b>8,522,079</b>	<b>6,608,533</b>
<b>By recurring nature</b>		
Recurring - continuing operations	7,142,835	5,343,492
Non-Recurring - continuing operations	1,379,244	1,265,041
	<b>8,522,079</b>	<b>6,608,533</b>
<b>Total revenue</b>	<b>8,522,079</b>	<b>6,608,533</b>
<b>4 2 Analysis of net loss after tax</b>		
	2011	2010
	£	£
<b>4 2 1 By business sector</b>		
<b>Mobile services</b>		
Profit from operations before amortisation	38,241	46,083
<b>IT</b>		
Loss from operations before amortisation	(10,613)	(55,379)
Amortisation	(54,789)	(54,789)
<b>Loss from operations after amortisation</b>	<b>(65,402)</b>	<b>(110,168)</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****4.2 Analysis of net loss after tax (continued)**

	2011 £	2010 £
<b>Other telecommunications services</b>		
Profit from operations before amortisation	487,162	372,788
Amortisation	(184,406)	(241,417)
<b>Profit from operations after amortisation</b>	<b>302,756</b>	<b>131,371</b>
<b>Head office</b>	<b>(393,908)</b>	<b>(316,946)</b>
<b>Continuing operations</b>	<b>(118,313)</b>	<b>(249,660)</b>
IT - discontinued operations	(71,980)	(21,079)
<b>Total losses</b>	<b>(190,293)</b>	<b>(270,739)</b>
	2011 £	2010 £
<b>4 2 2 By destination</b>		
United Kingdom	(190,293)	(270,739)
	2011 £	2010 £
<b>4 2 3 By origin</b>		
Pinnacle Telecom plc	127,755	163,897
Accent Telecom UK Limited	469,557	155,529
Solwise Telephony Limited (13 January to 30 September)	(84,143)	60,754
Pinnacle Cloud Solutions Limited (formerly Glen Communications Limited)	4,462	(34,866)
Head Office and other group companies	(396,749)	(372,765)
<b>Profit from continuing operations before exceptional items</b>	<b>120,882</b>	<b>46,546</b>
Amortisation	(239,195)	(296,206)
Eclectic Group Limited and I G Software Limited - discontinued operations	(71,980)	(21,079)
<b>Total losses</b>	<b>(190,293)</b>	<b>(270,739)</b>
	2011 £	2010 £
<b>4 2 4 By recurring nature</b>		
Recurring - continuing operations	82,949	94,146
Non-Recurring - continuing operations	37,933	(47,600)
<b>Profit from continuing operations before exceptional items</b>	<b>120,882</b>	<b>46,546</b>
Amortisation	(239,195)	(296,206)
Non-Recurring - discontinued operations	(71,980)	(21,079)
<b>Total losses</b>	<b>(190,293)</b>	<b>(270,739)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 4.3 Analysis of assets and liabilities

	Mobile	IT	Other telecommunications services	Discontinued operations	Total
<b>Assets</b>					
Intangible assets	-	783,085	484,728	-	1,267,813
Investments in Associated Companies	-	176,559	-	-	176,559
Property, plant and equipment	-	329,074	58,459	-	387,533
<b>Total non-current assets</b>	-	1,288,718	543,187	-	1,831,905
	Mobile	IT	Other telecommunications services	Discontinued operations	Total
<b>Current assets</b>					
Inventories	-	34,653	63,008	-	97,661
Trade and other receivables	52,053	386,431	1,137,819	-	1,576,303
Cash and cash equivalents	33,503	53,219	365,469	240	452,431
<b>Total current assets</b>	85,556	474,303	1,566,296	240	2,126,395
<b>Total assets</b>	85,556	1,763,021	2,109,483	240	3,958,300
<b>Liabilities</b>					
Short term borrowings	-	-	(9,976)	-	(9,976)
Trade and other payables	-	(240,325)	(833,659)	(18,085)	(1,092,069)
Other taxes and social security costs	-	(56,844)	(113,128)	(190)	(170,162)
Accruals and other payables	(9,032)	(113,480)	(589,306)	(132,253)	(844,071)
<b>Total current liabilities</b>	(9,032)	(410,649)	(1,546,069)	(150,528)	(2,116,278)
<b>Total non-current liabilities</b>	-	-	(28,882)	-	(28,882)
<b>Total liabilities</b>	(9,032)	(410,649)	(1,574,951)	(150,528)	(2,145,160)
<b>Net assets / (liabilities)</b>	76,524	1,352,372	534,532	(150,288)	1,813,140

## 5. Operating loss

	2011 £	2010 £
Loss from operations is stated after charging		
Depreciation of owned fixed assets	108,990	99,244
Other operating lease rentals		
- buildings	52,440	57,837
Auditors' remuneration - audit of parent company	10,000	7,000
- audit of subsidiary companies	24,650	23,000

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****6 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

	2011	2010
	£	£
Interest income resulting from short-term bank deposits	349	3
Finance income	349	3
Interest expense resulting from		
- Convertible loan	12,000	12,500
- finance leases	6,101	4,997
- other commercial loans	-	774
- bank overdrafts	1,259	1,700
- overdue taxation	-	2,524
Finance costs	19,360	22,495

**7 Employee costs****7.1 Directors and employees**

At 30 September 2011 the Group employed 37 staff. The average number of staff employed by the Group during the financial year amounted to

	2011	2010
Number of management staff	6	6
Number of operational staff	21	18
Total	27	24

Employee numbers are stated including Directors

**7.2 Employee remuneration**

	2011	2010
	£	£
Wages and salaries	866,661	665,004
Share option costs	13,922	13,922
Social security costs	87,527	66,719
Total	968,110	745,645

**7.3. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 7.3 Share-based remuneration (continued)

	2011		2010	
	Number	weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 October	104,878,788	0.00167	65,212,122	0.00167
Granted	-	-	39,666,666	0.003
Lapsed	-	-	-	-
Outstanding at 30 September	104,878,788	0.00167	104,878,788	0.00167

At 30 September 2011, Pinnacle Telecom Group plc has granted the following outstanding share options

	2011			2010		
	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	38	666,667	0.03	50
2011	64,545,455	0.001375	81	64,545,455	0.001375	93
2011	39,666,666	0.003	93	39,666,666	0.003	105

In total £13,922 of employee remuneration expense has been included in the consolidated income statement for 2011 (2010 £13,922). The fair value of options granted was calculated using the option pricing model, incorporating the following key assumptions

	2011			2010		
	Number	Weighted average exercise price £	weighted average remaining contractual life Months	Number	Weighted average exercise price £	weighted average remaining contractual life Months
Number of options	39,666,666	64,545,455	666,667	39,666,666	64,545,455	666,667
Volatility	75%	75%	50%	75%	75%	50%
Spot Price	0.003	0.001375	0.03	0.003	0.001375	0.03
Interest rate	4.50%	4.50%	4.52%	4.50%	4.50%	4.52%
Dividend yield	0%	0%	0%	0%	0%	0%
Vesting period (years)	2	3	1	2	3	1
Option value weighted average exercise price	£0.0185	£0.00869	£0.0147	£0.0185	£0.00869	£0.0147

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**7.4 Directors**

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

	Fees and salaries		Bonus		Employers NI contributions		Other Benefits		Totals (incl Employers NI)	
	2011 £	2010 £	2011 £	2010 £	2011 £	2010 £	2011 £	2010 £	2011 £	2010 £
<b>Non- Executive</b>										
W Allan	31,904	18,000	-	-	4,084	2,304	-	-	35,988	20,304
J C Anderson	10,000	10,000	-	-	1,280	1,280	-	-	11,280	11,280
G J Duncan (1)	-	22,032	-	-	-	2,820	-	435	-	25,287
<b>Executive</b>										
A Bonner	85,800	85,800	11,000	49,200	10,982	17,280	8,895	8,169	116,677	160,449
<b>Totals</b>	<b>127,704</b>	<b>135,832</b>	<b>11,000</b>	<b>49,200</b>	<b>16,346</b>	<b>23,684</b>	<b>8,895</b>	<b>8,604</b>	<b>163,945</b>	<b>217,320</b>

D Giddens, a director of a subsidiary company received fees during the year of £66,667 (2010 £66,667)

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

	2011 £	2010 £
<b>Name of Director</b>		
A J Bonner	7,512	7,512
G J Duncan (1)	-	435
<b>Total</b>	<b>7,512</b>	<b>7,947</b>

(1) Graham J Duncan ceased to be a director on 29 March 2010

**8 Total and continuing loss per share**

	2011 £	2010 £
Loss attributable to ordinary shareholders – continuing operations	109,657	249,660
Loss attributable to ordinary shareholders – discontinued operations	71,980	21,079
<b>Loss attributable to ordinary shareholders</b>	<b>181,637</b>	<b>270,739</b>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares in issue	1,898,436,808	1,732,688,226
Loss per share (pence) – continuing operations	0.01	0.01
Loss per share (pence) – discontinued operations	0.00	0.00
<b>Loss per share (pence) – total</b>	<b>0.01</b>	<b>0.01</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****8 Total and continuing loss per share (continued)**

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 1,898,436,808 shares (2010 1,732,688,226) following the issue of 186,046,491 shares as part of the acquisition of MacLellan IT Limited on 1 August 2011. Due to the losses incurred by the Group the share options are anti-dilutive

**9 Intangible assets**

Fair value at cost	Date of acquisition	2011 £	2010 £
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 2010	459,000	459,000
Solwise Telephony Limited - customer base	13 January 2011	291,300	291,300
Multilayer Limited – customer base	01 July 2011	45,000	-
MacLellan IT Limited	10 August 2011	602,791	-
		<b>2,351,644</b>	<b>1,703,853</b>
<b>Amortisation to date.</b>			
Explore IT Limited - Maintenance Contracts		100,000	80,000
Pinnacle Telecom plc - billing system		150,000	150,000
Pinnacle Telecom plc - customer base		384,075	295,443
Sports Club Telecom Limited - customer base		105,354	80,564
Colloquium Limited - customer base		88,689	61,400
Accent Telecom UK Limited - customer base		171,088	133,534
Solwise Telephony Limited - customer base		70,463	43,695
Multilayer Limited – customer base		1,122	-
MacLellan IT Limited – customer base		13,040	-
		<b>1,083,831</b>	<b>844,636</b>
<b>Carrying amount at 30 September</b>		<b>1,267,813</b>	<b>859,217</b>
		2011 £	2010 £
Net intangible assets at 1 October		859,217	864,123
Intangible asset additions		647,791	291,300
Amortisation in period		(239,195)	(296,206)
<b>Net intangible assets at 30 September</b>		<b>1,267,813</b>	<b>859,217</b>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****9. Intangible assets (continued)**

Prior to 1 October 2010, the Group's policy was for customer lists, IT systems and Maintenance contracts to be amortised over a maximum of 5 years from the date of acquisition. Following a review of this policy and in light of improved actual customer retention rates experienced since 30 September 2008, the Group has amended its policy from 1 October 2010 onwards as follows

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

The review of this policy affected the lives of a number of intangible assets including the acquisitions of Accent Telecom UK Limited and Solwise Telephony Limited. The revision results in the following change in the original trend of amortisation as follows

Financial Year 30 September	2012	2013	2014	2015	After 2016
Decrease/(Increase) in amortization £	82,702	82,702	53,114	(49,758)	(168,760)

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, where there is an impairment indicator in accordance with IAS 36, some assets are tested individually for impairment and some are tested at cash generating unit level.

Customer lists are assessed annually for impairment by measuring the actual post-acquisition cash flows of individual customers purchased from the date of acquisition and projecting these cash flows forward over time. The calculation at 30 September 2011 showed that each of the acquired customer lists will continue to generate positive cash flows in excess of their net carrying value at year-end, despite the existence of operating losses which are not as a result of the performance of the intangible assets. In addition, the projected revenues from the custom voice over internet systems are forecast to generate cash flows greater than their carrying value at year-end. On the basis of the impairment reviews performed, the directors conclude that no further impairment of intangible assets is required at 30 September 2011.

**10. Group Investments****10.1 Principal subsidiary undertakings**

	Holding	Country of Incorporation	Shares	Nature of business
Pinnacle Cloud Solutions Limited (formerly Glen Communications Limited)	100%	Scotland	Ordinary	IT Services
Pinnacle Telecom plc	100%	Scotland	Ordinary/Preference	Telecommunications
Accent Telecom UK Limited	100%	England and Wales	Ordinary/Preference	Telecommunications
Solwise Telephony Limited	100%	England and Wales	Ordinary/Preference	Telecommunications
Spswitch Limited	100%	England and Wales	Ordinary/Preference	Voice over Internet

**10.2 Associate company**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10 2 Associate company (continued)	2011 £	2010 £
Fair value of investment in associated company – Stripe21 Limited	167,875	169,705
Share of profit/(loss) from associate	8,684	(1,830)
Investment in associated company at 30 September	176,559	167,875

11 Property, plant and equipment	IT Equipment	Fixtures and fittings and leasehold improvements	Plant, machinery and motor vehicles	Software	Total
	£	£	£	£	£
<b>Cost of assets</b>					
At 1 October 2010	643,380	137,499	54,039	216,448	1,051,366
<b>Additions</b>	25,274	5,000	-	68,000	98,274
Additions by acquisition	4,893	-	1,000	60,279	66,172
Disposals					
At 30 September 2011	673,547	142,499	55,039	344,727	1,215,812
<b>Cost of assets</b>					
At 1 October 2009	578,904	135,351	42,020	-	756,275
<b>Additions</b>	29,945	1,957	29,909	61,475	123,286
Additions by acquisition	50,403	191	-	154,973	205,567
Disposals	(15,872)	-	(17,890)	-	(33,762)
At 30 September 2010	643,380	137,499	54,039	216,448	1,051,366
	IT Equipment	Fixtures and fittings and leasehold improvements	Plant, machinery and motor vehicles	Software	Total
	£	£	£	£	£
<b>Depreciation</b>					
At 1 October 2010	565,194	115,498	17,982	20,614	719,288
Charge for the year	50,637	2,776	11,283	44,295	108,991
At 30 September 2011	615,831	118,273	29,265	64,909	828,278

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****11 Property, plant and equipment (continued)**

	IT Equipment £	Fixtures and fittings and leasehold improvements £	Plant, machinery and motor vehicles £	Software £	Total £
<b>Depreciation</b>					
At 1 October 2009	489,650	103,238	29,055	-	621,943
Additions by acquisition	31,863	-	-	-	31,863
Charge for the year	59,553	12,260	6,817	20,614	99,244
Disposals	(15,872)	-	(17,890)	-	(33,762)
<b>At 30 September 2010</b>	<b>565,194</b>	<b>115,498</b>	<b>17,982</b>	<b>20,614</b>	<b>719,288</b>
Net Book value at 30 September 2011	57,715	24,226	25,774	279,819	387,533
Net Book value at 30 September 2010	78,186	22,001	36,057	195,834	332,078

**12 Leases****12.1 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 £27,953 (2010 £51,674). The assets are included under IT Equipment and Motor Vehicles. The amounts held under hire purchase agreements are secured on the assets concerned. Future minimum lease payments as at 30 September 2011

	Within 1 year £	1 to 5 years £	More than 5 years £	Total £
Finance lease payments due	9,976	13,881	-	23,857

**12.2 Operating leases**

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

<b>Land and buildings</b>	Within 1 year £	1 to 5 years £	More than 5 years £	Total £
As at 30 September 2011	42,756	21,567	-	64,323
As at 30 September 2010	43,135	56,238	-	99,373

Lease payments recognised as an expense during the year amounted to £52,440 (2010 £57,837). 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
<b>Property</b>		
101 Abercorn Street, Paisley	1995	6 months
Brooke House, Northampton	2010	21 months
Home Farm, Kelty	2011	3 months

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****12.2 Operating leases (continued)**

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

**13 Inventories**

	2011	2010
	£	£
Consumables	70,835	53,631
Work in Progress	26,826	19,559
<b>Inventories</b>	<b>97,661</b>	<b>73,190</b>

**14 Trade and other receivables**

	2011	2010
	£	£
Trade receivables	772,978	495,375
Prepayments and accrued income	803,325	725,496
	<b>1,576,303</b>	<b>1,220,871</b>

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 31 days (2010: 25 days). Trade receivables are stated net of an impairment for estimated irrecoverable amounts of £81,715 (2010: £71,181). 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 2011 trade receivables amounting to £418,419 (2010: £233,120) were past due but not impaired.

The age of trade receivables not impaired is as follows:

	2011	2010
	£	£
Not past due (less than 30 days)	354,559	262,255
30 – 59 days	164,954	92,764
60 – 89 days	139,222	102,238
90 – 119 days	16,379	16,420
120 days +	97,864	21,698
	<b>772,978</b>	<b>495,375</b>

**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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****15 Cash and cash equivalents**

	2011 £	2010 £
Cash at bank and in hand	452,431	697,189

Cash balances are held with a small number of counter parties. The figure at 30 September 2011 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 HSBC plc.

**16 1 Trade and other payables**

	2011 £	2010 £
Bank overdrafts	-	-
Bank loans	-	-
Finance lease liability	23,857	49,653
	23,857	49,653
Less non-current portion of finance leases	(13,882)	(22,538)
Short-term borrowings	9,975	27,115
Trade payables	1,092,069	968,006
Accruals and other payables	717,419	619,614
Contingent consideration – Solwise Telephony – short term element	-	30,000
Effective repayment to acquire investment – short term element	3,123	-
Convertible loan notes – short term element	123,529	-
Other taxes and social security costs	170,163	176,814
Trade and other payables	2,116,278	1,821,549

Note 12.1 contains further information on the finance lease liability.

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

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

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

All loan notes are convertible into ordinary shares by Pinnacle at any time after the second anniversary following issue, or alternatively by the holders of the loan notes at any time following the period of thirty days after the second anniversary of the loan note.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****16 1 Trade and other payables (continued)**

The conversion price is at a discount of 15% to the mid-market price per ordinary share as at close of business on the date five days after service of the relevant conversion notice, subject to a minimum of nominal value. The ordinary shares to be issued will rank pari passu in all respects with the ordinary shares in issue. A provision for the embedded derivative has been made in the accounts, representing a provision for the Group's option to repay the loan notes in cash prior to the second anniversary. Certain shareholders have agreed to subscribe to additional loan notes to the value of £100,000 if the Group requires additional funding in the next twelve months.

On 20 October 2011, the holders of £105,000 of loan notes requested that the loans be converted into shares. The directors consider the fair value of these loan notes to be £123,529 at 30 September 2011 taking into consideration the issue price of £105,000 at 30 September 2009 plus a provision for the discount when the loan notes be converted into shares. Interest accrued on the loan notes at 10% per annum, from 30 September 2009 to the earlier of the date of redemption and the date of conversion. The interest accrues on a day to day basis and is payable monthly in arrears.

**16 2 Long-term borrowings**

In 2010, following the acquisition of Solwise Telephony Limited and for the purpose of calculating the intangible asset under IFRS3, contingent consideration of £80,000 was assumed, including £50,000 relating to the financial performance of the subsidiary in the year to 30 September 2011. The performance criteria for the contingent consideration was not met and this amount has been recorded in the consolidated income statement for the year to 30 September 2011.

	2011 £	2010 £
Convertible loan notes – long term element	15,000	133,467
Contingent consideration – Solwise Telephony Limited – long term element	-	50,000
Finance leasing liability – long-term element	13,882	22,538
Effective repayment to acquire investment – long term element	-	3,123
<b>Long-term financial liabilities</b>	<b>28,882</b>	<b>209,128</b>

**17 Share capital and reserves****17 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.

	2011 £	2010 £
<b>Shares issued and fully paid</b>		
– beginning of year	5,481,009	5,316,488
– issued during year	186,047	164,521
<b>Shares issued and fully paid</b>	<b>5,667,056</b>	<b>5,481,009</b>
<b>Shares authorised but not issued at 30 September</b>	<b>3,332,944</b>	<b>3,518,991</b>
<b>Total equity shares authorised at 30 September</b>	<b>9,000,000</b>	<b>9,000,000</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****17.1 Share capital (continued)**

The authorised and issued share capital can be summarised as follows

	2011	2010
	£	£
<b>Total equity shares authorised</b>		
2,386,420,000 Ordinary shares of £0.001 each	2,386,420	2,386,420
3,000,000,000 Ordinary shares of £0.001 each authorised 31 March 2011	3,000,000	3,000,000
401,508,895 Deferred shares of £0.009 each	3,613,580	3,613,580
	9,000,000	9,000,000

**Allotted, called up and fully paid****At 30 September 2009**

401,508,895 Deferred shares of £0.009 each	3,613,580
1,702,907,630 Ordinary shares of £0.001 each	1,702,908
164,521,428 Ordinary shares of £0.001 each issued during the year	164,521

5,481,009

**At 30 September 2010**

186,046,491 Ordinary shares of £0.001 each issued during the year	186,047
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**At 30 September 2011**

5,667,056

**17.2 Share premium**

	2011	2010
	£	£
Balance brought forward	3,560,331	3,238,902
Share premium on private placing for shares	483,721	321,429
Balance carried forward	4,044,052	3,560,331

**17.3 Profit and loss reserve**

	2011	2010
	£	£
Profit and loss account at 1 October 2010	(6,965,850)	(6,695,111)
Loss for the year	(181,637)	(270,739)
Profit and loss account at 30 September 2011	(7,147,487)	(6,965,850)

**17.4. Merger reserve**

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

**17.5 Fair Value Adjustment**

Movements in the fair value adjustment reserve are created when there is a difference between the fair value of the customer base measured using IFRS2, and the actual consideration paid for the assets of a business. No movements were recorded in the year.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****18. Income tax expenses**

The tax rebate represents	2011 £	2010 £
UK corporation tax on profits of the period	-	-
Total current tax	(997)	-
Adjustment for prior year taxation	-	(18,904)
<b>Tax rebate</b>	<b>(997)</b>	<b>(18,904)</b>

The relationship between expected tax expense based on the effective tax rate of Pinnacle Telecom Group plc at 27% (2010 28%) and the tax expense actually recognised in the income statement can be reconciled as follows

	2011 £	2010 £
Result for the year before tax	(117,316)	(268,564)
Tax rate (28% to 31/03/2011 and 26% from 01/04/2011)	27%	28%
<b>Expected tax expenses</b>	<b>(31,675)</b>	<b>(75,198)</b>
<b>Adjustment for</b>		
Non-deductible expenses	7,136	587
Small companies relief	-	18,804
Depreciation in excess of capital allowances	(26,474)	(12,556)
Excess management charges	(30,467)	58,578
Utilisation of tax losses	5,315	(23,151)
Tax losses carried forward	4,290	153,643
Adjustments on consolidation – pre-acquisition losses etc	72,872	(128,800)
Prior year adjustments	-	(10,811)
<b>Actual tax payable/(rebate) net</b>	<b>997</b>	<b>(18,904)</b>

The Group has unrecognised deferred tax assets in respect of tax losses carried forward totalling £940,206 (2010 £1,043,441). The Group has not yet provided deferred tax liabilities in respect of intangible assets totalling £342,310 (2010 £240,581) in accordance with IAS 12, due to the extent that there are unrecognised deferred tax assets in respect of losses.

**19 Discontinued operations**

Discontinued losses of £71,980 (2010 £21,079) in the year relate to IG Software Limited, which consist of an accrual for the recovery of £60,000 of a Regional Selective Assistance grant made by Scottish Enterprise in 2005, prior to the sale of the business in 2007 and a provision for backdated employers national insurance contributions payable to HMRC.

**20 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 £263,773 (2010 £239,673) from Stripe21 Limited, recorded as cost of sales in the consolidated income statement. In addition, Stripe21 purchased telecom services from Accent Telecom UK Limited of £7,435 during the year of which £1,868 remained an unpaid trade receivable at year end.

In addition to his remuneration, Alan Bonner received interest payments of £2,500 (2010 £2,500) during the year in accordance with the terms of his unsecured convertible loan notes (see note 16.2). There are no other related party transactions recorded during the year to 30 September 2011 or to 30 September 2010.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****21. Contingent liabilities**

There were no contingent liabilities at 30 September 2011 or 30 September 2010

**22 Capital commitments**

There were no capital commitments at 30 September 2011 or 30 September 2010

**23 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.

**23.1 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.

**23.2 Interest rate risk**

The interest rate on the Group's cash at bank is determined by reference to the bank rate. The Group has an agreed bank overdraft facility with HSBC of £80,000 which remained unused at the year end (2010: £Nil).

**23.3. 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 24.

**23.4 Credit risk**

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

**23.5 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 £
<b>2011</b>			
Trade and other receivables	1,576,303	-	1,576,303
Other current assets	-	97,661	97,661
Cash and cash equivalents	452,431	-	452,431
	<b>2,028,734</b>	<b>97,661</b>	<b>2,126,395</b>
<b>2010</b>			
Trade and other receivables	1,220,871	-	1,220,871
Other current assets	-	73,190	73,190
Cash and cash equivalents	697,189	-	697,189
	<b>1,918,060</b>	<b>73,190</b>	<b>1,991,250</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 22.5 Risk Management Analysis (continued)

	Other financial liabilities at amortised cost	Other liabilities not within scope of IAS 39	Balance Sheet Total
	£	£	£
<b>2011</b>			
Trade and other payables	1,982,772	-	1,982,772
Finance lease liability - current	9,976	-	9,976
Convertible loan notes - current	105,000	18,529	123,529
Convertible loan notes - non-current	15,000	-	15,000
Finance lease liability - non-current	13,882	-	13,882
	<b>2,126,630</b>	<b>18,529</b>	<b>2,145,159</b>

	Other financial liabilities at amortised cost	Other liabilities not within scope of IAS 39	Balance Sheet Total
	£	£	£
<b>2010</b>			
Trade and other payables	1,764,434	80,000	1,844,434
Finance lease liability - current	27,115	-	27,115
Convertible loan notes - non-current	120,000	16,590	136,590
Finance lease liability - non-current	22,538	-	22,538
	<b>1,934,087</b>	<b>96,590</b>	<b>2,030,677</b>

	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
<b>2011</b>						
Trade payables	628,443	251,403	97,320	36,151	78,752	1,092,069
Long-term borrowings	-	-	-	-	15,000	15,000
Finance lease liabilities	1,663	3,325	4,988	8,172	5,710	23,858
	<b>630,106</b>	<b>254,728</b>	<b>102,308</b>	<b>44,323</b>	<b>99,462</b>	<b>1,130,927</b>

	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
<b>2010</b>						
Trade payables	794,188	173,818	-	-	-	968,006
Long-term borrowings	-	-	-	207,090	-	207,090
Finance lease liabilities	6,661	13,321	19,982	6,852	2,837	49,653
	<b>800,849</b>	<b>187,139</b>	<b>19,982</b>	<b>213,942</b>	<b>2,837</b>	<b>1,224,749</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****24 Post balance sheet events****24.1 Acquisition of Online Computer Developments Limited**

On 6 October 2011, the Company acquired the entire share capital of Online Computer Developments Ltd ("OCD"), a provider of IT solutions to SME and mid-market customers in Scotland. The business was formed in 1994, and forms a key part of Pinnacle's strategy to build out its IT capability, enabling faster delivery of its cloud services proposition. The initial consideration of £20,000 was satisfied as £2,000 in cash on completion and £18,000 in convertible loan notes. In accordance with the provisions of the loan notes, the full loan note holdings were subsequently redeemed for cash at par value on 31 October 2011 and the loan notes cancelled.

The sale and purchase agreement allowed for further deferred consideration to be paid, calculated in accordance with certain growth performance provisions for OCD for the year ending 30 September 2012, which allows the vendors to receive additional consideration of £90,000 of the Group's ordinary shares. Deferred consideration will be satisfied by the issue to the Vendors of 15,789,474 Ordinary Shares in the Group at a price per share equal to 0.57p, credited as fully paid and ranking par passu with the ordinary shares in existence at completion of the acquisition. Any shares issued pursuant to the Deferred Consideration may not be sold within 24 months of those shares being issued to the seller.

In the year ended 28 February 2011, OCD achieved unaudited IT support and hardware revenues of £627,215 with gross profit of £438,751 and a net profit after tax and before dividends of £68,840. On 28 February 2011, the company had net assets of £437. Due to the proximity of this acquisition to the date of the financial statements, it is not practical to accurately determine the fair value of the identifiable assets acquired at this stage. These values will be considered in due course.

**24.1 Acquisition of RMS Managed ICT Security Limited**

On 10 October 2011, the Company acquired the entire share capital of RMS Managed ICT Security Limited ("RMS"), a leading provider of IT security software and consultancy solutions to the mid-market and public sector markets, for a total consideration of £468,301. The acquisition of RMS provides the Group with IT security expertise, a key part of the Group's strategy to build out its cloud services proposition.

At completion initial consideration of £25,000 was satisfied in cash along with the issue of a two year interest bearing convertible loan note for the value of £100,000. In addition, the agreement provided for additional deferred payments totaling £343,301 in cash to be satisfied between 31 October 2011 and 25 December 2014.

RMS was incorporated in November 2010, following the management buyout of the IT Security element of Redstone Managed Services Solutions Limited, and has subsequently not yet prepared full financial statements. The unaudited management accounts for the nine-month period ending 31 August 2011, shows revenues of £2,873,235 with a gross profit of £885,706 and a net loss before tax of £577,939. The unaudited management accounts for the nine month period ended 31 August 2011 show that RMS had negative net assets of £567,939 including non-current liabilities greater than 12 months totaling £526,864. Due to the proximity of this acquisition to the date of the financial statements, it is not practical to accurately determine the fair value of the identifiable assets acquired at this stage. These values will be considered in due course.

**25. Ultimate controlling party**

There is no ultimate controlling party.

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

We have audited the parent company financial statements of Pinnacle Telecom Group plc for the year ended 30 September 2011 which comprise the parent company balance sheet, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

**Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement on page 19, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

**Opinion on financial statements**

In our opinion the parent company financial statements

- give a true and fair view of the state of the company's affairs as at 30 September,
- 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 matter**

We have reported separately on the group financial statements of Pinnacle Telecom Group plc for the year ended 30 September 2011.



Andrew Howie  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
1-4 Atholl Crescent  
Edinburgh  
EH3 8LQ  
20 February 2012

**BALANCE SHEET (PARENT COMPANY)**  
as at 30 September 2011

	Note	2011 £	2010 £
<b>Fixed Assets</b>			
Goodwill	4	602,791	-
Tangible assets	5	-	-
Fixed asset investments	6	2,416,792	2,496,792
<b>Total non-current assets</b>		<b>3,019,583</b>	<b>2,496,792</b>
<b>Current assets</b>			
Debtors	7	926,921	742,296
Cash and cash equivalents		15,528	365,225
<b>Total current assets</b>		<b>942,449</b>	<b>1,107,521</b>
<b>Creditors' amounts falling due within one year</b>	8	<b>(1,069,763)</b>	<b>(1,035,940)</b>
<b>Net current (liabilities) / assets</b>		<b>(127,313)</b>	<b>71,581</b>
<b>Total assets less current liabilities</b>		<b>2,892,269</b>	<b>2,568,373</b>
<b>Creditors' amounts falling due after one year</b>	9	<b>(15,000)</b>	<b>(175,000)</b>
		<b>2,877,269</b>	<b>2,393,373</b>
<b>Capital and reserves</b>			
Called up share capital	11	5,667,056	5,481,009
Share premium account	12	4,044,052	3,560,331
Merger reserve		283,357	283,357
Profit and loss account	12	(7,117,196)	(6,931,324)
<b>Shareholders' funds</b>	13	<b>2,877,269</b>	<b>2,393,373</b>

Approved by the Board and authorised for issue on 20 February 2012

  
A J Bonner  
Director

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

**COMPANY NUMBER 05259846**

**NOTES TO THE FINANCIAL STATEMENTS (PARENT COMPANY)****1. Accounting policies****1.1. Accounting convention**

The financial statements are prepared under the historical cost convention

**1.2 Profit and loss account and cash flow statement**

The Parent Company has taken advantage of section 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 £185,872 (2010 £247,317)

**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 £10,000 (2010 £7,000)

<b>3 Taxation</b>	2011	2010
	£	£
<b>Factors affecting the tax charge for the year</b>		
Loss on ordinary activities before taxation	(185,872)	(247,317)
multiplied by standard rate of UK corporation tax of 27% (2010 28%)	(50,185)	(69,249)
<b>Effects of</b>		
Depreciation in excess of capital allowances	(95)	(85)
Tax losses carried forward	50,280	29,136
Group relief surrendered	-	40,198
	50,185	69,249
Current tax charge	-	-

**NOTES TO THE FINANCIAL STATEMENTS (PARENT COMPANY) (CONTINUED)****4 Goodwill**

On 1 August 2011, as part of the acquisition of the business and assets of MacLellan IT Limited, the Group purchased goodwill of £602,791 in relation to the customer base, which has been accounted for in accordance with FRS10

**5 Tangible fixed assets**

	£
<b>Cost</b>	
At 1 October 2010 and at 30 September 2011	6,165
<b>Depreciation</b>	
At 1 October 2010	6,165
Charge for the year	-
At 30 September 2011	-
<b>Net book value</b>	
At 30 September 2011 and 30 September 2010	-
<b>Note</b> On 1 August 2011, the Group acquired tangible assets of £66,976 as part the acquisition of business and assets of MacLellan IT Limited and these were transferred to Pinnacle Cloud Solutions Limited at book value and are recorded in the statutory accounts of that company	

**6 Fixed asset investments**

	Shares in subsidiary undertakings £
<b>Cost</b>	
At 1 October 2010	6,373,599
At 30 September 2011	6,373,599
<b>Provisions for diminution in value</b>	
At 1 October 2010	3,876,807
Solwise Telephony Limited – contingent consideration not payable (1)	80,000
At 30 September 2011	3,956,807
<b>Net book value</b>	
At 30 September 2011	2,416,792

**Note 1.** In 2010, following the acquisition of Solwise Telephony Limited and for the purpose of calculating the intangible asset under IFRS3, contingent consideration of £80,000 was assumed, including £50,000 relating to the financial performance of the subsidiary in the year to 30 September 2011. The performance criteria for the contingent consideration was not met and this amount has been recorded in the consolidated income statement for the year to 30 September 2011

Company	Country of registration or incorporation	Shares held Class	%
<b>Subsidiary undertakings</b>			
Pinnacle Cloud Solutions Limited (formerly 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

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

## 6 Subsidiary undertakings (continued)

Colloquium Limited	Scotland	Ordinary/Preference	100
MacLellan IT Limited (formerly Pinnacle Data Limited)	England and Wales	Ordinary	100
Straiton Group Management Limited (2)	Scotland	Ordinary	100
Pinnacle Group Limited	Scotland	Ordinary	100
Glen Group Limited (3)	Scotland	Ordinary	100
ICT Investments Limited	Scotland	Ordinary	100
Multilayer Limited (formerly Pinnacle ICT Limited)	England and Wales	Ordinary	100
Straiton Resourcing Limited	Scotland	Ordinary	100
Straiton Learning Services Limited	Scotland	Ordinary	100
Accent Telecom UK Limited	England and Wales	Ordinary	100
Sipswitch Limited	England and Wales	Ordinary	100
Solwise Telephony Limited	England and Wales	Ordinary	100

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 2011 £	Profit/(loss) for the year 2011 £
Pinnacle Cloud Solutions Limited (formerly Glen Communications Limited)	Telecommunications / IT services	(2,214,161)	4,463
Explore IT Limited *	IT services	(242,394)	-
Pinnacle Technology Consulting Limited (1)	IT consultancy	804,289	-
I G Software Limited	IT consultancy	170,715	(71,980)
Pinnacle Telecom plc	Telecommunications	126,009	(45,110)
Pinnacle Mobile Limited *	Telecommunications	(73,401)	-
Solwise Telephony Limited	Telecommunications	73	(84,143)
Sports Club Telecom Limited *	Telecommunications	33,185	-
Accent Telecom UK Limited	Telecommunications	540,456	197,447
Sipswitch Limited	Voice over Internet	(26,346)	(1,462)
Colloquium Limited *	ISP and telecommunications	(230,637)	-
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	-
Multilayer Limited (formerly Pinnacle ICT Limited)	Dormant	2	-
MacLellan IT Limited (formerly Pinnacle Data Limited)	Dormant	2	-
Straiton Resourcing Limited	Dormant	2	-
Straiton Learning Services Limited	Dormant	2	-

1 Formerly Eclectic Group Limited

2 Formerly Eclectic Holdings Limited

3 Formerly Pinnacle Telecom Group Limited

Note \* On 30 September 2011, in order to simplify the administration of the group and reduce overheads, the assets and liabilities of the companies marked with an asterisk (\*) above were hived-up into Pinnacle Cloud Solutions Limited (formerly Glen Communications Limited) at par value

## Associate company

As part of the acquisition of Accent Telecom UK Limited in 2009, the Group acquired a 40% investment in the ordinary share capital of Stripe21 Limited, a company registered in England and Wales. The investment in the associate company is carried using the fair value of the identifiable assets at 30 September 2011 and is adjusted for the Group share of revenues and expenses in the year. Stripe21 Limited has an accounting reference date of 30 June.

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

<b>7 Debtors</b>	2011 £	2010 £
Amounts owed by subsidiary undertakings	913,859	730,075
Prepayments and accrued income	13,062	12,221
	<b>926,921</b>	<b>742,296</b>
<b>8 Creditors, amounts falling due within one year</b>	2011 £	2010 £
Trade creditors	41,818	47,210
Other taxes and social security costs	65,752	62,334
Convertible loan notes	105,000	-
Other creditors	-	40,813
Contingent consideration – Solwise Telephony Limited – short term element	-	30,000
Accruals and deferred income	857,193	855,583
	<b>1,069,763</b>	<b>1,035,940</b>
<b>9 Creditors, amounts falling due after more than one year</b>	2011 £	2010 £
Convertible loan notes	15,000	125,000
Contingent consideration – Solwise Telephony Limited – long term element	-	50,000
<b>Analysis of loans</b>		
<b>Wholly repayable within five years</b>	<b>15,000</b>	<b>175,000</b>

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.

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

All loan notes are convertible into ordinary shares by Pinnacle at any time after the second anniversary following issue, or alternatively by the holders of the loan notes at any time following the period of thirty days after the second anniversary of the loan note.

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. Certain shareholders have agreed to subscribe to additional loan notes to the value of £100,000 if the group requires additional funding within the next 12 months.

**10 Pension and other post-retirement benefit commitments**

No contributions to company pension schemes were made during the year (2010 Nil)

**NOTES TO THE FINANCIAL STATEMENTS (PARENT COMPANY) (CONTINUED)****11 Share capital**

	2011 £	2010 £
<b>Authorised</b>		
2,386,420,000 Ordinary shares of £0 001 each	2,386,420	2,386,420
3,000,000,000 Ordinary shares of £0 001 each authorised 31 March 2011	3,000,000	3,000,000
401,508,895 Deferred shares of £0 009 each	3,613,580	3,613,580
	<b>9,000,000</b>	<b>9,000,000</b>
		£
<b>Allotted, called up and fully paid</b>		
<b>At 30 September 2009</b>		
401,508,895 Deferred shares of £0 009 each		3,613,580
1,702,907,630 Ordinary shares of £0 001 each		1,702,908
164,521,428 Ordinary shares of £0 001 each issued during the year		164,521
<b>At 30 September 2010</b>		<b>5,481,009</b>
186,046,491 Ordinary shares of £0 001 each issued during the year		186,046
<b>At 30 September 2011</b>		<b>5,667,055</b>

**12 Statement of movements on reserves**

	Share premium account £	Profit and loss account £
Balance at 1 October 2010	3,560,331	(6,931,324)
Share Premium – premium on shares issued during the year	483,721	
Loss for the year	-	(185,872)
<b>Balance at 30 September 2011</b>	<b>4,044,052</b>	<b>(7,117,196)</b>

**13 Reconciliation of movements in shareholders' funds**

	2011 £	2010 £
Opening shareholders' funds at 1 October	2,393,373	1,985,775
Loss for the financial year	(185,872)	(247,317)
Issue of shares on placing	-	128,571
Issue of shares on acquisition	186,047	35,950
Share Premium – premium on shares issued during the year	483,721	321,429
Merger reserve – premium on shares issued on acquisitions during the year	-	168,965
<b>Net increase/(depletion) in shareholders' funds</b>	<b>483,896</b>	<b>407,598</b>
<b>Closing shareholders' funds at 30 September</b>	<b>2,877,269</b>	<b>2,393,373</b>

The movement in the Share Premium account for the year to 30 September 2011 relates to the excess over nominal value of the fair value of consideration for equity shares issued, net of expenses in connection with acquisitions acquisition of MacLellan IT Limited

**NOTES TO THE FINANCIAL STATEMENTS (PARENT COMPANY) (CONTINUED)****13. Directors emoluments**

	2011 £	2010 £
Emoluments for qualifying services	147,599	193,636
	147,599	193,636

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

	2011 £	2010 £
Emoluments for qualifying services	105,695	143,169

**14 Employees****Number of employees**

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

	2011 Number	2010 Number
Management	3	5
	3	5

	2011 £	2010 £
<b>Employment costs</b>		
Wages and Salaries	238,310	239,693
Social security Costs	19,724	27,594
	258,034	267,287

**15 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 £263,773 (2010 £239,673) from Stripe21 Limited, recorded as cost of sales in the consolidated income statement.

In addition to his remuneration, Alan Bonner received interest payments of £2,500 (2010 £2,500) during the year in accordance with the terms of his unsecured convertible loan notes (see note 16.2). There are no other related party transactions recorded during the year to 30 September 2011 or to 30 September 2010.

There are no other related party transactions recorded during the year to 30 September 2011 or to 30 September 2010.

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

NOTICE IS HEREBY GIVEN that the Seventh 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 2012 at 11 30 a.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 a Special Resolutions

**ROUTINE BUSINESS - Ordinary Resolutions**

- 1 To receive the report of the directors and the financial statements for the year ended 30 September 2011 together with the report of the auditors thereon
- 2 To approve the report of the board to the members on directors' remuneration for the year ended 30 September 2011
- 3 To re-elect Mr William Allan, a director who retires by virtue of rotation and, being eligible, offers himself for re-election
- 4 To re-appoint Grant Thornton UK LLP as the auditors
- 5 To authorise the directors to agree the remuneration of the auditors

**SPECIAL BUSINESS - Special Resolutions**

6 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 2013 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 2013 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

7 That

That the name of the Company be and is hereby changed to Pinnacle Technology Group plc

Registered Office  
5 Fleet Place  
London  
EC4M 7RD

By order of the Board  
WJM Secretaries Limited  
Company Secretary

Dated 21 February 2012

**NOTICE OF ANNUAL GENERAL MEETING FOR PINNACLE TELECOM GROUP (CONTINUED)**  
**Registered in England and Wales with registered number 5259846**

**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 28 March 2012 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 28 March 2012 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 20 February 2012 (being the last business day prior to the publication of this notice) the Company's issued voting share capital consists of 2,089,807,730 Ordinary Shares, carrying one vote each. Therefore, the total voting rights in the Company as at 18 February 2011 are 2,089,807,730.

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

**EXPLANATORY NOTES TO THE RESOLUTIONS**

**ROUTINE BUSINESS**

The following notes explain the items of routine business

**Resolution 1 (Receipt of reports and accounts)**

The directors must lay the annual accounts and the respective reports of the directors and auditors before shareholders at an Annual General Meeting

**Resolution 2 (To approve the directors' remuneration report)**

Shareholders are asked to approve the directors' remuneration report, which may be found in the annual report on pages 11 to 13. This resolution is an advisory one and no entitlement to remuneration is conditional on the resolution being passed

**Resolution 3 (Re-election of director)**

Under the Articles of Association of the Company, one director must resign by rotation each year. William Allan has put himself up for resignation and is therefore standing for re-election. You are therefore asked to re-elect Mr Allan as a director of the Company

**Resolution 4 (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 5 (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 6 (Authority to issue Ordinary Shares and waiver of Pre-emption Rights)**

By resolution 6(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 2013 AGM or for 15 months (whichever is earlier)

By resolution 6(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 2013 AGM or for 15 months (whichever is earlier)

**Resolution 7 (Change of company name)**

By resolution 7, you are asked to approve the proposed change of name of the Company to Pinnacle Technology Group plc. Upon the approval and registration of the change of name, the Company is not intending to issue fresh share certificates, unless specifically requested to do so by an individual shareholder. Accordingly, following the AGM, any shareholder who desires to have a share certificate in the new name of the Company should send his existing certificate to the registrars, who will issue a revised certificate at no charge

**DIRECTORS, SECRETARY AND ADVISERS**

Directors	William Allan, 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	HSBC Bank plc Commercial Centre St Clair House Bedford Road Northampton NN4 7AA  Bank of Scotland 47 High Street Dalkeith Midlothian EH22 1JA
Registrars	Computershare Investor Services plc The Pavilions Bridgwater Road Bristol BS99 6ZZ