



Interim Report for the six months ended 31 March 2011

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

Pinnacle's strategy is to be a SME focused, value added, solutions based provider of converged communications services, driven by leveraging organic opportunities as well as through targeted acquisitions.

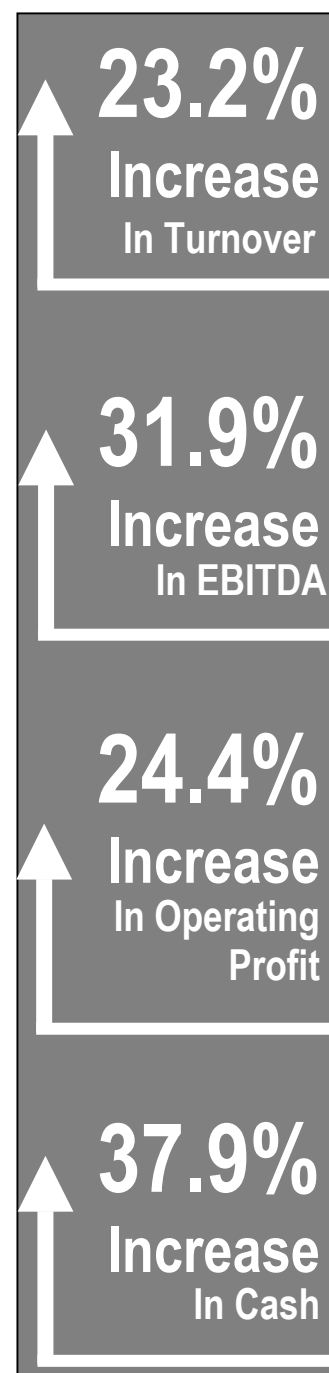
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## HIGHLIGHTS

### Key points:

- 23.2% increase in turnover to £3,821,235 in H1 11 compared with £3,101,747 in H1 10.
- 31.9% increase in positive EBITDA (1) of £89,673 in H1 11 compared to positive EBITDA of £67,966 in H1 10.
- 24.4% increase in operating profit (2) of £50,787 in H1 11 compared to an operating profit of £40,841 in H1 10.
- 37.9% increase in cash at the end of H1 11 to £452,040, compared to H1 10 figure of £327,725.
- Won “Best Enterprise Hosted Solution” in recognition for excellence at the 2010 Comms National Awards.



### Definitions:

1. EBITDA - 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 before amortisation of intangibles, exceptional acquisition costs, share of results of associates and the embedded fair value adjustment in the convertible loan

H1 11 – The half-year ended 31 March 2011

H1 10 – The half-year ended 31 March 2010

H2 10 – The six months ended 30 September 2010



## CHAIRMAN'S STATEMENT

With no acquisition activity in the first half to impact the figures, it is most gratifying to see a solid lift in turnover for the period compared to both the equivalent period last year, and the second half of last year. We have also seen improving EBITDA and reduced losses, while preserving our cash resources.

Given the uncertainty in the wider UK economy, this is an encouraging set of results for Pinnacle. The company has continued to evolve and develop high quality bespoke solutions for high profile broadcast events, which included winning the contract for the Royal Wedding in the first half. These events affect the revenue mix and add a small degree of seasonality to the business which reduced the percentage of contracted recurring revenue. Nevertheless, for this activity the company is winning new business and building a solid reputation for high quality service provision - a key differentiator in the highly competitive telecommunications market - which bodes well for future growth.

Top line growth is being complemented by steady growth in operating profits and a reduction in the overall accounting losses for the Group. Add to this good cash management and strong controls over operating costs and administration expenses, the company is being prudent and building growth from internal strengths. Alan Bonner, the Group CEO, has noted the opportunities for further acquisitions to reinforce and add new capability to the Group. This is sensible given that Pinnacle needs to add scale and new services to fulfil its ambitions and continue to build shareholder value for the future. With quality revenue growth, good cash management, and a sharper sales focus on new IP services, we continue to look forward to building Pinnacle into a leading service provider to the UK SME market.

The results for the first half are more fully explained in the Business Review.

**Bill Allan**  
**CHAIRMAN**

27 June 2011

## BUSINESS REVIEW

### Introduction

The first half of the year has shown steady progress as we continue to build the business. The half-year turnover of £3,821,435 is the highest we have seen over any six month period and, with no acquisitions in the first-half to increase turnover, our organic progress is all the more encouraging. Our overall gross profit increased 6.2% to £1,111,352. The overall gross profit percentage at the half year was 29.1% holding up well against a changing revenue mix. After all costs, including the costs of discontinued operations relating to previous years, the overall loss for the period has been reduced to £131,594 in H1 11 compared to £166,005 in H1 10.

I was very pleased to receive on behalf of the Company, the award for Best Enterprise Hosted Solution, a national award, in recognition for excellence, presented at the 2010 Comms National Awards held at the Park Lane Hilton in London last October.

We have also received a significant amount of recognition and publicity associated with the short term contract work that we have completed for the BBC, other broadcasters and the lead contractors for festivals and major events. Following the acquisition of Solwise Telephony Ltd last year, we have introduced a degree of seasonality to our business, with the festivals and sporting events generating significant revenue growth over the summer months, compared to the quieter winter period. The festival work will continue over the 2011 summer period with a number of projects now in hand, and several more expected to be awarded.

For broadcasters, we are providing temporary ISDN, broadband and 'quality of service' (QOS) data links that provide broadcast quality sound connections and internet access for outside broadcasts. In addition, several departments in the BBC now use our hosted IP telephone platform for all voice communications at their outside broadcasts.

Another significant development this year has been winning contracts to supply temporary high capacity multi-media fibre circuits capable of carrying BBC i-player streams, all radio and sound broadcasts, internet access, site production and security systems plus reserve TV broadcast feeds. These services are carried on fully managed fibre connections to the relevant site. The first circuits of this kind proved highly successful at the recent Radio 1 Big Weekend in Cumbria. After the events, we look to generate additional revenues from these circuits, seeking out commercial broadband providers in the local area that supply community broadband services. For multi-event venues, where Pinnacle is now the communications supplier of choice, we are installing permanent voice and data circuits to the sites, which remain in place for regular repeat use.

It is our intention to exploit the opportunities in the provision of cloud computing services, hosted VoIP software solutions, fully managed voice, mobile and data networks, data centre space rentals, managed internet services and IT support to SME business customers in the UK. Our sales strategy is being sharpened to focus on this very significant opportunity, which we believe will show strong growth for a number of years as businesses migrate their business applications, including voice services, onto the internet.

### Operational Commentary

#### Turnover

Turnover has increased by 23.2% compared to the equivalent period last year. As noted above, the festival business has introduced a degree of seasonality to the business. In the half-year we have also noticed a reduction in the revenues from the mobile sector as tariffs have come down. Economic factors have also affected demand for new mobiles and we are now signing customers on longer term contracts. Given these dynamics, it is all the more pleasing to see us deliver a record turnover for a half-year.

Recurring income continues to be a positive feature of our turnover, and we estimate that 84% (H1 10: 94%) of turnover in the first-half was recurring.

## **BUSINESS REVIEW (CONTINUED)**

### **Gross Profit**

Our gross profit for the half-year was £1,111,352 (H1 10: £1,042,338). This has been achieved despite a drop in the margin percentage from 33.6% in H1 10 to 29.1% in H1 11, as the result of a changing revenue mix.

Overall gross margins have also been reduced due to increased revenues from inbound solutions in this period, which attract a lower overall margin. By contrast, and to improve margins going forward, we have recently withdrawn a number of traditional voice products from supply to our wholesale partners, as we focus more on supporting forward looking wholesale partners, who are capable of delivering converged voice and data IP solutions.

### **Operating Results**

In the first-half, we have incurred an operating loss of £121,067 compared to £125,404 in H1 10. This loss has been incurred as a direct result of the need to amortise our intangible assets. Amortisation in the half-year of £155,386 (H1 10: £152,623) was greater than the entire operating loss. Adding back amortisation and certain other exceptional costs, our operating profit grew to £50,787 compared to £40,841 in H1 10.

EBITDA increased 31.9% in H1 11 to £89,673 compared to £67,966 in H1 10. EBITDA remains the most important key performance indicator that is monitored by the Board on a regular basis.

### **Administration Expenses**

We continue to exercise significant control over our administration expenses. For H1 11, these totalled £1,060,565, not materially different to the H1 10 figure of £1,001,497. As a percentage of turnover, our overheads are 27.8%, a significant improvement to the H1 10 figure of 32.3%.

### **Consolidated Statement of Financial Position**

At 31 March 2011 our net assets totalled £1,190,610 compared to £967,516 at 31 March 2010. The increase was the result of an issue of equity shares at the end of September 2010, more fully explained in our 2010 Annual Report, available on our web site.

We continue to invest in our hosted IP telephone platform and capitalised development costs at 31 March 2011 totalled £206,713. We will continue to invest in the platform which, we believe, gives us a more consistent margin compared to resellers who are more exposed to pricing as compared to a platform owner.

Cash at the end of the half-year was £452,040. This compares against the equivalent H1.10 figure of £327,725 and the H2 10 figure of £697,189. The negative movement in the first half of 2011 has been largely caused by working capital movements in the ordinary course of business. The H2 10 figure was helped by an issue of Ordinary Shares towards the end of that year.

### **Future Growth**

The focus over the last six months was around continuing to build the business through organic activity. Nevertheless, part of our ongoing strategy is to seek to grow through acquisition. However, we are mindful of the need to preserve as much of our cash as is achievable, we therefore seek to acquire businesses for shares, rather than for cash. This is not always possible to deliver, and we have rejected a number of potential acquisitions because of the need for an all cash consideration. I continue to examine acquisition opportunities on a regular basis and remain hopeful of concluding one or more acquisitions in the second half, that will add customers, enhance customer solutions, profits and bring additional talent to our business.

**Alan J Bonner**  
**Chief Executive Officer**  
27 June 2011

## CONSOLIDATED INTERIM INCOME STATEMENT – UNAUDITED

For the six months ended 31 March 2011

	Note	6 Months to 31 March 2011 £	6 Months to 31 March 2010 £	Audited 12 months to 30 September 2010 £
<b>Revenue</b>	3	3,821,235	3,101,747	6,608,533
Cost of sales		(2,709,883)	(2,059,409)	(4,519,076)
<b>Gross profit</b>		1,111,352	1,042,338	2,089,457
Administrative expenses		(1,060,565)	(1,001,497)	(2,010,810)
<b>Operating profit / (loss) before amortisation, impairment of goodwill and exceptional costs</b>		<b>50,787</b>	<b>40,841</b>	<b>78,647</b>
Share of Profit from associate accounted using the equity method		14	4,594	(1,830)
Amortisation of intangibles		(155,385)	(152,623)	(296,206)
Fair value adjustment to convertible loan		(4,983)	-	(8,467)
Exceptional costs relating to acquisition		(11,500)	(18,216)	(18,216)
Operating loss		(121,067)	(125,404)	(246,072)
Interest receivable		450	2	3
Interest payable		(9,981)	(10,603)	(22,495)
Finance costs		(9,531)	(10,601)	(22,492)
<b>Loss before tax</b>		<b>(130,598)</b>	<b>(136,005)</b>	<b>(268,564)</b>
Taxation		(996)	0	18,904
<b>Loss for the period from continuing operations</b>		<b>(131,594)</b>	<b>(136,005)</b>	<b>(249,660)</b>
<b>Discontinued operations</b>				
(Loss) / profit for the period from discontinued operations		0	(30,000)	(21,079)
<b>Loss for the period</b>	3	<b>(131,594)</b>	<b>(166,005)</b>	<b>(270,739)</b>
<b>Loss per share</b>				
- basic and fully diluted – continuing	4	(0.01) p	(0.01) p	(0.01) p
- basic and fully diluted – discontinued	4	0.00 p	0.00 p	0.00 p
- basic and fully diluted – total	4	(0.01) p	(0.01) p	(0.01) p
<b>Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA)</b>				
Operating loss		(121,067)	(125,404)	(246,072)
Add back amortisation		155,385	152,623	296,206
Add back depreciation		55,355	40,747	99,244
<b>EBITDA for the period</b>		<b>89,673</b>	<b>67,966</b>	<b>149,378</b>

## CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION – UNAUDITED

As at 31 March 2011

	Note	31 March 2011 £	31 March 2010 £	Audited 30 September 2010 £
<b>Assets</b>				
Intangible assets	5	703,832	908,251	859,217
Investments in associated companies		167,889	174,299	167,875
Research and development asset		206,713	155,655	195,834
Property, plant and equipment		106,130	106,404	136,244
<b>Total non-current assets</b>		<b>1,184,564</b>	<b>1,344,609</b>	<b>1,359,170</b>
<b>Current assets</b>				
Inventories		90,561	44,058	73,190
Trade and other receivables		1,235,190	767,645	1,220,871
Cash and cash equivalents		452,040	327,725	697,189
<b>Total current assets</b>		<b>1,777,791</b>	<b>1,139,428</b>	<b>1,991,250</b>
<b>Total assets</b>		<b>2,962,355</b>	<b>2,484,037</b>	<b>3,350,420</b>
<b>Liabilities</b>				
Short term borrowings		(18,392)	(35,838)	(27,115)
Trade and other payables		(955,726)	(752,964)	(968,006)
Other taxes and social security costs		(102,971)	(153,252)	(176,814)
Accruals and other payables	7	(557,873)	(436,081)	(649,614)
<b>Total current liabilities</b>		<b>(1,634,962)</b>	<b>(1,378,135)</b>	<b>(1,821,549)</b>
Non-current liabilities				
Long term borrowings		(136,783)	(138,386)	(209,128)
<b>Total liabilities</b>		<b>(1,771,745)</b>	<b>(1,516,521)</b>	<b>(2,030,677)</b>
<b>Net Assets</b>		<b>1,190,610</b>	<b>967,516</b>	<b>1,319,743</b>
<b>Equity</b>				
Share capital		5,481,009	5,352,438	5,481,009
Share premium account		3,555,831	3,238,902	3,560,331
Merger reserve	8	283,357	283,357	283,357
Other reserve		31,987	18,065	25,026
Fair value adjustment		(1,064,130)	(1,064,130)	(1,064,130)
Profit and loss reserve	6	(7,097,444)	(6,861,116)	(6,965,850)
<b>Total equity</b>		<b>1,190,610</b>	<b>967,516</b>	<b>1,319,743</b>

**CONSOLIDATED INTERIM CASH FLOW STATEMENT – UNAUDITED**

For the six months ended 31 March 2011

	6 months to 31 March 2011 £	6 months to 31 March 2010 £	Audited 12 months to 30 September 2010 £
<b>Cash flows from operating activities</b>			
Operating loss (including discontinued operations)	(138,008)	(172,968)	(289,643)
Adjustments for:			
Depreciation	55,355	40,747	99,244
Amortisation	155,386	152,623	296,206
Share of profit/(loss) from associate	(14)	(4,594)	1,830
Share option charge	6,961	6,961	13,922
Fair value adjustment for convertible loan	4,982	-	8,467
Interest expense	9,981	10,603	22,492
Payment / (receipt) of corporation tax	(996)	-	-
Decrease / (increase) in trade and other receivables	(14,319)	162,203	(216,973)
Decrease / (increase) in inventories	(17,371)	(18,313)	(42,445)
(Decrease) / increase in trade payables, accruals and other creditors	(244,782)	(299,099)	(68,556)
<b>Net cash flow from operating activities</b>	<b>(182,825)</b>	<b>(121,837)</b>	<b>(175,456)</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiaries, net of cash acquired	-	(78,624)	(20,525)
Purchase of property, plant and equipment	(36,120)	(34,113)	(93,377)
Interest received	450	2	3
<b>Net cash used in investing activities</b>	<b>(35,670)</b>	<b>(112,735)</b>	<b>(113,899)</b>
<b>Cash flows from financing activities</b>			
Issue of shares	(4,500)	-	450,000
Receipt of Convertible Loans	-	-	-
Receipt from finance leases less repayment	(12,173)	(9,842)	(23,703)
Interest paid	(9,981)	(10,603)	(22,495)
<b>Net cash used in / (received from) financing activities</b>	<b>(26,654)</b>	<b>(20,445)</b>	<b>403,802</b>
<b>Net (decrease) / increase in cash</b>	<b>(245,149)</b>	<b>(255,017)</b>	<b>114,447</b>
Cash and cash equivalents at beginning of period	697,189	582,742	582,742
<b>Cash and cash equivalents at end of period</b>	<b>452,040</b>	<b>327,725</b>	<b>697,189</b>
Cash and cash equivalents comprise:			
Cash and cash equivalents	452,040	382,981	697,189
Bank overdrafts	-	(55,256)	-
	<b>452,040</b>	<b>327,725</b>	<b>697,189</b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – UNAUDITED

For the six months ended 31 March 2011

	6 Months to 31 March 2011 £	6 Months to 31 March 2010 £	Audited 12 months to 30 September 2010 £
Loss for the year from total operations	(131,594)	(166,005)	(270,739)
Total comprehensive negative income for the year	(131,594)	(166,005)	(270,739)
Attributable to equity shareholders of the parent	(131,594)	(166,005)	(270,739)

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

For the six months ended 31 March 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
Total Transactions with owners	164,521	321,429	168,965	13,922	-	-	668,837
Total movements	164,521	321,429	168,965	13,922	-	(270,739)	398,098
<b>Equity at 30 September 2010</b>	5,481,009	3,560,331	283,357	25,026	(1,064,130)	(6,965,850)	1,319,743
<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	-	-	-	-	-	(131,594)	(131,594)
<b>Transactions with owners</b>							
Share based payments	-	-	-	6,961	-	-	6,961
Expenses relating to Share Issue *	-	(4,500)	-	-	-	-	(4,500)
Total Transactions with owners	-	(4,500)	-	6,961	-	-	2,461
Total movements	-	(4,500)	-	6,961	-	(131,594)	(129,133)
<b>Equity at 31 March 2011</b>	5,481,009	3,555,831	283,357	31,987	(1,064,130)	(7,097,444)	1,190,610

**Note:** \* Relate to payments made in the period to 31 March 2011 in respect of the new share issue dated 22 September 2010.

## NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 31 March 2011

### 1. Nature of Operations

The principal activities of Pinnacle Telecom Group plc and its subsidiaries are the provision of integrated telecommunications services including IP and cloud solutions, telecommunications calls and access, consultancy, IT support, mobile solutions, both voice and data and hosted broadband voice services to SME business customers in the UK.

### 2. Basis of preparation

This interim financial information has been prepared in accordance with the Company's accounting policies as disclosed in the financial statements for the year ended 30 September 2010. Pinnacle Telecom Group plc is a company incorporated in England (registered number 05259846) and trades in the UK from office locations across England and Scotland.

The address of its registered office is 5 Fleet Place, London, EC4M 7RD and its principal place of business is Comphall, Brightons, Falkirk, Stirlingshire, FK2 0RW. The company is listed on the AIM market of the London Stock Exchange under ticker symbol PINN. The interim statements were approved by the Board of Directors on 27 June 2011.

### 3. Segmental Reporting

The segment information is prepared using accounting policies consistent with those of the Group as a whole and all segments are continuing operations. The figures shown for Glen Communications Ltd in the six months to 31 March 2011 include revenues transferred from other smaller wholly owned subsidiary companies, whose assets were hived-up into Glen Communications Ltd on 30 September 2010, as disclosed in the financial statements for the same period.

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

- Mobile Services
- IT
- Other telecommunications services

3.1 Analysis of revenue	6 Months to 31 March 2011 £	6 Months to 31 March 2010 £	Audited 12 Months to 30 September 2010 £
<b>By business sector</b>			
Mobile services	256,131	332,308	663,551
IT	406,648	327,079	742,070
Other telecommunication services	3,158,456	2,442,360	5,202,912
<b>Total revenue</b>	<b>3,821,235</b>	<b>3,101,747</b>	<b>6,608,533</b>
<b>By destination</b>			
United Kingdom	3,821,235	3,101,747	6,608,533
<b>Total revenue</b>	<b>3,821,235</b>	<b>3,101,747</b>	<b>6,608,533</b>
<b>By origin</b>			
Accent Telecom UK Limited	2,304,006	1,797,766	3,504,104
Pinnacle Telecom plc	579,967	708,651	1,327,003
Solwise Telephony Limited	575,290	222,088	1,008,372
Glen Communications Limited	361,972	6,625	13,295
Other group companies	-	366,617	755,759
<b>Total revenue</b>	<b>3,821,235</b>	<b>3,101,747</b>	<b>6,608,533</b>
<b>By recurring nature</b>			
Recurring - continuing operations	3,208,761	2,921,186	5,343,492
Non-Recurring - continuing operations	612,474	180,561	1,265,041
<b>Total revenue</b>	<b>3,821,235</b>	<b>3,101,747</b>	<b>6,608,533</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 31 March 2011

3.2 Analysis of net loss after tax	6 Months to 31 March 2011 £	6 Months to 31 March 2010 £	Audited 12 Months to 30 September 2010 £
<b>By business sector</b>			
<b>a) Mobile services</b>			
Profit from operations before amortisation and exceptional items	24,094	27,965	46,083
<b>b) IT</b>			
Profit / (loss) from operations before amortisation and exceptional items	16,314	(29,879)	(55,379)
Amortisation	(36,645)	(23,644)	(54,789)
Loss from operations after amortisation and exceptional items	(20,331)	(53,523)	(110,168)
<b>c) Other telecommunication services</b>			
Profit from operations before amortisation and exceptional items	164,585	249,007	372,788
Amortisation	(118,740)	(128,979)	(241,417)
Profit from operations after amortisation and exceptional items	45,845	120,028	131,371
<b>d) Head office</b>	(181,202)	(230,474)	(316,946)
<b>Continuing operations</b>	(131,594)	(136,005)	(249,660)
IT - discontinued operations	-	(30,000)	(21,079)
<b>Total losses</b>	(131,594)	(166,005)	(270,739)
<b>By destination</b>			
United Kingdom	(131,594)	(166,005)	(270,739)
<b>Total losses</b>	(131,594)	(166,005)	(270,739)
<b>By origin</b>			
Accent Telecom UK Limited	87,274	85,538	155,529
Pinnacle Telecom plc	60,728	190,432	163,897
Solwise Telephony Limited	(55,052)	(25,426)	60,754
Glen Communications Limited	(25,373)	(7,683)	34,865
Head office and other group companies	(32,286)	(208,027)	(368,499)
Profit from continuing operations before amortisation and exceptional items	35,291	34,834	46,546
Amortisation	(155,385)	(152,623)	(296,206)
Exceptional costs relating to reorganisation / acquisition	(11,500)	(18,216)	-
Eclectic and IG - discontinued operations	-	(30,000)	(21,079)
<b>Total losses</b>	(131,594)	(166,005)	(270,739)

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 31 March 2011

3.2 Analysis of net loss after tax (continued)	6 Months to 31 March 2011 £	6 Months to 31 March 2010 £	Audited 12 Months to 30 September 2010 £
<b>By recurring nature</b>			
Recurring - continuing operations	29,541	30,170	94,146
Non-Recurring - continuing operations	5,750	4,664	(47,600)
Profit from continuing operations before amortisation and exceptional items	35,291	34,834	46,546
Amortisation	(155,385)	(152,623)	(296,206)
Exceptional costs relating to reorganisation / acquisition	(11,500)	(18,216)	-
Non-Recurring - discontinued operations	-	(30,000)	(21,079)
<b>Total losses</b>	<b>(131,594)</b>	<b>(166,005)</b>	<b>(270,739)</b>

### 4. Loss per share

	6 Months to 31 March 2011 £	6 Months to 31 March 2010 £	Audited 12 months to 30 September 2010 £
Basic and fully diluted	0.01p	0.01p	0.01p
Loss attributable to ordinary shareholders	131,594	166,005	270,739
Weighted average number of shares in issue:			
Basic and fully diluted	1,867,429,059	1,381,677,413	1,732,688,226

### 5. Intangible assets

Intangible assets are non-physical assets which have been obtained as part of an acquisition and which have an identifiable future economic benefit to the Group at the point of acquisition. The Group's policy regarding assessing impairment of intangible assets remains the same as disclosed in the financial statements for the year ended 30 September 2010. The Group's amortisation policy is for the:

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

	6 Months to 31 March 2011 £	6 Months to 31 March 2010 £	Audited 12 months to 30 September 2010 £
Net intangible assets at start of period	859,217	864,123	864,123
Intangible asset additions / fair value adjustments	-	196,751	291,300
Amortisation in the period	(155,385)	(152,623)	(296,206)
<b>Net intangible assets at period end</b>	<b>703,832</b>	<b>908,251</b>	<b>859,217</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 31 March 2011

### 6. Profit and loss reserve

	6 Months to 31 March 2011 £	6 Months to 31 March 2010 £	Audited 12 months to 30 September 2010 £
Opening deficit	(6,965,850)	(6,695,111)	(6,696,111)
Loss for the period	(131,594)	(166,005)	(270,739)
Closing deficit	(7,097,444)	(6,861,116)	(6,965,850)

### 7. Contingent Consideration

As part of the acquisition of the entire issued share capital of Solwise Telephony Limited on 13 January 2010, the acquisition agreement allowed for additional contingent consideration to be awarded, with earn out provisions based on a multiple of one and a half times the earnings before interest and taxation ("EBIT") above agreed thresholds, for the years ending 30 September 2010 and 30 September 2011. The total contingent consideration cannot exceed £295,085 in total over the two periods and as at 30 September 2010, for the purposes of calculating the intangible asset under IFRS3, the Group assumed that a total contingent consideration of £80,000 would be payable over the two year period.

For the period ending 30 September 2010, the audited EBIT for Solwise Telephony Ltd and its wholly owned subsidiary Sipswitch Ltd, was £39,172 and therefore no additional consideration was payable for that year. Therefore, in accordance with the provisions of IFRS3 Business combinations, the contingent consideration has been reviewed by the Board and adjusted to £60,000 with the adjustment recorded in the Operating profit / (loss) before amortisation, impairment of goodwill and exceptional costs for the 6 months to 31 March 2011.

### 8. Merger reserve

The Group has taken advantage of the merger relief provisions in relation to the acquisition of Solwise Telephony and its wholly owned subsidiary Sipswitch Limited. The Merger reserve represents the excess over nominal value of the fair value of consideration received for equity shares. In line with International financial reporting standard (IFRS) 3, all costs associated with the acquisition in the period have been expensed to the profit and loss account and shown as an exceptional item.

### 9. Related Party Transactions

As part of the acquisition of Accent Telecom UK Limited, the Group acquired a 40% share of the equity of an associated company, Stripe21 Limited. During the 6 month period to 31 March 2011, Accent Telecom UK Limited purchased services totalling £135,452 (6 months to 31 March 2010: £166,890 and 12 months to 30 September 2010: £239,673) from Stripe21 Limited, recorded as cost of sales in the consolidated income statement for each period.

In October 2010, the Group redeemed all convertible loan notes in the name of John Anderson, a Non-Executive Director, for £5,000 in cash to fully extinguish the unsecured liability relating to Mr Anderson in the financial statements. Also, in accordance with the terms of his own unsecured convertible loan notes, the company paid interest to Alan Bonner, the group CEO, of £1,250 during the 6 month period to 31 March 2011 (the figure for the 6 months to 31 March 2010: £1,250 and 12 months to 30 September 2010: £2,500). There are no other related party transactions recorded during the half-year to 31 March 2011.

### 10. Contingent liabilities

There were no contingent liabilities at 31 March 2011, 30 September 2010 or 31 March 2010.

### 11. Statutory accounts

These financial statements do not constitute statutory accounts. The information is unaudited and has not been reviewed by the auditors. The statutory accounts for the year ended 30 September 2010, contained an unqualified audit report and are filed with the Registrar of Companies.

All Company announcements & news can be found at

<http://www.pinnacletelecomgroup.co.uk>

## **DIRECTORS, SECRETARY AND ADVISERS**

### **Directors**

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

### **Secretary**

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