



Pinnacle Technology Holdings Limited

(Registration number 1986/000334/06) • Share code: PNC
ISIN: ZAE000022570 • ("Pinnacle" or "the Group")

HIGHLIGHTS

Turnover increased by **87%** to **R729 million**
EBITDA increased by **109%** to **R54 million**
Headline earnings increased by **84%** to **22,5 cents per share**

UNAUDITED INTERIM RESULTS for the six months ended 31 December 2006

GROUP INCOME STATEMENT

	6 months ended 31 Dec 2006	6 months ended 31 Dec 2005	12 months ended 30 Jun 2006
	Unaudited R'000	Unaudited R'000	Audited R'000
Revenue	728 867	390 736	1 060 793
Cost of sales	(615 082)	(326 042)	(893 708)
Gross profit	113 785	64 694	167 085
Operating expenses	(59 592)	(43 416)	(104 793)
Recovery of bad debt	-	5 159	5 159
BEE transaction charges	-	-	(50 330)
EBITDA	54 193	26 437	17 121
Depreciation	(2 381)	(2 718)	(4 426)
Impairment of intangible assets	(519)	(470)	(709)
Operating (loss)/profit before interest	51 293	23 249	11 986
Investment income	2 513	1 759	5 051
Finance costs	(4 883)	(1 565)	(4 619)
Net profit before taxation	48 923	23 443	12 418
Taxation	(15 902)	(6 643)	(18 688)
Net profit for the period	33 021	16 800	(6 270)
Attributable to:			
Ordinary equity shareholders	32 825	17 177	(6 211)
Minority shareholders	196	(377)	(59)
Performance per share			
Earnings per share (cents)			
- Normal	22,1	11,9	(4,3)
- Fully diluted	17,7	11,9	(4,0)
Headline earnings per share (cents)			
- Normal	22,5	12,2	30,8
- Fully diluted	18,5	12,2	29,5
Reconciliation of headline earnings			
Net profit for the period attributable to ordinary equity shareholders	32 825	17 177	(6 211)
Add back			
- BEE transaction charges	-	-	50 330
- Impairment of intangible assets	519	470	709
Headline earnings - normal	33 344	17 647	44 828
Add back			
- Deemed finance charges less taxation	1 022	-	881
Headline earnings - Fully diluted	34 366	17 647	45 709
Weighted average number of shares in issue			
- Normal ('000)	148 425	144 109	145 738
- Fully diluted ('000)	185 707	144 109	154 727
Returns			
Gross profit	15,6	16,6	15,8
EBITDA	7,4	6,8	1,6
Net profit	4,5	4,3	(0,6)

SEGMENTAL REPORT

	6 months ended 31 Dec 2006	6 months ended 31 Dec 2005	12 months ended 30 Jun 2006
	Unaudited R'000	Unaudited R'000	Audited R'000
Revenue			
Infrastructure and support	435 110	277 865	697 438
Software	239 362	109 026	353 148
Pinnacle Africa	47 009	-	-
ICT services	7 386	3 845	10 207
Holdings and properties	-	-	-
Total Group	728 867	390 736	1 060 793
EBITDA			
Infrastructure and support	37 960	14 818	40 724
Software	13 581	6 180	21 226
Pinnacle Africa	1 182	-	-
ICT services	2 215	1 225	3 278
Holdings and properties	(745)	4 214	(48 107)
Total Group	54 193	26 437	17 121
Assets			
Infrastructure and support	288 821	180 704	334 207
Software	168 317	67 570	206 638
Pinnacle Africa	29 605	-	-
ICT services	12 212	6 045	9 269
Holdings and properties	48 050	37 715	40 410
Total Group	547 005	292 034	590 524
Liabilities			
Infrastructure and support	(234 936)	(161 319)	(302 517)
Software	(150 299)	(68 197)	(197 759)
Pinnacle Africa	(26 042)	-	-
ICT services	(9 727)	(5 179)	(7 493)
Holdings and properties	50 851	65 669	71 502
Total Group	(370 153)	(169 026)	(436 267)

STATEMENT OF CHANGES IN EQUITY

	Share capital R'000	Share premium R'000	Put option R'000	Treasury shares R'000	Non-distributable reserves R'000	Accumulated loss R'000	Ordinary shareholders' total R'000	Minority interest R'000	Total equity R'000
GROUP									
Balance at 30 June 2005	1 492	124 602	-	(4 138)	9 729	(24 563)	107 122	2 590	109 712
Issue of shares	2	59	-	-	-	-	61	(528)	(467)
Net profit for the year	-	-	-	-	-	17 177	17 177	(377)	16 800
Treasury shares issued	-	-	-	2 738	-	-	2 738	-	2 738
Profit on sale of subsidiary	-	-	-	-	(801)	801	-	-	-
Dividends declared	-	-	-	-	-	(5 476)	(5 476)	(333)	(5 809)
Movement in foreign currency translation reserve	-	-	-	-	34	-	34	-	34
Balance at 31 December 2005 - Unaudited	1 494	124 661	-	(1 400)	8 962	(12 061)	121 656	1 352	123 008
Issue of shares	374	36 058	-	-	-	-	36 432	(275)	36 157
Amabubesi Investments (Pty) Limited	-	(1 910)	1 910	-	-	-	-	-	-
Financial liability	-	(26 684)	-	-	-	-	(26 684)	-	(26 684)
Net profit for the year as previously reported	-	-	-	-	-	26 942	26 942	318	27 260
BEE transaction charges	-	50 330	-	-	-	(50 330)	-	-	-
Treasury shares bought	-	-	-	(6 398)	-	-	(6 398)	-	(6 398)
Treasury shares issued	-	-	-	1 226	-	-	1 226	-	1 226
Treasury shares bought	-	-	-	-	74	-	74	(74)	-
Dividends declared	-	-	-	-	-	(434)	(434)	-	(434)
Reallocation of shareholder's loan	-	-	-	-	-	-	-	171	171
Movement in foreign currency translation reserve	-	-	-	-	(49)	-	(49)	-	(49)
Balance at 30 June 2006 - Audited	1 868	182 455	1 910	(6 572)	8 987	(35 883)	152 765	1 492	154 257
Issue of shares	1	28	-	-	-	-	29	(58)	(29)
Share issue expenses	-	(34)	-	-	-	-	(34)	-	(34)
Net profit for the year	-	-	-	-	-	32 825	32 825	196	33 021
Treasury shares bought	-	-	-	9 387	-	-	9 387	-	9 387
Treasury shares issued	-	-	-	(2 815)	-	-	(2 815)	-	(2 815)
Deferred tax on deemed interest	-	-	-	-	(3 799)	-	(3 799)	-	(3 799)
Dividends declared	-	-	-	-	-	(13 059)	(13 059)	(97)	(13 156)
Movement in foreign currency translation reserve	-	-	-	-	20	-	20	-	20
Balance at 31 December 2006 - Unaudited	1 869	182 449	1 910	-	5 208	(16 117)	175 319	1 533	176 852

GROUP BALANCE SHEET

	31 Dec 2006	31 Dec 2005	30 Jun 2006
	Unaudited R'000	Unaudited R'000	Audited R'000
ASSETS			
Non-current assets	101 647	67 282	93 066
Property, plant and equipment	44 213	41 403	44 081
Intangible assets	39 931	19 731	40 359
Interest in subsidiaries	4 478	-	-
Trust loans	12 120	3 220	3 364
Deferred taxation	905	2 928	5 262
Current assets	445 358	224 752	497 458
Inventories	177 446	81 983	119 384
Trade and other receivables	220 937	125 902	211 884
Cash and cash equivalents	46 975	16 867	166 190
Total assets	547 005	292 034	590 524
EQUITY AND LIABILITIES			
Capital and reserves	175 319	121 656	152 765
Share capital and premium	184 318	126 155	184 323
Treasury shares	-	(1 400)	(6 572)
Non-distributable reserves	5 208	8 962	8 987
Put option	1 910	-	1 910
Accumulated loss/(profit)	(16 117)	(12 061)	(35 883)
Minority shareholders' interest	1 533	1 352	1 492
Non-current liabilities	39 126	1 644	46 588
Interest-bearing liabilities	39 126	1 644	46 588
Current liabilities	331 027	167 382	389 679
Trade and other payables	284 958	138 339	336 419
Short-term loans	-	9 828	-
Current portion of interest-bearing liabilities	10 670	8 055	27 805
Warranty provisions	8 302	7 335	8 466
Taxation	27 097	3 825	16 989
Total equity and liabilities	547 005	292 034	590 524
Valuation per share			
Net asset value per share (cents)	94,7	83,1	84,2
Net tangible asset value per share (cents)	73,3	69,7	62,2
Number of ordinary shares in issue at the end of the period ('000)	186 834	148 096	183 160
Working capital management			
Inventory days	52,8	46,0	42,5
Debtors days	48,7	51,7	56,5
Liquidity and solvency			
Debt ratio	14,0	177,6	12,7
Current asset ratio	1,35	1,34	1,28
Acid test ratio	0,81	0,85	0,97

SUMMARISED GROUP CASH FLOW STATEMENT

	6 months ended 31 Dec 2006	6 months ended 31 Dec 2005	12 months ended 30 Jun 2006
	Unaudited R'000	Unaudited R'000	Audited R'000
Cash flow from operations	(72 247)	(17 151)	102 377
Cash flow from investing activities	(6 983)	(17 319)	(41 862)
Cash flow from financing activities	(39 985)	(11 228)	43 110
Increase in cash and cash equivalents	(119 215)	(45 698)	103 625
Cash and cash equivalents at the beginning of the period	166 190	62 565	62 565
Cash and cash equivalents at the end of the period	46 975	16 867	166 190

COMMENTS

Operational overview

The Pinnacle Group continues to benefit from strong local and international economies, a stable Rand and the culmination of past and ongoing initiatives to diversify the product range and distribution channels available to the Group. The ongoing integration of Explit Technologies and Pinnacle Micro into a cohesive distribution business unit has given critical mass to Pinnacle Africa styled offices in Botswana, Namibia, Zambia and Mozambique. Branches in Port Elizabeth, Cape Town, Durban and Midrand have been consolidated and co-branded. The diverse ERP systems of the Group are being consolidated to further exploit potential synergies.

Compared to the corresponding period between July and December 2005, Infrastructure and Support has grown by 57%, Software by 120% and ICT Services by 92%.

Working capital continues to be a focus point of the Group and trade receivable days have reduced from 56,5 days at June 2006 to 48,7 days. Days inventory on hand at 52,8 days (June 2005: 42,5 days) were necessitated to ensure pipeline commitments for Q1 2007 are fulfilled and are within management's expectations. Inventory levels are expected to reduce to 45 days by the end of the financial year. Terms with creditors have been reduced to further improve margins with a resultant decrease in working capital.

R13 million (2005: R6 million) was returned to shareholders by way of a 7 cent per share dividend. Income tax and STC to the value of R5,6 million was remitted during the six months to December. R24 million was paid in cash and treasury shares on liabilities incurred to procure the remaining shareholding in Explit Technologies, resulting in an overall decrease in cash reserves.

Current assets to current liabilities (working capital ratio) remains strong at 1,35 (2005: 1,34), whilst the acid test ratio has decreased marginally to 0,81 (2005: 0,85).

Corporate activity

Pinnacle acquired 50,1% of DataNet Infrastructure Group (Pty) Limited ("DataNet") on 6 October 2006. As a network infrastructure distributor, DataNet provides cabinets, cabling and networking peripherals to resellers and installers in the South African market.

The results of DataNet have not been consolidated into these unaudited interim Group results as the take-on balances at 6 October 2006 are being finalised. The omission of DataNet's results is not considered to have a material impact on the results of the Group.

Financial review

Revenue increased by 87% to R729 million (2005: R391 million) on the consolidation of 100% of Explit Technologies, focused product offering and penetration of retail markets. Organic growth, as determined by excluding the consolidation of 50% of Explit Technologies, accounted for 56% of the increase in revenue.

Gross profit reduced to 15,6% (2005: 16,5%) on the dilution of margin contribution by Explit Technologies, but is expected to improve in the latter part of the year.

Operating expenses reduced to 8,2% (2005: 11,2%) of revenue as cost containment strategies and synergies between Pinnacle and Explit Technologies were realised.

Headline earnings per share is calculated as a measure of trading performance and excludes profit and losses on capital items. The BEE transaction charge reflected in the comparative results for the twelve months ended 30 June 2006 is therefore added back in the reconciliation of headline earnings.

Intangible assets to the value of R519 000 were impaired in line with the determination of recoverable amount requirements of IAS36 - Impairment of Assets.

Trust loans increased to R12 million (2005: R3,2 million) as 4,35 million share options were issued to key staff. Under the terms of the Pinnacle employee trust, the share options shall vest after the expiry of a minimum of three years.

Deferred taxation was reduced by R3,8 million on recognition of a liability that may occur on the early settlement of the non-current liability described below. The deferred taxation liability was raised against non-distributable reserves.

Inventory increased to R177 million (2005: R82 million) partly due to the increase in turnover as well as the additional investment in stock required as described in the operational overview.

Trade and other receivables increased to R221 million (2005: R126 million) with trade receivable days reducing to 48,7 days (2005: 51,7 days).

Non-current liabilities - A financial liability to the value of R27,4 million was created to fulfil International Financial Reporting Standards ("IFRS") requirements relating to the put option offered to Amabubesi Investments (Pty) Limited ("Amabubesi"). The financial liability is equal to the present value of the potential repayment that may be paid to Amabubesi, should the Group not achieve the profit conditions described in the circular to shareholders. The financial liability in turn gives rise to a material interest charge under IAS39 - Financial Instruments: Recognition and Measurement which, legally and commercially, will not be paid.

Outlook

Various technologies are being considered to offer perpetual data connectivity solutions in technology markets. Wi-Max or 4G is viewed by many as the mobile solution of the future whilst 4 Gigabyte ADSL will introduce true broadband in fixed line applications.

The availability of broadband solutions at affordable rates is expected to introduce new communication, entertainment and management technologies to corporate and private clients, inevitably driving the demand for technology software, hardware and services.

The technology requirements to enable efficient and secure use of connectivity solutions will be met by the product suite and services available to clients within the Pinnacle Group.

Under the guidance of the African renaissance programme, NEPAD, school laboratories in Mauritius and Rwanda were equipped with Proline hardware. On completion of the assessment phase, a number of projects are expected to be awarded to successful contributors. Pinnacle remains confident in its ability to participate and contribute in this highly regarded endeavour.

64-bit technologies have been released by Intel, AMD and Microsoft and first adoption rates have indicated that the technologies are being accepted in the market.

The Group has received orders from various institutions for delivery in Q1 2007. These orders are expected to notably contribute to the operating results of the period ending 30 June 2007.

The fiscal policies effected by the South African Reserve Bank are expected to continue for the remainder of the financial year. The changes in the economic climate that may result, warrants the need for caution.

Accounting policies

In terms of the Listings Requirements of the JSE Limited ("JSE"), the interim results have been prepared in accordance with IFRS IAS34 - Interim Financial Reporting, the Listing Requirements of the JSE and the South African Companies Act.

The Group adopted and applied IFRS for