



# Pinnacle Technology

Holdings Limited

(Registration number 1986/000334/06)

Share code: PNC • ISIN: ZAE000022570

("Pinnacle" or "the Group") • www.pinnacle.co.za

## REVENUE

**UP 8.2%**  
to R1.464 billion

## EBITDA

**UP 26.7%**  
to R89.1 million

## HEADLINE EARNINGS

**UP 37%**  
to R62 million

## CASH ON HAND

**R54 million**

## UNAUDITED INTERIM RESULTS for the six months ended 31 December 2009

### GROUP INCOME STATEMENT

	6 months ended 31 Dec 2009 Unaudited R'000	6 months ended 31 Dec 2008 Unaudited R'000	12 months ended 30 Jun 2009 Audited R'000
Revenue	1 464 836	1 354 053	2 833 716
Cost of sales	(1 242 618)	(1 139 087)	(2 395 040)
Gross profit	222 218	214 966	438 676
Operating expenses	(133 076)	(144 617)	(271 291)
Selling and distribution	(12 464)	(5 175)	(9 712)
Employee expenses	(104 505)	(92 678)	(193 726)
Administration	(21 047)	(20 965)	(42 904)
Profit/(loss) on foreign exchange	4 940	(25 799)	(24 949)
EBITDA	89 142	70 349	167 385
Depreciation	(3 917)	(4 095)	(8 305)
Impairment of intangible assets	(10 791)	(5)	-
Amortisation	(85)	(248)	(439)
Operating profit before interest	74 349	66 001	158 641
Investment income	5 089	3 758	7 428
Finance costs	(17)	(6 323)	(12 056)
Net profit before taxation	79 421	63 436	154 013
Taxation	(24 455)	(17 770)	(43 891)
Net profit for the period	54 966	45 666	110 122
Attributable to:			
Ordinary shareholders	53 828	44 269	105 454
Non-controlling shareholders	1 138	1 397	4 668
Returns	%	%	%
Gross profit	15.2	15.9	15.5
EBITDA	6.1	5.2	5.9
Net profit	3.8	3.4	3.7
<b>Reconciliation of headline earnings</b>			
Net profit attributable to ordinary shareholders	53 828	44 269	105 454
Add back:			
Impairment of intangibles	8 589	4	-
Profit/(loss) on sale of assets, after tax	(49)	-	(23)
Headline earnings - normal	62 368	44 273	105 431
Deemed finance charges	-	1 232	2 528
Headline earnings - fully diluted	62 368	45 505	107 959
<b>Shares in issue ('000)</b>			
Weighted average	181 837	145 498	145 382
Fully diluted	181 837	182 779	182 664
<b>Performance per share</b>			
Earnings per share (cents)			
- Normal	29.6	30.4	72.5
Headline earnings per share (cents)			
- Normal	34.3	30.4	72.5
- Fully diluted	34.3	24.9	59.1

### GROUP STATEMENT OF COMPREHENSIVE INCOME

	6 months ended 31 Dec 2009 Unaudited R'000	6 months ended 31 Dec 2008 Unaudited R'000	12 months ended 30 Jun 2009 Audited R'000
Net profit for the period	54 966	45 666	110 122
Other comprehensive income (net of tax)			
Reversal of BEE charges	-	-	50 330
Revaluation of property, plant and equipment	-	-	20 594
Foreign currency translation reserve	(162)	461	242
Deferred losses on foreign exchange hedges	884	-	(884)
Total comprehensive income for the period	55 688	46 127	180 404
Attributable to:			
Ordinary shareholders	54 550	44 730	175 736
Non-controlling shareholders	1 138	1 397	4 668

### GROUP STATEMENT OF CHANGES IN EQUITY

	6 months ended 31 Dec 2009 Unaudited R'000	6 months ended 31 Dec 2008 Unaudited R'000	12 months ended 30 Jun 2009 Audited R'000
Opening balance	425 367	281 682	281 682
Comprehensive income for the period	55 688	46 127	180 404
Treasury shares bought	(581)	(501)	(2 158)
Reversal of BEE charges	-	-	(50 330)
Capitalisation of Amabubesi's deemed financial liability	-	-	37 742
Dividends paid	(21 835)	(21 899)	(21 973)
Closing balance	458 639	305 409	425 367
Attributable to:			
Ordinary shareholders	456 161	307 329	424 016
Non-controlling shareholders	2 478	(1 920)	1 351

### GROUP STATEMENT OF FINANCIAL POSITION

	31 Dec 2009 Unaudited R'000	31 Dec 2008 Unaudited R'000	30 Jun 2009 Audited R'000
<b>ASSETS</b>			
Non-current assets	147 276	127 900	159 479
Property, plant and equipment	85 603	58 702	86 960
Intangible assets	43 489	54 396	54 210
Trust loans	6 724	11 050	10 536
Deferred taxation	11 460	3 752	7 773
Current assets	822 262	846 534	856 248
Inventories	293 428	298 123	292 910
Trade and other receivables	474 533	548 882	399 685
Cash and cash equivalents	54 301	(471)	163 653
<b>Total assets</b>	<b>969 538</b>	<b>974 434</b>	<b>1 015 727</b>
<b>EQUITY AND LIABILITIES</b>			
Total equity	458 639	305 409	425 367
Attributable to shareholders	456 161	307 329	424 016
Share capital and premium	143 983	167 629	143 983
Treasury shares	(21 186)	(18 948)	(20 605)
Non-distributable reserves	31 481	7 563	30 780
Accumulated profit	301 883	151 085	269 858
Non-controlling shareholders	2 478	(1 920)	1 351
Non-current liabilities	24 010	50 016	24 452
Interest-bearing liabilities	12 775	50 016	13 777
Deferred taxation	11 235	-	10 675
Current liabilities	486 889	619 009	565 908
Trade and other payables	463 704	596 553	539 541
Foreign exchange contracts	6 640	-	9 993
Current portion of interest-bearing liabilities	2 160	10 902	2 417
Warranty provisions	7 899	9 421	9 674
Taxation	6 486	2 133	4 283
<b>Total equity and liabilities</b>	<b>969 538</b>	<b>974 434</b>	<b>1 015 727</b>
<b>Valuation per fully diluted share</b>			
Net asset value per share (cents)	251.1	168.2	233.2
Net tangible asset value per share (cents)	227.2	138.4	203.3
Fully diluted number of ordinary shares in issue at the end of the period ('000)	181 660	182 705	181 860
<b>Working capital management</b>			
Inventory days	43.2	47.9	44.6
Debtors days	52.0	65.1	45.2
Creditors days	59.9	84.1	72.1
<b>Liquidity and solvency</b>			
Debt:equity ratio (%)	5.24	16.38	5.75
Current asset ratio	1.69	1.37	1.51
Acid test ratio	1.09	0.89	1.00

### SEGMENTAL REPORT

	6 months ended 31 Dec 2009 Unaudited R'000	6 months ended 31 Dec 2008 Unaudited R'000	12 months ended 30 Jun 2009 Audited R'000
<b>Revenue</b>			
Pinnacle Africa	815 106	767 326	1 619 099
WorkGroup	558 802	487 915	1 023 895
RentNet	3 373	15 543	23 294
DataNet	80 206	83 269	167 397
Infrasol	7 277	-	-
Holdings and properties	72	-	31
Total Group	1 464 836	1 354 053	2 833 716
<b>EBITDA</b>			
Pinnacle Africa	51 691	22 333	88 908
WorkGroup	34 572	36 313	57 262
RentNet	(501)	4 958	6 374
DataNet	2 385	5 077	10 367
Infrasol	(1 306)	-	-
Holdings and properties	2 301	1 668	4 474
Total Group	89 142	70 349	167 385
<b>Assets</b>			
Pinnacle Africa	490 637	502 354	481 487
WorkGroup	318 071	341 169	348 756
RentNet	7 571	16 701	15 055
DataNet	44 975	43 362	54 129
Infrasol	2 017	-	-
Holdings and properties	106 267	70 848	116 300
Total Group	969 538	974 434	1 015 727
<b>Liabilities</b>			
Pinnacle Africa	(281 145)	(372 785)	(310 214)
WorkGroup	(231 662)	(276 369)	(269 044)
RentNet	375	(7 058)	(4 872)
DataNet	(37 361)	(40 294)	(48 184)
Infrasol	(3 035)	-	-
Holdings and properties	41 929	27 481	41 954
Total Group	(510 899)	(669 025)	(590 360)

### ABRIDGED GROUP STATEMENT OF CASH FLOWS

	6 months ended 31 Dec 2009 Unaudited R'000	6 months ended 31 Dec 2008 Unaudited R'000	12 months ended 30 Jun 2009 Audited R'000
Cash and cash equivalents at the beginning of the period	163 653	77 199	77 199
Cash from operations	93 707	67 666	165 355
Cash utilised in working capital	(155 019)	(89 774)	16 908
Taxation paid	(25 807)	(28 600)	(54 723)
Distribution to shareholders	(21 835)	(21 972)	(21 970)
Cash utilised in investing activities	(2 647)	(7 866)	(10 048)
Increase in third party liabilities	2 831	2 876	(7 411)
Treasury shares acquired	(582)	-	(1 657)
Cash and cash equivalents at the end of the period	54 301	(471)	163 653

## PEOPLE | PRODUCT | PASSION

### COMMENTS

#### INTRODUCTION

The Pinnacle Technology Holdings Group is a diversified Information and Communication Technology distribution group, active in all areas of ICT hardware, software and services. The Group offers a world class selection of international branded products including Apacer, CA, Canon, Dell, Hewlett-Packard, IBM, Intel, LG, Logitech, McAfee, Microsoft, Modrac, Novell, Samsung, Sony and VMware, along with our own Proline range of ICT equipment. Products and service sales are realised through individual focused business units, each with their own area of expertise.

#### RESULTS OF OPERATIONS

The local and international economies have shown signs of recovery during the past six months, albeit at a measured pace. South Africa enjoyed the benefit of a stable and stronger exchange rate, stable fuel prices and reduced interest charges. Discretionary spending however remains guarded and the impact was felt in the retail, construction and entertainment industries. Customers' cash and credit constraints have eased slightly, but continue to influence day-to-day operations in all business units.

#### Pinnacle Africa

The Pinnacle Micro business unit was rebranded as Pinnacle Africa to accurately represent the focus and geographical footprint of the business unit. Revenue increased from R767 million to R815 million, and EBITDA increased by 131% to R51.7 million, as foreign exchange management realised a profit of R2.1 million as opposed to the corresponding loss of R29.9 million included in the comparative results.

Retail delivered better than expected results based on innovative festive season packages. The Channel business units reported strong revenue growth and consistent business volumes, and Government sales were ahead of budget. DD1, a new business unit reported in the 2009 annual financial statements, has been merged with Pinnacle Africa to enhance customer focus.

#### WorkGroup

WorkGroup continues to play a dominant role in the distribution of software and enterprise server and storage hardware, and its ever increasing portfolio of international brands and strong commodity sales have contributed to increase revenue by 14.5% to R558.8 million, notwithstanding a 17% strengthening of the Rand.

EBITDA, at R34.5 million, although reduced by 4.8%, remained in line with budget expectations for the period.

#### RentNet

The deferral and cancellation of conferences and other recurring events had a material impact on business volumes. RentNet's operations were transferred into Infrasol to reduce the cost base of the company. Whilst Pinnacle as a group will continue to pursue short-term technology rental solutions, the results of these activities will henceforth be included in the Infrasol business unit.

#### DataNet

The depressed construction industry and delays in key projects combined to reduce revenue by 3.9% to R80.2 million and, as result, EBITDA by 53% to R2.3 million.

Additional security and network agencies have been brought on board to further diversify revenue streams, allowing DataNet to offer connectivity solutions across fibre, copper and wireless networks.

#### Infrasol

The newly constituted Infrasol realised revenue of R7.2 million during the first six months of operations, and an EBITDA loss of R1.3 million. The bulk of the revenue generation however occurred in the latter months of the reporting period as operations came online and Infrasol remains on track to materially recover the loss by the end of the financial year.

#### Holdings

The protracted roll-out of the proposed ERP system has been shelved as development requirements mandated by performance criteria require additional development that will further remove the system from its core structure. The investment of R7.9 million has consequently been impaired in compliance with IFRS fair value requirements. The Group has entered into settlement negotiations with the service providers.

#### PERFORMANCE PER SHARE

The expiry of the put option on 30 June 2009, relating to the 37 281 647 shares held by Amabubesi Investments (Pty) Limited, has removed the IFRS requirement to add these shares back when calculating the weighted average shares in issue used in earnings and headline earnings per share calculations.

Earnings and headline earnings per share are therefore calculated on a weighted average of 181 836 624 shares, as opposed to the 145 497 603 shares used in the calculations for 31 December 2008.

Stakeholders are therefore advised to consider fully diluted headline earnings per share when comparing financial performance per share to prior years, as fully diluted headline earnings per share had previously been based on the total number of shares held by equity owners.

Fully diluted headline earnings per share increased by 38% to 34.3 cents per share; net tangible asset value per share increased to 227.2 cents per share (30 June 2009: 203.3 cents per share).

#### CASH FLOW

Cash flow from operations increased by 38% to R93.7 million; investment in working capital however absorbed R155 million, as debtors increased to 52 days sales outstanding; driven higher by exceptional retail sales in November and December, from 45.2 days in June 2009 (31 December 2008: 65.1 days sales outstanding), and creditors days outstanding reduced to 59.9 days (31 December 2008: 72.1 days).

Over the six-month period temperate growth, disciplined working capital management and the effective application of Group treasury contributed to report net interest earned of R5 million (31 December 2008: net interest paid R4.6 million).

#### CAPITAL EXPENDITURE

The Group invested R3.4 million in motor vehicles, IT and leasehold improvements over the period. No material capital expenditure has as yet been considered by the Board for the remainder of the financial year.

#### CORPORATE ACTIVITY

A new venture, styled ITWise, was incorporated to distribute Wyse, a specialised brand of thin client solutions. Pinnacle has a 51% stake in the new venture. Subsequent to 31 December 2009, Pinnacle acquired a further 4.95% of the equity of DataNet, increasing our shareholding to 55.05%. Pinnacle also acquired 51% of Moyahabo Digital Solutions ("MDS"), a company incorporated to distribute and support Sharp office automation products in South Africa, by agreeing to act as the financing partner to MDS.

#### PROSPECTS

The roll-out of fibre and wireless bandwidth solutions, the deregulation of national backbones and associated cost reductions continue to drive mobility and connectivity solutions in the South African market. The adoption rate of these technologies and solutions remain high and dependency on ICT solutions for day-to-day business requirements and service delivery is expected to support hardware and software spend in the commercial and government sectors.

Pinnacle continues to diversify its revenue streams with the addition of international brands to add and expand on hardware, software and infrastructure technologies. The addition of Fujitsu, Sharp and Samsung amongst others, will enable Pinnacle to expand or develop its offering in data centre, audio-visual and office automation market segments.

The positive economic outlook should however be considered in light of uncertainty in the retail and government forecasts relating to the next six months.

#### ACCOUNTING POLICIES

In terms of the Listings Requirements of the JSE Limited, the interim results have been prepared in accordance with International Financial Reporting Standards ("IFRS"), IAS 34 - Interim Financial Reporting, the Listings Requirements of the JSE Limited and the South African Companies Act. These accounting policies are consistent with the policies employed in the preparation of the audited financial results for the year ended 30 June 2009, except for the adoption of IAS 1 Revised - Presentation of Financial Statements. Other new, revised and amended standards that have come into effect for the period have had no effect on the presentation of this report.

#### CORPORATE GOVERNANCE

The Group recognises the need to conduct its business with integrity, transparency and equal opportunity and subscribes to the spirit of good corporate governance as set out in the King II report. The Group is currently in the process of reviewing and evaluating its compliance with King III and a detailed programme will be adopted to ensure optimal compliance within an acceptable time frame.

#### CHANGES TO THE BOARD OF DIRECTORS

Mrs Grathel Motau resigned as non-executive director during October 2009. At the time, the Board extended its gratitude to Mrs Motau for her service as well as their best wishes for her future endeavours.