Pinnacle Technology Holdings Limited

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

www.pinnacle.co.za

PEOPLE | PRODUCT | PASSION

UNAUDITED INTERIM RESULTS

for the six months ended 31 December 2011

R2.73 billion	R197 million	R130 million	78.3 cents
Revenue up 32%	EBITDA up 48%	NPAT up 49%	HEPS up 63%

Pinnacle AFRICA | AxizWorkgroup | datanet distribution | Infrasol | CENTRAFIN

>>GROUP CONSOLIDATED INCOME STATEMENT

	Half year 31 Dec 2011 Unaudited R'000	Half year 31 Dec 2010 Unaudited R'000	Full year 30 Jun 2011 Audited R'000
Revenue	**2 731 187**	2 065 365	4 960 074
Cost of sales	**(2 300 686)**	(1 759 395)	(4 215 662)
Gross profit	**430 501**	305 970	744 412
Operating expenses	**(233 566)**	(172 743)	(421 478)
Selling and distribution	**(28 361)**	(17 519)	(30 727)
Employee expenses	**(177 548)**	(137 264)	(321 688)
Administration	**(40 732)**	(31 785)	(82 835)
Discounting of finance leases	**1 209**	4 094	4 890
Profit on foreign exchange	**11 866**	9 731	8 882
EBITDA	**196 935**	133 227	322 934
Depreciation	**(7 698)**	(6 176)	(13 588)
Impairment	**–**	(115)	(12)
Amortisation	**(191)**	(107)	(328)
Negative goodwill	**–**	–	5 199
Operating profit	**189 046**	126 829	314 205
Investment income	**8 964**	3 582	6 943
Finance costs	**(12 836)**	(3 779)	(11 510)
Net profit before taxation	**185 174**	126 632	309 638
Taxation	**(55 213)**	(37 980)	(87 297)
Net profit for the period	**129 961**	88 652	222 341
Owners of the Company	**129 955**	86 930	220 226
Non-controlling interests	**6**	1 722	2 115

>>GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Half year 31 Dec 2011 Unaudited R'000	Half year 31 Dec 2010 Unaudited R'000	Full year 30 Jun 2011 Audited R'000
Net profit for the period	**129 961**	88 652	222 341
Other comprehensive income			
Exchange differences from translating foreign operations	**500**	(77)	(374)
Total comprehensive income for the period	**130 461**	88 575	221 967
Attributable to:			
Owners of the Company	**130 455**	86 853	219 852
Non-controlling interests	**6**	1 722	2 115
Returns (%)			
Gross profit	**15.8**	14.8	15.0
EBITDA	**7.2**	6.5	6.5
Net profit to Company owners	**4.8**	4.2	4.4

>>RECONCILIATION OF HEADLINE EARNINGS

	Half year 31 Dec 2011 Unaudited R'000	Half year 31 Dec 2010 Unaudited R'000	Full year 30 Jun 2011 Audited R'000
Net profit attributable to ordinary shareholders	**129 955**	86 930	220 226
Add back/(deduct):			
Excess of fair value of business combination acquisitions over cost	**–**	–	(5 199)
Impairment of intangibles	**–**	115	–
Profit and loss on sale of assets	**(333)**	(214)	(880)
Headline earnings	**129 622**	86 831	214 147
Weighted average shares in issue ('000)	**165 568**	180 949	181 965
Earnings per share (cents)			
Basic	**78.5**	48.0	121.0
Headline	**78.3**	48.0	117.7

>> GROUP CONSOLIDATED ABRIDGED STATEMENT OF CASH FLOWS

	Half year 31 Dec 2011 Unaudited R'000	Half year 31 Dec 2010 Unaudited R'000	Full year 30 Jun 2011 Audited R'000
Cash and cash equivalents at the beginning of the period	**3 685**	187 088	187 088
Cash generated from operating activities	**(244 772)**	(58 028)	133 230
Cash from operations	**193 587**	132 741	317 113
Cash utilised in working capital	**(373 610)**	(144 844)	(80 707)
Taxation paid	**(64 749)**	(45 925)	(103 176)
Cash flows from investing activities	**(16 156)**	(170 442)	(202 422)
Property, plant and equipment acquired	**(9 611)**	(11 526)	(22 050)
Proceeds on disposal of property, plant and equipment	**–**	1 283	1 885
Acquisition of software and other intangible assets	**(3 046)**	(577)	(2 048)
Acquisition of subsidiaries	**–**	(159 622)	(159 622)
Acquisition of non-controlling interests	**(3 500)**	–	(20 587)
Cash flows from financing activities	**(99 088)**	59 531	7 132
Net (decrease)/increase in interest-bearing liabilities	**(60 595)**	75 529	113 514
Share capital acquired and cancelled	**–**	–	(31 984)
Treasury shares acquired	**(412)**	–	(78 721)
Treasury shares issued	**–**	12 505	30 305
Decrease in trust loan	**–**	–	3 516
Dividends paid to shareholders	**(38 081)**	(28 503)	(29 498)
Decrease in cash and cash equivalents	**(360 016)**	(168 939)	(62 060)
Net overdraft acquired from business combinations	**–**	(121 343)	(121 343)
Cash and cash equivalents at the end of the period	**(356 331)**	(103 194)	3 685
Cash and cash equivalents	**37 948**	48 903	87 407
Bank overdrafts	**(394 279)**	(152 097)	(83 722)

>> GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 Dec 2011 Unaudited R'000	31 Dec 2010 Unaudited R'000	30 Jun 2011 Audited R'000
ASSETS			
Non-current assets	**266 704**	187 685	228 578
Property, plant and equipment	**107 058**	105 589	105 145
Intangible assets	**63 395**	56 880	60 541
Trust loans	**–**	1 165	–
Deferred taxation	**29 424**	24 051	26 652
Finance lease receivable	**66 827**	–	36 240
Current assets	**1 777 969**	1 467 461	1 500 117
Inventories	**770 867**	515 209	576 384
Finance lease receivables	**21 363**	–	11 801
Current portion of loans receivable	**998**	–	–
Trade and other receivables	**940 699**	902 672	822 621
Taxation receivables	**6 094**	677	1 904
Cash and cash equivalents	**37 948**	48 903	87 407
Total assets	**2 044 673**	1 655 146	1 728 695
EQUITY AND LIABILITIES			
Capital and reserves	**717 866**	611 206	629 374
Share capital and premium	**112 024**	143 993	112 009
Treasury shares	**(75 297)**	(13 964)	(74 885)
Non-distributable reserves	**31 782**	31 502	31 204
Accumulated profits	**645 749**	445 440	560 786
Non-controlling interest	**3 608**	4 235	260
Non-current liabilities	**59 840**	81 389	66 869
Interest-bearing liabilities	**48 024**	70 172	55 230
Deferred tax	**11 816**	11 217	11 639
Current liabilities	**1 266 967**	962 551	1 032 452
Trade and other payables	**844 784**	763 565	863 743
Foreign exchange contracts	**–**	8 120	–
Bank overdrafts	**394 279**	152 097	83 722
Short-term loan	**–**	–	52 088
Current portion of interest-bearing liabilities	**14 331**	13 839	15 632
Warranty provisions	**9 702**	9 452	10 646
Taxation	**3 871**	15 478	6 621
Total equity and liabilities	**2 044 673**	1 655 146	1 728 695
Shares in issue ('000) (excluding treasury shares)	**165 568**	183 328	165 528
Valuation			
Net asset value per share (cents)	**431.4**	331.1	380.1
Net tangible asset value per share (cents)	**375.3**	286.9	327.4
Working capital management			
Inventory days	**61.3**	41.5	44.1
Debtors days	**55.3**	53.3	45.8
Creditors days	**58.9**	54.0	66.1
Liquidity and solvency			
Long-term debt to equity (%)	**8.34**	13.32	10.62
Current asset ratio	**1.40**	1.52	1.45
Acid test ratio	**0.79**	0.99	0.89

>> SEGMENTAL ANALYSIS

	Half year 31 Dec 2011 Unaudited R'000	Half year 31 Dec 2010 Unaudited R'000	Full year 30 Jun 2011 Audited R'000
Revenue			
ICT Distribution	**2 889 407**	2 118 382	5 035 749
IT Projects and Services	**46 757**	28 553	158 559
Financial Services	**12 698**	12 128	22 778
Group Central Services	**–**	(27)	154
Less: Intergroup revenue	**(217 675)**	(93 671)	(257 166)
	2 731 187	2 065 365	4 960 074
EBITDA			
ICT Distribution	**184 244**	125 517	297 850
IT Projects and Services	**7 849**	299	15 954
Financial Services	**4 696**	6 410	8 294
Group Central Services	**146**	1 001	836
	196 935	133 227	322 934
Total assets			
ICT Distribution	**1 814 707**	1 527 014	1 560 551
IT Projects and Services	**24 223**	15 555	16 149
Financial Services	**127 382**	29 899	66 390
Group Central Services	**78 361**	82 678	85 605
	2 044 673	1 655 146	1 728 695
Total liabilities			
ICT Distribution	**(1 409 415)**	(1 165 654)	(1 172 133)
IT Projects and Services	**(14 821)**	(17 042)	(6 915)
Financial Services	**(121 344)**	(25 266)	(65 747)
Group Central Services	**203 637**	164 022	145 474
	(1 326 806)	(1 043 940)	(1 099 321)

>> GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Half year 31 Dec 2011 Unaudited R'000	Half year 31 Dec 2010 Unaudited R'000	Full year 30 Jun 2011 Audited R'000
Opening balance	**629 374**	538 919	538 919
Shares issued	**16**	10	(241)
Shares cancelled	–	–	(31 984)
Comprehensive income for the period	**130 461**	88 575	221 967
Treasury shares issued/(acquired)	**(412)**	12 505	(48 416)
On acquisition of shareholding	**(3 492)**	61	(21 374)
Dividends paid	**(38 081)**	(28 864)	(29 497)
Closing balance	**717 866**	611 206	629 374
Attributable to:			
Owners of the Company	**714 258**	606 971	629 114
Non-controlling interests	**3 608**	4 235	260

COMMENTARY

OVERVIEW

The Group achieved a pleasing performance for the six months to 31 December 2011 despite difficult trading conditions derived from the European financial situation, although the Group's results were assisted to some degree by Rand weakness during the period. Activity held up in Pinnacle's ICT distribution operations while its projects and financial services sectors showed good growth.

December is historically the highest cycle for working capital for the Group, due to the investment in inventories which ensures that adequate stocks are available ahead of the usual peak uptake by the public sector during February and March and to guard against expected supply shortages attributable to the Chinese New Year. The need to do this in the current year, in particular, was exacerbated by the increased stock holding necessary to cater for anticipated shortages of hard disk drives caused by floods in Thailand. Subsequent to the year-end the satisfactory public sector uptake and worldwide stock shortages demonstrated that the decision to build up stocks was a prudent one. The Group expects cash generation in the second half to be as strong as it was in prior years.

FINANCIAL RESULTS

Group turnover increased by 32% to R2.73 billion, which was driven mainly by the contribution of the Pinnacle Africa and AxizWorkgroup hardware divisions, while software lost 11% turnover due to customers delaying their software upgrades. Synergies arising out of the Axiz acquisition, together with an increase in the overall turnover mix of higher margin products, resulted in a strong 41% increase in gross profit. This represented an improvement in gross margin to 15.8% from 14,8% for the corresponding period last year and 15.0% for the full year immediately prior to the six-month period under review.

Overheads were up by 35% over the prior period but this increase was below the growth in gross profit. Besides the inclusion of Axiz for the full period, the main increase driver was higher freight and distribution costs, while other controllable expenses including salaries and administration costs were held under control. Higher borrowings in the year generated an additional R3.7 million net interest paid over the R0.2 million in the prior period.

Taxation reduced slightly as a percentage of net profit and non-controlling interests were all but eliminated from the attributable profit make-up in this period, after the acquisition of almost all of the outside shareholdings in Group subsidiaries during the previous year.

Attributable net profit after tax rose by 49.5% to R130 million. Headline earnings per share increased by 63% to 78.3 cents per share. Headline earnings per share was also boosted by the repurchase of 20 million shares from Amabubesi Technology Holdings (Pty) Limited in June 2011.

FINANCIAL POSITION AND CASH FLOW

As mentioned in the overview above, the Group made a strategic decision to commit to a higher investment than usual into inventories to guard against anticipated shortages of hardware. It is particularly important not to run short of stock ahead of the public sector peak demand leading up to the end of March. The result was that stock days increased from 41.5 days in December 2010 to 61.3 days at the end of the current period. The demand patterns usually experienced in the second half of the year are expected to return this level to normality before the end of the financial year.

Cash from operations grew by 45.8%, in a similar fashion to the growth in profit, but the increased investment in inventory and further once off cash outflows, including R84 million to settle the remaining balance due on the Amabubesi shares and R40 million further funding injected into the in-house book of the Group's financial division, resulted in the net overdraft (after offsetting cash balances) rising to R356 million at the end of the period, which was still comfortably within our general banking facilities.

Debtors' days were slightly up year-on-year at 55.3 days (vs 53.3 days last year) but this was offset by an increase in creditors' days from 54.0 to 59.8. The Group's debt/equity ratio continued its improvement to 8.37% from 10.62% at the beginning of the period and 13.32% at the end of the corresponding period last year as a consequence of continued repayment of the Axiz acquisition funding as per plan.

CORPORATE ACTIVITY

Pinnacle acquired an additional 49% of the issued share capital of Explix Business Solutions (Pty) Limited ("Explix") for R3.5 million (the company in which the Group operates its Sharp distributorship) to give it a 100% holding in that company with effect from 26 October 2011. As part of the deal the Group invested an additional R4.8 million (exclusive of VAT) in terms of a related and interdependent enterprise development agreement with a black-owned, controlled and managed office automation and telecommunications company that has substantially the same ownership as the one of the sellers of the Explix shares. The Sharp distributorship was later moved into the Pinnacle Africa division where it will have the benefit of that division's sales and administration infrastructure.

ACCOUNTING POLICIES

In terms of the Listings Requirements of the JSE Limited, the interim results comply with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards and the AC 500 standards, as issued by the Accounting Standards Board, and have been prepared in accordance with IAS 34: Interim Financial Reporting, the Listings Requirements of the JSE Limited and the South African Companies Act (Act 71 of 2008). The accounting policies used in the preparation of these interim financial statements are consistent with those employed in the preparation of the audited financial results for the year ended 30 June 2011.

The Group changed its accounting policies after the last interim report in respect of certain expense items which are now partially included in the cost of sales line instead of all being shown in the operating expense line. In addition the gross profit earned on discounting of financial leases is now shown as a single line item under operating expenses rather than the full amount discounted being included in turnover and the full cost of the leases discounted being under cost of sales. These new policies were applied in the audited annual financial statements for the year ended 30 June 2011, and the prior period interim results to 31 December 2010 have been restated in this report for these changes to ensure consistency and comparability. While this reduced turnover and cost of sales, and increased gross profit and operating expenses in the restated results for the prior period to 30 June 2010, there was no impact on that period's EBITDA, operating profit or net income before and after tax.

The business combination in respect of the acquisition of Axiz Technology (Pty) Limited ("Axiz") and its subsidiaries in the prior period was provisionally accounted for in the last interim report, as was noted in that report. The accounting for this was finalised subsequent to the publication of that interim report and this report contains restated cash flow figures for the prior six-month period as follows:

(a) The recognition of the external funding of the acquisition (R73.892 million) and the funding obtained from the issue of treasury shares (R12.505 million) under the heading "Cash flow from financing activities";

(b) The addition of the items in (a) above in the line "Acquisition of subsidiaries" to reflect the full price for the acquisition rather than only the actual cash portion paid; and

(c) The exclusion of the net overdraft acquired as part of the Axiz acquisition from the line "Acquisition of subsidiaries" in order to disclose this item separately (R121.343 million).

CHANGES TO THE BOARD OF DIRECTORS

Mr Peter Moyo resigned as Amabubesi's representative non-executive director on the Board of Pinnacle during February 2012 pursuant to the divestiture by Amabubesi of all of its interests in the Group. The Board extends its gratitude to Mr Moyo for his six years of service to the Group. The Board is in the process of selecting a replacement independent non-executive director and will communicate the appointment to shareholders as soon as this process is finalised.

SUBSEQUENT EVENTS

No events material to the understanding of the report, other than those discussed above, had occurred in the period between the period-end date and the date of the report.

DIVIDENDS

In line with previous years, no interim dividend is proposed for the period under review.

PROSPECTS

Diversification of the Group's revenue streams into additional vertical and horizontal markets continues to bear fruit, resulting in growth of turnover and margin. Increased activities in the public sector combined with large ICT tenders being issued bodes well for the year ahead.

The integration of Axiz and Workgroup to create the new unit AxizWorkgroup will be completed by the end of our current financial year, and this should continue to contribute positively to the turnover and profit growth of the Group. It is anticipated that software sales in AxizWorkgroup will return to normality in the coming months due to nine additional software agencies that were added to its basket of offerings.

Pinnacle Africa continues its growth plan in Africa, with Botswana showing 100% growth year-on-year, with plans to duplicate the same efforts in Namibia. Projects to open offices in two other African countries are almost complete, which will allow the Group to participate in the exciting growth potential on the African continent.

While still relatively small, the continued growth and excitement around the Group's project orientated business will aid to the future growth and profitability of the Group. Financial services continue to aid the rest of the Group's sales efforts and will show continued future growth.

The Group intends to remain acquisitive and plans to keep on diversifying the markets it operates in through well planned acquisitions.

General forecasts in this report have not been reviewed nor audited by the Group's auditors.

For and on behalf of the Board

D Mashile-Nkosi	**AJ Fourie**	Midrand
Chairman	*Chief Executive Officer*	14 March 2012

PINNACLE TECHNOLOGY HOLDINGS LIMITED

Directors: D Mashile-Nkosi*^ (Chairperson), AJ Fourie (Chief Executive Officer), NN Mthombeni*^, FC Smyth (Chief Financial Officer), TAM Tshivhase, A Tugendhaft*

** (Non-executive) ^ (Independent)*

Preparer of results: FC Smyth

Company Secretary: PJD Engelbrecht

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Sponsor: Deloitte & Touche Sponsor Services (Pty) Limited

GRAPHICULTURE