

Pinnacle Staffing Group plc

Interim results for the six months ended 30 June 2007

Pinnacle Staffing Group plc ("Pinnacle"), the specialist temporary healthcare recruitment group announces its interim results for the six months ended 30 June 2007.

Financial highlights

	Six months ended 30 June 2007 £m	Four months ended 31 December 2006 £m
Turnover	22.1	18.0
Gross profit	4.2	3.9
EBITDA*	0.2	0.8
(Loss)/profit before tax	(0.2)	0.4
Basic (loss)/earnings per share (pence)	(0.25)	0.29

Operating highlights

- EBITDA* of £0.2m is in line with expectations set out in the Trading Statement of 12 June 2007
- Demand remains strong and is still exceeding our ability to supply
- Rigorous operational improvement action plan rolled out to the business in early August
- Operational management strengthened with the addition of an Executive Deputy Chairman and Managing Director
- Business performance has stabilised
- Cashflow remains positive with closing net borrowings at the period end amounting to £0.83m (2006 year end £1.2m)

Commenting on the results, Margaret Ford, Chairman said:

"The Company has rolled out a clear operational action plan. By strengthening our management team we now have the resources in place to ensure that the plan is effective and will deliver improved performance. Business fundamentals continue to be challenging but Pinnacle remains on track to deliver positive EBITDA* and an operating profit before amortisation in the current year."

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*profit before finance charges, taxation, depreciation and amortisation of intangible assets

Chairman's Statement

Operating Review

The Board takes a disciplined approach to supplying temporary staff of the highest quality to its clients. This rigorous approach to staff quality and in particular, to compliance, means that demand for the Company's services has exceeded its ability to fulfil that demand. As a consequence, trading for the first half of the year has been disappointing.

In order to address this shortfall, a detailed operational action plan was rolled out across the business in early August. This plan seeks to capitalise on the strong demand in the healthcare staffing market by improving our core performance in the recruitment, retention and utilisation of high quality temporary workers.

To ensure that the plan is successfully implemented, the operational management team was strengthened in June with the appointment of Trevor Jones, one of the Company's non-executive directors as Executive Deputy Chairman. This temporary role has been created to assist the Chief Executive in the formulation of the recovery action plan. Further, the Board appointed Jacqui Skinner as Managing Director at the beginning of September. Jacqui is responsible for the operational management of the business and in conjunction with the Chief Executive, for ensuring the delivery of the action plan. Jacqui has a wealth of operational experience in the sector having worked at a senior level in both Allied Healthcare Inc and most recently at Nestor Healthcare Plc.

Trading and profitability

	6 months ended 30 June 2007		4 months ended 31 December 2006	
	Revenue	EBITDA*	Revenue	EBITDA*
Nursing	£14.9m	£0.3m	£11.8m	£0.6m
Medical Services	£7.2m	(£0.1m)	£6.2m	£0.2m
Total	£22.1m	£0.2m	£18.0m	£0.8m

Turnover for the first six months of the year was £22.1m (18 week period ended 31 December 2006: £18.0m). This is a reflection of the stance we have taken on compliance and quality and also of the operational challenges faced by the business in the first half.

The overall gross margin has reduced to 19.0% (2006[†]: 21.8%). Reasons for this include the a full period effect of the rollout of the Regional Nursing Framework impacting margins generated from the NHS within our core nursing business. Further, the full implementation of the North Central London Master Vendor contract within Holt Medical Services ("Holt") was completed by the end of 2006. Under this contract, there is a requirement to maintain a high fill rate, which has led to significant numbers of placements being passed to secondary agency suppliers. This is particularly the case with the more specialist Allied Health Professional positions, which have historically not been Holt's strength. This has resulted in Holt's gross margin reducing to 10.1% (2006[†]: 14.0%). However the operational action plan very clearly seeks to address these issues and we are confident that we can improve internal fill rates going forward.

EBITDA* was £0.2m (2006[†]: £0.8m) and operating margin* 0.9% (2006[†]: 4.4%). This reduction against the previous period is driven by the change to gross margin detailed above. However, we remain focused on improving operating margins and to this end, overhead efficiency remains a priority. On an annual basis, the current overhead run-rate is some £1.0m less than the period to 31 December 2006[†].

Cashflow and borrowings

Closing net borrowings were £830k (2006 year end £1,226k), with net cash flow from operating activities in the first half being £553k. Total interest payable in the period amounted to £85k (period to 31 December 2006: £195k).

Dividends

The Directors are not recommending the payment of an interim dividend.

Board change

There were two changes to the Board in the period. Stephen Booty elected to stand down from his role as non-executive director. Stephen's role was transitional following the demerger from Nestor and we thank him for his valuable contribution during this time. Further, as noted above, Trevor Jones is temporarily acting as the Executive Deputy Chairman.

Outlook

Following the demerger of the business from Nestor Healthcare Group plc in September 2006, the business has contended with a legacy of under investment in staff, infrastructure and business development. The implementation of a clear action plan and the strengthening of the operational management have sought to address these issues and build a strong platform for the success of the business in the medium term. Business fundamentals continue to be challenging but Pinnacle remains on track to generate a positive EBITDA* for the year.

Margaret Ford
Chairman
20 September 2007

*profit before share based payments, finance charges, taxation, depreciation and amortisation of intangible assets
† 18-week period ended 31 December 2006

Independent review report to Pinnacle Staffing Group Plc

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2007 which comprises consolidated interim balance sheet as at 30 June 2007 and the related consolidated interim statements of income, consolidated cash flows and consolidated changes in shareholders' equity for the six months then ended and related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The AIM rules of the London Stock Exchange require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

This interim report has been prepared in accordance with the International Accounting Standard 34, 'Interim financial reporting' and the basis set out in Note 1.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the disclosed accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2007.

PricewaterhouseCoopers
Chartered Accountants 1
Embankment Place

19 September 2007

Notes:

(a) The maintenance and integrity of the Pinnacle Staffing Group Plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the web site.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Group Income Statement

	Notes	Unaudited 6 months ended 30 June 2007 £000	Audited 4 months ended 31 December 2006 £000
Revenue	2	22,077	17,967
Cost of sales		(17,885)	(14,057)
Gross profit		4,192	3,910
Marketing and sales		(1,951)	(1,525)
Total administrative expenses		(2,049)	(1,590)
EBITDA		192	795
Depreciation of property, plant and equipment		(112)	(90)
Amortisation of intangible assets		(213)	(145)
Operating (loss)/profit		(133)	560
Finance expense		(85)	(195)
(Loss)/profit before taxation		(218)	365
Tax expense	3	(5)	(111)
(Loss)/profit for the period		(223)	254
(Loss)/profit attributable to equity shareholders		(223)	254
(Loss)/profit for the period		(223)	254
(Loss)/Earnings per 10p share			
Basic	4	(0.25)	0.29
Diluted	4	(0.25)	0.29

Group Balance Sheet

	Note	Unaudited Group 30 June 2007 £'000	Audited Group 31 December 2006 £'000
Non-current assets			
Goodwill		9,868	9,868
Other intangible assets		4,774	4,987
Property, plant and equipment		504	544
Deferred tax assets		11	11
Investments		-	-
Non-current assets		15,157	15,410
Current assets			
Trade and other receivables		5,567	6,092
Cash and cash equivalents		107	418
Current assets		5,674	6,510
Current liabilities			
Financial liabilities:			
- Borrowings - loans		(937)	(1,644)
Trade and other payables		(3,430)	(3,581)
Current tax liabilities		(124)	(119)
Provisions		(124)	(151)
Current liabilities		(4,615)	(5,495)
Net current assets		1,059	1,015
Total assets less current liabilities		16,216	16,425
Net assets		16,216	16,425
Equity			
Called up share capital		8,763	8,763
Share premium account		7,408	7,408
Share payment reserve		14	-
Retained earnings		31	254
Equity shareholders' funds	7	16,216	16,425
Total equity		16,216	16,425

Group Cash Flow Statement

	Unaudited Group 30 June 2007 £000	Audited Group 31 December 2006 £'000
Operating activities		
Cash generated from operations	553	3,963
Interest paid	(85)	(195)
Net cash generated from operating activities	468	3,768
Investing activities		
Purchase of property, plant and equipment	(72)	(19)
Purchase of businesses and subsidiary undertakings	-	(7,928)
Net cash acquired with subsidiary undertakings	-	2,953
Net cash used in investing activities	(72)	(4,994)
Financing activities		
(Decrease) in loans from banks	(707)	1,644
Net cash used in financing activities	(707)	1,644
Net(decrease)/ increase in cash and cash equivalents	(311)	418
Cash and cash equivalents at beginning of the period	418	-
Net increase in cash and cash equivalents	(311)	418
Cash and cash equivalents at end of the period	107	418

Notes to the cash flow statement

	Unaudited 6 months ended 30/06/2007 £000	Audited 4 months ended 31/12/2006 £000
Reconciliation of (loss)/profit to cash generated from operations		
(Loss)/profit for the period	(223)	254
Adjustments for:		
Tax expense	5	111
Finance expense	85	195
Share-based payments	14	-
Amortisation of intangible assets	213	145
Depreciation of property, plant and equipment	112	90
Changes in working capital:		
(Decrease) in provisions	(27)	-
Decrease in trade and other receivables	525	792
(Decrease) in creditors	(151)	2,376
Cash generated from operations	553	3,963
	2007	2006
	£000	£000
Reconciliation of net cash flow to movement in net debt		
(Decrease)/Increase in cash and cash equivalents	(311)	418
Decrease/(Increase) in loans from banks	707	(1,644)
	396	(1,226)
Net debt at beginning of the period	(1,226)	-
Net debt at end of the period	(830)	(1,226)

1. Basis of preparation

Accounting preparation and policies

The interim results have been prepared under the historical cost convention and are in accordance with the group's accounting policies set out in the Annual Report and Accounts for the period ended 31 December 2006, which are available from the Company's registered office and on the Group's website, www.pinnacle-staffing-group.co.uk.

The financial information contained in this interim statement for the half year ended 30 June 2007 has been prepared in accordance with IAS 34, "Interim Financial Reporting" as adopted by the EU. It does not constitute accounts as defined by section 240 of the Companies Act 1985. The financial information for the period ended 31 December 2006 has been extracted from the statutory accounts which have been delivered to the Registrar of Companies, and on which the auditors gave an unqualified opinion.

Estimates and judgements

The preparation of accounts in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reported period. These estimates are based on historical experience and various other assumptions that management and directors believe are reasonable under the circumstances, the results of which form the basis for making judgements about the carrying value of assets and liabilities that are not readily apparent from other sources.

Areas comprising critical judgements that may significantly affect the Group's earnings and financial position are revenue collection, valuation of intangibles including goodwill, restructuring activities, provisions for pensions, income taxes, property related items and share-based payments, all of which are discussed in the respective notes.

2. Segmental information

The operational analysis of revenue and operating profit is as follows:

	Unaudited 6 months ended 30 June 2007 £000	Audited 4 months ended 31 December 2006 £000
Revenue by business segment		
Nursing	14,927	11,772
Medical Services	7,150	6,195
Total	22,077	17,967
EBITDA by business segment		
Nursing	326	610
Medical Services	(134)	185
Total EBITDA	192	795
Depreciation and amortisation by business segment		
Nursing	(218)	(143)
Medical Services	(107)	(92)
Total depreciation and amortisation	(325)	(235)

Operating (loss)/profit by business segment

Nursing	108	467
Medical Services	(241)	93
Total operating (loss)/profit by business segment	(133)	560
Finance expense	(85)	(195)
(Loss)/Profit before taxation	(218)	365
Tax expense	(5)	(111)
(Loss)/Profit for the period	(223)	254

3. Taxation

	Unaudited 6 months ended 30 June 2007 £000	Audited 4 months ended 31 December 2006 £000
UK corporation tax on taxable (loss)/profit for the period	5	122
Current tax charge	5	122
Deferred tax (charge)/credit for the period	-	(11)
Tax expense for the year	5	111

The effective tax rate for the period is the small companies rate (20%) of corporation tax for the UK.
The effective tax rate for the previous period was the standard rate of 30%.

	Unaudited 6 months ended 30 June 2007 £000	Audited 4 months ended 31 December 2006 £000
(Loss)/Profit at the small companies rate of 20%	(44)	111
Items not deductible	43	
Timing differences	6	
Tax expense for the year	5	111

4. Earnings per share

Basic (loss)/earnings per 10p share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares. The Group has only one category of potentially dilutive ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the period. In the first half of 2007 a total of 3,071,428 options that had been granted in the period qualified under this test. The calculated effect of this on diluted earnings per share is to add a further 3,071,428 shares into the denominator of the calculation as shown in the table below.

	Unaudited 6 months ended 30 June 2007 £000	Audited 4 months ended 31 December 2006 £000
Weighted average number of shares - basic		
In issue	87,633,070	87,633,070
	87,633,070	87,633,070
Weighted average number of shares - basic		
In issue	87,633,070	87,633,070
Dilutive effect of options	3,071,428	-
	90,704,498	87,633,070

5. Dividends

The directors do not propose an interim dividend for the period ending 30th June 2007

6. Long term incentives

During the period the Group adopted a long term incentive scheme, the Performance Share Plan.

The Committee believes that share ownership by senior executives is an effective means of rewarding superior performance, since the interests of management and shareholders are thereby aligned. Awards were made entitling directors to acquire shares in the Company, with the awards normally vesting on the third anniversary of the grant subject to continued employment and the satisfaction of a Total Shareholder Return ("TSR") growth performance condition. No consideration was payable for the grant of the awards and no consideration is payable on vesting.

The performance condition required to be met is that the Company's TSR over the three-year period from the 5th September 2006 must be at least at the median of a ranking of the TSR of each of the members of the comparator group over the same period, in which case the award will vest as follows:

Pinnacle's TSR against the comparator group	% of award that vests
Upper quartile or above	100%
Between upper quartile and median	Sliding scale from 35% to 100%
Median	35%
Below Median	0%

Awards made on 17th January 2007 to directors were as follows:

	Maximum number of shares awarded in period	Amount charged against profit in period £000
Julie Greenwood	1,785,714	8
David Laing	1,285,714	6
Total	3,071,428	14

7. Statement of changes in equity

	Unaudited 6 months ended 30 June 2007 £000	Audited 4 months ended 31 December 2006 £000
Group		
Net recognised (expense)/income	(223)	254
Shares issued during the period	-	16,171
Increase in share payment reserve	14	-
(Decrease)/increase in equity shareholders' funds	(209)	16,425
Total equity at beginning of the period	16,425	-
Total equity at end of the period	16,216	16,425