

## Pinnacle Staffing Group plc

Interim results for the six months ended 6 July 2008

Pinnacle Staffing Group plc ("Pinnacle"), the specialist temporary healthcare recruitment group announces its interim results for the six months ended 6 July 2008.

<b>Financial highlights</b>	Unaudited 6 months ended 6 July 2008 £000's	Unaudited 6 months ended 30 June 2007 £000's	Audited 53 weeks ended 6 January 2008 £000's
Turnover	19,907	22,077	43,466
Gross profit	3,725	4,192	8,167
EBITDA* before exceptional items	101	192	264
Operating (Loss)*	(6,118)	(133)	(461)
Basic (loss)per share (pence)	(7.14)	(0.25)	(0.80)

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

†Includes amortisation and impairment of goodwill and other intangible assets of £6,072k

### Operating highlights

- EBITDA\* of £101k is in line with the Board's expectations
- Demand remains strong and is still exceeding our ability to supply
- New computer network infrastructure and hosted application project successfully completed in Q2 2008
- Cashflow remains positive with closing net borrowings at the period end amounting to £1.89m (2007: £1.91m)

Commenting on the results, Tom Charlton, Executive Chairman said:

"As stated in the update on trading issued on 25 July 2008, the limited availability of temporary staff due to erosion of the historical pay rate differentials in the NHS between temporary and permanent posts, arising from the NHS Framework Agreements has meant that demand has exceeded our ability to supply. Further, it was expected that NHS Trusts would look to work more closely with the Framework agencies to reduce the proportion of shifts filled by higher cost non-Framework suppliers. Progress has been slower than the Board anticipated and in consequence, although first half performance has met the Board's expectations, we are now unlikely to see any substantial improvement until 2009.

Our focus, following the recently announced changes to the Board, is now on delivering the Group's strategy more effectively. Action is being taken to tackle the underperforming parts of the business and reduce central overhead costs. The British Nursing Association ("BNA") is the most important part of our business, yet has suffered from a lack of investment in its branch infrastructure. In addition, the Medical Services division has seen a significant volume drop following the announced withdrawal from a major contract. The Board is now addressing these issues as part of a wide ranging programme of measures to revitalise the business."

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## **Chairman's Statement**

### **Business Review**

Performance in the period has been in line with the Board's expectations. Demand remains strong across all areas of the healthcare recruitment market and our challenge is to meet this demand by supplying quality candidates who meet the necessary compliance criteria.

Recruiting candidates with the necessary skills and experience has proved difficult for two reasons. Firstly, the NHS Framework Agreements have eroded the pay differentials between temporary and permanent staff within the NHS. As a consequence, we are faced with a real challenge to recruit temporary workers who may now view a full time substantive post or working through the clients internal staff-bank as being more attractive.

Further, within the UK, there is a severe shortage of suitable qualified and experienced staff who are available to fulfil the market demand for temporary staffing. To address this problem, we are actively forming partnerships with overseas suppliers in order to improve our recruitment of temporary staff. These agreements are in their early stages but we believe that they will eventually enhance our ability to supply candidates of the required standard.

Our clients see the benefits that a flexible workforce brings in terms of their ability to provide a correctly resourced service in the most cost efficient way. It was the Board's expectation that our clients would look to develop a closer relationship with Framework Agencies in order to improve the quality of supply and also reduce their reliance on expensive off-Framework agencies. There are signs that this is beginning to happen but it has not happened as quickly as expected. Tendering activity in this area has begun but it is unlikely that there will be a significant benefit to the business until the first half of 2009.

Under the terms of the demerger from Nestor Healthcare in September 2006 (the "Demerger"), all of our IT provision and pay and bill functionality was provided by Nestor under a Transitional Services Agreement. During the first half of this year, the first part of the project to move away from our reliance on Nestor was completed with the successful introduction of Pinnacle's own network infrastructure and application hosting. The second phase of the project to provide our own payroll and billing facility is well advanced and will be delivered early in Q4 2008. The result of this project is to deliver a significantly improved IT resource but at reduced cost.

## Trading and profitability

	6 months ended 6 July 2008 £000's		6 months ended 30 June 2007 £000's		53 weeks ended 6 January 2008 £000's	
	Revenue	EBITDA* before exceptional items	Revenue	EBITDA* before exceptional items	Revenue	EBITDA* before exceptional items
Nursing	15,758	157	14,927	326	30,423	489
Medical Services	4,149	(56)	7,150	(134)	13,043	(225)
Total	19,907	101	22,077	192	43,466	264

Turnover for the first six months of the year was £19.9m (2007: £22.1m). Following the demerger from Nestor, the Board faced the challenge of reversing several years of under-investment and decline in the business. Performance was stabilised late in the second quarter 2007 but this effect has contributed to the significant like-for-like volume drop. Further, the announced withdrawal of Holt from the NHS North Central London Master Vendor Agreement for the supply of Allied Health Professionals (the "NCL Contract") has resulted in a large fall in sales volumes, although as anticipated, the profitability effect has been minimal.

The overall gross margin has reduced slightly to 18.7% (2007: 19.0%). The large secondary agency usage on the NCL Contract in the first quarter acted to suppress the gross margin which has recovered following the withdrawal from the contract. In addition, margins have been improved by growth in permanent placements which totalled £103k this period (2007: £38k).

EBITDA\* was £101k (2007: £192k) and operating margin\* 0.5% (2007: 0.9%). This reduction against the previous period is fundamentally 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 £733k less than the period to 6 January 2008.

### Goodwill and Intangible Assets

The Group reviews its intangible assets on an annual basis and when appropriate events have occurred which indicate an impairment to determine whether the balance sheet value of the assets is still appropriate. Following withdrawal from the NCL contract, intangible assets have been written down by £1,477k reflecting the full carrying value of the contract in the balance sheet. Further, in light of current trading, the value of the goodwill has been impaired by £4,452k to more accurately reflect a recoverable carrying amount.

### Cashflow and borrowings

Closing net borrowings were £1,887k (2007 year end £1,910k), with net cashflow from operating activities in the first half being £607k. Total CAPEX amounted to £467k, mainly consisting of the costs associated with the introduction of the new IT infrastructure. Total interest payable in the period amounted to £116k (2007: £85k).

### Dividends

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

### Principal Risks and Uncertainties

The management of the business and the delivery of the Company's strategy involve an element of risk. These risks are as detailed in the Company's 2007 Annual Report and Accounts, copies of which are available from the Company Secretary or from the Company's website.

## Board changes

- On 1 September 2008, Tom Charlton was appointed to the Board as a Non-Executive Director;
- On 25 September 2008, the following changes were made to the Board:
  - Non-Executive Chairman, Richard Aitken-Davies and Non-Executive Directors Trevor Jones and Ewan Gowrie resigned from their positions. The Board would like to thank the departing Directors for their hard work and contribution during a challenging period of transition for the business following the demerger from Nestor;
  - Non-Executive Director, Tom Charlton was appointed to the position of Executive Chairman pending the appointment of an independent Non-Executive Chairman, after which time he will be appointed as Executive Deputy Chairman;
  - In light of this restructure, Chief Executive Officer, Jacqui Skinner has taken the decision to step down. The Board would like to thank Miss Skinner for her significant contribution during her time as CEO;
  - David Hope joins the Board as Chief Operating Officer. Mr Hope is a qualified Chartered Accountant who has spent a number of years in practice focussing on SME's. Prior to joining Pinnacle in November 2006 Mr Hope was the Finance Director of Mint Partners Limited, a rapidly expanding Independent Agency Trading House; and
  - John Hodges has been appointed to the role of Non-Executive Director. Mr Hodges has many years experience across a number of business industry sectors. He was the Group Finance Director and then Managing Director for Ryder PLC before joining AutoLogic Holdings PLC in 1997 as a Non-Executive Director and Chairman of the Audit Committee. In 2004 he acquired Acumen Logistics Group Limited, a UK logistics company, where he assumed the role of Chairman. Since acquisition revenues have grown significantly and a loss-making company at the time of acquisition is now producing profits at 10% of revenues.

The Board is looking to appoint an experienced independent Non-Executive Chairman in the near future.

## Responsibility statement

The directors confirm that to the best of their knowledge:

- The condensed set of half year results which have been prepared in accordance with IAS34 'Interim Financial Reporting' give a true and fair view of the assets, liabilities, financial position and loss of the Group;
- The half year management review of the information required by DTR 4.2.7R (indication of impairment events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- The half year management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

## Outlook

The changes to the Board and management team are designed to lead to a cultural shift in the business which will allow it to capitalise on the substantial opportunities that exist to satisfy the strong demand for temporary healthcare professionals. The Group is committed to improving profitability by implementing more efficient business processes, investing in the branch network and competing much more aggressively in the marketplace. We are confident that we now have the platform for progress in 2009.

Tom Charlton  
Executive Chairman  
26 September 2008

\*profit before share based payments, finance charges, taxation, depreciation and amortisation of intangible assets

## Independent review report to Pinnacle Staffing Group plc

### Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 6 July 2008, which comprises the income statement, balance sheet, statement of changes in equity, cash flow statement and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

### Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

### Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Disclosure and Transparency 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.

### Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 6 July 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

- (a) The maintenance and integrity of the Pinnacle Staffing Group plc website 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 financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Income Statement

for the period ended 6th July 2008

	Notes	Unaudited 6 months ended 06/07/08 £000	Unaudited 6 months ended 30/06/07 £000	Audited 53 weeks ended 06/01/08 £000
Revenue	2	19,907	22,077	43,466
Cost of sales		(16,182)	(17,885)	(35,299)
<b>Gross profit</b>		<b>3,725</b>	<b>4,192</b>	<b>8,167</b>
Marketing and sales		(1,318)	(1,951)	(3,052)
Administrative expenses		(8,525)	(2,374)	(5,576)
<b>EBITDA before exceptional items</b>		<b>101</b>	<b>192</b>	<b>264</b>
Depreciation of property, plant and equipment		(147)	(112)	(222)
Amortisation of intangible assets		(6,072)	(213)	(425)
Exceptional items		-	-	(78)
<b>Operating loss</b>		<b>(6,118)</b>	<b>(133)</b>	<b>(461)</b>
Finance expense		(116)	(85)	(172)
<b>Loss before taxation</b>		<b>(6,234)</b>	<b>(218)</b>	<b>(633)</b>
Tax expense	3	(22)	(5)	(71)
<b>Loss for the period</b>		<b>(6,256)</b>	<b>(223)</b>	<b>(704)</b>
<b>Loss per 10p share</b>				
Basic	4	(7.14p)	(0.25p)	(0.80p)
Diluted	4	(7.14p)	(0.25p)	(0.80p)

# Group Balance Sheet

As at 6th July 2008

	Notes	Unaudited 6 months ended 06/07/08 £000	Unaudited 6 months ended 30/06/07 £000	Audited 53 weeks ended 06/01/08 £000
<b>Assets</b>				
<b>Non-current assets</b>				
Goodwill	5	5,416	9,868	9,868
Intangible assets	5	3,199	4,774	4,642
Property, plant and equipment		634	504	491
Deferred income tax assets		-	11	-
Investments in subsidiaries		-	-	-
<b>Total non-current assets</b>		<b>9,249</b>	<b>15,157</b>	<b>15,001</b>
<b>Current assets</b>				
Trade and other receivables		6,115	5,567	6,047
Cash and cash equivalents		149	107	110
<b>Total current assets</b>		<b>6,264</b>	<b>5,674</b>	<b>6,157</b>
<b>Total assets</b>		<b>15,513</b>	<b>20,831</b>	<b>21,158</b>
<b>Equity</b>				
Ordinary shares		8,763	8,763	8,763
Share premium account		7,408	7,408	7,408
Share payment reserve	7	17	14	11
Retained (losses)/earnings		(6,706)	31	(450)
<b>Total equity</b>		<b>9,482</b>	<b>16,216</b>	<b>15,732</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Financial liabilities:				
- Borrowings - loans		2,036	937	2,020
Trade and other payables		3,842	3,430	3,289
Current income tax liabilities		-	124	-
Deferred income tax liabilities		39	-	18
Provisions		114	124	99
<b>Total current liabilities</b>		<b>6,031</b>	<b>4,615</b>	<b>5,426</b>
<b>Total liabilities</b>		<b>6,031</b>	<b>4,615</b>	<b>5,426</b>
<b>Total equity and liabilities</b>		<b>15,513</b>	<b>20,831</b>	<b>21,158</b>

# Group Statement of Changes in Equity

for the period ended 6th July 2008

	Unaudited 6 months ended 06/07/08 £000	Unaudited 6 months ended 30/06/07 £000	Audited 53 weeks ended 06/01/08 £000
<b>Group</b>			
Net recognised (expense)/income	(6,256)	(223)	(704)
Shares issued during the period	-	-	-
Share based payments	6	14	11
Decrease in equity shareholders' funds	(6,250)	(209)	(693)
Total equity at beginning of the period	15,732	16,425	16,425
Total equity at end of the period	9,482	16,216	15,732

# Group and Company Cash Flow Statements

for the period ended 6th July 2008

	Unaudited 6 months ended 06/07/08 £000	Unaudited 6 months ended 30/06/07 £000	Audited 53 weeks ended 06/01/08 £000
<b>Operating activities</b>			
Cash generated from operations	607	553	(99)
Interest paid	(116)	(85)	(172)
Income taxes paid	(1)	-	(165)
<b>Net cash generated from/(used in) operating activities</b>	<b>490</b>	<b>468</b>	<b>(436)</b>
<b>Investing activities</b>			
Purchase of intangible assets	(177)	-	(80)
Purchase of tangible assets	(290)	(72)	(169)
Proceeds from sale of property, plant and equipment	-	-	1
<b>Net cash used in investing activities</b>	<b>(467)</b>	<b>(72)</b>	<b>(248)</b>
<b>Financing activities</b>			
Increase/(decrease) in loans from banks	16	(707)	376
<b>Net cash generated from financing activities</b>	<b>16</b>	<b>(707)</b>	<b>376</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>39</b>	<b>(311)</b>	<b>(308)</b>
Cash and cash equivalents at beginning of the period	110	418	418
Net increase/(decrease) in cash and cash equivalents	39	(311)	(308)
<b>Cash and cash equivalents at end of the period</b>	<b>149</b>	<b>107</b>	<b>110</b>

## Notes to the cash flow statement

	Unaudited 6 months ended 06/07/08 £000	Unaudited 6 months ended 30/06/07 £000	Audited 53 weeks ended 06/01/08 £000
<b>Reconciliation of (loss)/profit to cash generated from operations</b>			
Loss for the period	(6,256)	(223)	(704)
Adjustments for:			
Tax expense	22	5	71
Finance expense	116	85	172
Share-based payments	6	14	11
Profit on sale of property, plant and equipment	-	-	1
Amortisation of intangible assets	6,072	213	425
Depreciation of property, plant and equipment	147	112	222
Changes in working capital:			
Increase/(Decrease) in provisions	15	(27)	(52)
(Increase)/Decrease in trade and other receivables	(68)	525	45
Increase/(Decrease) in creditors	553	(151)	(290)
<b>Cash generated from operations</b>	<b>607</b>	<b>553</b>	<b>(99)</b>
<b>Reconciliation of net cash flow to movement in net debt</b>			
Increase/(decrease) in cash and cash equivalents	39	(311)	(308)
(Increase)/decrease in loans from banks	(16)	707	(376)
	23	396	(684)
Net debt at beginning of the period	(1,910)	(1,226)	(1,226)
Net debt at end of the period	(1,887)	(830)	(1,910)

## **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 6 January 2008, which are available from the Company's registered office and on the Group's website, [www.pinnacle-staffing-group.co.uk](http://www.pinnacle-staffing-group.co.uk). They have also been prepared in accordance with the accounting policies the Group expects to adopt in its 2008 annual report.

The financial information contained in this interim statement for the half year ended 6 July 2008 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 6 January 2008 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 06/07/08 £000	Unaudited 6 months ended 30/06/07 £000	Audited 53 weeks ended 06/01/08 £000
<b>Revenue by business segment</b>			
Nursing	15,758	14,927	30,423
Medical Services	4,149	7,150	13,043
<b>Total</b>	<b>19,907</b>	<b>22,077</b>	<b>43,466</b>
<b>EBITDA before exceptional items by business segment</b>			
Nursing	157	326	489
Medical Services	(56)	(134)	(225)
<b>Total EBITDA before exceptional items</b>	<b>101</b>	<b>192</b>	<b>264</b>
Depreciation of property, plant and equipment	(147)	(112)	(222)
Amortisation of intangible assets	(6,072)	(213)	(425)
Exceptional items	-	-	(78)
<b>Total depreciation, amortisation and exceptional items</b>	<b>(6,219)</b>	<b>(325)</b>	<b>(725)</b>
<b>Operating (loss)/profit by business segment</b>			
Nursing	(5,019)	108	(47)
Medical Services	(1,099)	(241)	(414)
<b>Total operating loss</b>	<b>(6,118)</b>	<b>(133)</b>	<b>(461)</b>
Finance expense	(116)	(85)	(172)
<b>Loss before taxation</b>	<b>(6,234)</b>	<b>(218)</b>	<b>(633)</b>
Tax expense	(22)	(5)	(71)
<b>Loss for the period</b>	<b>(6,256)</b>	<b>(223)</b>	<b>(704)</b>

### 3. Taxation

The tax expense recognised in the financial statements comprises UK corporation tax charges or credits together with deferred tax charges and credits. The tax charge has been calculated using estimated annual rates for the full year of 0% (2007: 20%)

### 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. The Group has a total of 1,285,714 options that qualify under this test.

	Unaudited 6 months ended 06/07/08 £000	Unaudited 6 months ended 30/06/07 £000	Audited 53 weeks ended 06/01/08 £000
<b>Weighted average number of shares - basic</b>			
In issue	87,633,070	87,633,070	87,633,070
	<b>87,633,070</b>	<b>87,633,070</b>	<b>87,633,070</b>
<b>Weighted average number of shares - basic</b>			
In issue	87,633,070	87,633,070	87,633,070
Dilutive effect of options	1,285,714	3,071,428	1,285,714
	<b>88,918,784</b>	<b>90,704,498</b>	<b>88,918,784</b>

Julie Greenwood was awarded 1,785,714 shares on 17th January 2007, however Mrs Greenwood resigned her directorship on 23 January 2008, therefore those options have now lapsed.

## 5. Goodwill and intangible assets

	Unaudited 6 months ended 06/07/08 £000
<b>Goodwill</b>	
Cost	
At 6th January 2008	9,868
At 6th July 2008	9,868
Impairment charge	4,452
<b>Net book amount</b>	
<b>At 6th July 2008</b>	<b>5,416</b>

Group goodwill derives from the acquisition of businesses and subsidiary undertakings in 2006. In 2006, the directors specifically evaluated the carrying values of goodwill. In light of current trading, the value of the goodwill has been impaired by £4,452k to more accurately reflect a recoverable carrying amount.

	Developmen t costs	Temporary Staff Databases	Customer Contracts	Unaudited 6 months ended 06/07/08 £000
<b>Other intangible assets</b>				
Cost				
At 6th January 2008	80	81	5,051	5,212
Additions	177	-	-	177
Contracts written off	-	-	(1,661)	(1,661)
At 6th July 2008	257	81	3,390	3,728
Amortisation				
At 6th January 2008	-	8	562	570
Contracts written off	-	-	(184)	(184)
Charge for the period	-	2	141	143
At 6th July 2008	-	10	519	529
<b>Net book amount</b>				
<b>At 6th July 2008</b>	<b>257</b>	<b>71</b>	<b>2,871</b>	<b>3,199</b>

The Group carries out reviews of its intangible assets on an annual basis to determine whether events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated as either the higher of the net selling price, replacement cost, or value in use; the resultant loss (the difference between the carrying amount and the recoverable amount) is recorded as a charge to the consolidated income statement. The calculation of replacement costs is based on the current value of overheads costs attributable to database management. The value in use is calculated as the present value of the estimated future cash flows expected to result from the use of assets in the business being evaluated. In order to determine the present value of estimated future cash flows, the Group uses a discount rate of 11% based on its estimated weighted average cost of capital. Estimated future cash flows used in the impairment calculations represent management's best view of likely market conditions including selling prices, volumes and employment costs over a period of 5 years. Beyond this, the UK long term growth rate of 2.25% has been assumed. Actual cash flows may differ significantly from these estimates due to the effect of changes in the market conditions or to subsequent decisions on the activities of the business. These differences may have a material impact on the asset values, impairments and amortisation expense reported in future periods.

Of the intangibles acquired at demerger of £15m, £5.13m has been identified as relating to temporary staff databases and customer contracts that require classification as intangible assets. Following the withdrawal from the NCL contract, intangible assets have been written down by £1,477k reflecting the full carrying value of the contract in the balance sheet.

Development costs represent capitalised costs from the development phase of a new pay and bill system for the temporary staffing business, which is scheduled for completion in the last quarter of 2008. The costs will be amortised over the useful life of the project which is three years.

## 6. Dividends

The directors do not propose an interim dividend for the period ending 6th July 2008.

## 7. Long term incentives

The Group have a long term incentive scheme in place, 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	Amount charged against profit in period £000
David Laing	1,285,714	6
	1,285,714	6

## 8. Related party transactions

<b>Director's Remuneration (Unaudited)</b>	<b>Salary</b>	<b>Other Benefits</b>	<b>Bonus</b>	<b>Total</b>	<b>Pension</b>
<b>Executive Remuneration</b>					
Jacqui Skinner	41,667	5,373	-	47,040	4,167
David Laing	46,750	6,448	-	53,198	4,675
<b>Non-Executive Remuneration</b>					
Richard Aitken-Davies	37,500	-	-	37,500	-
Trevor Jones	15,000	-	-	15,000	-
Ewan Gowrie	15,000	-	-	15,000	-
	<b>155,917</b>	<b>11,820</b>	<b>-</b>	<b>167,737</b>	<b>8,842</b>