

Nurses

Physiotherapists

Occupational therapists

GPs

Doctors

Occupational health services

Theatre staff

Healthcare scientists



Pinnacle Staffing
Group Plc

**Dedicated and focused
for a positive future**

Annual Report & Accounts 2007

**Pinnacle Staffing Group aims to be the partner
of choice in the provision of staffing solutions
to the public and healthcare markets**

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Chairman's Statement

The Group has delivered an EBITDA of £264k for the period before exceptional restructuring costs.

2007 has been a transitional year for the Group as the Board tackled the challenges of reversing several years of decline and under-investment in the business. Market conditions continue to be difficult with the burden of compliance and the reduced pay rates imposed under the NHS National Framework Agreements making temporary work within the NHS less attractive than it has traditionally been for existing and prospective temporary staff.

To counteract this, the Board adopted an operational action plan in June 2007 to address the core areas of recruitment, retention and utilisation of temporary staff. The plan is ongoing but we have seen some stabilisation in activity over the second half of the year.

Further, we have continued to restructure the business, to reflect our commitment to quality and compliance, our national footprint and focus on the healthcare staffing market.

FINANCIAL RESULTS

The results presented are for the 53 week period ended 6 January 2008. Comparative figures are presented for the period from 5 September 2006 to 31 December 2006.

Group revenue for the period amounted to £43.5m (2006: £18.0m). The reduction in our gross margin percentage to 18.8% (2006: 21.8%) is as a result of the full year impact of the Regional Nursing Framework, which although introduced in 2006 did not fully impact the business until this year. Total gross margin achieved was £8.2m (2006: £3.9m).

The business has continued to focus on operational efficiency and overheads have been reduced wherever possible by restructuring the business and renegotiating with suppliers. During the year, we have also given notice on the Transitional Services Agreement with Nestor Healthcare Plc ("Nestor") and we will start to see the cost benefits of our new arrangements from Q3 2008.

EBITDA before finance charges, taxation, and exceptional restructuring costs was £264k (2006: £795k). The operating loss was £461k (2006: operating profit £560k), finance charges were £172k (2006: £195k) the taxation charge was £71k (2006: £111k), total depreciation and amortisation of intangible assets was £647k (2006: £235k) and retained loss after tax was £704k (2006: retained profit after tax: £254k).

Following demerger from Nestor, the Group assumed a beneficial working capital position (arising as a result of Nestor retaining the trade payables and staff payroll liabilities), resulting in a significant cash inflow in 2006. For 2007, there has been a total cash outflow of £684k due to the combined effect of capital expenditure investment of £248k and working capital financing necessary for the business during the year. Closing net borrowings were £1.9m (2006: £1.2m).

DIVIDEND

In order to support future growth and to address the legacy of under-investment in the Group, prior to demerger, it is essential that the Group continues to invest in staff, systems and marketing capability. Consequently the Board has taken the decision not to pay a dividend at this time.

BOARD

During the year, Margaret Ford decided to step down from the role as Non-Executive Chairman to concentrate on a new Executive role with The Royal Bank of Canada. I stepped up to the Chairmanship having been a Non-Executive Director since the demerger in September 2006. In November 2007, Ewan Gowrie was appointed as a Non-Executive Director and in January 2008, Julie Greenwood took the decision to relinquish her role as Chief Executive. She has been replaced by Jacqui Skinner who was the Company's Managing Director prior to her appointment as Chief Executive. Also during the year, Stephen Booty resigned from his Non-Executive role.

The Board includes a strong team of Non-Executive Directors whose specialist skills encompass not only the healthcare sector but also the wider commercial and listed company environments.

OUTLOOK

Market conditions remain challenging but the operational action plan has brought a degree of stabilisation to the business. We will continue to develop opportunities for higher margin non-NHS business particularly permanent placements, complex care at home and the provision of healthcare professionals to the independent sector. The Board considers that the restructuring of the business, a commitment to quality and compliance, our national footprint and focus on the healthcare staffing market mean the Group has a platform for positive progress in 2008.

Richard Aitken-Davies

Chairman

28 March 2008

Business Profile

The objective of the Group is to achieve profitable growth by capitalising on its strong brand portfolio and national presence

BRITISH NURSING ASSOCIATION

Established in 1948, BNA provides general temporary nurses into:

- NHS
- Nursing homes
- Private homes
- Private hospitals
- Industry
- Prisons

MAYFAIR SPECIALIST NURSES

Focuses on the skills and experience of specialist nurses, delivering temporary nurses into the NHS and private sector covering:

- Operating theatres
- Critical care units
- Midwifery
- Paediatric services

GROSVENOR NURSING

Mainly provides the NHS with:

- Mental Health Nurses
- Care Workers

HOLT MEDICAL RECRUITMENT

Supplies locum doctors and AHP's to:

- NHS
- Ministry of Defence
- Independent Providers

MEDIC INTERNATIONAL

Focuses on the provision of AHP's to the NHS and private sector covering:

- ODP's
- Ergonomists
- Occupations Therapists
- Physiotherapists
- Psychologists
- Phlebotomists

PINNACLE PODIATRY

Pinnacle Podiatry is a specialist Podiatry business supplying both the NHS and Private Sector

Board of Directors

The Board includes a strong team of non-executive directors whose skills encompass the healthcare and wider commercial environments

NON-EXECUTIVE CHAIRMAN

Richard Aitken-Davies (aged 58)

Richard Aitken-Davies has held several senior executive positions, including Group Performance Director of Powergen plc, Floatation Project Director at London & Continental Railways Limited and Privatisation Director at Railtrack Plc. He is a fellow, member of the governing Council and Deputy President of the Association of Chartered Certified Accountants.

CHIEF EXECUTIVE

Jacqui Skinner (aged 48)

Jacqui Skinner joined Pinnacle as Managing Director in September 2007 and was promoted to Chief Executive in January 2008. Prior to that she held senior management positions at Allied Healthcare Group, Carlisle Group and Nestor Healthcare Group. She is qualified as a Registered Nurse, Midwife and Health Visitor and was a former senior manager within the NHS.

FINANCE DIRECTOR

David Laing (aged 38)

David Laing joined Nestor Group in May 2006 as Finance Director of the Social Care Business before moving to become Finance Director of Pinnacle during the demerger process. Prior to joining Nestor, David was Financial Controller of Quality Locum Services and before that he was Group Financial Controller of Pacific Basin Shipping. He is a Chartered Accountant.

NON-EXECUTIVE DIRECTOR

Trevor Jones (Aged 57)

Trevor Jones had 29 years of wide ranging experience in senior positions within the NHS, including Chief Executive of Avon, Gloucestershire & Wiltshire Strategic Health Authority and the combined post of Head of the Scottish Executive Health Department and Chief Executive of NHS Scotland. He was also a member of the NHS Leadership Network which advises the Secretary of State for health and is a former principal policy advisor to Scottish Ministers on health issues. He is a non-executive director of NHS Direct and the National Patient Safety Agency.

NON-EXECUTIVE DIRECTOR

Ewan Gowrie (aged 54)

Ewan Gowrie was appointed to the Board in November 2007 and brings extensive experience in marketing and business development both from a strategic and tactical perspective. He is currently a Director of the Contact Centre Association, a trade association for companies who utilise call and contact centre operations. Prior to this he was founder of Call Point Europe, Development Director of Telecom Service Centres Limited, Managing Director of McColl McGregor Limited and a Management Consultant with PricewaterhouseCoopers.

Directors' Report

The Directors are pleased to present their annual report and audited consolidated financial statements of Pinnacle Staffing Group plc ("Pinnacle") together with its trading subsidiaries ("the Group") for the 53 week period ended 6 January 2008. Comparative figures are presented for the period from 5 September 2006 to 31 December 2006.

BUSINESS REVIEW

Principal activities and Review of Business

The Group is an established market leader in the temporary healthcare staffing market. It supplies nurses, locum doctors, carers and other medical personnel to a wide client base including the NHS, private hospitals, care homes and, to individuals within their own homes. It is one of the few national temporary staffing recruitment businesses dedicated to the supply of healthcare professionals. The business has a national presence, operating through 32 branches, which are supported by the Group infrastructure.

The results for the period show sales of £43.5m (2006: £18.0m) and EBITDA before finance charges, taxation, and exceptional items, of £264k (2006: £795k). Operating loss was £461k (2006: operating profit £560k) and a pre-tax loss was £633k (2006: pre-tax profit £365k). The taxation charge for the period was £71k (2006: £111k) and the final loss after tax was £704k (2006: profit after tax £254k).

STRATEGY

The objective of the Group is to achieve profitable growth by capitalising on its strong brand portfolio and national presence. We aim to achieve this through:

- remaining focused and dedicated to the supply of temporary healthcare professionals to the NHS and independent markets;
- expanding into higher growth markets, in particular:
 - higher margin private sector work;
 - complex care nursing at home;
 - the provision of mental health professionals to independent sector operators;
 - management of temporary staffing 'banks' for the NHS and independent markets;
- continued development of the Group's information technology platform further to allow remote access for customers and candidates, further reducing transactional costs;
- investing in our people and our marketing capability; and
- pursuing relevant opportunities for consolidation which we believe will arise in this sector.

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business and the execution of the company's strategy involve an element of risk. These risks are formally reviewed by the Board and appropriate processes put in place to monitor and mitigate them. The key business risks affecting the company are set out below:

NHS

A significant part of the Group's revenue is derived from NHS Hospital Trusts and Primary Care Trusts ("PCT's"). The business is subject to the risk that these organisations will seek to control the price they pay for temporary staff, change their policies on the provision of staff from the independent sector or impose blanket restrictions on the use of temporary staff. In addition, the NHS has sought to reduce its reliance on temporary staffing agencies by setting up its own in-house agency, NHS Professionals ("NHSP"), which acts either as a competitor to the business or as an intermediary between the business and the ultimate customer.

Directors' Report

continued

Quality Assurance Risks

The Group is subject to rigorous quality assurance standards in the recruitment and placement of temporary healthcare workers. These standards include verification of qualification, employer references, criminal records checks and other checks designed to protect vulnerable adults or children who may be in their care. If the staffing business were found to be deficient here, it may find its licence to operate revoked or its contracts terminated. In order to mitigate the risks in this area, the Group has set up a dedicated in-house compliance function, Pinnacle Recruit, which is committed to the highest standards of compliance. Strict adherence to these standards is regularly monitored and audited by both internal and external bodies.

Competition

There can be no guarantee that competition will not increase or that the business will continue to win market share or maintain its existing market share. However, as noted above, all healthcare providers are now subject to rigorous quality assurance standards. Further, the NHS has implemented a series of National Framework Agreements, which limit the number of suppliers they purchase from. Both of these factors represent a substantial challenge to new operators in the market.

Key personnel

The Group's performance depends largely on certain key individuals and their ongoing relationships with clients. A failure to retain these staff could have a negative impact on the results of its operations. In order to mitigate this risk and retain staff, the Group aims to offer competitive remuneration packages, attractive incentives, training, career development opportunities and a good working environment. Further, Group performance could be adversely affected by our inability to recruit and retain appropriately qualified temporary locum staff.

KEY PERFORMANCE INDICATORS

As part of our ongoing IT project, the key performance indicators (KPIs) monitored by the Group are being expanded and developed. In addition to the weekly information on branch hours, sales and gross margin, the Group will look to monitor:

- Commission generated per staff member
- Branch contribution
- Temporary staff database utilisation

OUTLOOK AND FUTURE DEVELOPMENTS

An outlook for the business and a review of future developments is contained in the Chairman's Statement on page 1.

Financial Review

INCOME STATEMENT

The results presented here are for the 53 week period ended 6 January 2008. Comparative information is presented for the period from 5 September 2006 to 31 December 2006 ("2006").

REVENUE

Revenue for the period amounted to £43.5m (2006: £18.0m). The implementation of the operational action plan has brought a degree of stability to the business after a number of years of decline. Market conditions remain challenging from a supply rather than demand perspective and we are focussed on maintaining and expanding the size of our candidate database and maximising its utilisation.

GROSS MARGIN

The overall gross margin amounted to £8.2m (2006: £3.9m). The full year impact of the latest NHS Nursing Framework Agreements and general market conditions continue to exert a downward pressure on margins, which the Group has mitigated where possible by targeting higher margin non-NHS business. This had the effect of stabilising gross margin percentage at 18.8% (2006: 21.8%).

OPERATING EXPENSES

Management continue to drive operational efficiency and have sought to reduce costs wherever possible without damaging the operational capacity of the business. The current annual overhead run-rate is some £1.4m less than that of the period to 31 December 2006.

This process is continuing with a significant ongoing IT project to extract the business from the Transitional Services Agreement entered into with "Nestor" when the Company was demerged in September 2006. This will provide considerable benefits in terms of improved quality of service both from our IT infrastructure and our back office pay and bill systems but at significantly reduced costs. The project is scheduled for completion in the third quarter of 2008. Operating expenses before financing charges, depreciation and amortisation of intangible assets, and exceptional items amounted to £7.9m (2006: £3.1m).

FINANCING COSTS

The Group fulfils its financing requirements by way of an invoice discounting facility, whereby it can borrow up to 80% of outstanding receivable balances less than 120 days old. Total bank charges in the period amounted to £55k (2006: £155k) and interest payable on the invoice discounting facility borrowings totalled £117k (2006: £40k).

LOSS BEFORE TAX

The Group made a loss before tax of £633k (2006: profit before tax £365k).

TAXATION

The total taxation charge for the year is £71k (2006: £111k). £39k relates to an under provision of the prior period's tax charge, there is a £3k charge relating to our overseas operations, and the remaining £29k is the deferred tax charge for the year (2006 credit: £11k). The charge relating to the loss for the year is £nil (2006: £122k).

LOSS PER SHARE

Basic loss per share amounted to 0.80 pence (2006: earnings per share 0.29 pence).

Fully diluted loss per share is 0.79 pence (2006: earnings per share 0.29 pence).

DIVIDEND

The Directors do not recommend the payment of a dividend on ordinary shares at this time (2006 £nil).

CASHFLOW AND BORROWINGS

Closing net borrowings amounted to £1.9m (2006: £1.2m). Our financial year end coincides with the slowest point of the year both operationally and from a cash generation perspective as many of our clients curtail their operations over the Christmas period. Further, our December holiday pay year end means that there is a significant cash outflow as temporary staff claim their rolled-up holiday pay entitlement. In addition to this, our 2006 closing position was flattered by a number of working capital benefits obtained as a result of the demerger from Nestor.

Financial Review

continued

Year end trade debtor days were 44 days (2006: 37 days) which is artificially high due to the year end slow down in cash collections. The average January to November 2007 debtor days were 36 days, which the Directors consider is satisfactory for this sector.

TRADE PAYABLES

Trade payables and payroll liabilities amounted to £3.1m (2006: £3.3m). The Group had an average of 29.4 days purchases (2006: 18.3 days) included in trade payables at the period end. The company had no trade payables at the period end.

TREASURY POLICY AND FINANCIAL RISK MANAGEMENT

The Group manages its cash and debt position in order to minimise interest costs. The current level of borrowings mean that the Board believes that it is unnecessary to have an interest rate hedging policy.

The Group's financial instruments comprise invoice discounting facilities, cash and other items arising from operating activities such as trade receivables and trade payables. The main purpose of these financial instruments is to provide finance for the Group's operations. At the year end, the Group had available, unutilised borrowing facilities totalling £2.3m.

The principal financial risks of the Group are identified as follows:

BANKING COVENANTS

The Group is committed to maintaining the key financial indicators as set out in the covenants relating to the invoice discounting facility. Since the year end, these indicators have been relaxed with those relating to Group net asset value and operating profit being dropped. The remaining covenants relate to a minimum headroom requirement and quality of debt measures.

CREDIT RISK MANAGEMENT

It is Group policy to mitigate credit risk arising through client debt by undertaking credit checks on all new private clients prior to commencement of trading. Further, the application of rigorous credit control procedures highlights potentially difficult debt at an early stage so that remedial action can be taken.

CHARITABLE AND POLITICAL DONATIONS

The Group made no charitable or political donations in the period.

PAYMENT OF PAYABLES

It is the Group's practice to agree credit terms with all suppliers and to pay all approved invoices within these credit terms. The Group had an average of 29.4 days purchases included in trade payables at the period end (2006: 18.3 days). The company had no trade payables at the period end.

SUBSTANTIAL SHAREHOLDINGS

At the date of this report, the Directors had been notified or were otherwise aware of the following interests in 3% or more of its issued share capital:

| Shareholder | Number of Shares | % Holding |
|--|------------------|-----------|
| Thomas William George Charlton | 26,200,538 | 29.90% |
| Schroders Investment Management Ltd | 18,390,548 | 20.99% |
| Mark Wharrier | 7,150,000 | 8.16% |
| Société Générale | 4,131,084 | 4.71% |
| Mineworkers Pension Scheme | 3,545,580 | 4.05% |
| British Coal Staff Superannuation Scheme | 3,263,009 | 3.72% |
| Barclays PLC | 3,021,483 | 3.45% |

EMPLOYEES

The policy of informing and consulting with employees is maintained by means of regular update meetings and team briefings, as well as a weekly update report.

Financial Review

continued

The Group operates an equal opportunities policy and is opposed to any form of unfavourable treatment afforded on the grounds of, for example, age, disability, race, gender, religion or sexual orientation.

It is the Group's policy that disabled persons should be considered for employment, training and career development on the basis of their abilities and aptitudes in common with all employees.

POST BALANCE SHEET EVENTS

On 23 January 2008, Julie Greenwood resigned from her position as Chief Executive. She was replaced on the same date by Jacqui Skinner. Also, Holt Medical recruitment served notice on its unprofitable contract for the supply of Allied Health Workers and Health Science Staff to the North Central London purchasing consortium. This notice period will end on 12 May 2008. There are no other circumstances that have arisen since the balance sheet date in respect of matters that would require adjustment or disclosure in the accounts.

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

A resolution proposing the reappointment of PricewaterhouseCoopers LLP, Chartered Accountants, as auditors of the company and authorising the Audit Committee of the Board to determine their remuneration will be put to the Annual General Meeting.

Having made appropriate enquiries of fellow Directors and of the external auditors, each of the current Directors confirms that:

- to the best of their knowledge and belief, there is no information relevant to the preparation of this report of which the external auditors are unaware; and
- they have taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the external auditors are aware of that information.

RETIREMENT OF DIRECTORS

The company's Articles of Association require one third of directors who are subject to retirement by rotation to retire and submit themselves for re-election at the AGM each year. David Laing and Trevor Jones will retire by rotation and, being eligible, offer themselves for re-election. The Articles of Association also require any directors appointed by the board to retire at the next annual general meeting. Accordingly, Jacqui Skinner and Ewan Gowrie will hold office until the AGM and, being eligible, offer themselves for re-election.

DIRECTORS AND THEIR INTERESTS

Details of the directors who served in the period and their interests in the company's share capital can be found in the Report on remuneration on page 11.

By order of the board

David Laing

Company Secretary
28 March 2008

Corporate Governance Report

for the period ended 6 January 2008

As the Group is listed on AIM it is not required to comply with all the provisions of the Combined Code ("the Code"). However, the directors have adopted elements of the Code having given due consideration to the principles of the Code and to the current size of the Group. The Directors set out below those elements of the code adopted by the Group.

THE BOARD

The Board of Directors comprises two Executive Directors, a Non-Executive Chairman and two independent Non-Executive Directors. These Directors bring a wide range of business and sector experience to the decision making processes of the Board.

The Board meets on a monthly basis and receives a Board pack comprising a joint report from the Executive Directors together with any other information deemed necessary for the Board to discharge its duties. In addition, the Board holds regular meetings to discuss and devise the company's medium and long-term strategic focus. Regular informal presentations are given and meetings held in order to advise Directors of issues of importance affecting the Company.

There is a formal schedule of matters specifically reserved for the Board. This includes but is not limited to overall strategy, business planning, capital expenditure and acquisition approval.

During the year the Board met each month for a formal Board meeting and there were also two strategy away-days. The Nominations Committee met once during the year and the Audit and Remuneration Committees met three times during the year.

BOARD COMMITTEES

The Board has established three committees: Audit, Remuneration and Nominations, all having written terms of delegated responsibilities and the right to take independent professional advice as and when required.

AUDIT COMMITTEE

The Audit Committee is chaired by Trevor Jones and also comprises Ewan Gowrie. The Committee meets at least twice a year to review the preliminary and interim results before they are presented to the Board. The Committee will also meet on an ad hoc basis where necessary. The Committee operates within specified terms of reference which includes making recommendations to the Board on appropriate accounting policies and monitoring, on behalf of the Board, the compliance with and effectiveness of the company's accounting and internal control systems.

The Committee's duties also include the appointment of the Company's auditors and determination of their remuneration. In addition, the Committee will monitor the scope and results of the Company's annual audit and the independence, general performance and objectivity of its auditors.

The external auditors have the opportunity for independent discussion with the Committee in the absence of the Executive Directors.

REMUNERATION COMMITTEE

The Remuneration Committee is chaired by Ewan Gowrie and also comprises Trevor Jones. The Committee meets at least twice a year and operates within specified terms of reference. Its role is to establish a formal and transparent policy on the remuneration of the Company's senior executives.

NOMINATION COMMITTEE

The Nominations Committee is chaired by Richard Aitken-Davies and also comprises Trevor Jones and Ewan Gowrie. The Committee meets as required to consider and make recommendations to the board on the appointment of Directors and operates within specified terms of reference.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for the system of internal control and for reviewing its effectiveness. Such systems are designed to manage rather than eliminate risks and can provide only reasonable and not absolute assurance against material misstatement or loss. Each year, on behalf of the Board, the Audit Committee

Corporate Governance Report

for the period ended 6 January 2008 continued

reviews the effectiveness of these systems. This is achieved primarily by considering the risks potentially affecting the Group and discussions with the external auditors.

The Directors are ultimately responsible for the Group's system of internal controls including financial, operational and compliance controls and risk management. The role of management is to implement Board policy on risk and control.

The main elements of the Group's internal control are:

- a clearly defined management structure and delegation of authority to committees of the Board and Heads of Department;
- procedures for the approval of major contracts, capital expenditure and business acquisitions;
- the provision of regular and detailed financial information to management with which they can assess performance;
- a detailed budgeting process and rolling strategic plan which is approved by the Board;
- monthly monitoring and re-forecasting results against budget with procedures to investigate variances and implement corrective actions.

SHAREHOLDER RELATIONS

The company maintains regular contact with shareholders through Regulatory News Service announcements, via the Group's website and by direct contact with its major shareholders. The Board values the views of shareholders and maintains regular dialogue with investment fund managers, other investors and analysts to ensure that the investing community receives a consistent and accurate view of the Group's performance. There is also the opportunity at the Company's Annual General Meeting for individual shareholders to raise general business matters with the Board.

GOING CONCERN

The directors confirm that, after giving due consideration to the financial position and cash flows of the Group and Company, they have reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing these accounts.

Report on Remuneration

REMUNERATION COMMITTEE (NON-AUDITED)

The Remuneration committee operates within defined terms of reference and its composition is detailed on page 9.

REMUNERATION POLICY (NON-AUDITED)

The policy of the Group is to set levels of remuneration to attract, retain and motivate Executive Directors and key staff. The remuneration levels are designed to be competitive when compared to those offered to staff in similar public companies in related sectors. In order to ensure this is the case, the Committee takes advice from independent remuneration consultants as and when necessary.

SHARE OPTIONS (NON-AUDITED)

The following share options were granted to the Executive Directors on 17 January 2007:

| | Awarded | Exercise Price £ | Earliest Date of Exercise |
|-----------------|-----------|---------------------|------------------------------|
| Julie Greenwood | 1,785,714 | Nil | January 2010 |
| David Laing | 1,285,714 | Nil | January 2010 |

Following her resignation as a director, those options granted to Julie Greenwood have now lapsed.

DIRECTORS' REMUNERATION (AUDITED)

| | Salary / Fee £ | Other Benefits £ | Bonus £ | Total £ | Pension £ |
|---|----------------------|------------------------|------------|----------------|---------------|
| Executive Directors | | | | | |
| Julie Greenwood (resigned 23/01/08) | 127,075 | 12,895 | – | 139,970 | 16,840 |
| David Laing | 91,500 | 12,895 | – | 104,395 | 12,132 |
| Trevor Jones (12 June 07 – 27 November 07) | 32,250 | – | – | 32,250 | – |
| Non-Executive Directors | | | | | |
| Margaret Ford (resigned 27/11/07) | 55,250 | – | – | 55,250 | – |
| Richard Aitken-Davies | 30,000 | – | – | 30,000 | – |
| Trevor Jones | 27,000 | – | – | 27,000 | – |
| Ewan Gowrie (appointed 27/11/07) | 5,000 | – | – | 5,000 | – |
| Stephen Booty (resigned 31/03/07) | – | – | – | – | – |
| Total | 368,075 | 25,790 | – | 393,865 | 28,972 |

Report on Remuneration

continued

DIRECTORS AND THEIR INTERESTS (AUDITED)

The Directors who served during the period and their beneficial interests in the Company's ordinary share capital were as follows:

| | Ordinary Shares of 10p |
|--|------------------------------|
| Baroness Ford (Resigned 27 November 2007) | 209,000 |
| Julie Greenwood (Resigned 23 January 2008) | 92,307 |
| David Laing | 54,054 |
| Richard Aitken-Davies | 114,718 |
| Trevor Jones | 120,000 |
| Stephen Booty (Resigned 31 March 2007) | 73,680 |
| Ewan Gowrie (Appointed 27 November 2007) | – |

Jacqui Skinner was appointed to the Board on 23 January 2008 and has a beneficial interest in the Company's ordinary share capital of 41,642 ordinary shares of 10p. There were no changes in these interests between the end of the financial period and the date of this report.

SERVICE CONTRACTS (NON-AUDITED)

The Executive Directors have entered into service contracts with the Group that are terminable by either party on not more than 12 months prior notice.

The Board sets fee levels for the Chairman and Non-Executive Directors. Non-Executive Directors do not hold contracts of employment but are offered letters of appointment generally for a fixed period of three years, renewable thereafter subject to re-election at forthcoming AGM's. Non-Executive Directors do not participate in any of the Group's annual or long-term incentive arrangements, nor is their remuneration pensionable.

By Order of the Board

Ewan Gowrie

Chairman of the Remuneration Committee
28 March 2008

Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the European Union;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website and legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the board

David Laing
Company Secretary
28 March 2008

Independent Auditors' Report

to the members of Pinnacle Staffing Group Plc

We have audited the Group and Parent Company financial statements (the "financial statements") of Pinnacle Staffing Plc for the period ended 6 January 2008 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 6 January 2008 and its loss and cash flows for the period then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 6 January 2008 and cash flows for the period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London

Income Statement

for the period ended 6th January 2008

| | Notes | 53 weeks to 06/01/08 £000 | 17 weeks to 31/12/06 £000 |
|---|-------|---------------------------------|---------------------------------|
| Revenue | 3 | 43,466 | 17,967 |
| Cost of sales | | (35,299) | (14,057) |
| Gross profit | | 8,167 | 3,910 |
| Marketing and sales | | (3,052) | (1,525) |
| Administrative expenses | | (5,576) | (1,590) |
| EBITDA before exceptional items | | 264 | 795 |
| Depreciation of property, plant and equipment | | (222) | (90) |
| Amortisation of intangible assets | | (425) | (145) |
| Exceptional items | 4 | (78) | – |
| Operating (loss)/profit | | (461) | 560 |
| Finance expense | 5 | (172) | (195) |
| (Loss)/Profit before taxation | | (633) | 365 |
| Tax expense | 6 | (71) | (111) |
| (Loss)/Profit for the period | | (704) | 254 |
| (Loss)/Earnings per 10p share | | | |
| Basic | 9 | (0.80p) | 0.29p |
| Diluted | 9 | (0.79p) | 0.29p |

Group and Company Balance Sheets

as at 6th January 2008

| | Note | Group | | Company | |
|-------------------------------------|------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | | 53 weeks to 06/01/08 £000 | 17 weeks to 31/12/06 £000 | 53 weeks to 06/01/08 £000 | 17 weeks to 31/12/06 £000 |
| Assets | | | | | |
| Non-current assets | | | | | |
| Goodwill | 10 | 9,868 | 9,868 | – | – |
| Intangible assets | 10 | 4,642 | 4,987 | – | – |
| Property, plant and equipment | 11 | 491 | 544 | – | – |
| Deferred income tax assets | 13 | – | 11 | – | – |
| Investments in subsidiaries | 12 | – | – | 21,171 | 21,171 |
| Total Non-current assets | | 15,001 | 15,410 | 21,171 | 21,171 |
| Current assets | | | | | |
| Trade and other receivables | 15 | 6,047 | 6,092 | 5 | – |
| Cash and cash equivalents | | 110 | 418 | – | – |
| Total current assets | | 6,157 | 6,510 | 5 | – |
| Total assets | | 21,158 | 21,920 | 21,176 | 21,171 |
| Equity | | | | | |
| Ordinary shares | 19 | 8,763 | 8,763 | 8,763 | 8,763 |
| Share premium account | 26 | 7,408 | 7,408 | 7,408 | 7,408 |
| Share payment reserve | 26 | 11 | – | 11 | – |
| Retained(losses)/earnings | 20 | (450) | 254 | (937) | (293) |
| Total equity | | 15,732 | 16,425 | 15,245 | 15,878 |
| Liabilities | | | | | |
| Current liabilities | | | | | |
| Financial liabilities: | | | | | |
| – Borrowings – loans | 17 | 2,020 | 1,644 | – | – |
| Trade and other payables | 16 | 3,289 | 3,581 | 5,931 | 5,293 |
| Current income tax liabilities | 16 | – | 119 | – | – |
| Deferred income tax liabilities | 13 | 18 | – | – | – |
| Provisions | 18 | 99 | 151 | – | – |
| Total current liabilities | | 5,426 | 5,495 | 5,931 | 5,293 |
| Total liabilities | | 5,426 | 5,495 | 5,931 | 5,293 |
| Total equity and liabilities | | 21,158 | 21,920 | 21,176 | 21,171 |

The notes on pages 19 to 40 form an integral part of these financial statements.

The financial statements on pages 15 to 40 were approved by the Board on 28 March 2008 and were signed on its behalf by:

Richard Aitken-Davies
Chairman

David Laing
Finance Director

Group and Company Statement of Changes in Equity

for the period ended 6th January 2008

| | 53 weeks to 06/01/08 £000 | 17 weeks to 31/12/06 £000 |
|---|---------------------------------|---------------------------------|
| Group | | |
| Net recognised (expense)/income | (704) | 254 |
| Shares issued during the period | – | 16,171 |
| Share based payments | 11 | – |
| (Decrease)/Increase in equity shareholders' funds | (693) | 16,425 |
| Total equity at beginning of the period | 16,425 | – |
| Total equity at end of the period | 15,732 | 16,425 |

| | 53 weeks to 06/01/08 £000 | 17 weeks to 31/12/06 £000 |
|---|---------------------------------|---------------------------------|
| Company | | |
| Net recognised expense | (644) | (293) |
| Shares issued during the period | – | 16,171 |
| Share based payments | 11 | – |
| (Decrease)/Increase in total equity | (633) | 15,878 |
| Total equity at beginning of the period | 15,878 | – |
| Total equity at end of the period | 15,245 | 15,878 |

Group and Company Cash Flow Statements

for the period ended 6th January 2008

| | Group | | Company | |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | 53 weeks to 06/01/08 £000 | 17 weeks to 31/12/06 £000 | 53 weeks to 06/01/08 £000 | 17 weeks to 31/12/06 £000 |
| Operating activities | | | | |
| Cash generated from operations (note 21) | (99) | 3,963 | – | 5,000 |
| Interest paid | (172) | (195) | – | – |
| Income taxes paid | (165) | – | – | – |
| Net cash (used in)/generated from operating activities | (436) | 3,768 | – | 5,000 |
| Investing activities | | | | |
| Purchase of intangible assets (note 10) | (80) | (19) | – | – |
| Purchase of tangible assets (note 11) | (169) | – | – | – |
| Proceeds from sale of property, plant and equipment | 1 | – | – | – |
| Purchase of business and subsidiary undertakings (note 12) | – | (7,928) | – | (5,000) |
| Net cash acquired with subsidiary undertakings | – | 2,953 | – | – |
| Net cash used in investing activities | (248) | (4,994) | – | (5,000) |
| Financing activities | | | | |
| Increase in loans from banks | 376 | 1,644 | – | – |
| Net cash generated from financing activities | 376 | 1,644 | – | – |
| Net (decrease)/increase in cash and cash equivalents | (308) | 418 | – | – |
| Cash and cash equivalents at beginning of the period | 418 | – | – | – |
| Net (decrease)/increase in cash and cash equivalents | (308) | 418 | – | – |
| Cash and cash equivalents at end of the period | 110 | 418 | – | – |

On the 4th September 2006 Pinnacle Health Care Limited issued 20,900,001 fully paid ordinary shares of 10p each, at a premium of 91.3p each, to Nestor Primecare Services Limited in exchange for the assets of Nestor Primecare Services Limited's staffing business and subsidiary undertakings. The value of the assets transferred amounted to £21,171,424 and included in these assets were cash balances of £2,953k (Note 12).

On the 4th September 2006 Pinnacle Staffing Group Plc acquired the entire issued share capital of Pinnacle Health Care Limited in exchange for 87,633,070 Ordinary 10p shares, issued at a premium of 8.45p per share, and £5m in cash.

Notes to the Financial Statements

for the period ended 6th January 2008

1 BASIS OF PREPARATION

The financial information presented in this document has been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union and International Financial Reporting Interpretations Committee (IFRIC) interpretations and with those parts of the Companies Act, 1985 applicable to companies reporting under IFRS that are applicable to the consolidated financial statements for the 53 week period ending 6th January 2008.

These financial statements have been prepared under the historical cost convention.

IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group or company's financial instruments, or the disclosures relating to taxation and trade and other payables.

A summary of the significant accounting policies used in the preparation of these financial statements under IFRS is provided in note 2 below.

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, income taxes and, property related items, all of which are discussed in the respective notes.

2 ACCOUNTING POLICIES

Basis of consolidation

The accounting reference date of the Group, comprising the Company and all its trading subsidiary undertakings, is 6th January. These financial statements are accordingly presented for the period to 6th January 2008.

The results of businesses acquired are included from the effective date of acquisition and businesses sold are included up to the effective date of disposal. The effective date of acquisition or disposal is considered to be the date when control passes. Acquisitions have been accounted for using the purchase method of accounting. The cost of acquisition so accounted for includes directly related capitalised costs.

Revenue

The Group derives its revenues on a time and materials basis. Revenue is recognised as services are rendered as validated by receipt of a client approved timesheet or equivalent. For permanent placements, revenue is recognised and the client is invoiced on acceptance of the candidate.

Segment reporting

A business segment is a group of assets and operations engaged in providing services that are subject to risks and returns that are different from those of other business segments.

Goodwill

Where the cost of acquisition exceeds the fair values attributable to the net assets acquired, the resulting goodwill is capitalised. Goodwill is tested for impairment annually and also when indicators suggest that the carrying value may not be recoverable. Any impairment is recognised in the period in which it is identified.

Notes to the Financial Statements

for the period ended 6th January 2008 continued

2 ACCOUNTING POLICIES CONTINUED

Other intangible assets

Other intangible assets represent the capitalised value of customer contracts and temporary staff databases. Such contracts and databases are capitalised at cost (or at fair value if acquired through a business combination) and amortised over a period equal to the remaining life of each asset. The carrying value is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Property, plant and equipment

Tangible fixed assets are stated at cost less depreciation and impairment. Depreciation is calculated so as to write down the cost of tangible assets to their estimated residual value in equal instalments over their estimated useful lives. The ranges of estimated useful lives for each major asset category, which are reviewed annually, are:

| | |
|--|-------------------|
| Leasehold improvements | Term of the lease |
| Plant and equipment, fixtures and fittings (including computer equipment) | 3 to 8 years |

The carrying value is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Investments

Investments in subsidiary undertakings are held at original cost less any provision for impairment.

Financial assets

The Group only has one class of financial assets: loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is as follows:

| Age of debtor balance | Provision percentage |
|--------------------------|----------------------|
| Greater than 24 months | 100% |
| Between 12 and 24 months | 100% |
| Between 6 and 12 months | 5% |
| Less than 6 months | 0% |

The carrying amount of the asset is reduced through the use of a provision account, and the amount of the loss is recognised in the income statement within 'administrative expenses'. When a trade receivable is deemed to be uncollectible, it is written off against the provision account for trade receivables.

Invoice discounting

Amounts due in respect of invoice discounting are separately disclosed as short-term liabilities. The Group can use this facility to draw down 80% of the value of sales invoices excluding VAT. There is a discounting charge of 1.5% above bank base rate.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

Notes to the Financial Statements

for the period ended 6th January 2008 continued

2 ACCOUNTING POLICIES CONTINUED

Trade payables

Trade payables are recognised at fair value.

Share capital

Ordinary shares are classed as equity. Incremental costs directly attributable to the issue of new shares or options are shown as a deduction, net of tax, from the proceeds.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Exceptional items

Exceptional items are those significant items which are separately disclosed, due to their nature and for the infrequency of the events giving rise to them, to enable a full understanding of the Group's financial performance.

Leases

Leasing agreements which transfer to the Group substantially all of the risks and benefits incidental to ownership of the fixed asset being leased are finance leases. Assets held under finance leases are recognised as assets of the Group at their fair value, or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding lease commitments are treated as obligations to the lessor. Lease payments are apportioned between finance charges and reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Payments under all other lease arrangements, known as operating leases, are charged to the income statement in the period to which they relate. All incentives for the agreement of a new or renewed operating lease shall be recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments. The Group recognises the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis.

Corporation tax

The amount included in the income statement is based on pre-tax reported profit or loss and is calculated at current tax rates, taking into account temporary differences and the likelihood of realisation of deferred tax assets and liabilities.

Deferred taxation

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax is provided using rates of tax that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets and liabilities are not discounted.

Provisions

Provisions are made when an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance expense.

Pension costs

Contributions to the company's defined contribution stakeholder pension scheme are charged to the profit and loss account in the year in which they became payable.

Notes to the Financial Statements

for the period ended 6th January 2008 continued

2 ACCOUNTING POLICIES CONTINUED

Employee benefits

During the period the Group adopted a long-term incentive scheme. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Financial risk factors

Cash flow and fair value interest rate risk.

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from short-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group's exposure arises from an invoice discounting facility which is directly linked to the Bank of England base rate. Due to the relatively low level of borrowings, and consequently interest charges, the Directors do not feel that this risk is material to the Group.

Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, and deposits with banks as well as credit exposures to, including outstanding receivables. For banks, only independently rated parties with a minimum rating of 'A' are accepted. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to customers are settled in cash or using major credit cards.

The largest clients of the Group are NHS Trusts. Given the nature of these organisations and their link to the government, no credit scoring or checks are undertaken on these clients.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

3 SEGMENTAL REPORTING

Operations are conducted and managed through two segments – Nursing and Medical Services, with segmental results reported on this basis. Costs have been allocated on a specific basis where possible, and certain central costs allocated on a reasonable and consistent basis.

The UK was the origin and destination of all of the Group's material revenue in 2007. All revenue is derived from external customers. All of the Group's material operating profits were earned in the UK, and all of the Group's material operating assets and net assets were located in the UK, in 2007.

Notes to the Financial Statements

for the period ended 6th January 2008 continued

3 SEGMENTAL REPORTING CONTINUED

| | 2007 £000 | 2006 £000 |
|------------------------------------|---------------|---------------|
| Revenue by business segment | | |
| Nursing | 30,423 | 11,772 |
| Medical Services | 13,043 | 6,195 |
| Total | 43,466 | 17,967 |

| | Operating loss 2007 £000 | Operating profit 2006 £000 |
|---|-----------------------------------|-------------------------------------|
| EBITDA before exceptional items by business segment | | |
| Nursing | 489 | 610 |
| Medical Services | (225) | 185 |
| Total EBITDA before exceptional items | 264 | 795 |
| Depreciation of property, plant and equipment | (222) | (90) |
| Amortisation of intangible assets | (425) | (145) |
| Exceptional items | (78) | – |
| Total depreciation, amortisation and exceptional items | (725) | (235) |
| Operating (loss)/profit by business segment | | |
| Nursing | (47) | 467 |
| Medical Services | (414) | 93 |
| Total operating (loss)/profit by business segment | (461) | 560 |
| Finance expense | (172) | (195) |
| (Loss)/profit before taxation | (633) | 365 |
| Tax expense | (71) | (111) |
| (Loss)/profit for the period | (704) | 254 |

Notes to the Financial Statements

for the period ended 6th January 2008 continued

3 SEGMENTAL REPORTING CONTINUED

Central costs have been allocated across the business segments on the basis of activity and on a consistent and reasonable basis.

The segment assets and liabilities at 6 January 2008 and depreciation, amortisation and capital expenditure for the period then ended are as follows:

| | Segment assets 2007 £000 | Segment liabilities 2007 £000 | Net operating assets 2007 £000 |
|--|-----------------------------------|--|---|
| Analysis of operating assets and liabilities by business segment | | | |
| Nursing | 15,141 | (3,878) | 11,263 |
| Medical Services | 6,017 | (1,548) | 4,469 |
| Total operating assets/(liabilities), including goodwill, at 6th January 2008 | 21,158 | (5,426) | 15,732 |

| | 2007 £000 |
|--|--------------|
| Net assets per Group balance sheet | 21,158 |
| Net debt | (5,426) |
| Total net operating assets, including goodwill, at 6th January 2008 | 15,732 |

| | Exceptional items 2007 £000 | Capital expenditure 2007 £000 | Depreciation 2007 £000 | Amortisation of intangibles 2007 £000 |
|--|--------------------------------------|--|------------------------------|--|
| Analysis of other segment items | | | | |
| Nursing | 29 | 197 | 173 | 335 |
| Medical Services | 49 | 52 | 49 | 90 |
| Total | 78 | 249 | 222 | 425 |

Notes to the Financial Statements

for the period ended 6th January 2008 continued

3 SEGMENTAL REPORTING CONTINUED

| | Segment assets 2006 £000 | Segment liabilities 2006 £000 | Net operating assets 2006 £000 |
|--|-----------------------------------|--|---|
| Analysis of operating assets and liabilities by business segment | | | |
| Nursing | 14,275 | (3,789) | 10,486 |
| Medical Services | 7,645 | (1,706) | 5,939 |
| Total operating assets/(liabilities), including goodwill, at 31st December 2006 | 21,920 | (5,495) | 16,425 |

| | 2006 £000 |
|--|--------------|
| Net assets per Group balance sheet | 21,920 |
| Net debt | (5,495) |
| Total net operating assets, including goodwill, at 31st December 2006 | 16,425 |

| | Exceptional items 2007 £000 | Capital expenditure 2006 £000 | Depreciation 2006 £000 | Amortisation of intangibles 2006 £000 |
|--|--------------------------------------|--|------------------------------|--|
| Analysis of other segment items | | | | |
| Nursing | – | 19 | 64 | 79 |
| Medical Services | – | – | 26 | 66 |
| Total | – | 19 | 90 | 145 |

4 EXCEPTIONAL ITEMS

Exceptional items are presented separately as, due to their nature and for the infrequency of the events giving rise to them, this allows shareholders to understand better the elements of financial performance for the year, so as to facilitate comparison with prior periods and to assess better the trends of financial performance.

| | 2007 £000 | 2006 £000 |
|---|--------------|--------------|
| Charged to operating profit | | |
| Restructuring and business reorganisation costs | 78 | – |
| Total charged to operating profit | 78 | – |

During the period, the Group commenced a programme to restructure its International business. This involved the creation of a new strategic partnership in Australia and the cessation of existing operations in both the UK and Australia. The costs of £47.4k recognised as an exceptional item in 2007 represents professional fees, redundancies and one off tax expenses incurred.

During the period the Group also restructured its credit control function. This involved internal staff reorganisation and the physical move of one credit control office. The costs of £10.8k recognised as an exceptional item in 2007 represents the physical costs of relocation and certain related redundancies.

Notes to the Financial Statements

for the period ended 6th January 2008 continued

4 EXCEPTIONAL ITEMS CONTINUED

Following the appointment of Jacqui Skinner as Managing Director in September 2007 the decision was made to reorganise the management structure of the nursing division. The costs of £20k recognised as an exceptional item in 2007 represent redundancy costs in respect of this reorganisation.

5 FINANCE EXPENSE

| | 2007 £000 | 2006 £000 |
|---|--------------|--------------|
| Finance expense | | |
| Interest payable on bank loans and overdrafts | 117 | 40 |
| Bank charges and facility fees | 55 | 155 |
| Total finance expense | 172 | 195 |

6 TAXATION

| | 2007 £000 | 2006 £000 |
|---|--------------|--------------|
| Corporation tax on taxable profit/(loss) for the period | 3 | 122 |
| Under-provision in respect of prior period | 39 | – |
| Current tax charge | 42 | 122 |
| Deferred tax charge/(credit) for the period | 29 | (11) |
| Deferred tax charge/(credit) | 29 | (11) |
| Tax expense for the period | 71 | 111 |

The effective tax rate for the period is 0% of corporation tax for the UK (2006:30%).

| | 2007 £000 | 2006 £000 |
|--|--------------|--------------|
| (Loss)/Profit at the standard rate of corporation tax at 20%/30% | (127) | 111 |
| Expenses not deductible | 130 | – |
| Under-provision in respect of prior period | 39 | – |
| Timing differences in respect of accelerated capital allowances | 29 | – |
| Tax expense for the period | 71 | 111 |

7 LOSS OF THE COMPANY FOR THE PERIOD

The loss after tax for the period dealt with in the accounts of the Company amounts to £644,279 (2006: £293,314). As allowed by the provisions of Section 230 of the Companies Act 1985, the Company has not published its own income statement.

8 DIVIDENDS

The Directors do not propose a final dividend for the period ended 6th January 2008 (2006: £nil) and a resolution to this effect will be tabled at the Annual General Meeting.

Notes to the Financial Statements

for the period ended 6th January 2008 continued

9 (LOSS)/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 (loss)/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. A total of 3,071,428 options that have been granted in the period qualified under this test. However, Julie Greenwood resigned her directorship on 23 January 2008, therefore her options, of 1,785,714, have now lapsed.

| | 2007 Earnings £000 | 2007 Weighted average number of 10p shares | 2007 Earnings per share pence |
|--------------------------|--------------------------|--|--|
| (Loss) per share | (704) | 87,633,070 | (0.80) |
| Diluted (loss) per share | (704) | 88,918,784 | (0.79) |

| | 2006 Earnings £000 | 2006 Weighted average number of 10p shares | 2006 Earnings per share pence |
|--------------------|--------------------------|--|--|
| Earnings per share | 254 | 87,633,070 | 0.29 |

10 GOODWILL AND INTANGIBLE ASSETS

| Goodwill | Total 2007 £000 | Total 2006 £000 |
|---------------------|-----------------------|-----------------------|
| Group | | |
| Cost | | |
| At 1st January 2007 | 9,868 | 9,868 |
| At 6th January 2008 | 9,868 | 9,868 |

Group goodwill derives from the acquisition of businesses and subsidiary undertakings in 2006. In 2006, the directors specifically evaluated the carrying values of goodwill for each such acquisition. Following the conclusion of these evaluations, the directors have concluded that no impairment of goodwill is required.

The carrying amounts of goodwill by business segment are as follows:

| | 2007 £000 | 2006 £000 |
|-------------------------------------|--------------|--------------|
| Goodwill by business segment | | |
| Nursing | 7,122 | 7,122 |
| Medical services | 2,746 | 2,746 |
| Total | 9,868 | 9,868 |

Notes to the Financial Statements

for the period ended 6th January 2008 continued

10 GOODWILL AND INTANGIBLE ASSETS CONTINUED

Other intangible assets

| | Development Costs | Temporary Staff Databases | Customer Contracts | 2007 £000 |
|----------------------------|----------------------|---------------------------------|-----------------------|--------------|
| Group | | | | |
| Cost | | | | |
| At 1st January 2007 | – | 81 | 5,051 | 5,132 |
| Additions | 80 | – | – | 80 |
| At 6th January 2008 | 80 | 81 | 5,051 | 5,212 |
| Amortisation | | | | |
| At 1st January 2007 | – | 4 | 141 | 145 |
| Charge for the period | – | 4 | 421 | 425 |
| At 6th January 2008 | – | 8 | 562 | 570 |
| Net book amount | | | | |
| At 6th January 2008 | 80 | 73 | 4,489 | 4,642 |

Other intangible assets

| | Development Costs | Temporary Staff Databases | Customer Contracts | 2006 £000 |
|--------------------------------------|----------------------|---------------------------------|-----------------------|--------------|
| Group | | | | |
| Cost | | | | |
| At 5th September 2006 on demerger | – | – | – | – |
| Additions | – | 81 | 5,051 | 5,132 |
| At 31st December 2006 | – | 81 | 5,051 | 5,132 |
| Amortisation | | | | |
| At 5th September 2006 on demerger | – | – | – | – |
| Charge for the period | – | 4 | 141 | 145 |
| At 31st December 2006 | – | 4 | 141 | 145 |
| Net book amount | | | | |
| At 31st December 2006 | – | 77 | 4,910 | 4,987 |

Other intangible assets represent the capitalised value of customer contracts and staff databases acquired via business combinations (acquisitions of businesses and subsidiary undertakings). Such contracts and databases are capitalised at fair value and amortised over a period equal to the remaining useful economic life. Contract lives so amortised vary between three and twelve years, database lives are amortised over 20 years.

Notes to the Financial Statements

for the period ended 6th January 2008 continued

10 GOODWILL AND INTANGIBLE ASSETS CONTINUED

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 overhead 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 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 of £15m, £5.13m has been identified as relating to temporary staff databases and customer contracts that require classification as intangible assets. A charge of £425k has been included in the income statement in relation to the amortisation of these intangible assets. Goodwill of £9.86m has arisen on the acquisition of the assets of Pinnacle Health Care Limited because of the management, staff and, strategic property locations that do not meet the criteria for recognition as an intangible asset at the date of acquisition.

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 third quarter of 2008. The costs are amortised over the useful life of the project, which is three years.

11 PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvements 2007 £000 | Plant & equipment, fixtures & fittings 2007 £000 | Total 2007 £000 |
|------------------------|---|---|-----------------------|
| Group | | | |
| Cost | | | |
| At 1st January 2007 | – | 634 | 634 |
| Additions | 36 | 133 | 169 |
| Disposals | – | (1) | (1) |
| At 6th January 2008 | 36 | 766 | 802 |
| Depreciation | – | | |
| At 1st January 2007 | – | 90 | 90 |
| Eliminated on disposal | – | (1) | (1) |
| Charge for the period | – | 222 | 222 |
| At 6th January 2008 | – | 311 | 311 |
| Net book amount | | | |
| At 6th January 2008 | 36 | 455 | 491 |

Notes to the Financial Statements

for the period ended 6th January 2008 continued

11 PROPERTY, PLANT AND EQUIPMENT CONTINUED

| | Plant & equipment, fixtures & fittings 2006 £000 | Total 2006 £000 |
|-----------------------------------|--|-----------------------|
| Group | | |
| Cost | | |
| At 5th September 2006 on demerger | 615 | 615 |
| Additions | 19 | 19 |
| At 31st December 2006 | 634 | 634 |
| Depreciation | | |
| At 5th September 2006 on demerger | – | – |
| Charge for the period | 90 | 90 |
| At 31st December 2006 | 90 | 90 |
| Net book amount | | |
| At 31st December 2006 | 544 | 544 |

At 6th January 2008 and 31st December 2006, the net book value of assets held under finance leases, capitalised and included in plant and equipment, fixtures and fittings amounts to £nil. The depreciation charge on such assets during the period amounted to £nil.

12 FIXED ASSET INVESTMENTS

| | Investment in subsidiaries 2007 £000 | Investment in subsidiaries 2006 £000 |
|---------------------|---|---|
| Company | | |
| At 1st January 2007 | 21,171 | 21,171 |
| At 6th January 2008 | 21,171 | 21,171 |

Investments in Group undertakings are stated at cost less impairments. No impairments against cost were taken in the period ended 6th January 2008.

Except where stated, the following subsidiary companies are wholly-owned including 100% voting rights, operate in the United Kingdom and are registered in England & Wales. All companies have been included in the consolidated results of the Group.

Principal undertakings

| Undertaking | Business |
|------------------------------------|-------------------|
| Pinnacle Health Care Limited | Staffing services |
| Nurse Brokers Limited | Staffing services |
| Mayfair Specialist Nurses Limited | Dormant |
| Grosvenor Nursing Agency Limited | Dormant |
| Medic International Limited | Dormant |
| Holt Medical Recruitment Limited | Dormant |
| Pinnacle Podiatry Services Limited | Dormant |
| BNA Healthcare Limited | Dormant |

Notes to the Financial Statements

for the period ended 6th January 2008 continued

12 FIXED ASSET INVESTMENTS CONTINUED

Business acquisitions

In September 2006, the Group purchased Pinnacle Health Care Limited and its subsidiary undertakings for a total consideration of £21,171,424, consisting of £5m cash and the issue of 87,633,070 Ordinary 10p shares, at a premium of 8.45p per share.

This purchase has been accounted for as an acquisition. No other acquisitions were made in the period.

The fair values of assets and liabilities acquired in the period, which represent their book values, and the goodwill arising are outlined in the table below.

| | 2006 acquisition Pinnacle Health Care Limited £000 | Total £000 |
|--|--|----------------|
| Non-current assets: | | |
| Goodwill | 9,868 | 9,868 |
| Other intangible assets (note 10) | 5,132 | 5,132 |
| Fixed Assets | 619 | 619 |
| | 15,619 | 15,619 |
| Current assets and liabilities: | | |
| Trade and other receivables | 6,963 | 6,963 |
| Trade and other payables | (1,260) | (1,260) |
| Provisions | (151) | (151) |
| Net current assets | 5,552 | 5,552 |
| Net assets acquired | 21,171 | 21,171 |
| Purchase consideration | 21,171 | 21,171 |
| Costs of acquisition | – | – |
| Total cost | 21,171 | 21,171 |
| Total goodwill arising in period (note 10) | – | – |

13 DEFERRED TAX

The movement in deferred income tax assets and liabilities during the period is as follows:

| | Accelerated depreciation £000 | Total £000 |
|-----------------------------|-------------------------------------|---------------|
| 2007 | | |
| At beginning of period | (11) | (11) |
| Charged to income statement | 29 | 29 |
| At end of period | 18 | 18 |

All of the Group deferred tax liabilities potentially recognisable have been recognised and included in current liabilities.

Notes to the Financial Statements

for the period ended 6th January 2008 continued

13 DEFERRED TAX CONTINUED

| | Accelerated depreciation £000 | Total £000 |
|------------------------------|-------------------------------------|---------------|
| 2006 | | |
| At beginning of period | – | – |
| Credited to income statement | (11) | (11) |
| At end of year | (11) | (11) |

14A FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the items below:

| Group | Loans and receivables | Total |
|------------------------------------|--------------------------|-------|
| 6 January 2008 | | |
| Assets as per balance sheet | | |
| Trade and other receivables | 6,047 | 6,047 |
| Cash and cash equivalents | 110 | 110 |
| Total | 6,157 | 6,157 |

| Group | Other financial liabilities | Total |
|---|--------------------------------|-------|
| 6 January 2008 | | |
| Liabilities as per balance sheet | | |
| Borrowings | 2,020 | 2,020 |
| Total | 2,020 | 2,020 |

| Group | Loans and receivables | Total |
|------------------------------------|--------------------------|-------|
| 31 December 2006 | | |
| Assets as per balance sheet | | |
| Trade and other receivables | 6,092 | 6,092 |
| Cash and cash equivalents | 418 | 418 |
| Total | 6,510 | 6,510 |

| Group | Other financial liabilities | Total |
|---|--------------------------------|-------|
| 31 December 2006 | | |
| Liabilities as per balance sheet | | |
| Borrowings | 1,644 | 1,644 |
| Total | 1,644 | 1,644 |

Notes to the Financial Statements

for the period ended 6th January 2008 continued

14A FINANCIAL INSTRUMENTS BY CATEGORY CONTINUED

| Company | Loans and receivables | Total |
|------------------------------------|-----------------------|----------|
| 6 January 2008 | | |
| Assets as per balance sheet | | |
| Trade and other receivables | 5 | 5 |
| Cash and cash equivalents | – | – |
| Total | 5 | 5 |

14B CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

The largest clients of the Group are NHS Trusts. Given the nature of these organisations and their link to the government, no credit scoring or checks are undertaken on these clients.

15 TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|--------------|--------------|--------------|--------------|
| | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| Trade receivables: | | | | |
| – Gross | 5,803 | 6,077 | – | – |
| – Bad debt provision | (228) | (302) | – | – |
| | 5,575 | 5,775 | | |
| Other receivables | 246 | 187 | 4 | – |
| Prepayments and accrued income | 224 | 130 | 1 | – |
| Current tax liabilities | 2 | – | – | – |
| Trade and other receivables due within one year | 6,047 | 6,092 | 5 | – |

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated. Accordingly, management believe that there is no further credit risk provision required in excess of normal provision for doubtful receivables.

The Group has an invoice discounting facility which it can use to draw down 80% of the value of sales invoices excluding VAT. There is a discounting charge of 1.5% above bank base rate.

Notes to the Financial Statements

for the period ended 6th January 2008 continued

15 TRADE AND OTHER RECEIVABLES CONTINUED

Trade receivables that are less than three months past due are not considered impaired. As of 6 January 2008, trade receivables of £3,624k (2006: £3,880k) were past due but not impaired. The ageing of analysis of the remaining trade receivables is as follows:

| | 2007 £000 | 2006 £000 |
|--------------|--------------|--------------|
| 31 – 60 days | 1,549 | 1,387 |
| 61 – 90 days | 422 | 541 |
| > 90 days | 208 | 269 |
| | 2,179 | 2,197 |

16 TRADE AND OTHER PAYABLES

| | Group | | Company | |
|----------------------------------|--------------|--------------|--------------|--------------|
| | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| Financial liabilities: | | | | |
| – Bank loans (note 17) | 2,020 | 1,644 | – | – |
| Trade payables | 1,023 | 1,082 | – | – |
| Amounts owed to Group companies | – | – | 5,898 | 5,266 |
| Other payables | 668 | 450 | – | – |
| Accruals and deferred income | 829 | 1,051 | 33 | 27 |
| Other UK tax and social security | 769 | 998 | – | – |
| Corporation tax | – | 119 | – | – |
| Deferred income tax liabilities | 18 | – | – | – |
| Provisions (note 18) | 99 | 151 | – | – |
| Total current liabilities | 5,426 | 5,495 | 5,931 | 5,293 |

| | Group 2007 £000 | Company 2007 £000 |
|-----------------|-----------------------|-------------------------|
| Current | | |
| Bank borrowings | 2,020 | – |
| | 2,020 | – |

Notes to the Financial Statements

for the period ended 6th January 2008 continued

16 TRADE AND OTHER PAYABLES CONTINUED

| | Group 2006 £000 | Company 2006 £000 |
|-----------------|-----------------------|-------------------------|
| Current | | |
| Bank borrowings | 1,644 | – |
| | 1,644 | – |

All bank borrowings under the above facility are secured by a charge created over Group assets.

17 BORROWINGS

The carrying amounts of the Group's borrowings approximate their fair value. All of the Group's borrowings are denominated in sterling.

Repayment of the bank borrowings is as follows:

| | 2007 £000 | 2006 £000 |
|------------------|--------------|--------------|
| 6 months or less | 2,020 | 1,644 |
| 6 – 12 months | – | – |
| 1 – 5 years | – | – |
| Over 5 years | – | – |
| | 2,020 | 1,644 |

18 PROVISIONS

| | Total 2007 £000 | Total 2006 £000 |
|--|-----------------------|-----------------------|
| Group | | |
| At 1st January 2007 | (151) | – |
| Acquired on purchase of businesses | – | (151) |
| Credit to income statement | 22 | – |
| Utilised in the period | 30 | – |
| At 6th January 2008 | (99) | (151) |
| Analysed as: | | |
| Provisions estimated to be settled within one year | (99) | (151) |
| Total provisions | (99) | (151) |

Property

The Group currently occupies a number of leased properties. A provision of £99k has been made in respect of lease dilapidations on these properties (2006: £151k). Property provisions are reversed at the end of each individual lease.

Notes to the Financial Statements

for the period ended 6th January 2008 continued

19 SHARE CAPITAL

| | Authorised Number | £000 | Allotted, issued and fully paid Number | £000 |
|------------------------------------|----------------------|--------|---|-------|
| Ordinary shares of 10p each | | | | |
| At 1st January 2007 | 116,844,100 | 11,684 | 87,633,070 | 8,763 |
| At 6th January 2008 | 116,844,100 | 11,684 | 87,633,070 | 8,763 |

87,633,070 Ordinary 10p shares were issued on the 4th September 2006.

20 SHARE PREMIUM ACCOUNT AND RESERVES

| | Share premium account 2007 £000 | Retained earnings/ (losses) 2007 £000 |
|----------------------------|---|---|
| Group | | |
| At 1st January 2007 | 7,408 | 254 |
| Arising on issue of shares | – | – |
| Loss for the period | – | (704) |
| At 6th January 2008 | 7,408 | (450) |

| | Share premium account 2007 £000 | Retained earnings/ (losses) 2007 £000 |
|----------------------------|---|---|
| Company | | |
| At 1st January 2007 | 7,408 | (293) |
| Arising on issue of shares | – | – |
| Loss for the period | – | (644) |
| At 6th January 2008 | 7,408 | (937) |

Notes to the Financial Statements

for the period ended 6th January 2008 continued

20 SHARE PREMIUM ACCOUNT AND RESERVES CONTINUED

| | Share premium account 2006 £000 | Retained earnings/ (losses) 2006 £000 |
|----------------------------|------------------------------------|--|
| Group | | |
| Arising on issue of shares | 7,408 | – |
| Profits for the period | – | 254 |
| At 31st December 2006 | 7,408 | 254 |

| | Share premium account 2006 £000 | Retained earnings/ (losses) 2006 £000 |
|----------------------------|------------------------------------|--|
| Company | | |
| Arising on issue of shares | 7,408 | – |
| Loss for the period | – | (293) |
| At 31st December 2006 | 7,408 | (293) |

21 NOTES TO THE CASH FLOW STATEMENTS

| | Group | | Company | |
|--|--------------|--------------|--------------|--------------|
| | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| Reconciliation of (loss)/profit to cash generated from operations | | | | |
| (Loss)/profit for the period | (704) | 254 | (644) | (293) |
| Adjustments for: | | | | |
| Tax expense | 71 | 111 | – | – |
| Finance expense | 172 | 195 | – | – |
| Depreciation of property, plant and equipment | 222 | 90 | – | – |
| Profit on sale of property, plant and equipment | 1 | – | – | – |
| Amortisation of intangibles | 425 | 145 | – | – |
| Share-based payments | 11 | – | 11 | – |
| Changes in working capital: | | | | |
| (Decrease) in provisions | (52) | – | – | – |
| Decrease/(increase) in trade and other receivables | 45 | 792 | (5) | – |
| (Decrease)/increase in trade and other payables | (290) | 2,376 | 638 | 5,293 |
| Cash (used in)/generated from operations | (99) | 3,963 | – | 5,000 |

Notes to the Financial Statements

for the period ended 6th January 2008 continued

21 NOTES TO THE CASH FLOW STATEMENTS CONTINUED

| | Group | | Company | |
|--|----------------|----------------|--------------|--------------|
| | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| Reconciliation of net cash flow to movement in net debt | | | | |
| (Decrease)/increase in cash and cash equivalents | (308) | 418 | – | – |
| (Increase) in loans from banks | (376) | (1,644) | – | – |
| | (684) | (1,226) | – | – |
| Net debt at beginning of the period | (1,226) | – | – | – |
| Net debt at end of the period | (1,910) | (1,226) | – | – |

22 OPERATING LEASE COMMITMENTS

The Group has premises operated under leases whose terms, conditions and expiry dates vary. In addition, the Group leases items of plant and equipment in particular motor vehicles.

At 6th January 2008 the future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | Plant & equipment including motor vehicles | Land & buildings occupied by Group | Total |
|--|--|------------------------------------|--------------|
| | 2007 £000 | 2007 £000 | 2007 £000 |
| No later than one year | 1 | 282 | 283 |
| Later than one year and no later than five years | – | 370 | 370 |
| Later than five years | – | – | – |
| | 1 | 652 | 653 |

| | Plant & equipment including motor vehicles | Land & buildings occupied by Group | Total |
|--|--|------------------------------------|--------------|
| | 2006 £000 | 2006 £000 | 2006 £000 |
| No later than one year | 16 | 379 | 395 |
| Later than one year and no later than five years | 3 | 368 | 371 |
| Later than five years | – | 28 | 28 |
| | 19 | 775 | 794 |

Notes to the Financial Statements

for the period ended 6th January 2008 continued

23 EMPLOYEE BENEFIT EXPENSE

| | 2007 £000 | 2006 £000 |
|-----------------------|--------------|--------------|
| Wages and salaries | 3,622 | 1,515 |
| Social security costs | 367 | 141 |
| Pension costs | 61 | 7 |
| Share options granted | 11 | – |
| | 4,061 | 1,663 |

The detailed numerical analysis of Directors' aggregate emoluments is included in the tables in the Remuneration Report on pages 11 to 12 which form part of these financial statements.

24 AVERAGE NUMBER OF PEOPLE EMPLOYED

| | 2007 | 2006 |
|---|------------|------------|
| Average number of persons employed | | |
| Full time | 142 | 172 |
| Part time | 20 | 40 |
| | 162 | 212 |

| | 2007 | 2006 |
|---|------------|------------|
| Employee numbers by business segment | | |
| Nursing | 100 | 143 |
| Medical services | 28 | 45 |
| Central | 34 | 24 |
| | 162 | 212 |

25 AUDITOR REMUNERATION

| Group | 2007 £000 | 2006 £000 |
|---|--------------|--------------|
| Fees payable to company's auditor for the audit of Parent Company and consolidated financial statements | 41 | 40 |
| Fees payable to company's auditor for audit of subsidiaries | 20 | 15 |
| Fees payable to company's auditor for other services: Advisory services | 12 | – |
| | 73 | 55 |

| Company | 2007 £000 | 2006 £000 |
|---|--------------|--------------|
| Fees payable to company's auditor for the audit of Parent Company and consolidated financial statements | 15 | 10 |
| | 15 | 10 |

Notes to the Financial Statements

for the period ended 6th January 2008 continued

26 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 third anniversary of the grant (17th January 2010) 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 |
|-------------|--|--|
| David Laing | 1,285,714 | 11 |
| | 1,285,714 | 11 |

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

27 RELATED PARTY TRANSACTIONS

The Group had no material transactions with related parties during the period. The Company holds amounts due to and due from certain of its subsidiaries at 6th January 2008 (see notes 15 and 16). All balances are repayable on demand and no interest is charged on these balances.

Details of any transactions with directors are set out in the Remuneration Report.

Directors, Secretary, Registered and Head Office and Advisors

DIRECTORS

Richard Aitken-Davies
Non-Executive Chairman

Jacqui Skinner
Chief Executive

David Laing
Finance Director

Trevor Jones
Non-Executive Director

Ewan Gowrie
Non-Executive Director

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David Laing

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