STAFFLINE GROUP PLC

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2010

Company No 05268636

Directors and advisors

For the year ended 31 December 2010

Company registration number	05268636
Registered office	19 – 20 The Triangle NG2 Business Park Nottingham Notts NG2 1AE
Directors	Shaun Brittain (Executive Director) John Crabtree (Senior Independent Director) Marshall Evans (Operations Director) Andy Hogarth (Chairman and Chief Executive) Tim Jackson (Finance Director) Nicholas Keegan (Non-Executive Director)
Secretary	Tim Jackson
Nominated adviser and broker	Liberum Capital Ropemaker Place 25 Ropemaker Street London EC2Y 9LY
Registrars	Computershare Investor Services plc PO Box 859 The Pavilions Bridgewater Road Bristol BS99 1XZ
Bankers	Bank of Scotland 15 Queen Street Nottingham NG1 2BL
Solicitors	Browne Jacobson LLP 44 Castle Gate Nottingham NG1 7BJ Freeth Cartwright LLP Cumberland Court 80 Mount Street Nottingham NG1 6HH
Auditors	Grant Thornton UK LLP Registered Auditor Chartered Accountants Enterprise House 115 Edmund Street Birmingham B3 2HJ
Financial and trade PR	Buchanan Communications 45 Moorfields London EC2Y 9AE

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Chairman and Chief Executive's statement

For the year ended 31 December 2010

Introduction

2010 Financial Results

It is very pleasing to be able to report a significant increase in the Group's revenue and profits given the continuing demanding trading environment in which we operate Sales have increased by 79% to £206 2million (2009 £115 0million) whilst profit before tax increased by 100% to £7 0million (2009 £3 5million) Operating profit before amortisation increased by 110% to £7 8million (2009 £3 7m) The increased profitability, and a continued focus on debtor collections led to a further significant decline in the net bank debt of the Group, which stood at £2 3million at the year end (2009 £5 0million)

Dividends

The Group has already paid an interim dividend of 2 4p per share (2009 1 4p) and the Directors propose a final dividend for the year of 3 8p (2009 1 7p) giving a total dividend for the year of 6 2p (2009 3 1p) This represents an increase of 100% and is within the Board's stated desired level of cover of earnings of 3 75 times

Subject to shareholder approval at the AGM, the final dividend will be paid on 6 July 2011 to shareholders on the register on 3 June 2011

2010 Trading and Operational Review

Trading in 2010 started strongly in comparison to the first half of 2009 and this trend continued throughout the year The growth we experienced was due to three major factors

1 increase in demand from existing customers

2 new ***OnSite*** openings during the year

3 acquisitions made both in 2009 and in 2010

Existing customers

2010 saw the majority of the Group's clients experience an increase in demand for their products and services from the lows of 2008 and 2009 Many maintained their reluctance to commit to hiring workers permanently but rather chose to increase their temporary and flexible headcount through Staffline The Board believes this trend is set to continue with both outsourcing and the bias towards part-time workers remaining strong

New ***OnSite*** *locations*

From the end of 2009 and throughout 2010 we opened a significant number of new locations, completing the year operating from 135 ***OnSite*** locations (2009 119) Our aim is to continue to expand our ***OnSite*** footprint and improve our geographical coverage across the UK

Acquisitions

We acquired two businesses during May 2010, A La Carte Recruitment Limited and DKM Labour Solutions and a further one in November, Qubic Recruitment Solutions Limited All three businesses have performed ahead of budget, are fully integrated in to Staffline and are expected to add approximately £37m to revenues on an annual basis

Of the four acquisitions made in 2009 three have again traded ahead of our expectations The one exception is our training organisation, Peter Rowley which, whilst still making a profit for the full year, suffered from the significant changes in Government funding for the sector in the second half The remaining businesses, Techsearch, OSP and Staffline Express performed at or ahead of expectations

We have also made a rapid start to 2011 completing the asset acquisition of Kelburn Industrial, a Newcastle-based provider of recruitment solutions Kelburn Industrial is a specialist in supplying temporary industrial labour whose business model and customer base is highly complementary to Staffline

Group Strategy

Our Group strategy remains unchanged – a strong focus on organic growth although more recently we have accelerated our appetite for small add-on acquisitions

We intend to continue to pursue both of these strategies in 2011 The third leg of our strategy is to look to enhance revenues through offering other complementary services to our existing client base, including training We remain fully committed to this element despite the slowdown in the training sector mentioned above, due to the Government spending cutbacks

Employees

The number of employees has continued to rise as we have won more clients and made more acquisitions We have been very fortunate to have had some exceptionally talented people join us this year The number of employees at the year end was 319 (2009 243) Average sales per employee during the year were £708,000 compared to £553,000 in 2009 We fund a great deal of training for employees in a very wide range of subjects and had 24 employees pass their REC Certificate in Recruitment Practice, 2 obtaining accountancy qualifications as well as 11 achieving success in a wide range of other subjects

Travel and Subsistence Schemes

The Group has campaigned for some years against the use of travel and subsistence schemes by recruitment businesses with workers who earn at or near the minimum wage In October 2010, the Coalition Government announced its intention to change Minimum Wage legislation to ensure that these schemes could not be used to reduce workers' pay below the statutory minimum A judicial review of the results of that were announced on 30 December 2010 upheld the Government's decision Since that date there are still a number of umbrella companies who offer other types of tax reduction scheme which include, the payment of temporary workers offshore (in Hong Kong or the Isle of Man), making every worker a director of a limited company (claiming that minimum wage legislation is then non-applicable), 'adjust' the number of hours worked or 'adjust' holiday pay The Department for Business Innovation and Skills has issued guidance stating that in its opinion such schemes are not compliant with National Minimum Wage legislation for workers paid at or close to Minimum Wage However the continued use of such schemes continues to increase the competitive pressures on the Group

Industry Appointments

Staffline's Operations Director, Marshall Evans, continues to be a Corporate Director of the Recruitment and Employment Confederation ("REC") and in addition was appointed to the role of Chairman of the REC's Policy Committee during the year This role involves representing the recruitment industry at the highest levels of Government In addition, Marshall is a member of the Board of the Gangmaster Licensing Authority and I am an executive member of the Association of Labour Providers Staffline is proud to be the only organisation with representation on the three organisations that shape the future of our industry

Health & Safety

We take the provisions of a safe working environment for all our contractors and staff seriously and have invested in processes and systems which are intended to alert us to areas of possible concern In an ***Onsite*** location the Group is often responsible for carrying out induction and other training, keeping accurate records and ensuring that a worker is suitably qualified for a role We have direct access to the client and concerns identified can often be readily addressed We continue to maintain effective communication with our clients to clearly understand their needs, to ascertain the role to be performed and to ensure our workers are specifically trained to undertake their duties

During 2010 we introduced Health & Safety audits, which are intended to help us maintain and develop a continuously improving health & safety culture Our commitment to safety has been shown by our consistent improvement in performance, recording an accident frequency rate (AFR) for the whole year of 0 32, a significant improvement on the previous year's AFR of 0 77 This equates to a 58% reduction in reportable accidents This accident rate compares against an average of 6 1 for the industries in which Staffline works The AFR is calculated using the number of reportable accidents and total hours worked

Environmental Policy

Staffline is introducing an Environmental Management System to help reduce its impact on the environment as detailed in our revised Environmental Policy This is a proactive step taken to ensure our targets for reduction in emissions are realistic and achievable

As part of our continuing drive to reduce our Environmental impact, Staffline actively promotes the use of alternatives to motorised transport By being registered with the Government initiative Cycle Scheme, we have enabled all our workers to purchase a bicycle tax free, which reinforces our aim to reducing our carbon footprint

ISO 9001 and Investors in People (IIP)

At the beginning of 2010 we committed to both attain ISO 9001 for the first time and retain our IIP status both of which we successfully achieved

Information Technology

During the year we have continued to invest significantly in our IT infrastructure, bringing our total spend in recent years to in excess of £3million The latest investment, an extensive upgrade to our main information capture systems will be launched internally in February 2011 and to our clients in the following months Trials have proved it to be extremely effective in reducing our operating costs whilst allowing us to significantly increase the level of service to clients

Chairman and Chief Executive's statement

For the year ended 31 December 2010

Current Trading and Prospects

We believe the Group can continue to grow market share and that our ***OnSite*** model offers customers a reliable and cost effective outsourced solution Trading for the first 8 weeks of 2011 has been positive, and we remain confident that trading will continue in line with market expectations

The acquisition of Kelburn Industrial in January 2011 is an indication that there are still a number of acquisition targets which could give us the potential to accelerate revenue growth and expand both our customer base and geographical footprint

Andy Hogarth
Chairman and Chief Executive
Date: 28 February 2011

Financial Highlights

The total revenues for the year increased by 79% to £206 2million (2009 £115 0million) reflecting the impact of strong demand for our services from existing customers, new business wins in 2009 and 2010 and also the impact of the acquisitions made during last year and this year The successful growth of our ***OnSite*** business, which achieves lower gross margins on higher volumes, has continued The change in business mix has resulted in a reduction in gross margin to 11 2% (2009 12 9%) However, profit from operations has increased by 98% to £7 1million (2009 £3 6m), and the net operating margin, including amortisation of intangibles, has increased to 3 5% from 3 1% in 2009 The charge for amortisation has increased by £579,000 to £721,000 during the year

The investment in acquisitions, offset by continued tight management of our debtor book and strong cash flow generation, has led to finance charges being flat at £0 1million (2009 £0 1million) and this has meant that we have continued to improve interest cover, which has now reached 56 times (2009 33 times) The interest rates on our overdraft facility changed slightly during the year, at 2 5% (2009 2 0%) over bank base rate, while the rate for term borrowings remained at 1 0% (2009 1 0%) over bank base rate

Profit before tax for the reporting year increased to £7 0million (2009 £3 5million) and profit after tax was increased to £5 0million (2009 £2 4million)

Earnings per Share

The basic earnings per share more than doubled to 23 7p (2009 11 5p) The diluted earnings per share also increased significantly to 22 6p (2009 11 2p) and the diluted earnings per share before amortisation increased by 111% to 24 9p (2009 11 8p)

Dividends

The directors propose a final dividend of 3 8p per share against 1 7p per share last year This gives a total dividend for the year of 6 2p per share which is 100% ahead of the 3 1p per share paid last year

Acquisitions

During the year we completed three acquisitions for a total consideration of £4 8million, net of cash balances acquired This amount is comprised of £3 7million cash paid during the year, and further potential consideration of £1 1million which is dependent on future profitability These acquisitions will add around £37million to turnover in a full year The acquisitions have resulted in the recognition in the Group balance sheet of additions to goodwill of £1 2million and additions to intangible assets of £1 3million The intangible assets will be amortised over a period of 2 years The acquisitions have been funded from existing bank facilities

STAFFLINE GROUP PLC

Finance Director's statement

For the year ended 31 December 2010

Balance Sheet

The Group balance sheet has strengthened during the year, with net current assets rising by £0 9million to £3 9million (2009 £3 0million) and a broadly unchanged ratio of current assets to current liabilities of 1 14 (2009 1 18) It is also pleasing to report a significant fall in gearing to 7% (2009 19%) The Group continues to be focused on cash generation and ensuring a robust balance sheet

Financing

The Group's current bank facilities include a term loan of £2 7million, repayable in quarterly instalments up to 2013, and an overdraft of up to £10 0million At 31 December 2010 the Group was in a net cash position (excluding term loans) The overdraft facility is renewable annually and is due to be renewed in March 2011 Substantive discussions have already been held with the bank, which have resulted in an indicative offer of similar facilities for the period to March 2012 at a similar cost of funding as currently in place The Board believes that these facilities, once finalised, will ensure that the Group has sufficient headroom to manage the current operations as well as providing further headroom to support the continued growth of the business

Post tax cash generation during the year has been strong and the relentless focus on debtor management has succeeded in reducing our working capital requirement by £0 3million despite the 79% increase in sales In addition, we have invested £3 7million in acquisitions during the year covering A La Carte Recruitment Limited, DKM Labour Solutions and Qubic Recruitment Solutions Limited, and also invested £0 4million on our systems to assist the growth and development of the business Despite these investments we still ended the year with a £2 7million reduction in net debt to £2 3million (2009 £5 0million) During the year staff exercised share options raising £0 2million for the Company

Tim Jackson

Tim Jackson
Finance Director
Date: 28 February 2011

Report of the Directors

For the year ended 31 December 2010

The Directors present their annual report together with the audited financial statements for the year ended 31 December 2010

Principal activity and business review

The principal activity of the Group is the provision of recruitment and outsourced human resource services to industry

A detailed review of the activities of the Group, including financial and non-financial key performance indicators, can be found in the Chairman and Chief Executive's and Finance Director's statements on pages 2 to 7

An interim dividend of £508,808 (2 4 p per share) was paid during the year (2009 £297,207, 1 4p per share) The directors have proposed a final dividend of £812,612 (3 8 p per share) (2009 £360,894, 1 7p per share) to be paid on 6 July 2011, to shareholders registered on 3 June 2011 This has not been included within creditors as it was not formally approved before the year end

Directors

The Directors who held office during the year were as follows

A J Hogarth
M O Evans
N F Keegan
J Crabtree
T D Jackson
S Brittain

Substantial shareholdings

The interests in excess of 3% of the issued ordinary share capital of the Company, which have been notified as at 7 February 2011, were as follows

	Ordinary shares of 10p each Number	Percentage of ordinary shares %
ISIS Equity Partners	4,174,791	18 44
A J Hogarth	3,068,629	13 55
Octopus Asset Management	2,802,101	12 38
Generali	2,073,750	9 16
M O Evans	1,454,080	6 42
Invesco Perpetual	1,054,714	4 66
Baronsmead VCT 2 plc	958,792	4 23
Baronsmead VCT plc	958,792	4 23
Goldman Sachs International	811,325	3 58

During the year the Company issued 1,257,263 ordinary shares to the Staffline Group plc Employee Benefit Trust These shares are still held at 31 December 2010 and are accounted for as Own shares

The shareholdings for A J Hogarth and M O Evans exclude shares held under the Company's Joint Share Ownership Plan (JSOP) which was established during the year in which the directors are beneficial co-owners of shares Details of such shareholdings are given in the Report on directors' remuneration

Payment to suppliers

It is the Group's policy to agree appropriate terms and conditions for its transactions with suppliers by means ranging from standard terms and conditions to individually negotiated contracts and to pay suppliers according to agreed terms and conditions, provided that the supplier meets those terms and conditions The Group does not have a standard or code which deals specifically with the payment of suppliers

Trade creditors at the year end amounted to 14 days (2009 19 days) of average supplies for the year

Financial risk management objectives and policies

The Group is exposed to a variety of financial risks which result from both its operating and investing activities The Group's risk management is coordinated at its headquarters, in close co-operation with the Board of Directors, and focuses on actively securing the Group's short to medium term cash flows

The Group does not actively engage in the trading of financial assets for speculative purposes The most significant financial risks to which the Group is exposed are described below

Credit risk
Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the balance sheet (or in the detailed analysis provided in the notes to the financial statements) Credit risk, therefore, is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount

The Group's trade and other receivables are actively monitored to avoid significant concentrations of credit risk

The Group has adopted a policy of carefully monitoring all customers, in particular those who lack an appropriate credit history

Liquidity risk
The Group seeks to manage financial risks to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably The Group has net cash of £397,000 at 31 December 2010 Short term flexibility is achieved by means of a bank overdraft facility of up to £10,000,000

Interest rate risk
All financial liabilities of the Group owed to the Group's bankers are subject to floating term interest rates Competitive rates have been negotiated with the Group's bankers and the rate paid on term bank loans has been set at 1% above base rate (2009 1% above base rate)

Details of the key risks impacting on the Group are included in the Corporate Governance statement

Employee Involvement

Employees are kept aware of developments within the Group by regular briefings These include presentations by subsidiary management covering their future budgets Employee involvement with the financial performance of the Group is further encouraged by the share option scheme

Disabled persons

It is the Group's policy to give full and fair consideration to suitable applications for employment from disabled persons Once employed, disabled persons receive equal opportunities for training, career development and promotion Opportunities exist for employees of the Group who become disabled to continue their employment or to be trained for other positions within the Group

Directors' Responsibilities Statement

The directors are responsible for preparing the Directors' Report and the group financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare group financial statements for each financial year Under that law the directors have to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) Under company law the directors must not approve the group financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the group for that period In preparing these group financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the group financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the group financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

In so far as each of the directors is aware

- there is no relevant audit information of which the group's auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Auditors

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 489 of the Companies Act 2006

BY ORDER OF THE BOARD

Tim Jackson

T D Jackson
Company Secretary
Date 28 February 2011
05268636

Corporate governance statement

For the year ended 31 December 2010

Statement by the directors on compliance with the provisions of the Combined Code

As a company listed on the Alternative Investment Market of the London Stock Exchange, Staffline Group plc is not required to comply with the Combined Code ("the Code") However, the Board of Directors has considered the effects of the Code and taken steps to comply with the Code insofar as it can be applied practically, given the size of Staffline and the nature of its operations The Group supports the concept of an effective Board leading and controlling the Group and a brief outline of the role of the Board and its committees, together with the Group's systems of internal financial control which the Board will continue to keep under review, is given below

The Board

The Board currently comprises the Chairman and Chief Executive, the Finance Director, two Executive Directors and two Non-Executive Directors Biographies of the Directors appear below including who sits on which committee (A = Audit Committee, R = Remuneration Committee, N = Nominations Committee) The Non-Executive directors, although they have small shareholdings in the Company, are considered by the Board to be independent

Shaun Brittain - Executive Director

Shaun Brittain joined the Group in August 2000 and the Board in February 2009 He was one of the Group's divisional directors, with responsibility for the largest region He has made a significant contribution to the growth of Staffline's ***Onsite*** model and helped to shape the outsourcing development Prior to that he spent 11 years at Blue Arrow, where he held senior roles, both operational and strategic

John Crabtree – Senior Independent Director (A, R, N)

John Crabtree joined the Board on 1 March 2005 as a Non-Executive Director and Chairman of the Remuneration Committee John was the senior partner of Wragge & Co, the Birmingham based corporate law firm and whilst in this role John was responsible for the firm's evolution into a practice with 100 partners and a turnover of £75m John has a number of business interests, including being Non-Executive Chairman of Real Estate Investors plc, SLR Holdings Limited and TruckEast Ltd In addition he is a director of Birmingham Hippodrome Theatre Trust and Advantage West Midlands

Marshall Evans – Executive Director

Having gained broad experience with P&O, NFC and Freightliners, Marshall spent six years as Operations Director of TIP Trailer Rental ("TIP"), joining GE Capital when that company acquired TIP in 1993 He then spent four years as part of the acquisition team which purchased and integrated ten further companies, including TLS Vehicle Rental, into GE Capital and became an Executive Director of TLS He joined Staffline and the Board in July 2002 Marshall is a board member of both the Gangmaster Licensing Authority and the Recruitment & Employment Confederation (the main UK trade body for recruitment agencies)

Andy Hogarth – Chairman and Chief Executive (R, N)

Andy has held senior roles in a wide range of businesses including retail, support services, healthcare, hospitality and construction As Finance Director he led the MBO and subsequent trade sale in 2002 of Pipeline Constructors Group, a £100m utility services business He is currently Executive Chairman and CEO of Staffline Group plc, Non-Executive Chairman of Carnell Support Services Ltd, sits on the board of an elderly care charity and is a Director of Hogarths Hotel, a boutique hotel in Solihull He is a Fellow of the Association of Chartered Certified Accountants (FCCA) as well as a Master Practitioner of Neuro-Linguistic Programming and a Certified NLP coach He joined Staffline in 2002 as Finance Director, becoming Managing Director in 2005 and Chairman in 2009

Tim Jackson - Finance Director

Having qualified as a Chartered Accountant with Grant Thornton Tim spent nine years in various financial and commercial roles at Salvesen Logistics Plc He then spent 7 years at Redbridge Holdings Limited culminating in the position of Finance Director of its food service division, Redbridge Fresh Services As Finance Director of SG Maintenance Services Limited he was instrumental in the operational and finance side of the business and its eventual disposal, before joining Applied Language Solutions Limited, a fast growing translation business, as Finance Director He joined Staffline as Finance Director in December 2008 He remains a non-executive director of Applied Language Solutions Limited

Nicholas Keegan - Non-Executive Director (A, R, N)

Nicholas is a qualified Chartered Accountant, who after spending 10 years in investment banking was Finance Director of a number of quoted and unquoted West Midland companies, including Newman Tonks Group plc and Frederick Cooper plc He was from 2005 until 2009 Chief Financial Officer of CompAir Holdings Limited, a venture capital backed international manufacturing business He was a Non-Executive Director of Interserve plc from 2003 until 2009 He joined Staffline in November 2004 and is Chairman of the Audit Committee

Relations with shareholders

The Company values the views of its shareholders and recognises their interest in the Group's strategy and performance The Annual General Meeting will be used to communicate with all investors and they are encouraged to participate The Directors will be available to answer questions Separate resolutions will be proposed on each issue so that they can be given proper consideration and there will be a formal resolution to approve the Annual Report and Accounts

Internal control

The Board is responsible for maintaining a strong system of internal control to safeguard shareholders' interests and the Group's assets and for reviewing its effectiveness The system of internal financial control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss

The Audit Committee, chaired by Nicholas Keegan, has met four times during the year and is responsible for ensuring that the financial performance of the Group is properly monitored and reported on, as well as meeting the auditors and reviewing any reports from the auditors regarding accounts and internal control systems During the year the Group has again performed a risk identification exercise with mitigating actions implemented

The Remuneration Committee, chaired by John Crabtree has met four times during the year It is responsible for determining the level of remuneration to be paid to the Executive Directors A separate report on remuneration is contained on pages 15 to 18

The Nominations Committee, chaired by John Crabtree has met twice during the year It is responsible for ensuring that the balance of the board is appropriate to control and direct the business

The Board has considered the need for an internal audit function but has decided the size and complexity of the Group does not justify it at present However, it will keep this decision under annual review

Corporate governance statement

For the year ended 31 December 2010

The Directors keep a register of risks faced by the business, rating these risks on a scale of 1 to 5 for both probability and impact These risks have been mitigated to the extent considered practical and are reviewed annually The Directors have identified the following key risks and uncertainties facing the Group

Risks

- Because of the industries in which the Group specialises, principally food processing, the Directors consider the Group likely to be relatively less affected than others in the sector during a general economic downturn However, this sector is subject to great change and consolidation as the buying power of major retailers continues to drive the need for rationalisation and greater economies of scale We are at risk if our clients lose business in this process We continue to counter this risk by expanding our client base and can expect to gain as much business as we lose if we have a wide enough spread of clients
- Because we allow credit to our clients we are at risk if one of them runs into financial difficulties and is unable to pay their outstanding debt To minimise the risks we monitor client payment patterns, subscribe to a monitoring service and employ pro-active credit control systems To date these actions have been successful and the total bad debt charge to the Group in the last three years, excluding VAT, has been £50,000 on sales of £441 million, equating to 0 01% of sales
- We face the risk that one of our members of staff may deliberately by-pass the procedures set up to ensure we fully comply with all legislative requirements Although the systems we have should detect most of such acts there is a reputational and financial risk to the business should someone deliberately choose to do this
- Major failure of IT systems The Group has a robust Disaster Recovery plan in place in the event of a major internal failure of our IT systems, which has proven to be successful three times in the past five years However as our business grows we become ever more reliant on third party telecommunication and other providers, including BT, BACS and Project Telecom A major failure by any of these suppliers might prove very disruptive
- Competition The Group operates in a sector where there are a significant number of competitors and barriers to entry are relatively low To counter the threat of competitors seeking to win business from us the Group aims to build strong long term relationships with its customers through excellent service levels and through its rigorous selection and checking procedures which ensure that all contractors provided by the Group are fully compliant with the legal requirements

Uncertainties

- The recovery of the UK from recession may impact the Group in both positive and negative ways The core business model, with its emphasis on the food-production sector is considered relatively defensive as food consumption in the home should not be significantly impacted The recovery may provide some opportunities if clients seek to use temporary staff in lieu of replacing permanent employees The exposure to permanent recruitment is minimal as permanent appointments represent under 1% of Group sales
- Onerous changes in the regulatory framework, driven by potential European or UK legislation, could lead to greatly increased employment costs which might lead to a reduction in demand for our temporary workers

Going concern

In considering the ongoing funding requirements of the Group, the directors have prepared detailed cash flow forecasts extending to March 2012 and these indicate that the Group expects to be able to continue to operate within its existing bank facilities for the foreseeable future The Group enjoys a strong working relationship with its bank and had undrawn overdraft facilities of £7 5m at 31 December 2010 Coupled with a strong financial performance for the year ended 31 December 2010 and a strong start to 2011 the directors are of the view that it remains appropriate for the financial statements to be prepared on a going concern basis

Report on remuneration

For the year ended 31 December 2010

Remuneration Committee

The Company has a Remuneration Committee comprised of John Crabtree, who is the Chairman, Nicholas Keegan and Andy Hogarth Except as shareholders none of the members have any personal financial interest in the Group The Group's current policies are set out below

Policy on Executive Directors' remuneration

The Executive Directors' remuneration packages are designed to attract, motivate and retain Directors of the high calibre needed to help the Group successfully compete in its market place The Group's policies are to pay Executive Directors a salary at market levels for comparable jobs in the sector whilst recognising the relative size of the Group

The performance management of the Executive Directors and key members of senior management and the determination of their annual remuneration package is undertaken by the Remuneration Committee No Director plays a part in any decision about his or her own remuneration Executive Directors are permitted to accept appointments outside the Group subject to prior Board approval The remuneration packages for Andy Hogarth, Marshall Evans, Shaun Brittain and Tim Jackson are comprised of a basic salary and a performance related bonus as well as share-based payment schemes as described below

The remuneration of the Directors, which was all paid by Staffline Recruitment Limited, the Company's wholly owned subsidiary undertaking, was as follows

	A J Hogarth £'000	**M O Evans £'000**	**TD Jackson £'000**	**S Brittain £'000**	**N Keegan £'000**	**J Crabtree £'000**	**Total £'000**
2010							
Salary and fees	**178**	**121**	**109**	**115**	**33**	**43**	**599**
Bonus	**84**	**56**	**50**	**53**	**-**	**-**	**243**
Pension contributions	**17**	**11**	**10**	**10**	**-**	**-**	**48**
Benefits in kind	**1**	**2**	**1**	**1**	**-**	**-**	**5**
Share based employee remuneration	**10**	**7**	**8**	**8**	**-**	**-**	**33**
Total	**290**	**197**	**178**	**187**	**33**	**43**	**928**

	A J Hogarth £'000	M O Evans £'000	T D Jackson £'000	S Brittain £'000	N Keegan £'000	J Crabtree £'000	Total £'000
2009							
Salary and fees	170	116	97	102	31	39	555
Bonus	80	54	45	51	-	-	230
Pension contributions	16	11	9	9	-	-	45
Benefits in kind	1	2	1	1	-	-	5
Share based employee remuneration	1	1	1	1	-	-	4
Total	268	184	153	164	31	39	839

Basic salary

An individual's basic salary is reviewed by the Remuneration Committee each year and when an individual changes position or responsibility In deciding appropriate levels the Committee takes into account objective research on comparable companies and general market conditions

Annual bonus

Annual bonuses are paid at the discretion of the Remuneration Committee as an incentive and to reward performance during the financial year pursuant to specific performance criteria In exercising its discretion the Committee takes into account (amongst other things) performance against budget, performance against market expectations and brand building The Committee believes that incentive compensation should recognise the growth and profitability of the business, which are tied to the interests of shareholders

A total bonus of £243,000 has been accrued in respect of the Executive Directors in recognition of performance exceeding budget, in line with the Executive Bonus Scheme approved by the Remuneration Committee

Share Option Scheme

An employee share option scheme, the Staffline Recruitment Group plc Share Option Plan, was established by the Board in November 2004 However as the number of employees exceeds 250 the qualification criteria as an EMI scheme are no longer met so no further share options can be issued under the scheme

The share option scheme was available to all full time members of staff, with the exception of the Directors, subject to the rules of the scheme, the key points of which are as follows,

- only staff with in excess of six months service are eligible,
- the number of options granted is a factor of length of service and current salary,
- options are exercisable between two and seven years of being granted,
- except in certain limited circumstances all options lapse if an employee leaves the Group, and
- exercise of options is not subject to any specific performance criteria

Directors' share options

The share options issued to Andy Hogarth, Marshall Evans, Shaun Brittain, Tim Jackson and two other senior executives have different conditions which are detailed below

These share options have a performance condition based on the increase in reported Diluted Earnings per Share of the Group from the base of 10 7p in December 2008 to the achieved Diluted EPS in the year to December 2012 The award is scaled up to a maximum of 150,000 shares for a doubling of EPS

The share options can be exercised between three and seven years of being granted Details of the directors' share options are as follows

	Date of Grant	1 January 2010	Granted	Lapsed/ exercised	31 December 2010	Exercise price
A Hogarth	19 Oct 2009	150,000	-	-	150,000	47 5p
M Evans	19 Oct 2009	150,000	-	-	150,000	47 5p
S Brittain	19 Oct 2009	150,000	-	-	150,000	47 5p
T Jackson	19 Oct 2009	150,000	-	-	150,000	47 5p

On 9 November 2010 S Brittain exercised 18,200 share options under the Company's Approved Employee Share Option Plan at an average exercise price of £1 16 and sold the resulting ordinary shares on the market The market price on the date of exercise was £2 06 resulting in a gain on exercise of £16,183 S Brittain still holds options over 5,950 options in this Plan at a weighted average exercise price of £1 27

Joint Share Ownership Plan

During the year the Company established a Joint Share Ownership Plan (JSOP) to provide additional incentives to executive directors and two other senior executives

The directors acquired an interest in the shares jointly with the Staffline Group plc Employee Benefit Trust

	Award Date	Participation price	Interest over (number of shares)	Date on which exercisable
A Hogarth	06/09/2010	92p	306,863	30/06/2015
M Evans	06/09/2010	92p	145,400	30/06/2015
S Brittain	06/09/2010	92p	200,000	30/06/2015
T Jackson	06/09/2010	92p	205,000	30/06/2015

The JSOP interest runs from the date of the award until 30 June 2015 During this period the right to sell the JSOP award shares is not at the discretion of the directors but instead at the discretion of the Employee Benefit Trust On the eventual disposal of the shares, the amount received by the directors is calculated based on certain business performance conditions The eventual payment to the directors takes into account diluted EPS adjusted for amortisation of intangibles in any financial year up to 2014 (from a minimum of 24p to a maximum of 42p) and the share price at the date of disposal

Report on remuneration

For the year ended 31 December 2010

Policy on Non-Executive Directors' Remuneration

The remuneration of the Non-Executive Directors is determined by the Board and based upon independent surveys of fees paid to Non-Executive Directors of similar companies The Non-Executive Directors do not receive any benefits apart from their basic salaries or fees

Service contracts

Andy Hogarth, Marshall Evans, Shaun Brittain and Tim Jackson have rolling service contracts requiring notice from either party of one year Nick Keegan and John Crabtree each have contracts terminable on six months' notice given by either party

There are no contractual termination payments other than as a result of the contractual notice period

Pension arrangements

The Group has a defined contribution pension scheme with AXA for all permanent employees Executive Directors are entitled to receive a contribution from the Group equivalent to 10% of their basic salary into this or another scheme of their choice

Benefits in kind

The Group provides private medical insurance for Marshall Evans, Tim Jackson, Shaun Brittain and Andy Hogarth No other benefits in kind are provided to Directors

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STAFFLINE GROUP PLC

We have audited the group financial statements of Staffline Group plc for the year ended 31 December 2010 which comprise the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of financial position, the consolidated statement of cash flows and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement set out on page 11, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

OPINION ON FINANCIAL STATEMENTS

In our opinion the group financial statements

- give a true and fair view of the state of the group's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRS as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STAFFLINE GROUP PLC

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion

- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

OTHER MATTER

We have reported separately on the parent company financial statements of Staffline Group plc for the year ended 31 December 2010

Grant Thornton UK LLP

David Munton
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
BIRMINGHAM

Date: 28 February 2011

STAFFLINE GROUP PLC

Consolidated statement of comprehensive income

For the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Continuing operations			
Sales revenue	3	**206,158**	115,025
Cost of sales		**(183,017)**	(100,189)
Gross profit		**23,141**	14,836
Administrative expenses	4	**(16,032)**	(11,253)
Operating profit before amortisation of intangibles		**7,830**	3,725
Amortisation of intangibles		**(721)**	(142)
Profit from operations		**7,109**	3,583
Finance costs	5	**(126)**	(108)
Profit for the year before taxation		**6,983**	3,475
Tax expense	7	**(1,935)**	(1,030)
Net profit and total comprehensive income for the year		**5,048**	2,445
Total comprehensive income attributable to:			
Non-controlling interest		**(18)**	-
Owners of the parent		**5,066**	2,445
Earnings per ordinary share	8		
Basic		**23.7p**	11 5p
Diluted		**22.6p**	11 2p

The accompanying notes form an integral part of these financial statements

STAFFLINE GROUP PLC

Consolidated statement of changes in equity

For the year ended 31 December 2010

	Share capital £'000	Own shares JSOP £'000	Share premium £'000	Share based payment reserve £'000	Profit and loss account £'000	Total attributable to owners of parent £'000	Non-controlling interest £'000	Total equity £'000
At 1 January 2010	2,123	-	14,525	170	9,318	26,136	-	26,136
Dividends	-	-	-	-	(872)	(872)	-	(872)
Share options issued in equity settled share based payments	-	-	-	28	-	28	-	28
Share options exercised	15	-	179	-	-	194	-	194
Issue of new shares to Joint Share Ownership Plan	126	(1,157)	1,031	-	-	-	-	-
Transactions with owners	**2,264**	**(1,157)**	**15,735**	**198**	**8,446**	**25,486**	**-**	**25,486**
Profit for the period	-	-	-	-	5,066	5,066	(18)	5,048
Total comprehensive income for the period	-	-	-	-	5,066	5,066	(18)	5,048
Balance at 31 December 2010	**2,264**	**(1,157)**	**15,735**	**198**	**13,512**	**30,552**	**(18)**	**30,534**

	Share capital £'000	Own shares JSOP £'000	Share premium £'000	Share based payment reserve £'000	Profit and loss account £'000	Total attributable to owners of parent £'000	Non-controlling interest £'000	Total equity £'000
At 1 January 2009	2,123	-	14,525	149	7,489	24,286	-	24,286
Dividends	-	-	-	-	(616)	(616)	-	(616)
Share options issued in equity settled share based payments	-	-	-	21	-	21	-	21
Transactions with owners	2,123	-	14,525	170	6,873	23,691	-	23,691
Profit for the period	-	-	-	-	2,445	2,445	-	2,445
Total comprehensive income for the period	-	-	-	-	2,445	2,445	-	2,445
Balance at 31 December 2009	2,123	-	14,525	170	9,318	26,136	-	26,136

The accompanying notes form an integral part of these financial statements

STAFFLINE GROUP PLC

Consolidated statement of financial position

At 31 December 2010

	Note	2010 £'000	2009 £'000
Assets			
Non current			
Goodwill	9	**26,162**	25,422
Other intangible assets	10	**1,296**	726
Property, plant and equipment	11	**1,116**	725
		28,574	26,873
Current			
Trade and other receivables	12	**30,633**	18,609
Cash and cash equivalents	13	**1,871**	859
		32,504	19,468
Total assets		**61,078**	46,341
Liabilities			
Current			
Trade and other payables	14	**(23,328)**	(12,030)
Borrowings	15	**(2,395)**	(3,177)
Other current liabilities	16	**(1,544)**	(608)
Current tax liabilities		**(1,330)**	(627)
		(28,597)	(16,442)
Non current			
Borrowings	15	**(1,740)**	(2,639)
Other non current liabilities	16	**(207)**	(1,124)
Total liabilities		**(30,544)**	(20,205)
Equity			
Share capital	17	**(2,264)**	(2,123)
Own shares		**1,157**	-
Share premium		**(15,735)**	(14,525)
Share based payment reserve		**(198)**	(170)
Profit and loss account		**(13,512)**	(9,318)
		(30,552)	(26,136)
Non-controlling interest		**18**	-
Total equity		**(30,534)**	(26,136)
Total equity and liabilities		**(61,078)**	(46,341)

The financial statements were approved by the Board of Directors on 28 February 2011

A J Hogarth
Director

T D Jackson
Director

The accompanying notes form an integral part of these financial statements

STAFFLINE GROUP PLC

Consolidated statement of cash flows

For the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Cash flows from operating activities			
Profit before taxation		**6,983**	3,475
Adjustments for			
Finance costs		**126**	108
Depreciation, loss on disposal and amortisation		**871**	413
Operating profit before changes in working capital and provisions		**7,980**	3,996
Change in trade and other receivables		**(7,820)**	(2,804)
Change in trade and other payables		**9,203**	2,306
Cash generated from operations		**9,363**	3,498
Employee equity settled share options		**28**	21
Employee cash settled share options		**15**	-
Taxes paid		**(1,222)**	(774)
Net cash inflow from operating activities		**8,184**	2,745
Cash flows from investing activities			
Purchases of property, plant and equipment		**(471)**	(48)
Sale of property, plant and equipment		**68**	-
Acquisition of businesses – deferred consideration for prior acquisitions		**(592)**	-
Acquisition of businesses net of cash acquired		**(3,000)**	(1,000)
Acquisition of businesses – deferred consideration paid		**(693)**	-
Net cash used in investing activities		**(4,688)**	(1,048)
Cash flows from financing activities			
Repayment of bank and other loans		**(899)**	(906)
Interest paid		**(126)**	(108)
Dividends paid		**(872)**	(616)
Proceeds from the issue of share capital		**194**	-
Net cash flows from financing activities		**(1,703)**	(1,630)
Net change in cash and cash equivalents		**1,793**	67
Cash and cash equivalents at beginning of period		**(1,396)**	(1,463)
Cash and cash equivalents at end of period	13	**397**	(1,396)

The accompanying notes form an integral part of these financial statements

1 GENERAL INFORMATION

Staffline Group plc, a Public Limited Company is incorporated and domiciled in the United Kingdom The Company acts as the holding company of the Group The registered office and principal place of business of the Group and subsidiary company is disclosed on the directors and advisors page to these financial statements The Group's principal activity is disclosed on page 8

The financial statements for the year ended 31 December 2010 (including the comparatives for the year ended 31 December 2009) were approved by the board of directors on 28 February 2011

The Group does not have an ultimate controlling related party

2 ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements of Staffline Group plc and its subsidiary undertakings ('the Group') have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards as adopted by the EU and the International Financial Reporting Standards as issued by the International Accounting Standards Board

Separate financial statements of Staffline Group plc ('the Company') have been prepared, on pages 52 to 61, under the historical cost convention and in accordance with UK GAAP

Changes in accounting policy

Group Cash-settled Share-based Payment Transactions - Amendment to IFRS 2 (effective 1 January 2010)

The Group has introduced a cash-settled share-based payment scheme for the first time during the year It has therefore adopted the amendment to IFRS 2 which clarifies the accounting for cash-settled share-based payment transactions in a group situation, requiring the entity which has the obligation to settle the transaction with the employees to account for the transactions as cash-settled, whilst the subsidiary company, which benefits from the services provided, but does not have an obligation to settle the transaction with employees, accounts for the transactions as equity-settled share-based payment transactions

Adoption of IFRS 3 Business Combinations (revised 2008)

The revised standard on business combinations (IFRS 3R) introduced major changes to the accounting requirements for business combinations It retains the major features of the purchase method of accounting, now referred to as the acquisition method The most significant changes in IFRS 3R that had an impact on the Group's acquisitions in 2010 are as follows

(a) acquisition-related costs of the combination are recorded as an expense in the profit or loss Previously, these costs would have been accounted for as part of the cost of the acquisition

(b) any contingent consideration is measured at fair value at the acquisition date If the contingent consideration arrangement gives rise to a financial liability, any subsequent changes are generally recognised in profit or loss Previously, contingent consideration was recognised only once its payment was probable and changes were recognised as an adjustment to goodwill

IFRS 3R has been applied prospectively to business combinations for which the acquisition date is on or after 1 January 2010 For the year ended 31 December 2010, the adoption of IFRS 3R has affected the accounting for the

Group's acquisitions by recognising expenses related to acquisition costs of £73,000 in the Consolidated Statement of Comprehensive Income. Previously these costs would have been included within the fair value of consideration paid Business combinations for which the acquisition date is before 1 January 2010 have not been restated

Adoption of IAS 27 Consolidated and Separate Financial Statements (revised 2008)

The adoption of IFRS 3R required that the revised IAS 27 (IAS 27R) is adopted at the same time IAS 27R introduced changes to the accounting requirements for transactions with non-controlling (formerly called 'minority') interests and the loss of control of a subsidiary These changes are applied prospectively During the year, the group established a subsidiary, House of Logistics Limited, of which it owns 51% of the share capital, thereby creating a non-controlling interest The revisions to IAS 27 require that the non-controlling interest is recognised even when this results in the non-controlling interest having a deficit balance Previously the non-controlling interest would not have been recognised in the 31 December 2010 financial statements due to the deficit balance recognised

The principal accounting policies of the Group are set out below

Consolidation of subsidiaries

Subsidiaries are all entities over which the Group has the power to control the financial and operating policies The Group obtains and exercises control through voting rights The consolidated financial statements of the Group incorporate the financial statements of the parent company as well as those entities controlled, to obtain economic benefit, by the Group by full consolidation

In addition, acquired subsidiaries are subject to application of the acquisition method This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at these fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies

Material intra-group balances and transactions, and any unrealised gains or losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements

Revenue recognition

Income from the provision of temporary contractors is recognised at the end of the completed working week Income from permanent placements is recognised when the candidates start work Income from training provision is recognised evenly across the period of the training Revenue represents sales to outside customers at invoiced amounts less value added tax

Goodwill

Goodwill represents the excess of the fair value of the cost of a business acquisition over the Group's share of the fair value of assets and liabilities acquired as at the date of acquisition Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses

Impairment

Goodwill, other intangible assets and property, plant and equipment are subject to impairment testing

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units) As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows

Individual intangible assets or cash-generating units that include goodwill with an indefinite useful life are tested for impairment at least annually All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist

Intangible assets

Assets acquired as part of a business combination

In accordance with IFRS 3 Business Combinations, an intangible asset acquired in a business combination is deemed to have a cost to the Group of its fair value at the acquisition date The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group An independent valuation is undertaken in order to assess the fair value of intangible assets acquired in a business combination The fair value is then amortised over the economic life of the asset as detailed below Where an intangible asset might be separable, but only together with a related tangible or intangible asset, the group of assets is recognised as a single asset separately from goodwill where the individual fair values of the assets in the group are not reliably measurable Where the individual fair values of the complementary assets are reliably measurable, the Group recognises them as a single asset provided the individual assets have similar useful lives

Customer contracts

The fair value of acquired customer contracts is capitalised and, subject to impairment reviews, amortised over the estimated life of the customer contracts acquired (estimated to be 2 years) The amortisation is calculated so as to write off the fair value of the customer contracts less their estimated residual values An impairment review of customer contracts is undertaken when events or circumstances indicate the carrying amount may not be recoverable

Certificates and Accreditations, and favourable service agreement

The fair value of acquired certificates and accreditations and of the favourable service agreement is capitalised and is subject to impairment reviews and amortised over the estimated life of the assets acquired (estimated to be 2 years) The amortisation is calculated so as to write off the fair value of the certificates and accreditations less their estimated residual values An impairment review of certificates and accreditations is undertaken when events or circumstances indicate the carrying amount may not be recoverable

Property, plant and equipment

Freehold land and property, computer equipment and fixtures and fittings are carried at acquisition cost less subsequent depreciation and impairment losses Depreciation is charged on the cost less estimated residual value, which is assessed annually, of these assets on a straight line basis over the estimated useful economic life of each asset

The useful lives of property, plant and equipment can be summarised as follows

Freehold buildings	50 years
Computer equipment	3 years
Fixtures and fittings	3 years
Motor vehicles	25% reducing balance

Leases

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any, to be borne by the lessee

All other leases are treated as operating leases Payments on operating lease agreements are recognised as an expense on a straight-line basis Associated costs, such as maintenance and insurance, are expensed as incurred The Group does not act as a lessor

In December 2007, the Group completed the purchase, sale and leaseback of a new Headquarters building for a purchase price of £1,455,000 and a sale price of £1,727,000, less costs of £101,000, which is considered by management to be above fair value In accordance with IAS 17 the excess of proceeds over fair value was deferred and is being amortised over the remaining lease term (10 years) The subsequent leasing agreement, which has been considered separately for the land and buildings element, is treated in accordance with the Group's existing operating lease accounting policy as detailed above

Taxation

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year

Deferred income taxes are calculated using the liability method on temporary differences This involves the comparison of the carrying amounts of assets and liabilities in the consolidated financial statements with their respective tax bases However, in accordance with the rules set out in IAS 12, no deferred taxes are recognised on the initial recognition of goodwill This applies also to temporary differences associated with shares in subsidiaries if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets

Deferred tax liabilities are provided for in full if material Deferred tax assets are recognised if it is probable that they will be able to be offset against future taxable income Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date

Most changes in deferred tax assets or liabilities are recognised as a component of tax expense in the profit or loss Only changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities that are charged directly to equity are charged or credited directly to equity

Pensions

Pensions to employees are provided through defined contributions to individual personal pension plans A defined contribution plan is a pension plan under which the Group pays fixed contributions to an independent entity The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution

Contributions of £254,000 (2009 £201,000) recognised in respect of personal pension plans are expensed as they fall due Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature

Financial assets

The Group's financial assets include cash, trade receivables and other receivables

All financial assets are initially recognised at fair value, plus transaction costs They are subsequently included at amortised cost using the effective interest rate method

Interest and other cash flows resulting from holding financial assets are recognised in the profit or loss when receivable, regardless of how the related carrying amount of financial assets is measured

Trade receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables

Cash and cash equivalents

For the purposes of the cashflow statement, cash and cash equivalents include cash at bank and in hand, overdrafts and short term highly liquid investments such as bank deposits less advances from banks repayable within three months from the date of advance

Equity

An equity investment is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities

Share capital is determined using the nominal value of shares that have been issued

Own shares is determined using the nominal value of shares that were issued to the Employee Benefit Trust in relation to the Joint Share Ownership Plan (JSOP) This Trust is controlled by the Group and therefore consolidated, resulting in the 'Own shares' deducted from equity

The share premium account represents premiums received on the initial issuing of the share capital Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits

The share based payment reserve represents the value of shares provided under share based payment arrangements

The profit and loss account includes all current and prior period results as disclosed in the statement of comprehensive income

Share based employee remuneration

All share based payment arrangements are recognised in the consolidated financial statements The Group operates equity settled and cash settled share based remuneration plans for remuneration of its employees

Equity settled share based remuneration

All employee services received in exchange for the grant of any share based remuneration are measured at their fair values These are indirectly determined by reference to the fair value of the share options awarded Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets)

All share based remuneration is ultimately recognised as an expense in the profit or loss with a corresponding credit to the share based payment reserve, net of deferred tax where applicable If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates No adjustment is made to the expense recognised in prior periods if fewer share options ultimately are exercised than originally estimated

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as share premium

Cash settled share based remuneration

The Group has issued cash settled share based payments in respect of services provided by key employees The share based payment is measured at fair value at the grant date and remeasured at fair value at each subsequent balance sheet date Where the fair value of the services provided cannot reliably be measured, the fair value of the liability is used and the expense allocated over the vesting period A financial liability is recognised for the fair value of the share based payments and remeasured at the end of each reporting period and at settlement with any changes to the fair value recognised through the statement of comprehensive income

Financial liabilities

The Group's financial liabilities include bank loans, an overdraft facility, trade and other payables, including liabilities for share-based payments, and other liabilities, which include deferred contingent consideration payable in respect of business acquisitions

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument All interest related charges are recognised as an expense in "Finance Cost" in the statement of comprehensive income

Bank loans are raised for support of long term funding of the Group's operations They are recognised at proceeds received, net of direct issue costs Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the profit or loss on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise

Trade payables are recognised initially at their fair value and subsequently measured at amortised cost less settlement payments

Dividend distributions to shareholders are included in 'other short term financial liabilities' when the dividends are approved by the shareholders' meeting

Other provisions, contingent liabilities and contingent assets

Other provisions are recognised when present obligations will probably lead to an outflow of economic resources from the Group and they can be estimated reliably The timing or amount of the outflow may still be uncertain A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts

Provisions are measured as the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the balance sheet date, including the risks and uncertainties associated with the present obligation Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole In addition, long term provisions are discounted to their present values, where time value of money is material

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognised in the consolidated statement of financial position

Probable inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets and therefore not recognised

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future The resulting accounting estimates will, by definition, seldom equal actual results The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting year are as follows

Impairment of goodwill

The annual impairment assessment in respect of goodwill requires estimates of the value-in-use of cash generating units to which goodwill has been allocated to be calculated As a result, estimates of future cashflows are required, together with an appropriate discount factor for the purpose of determining the present value of those cashflows The basis of review of the carrying value of goodwill is as detailed in note 9

Deferred contingent consideration

As part of the acquisition process a forecast is prepared which projects the financial performance of the business over the expected earnout period These forecasts are reviewed and updated based on actual performance Part of the cost of the acquisition is dependent on the trading performance of the acquired business following the transaction The deferred contingent consideration is based on these estimates of the future performance of the acquired business The deferred contingent consideration is classified as a financial liability, measured at amortised cost with any changes in estimated value recognised in profit and loss

Business combinations

On initial recognition, the assets and liabilities of the acquired business and the consideration paid for them are included in the consolidated financial statements at their fair values In measuring fair value, management uses estimates of future cash flows and discount rates Any subsequent change in these estimates would affect the amount of goodwill if the change qualifies as a measurement period adjustment Any other change would be recognised in the income statement in the subsequent period Details of acquired assets and liabilities assumed are given in note 18

Critical judgments in applying the Group's accounting policies

The Directors do not consider they have had to make any critical judgements in applying the accounting policies which are described above

Adoption of new or amended IFRS

The Group has not early adopted the following new standards, amendments or interpretations that have been issued but are not yet effective The Directors anticipate that the adoption of these standards will not result in significant changes to the Group's accounting policies The Group has commenced its assessment of the impact of these standards but it is not yet in a position to state whether these standards would have a material impact on its results of operations and financial position

IFRS 9	Financial Instruments	Effective for annual periods beginning on or after 1 January 2013
IAS 24	Related Party Disclosures (Revised 2009)	Effective for annual periods beginning on or after 1 January 2011
	Annual Improvements to IFRS issued May 2010	Effective for annual periods beginning on or after 1 June 2010 and 1 January 2011

3 SEGMENTAL REPORTING

(a) By business segment (primary segment)

As defined under IFRS 8, the only material business segment the Group has is that of providing temporary staff to customers The placement of permanent staff to customers and the Group's training business both contribute less than 10% of Group total revenue, profit and assets The sales revenue is from the rendering of services The financial information reviewed by the board is materially the same as that reported under IFRS

(b) By geographical segment (secondary segment)

Under the definitions contained in IFRS 8, the only material geographic segment that the Group operates in is the United Kingdom

The Group has reviewed the requirement for segmental reporting and does not believe that any of its business segments require separate disclosure An initial review was done last year end and it was believed that segmental reporting might be required for Peter Rowley Limited, the Group's training business, however the integration of this business and the growth in the remaining balance of the business has negated the requirement for this reporting as Peter Rowley constitutes an immaterial proportion of the total business

During 2010, one customer contributed greater than 10% of the group's revenues being £21,659,000 (10 5% of total revenues) (2009 no customers greater than 10%)

4 ADMINISTRATIVE EXPENSES

	2010 £'000	2009 £'000
Employee benefits expenses (note 6)	10,469	8,071
Depreciation and amortisation	866	413
Other expenses	4,697	2,769
	16,032	11,253

Auditors' remuneration in their capacity as auditors of the parent company is £7,000 (2009 £7,000) and in their capacity as auditor of subsidiary companies is £49,000 (2009 £25,000) Non-audit remuneration in respect of tax compliance services totalled £9,500 (2009 £4,000) and in respect of other advice totalled £36,000 (2009 £10,275)

5 FINANCE COSTS

	2010 £'000	2009 £'000
Interest payable on bank and other loans and overdraft	126	108

6 DIRECTORS AND EMPLOYEES REMUNERATION

Employee benefits expense

Expense recognised for employee benefits is analysed below

	2010 £'000	2009 £'000
Wages and salaries	9,190	7,093
Social security costs	982	756
Other pension costs - defined contribution plans	254	201
Share option charge - equity settled	28	21
- cash settled	15	-
	10,469	8,071

	Number	Number
The average number of persons (including directors) employed by the Group during the year was	291	208

Directors' remuneration

The remuneration of the Directors, which was all paid by Staffline Recruitment Limited, the Company's wholly owned subsidiary undertaking, was as follows

	A J Hogarth £'000	M O Evans £'000	TD Jackson £'000	S Brittain £'000	N Keegan £'000	J Crabtree £'000	Total £'000
2010							
Salary and fees	178	121	109	115	33	43	599
Bonus	84	56	50	53	-	-	243
Pension contributions	17	11	10	10	-	-	48
Benefits in kind	1	2	1	1	-	-	5
Share based employee remuneration	10	7	8	8	-	-	33
Total	290	197	178	187	33	43	928

	A J Hogarth £'000	M O Evans £'000	T D Jackson £'000	S Brittain £'000	N Keegan £'000	J Crabtree £'000	Total £'000
2009							
Salary and fees	170	116	97	102	31	39	555
Bonus	80	54	45	51	-	-	230
Pension contributions	16	11	9	9	-	-	45
Benefits in kind	1	2	1	1	-	-	5
Share based employee remuneration	1	1	1	1	-	-	4
Total	268	184	153	164	31	39	839

Share based employee remuneration

Approved Employee Share Option Plan

As at 31 December 2010 the Group operated a share based payment scheme for certain employees However as the number of employees now exceeds 250 the qualification criteria for an EMI scheme are no longer met so no further share options can be issued under the scheme

The share option scheme was available to all full time members of staff, with the exception of the Directors, subject to the rules of the scheme, the key points of which are as follows,

- only staff with in excess of six months service are eligible,
- the number of options granted is a factor of length of service and current salary,
- options are exercisable between two and seven years of being granted,
- except in certain limited circumstances all options lapse if an employee leaves the Group, and
- exercise of options is not subject to any specific performance criteria

Performance Related Share Option Plan

The share options issued to Andy Hogarth, Marshall Evans, Shaun Brittain, Tim Jackson and two other senior executives have different conditions which are detailed below

These share options have a performance condition based on the increase in reported Diluted Earnings per Share of the Group from the base of 10 7p in December 2008 to the achieved Diluted EPS in the year to December 2012 The award is scaled up to a maximum of 150,000 shares for a doubling of EPS

The share options can be exercised between three and seven years of being granted

Except as noted under the Joint Share Option Plan below, all share based employee remuneration will be settled in equity The Group has no other legal or constructive obligation to repurchase or settle the options in cash

Share options and the weighted average exercise price are as follows for the reporting periods presented

	2010		2009	
	Number	**Weighted average exercise price (pence)**	Number	Weighted average exercise price (pence)
Outstanding at start of period	**1,396,618**	**69**	766,075	108
Granted	**-**	**-**	978,798	48
Lapsed	**(59,868)**	**(104)**	(348,255)	(96)
Exercised	**(148,951)**	**(111)**	-	-
Outstanding at end of period	**1,187,799**	**62**	1,396,618	69

The Group has the following outstanding share options and exercise prices

	2010			2009		
	Number	**Weighted average exercise price (pence)**	**Weighted average contractual life (months)**	Number	Weighted average exercise price (pence)	Weighted average contractual life (months)
Date exercisable and (option life)						
2006 (up to 2011)	**8,435**	**80**	-	27,650	80	-
2007 (up to 2012)	**20,966**	**97**	-	51,784	97	-
2008 (up to 2013)	**35,686**	**125**	-	80,211	125	-
2009 (up to 2014)	**78,156**	**158**	-	118,918	157	-
2010 (up to 2015)	**75,174**	**92**	-	139,257	92	6
2011 (up to 2016)	**69,382**	**55**	**9**	78,798	54	21
2013 (up to 2016)	**900,000**	**48**	**21**	900,000	47	33

Share options have exercise prices between 47 5p and 174p The weighted average share price during the year was 117p (2009 46p)
During the year, options over 148,951 ordinary shares (2009 nil) were exercised and the market price on the date of exercise was 206p

The number of share options exercisable at the end of the year was 218,417 (2009 278,563) The weighted average price of the options exercisable at the end of the year was 121p (2009 129p)

The fair value of options granted was determined using the Black-Scholes valuation model Significant inputs into the calculations were

- share price at date of grant
- exercise prices as detailed above
- 30% (2009 30%) volatility based on expected and historical share price
- a risk free interest rate of 4% (2009 4%)
- all options are assumed to be exercised after two years from the date of grant of the options (with the exception of the Directors and senior managers options which are expected to vest after three years)
- dividends in line with current levels

Joint Share Ownership Plan

During the year the Company established a Joint Share Ownership Plan (JSOP) to provide additional incentives to executive directors and two other senior executives

The directors and employees acquired an interest in the shares jointly with the Staffline Group plc Employee Benefit Trust

The JSOP interest runs from the date of the award until 30 June 2015 During this period the right to sell the JSOP award shares is not at the discretion of the directors but instead at the discretion of the Employee Benefit Trust On the eventual disposal of the shares, the amount received by the directors is calculated based on certain business performance conditions The eventual payment to the directors takes into account diluted EPS adjusted for amortisation of intangibles in any full year up to 2014 (from a minimum of 24p to a maximum of 42p) and the share price at the date of disposal

The JSOP is settled in cash and therefore accounted for as a cash settled scheme

The fair value of the liability was determined using the Black-Scholes valuation model Significant inputs into the calculations were

- share price at date of grant
- exercise prices as detailed above
- 30% (2009 30%) volatility based on expected and historical share price
- a risk free interest rate of 4% (2009 4%)
- disposal of shares and settlement of scheme on 30 June 2015

Whilst the Black-Scholes model was considered appropriate in the current year due to the immateriality of the charge associated with the JSOP, in future years a Monte Carlo or Binomial model will be used to value the liability

Share-based employee remuneration

In total £43,000 of employee remuneration expense has been included in the consolidated statement of comprehensive income for the year ended 31 December 2010 (2009 £21,000) which increased the share based payment reserve by £28,000 in respect of equity settled schemes and created a liability of £15,000 in respect of cash settled schemes

Key management personnel

The key management are considered to be the Board of Directors of Staffline Group plc, whose remuneration can be seen within note 6 on page 35

7 TAX EXPENSE

The relationship between the expected tax expense at 28% and the tax expense actually recognised in the statement of comprehensive income can be reconciled as follows

	2010		2009	
	£'000	%	£'000	%
Result for the year before tax	**6,983**		3,475	
Tax rate	**28.0%**		28 0%	
Expected tax expense	**1,955**	**28.0**	973	28 0
Adjustment for non-deductible expenses relating to short term temporary differences	**26**		30	
Other non-deductible expenses	**44**		27	
Adjustment in respect of previous year	**(90)**		-	
Actual tax expense	**1,935**	27.7	1,030	29 6
Tax expense comprises:				
Current tax expense	**1,935**		1,030	

There is no tax expense or credit in relation to the share based payment reserve credited to equity

8 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year, after deducting any own shares (JSOP) The calculation of the diluted earnings per share is based on the basic earnings per share adjusted to allow for all dilutive potential ordinary shares

Details of the earnings and weighted average number of shares used in the calculations are set out below

	Basic		**Diluted**	
	2010	2009	**2010**	2009
Earnings (£'000)	**5,048**	2,445	**5,048**	2,445
Weighted average number of shares	**21,254,988**	21,229,081	**22,369,807**	21,854,101
Earnings per share (pence)	**23.7p**	11 5p	**22.6p**	11 2p

The weighted average number of shares has been increased by 1,114,819 (2009 625,020) shares to take account of all dilutive potential ordinary shares that could be issued under the share option scheme and all shares issued during the year excluding own shares

Dividends

During the year, Staffline Group plc paid interim dividends of £508,808 (2009 £297,207) to its equity shareholders This represents a payment of 2 4p (2009 1 4p) per share A final dividend of £812,612 has been proposed (2009 £360,894) but has not been accrued within these financial statements This represents a payment of 3 8p (2009 1 7) per share The final dividend for 2009 was declared and paid in 2010

9 GOODWILL

Gross carrying amount	**£'000**
At 1 January 2009	24,181
Additions	1,241
At 31 December 2009	25,422
Additions	1,217
Revisions to previous estimates	(477)
At 31 December 2010	**26,162**

The revision to previous estimates relates to a reduction in deferred contingent consideration due to the vendors of Peter Rowley Limited based on revised trading expectations

Goodwill above relates to the following acquisitions

	Date of acquisition	Original cost £'000
Staffline Recruitment Limited	8 December 2004	22,326
Onsite Partnership Limited	16 March 2007	1,855
Peter Rowley Limited	1 December 2009	764
A La Carte Recruitment Limited	17 May 2010	621
Qubic Recruitment Solutions Limited	5 November 2010	596
		26,162

Goodwill arising on consolidation, representing the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired, is capitalised and is tested annually for impairment

Following acquisition, each of the businesses have been, or are in the process of being, fully integrated into the core business of the group Therefore, management consider there to be only one cash generating unit, and have tested this cash generating unit for impairment This represents a change from the prior year, as the Peter Rowley business has been fully integrated into Staffline Recruitment Limited during the year The total net book value of other intangible assets allocated to this cash generating unit is £1,296,000

The recoverable amount of goodwill was determined based on a value-in-use calculation, covering a detailed one year forecast, followed by an extrapolation of expected cash flows over the next nine years at a growth rate of 5%, and a pre-tax discount rate of 11% based on weighted average cost of capital The growth rate used does not exceed the long term average growth rate for the market in which the Group operates Management have used a forecast period of ten years as they feel this represents the minimum period over which the business model they have developed is sustainable Management's key assumptions for all businesses include assumptions that there will be no significant changes in the business and that turnover and profit growth will be below historic levels Management have considered internal and external market data in setting their assumptions

Apart from the considerations described in determining the value-in-use of the cash generating unit above, the Group's management is not currently aware of any other probable changes that would necessitate changes in its key estimates

The directors do not believe that any reasonably possible changes in the assumptions used in calculating the value-in-use would result in the recoverable amount of goodwill falling below the carrying value and impairment becoming necessary

10 OTHER INTANGIBLE ASSETS

The Group's other intangible assets include the customer contracts obtained through the acquisition of Onsite Partnership Limited, Peter Rowley Limited, The Workplace, La Gente Recruitment, A La Carte Recruitment Limited and Qubic Recruitment Solutions Limited The expected remaining useful life of these assets is 0 - 2 years The carrying amounts for the financial year under review can be analysed as follows

	Other intangible assets £'000
Gross carrying amount	
At 1 January 2009	216
Additions through business combinations	843
At 31 December 2009	1,059
Additions through business combinations	1,291
At 31 December 2010	**2,350**
Amortisation	
At 1 January 2009	191
Provided in the year	142
At 31 December 2009	333
Provided in the year	721
At 31 December 2010	**1,054**
Net book amount at 31 December 2010	**1,296**
Net book amount at 31 December 2009	726

Deferred tax arising on the intangible asset balance is not considered to be material to the Group

11 PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings £'000	Computer equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Gross carrying amount					
At 1 January 2009	600	1,918	271	-	2,789
Additions - through business combination	-	-	40	-	40
Additions	-	37	4	-	41
At 31 December 2009	**600**	**1,955**	**315**	-	**2,870**
Additions	-	466	5	-	471
Additions - through business combination	-	9	11	118	138
Disposals	-	(1,840)	(174)	(73)	(2,087)
At 31 December 2010	**600**	**590**	**157**	**45**	**1,392**
Depreciation					
At 1 January 2009	-	1,697	201	-	1,898
Provided in the year	24	156	67	-	247
At 31 December 2009	**24**	**1,853**	**268**	-	**2,145**
Provided in year	12	103	30	4	149
Disposals	-	(1,840)	(174)	(4)	(2,018)
At 31 December 2010	**36**	**116**	**124**	-	**276**
Net book amount at 31 December 2010	**564**	**474**	**33**	**45**	**1,116**
Net book amount at 31 December 2009	576	102	47	-	725

All assets stated above are secured against bank loans outstanding at the year end

12 TRADE AND OTHER RECEIVABLES

	2010 £'000	2009 £'000
Trade and other receivables	**30,476**	18,452
Amount due from directors	**157**	157
Total trade and other receivables	**30,633**	18,609

Trade and other receivables are usually due within 14 - 30 days and do not bear any effective interest rate All trade receivables are subject to credit risk exposure The Group does not identify specific concentrations of credit risk with regards to trade and other receivables as the amounts recognised represent a large number of receivables from various customers

The fair value of these short term financial assets is not individually determined as the carrying amount is a reasonable approximation of fair value

Some of the unimpaired trade receivables are past due as at the reporting date The age of financial assets past due but not impaired, is as follows

	2010 £'000	2009 £'000
Not more than three months	5,490	3,539
More than three months but no more than six months	8	21
	5,498	3,560

On 20 October and 22 November 2008 the Group was required to settle a tax liability totalling £156,874, which arose in relation to a share transfer to Andy Hogarth, a director of the Group, by a third party This liability was indemnified by Andy Hogarth but has not as yet been reimbursed to the Group Until this indemnity has been satisfied, there is a lockout over 1,000,000 ordinary shares in the Group which are owned by Andy Hogarth, and the share certificates have been lodged with the company's solicitors The Group can call upon the indemnity at any time but does not anticipate doing so until 30 September 2011 at the earliest Interest is payable on the indemnity at 1% above the rate paid by the Group on its senior debt Any dividends paid on the 1,000,000 ordinary shares, held as security for the indemnity, will be used to settle any interest payable in respect of the provision of the indemnity

13 CASH AND CASH EQUIVALENTS

	2010 £'000	2009 £'000
Cash and cash equivalents	1,871	859
Bank overdraft (see note 15)	(1,474)	(2,255)
Cash and cash equivalents per cashflow statement	397	(1,396)

Cash and cash equivalents consist of cash on hand and balances with banks only At the year end £1,871,000 (2009 £859,000) of cash on hand and balances with banks were held by subsidiary undertakings, however this balance is available for use by the Company

14 TRADE AND OTHER PAYABLES

	2010 £'000	2009 £'000
Trade and other payables	23,328	12,030

The fair value of trade and other payables has not been separately disclosed as, due to their short duration, the Directors consider the carrying amounts recognised in the balance sheet to be a reasonable approximation of their fair value

15 BORROWINGS

Bank loans and overdrafts are repayable as follows

	2010 £'000	2009 £'000
In one year or less or on demand	**2,395**	3,166
In more than one year but not more than two years	**1,120**	921
In more than two years but not more than three years	**598**	1,133
In more than three years but not more than four years	**61**	598
In more than four years but not more than five years	**25**	61
In more than five years but not more than six years	**-**	25
	4,199	5,904
Debt issue costs	**(64)**	(88)
	4,135	5,816
Split		
Current liabilities		
Bank loans	**921**	921
Overdraft	**1,474**	2,256
	2,395	3,177
Non current liabilities		
Bank loans	**1,740**	2,639
	4,135	5,816

The bank loans and overdrafts are secured by a debenture over all the assets of the Group The first bank loan is repayable in 12 equal quarterly instalments of £215,000 to 31 December 2011 then five equal quarterly instalments of £268,000 plus one final payment of £269,000 on 30 June 2013 Interest accrues on the loan at 1% (2009 1 0%) above base rate

The second bank loan is secured by a first legal charge over a freehold property and is repayable in 120 monthly capital and interest payments of £5,830 until 20 June 2015 Interest accrues on the loan at 1 5% (2009 1 5%) above base rate

During the period repayments totalling £898,000 were made against the bank loans The bank loans contain various covenants which, if breached, could lead to the loans becoming payable on demand The relevant covenants have all been satisfied in 2009 and 2010

On the basis of discounting the future loan repayments at a rate of 5% the theoretical fair value of the bank and other loans is £2,467,000 at 31 December 2010 (2009 £3,032,000) Fair values of the bank and other loans have been determined by calculating the present values at the balance sheet date of the future cashflows, using fixed effective market interest rates available to the Group

16 OTHER LIABILITIES

Due within one year	2010 £'000	2009 £'000
Deferred income	17	17
Deferred consideration	1,527	591
	1,544	608
Due in greater than one year		
Deferred income	107	120
Deferred consideration	100	1,004
	207	1,124

The deferred income relates to the new head office building for the Group which was subject to a sale and lease back transaction in December 2007, with a sales price above fair value The excess of proceeds over fair value has been deferred and is being amortised over the remaining lease term The subsequent leasing agreement is treated as an operating lease See note 20 for further information relating to details on the Group's operating lease agreements

The deferred consideration relates to the guaranteed and contingent consideration due on the acquisitions of A La Carte Recruitment Limited and Qubic Recruitment Solutions Limited See note 18 for further details on the deferred consideration

17 SHARE CAPITAL

	2010 £'000	2009 £'000
Authorised		
30,000,000 ordinary 10p shares	3,000	3,000
Allotted and issued		
22,641,788 (2009 21,229,081) ordinary 10p shares	2,264	2,123

	Ordinary 10p shares Year ended 31 December 2010	Year ended 31 December 2009
Shares issued and fully paid at the beginning of the period	21,229,081	21,197,520
Shares issued but not fully paid	-	31,561
Share issued during the year	1,412,707	-
Shares issued	22,641,788	21,229,081
Shares authorised but unissued	7,358,212	8,770,919
Total equity shares authorised at end of period	30,000,000	30,000,000

All ordinary shares have the same rights and there are no restrictions on the distribution of dividends or repayment of capital

Shares totalling 13,286 (2009 31,561) were not fully paid at 31 December 2010 The shares issued but not fully paid will become fully paid on the completion of their sale to a third party

18 BUSINESS COMBINATIONS

Acquisitions

The Group purchased 100% of the share capital of A La Carte Recruitment Limited and Qubic Recruitment Solutions Limited and the trade and assets of DKM Labour Solutions during the year for a total estimated consideration (before costs) of £6,121,000 An adjustment was required to the book values of the assets and liabilities of the businesses acquired in order to present the net assets at fair values in accordance with group accounting policies The purchases were accounted for as acquisitions Post-acquisition contribution to the group's profit was a profit of £564,000 Post-acquisition contribution to the group's revenue was £21,676,000 If the acquisitions had been made on 1 January 2010, profit after tax of the group would have been £5,499,000 and revenue would have been £221,315,000

The aggregated fair values of the assets and liabilities acquired, together with the fair value of the consideration paid, can be summarised as follows

	Book value at acquisition £'000	Fair value adjustment £'000	Provisional fair value to group £'000
Intangible assets – customer contracts	-	1,262	1,262
Intangible assets – favourable service agreements	-	29	29
Fixtures and fittings	138	-	138
Trade and other receivables	4,204	-	4,204
Cash at bank	1,340	-	1,340
Trade and other payables	(1,989)	(91)	(2,080)
Deferred tax	11	-	11
Net assets	3,704	1,200	4,904
Goodwill			1,217
			6,121
Satisfied by.			
Cash			4,340
Guaranteed deferred consideration			445
Contingent deferred consideration			1,336
			6,121

Identifiable net assets
The fair value of the trade and other receivables acquired as part of the business combinations amounted to £4,204,000, with a gross contractual amount of £4,354,000 As of the acquisition date, the Group's best estimate of the contractual cash flow not expected to be collected amounted to £150,000

Goodwill
Goodwill of £1,217,000 is primarily related to growth expectations, expected future profitability, the skill and expertise of the acquired workforce, and expected cost synergies The goodwill that arose from these business combinations is not expected to be deductible for tax purposes

Contingent deferred consideration

For two of the businesses acquired, an element of the consideration is dependent on future profits of the acquired businesses The amount of contingent deferred consideration has been estimated using forecast income statements for the coming period, taking into account management estimates of future performance The total consideration for the three businesses acquired is capped at £7 64 million, therefore the possible (undiscounted) range of the contingent consideration is from nil to £2 855m Contingent deferred consideration is classified as a financial liability, measured at amortised cost with any changes in estimated value recognised in profit and loss

All of the guaranteed deferred consideration and £248k of the contingent deferred consideration was paid during the year to 31 December 2010

19 RELATED PARTY TRANSACTIONS

The only related parties are the Group's Directors

Transactions with Group Directors

The Group Directors' personal remuneration includes the following expenses

	2010 £'000	2009 £'000
Short-term employee benefits		
Salaries and fees	**599**	555
Bonus - unpaid	**243**	230
Social security costs	**128**	82
Pension contributions	**48**	45
Share based employee remuneration	**33**	4
Benefits in kind	**5**	5
	1,056	921

Details of amounts due from directors are included in note 12

20 OPERATING LEASES

The Group's aggregate minimum operating lease payments for the full remaining lives of the leases are as follows

	2010	2009	
	Land and buildings	Vehicles	Land and buildings
	£'000	£'000	£'000
In one year or less	**10**	9	33
Between one and five years	**345**	-	178
In five years or more	**816**	-	933
	1,171	9	1,144

Lease payments recognised as an expense during the year ended 31 December 2010 amounted to £328,000 (2009 £402,000)

Operating lease agreements do not contain any contingent rent clauses None of the operating lease agreements contain renewal or purchase options or escalation clauses or any restrictions regarding dividends, future leasing or additional debt No sub-lease income is due as all assets held under lease agreements are used exclusively by the Group

21 CONTINGENCIES

The Group had no contingent assets or liabilities at 31 December 2010 or 31 December 2009

22 CAPITAL COMMITMENTS

The Group had no capital commitments at 31 December 2010 or 31 December 2009

23 POST BALANCE SHEET EVENT

On 4 January 2011 the Group acquired the trade and assets of Kelburn Industrial, an industrial agency based in Newcastle It has been acquired for a small upfront payment and a profit related payment over the following 12 months This acquisition is not considered to be material to the Group

24 RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks through its use of financial instruments which result from both its operating and investing activities The Group's risk management is coordinated at its headquarters, in close co-operation with the Board of Directors

The Group does not actively engage in the trading of financial assets for speculative purposes The most significant financial risks to which the Group is exposed are described below

Credit risk

Generally, the Group's maximum exposure to credit risk is limited to the carrying amount of the financial assets recognised at the balance sheet date, as summarised below

	2010 Loans and receivables and balance sheet totals £'000	2009 Loans and receivables and balance sheet totals £'000
Trade and other receivables	**30,476**	18,452
Amount due from directors	**157**	157
Cash and cash equivalents	**1,871**	859
Total	**32,504**	19,468

Credit risk is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount

The Group's trade and other receivables are actively monitored to avoid significant concentrations of credit risk Details in respect of trade receivables at 31 December 2010 are provided in note 12

The Group has adopted a policy of carefully monitoring all customers, especially those who lack an appropriate credit history

Liquidity risk

The Group seeks to manage financial risks to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably Short term flexibility is achieved by the use of a bank overdraft facility up to £10,000,000

Interest rate risk

All financial liabilities of the Group are subject to floating interest rates Competitive rates have been renegotiated with the Group's bankers and the rate paid on bank loans has been set at 1% or 1 5% above base rate The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates of +/- one percentage point with effect from the beginning of the year

	2010	**2010**	2009	2009
	+1%	**-1%**	+1%	-1%
(Decrease)/increase in net result and equity £'000	**(41)**	**41**	(60)	60

Financial liabilities

The Group's financial liabilities are classified as follows

	2010			2009		
	Other financial liabilities at amortised cost £'000	**Liabilities not within the scope of IAS 39 £'000**	**Balance sheet total £'000**	Other financial liabilities at amortised cost £'000	Liabilities not within the scope of IAS 39 £'000	Balance sheet total £'000
Bank loan	**2,661**	**-**	**2,661**	3,560	-	3,560
Overdraft	**1,474**	**-**	**1,474**	2,255	-	2,255
Trade and other payables	**23,328**	**-**	**23,328**	12,030	-	12,030
Other liabilities	**-**	**1,751**	**1,751**	-	1,732	1,732
Total	**27,463**	**1,751**	**29,214**	17,845	1,732	19,577

Maturity of financial liabilities

The analysis of the maturity of financial liabilities at 31 December 2010 is as follows

	2010				**2009**			
	Less than one year £'000	**2-5 years £'000**	**More than five years £'000**	**Total £'000**	Less than one year £'000	2-5 years £'000	More than five years £'000	Total £'000
Bank loan	**921**	**1,740**	**-**	**2,661**	921	2,614	25	3,560
Overdraft	**1,474**	**-**	**-**	**1,474**	2,255	-	-	2,255
Trade and other payables	**23,328**	**-**	**-**	**23,328**	12,030	-	-	12,030
Other liabilities	**1,544**	**168**	**39**	**1,751**	608	1,072	52	1,732
Total	**27,267**	**1,908**	**39**	**29,214**	15,814	3,686	77	19,577

25 CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group's capital management objectives are,

- to ensure the Group's ability to continue as a going concern, and
- to provide an adequate return to shareholders

In order to maintain or adjust the capital structure, the Group may adopt a number of approaches including the sale or leasing of assets to reduce debt and an adjustment to the value of dividends paid to shareholders

STAFFLINE GROUP PLC

COMPANY STATUTORY
FINANCIAL STATEMENTS
(PREPARED UNDER UK GAAP)

FOR THE YEAR ENDED
31 DECEMBER 2010

COMPANY NUMBER 05268636

Contents

For the year ended 31 December 2010

Directors' responsibilities statement

The directors are responsible for preparing the Directors' Report and the company 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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

In so far as each of the directors is aware

- there is no relevant audit information of which the company's auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STAFFLINE GROUP PLC

We have audited the parent company financial statements of Staffline Group plc for the year ended 31 December 2010 which comprise the parent company balance sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement set out on page 54, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

OPINION ON FINANCIAL STATEMENTS

In our opinion the parent company financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

OTHER MATTER

We have reported separately on the group financial statements of Staffline Group plc for the year ended 31 December 2010

Grant Thornton UK LLP

David Munton
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
BIRMINGHAM

Date 28 February 2011

Principal accounting policies

For the year ended 31 December 2010

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with UK accounting standards

The principal accounting policies of the Company are set out below which have remained unchanged from the previous year

Investments

Investments in the Company are included at cost less amounts written off Where the consideration for the acquisition of a subsidiary undertaking includes shares in the Company to which the provisions of Section 612 of the Companies Act 2006 apply, cost represents the nominal value of shares issued together with the fair value of any additional consideration given and costs

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the Company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date Deferred tax assets are recognised when it is more likely than not that they will be recovered Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities Financial liabilities are presented as such in the balance sheet Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account Finance costs are calculated on a straight line basis

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument Dividends and distributions relating to equity instruments are debited direct to equity

Balance sheet at 31 December 2010

	Note	2010 £'000	2009 £'000
Fixed assets			
Investments	28	**17,228**	17,228
Current assets – amount due from group companies		**1,771**	1,000
Creditors: amounts falling due within one year	29	**-**	(580)
Net current assets		**1,771**	420
Total assets less current liabilities and net assets		**18,999**	17,648
Capital and reserves			
Called up share capital	30	**2,264**	2,123
Share premium account	31	**15,735**	14,525
Profit and loss account	31	**1,000**	1,000
Equity shareholders' funds		**18,999**	17,648

The financial statements were approved by the Board of Directors on 28 February 2011

A J Hogarth
Director

T D Jackson
Director

The accompanying principal accounting policies and notes form an integral part of these financial statements

26 PROFIT FOR THE FINANCIAL YEAR

The Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements The Company's profit for the year before dividends paid was £872,000 (2009 £616,000)

Auditors remuneration incurred by the Company during the year for audit services totalled £7,000 (2009 £7,000), and for tax compliance services totalled £1,000 (2009 £1,000) which was borne by the subsidiary undertaking Staffline Recruitment Limited

27 DIRECTORS AND EMPLOYEES REMUNERATION

As in previous years all Group directors are remunerated by Staffline Recruitment Limited Details of Directors' remuneration is disclosed within the Report on Remuneration on page 15 The average number of persons (including directors) employed by the Company during the year was 6 (2009 6)

28 FIXED ASSET INVESTMENTS

	Investment in group undertakings £'000
Cost and net book amount at 31 December 2010	**17,228**
Cost and net book amount at 31 December 2009	17,228

The Company holds interests in the following companies

Subsidiary	**Proportion of ordinary share capital held**	**Country of incorporation**	**Nature of business**
Staffline Recruitment Limited	100%	England and Wales	Recruitment
Peter Rowley Limited*	100%	England and Wales	Training
A La Carte Recruitment Limited*	100%	England and Wales	Recruitment
Kendal Sp z o o*	100%	Poland	Recruitment
House of Logistics Limited	51%	England and Wales	Business Consultancy

*These companies are owned indirectly through other group companies

29 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2010 £'000	2009 £'000
Amounts due to Group undertakings	-	580

30 SHARE CAPITAL

	2010 £'000	2009 £'000
Authorised		
30,000,000 ordinary 10p shares	3,000	3,000
Allotted and issued		
22,641,788 (2008 21,229,081) ordinary 10p shares	2,264	2,123

Share options

At 31 December 2010 the following number of ordinary share options granted were outstanding

Date of grant	Number	Exercise price	Exercise period
8 December 2004	8,435	80p	09/12/06 - 08/12/11
8 June 2005	10,203	107 5p	09/06/07 - 08/06/12
8 December 2005	10,763	86 5p	09/12/07 - 08/12/12
8 June 2006	17,746	130p	09/06/08 - 08/06/13
9 December 2006	17,940	120p	10/12/08 - 09/12/13
8 June 2007	38,031	174p	09/06/09 - 08/06/14
1 October 2007	40,125	143p	02/10/09 - 01/10/14
1 April 2008	36,064	121p	02/04/10 - 01/04/15
1 October 2008	39,110	66p	02/10/10 - 01/10/15
1 October 2009	69,382	54p	02/10/11 – 01/10/16
20 October 2009	900,000	47 5p	21/10/12 – 20/10/16

For full details of share options and the share based payment charge calculation see note 6

31 RESERVES

	Share premium £'000	Profit and loss account £'000
At 1 January 2010	14,525	1,000
Retained profit for the year	-	872
Share options exercised	179	-
EBT shares issued	1,031	-
Dividends paid	-	(872)
At 31 December 2010	15,735	1,000

32 CONTINGENT LIABILITIES

A cross guarantee exists between all companies in the Group for all amounts payable to Bank of Scotland and NatWest The maximum potential liability to the Company at year end is £4,199,000

33 CAPITAL COMMITMENTS

There were no capital commitments at 31 December 2010 or at 31 December 2009