STAFFLINE GROUP PLC

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2009

Company No 05268636

STAFFLINE GROUP PLC

Directors and advisors

For the year ended 31 December 2009

Company registration number	05268636
Registered office	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	Altium Securities 30 St James Square London SW1Y 4AL
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
	Wragge & Co LLP 55 Colmore Row Birmingham B3 2AS
Auditors	Grant Thornton UK LLP Registered Auditor Chartered Accountants Enterprise House 115 Edmund Street Birmingham B3 2HJ
Financial and trade PR	Smithfield Consultants Limited 10 Aldersgate Street London EC1A 4HJ

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Introduction

I closed my remarks this time last year by saying that the Group looked forward with enthusiasm and confidence to 2009 We were proved correct in doing so, having managed to grow our profitability during the year The Group's main activity continues to be the provision and management of unskilled and semi-skilled workers to UK industry, including manufacturing, logistics and distribution and in particular food processing, which has remained resilient during the recession The largest area of activity is our ***OnSite*** offering, where we are contracted by our clients to recruit, train and manage temporary workers on the customer's own premises ***OnSite*** now represents 86% of group sales, up from 79% a year ago

The Year in Review

The total number of ***OnSite*** locations has increased to 119, representing a net increase of 7 during the year from both existing and new clients Whilst this represents a further increase in our market share some client site closures and volume reductions resulted in a full year reduction of sales of £5 7m, or 4 8% The first half of the year accounted for all of this fall in sales, with sales during the second half increasing slightly on 2008 The cost reduction programme instituted in 2008 continued to deliver results during 2009 which helped us to achieve increase profits before amortisation of £3 6m (2008 £3 5m), profits before tax of £3 5m (2008 £3 4m) and profits after tax of £2 5m (2008 £2 3m)

Earnings per share have also risen in the financial year, to 11 5p (2008 11 1p)

Dividends

Given the increased profitability of the group, the Board is recommending an increased final dividend of 1 7p, giving a total for the year of 3 1p (2008 2 9p) This represents a dividend cover of 3 75 post tax earnings, which maintains the same level of cover as last year and reflects the Board's intention to continue to retain cover at this level in the future

Subject to shareholder approval, the final dividend will be paid on 7 July 2010 to shareholders on the register as at 4 June 2010

Strategy

The Group's strategy has been extended during the year, shaped by the effects of the recession and we are now also increasingly looking to bolt on acquisition opportunities as well as organic growth to enhance shareholder value

During 2009 we were approached by in excess of 30 companies and advisors to see if we might be interested in acquiring them We concluded three purchases Peter Rowley Limited, La Gente, and The Workplace, which will together add about £10m to sales in a full year, further contributing to our profitability

The integration of these bolt-on acquisitions has also resulted in improved scope to drive efficiencies and we continue to seek and deliver further acquisitions as part of our core strategy going forward

Our staged payment model for acquisition consideration can greatly increase the level of payment made to the vendor whilst allowing us to minimise the risk to Staffline and increase earnings immediately These acquisitions have partly been responsible for the increase in the numbers of ***OnSites*** but our greatest emphasis remains organic growth We are confident that the cost pressures which are continuing to be experienced by our clients and target customer base will endure and therefore the need for our services has never been greater As consumers demand increased value for money, our services enable our clients to operate more efficiently and maintain their competitiveness and this will ensure that we are able to continue to grow

Name Change

Following shareholder approval the name of the company changed to Staffline Group plc on 20 July 2009 This reflects the gradual move away from the Group's previous core activity of recruitment towards being a provider of a wider range of business services

Operational Review

The number of ***OnSite*** locations continued to grow, to 119 at the year end compared to 112 a year earlier As in previous years, organic growth has been driven by existing clients taking on additional ***OnSites*** as well as new client wins Clients continue to be attracted to a combination of the benefits of outsourcing their temporary recruitment function, allowing them to focus on managing their core business, together with the operating efficiencies that the appointment of Staffline delivers

Our core area of food distribution and processing has remained relatively resilient, and the majority of new sites won in the year have been in this sector However, demand from many individual sites has been subdued, most notably from existing customers in the automotive and manufacturing sectors

We finished the year with 13 branch locations We closed a number of branches at the start of 2009 as we felt that the recession was likely to make them uneconomic The remaining branches have, with the exception of one location, all continued to trade profitably

The Techsearch profits have remained constant during 2009, a good result when compared with the rest of the recruitment industry

OSP has had a successful year, with sales continuing to grow in both existing and new areas

Industry Appointments

Marshall Evans, our Operations Director, continues to be a Corporate Director of the Recruitment and Employment Confederation (REC) and to sit on the Board of the Gangmasters Licensing Authority I am also an Executive Committee member of the Association of Labour Providers (ALP) We are the only company with representation on the three major organisations shaping the future of our industry and through these combined roles, we can be confident that Staffline is at the forefront of implementing and shaping changes in best practice in our industry

The Labour Market

During the year, we found work for a total of 32,474 people, a reduction of 12% on 2008 - a slight fall due to the impact of the recession but once working for us our contractors were more inclined to stay than in earlier years

People chose to work through us for many reasons, often as a first step on the employment ladder in the UK, as a route to obtaining full time work, or to fund their studies Others enjoy the freedom such work affords them, leaving them free to undertake child or other care The mix of workers changed significantly during the year in 2008 63% of our workers had come from the new EU accession states after many years of growth, this had reduced in 2009 to 57% We also saw an increase in the number of contractors who had been born in the UK, increasing to 33% from 20% We envisage no shortage of domestic and overseas contractors if and when the economy starts to recover

Health & Safety

We take the provision of a safe working environment for all our contractors and staff extremely seriously and have invested in processes and systems which alert us to areas of concern before we place a contractor in a position In an ***OnSite*** location this is relatively simple as we are often responsible for carrying out induction and other training, keeping accurate records and ensuring that a worker is suitably qualified for a role As we are located on the client's premises, we have direct access to the client and any concerns identified can be readily addressed

We have recorded an accident frequency rate for the whole year of 0 77%, an improvement on the previous year This compares to the average in the industries in which we work of a 6 1% frequency This is important, not only as we have a duty to ensure we do not cause harm to any person working for us, but also because we must always protect the reputation of our clients

Whilst we are pleased with this result we acknowledge that we must continue to strive to improve this key metric

Environmental Policy

Whilst, by the nature of our business, we have a lower impact on the environment than companies operating in other sectors, we recognise that it is necessary for us to minimise our carbon footprint To this end, we have been developing our environmental policy since 2004, when we stopped providing company cars and introduced a stringent policy of reimbursement for business mileage

During that year, we also started to look at ways in which we could reduce the transportation of workers by attracting people living in an area local to a client rather than having to transport them We estimate that we now need to offer transport to less than 2% of our workers, compared to 50% five years ago

More recently, we have introduced re-cycling schemes for our used office products, mobile phones and computer equipment We have also moved our head office to a purpose-built, energy-efficient location in Nottingham The new building is served by good public transport links, however these will be further improved over the next few years with the extension of the Nottingham tram network, allowing almost all of our staff to travel to work by public transport

Gangmasters Licensing

As previously reported, Staffline was the first major supplier to be granted a Gangmaster licence under the Gangmasters (Licensing) Act 2004 Since the licensing scheme came into force, 106 suppliers have had their licences revoked and 75 refused out of a total number of 1,185 holders We applaud the continuing efforts made by the GLA to stamp out any poor operating practices and welcome the positive impact it has had on our industry

Travel and Subsistence Schemes

Over the past two years Staffline and a number of other reputable businesses have come under significant operating margin pressure from a number of organisations in our industry who have been paying their temporary workers via tax free expenses rather than fully taxing earnings via the PAYE system On 25 November 2009, the GLA announced their intention to enforce the current legislation concerning the payment of National Minimum Wage with effect from 17 February 2010 From this date it has not been possible for a recruitment business operating in the food processing and agricultural sector to pay less than minimum wage to any of its workers At the time of writing we have not been aware of any impact on operators in this sector but expect to see changes in the coming months

ISO 9002 and Investors in People

We are committed to obtaining ISO 9002 during the first half of 2010 as well as maintaining IIP status, which we have held for over 10 years

Verification Systems

We continue to have a large number of workers who attempt to register with us without possessing the correct identification documents The investment made in 2006/7 in IT systems has greatly helped us to ensure that such workers are not supplied in error by us to a client We continue to work very closely with the various Government departments and, in the many audits they have undertaken, we have been shown to be fully compliant with all legislation

Employees

As sales increased during the second half, and we continued to widen our offering to our clients, the number of people employed by the Group increased 12% during the year to 243 in December 2009 from 217 in 2008 Whilst this increase has largely been driven by necessity, it demonstrates how our employees continue to be the backbone of our Group We remain committed to recognising their valuable contribution to delivering consistently excellent client service and thereby growing our business We continue to place great value in the training of our staff and as well as many internal training courses, we have recently introduced the REC Certificate in Recruitment Practice scheme

Current Trading and Prospects

Trading in the first few weeks of 2010 has been in line with market expectations and we are continuing to see strong demand for new ***OnSites***, particularly in the food processing sector We currently have a pipeline of 5 new ***OnSites*** due to open in the first quarter and the current financial year will gain the full benefit of the new ***OnSites*** opened during the second half of 2009

Overall we continue to be encouraged by the levels of interest in our products and services from new clients and, whilst we expect the recession to continue to provide a tough economic backdrop in the markets where we operate, we remain confident that our model will allow us to operate profitably and indeed continue to grow The operational savings that are being constantly implemented will allow us to continue to underpin our profitability in 2010

We are in a strong financial position, net debt has continued to fall during 2009 and with our term loan not maturing until 2013 we expect to continue to generate significant cash in the coming years We continue to look for acquisition opportunities and look forward to the challenges ahead

Andy Hogarth
Chairman and Chief Executive
2 March 2010

Finance Director's statement

For the year ended 31 December 2009

Financial Highlights

Whilst total revenues for the year fell by 4 8% to £115 0m (2008 £120 8m) this was caused largely by the impact of the 5 branches closed in the first quarter of 2009, which accounted for £5 9m of the turnover last year Following a difficult first half the second half has delivered sales in line with 2008 driven by increased demand for our services from both new and existing clients, which has offset the branch closures The successful growth of our ***OnSite*** business, which achieves lower gross margins on higher volumes, has continued

The cost saving measures started in late 2008, and continuing into 2009, delivered significant savings across the business including the 5 branch closures This focus on costs has reduced overall administrative costs by £1 8m (13 6%) against last year to £11 2m This has helped hold the operating margin at 3 1% and the operating profit for the year at £3 6m (2008 £3 7m)

Continued tight management of our debtor book and a number of bank base rate reductions have reduced finance charges by 70% to £0 1m (2008 £0 4m) and this has meant that we have continued to improve interest cover, which has now reached 33 times (2008 10 times) The interest rates have remained unchanged during the year, at 1 0% over bank base rate for term borrowings and 2 0% over bank base rate for our overdraft facility

Profit before tax for the reporting year increased to £3 5m (2008 £3 4m) and profit after tax was increased to £2 4m (2008 £2 3m)

Earnings per Share

The basic earnings per share increased by 3 6% to 11 5p compared to 11 1p last year The diluted earnings per share were 11 3p compared to 10 7p in 2008

Dividends

The directors propose a final dividend of 1 7p per share against 1 5p per share last year This gives a total dividend for the year of 3 1p per share which is 6 9% ahead of the 2 9p per share paid last year

Acquisitions

During the year we completed three acquisitions at a total potential cost of £2 6m Included in this amount is £1m paid during the year and £0 9m which is dependent on future profitability These acquisitions will add around £10m to turnover in a full year The acquisitions have created goodwill of £1 2m and intangible assets of £0 7m The intangible assets will be amortised over a period of 2 years The acquisitions have been funded from existing banking facilities

Balance Sheet

The Group balance sheet has strengthened during the year, with net current assets rising by £0 1m to £3 0m (2008 £2 9m) and a ratio of current assets to current liabilities of 1 18 It is also pleasing to report a significant fall in gearing to 19% (2008 24%) The Group continues to be focussed on cash generation and ensuring a robust balance sheet

Financing

The Group has the financing facilities in place to support the future growth of the business The current facilities include a term loan of £3 6m repayable in quarterly instalments up to 2013 and an overdraft of up to £5 0m At 31 December 2009, £3 6m of the overdraft was undrawn The overdraft facility is renewable annually and is due to be renewed in March 2010 Substantive discussions have already been held with the bank which has resulted in an indicative offer of similar facilities for the period to March 2011 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 During the whole of 2009 the average daily overdraft balance was £224,000, leaving an average unused facility of £4 8m

Post tax cash generation during the year has been strong although the growth in sales in the second half has increased the working capital requirement by £0 3m We have invested £1m in acquisitions during the year covering The Workplace, La Gente Recruitment and Peter Rowley Limited and also invested £0 1m on our systems to improve internal productivity Despite these investments we still ended the year with a strong reduction in net debt of £1 0m to £5 0m (2008 £6 0m)

Tim Jackson
Finance Director
2 March 2010

The Directors present their annual report together with the audited financial statements for the year ended 31 December 2009

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's and Chief Executive's and Finance Director's statements on pages 2 to 7

An interim dividend of £297,207 (1 4 pence per share) was paid during the year (2008 £295,251, 1 4p per share) The directors have proposed a final dividend of £360,894 (1 7 pence per share) (2008 £318,436, 1 5p per share) to be paid on 7 July 2010, to shareholders registered on 5 June 2009 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 (appointed 2 February 2009)
D Mapp (resigned 31 March 2009)

Substantial shareholdings

The interests in excess of 3% of the issued ordinary share capital of the Company, which have been notified as at 10 February 2010, were as follows

	Ordinary shares of 10p each Number	Percentage of ordinary shares %
ISIS Equity Partners	4,174,791	19 67
A J Hogarth	3,068,629	14 45
Octopus Asset Management	2,676,171	12 61
Generali	1,928,200	9 08
Invesco Perpetual	1,827,106	8 61
W E Evans (spouse of M O Evans)	1,454,080	6 85
Baronsmead VCT 2 plc	958,792	4 52
Baronsmead VCT plc	958,792	4 52
Goldman Sachs International	811,325	3 82

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 19 days (2008 16 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 Short term flexibility is achieved by means of a bank overdraft facility of up to £5,000,000

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 (2008 1% above base rate)

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

Statement of directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) The financial statements are required by law to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group 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 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, and
- prepare the 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 disclose with reasonable accuracy at any time the financial position of the Group 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 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 are 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

T D Jackson
Company Secretary
Date 2 March 2010
05268636

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

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, and has made a significant contribution to the growth of Staffline's ***Onsite*** model Prior to that he held senior roles with Blue Arrow, 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 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 ofSLR Holdings Limited, TruckEast Ltd and Birmingham Hippodrome Theatre Trust In addition he is a director of Metalrax Group plc 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

Andy Hogarth – Chairman and Chief Executive (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 Francis Keegan - Non-Executive Director (A, R, N)

Nicholas is a qualified Chartered Accountant and after 10 years in investment banking has been 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 January 2009 the Chief Financial Officer of CompAir Holdings Limited, a venture capital backed international manufacturing business, which was acquired in 2008 by the USA quoted group, Gardner Denver Inc He was a Non-Executive Director of Interserve plc 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' investments 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 14 to 16

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

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 £60,000 on sales of £355 million, equating to 0 02% 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 within 35 days 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 2011 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 £3 6m at 31 December 2009 Coupled with a strong financial performance for the year ended 31 December 2009 and a strong start to 2010 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 2009

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

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
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

	A J Hogarth £'000	M O Evans £'000	D Mapp £'000	N Keegan £'000	C A Harvey £'000	T D Jackson £'000	J Crabtree £'000	Total £'000
2008								
Salary and fees	170	116	52	31	87	5	31	492
Bonus	-	-	-	-	-	-	-	-
Pension contributions	16	11	-	-	9	-	-	36
Benefits in kind	1	1	-	-	-	-	-	2
Share based employee remuneration	-	-	-	-	-	-	-	-
Total	187	128	52	31	96	5	31	530

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 £230,000 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

The share option scheme is 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

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

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 2009 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 10, 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 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/UKNP

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 2009 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 matters where the Companies Act 2006 requires us 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 2009

Grant Thornton UK LLP

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

Date 2 March 2010

Consolidated statement of comprehensive income

For the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Continuing operations			
Sales revenue	3	**115,025**	120,784
Cost of sales		**(100,189)**	(104,046)
Gross profit		**14,836**	16,738
Administrative expenses	4	**(11,253)**	(12,992)
Profit from operations		**3,583**	3,746
Finance costs	5	**(108)**	(370)
Profit for the year before taxation		**3,475**	3,376
Tax expense	7	**(1,030)**	(1,031)
Net profit and total comprehensive income for the year		**2,445**	2,345
Earnings per ordinary share	8		
Basic		**11.5p**	11 1p
Diluted		**11.3p**	10 7p

The accompanying notes form an integral part of these financial statements

Consolidated statement of changes in equity

For the year ended 31 December 2009

	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2009	2,123	14,525	149	7,489	24,286
Dividends	-	-	-	(616)	(616)
Share options issued in share based payments	-	-	21	-	21
Transactions with owners	**2,123**	**14,525**	**170**	**6,873**	**26,162**
Profit for the period	-	-	-	2,445	2,445
Total comprehensive income for the period	**-**	**-**	**-**	**2,445**	**2,445**
Balance at 31 December 2009	**2,123**	**14,525**	**170**	**9,318**	**26,136**

	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2008	2,112	14,468	106	5,951	22,637
Dividends	-	-	-	(826)	(826)
Share options issued in share based payments	-	-	62	-	62
Transfer on exercise of options	-	-	(19)	19	-
Share options exercised	11	57	-	-	68
Transactions with owners	11	57	43	(807)	(696)
Profit for the period	-	-	-	2,345	2,345
Total comprehensive income for the period	-	-	-	2,345	2,345
Balance at 31 December 2008	2,123	14,525	149	7,489	24,286

The accompanying notes form an integral part of these financial statements

Consolidated statement of financial position

At 31 December 2009

	Note	2009 £'000	2008 £'000
Assets			
Non current			
Goodwill	9	**25,422**	24,181
Other intangible assets	10	**726**	25
Property, plant and equipment	11	**725**	891
		26,873	25,097
Current			
Trade and other receivables	12	**18,609**	15,805
Cash and cash equivalents	13	**859**	892
		19,468	16,697
Total assets		**46,341**	41,794
Liabilities			
Current			
Trade and other payables	14	**(12,030)**	(10,162)
Borrowings	15	**(3,177)**	(3,251)
Other current liabilities	16	**(608)**	(17)
Current tax liabilities		**(627)**	(371)
		(16,442)	(13,801)
Non current			
Borrowings	15	**(2,639)**	(3,570)
Other non current liabilities	16	**(1,124)**	(137)
Total liabilities		**(20,205)**	(17,508)
Equity			
Share capital	18	**(2,123)**	(2,123)
Share premium		**(14,525)**	(14,525)
Share based payment reserve		**(170)**	(149)
Profit and loss account		**(9,318)**	(7,489)
Total equity		**(26,136)**	(24,286)
Total equity and liabilities		**(46,341)**	(41,794)

The financial statements were approved by the Board of Directors on

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 2009

	Note	2009 £'000	2008 £'000
Cash flows from operating activities			
Profit before taxation		**3,475**	3,376
Adjustments for			
Finance costs		**108**	370
Depreciation and amortisation of property, plant and equipment and intangible assets		**413**	362
Operating profit before changes in working capital and provisions		**3,996**	4,108
Change in trade and other receivables		**(2,804)**	833
Change in trade and other payables		**2,306**	(2,099)
Cash generated from operations		**3,498**	2,842
Adjustment for debt issue costs		**-**	-
Employee equity settled share options		**21**	62
Taxes paid		**(774)**	(1,359)
Net cash inflow from operating activities		**2,745**	1,545
Cash flows from investing activities			
Purchases of property, plant and equipment		**(48)**	(214)
Acquisition of businesses net of cash acquired		**(1,000)**	-
Net cash used in investing activities		**(1,048)**	(214)
Cash flows from financing activities			
Repayment of bank and other loans		**(906)**	(930)
Interest paid		**(108)**	(344)
Dividends paid		**(616)**	(826)
Proceeds from the issue of share capital		**-**	68
Net cash flows from financing activities		**(1,630)**	(2,032)
Net change in cash and cash equivalents		**67**	(701)
Cash and cash equivalents at beginning of period		**(1,463)**	(762)
Cash and cash equivalents at end of period	13	**(1,396)**	(1,463)

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 2009 (including the comparatives for the year ended 31 December 2008) were approved by the board of directors on 2 March 2010

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 49 to 58, under the historical cost convention and in accordance with UK GAAP

Change in accounting policy

IAS 1 Presentation of Financial Statements (Revised 2007)

IAS 1 has been adopted for the first time in these financial statements This amendment affects the presentation of owner changes in equity and introduces a statement of comprehensive income The Group has presented items of income and expense and components of other comprehensive income in a single statement of comprehensive income This amendment does not affect the financial position or results of the Group but has given rise to additional disclosures IAS 1 requires presentation of a comparative statement of financial position as at the beginning of the first comparative period in some circumstances Management considers that this is not necessary this year because the 2007statement of financial position is the same as previously published

IFRS 8 Operating Segments

Following the acquisition of Peter Rowley Limited in December 2009 the Group now has two segments, being the provision of contracted staff and recruitment consultancy and the provision of training and consultancy services At 31 December 2009 the net asset position and financial performance of Peter Rowley since the date of acquisition are immaterial to the Group and hence have not been disclosed separately above Subject to further acquisitions the Group expects to further review its segmental information during the forthcoming financial year

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 purchase 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 for 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 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

The fair value of acquired certificates and accreditations is capitalised and, subject to impairment reviews, amortised over the estimated life of the certificates and accreditations acquired 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

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 commitments 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 not recognised even 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 income statement 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 into an independent entity The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution

The contributions 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 income statement 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

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 income statement

Share based employee remuneration

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

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 income statement 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

Financial liabilities

The Group's financial liabilities include bank loans, an overdraft facility, trade and other payables and other liabilities

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 income statement

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 income statement 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 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 balance sheet

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

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 Except for IFRS 8, which may result in changes in the future as to how the Group's financial performance and financial position are disclosed, and IAS 1 (revised 2007), which may affect the presentation of the financial statements, the Directors anticipate that the adoption of these other 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

IAS 27	Consolidated Separate Financial Statements (revised 2008)	Effective for annual periods beginning on or after 1 July 2009
IFRS 3	Business Combinations (revised 2008)	Effective for annual periods beginning on or after 1 July 2009
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

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 as the placement of permanent staff to customers contributes less than 10% of Group total revenue The sales revenue is from the rendering of services

(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

Following the acquisition of Peter Rowley Limited in December 2009 the Group now has two segments, being the provision of contracted staff and recruitment consultancy and the provision of training services At 31 December 2009 the net asset position and financial performance of Peter Rowley since the date of acquisition are immaterial to the Group and hence have not been disclosed separately above Subject to further acquisitions the Group expects to further review its segmental information during the forthcoming financial year

4 ADMINISTRATIVE EXPENSES

	2009	2008
	£'000	£'000
Employee benefits expenses (note 6)	**8,071**	9,756
Depreciation and amortisation	**413**	362
Other expenses	**2,769**	2,874
	11,253	12,992

Auditors' remuneration in their capacity as auditors of the parent company is £7,000 (2008 £6,250) and in their capacity as auditor of subsidiary companies is £25,000 (2008 £20,000) Non-audit remuneration in respect of tax compliance services totalled £4,000 (2008 £3,250) and in respect of other advice totalled £10,275 (2008 £9,500)

5 FINANCE COSTS

	2009	2008
	£'000	£'000
Interest payable on bank and other loans and overdraft	**108**	370

6 DIRECTORS AND EMPLOYEES REMUNERATION

Employee benefits expense

Expense recognised for employee benefits is analysed below

	2009 £'000	2008 £'000
Wages and salaries	7,093	8,606
Social security costs	756	892
Other pension costs - defined contribution plans	201	196
Share option charge	21	62
	8,071	9,756

	Number	Number
The average number of persons (including directors) employed by the Group during the year was	208	248

Directors' remuneration

Directors' remuneration is disclosed within the Report on Remuneration on page 14

Share based employee remuneration

As at 31 December 2009 the Group operated a share based payment scheme for certain employees, and a performance based scheme for Directors

The share option scheme is 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

The share options for Andy Hogarth, Marshall Evans, Shaun Brittain, Tim Jackson and two senior managers have different conditions as detailed in the Report on remuneration on page 16

Share-based employee remuneration (continued)

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

	2009 Number	2009 Weighted average exercise price (pence)	2008 Number	2008 Weighted average exercise price (pence)
Outstanding and exerciseable at start of period	**766,075**	**108**	867,712	121
Granted	**978,798**	**48**	209,622	106
Lapsed	**(348,255)**	**(96)**	(206,629)	(123)
Exercised and exercisable	**-**	**-**	(104,630)	(90)
Outstanding and exerciseable at end of period	**1,396,618**	**69**	766,075	108

The Group has the following outstanding share options and exercise prices

Date exercisable and (option life)	2009 Number	2009 Weighted average exercise price (pence)	2009 Weighted average contractual life (months)	2008 Number	2008 Weighted average exercise price (pence)	2008 Weighted average contractual life (months)
2006 (up to 2011)	**27,650**	**80**	**-**	45,524	80	-
2007 (up to 2012)	**51,784**	**97**	**-**	63,632	97	-
2008 (up to 2013)	**80,211**	**125**	**-**	199,308	117	-
2009 (up to 2014)	**118,918**	**157**	**-**	278,440	157	7
2010 (up to 2015)	**139,257**	**92**	**6**	179,171	93	18
2011 (up to 2016)	**78,798**	**54**	**21**	-	-	-
2013 (up to 2016)	**900,000**	**47**	**33**	-	-	-

Share options have exercise prices between 47 5p and 174p The weighted average share price during the year was 46p (2008 93p)

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% (2008 30%) volatility based on expected and historical share price
- a risk free interest rate of 4% (2008 5%)
- 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

Share-based employee remuneration

In total £21,000 of employee remuneration expense has been included in the consolidated statement of comprehensive income for the year ended 31 December 2009 (2008 £62,000) which increased the share based payment reserve No liabilities were recognised due to share based payment transactions

Key management personnel

As the nature of the Group's business is the management of a significant temporary labour force, the Directors consider that the majority of the Group's permanent staff are key management personnel As a consequence, the key management remuneration will not be significantly different to the remuneration detailed on page 32

7 TAX EXPENSE

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

	2009 **£'000**	**%**	2008 £'000	%
Result for the year before tax	**3,475**		3,376	
Tax rate	**28.0%**		28 5%	
Expected tax expense	**973**	**28.0**	962	28 5
Adjustment for non-deductible expenses relating to short term temporary differences	**30**		27	0 8
Other non-deductible expenses	**27**		42	1 2
Actual tax expense	**1,030**	**29.4**	1,031	30 5
Tax expense comprises:				
Current tax expense	**1,030**		1,031	

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 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	
	2009	2008	**2009**	2008
Earnings (£'000)	**2,445**	2,345	**2,445**	2,345
Weighted average number of shares	**21,229,081**	21,189,551	**21,854,101**	21,865,339
Earnings per share (pence)	**11.5p**	11 1p	**11.2p**	10 7p

The weighted average number of shares has been increased by 625,020 (2008 675,788) shares to take account of all dilutive potential ordinary shares that could be issued under the share option scheme

Dividends

During the year, Staffline Group plc paid interim dividends of £297,207 (2008 £295,521) to its equity shareholders This represents a payment of 1 4p (2008 1 4p) per share A final dividend of £360,894 has been proposed (2008 £318,436) but has not been accrued within these financial statements This represents a payment of 1 7p (2008 1 5p) per share The final dividend for 2008 was declared and paid in 2009

9 GOODWILL

Gross carrying amount	**£'000**
At 1 January 2008 and 31 December 2008	24,181
Additions	1,241
At 31 December 2009	25,422

Goodwill above relates to the following cash generating units

	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	1,241
		25,422

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

As the business of Onsite Partnership Limited has been fully merged with that of Staffline Recruitment Limited, the directors consider the combined businesses to be one cash generating unit The only intangible asset with an indefinite useful life allocated to this cash generating unit is the goodwill referred to above of £24,181,000 Following the acquisition of Peter Rowley Limited on 1 December 2009 a professional valuation of the business was undertaken This resulted in the cost of the business being split between goodwill totalling £1,241,000, an intangible asset in relation to customer contracts totalling £131,000 and certificates and accreditations totalling £70,000

For both Staffline Recruitment and Peter Rowley 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 flow over the next nine years at a growth rate of 5%, and a discount rate of 9% 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 Staffline Recruitment Limited, Onsite Partnership Limited, and Peter Rowley Limited 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

10 OTHER INTANGIBLE ASSETS

The Group's other intangible assets include the customer contracts obtained through the acquisition of Onsite Partnership Limited and Peter Rowley Limited, The Workplace and La Gente Recruitment The carrying amounts for the financial year under review can be analysed as follows

	Other intangible assets £'000
Gross carrying amount	
At 1 January 2008 and at 31 December 2008	216
Additions	843
At 31 December 2009	**1,059**
Amortisation	
At 1 January 2008	100
Provided in the year	91
At 31 December 2008	191
Provided in the year	142
At 31 December 2009	**333**
Net book amount at 31 December 2009	**726**
Net book amount at 31 December 2008	25

11 PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings £'000	Computer equipment £'000	Fixtures and fittings £'000	Total £'000
Gross carrying amount				
At 1 January 2008	600	1,804	171	2,575
Additions	-	114	100	214
At 31 December 2008	600	1,918	271	2,789
Additions	-	37	4	41
Additions - through business combination	-	-	40	40
At 31 December 2009	**600**	**1,955**	**315**	**2,870**
Depreciation				
At 1 January 2008	-	1,492	135	1,627
Provided in the year	-	176	30	206
At 31 December 2008	-	1,697	201	1,898
Provided in the year	24	205	67	271
At 31 December 2009	**24**	**1,853**	**268**	**2,145**
Net book amount at 31 December 2009	**576**	**102**	**47**	**725**
Net book amount at 31 December 2008	600	221	70	891

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

12 TRADE AND OTHER RECEIVABLES

	2009 £'000	2008 £'000
Trade and other receivables	**18,452**	15,648
Amount due from directors	**157**	157
Total trade and other receivables	**18,609**	15,805

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

	2009 £'000	2008 £'000
Not more than three months	**3,539**	3,825
More than three months but no more than six months	**21**	29
	3,560	3,854

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 2010 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

	2009 £'000	2008 £'000
Cash and cash equivalents	859	892
Bank overdraft (see note 15)	(2,255)	(2,355)
Cash and cash equivalents per cashflow statement	(1,396)	(1,463)

Cash and cash equivalents consist of cash on hand and balances with banks only At the year end £859,000 (2008 £892,000) 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

	2009 £'000	2008 £'000
Trade and other payables	12,030	10,162

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

	2009 £'000	2008 £'000
In one year or less or on demand	3,166	3,276
In more than one year but not more than two years	921	921
In more than two years but not more than three years	1,133	921
In more than three years but not more than four years	598	1,133
In more than four years but not more than five years	61	598
In more than five years but not more than six years	25	61
In more than six years but not more than seven years	-	25
	5,904	6,935
Debt issue costs	(88)	(114)
	5,816	6,821
Split		
Current liabilities		
Bank loans	921	896
Overdraft	2,256	2,355
	3,177	3,251
Non current liabilities		
Bank loans	2,639	3,570
	5,816	6,821

Bank loan 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 0% (2008 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% (2008 1 5%) above base rate

During the period repayments totalling £912,000 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 2008 and 2009

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 £3,032,000 at 31 December 2009 (2008 £3,909,000) 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	**2009 £'000**	2008 £'000
Deferred income	**17**	17
Deferred consideration	**591**	-
	608	17
Due in greater than one year		
Deferred income	**120**	137
Deferred consideration	**1,004**	-
	1,124	137

The deferred income relates to the new head office building for the Group which was subject to a sale and lease back transaction in late December 2007, with a sales price above fair value The excess of proceeds over fair value has been deferred and will be amortised over the remaining lease term The subsequent leasing agreement is treated as an operating lease See note 21 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 La Gente Recruitment, The Workplace and Peter Rowley Limited See note 19 for further details on the deferred consideration

17 DEFERRED TAX ASSETS AND LIABILITIES

At 31 December 2009 a net deferred tax asset of £nil (2008 £135,000) arising out of the temporary differences on business combination acquired other intangibles and freehold property, computer equipment, fixtures and fittings and share option charges , has not been recognized in these financial statements on the grounds of materiality

18 SHARE CAPITAL

	2009 £'000	2008 £'000
Authorised		
30,000,000 ordinary 10p shares	**3,000**	3,000
Allotted and issued		
21,229,081 (2008 21,229,081) ordinary 10p shares	**2,123**	2,123

	Ordinary 10p shares Year ended 31 December 2009	Year ended 31 December 2008
Shares issued and fully paid at the beginning of the period	**21,197,520**	21,197,520
Shares issued but not fully paid	**31,561**	31,561
Shares issued	**21,229,081**	21,229,081
Shares authorised but unissued	**8,770,919**	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

Share options totalling 31,561 were not fully paid at 31 December 2008 and 31 December 2009 The shares issued but not fully paid will become fully paid on the completion of their sale to a third party

19 BUSINESS COMBINATIONS

Peter Rowley Limited

The group purchased Peter Rowley Limited on 1 December 2009 for a total estimated consideration of £2,227,000 (before costs) The acquisition was in the form of a company and all voting capital was acquired An adjustment was required to the book values of the assets and liabilities of the business acquired in order to present the net assets of the business at fair values in accordance with group accounting policies The purchase was accounted for as an acquisition The operating assets and liabilities of the acquisition made during the year are detailed below

Post acquisition contribution to the group's profit was a loss of £1,000 (revenue £130,000) Annualised profit contribution would have been £500,000 (revenue £2,300,000)

	Book value at acquisition £'000	Fair value adjustment £'000	Provisional fair value to group £'000
Intangible assets – customer contracts	-	131	131
Intangible assets - certificates	-	70	70
Fixtures and fittings	34	-	34
Trade and other receivables	617	-	617
Cash at bank	307	-	307
Trade and other payables	(145)	-	(145)
Deferred tax	(4)	-	(4)
Net assets	809	201	1,010
Goodwill			1,241
			2,251
Satisfied by:			
Cash			1,000
Guaranteed deferred consideration			727
Contingent deferred consideration			500
			2,227
Cost of acquisition			24
			2,251

Other acquisitions

The group made two acquisitions in the year in the form of the purchase of the trade and assets of the businesses An adjustment was required to the book values of the assets and liabilities of the business acquired in order to present the net assets of the business at fair values in accordance with group accounting policies The purchases were accounted for as acquisitions The operating assets and liabilities of the acquisitions made during the year are detailed below

The group purchased the trade and assets of Hardcastle Associates, trading as The Workplace and La Gente Recruitment during the year for a total estimated consideration (before costs) of £628,000 Post acquisition contribution to the group's profit was a profit of £207,000 (revenue £3,871,000) Annualised profit contribution would have been £473,000 (revenue £7,635,000)

	Book value at acquisition £'000	Fair value adjustment £'000	Provisional fair value to group £'000
Intangible assets – customer contracts	-	641	641
Fixtures and fittings	9	(3)	6
Net assets	9	638	647
Goodwill			-
			647
Satisfied by			
Cash			194
Contingent deferred consideration			434
			628
Cost of acquisitions			19
			647

20 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

	2009 £'000	2008 £'000
Short-term employee benefits		
Salaries and fees	555	487
Bonus - unpaid	230	-
Social security costs	82	55
Pension contributions	45	36
Share based employee remuneration	4	-
Benefits in kind	5	2
	921	580

Details of amounts due from directors are included in note 12

21 OPERATING LEASES

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

	2009		2008	
	Vehicles	**Land and buildings**	Vehicles	Land and buildings
	£'000	**£'000**	£,000	£'000
In one year or less	9	33	-	28
Between one and five years	-	178	-	407
In five years or more	-	933	-	1,048
	9	1,144	-	1,483

Lease payments recognised as an expense during the year ended 31 December 2009 amount to £402,000 (2008 £360,000)

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

22 CONTINGENCIES

The Group had no contingent assets or liabilities at 31 December 2009 or 31 December 2008

23 CAPITAL COMMITMENTS

The Group had no capital commitments at 31 December 2009 or 31 December 2008

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

	2009 Loans and receivables and balance sheet totals £'000	2008 Loans and receivables and balance sheet totals £'000
Trade and other receivables	18,452	15,648
Amount due from directors	157	157
Cash and cash equivalents	859	892
Total	19,468	16,692

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 2009 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 £5,000,000

Interest rate risk

All financial liabilities of the Group are subject to floating interest rates Competitive rates have been renegotiated with the Groups 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

	2009 +1%	2009 -1%	2008 +1%	2008 -1%
(Decrease)/increase in net result and equity £'000	(60)	60	(70)	70

Financial liabilities

The Group's financial liabilities are classified as follows

	2009 Other financial liabilities at amortised cost £'000	2009 Liabilities not within the scope of IAS 39 £'000	2009 Balance sheet total £'000	2008 Other financial liabilities at amortised cost £'000	2008 Liabilities not within the scope of IAS 39 £'000	2008 Balance sheet total £'000
Bank loan	3,560	-	3,560	4,466	-	4,466
Overdraft	2,255	-	2,255	2,355	-	2,355
Trade and other payables	12,030	-	12,030	10,162	-	10,162
Other liabilities	-	1,732	1,732	-	154	154
Total	17,845	1,732	19,577	16,983	154	17,137

Maturity of financial liabilities

The analysis of the maturity of financial liabilities at 31 December 2009 is as follows

	2009 Less than one year £'000	2009 2-5 years £'000	2009 More than five years £'000	2009 Total £'000	2008 Less than one year £'000	2008 2-5 years £'000	2008 More than five years £'000	2008 Total £'000
Bank loan	921	2,614	25	3,560	896	3,484	86	4,466
Overdraft	2,255	-	-	2,255	2,355	-	-	2,355
Trade and other payables	12,030	-	-	12,030	10,162	-	-	10,162
Other liabilities	608	1,072	52	1,732	17	68	69	154
Total	15,814	3,686	77	19,577	13,430	3,552	155	17,137

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 2009

COMPANY NUMBER 05268636

Contents

For the year ended 31 December 2009

Statement of directors' responsibilities

The Directors are responsible for preparing the Company only financial statements ("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 financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the 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 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, and
- 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 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 are 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 2009 which comprises 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 51, 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 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/UKNP

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 2009,
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

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 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 2009

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

Date 2 March 2010

Principal accounting policies

For the year ended 31 December 2009

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

STAFFLINE GROUP PLC

Balance sheet at 31 December 2009

	Note	2009 £'000	2008 £'000
Fixed assets			
Investments	28	17,228	17,228
Current assets – amount due from group companies		1,000	-
Creditors: amounts falling due within one year	29	(580)	(580)
Net current assets / (liabilities)		420	(580)
Total assets less current liabilities and net assets		17,648	16,648
Capital and reserves			
Called up share capital	30	2,123	2,123
Share premium account	31	14,525	14,525
Profit and loss account	31	1,000	-
Equity shareholders' funds		17,648	16,648

The financial statements were approved by the Board of Directors on 2 March 2010

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 £616,000 (2008 £826,000)

Auditors remuneration incurred by the Company during the year for audit services totalled £7,000 (2008 £6,250), and for tax compliance services totalled £1,000 (2008 £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 14 The average number of persons (including directors) employed by the Company during the year was 6 (2008 6)

28 FIXED ASSET INVESTMENTS

	Investment in group undertakings £'000
Cost and net book amount at 31 December 2009	**17,228**
Cost and net book amount at 31 December 2008	17,228

The Company holds 100% of the ordinary share capital of the following subsidiaries, which are registered in England and Wales

Subsidiary	**Nature of business**
Staffline Recruitment Limited	Recruitment
Onsite Partnership Limited	Dormant
Peter Rowley Limited	Training and Consultancy

29 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2009 £'000	2008 £'000
Amounts due to Group undertakings	**580**	580

30 SHARE CAPITAL

	2009 £'000	2008 £'000
Authorised		
30,000,000 ordinary 10p shares	3,000	3,000
Allotted and issued		
21,229,081 (2008 21,124,451) ordinary 10p shares	2,123	2,112

Share options

At 31 December 2009 the following number of ordinary share options granted were outstanding

Date of grant	Number	Exercise price	Exercise period
8 December 2004	27,650	80p	09/12/06 - 08/12/11
8 June 2005	26,198	107 5p	09/06/07 - 08/06/12
8 December 2005	25,586	86 5p	09/12/07 - 08/12/12
8 June 2006	40,690	130p	09/06/08 - 08/06/13
9 December 2006	39,521	120p	10/12/08 - 09/12/13
8 June 2007	56,268	174p	09/06/09 - 08/06/14
1 October 2007	62,650	143p	02/10/09 - 01/10/14
1 April 2008	66,205	121p	02/04/10 - 01/04/15
1 October 2008	73,052	66p	02/10/10 - 01/10/15
1 October 2009	78,798	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 2009	14,525	-
Retained profit for the year	-	1,616
Dividends paid	-	(616)
At 31 December 2009	14,525	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 £5,929,000

33 CAPITAL COMMITMENTS

There were no capital commitments at 31 December 2009 or at 31 December 2008