

# Annual Report 2011

For the year ended 31 December 2011



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# Annual Report 2011

## For the year ended 31 December 2011

### Company details

Company registration number  
05268636

Registered office  
19 – 20 The Triangle  
NG2 Business Park  
Nottingham  
NG2 1AE

Directors  
Shaun Brittain (Executive Director)  
John Crabtree (Non-Executive Chairman)  
Marshall Evans (Operations Director)  
Andy Hogarth (Chief Executive)  
Tim Jackson (Finance Director)  
Nicholas Keegan (Non-Executive Director)  
Diane Martyn (Non-Executive Director)

Secretary  
Tim Jackson

Nominated advisor and broker  
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Bankers  
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Solicitors  
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## Chairman's statement

For the year ended 31 December 2011

We continued to grow the Group significantly, measured by both revenue and profit, during the year despite a worsening economic backdrop and the sector remaining extremely competitive. Whilst this brought us many challenges at an operational level, we have continued to grow our Onsite platform, increasing sites by a further 28 this year to 163. This has also presented opportunities for a number of strategic bolt-on acquisitions, of which we completed 5 during the year, as well as the significant move in to the Welfare to Work arena with the acquisition of Eos, which gives us entry into another long term growth market.

We have ended our first year with our new Broker and Nomad, Liberum Capital, having successfully reshaped our shareholder list, with now only one institutional holder above 10% of the issued share capital and a dozen with holdings between 2% and 8%. We now have over 85% of the stock in free float and daily volumes during 2011 have averaged 85,518 shares per day or 0.4% of issued share capital.

We took the decision some months ago to strengthen the Board and it gives me great pleasure to welcome Diane Martyn as a non-executive Director. Diane has in excess of 20 years' experience in the staffing industry where she has held senior management roles, including Managing Director of Blue Arrow and Chief Executive Officer of Select Appointments plc. Her most recent role was as Chief Executive Officer of Randstad Staffing in the UK. Diane will greatly assist us in the future strategic development of the Group.

I remain confident of the Group's ability to continue to grow. It is likely that there will be further opportunities for both acquisitions and organic growth due to on-going changes in the industry and the ever greater need of our clients to increase their productivity whilst being provided reliable and efficient staffing solutions.

John Crabtree OBE  
Chairman  
27 February 2012

# Chief Executive's statement

For the year ended 31 December 2011

## Summary of 2011

With sales up by 40% and profit (before tax and amortisation) by 32% the Group has enjoyed another successful year. We have achieved this through a blend of strong organic growth combined with selective earnings enhancing acquisitions as well as a move in to additional complementary customer service offerings. At the same time cash generation has remained strong and we continue to manage working capital effectively. This has enabled the Board to propose an increased final dividend of 4.2p, (2010 3.8p) making the full year dividend 7.1p, (2010 6.2p) following payment of the interim dividend of 2.9p (2010 2.4p).

## Trading and Operational Review

Whilst 2011 proved less buoyant than 2010, Staffline has continued to achieve strong growth even though the latter half of 2011 saw a general slowdown in demand from existing customers. Demand for our **OnSite** offering continues to generate market interest with the overall trend to outsourcing remaining prevalent for many clients. As a result the Group has continued to win significant levels of new business which has more than compensated for the market slowdown.

We have, for the first time in a number of years, increased the number of high street branches we operate from. During 2011 the Group acquired 3 new branches bringing the total number to 18 at the year end. All our branches made a positive contribution during the year. Our branch network differs from the **OnSite** model in that branches are normally based in secondary high street locations and each one services a diverse range of clients in its local area.

The number of **OnSites** also increased, from 135 in December 2010 to 163 in December 2011, which includes openings from a mixture of new and existing clients and some from acquisitions. Our **OnSite** model continues to be a driving factor in our success and we anticipate further growth across the UK.

We acquired Eos Works Ltd (Eos), a Welfare to Work service provider, in April 2011 and are delighted with the impact the business has had on the Group. Following the acquisition the Department for Work and Pensions (DWP) confirmed that Eos had won a £93m five year contract to provide the Work Programme (WP) in Birmingham, Solihull and the Black Country. In October, Eos was awarded two further contracts by the DWP, worth £53m over three years. Both these contracts are financed by the European Social Fund (ESF), with one operating in our existing WP area in the Midlands and the other based in Yorkshire and Humberside. We believe that contracts like these will continue to offer significant opportunities for us given the UK Government's commitment towards reducing welfare expenditure and getting the long-term unemployed back into the workplace. The WP contract has had a very busy start, with referrals approximately 20% ahead of our expectations. The ESF contracts have had no material impact on 2011 but we expect them to develop significantly in 2013.

In October we reached an agreement with the DWP in regard to the early termination costs of the Flexible New Deal contract (the legacy contract which was superseded by the WP contract in June 2011), the receipts from which allowed us to in turn reach agreement on the claims from our sub-contractors and so allowed Eos to exit the old contract without incurring any additional costs

## Market Overview

### *Gangmaster Licensing Authority (GLA)*

It is becoming clear that the long-term future of the GLA has been assured, despite the threat to it from the Government's Red Tape Challenge. We applaud this decision, despite the additional costs imposed on ours and many other businesses operating in the sector. We are convinced that the GLA has done much to improve standards and drive many sub-standard operators out of the regulated sector. Unfortunately there is considerable evidence that many of these Gangmasters have moved into both the Construction and Hospitality sectors, both of which are unregulated. Marshall Evans, Operations Director, continues to be a member of the Board of Directors of the GLA as well as being a member of the REC Council and Chairman of the Policy Committee. I also sit on the board of the Association of Labour Providers. These roles allow us to influence and understand future industry trends and Government policy.

### *PAYE and Travel and Subsistence Schemes*

We have been encouraged in our long term opposition to travel and subsistence schemes by a more robust response from Government agencies. Whilst we did lose a small number of clients to competitors operating these schemes we also won business from customers who are realising the potential liabilities they face if they allow their supplier to use these schemes.

## Acquisitions

We made one further acquisition, Taskforce Recruitment, after the interim results were announced in September 2011, making five in total for the year.

Taskforce is a well-run business based in Peterborough specialising in industrial recruitment with sales in excess of £20 million per annum. It is our intention to keep both the brand and the established branch network despite overlap with some of our existing branches.

## Health and Safety

With the continued expansion of the business, additional staff resources have been put in place which allows us to increase toolbox training/refresher courses to maintain awareness and understanding of the importance of health and safety.

Our clients play an important part in helping us achieve our long term "continuous improvement culture" by maintaining open channels of communication with us.

Regular audits continue to play an important function to ensure the health, safety and wellbeing of our workers are preserved. Our continued commitment to health and safety in the workplace is demonstrated with a further reduction in the Accident Frequency Rate (AFR) by 37.5%. In 2011 our contractors worked over 31million hours and suffered 60 reportable accidents compared to 2010.

when 75 accidents happened and hours worked were 25% lower. We are determined to continue this improvement over the coming years.

#### ISO 9001

Staffline's ISO 9001 status was first accredited in 2010 and as a result our internal systems are becoming more robust, having undertaken various audits relating to ISO 9001, we maintain full accreditation with no major non-conformances.

#### Compliance

We take compliance with legislation and industry standards extremely seriously, offering a guarantee to all of our clients to ensure that all of our workers, whether or not covered by the legislation, are recruited and supplied to the standards required by the Gangmaster Licencing Act. This guarantee gives our clients the assurance that all UK ethical and legal standards are fully met. We operate a confidential whistle blowing hotline for our workers to report any concerns and conduct regular surveys to ensure we are achieving our own high standards.

#### Investing for Growth

To help us achieve the highest compliance standards we are in the process of rolling out a new bespoke management information system, Infinity+, which will improve our operating efficiency. Approximately 33% of the Group's locations are already live with Infinity+ and we are deriving a wide range of benefits from it. The new system will provide the platform for further development that will deliver greater efficiencies in our business processes. During the year we also installed new central payroll software which gives us the ability to more than double the number of people we pay each week.

#### Investors in People (IIP)

Staffline celebrated during 2010 being recognised by IIP with a 10 year service award. By 2013 we aim to become amongst the elite companies in the UK, striving to a higher standard with the IIP by maintaining our high development culture within our business.

#### Environmental Policy

Staffline has implemented its Environmental Management System in 2011 to help reduce its environmental footprint in everything that it does, including promoting car sharing, promoting telephone conferencing and emails replacing post.

#### Agency Workers Regulations

The regulations were only introduced in October 2011 and it is still too early to assess the full long-term impact to the industry. Many of the initial stories in the press of clients deciding to no longer use agency labour appear not to be borne out and we have seen little, if any, reduction in business due to the regulations. Indeed we have actually won new business as both existing and new clients turned to us due to our knowledge and detailed planning to help support their human resource strategies to accord with the Agency Workers Regulations. However, the industry is still awaiting the

first decisions from Employment Tribunals as to the actual interpretation of some aspects of this legislation

#### People

As we continue to grow, we have seen an increase to 361 employees in our recruitment businesses and Head Office this year, giving an average sales per employee of £763,000 compared to £708,000 in 2010. In addition a further 171 people are employed by Eos, bringing the Group's total workforce to 532.

Over the year, we have placed much emphasis on training and development as we recognise the key to our success is our people. During the year from our operational staff 17 people have undertaken our six month Real Account Manager course, 28 people have passed REC Certificate in Recruitment Practice, 12 passed the external Business Writing Course and 12 passed the Delight the Customer course.

In addition, within our support services staff, 5 people passed their NVQ L3 in payroll, 2 have passed CIMA finance qualifications and 4 have passed qualifications in IT, HR and Credit Control, while 16 attended customer service training. We congratulate them all on their achievements.

#### The Prince's Trust

During the year our employees decided to adopt The Prince's Trust as the Group's nominated charity and we have held a number of events in order to raise funds for the Trust. We were particularly attracted to the work they do in helping the young and disadvantaged get a good start in life, with the accent on achieving work outcomes.

#### Current Trading

We have made a good start to 2012 and are confident of a level of growth in sales, albeit slower than in 2011, that will ensure trading will continue in line with market expectations.

The majority of our clients appreciate the reassurance of the quality we offer as a financially stable, ethical and fully compliant public limited company. Our new business pipeline continues to grow as corporates continue to search for best in class staffing solutions both from a regulatory and business perspective.

Finally I would like to welcome Diane Martyn who has joined the Group as Non-Executive Director and once again thank all our employees for their dedication in ensuring we always offer the best and most innovative service to our clients.

Andy Hogarth  
Chief Executive  
27 February 2012

## Finance Director's statement

For the year ended 31 December 2011

### Financial Highlights

The total revenues for the year increased by 40% to £288.3million (2010: £206.2million) reflecting the impact of strong demand for our services from existing customers, new business wins in 2010 and 2011 and also the impact of the acquisitions made during last year and this year. The successful growth of our *OnSite* business has continued. The change in business mix has resulted in a reduction in gross margin to 10.8% (2010: 11.2%). However, profit from operations before amortisation has increased by 32% to £10.3million (2010: £7.8m), and the net operating margin, before amortisation of intangibles, has reduced slightly to 3.6% from 3.8% in 2010. The charge for amortisation has increased by £1.9million to £2.6million due to the acquisitions during the year.

The investment in acquisitions, offset by continued tight management of our debtor book and strong cash flow generation, has led to finance charges being maintained at £0.1million (2010: £0.1million) and this has meant that we have continued to improve interest cover, which has now reached 60 times (2010: 56 times). The interest rates on our overdraft facility remain unchanged during the year, at 2.0% (2010: 2.0%) over bank base rate, while the rate for term borrowings remained at 1.0% (2010: 1.0%) over bank base rate and the new Revolving Credit Facility at 2.2% over LIBOR.

Profit before tax for the year increased to £7.5million (2010: £7.0million) and profit after tax increased to £5.6million (2010: £5.0million).

### Earnings per Share

The basic earnings per share increased by 9% to 25.9p (2010: 23.7p) and the diluted earnings per share increased by 11% to 25.0p (2010: 22.6p). However, the basic earnings per share before amortisation increased much more strongly, by 31%, to 35.1p (2010: 26.7p).

### Dividends

The Directors propose a final dividend of 4.2p per share against 3.8p per share last year. This gives a total dividend for the year of 7.1p per share which is 15% ahead of the 6.2p per share paid in respect of 2010.

Subject to shareholder approval at the AGM, the final dividend will be paid on 4 July 2012 to shareholders on the register on 1 June 2012.

### Acquisitions

During the year we completed five acquisitions for a total consideration of £9.2million, although they had net cash balances of £8.9m due mainly to the timing of creditor payments. This amount is comprised of £6.2million cash paid at completion, and further potential consideration of £3.0million which is dependent on future profitability. The acquisitions will add around £44million to turnover in a full year, and have resulted in the recognition in the Group balance sheet of additions to goodwill of £2.4million and additions to intangible assets of £6.7million. The intangible assets will be

amortised over a period ranging from 1 to 5 years. The acquisitions have been funded from existing bank facilities together with a Revolving Credit Facility of £5million.

#### Balance Sheet

The Group balance sheet has strengthened during the year, with net current assets rising by £1.2million to £5.1million (2010: £3.9million) and a broadly unchanged ratio of current assets to current liabilities of 1.11 (2010: 1.14). It is also pleasing to report that despite the significant growth in the business and investment in acquisitions the gearing has only increased to 15% (2010: 7%). The Group continues to be focused on cash generation and ensuring a robust balance sheet to support the growth of the business.

#### Financing

The Group's current bank facilities include a term loan of £1.8million, repayable in quarterly instalments up to 2013, a revolving credit facility of up to £5m and an overdraft of up to £15.0million. At 31 December 2011 the Group was in a net cash position (excluding the revolving credit facility and term loans). The overdraft facility is renewable annually and is due to be renewed in March 2012. Substantive discussions have already been held with the bank and there is no reason to believe that they will not offer similar facilities for the period to March 2013 at a broadly 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 supporting the continued growth of the business.

Post tax cash generation during the year has been strong and the relentless focus on debtor management has succeeded in limiting our working capital increase to £1.7million despite the 40% increase in sales. The growth and investment in the business are reflected in a £2.6million increase in net debt to £4.9million (2010: £2.3million). The investment included £7.7million in acquisitions during the year covering Eos, Taskforce Recruitment Limited and 3 other businesses, and a further £1.1million investment in our systems development and Welfare to Work facilities.

Tim Jackson  
Finance Director  
27 February 2012

# Report of the Directors

For the year ended 31 December 2011

The Directors present their annual report together with the audited financial statements for the year ended 31 December 2011.

## Principal activity and business review

The principal activity of the Group is the provision of recruitment and outsourced human resource services to industry. However, during the year the Group's activities in the welfare to work arena have grown significantly through the acquisition of the welfare to work provider Eos Works Group Limited (Eos).

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

An interim dividend of £623,853 (2.9p per share) was paid during the year (2010: £508,808, 2.4p per share). The Directors have proposed a final dividend of £899,971 (4.2p per share) (2010: £812,612, 3.8p per share) to be paid on 4 July 2012, to shareholders registered on 1 June 2011. This has not been included within creditors as it was not formally approved before the year end.

## Directors

The Directors who held office during the year were as follows:

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

D Martyn was appointed Director on 13 February 2012.

### Substantial shareholdings

The interests in excess of 3% of the issued ordinary share capital of the Company which have been notified as at 31 January 2012 were as follows

	Ordinary shares of 10p each Number	Percentage of ordinary shares %
Octopus Investments	3,157,169	13.82
A J Hogarth	2,068,629	9.06
ISIS Equity Partners	1,917,584	8.39
Legal and General Investment	1,805,013	7.90
Generali Portfolio Management	1,495,750	6.55
M O Evans	1,154,080	5.05
Investec Asset Management	1,200,000	5.25
Cazenove Capital Management	1,175,000	5.14
Ennismore Fund Management	982,840	4.30
Hargreave Hale - Stockbrokers	757,716	3.32

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

### Payment to suppliers

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

Trade creditors at the year-end amounted to 12 days (2010: 14 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, in the opinion of the Directors, the Group is exposed are described below.

#### Credit risk

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

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

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

#### Liquidity risk

The Group seeks to manage financial risks to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably The Group has net cash of £1,841,000 at 31 December 2011 (2010. £397,000) but there are substantial fluctuations within the year Short term flexibility is achieved by means of a bank overdraft facility of up to £15,000,000 to 31 December 2011 (reverting to £10,000,000 from 1 January 2012) and a revolving credit facility (RCF) of up to £5,000,000 These facilities are expected to be renewed on similar terms during March 2012

#### 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 (2010 1% above base rate) The rate paid on the RCF taken out in 2011 is 2.2% above LIBOR plus a non-utilisation fee of 0.88%

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

#### Employee Involvement

Employees are kept aware of developments within the Group by regular briefings These include presentations by subsidiary management covering their future budgets Employee involvement with the financial performance of the Group is further encouraged by the share option scheme However, as the number of employees now exceeds 250 the qualification criteria for an EMI scheme are no longer met so no further options can be issued under this scheme

#### Disabled persons

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

## Directors' Responsibilities Statement

The Directors are responsible for preparing the Directors' Report and the 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 the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the group for that period. In preparing these financial statements, the Directors are required to

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

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

In so far as each of the Directors is aware

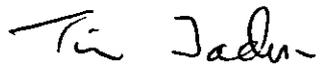
- there is no relevant audit information of which the company's auditors are unaware, and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

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.

## 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  
27 February 2012

05268636

## Corporate governance statement

For the year ended 31 December 2011

Statement by the Directors on compliance with the provisions of the UK Corporate Governance Code (the Code)

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

### The Board

The Board currently comprises the Non-Executive Chairman, the 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 two have small shareholdings in the Company, are considered by the Board to be independent.

#### Shaun Brittain - Executive Director

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

#### John Crabtree OBE – Non-Executive Chairman (A, R, N)

John Crabtree joined the Board on 1 March 2005 as a Non-Executive Director and Chairman of the Remuneration Committee. He was appointed Chairman in 2011. John was the senior partner of Wragge & Co, the Birmingham based corporate law firm and whilst in this role John was responsible for the firm's evolution into a practice with 100 partners and a turnover of £75m. John has a number of business interests, including being Non-Executive Chairman of Real Estate Investors plc, SLR Holdings Limited, Birmingham Hippodrome Theatre Trust and TruckEast Ltd. In addition he is a Director of Advantage West Midlands.

#### Marshall Evans – Executive Director

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

the Gangmaster Licensing Authority (GLA) and the Recruitment & Employment Confederation (REC) (the main UK trade body for recruitment agencies)

**Andy Hogarth –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 CEO of Staffline Group plc, sits on the board of an elderly care charity and is a Director of Hogarths Hotel, a boutique hotel in Solihull. He was Non-Executive Chairman of Carnell Support Services Ltd until resigning in 2011. He is a Fellow of the Association of Chartered Certified Accountants (FCCA) as well as a Master Practitioner of Neuro-Linguistic Programming (NLP) and a Certified NLP coach. He joined Staffline in 2002 as Finance Director, becoming Managing Director in 2005 and was Chairman of the Staffline Group from 2009 – 2011.

**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 remained a non-executive Director of Applied Language Solutions Limited until its acquisition by Capita plc in December 2011.

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

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

**Diane Martyn - Non-Executive Director**

Diane Martyn was until recently CEO of Randstad Staffing in the UK, part of one of the leading human resources services providers in the world, where she was responsible for the merger of Select Appointments plc and Randstad in 2008. She has over 20 years of experience in the staffing industry where she has held senior management roles, including Chief Executive Officer of Select Appointments plc and Managing Director of Blue Arrow. Diane joined the Board of Staffline on 13th February 2012 as a Non-Executive Director.

**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 is used to communicate with all investors.

and they are encouraged to participate. The Directors are available to answer questions. Separate resolutions are proposed on each issue so that they can be given proper consideration and there is a formal resolution to approve the Annual Report and Accounts.

#### Internal control

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

The Remuneration Committee, chaired by John Crabtree, has met three 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 follows.

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 Audit Committee, chaired by Nicholas Keegan, has met three 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. Auditor independence is maintained through regular meetings with the Audit Committee with management excluded. The Audit Committee is responsible for identifying and commissioning specific internal control reviews as required.

The Group has several mechanisms for ensuring internal controls are operating effectively. There is an independent compliance audit team responsible for checking legality to work and compliance with relevant standards (e.g. GLA and REC). Within the payroll team a compliance officer role has been created during the year to ensure payroll team compliance with relevant legislation and procedures. From a financial point of view authority levels are in place and there is regular review of financial information at all management levels right up to the Board.

The Group tailors its approach to ensuring internal controls are operating effectively over new acquisitions – in the majority of cases the business is integrated into Staffline systems from the outset. Operational responsibility is assigned from day one and the results form part of the usual regular management reporting. In special circumstances acquisitions continue to be run on separate systems. In the case of Eos for example, the Group continues to run the company's existing systems as they are operating effectively and customer data must be kept on a secure server as approved by the Department for Work and Pensions.

The Board has considered the need for an internal audit function but has decided that, given the above, the size and complexity of the Group does not justify it at present although it does have the independent compliance audit team referred to above. 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 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 £55,000 on sales of £609,000,000, equating to 0.01% of sales.
- In terms of our welfare to work segment (Eos) our key risk is that we will be unable to find jobs for jobseekers and /or having found jobs we are unable to keep those workers in place. Given our other business segment, recruitment services we are ideally placed to provide suitable jobs. This coupled with Eos's unique tailored approach to help unemployed people back into sustainable employment, through a combination of intensive job search support, comprehensive vacancy matching services, real work experience, skills development and in-work support should mitigate the risk of failing to keep jobseekers in work. The fact that Eos has only one customer, the Government, is also a risk, however, this is somewhat mitigated by the fact Eos now have a number of different Government contracts. In addition, experience shows that a change in Government policy (and therefore contract terms) would not necessarily have an adverse impact. Also, there are only a limited number of providers who meet the criteria to secure these contracts, of which Eos is one.
- We face the risk that one of our members of staff may deliberately by-pass the procedures set up to ensure we fully comply with all legislative requirements. Although the systems we have should detect most of such acts there is a reputational and financial risk to the business should someone deliberately choose to do this.
- Major failure of IT systems. The Group has a robust Disaster Recovery plan in place in the event of a major internal failure of our IT systems, which has proven to be successful when necessary. 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 would 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 less than 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 on-going funding requirements of the Group, the Directors have prepared detailed cash flow forecasts extending to December 2013 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 £13.2m at 31 December 2011. Coupled with a strong financial performance for the year ended 31 December 2011 and a strong start to 2012 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 2011

## Remuneration Committee

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

## Policy on Executive Directors' remuneration

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

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

The remuneration of the Directors, which was all paid by the Group, was as follows.

2011	AJ Hogarth £'000	MO Evans £'000	TD Jackson £'000	S Brittain £'000	N Keegan £'000	J Crabtree £'000	Total £'000
Salary and fees	186	127	115	120	34	53	635
Bonus	98	69	62	65	-	-	294
Pension contributions	18	12	11	11	-	-	52
Benefits in kind	2	2	2	2	-	-	8
Share based employee remuneration	47	24	33	32	-	-	136
<b>Total</b>	<b>351</b>	<b>234</b>	<b>223</b>	<b>230</b>	<b>34</b>	<b>53</b>	<b>1,125</b>

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

#### 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. 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 £294,000 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 Group plc Share Option Plan (the Plan), was established by the Board in November 2004. As the number of employees exceeds 250 the qualification criteria as an EMI scheme are no longer met so no further share options can be issued under the scheme.

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

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

## Directors' share options

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

These share options have a performance condition based on the increase in reported diluted Earnings per Share of the Group from the base of 10.7p in December 2008 to the achieved diluted EPS in the year to December 2012. The award is scaled up to a maximum of 150,000 shares for a doubling of diluted EPS.

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

	Date of grant	At 1 Jan 2011	Granted	Exercised /Lapsed	At 31 Dec 2011	Exercise price
AJ Hogarth	19 Oct 2009	150,000	-	-	150,000	47.5p
MO Evans	19 Oct 2009	150,000	-	-	150,000	47.5p
S Brittain	19 Oct 2009	150,000	-	-	150,000	47.5p
TD Jackson	19 Oct 2009	150,000	-	-	150,000	47.5p

On 20 October 2011 S Brittain exercised 3,150 share options under the Company's Approved Employee Share Option Plan at an average exercise price of £1.43 and sold the resulting ordinary shares on the market. The market price on the date of exercise was £2.12 resulting in a gain on exercise of £2,140. Other than the Director's share options noted above, S Brittain has no more options under this Plan.

## Joint Share Ownership Plan

In 2010 the Company established a Joint Share Ownership Plan (JSOP) to provide additional incentives to senior executives.

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

	Award date	Participation price	Interest over (number of shares)	Date on which exercisable
AJ Hogarth	6 Sep 2010	92p	306,863	30/06/2015
MO Evans	6 Sep 2010	92p	145,400	30/06/2015
S Brittain	6 Sep 2010	92p	200,000	30/06/2015
TD Jackson	6 Sep 2010	92p	205,000	30/06/2015

The JSOP interest runs from the date of the award until 30 June 2015. During this period the right to sell the JSOP award shares is not at the discretion of the Directors but instead at the discretion of the Employee Benefit Trust. On the eventual disposal of the shares, the amount received by the Directors is calculated based on certain business performance conditions. The eventual payment to the Directors takes into account diluted EPS adjusted for amortisation of intangibles in any financial

year up to 2014 (from a minimum of 24p to a maximum of 42p) and the share price at the date of disposal

#### 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, John Crabtree and Diane Martyn 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 Scottish Widows 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

For the year ended 31 December 2011

We have audited the group financial statements of Staffline Group plc for the year ended 31 December 2011 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 14, the Directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

## Opinion on the 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 2011 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

Matters on which we are required to report by exception

We have nothing to report in respect of the following

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

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

Other matter

We have reported separately on the parent company financial statements of Staffline Group plc for the year ended 31 December 2011



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

Date 27 February 2012

## Consolidated statement of comprehensive income

For the year ended 31 December 2011

	Note	2011	2011	2011	2010
		Before amortisation £'000	Amortisation £'000	Total £'000	Total £'000
<b>Continuing operations</b>					
Sales revenue	4	288,303	-	288,303	206,158
Cost of sales		(257,161)	-	(257,161)	(183,017)
<b>Gross profit</b>		<b>31,142</b>	-	<b>31,142</b>	<b>23,141</b>
Administrative expenses	5	(20,876)		(20,876)	(15,311)
<b>Operating profit before amortisation of intangibles</b>		<b>10,266</b>		<b>10,266</b>	<b>7,830</b>
Amortisation of intangibles		-	(2,606)	(2,606)	(721)
<b>Profit from operations</b>		<b>10,266</b>	<b>(2,606)</b>	<b>7,660</b>	<b>7,109</b>
Finance costs	6	(126)	-	(126)	(126)
<b>Profit for the year before taxation</b>		<b>10,140</b>	<b>(2,606)</b>	<b>7,534</b>	<b>6,983</b>
Tax (expense)/credit	8	(2,611)	635	(1,976)	(1,935)
<b>Net profit and total comprehensive income for the year</b>		<b>7,529</b>	<b>(1,971)</b>	<b>5,558</b>	<b>5,048</b>
Total comprehensive income attributable to					
Non-controlling interest				(69)	(18)
Owners of the parent				5,627	5,066
Earnings per ordinary share					
Basic	9			25 9p	23 7p
Diluted				25 0p	22 6p

The accompanying notes form an integral part of these financial statements

## Consolidated statement of changes in equity

For the year ended 31 December 2011

	Share capital	Own shares JSOP	Share premium	Share based payment reserve	Profit and loss account	Total attributable to owners of parent	Non-controlling interest	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>At 1 January 2011</b>	<b>2,264</b>	<b>(1,157)</b>	<b>15,735</b>	<b>198</b>	<b>13,512</b>	<b>30,552</b>	<b>(18)</b>	<b>30,534</b>
Dividends	-	-	-	-	(1,437)	(1,437)	-	(1,437)
Share options issued in equity settled share based payments	-	-	-	31	-	31	-	31
Share options exercised	20	-	193	-	-	213	-	213
<b>Transactions with owners</b>	<b>20</b>	<b>-</b>	<b>193</b>	<b>31</b>	<b>(1,437)</b>	<b>(1,193)</b>	<b>-</b>	<b>(1,193)</b>
Profit for the period	-	-	-	-	5,627	5,627	(69)	5,558
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,627</b>	<b>5,627</b>	<b>(69)</b>	<b>5,558</b>
<b>Balance at 31 December 2011</b>	<b>2,284</b>	<b>(1,157)</b>	<b>15,928</b>	<b>229</b>	<b>17,702</b>	<b>34,986</b>	<b>(87)</b>	<b>34,899</b>

The accompanying notes form an integral part of these financial statements

## Consolidated statement of changes in equity (continued)

For the year ended 31 December 2011

	Share capital	Own shares JSOP	Share premium	Share based payment reserve	Profit and loss account	Total attributable to owners of parent	Non-controlling interest	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>At 1 January 2010</b>	<b>2,123</b>	-	<b>14,525</b>	<b>170</b>	<b>9,318</b>	<b>26,136</b>	-	<b>26,136</b>
Dividends	-	-	-	-	(872)	(872)	-	(872)
Share options issued in equity settled share based payments	-	-	-	28	-	28	-	28
Share options exercised	15	-	179	-	-	194	-	194
Issue of new shares to Joint Share Ownership Plan	126	(1,157)	1,031	-	-	-	-	-
<b>Transactions with owners</b>	<b>141</b>	<b>(1,157)</b>	<b>1,210</b>	<b>28</b>	<b>(872)</b>	<b>(650)</b>	-	<b>(650)</b>
Profit for the period	-	-	-	-	5,066	5,066	(18)	5,048
<b>Total comprehensive income for the period</b>	-	-	-	-	<b>5,066</b>	<b>5,066</b>	<b>(18)</b>	<b>5,048</b>
<b>Balance at 31 December 2010</b>	<b>2,264</b>	<b>(1,157)</b>	<b>15,735</b>	<b>198</b>	<b>13,512</b>	<b>30,552</b>	<b>(18)</b>	<b>30,534</b>

The accompanying notes form an integral part of these financial statements

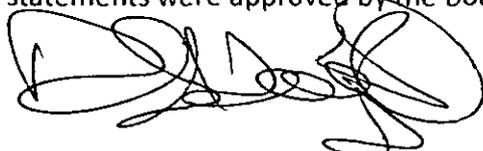
## Consolidated statement of financial position

As at 31 December 2011

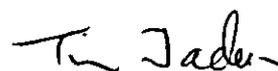
	Note	2011 £'000	2010 £'000
<b>Assets</b>			
<i>Non-current</i>			
Goodwill	10	30,032	26,162
Other intangible assets	11	3,898	1,296
Property, plant and equipment	12	2,811	1,116
		<b>36,741</b>	<b>28,574</b>
<i>Current</i>			
Trade and other receivables	13	46,744	30,633
Cash and cash equivalents	14	3,687	1,871
		<b>50,431</b>	<b>32,504</b>
<b>Total assets</b>		<b>87,172</b>	<b>61,078</b>
<b>Liabilities</b>			
<i>Current</i>			
Trade and other payables	15	38,463	23,328
Borrowings	16	2,984	2,395
Other current liabilities	17	2,345	1,544
Current tax liabilities		1,519	1,330
		<b>45,311</b>	<b>28,597</b>
<i>Non-Current</i>			
Borrowings	16	5,624	1,740
Other non-current liabilities	17	392	207
Deferred tax liabilities	18	946	-
<b>Total liabilities</b>		<b>52,273</b>	<b>30,544</b>
<b>Equity</b>			
Share capital	19	2,284	2,264
Own shares		(1,157)	(1,157)
Share premium		15,928	15,735
Share based payment reserve		229	198
Profit and loss account		17,702	13,512
		<b>34,986</b>	<b>30,552</b>
Non-controlling interest		(87)	(18)
<b>Total equity</b>		<b>34,899</b>	<b>30,534</b>
<b>Total equity and liabilities</b>		<b>87,172</b>	<b>61,078</b>

The financial statements were approved by the Board of Directors on 27 February 2012

A J Hogarth  
 Director



T D Jackson  
 Director



The accompanying notes form an integral part of these financial statements

## Consolidated statement of cash flows

For the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
<b>Cash flows from operating activities:</b>			
Profit before taxation		7,534	6,983
Adjustments for			
Finance costs		126	126
Depreciation, loss on disposal and amortisation		3,137	871
Operating profit before changes in working capital and provisions		<b>10,797</b>	<b>7,980</b>
Change in trade and other receivables		(10,324)	(7,820)
Change in trade and other payables*		1,506	9,203
Cash generated from operations		<b>1,979</b>	<b>9,363</b>
Employee cash settled share options		178	28
Employee equity settled share options		31	15
Taxes paid		(1,786)	(1,222)
Net cash inflow from operating activities		<b>402</b>	<b>8,184</b>
<b>Cash flows from investing activities:</b>			
Purchases of property, plant and equipment		(1,115)	(471)
Sale of property, plant and equipment		-	68
Acquisition of businesses – deferred consideration for prior acquisitions		(1,528)	(592)
Acquisition of businesses – cash acquired		8,896	-
Acquisition of businesses – cash paid		(7,701)	(3,000)
Acquisition of businesses – deferred consideration paid for current year acquisitions		(351)	(693)
Net cash used in investing activities		<b>(1,799)</b>	<b>(4,688)</b>
<b>Cash flows from financing activities:</b>			
Increase (repayment) of bank and other loans		4,191	(899)
Interest paid		(126)	(126)
Dividends paid		(1,437)	(872)
Proceeds from the issue of share capital		213	194
Net cash flows from financing activities		<b>2,841</b>	<b>(1,703)</b>
Net change in cash and cash equivalents		<b>1,444</b>	<b>1,793</b>
Cash and cash equivalents at beginning of period		<b>397</b>	<b>(1,396)</b>
Cash and cash equivalents at end of period	14	<b>1,841</b>	<b>397</b>

\* The cash generated from operations has been reduced by £7,141,000 as a result of creditors acquired through acquisitions but paid after acquisition

The accompanying notes form an integral part of these financial statements

## Notes to the financial statements

### 1 Nature of operations

The principal activities of Staffline Group plc and its subsidiaries (the Group) include the provision of recruitment and outsourced human resource services to industry and services in the welfare to work arena

### 2 General information and statement of compliance

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 its subsidiary companies is disclosed on the company details page to these financial statements.

The financial statements for the year ended 31 December 2011 (including the comparatives for the year ended 31 December 2010) were approved and authorised for issue by the board of Directors on 27 February 2012.

The Group does not have an ultimate controlling related party.

### 3 Accounting policies

#### Basis of preparation

The consolidated financial statements of the Group have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and IFRS as issued by the International Accounting Standards Board (IASB).

Separate financial statements of Staffline Group plc ('the Company') have been prepared, on pages 63 to 71, under the historical cost convention and in accordance with UK GAAP.

#### Functional and presentation currency

The consolidated financial statements are presented in sterling, which is also the functional currency of the parent company.

#### Foreign operations

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than sterling are translated into sterling upon consolidation.

On consolidation assets and liabilities have been translated into sterling at the closing rate at the reporting date. Income and expenses have been translated into sterling at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the currency translation reserve in equity.

The principal accounting policies of the Group are set out below.

#### Consolidation of subsidiaries

The Group financial statements consolidate those of the parent company and all of its subsidiaries as at 31 December 2011. 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 and presence on the respective boards of its subsidiaries. All subsidiaries have a reporting date of 31 December.

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

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

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

Certain companies in which the Group holds a minority interest have not been included in the consolidation on the grounds of materiality.

#### Business combinations

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair value of assets transferred, liabilities incurred and the equity interests of the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in profit or loss immediately.

## Segment reporting

The Group has two material operating segments the provision of temporary staff to customers and the provision of welfare to work services. Each of these operating segments is managed separately as each requires different technologies, marketing approaches and other resources. For management purposes, the Group uses the same measurement policies as those used in its financial statements.

The placement of permanent staff with customers, training and the provision of outsourced logistics services all contribute less than 10% of the Group's total revenue, profit and assets. Under the definitions contained in IFRS 8, the only material geographic area that the Group operates in is the United Kingdom.

## Revenue recognition

Income from the provision of temporary contractors is recognised at the end of the completed working week. Income from permanent placements is recognised when the candidates start work. Income from training provision is recognised evenly across the period of the training.

Income from the provision of welfare to work services is recognised over the period during which the services are provided. Revenue represents monies received from government contracts.

Revenue represents sales to outside customers at invoiced amounts less value added tax.

## Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin.

## 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.

## Intangible assets

### *Assets acquired as part of a business combination*

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

complementary assets are reliably measurable, the Group recognises them as a single asset provided the individual assets have similar useful lives

*Customer contracts*

The fair value of acquired customer contracts is capitalised and, subject to impairment reviews, amortised over the estimated life of the customer contracts acquired (estimated to be 2-5 years) The amortisation is calculated so as to write off the fair value of the customer contracts less their estimated residual values An impairment review of customer contracts is undertaken when events or circumstances indicate the carrying amount may not be recoverable

*Certificates and Accreditations, and favourable service agreement*

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

**Property, plant and equipment**

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

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

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

**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.

#### Leases

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

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

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

#### Taxation

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

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

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

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

#### Pensions

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

Contributions recognised in respect of personal pension plans are expensed as they fall due. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

#### Financial assets

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

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

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

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

#### Cash and cash equivalents

For the purposes of the cash flow 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.

#### Financial liabilities

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

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

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

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

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

*Other provisions, contingent liabilities and contingent assets*

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

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

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

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

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

**Equity**

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

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

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

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

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

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

#### Share based employee remuneration

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

#### Equity settled share based remuneration

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

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

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

#### Cash settled share based remuneration

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

#### Key sources of estimation uncertainty

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 cash flows are required, together with an appropriate discount factor for the purpose of determining the present value of those cash flows. The basis of review of the carrying value of goodwill is as detailed in note 10.

##### *Deferred contingent consideration*

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

##### *Business combinations*

On initial recognition, the assets and liabilities of the acquired business and the consideration paid for them are included in the consolidated financial statements at their fair values. In measuring fair value management uses estimates of future cash flows and discount rates. Any subsequent change in these estimates would affect the amount of goodwill if the change qualifies as a measurement period adjustment. Any other change would be recognised in the income statement in the subsequent period. Details of acquired assets and liabilities assumed are given in note 19.

The recognition of revenue in respect of the welfare to work segment is based upon the period over which services are expected to be provided. As this is a new and significant contract, the period over which revenue is currently spread may prove to be inappropriate as the delivery of the contract develops.

The Directors will closely monitor the performance of the contract within this segment and will revisit the revenue recognition period in light of contract delivery and experience.

### Critical judgments in applying the Group's accounting policies

The Directors consider that the only critical judgement in applying the accounting policies which are described above is

#### *Provisions*

Provisions for future claims or onerous contracts are recognised when the Group has a present legal or constructive obligation as a result of a past event. It is probable that an outflow of economic resources will be required from the Group and amounts can be estimated reliably. Timing or the amount of the outflow may still be uncertain.

#### Adoption of new or amended IFRS

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

- IFRS 13 Fair value measurement (effective 1 January 2013)
- IFRS 10 Consolidated Financial Statements (effective 1 January 2013)
- IFRS 11 Joint Arrangements (effective 1 January 2013)
- IFRS 12 Disclosure of Interests in Other Entities (effective 1 January 2013)
- IAS 27 (Revised), Separate Financial Statements (effective 1 January 2013)
- IAS 28 (Revised), Investments in Associates and Joint Ventures (effective 1 January 2013)

#### **4 Segmental reporting**

Management currently identifies two operating segments: the provision of recruitment and outsourced human resource services to industry and the provision of welfare to work services. These operating segments are monitored by the Group's Board and strategic decisions made on the basis of segment operating results.

Segment information for the reporting period is as follows

	Recruitment services	Welfare to work	Total Group	Total Group
	2011 £'000	2011 £'000	2011 £'000	2010 £'000
<b>Segment continuing operations</b>				
Sales revenue from external customers	278,631	9,672	288,303	206,158
Cost of sales	(251,698)	(5,463)	(257,161)	(183,017)
<b>Segment gross profit</b>	<b>26,933</b>	<b>4,209</b>	<b>31,142</b>	<b>23,141</b>
Administrative expenses	(17,960)	(2,219)	(20,179)	(15,166)
Depreciation	(251)	(446)	(697)	(145)
<b>Segment operating profit before amortisation of intangibles</b>	<b>8,722</b>	<b>1,544</b>	<b>10,266</b>	<b>7,830</b>
Amortisation of intangibles	(1,568)	(1,038)	(2,606)	(721)
<b>Segment profit from operations</b>	<b>7,154</b>	<b>506</b>	<b>7,660</b>	<b>7,109</b>
Segment assets	77,633	9,539	87,172	61,078

There was only one operating segment for the whole of the year ended 31 December 2010. The Group purchased Eos Works Group Limited (Eos), a welfare to work provider, on 21 April 2011 thus creating two segments during the year ended 31 December 2011.

During 2011, one customer in the recruitment services segment contributed greater than 10% of that segment's revenues being £35,208,915 (12.2% of total revenues) (2010 one customer greater than 10%). The welfare to work segment revenues relate solely to one customer (Department for Work and Pensions).

The Group's revenues from external customers and its non-current assets all arise in the United Kingdom.

## 5 Administrative expenses

	2011 £'000	2010 £'000
Employee benefits expenses (note 7)	13,679	10,469
Depreciation	697	145
Other expenses	6,500	4,697
	<b>20,876</b>	<b>15,311</b>

Auditors' remuneration in their capacity as auditors of the parent company is £7,000 (2010 £7,000) and in their capacity as auditor of subsidiary companies is £60,000 (2010 £49,000). Non-audit remuneration in respect of tax compliance services totalled £12,000 (2010 £9,500) and in respect of other advice totalled £15,500 (2010 £36,000).

## 6 Finance costs

	2011 £'000	2010 £'000
Interest payable on bank and other loans and overdraft	126	126

## 7 Directors and employees remuneration

Employee benefits expense

Expense recognised for employee benefits is analysed below

	2011 £'000	2010 £'000
Wages and salaries	14,086	9,190
Social security costs	1,461	982
Other pension costs - defined contribution plans	287	254
Share option charge - cash settled	178	28
Share option charge - equity settled	31	15
	<b>16,043</b>	<b>10,469</b>

	Number	Number
The average number of persons (including Directors) employed by the Group during the year was	498	291

Of the £16,043,000 total employee benefits cost above, £2,364,000 relating to Eos is included in cost of sales and therefore not reflected in administrative expenses in note 5 above

Directors' remuneration

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

2011	AJ Hogarth £'000	MO Evans £'000	TD Jackson £'000	S Brittain £'000	N Keegan £'000	J Crabtree £'000	Total £'000
Salary and fees	186	127	115	120	34	53	635
Bonus	98	69	62	65	-	-	294
Pension contributions	18	12	11	11	-	-	52
Benefits in kind	2	2	2	2	-	-	8
Share based employee remuneration	47	24	33	32	-	-	136
<b>Total</b>	<b>351</b>	<b>234</b>	<b>223</b>	<b>230</b>	<b>34</b>	<b>53</b>	<b>1,125</b>

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

Share based employee remuneration

#### Approved Employee Share Option Plan

At 31 December 2011 the Group operated a share based payment scheme for certain employees. However as the number of employees now exceeds 250 the qualification criteria for an EMI scheme are no longer met so no further share options can be issued under the scheme.

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

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

#### Performance Related Share Option Plan

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

These share options have a performance condition based on the increase in reported Diluted Earnings per Share of the Group from the base of 10.7p in December 2008 to the achieved Diluted EPS in the year to December 2012. The award is scaled up to a maximum of 150,000 shares for a doubling of diluted EPS.

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

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

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

	Number	Weighted average exercise price (pence) 2011	Number	Weighted average exercise price (pence) 2010
Outstanding at start of period	1,187,799	62	1,396,618	69
Granted	200,000	179	-	-
Lapsed	(4,577)	(93)	(59,868)	(104)
Exercised	(203,127)	(105)	(148,951)	(111)
Outstanding at end of period	1,180,095	73	1,187,799	62

The Group has the following outstanding share options and exercise prices:

Date exercisable and (option life)	Number	Weighted average exercise price (pence) 2011 £'000	Weighted average Contractual life (months) 2011 £'000	Number	Weighted average exercise price (pence) 2010 £'000	Weighted average Contractual life (months) 2010 £'000
2006 (up to 2011)	-	-	-	8,435	80	-
2007 (up to 2012)	1,400	94	-	20,966	97	-
2008 (up to 2013)	10,186	124	-	35,686	125	-
2009 (up to 2014)	23,101	158	-	78,156	158	-
2010 (up to 2015)	25,929	94	-	75,174	92	-
2011 (up to 2016)	19,479	54	-	69,382	55	9
2013 (up to 2016)	900,000	48	12	900,000	48	21
2016 (up to 2021)	200,000	179	54	-	-	-

Share options have exercise prices between 47 5p and 178 5p. The weighted average share price during the year was 213p (2010 117p)

During the year, options over 203,127 ordinary shares (2010 148,951) were exercised and the market price on the date of exercise ranged from 209 5p – 223 5p (2010 206p)

The number of share options exercisable at the end of the year was 80,095 (2010 218,417). The weighted average price of the options exercisable at the end of the year was 73p (2010 121p)

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% (2010 30%) volatility based on expected and historical share price
- a risk free interest rate of 4% (2010 4%)
- all options are assumed to be exercised after two years from the date of grant of the options (with the exception of the Directors and senior managers options which are expected to vest after three years)
- dividends in line with current levels

#### Joint Share Ownership Plan

During the prior year the Company established a Joint Share Ownership Plan (JSOP) to provide additional incentives to senior executives

The senior executives participating in the JSOP acquired an interest in the shares jointly with the Staffline Group plc Employee Benefit Trust

The JSOP interest runs from the date of the award until 30 June 2015. During this period the right to sell the JSOP award shares is not at the discretion of the Directors but instead at the discretion of the Employee Benefit Trust. On the eventual disposal of the shares, the amount received by the Directors is calculated based on certain business performance conditions. The eventual payment to the Directors takes into account diluted EPS adjusted for amortisation of intangibles in any full year up to 2014 (from a minimum of 24p to a maximum of 42p) and the share price at the date of disposal. Diluted EPS adjusted for amortisation of intangibles is disclosed in note 9.

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

The fair value of the liability was determined using an external valuation as at 31 December 2011. Significant inputs into the calculations were:

- share price at date of grant,
- exercise prices as detailed above,
- 30% (2010 30%) volatility based on expected and historical share price,
- a risk free interest rate of 4% (2010 4%),
- the disposal of shares and settlement of scheme on 30 June 2015,
- 62.5% pay-out ratio based on management expectations, and
- 33.3% forfeiture rate to account for employees that leave before the vesting date.

#### Share-based employee remuneration

In total £209,000 of employee remuneration expense has been included in the consolidated statement of comprehensive income for the year ended 31 December 2011 (2010: £43,000) which increased the share based payment reserve by £31,000 in respect of equity settled schemes and created a liability of £178,000 in respect of cash settled schemes.

#### Key management personnel

The key management are considered to be the Board of Directors of Staffline Group plc, whose remuneration can be seen within note 7.

## 8 Tax expense

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

	2011 £'000	2011 %	2010 £'000	2010 %
Result for the year before tax	7,534		6,983	
Tax rate	26.5%		28.0%	
Expected tax expense	<b>1,997</b>	<b>26.5%</b>	<b>1,955</b>	<b>28.0%</b>
Adjustment for non-deductible expenses relating to short term temporary differences	20		26	
Other non-deductible expenses	390		44	
Adjustment in respect of prior year	124		(90)	
Deferred tax credit	(555)		-	
Actual tax expense	<b>1,976</b>	<b>26.2%</b>	<b>1,935</b>	<b>27.7%</b>
<b>Tax expense comprises:</b>				
Current tax expense	1,976		1,935	

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

## 9 Earnings per share

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

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

	Basic 2011	Basic 2010	Diluted 2011	Diluted 2010
Earnings (£'000)	5,558	5,048	5,558	5,048
Weighted average number of shares	21,446,973	21,254,988	22,223,142	22,369,807
Earnings per share (pence)	<b>25.9p</b>	23.7p	<b>25.0p</b>	<b>22.6p</b>
Earnings per share (pence) – before amortisation	<b>35.1p</b>	26.7p	<b>33.9p</b>	<b>25.3p</b>

The weighted average number of shares has been increased by 776,169 (2010 1,114,819) shares to take account of all dilutive potential ordinary shares that could be issued under the share option scheme and all shares issued during the year excluding own shares

## Dividends

During the year, Staffline Group plc paid interim dividends of £623,853 (2010 £508,808) to its equity shareholders. This represents a payment of 2.9p (2010 2.4p) per share. A final dividend of £959,486 has been proposed (2010 £812,612) but has not been accrued within these financial statements. This represents a payment of 4.2p (2010 3.8p) per share. The final dividend for 2010 was declared and paid in 2011.

## 10 Goodwill

Gross carrying amount	£'000
At 1 January 2010	25,422
Additions	1,217
Revisions to previous estimates	(477)
At 31 December 2010	26,162
Additions	3,870
At 31 December 2011	30,032

The revision to previous estimates in 2010 relates to a reduction in deferred contingent consideration due to the vendors of Peter Rowley Limited based on revised trading expectations.

Goodwill above relates to the following acquisitions:

	Date of acquisition	Original cost £'000
Staffline Recruitment Limited	8 December 2004	22,326
Onsite Partnership Limited	16 March 2007	1,855
Peter Rowley Limited	1 December 2009	764
A La Carte Recruitment Limited	17 May 2010	744
Qubic Recruitment Solutions Limited	5 November 2010	745
Ethos Recruitment Limited	14 March 2011	76
Eos Works Group Limited	21 April 2011	1,585
Taskforce Recruitment Limited	12 September 2011	1,937

Following acquisition, with the exception of Eos, each of the businesses have been, or are in the process of being, fully integrated into the core recruitment business of the group. Therefore, management consider there to be two cash generating units (in line with the business segments defined in note 4), and have tested these two cash generating units for impairment. This represents a change from the prior year. The total net book value of other intangible assets allocated to the two cash generating units is as follows: Recruitment services £1,860,000 (2010 £1,296,000) and Welfare to Work £2,038,000 (2010 nil).

For both segments the recoverable amount of goodwill was determined based on a value-in-use calculation, covering a detailed one year forecast, followed by an extrapolation of expected cash flows over the next ten years at a growth rate of 5% (Recruitment Services) and 2% (Welfare to Work), and a pre-tax discount rate of 10% based on weighted average cost of capital. The growth

rate used does not exceed the long term average growth rate for the markets in which the two segments operate. 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 both segments are that there will be no significant changes in the business and that turnover and profit growth will be below historic levels. In respect of the Welfare to Work segment management have assumed that the existing government contract will be replaced with like contracts over time. 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 units above, the Group's management are not currently aware of any other probable changes that would necessitate changes in its key estimates.

#### Impairment testing

For the purpose of annual impairment testing, goodwill is allocated to the cash generating units expected to benefit from the synergies of the business combinations in which the goodwill arises as follows:

	2011 £'000	2010 £'000
Recruitment services	28,447	26,162
Welfare to work services	1,585	-
<b>Goodwill as at 31 December</b>	<b>30,032</b>	<b>26,162</b>

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

## 11 Other intangible assets

The Group's other intangible assets include the customer contracts obtained through the acquisition of the companies in note 10 above. The expected remaining useful life of these assets is 0 - 5 years. The carrying amounts for the financial year under review can be analysed as follows:

	Customer contracts £'000	Customer lists £'000	Total £'000
Gross carrying amount			
At 1 January 2010	-	1,059	1,059
Additions through business combinations	-	1,291	1,291
At 31 December 2010	-	<b>2,350</b>	<b>2,350</b>
Additions through business combinations	3,076	2,132	5,208
At 31 December 2011	<b>3,076</b>	<b>4,482</b>	<b>7,558</b>

Amortisation	Customer contracts £'000	Customer lists £'000	Total £'000
At 1 January 2010	-	333	333
Provided in year	-	721	721
At 31 December 2010	-	1,054	1,054
Provided in the year	1,038	1,568	2,606
At 31 December 2011	1,038	2,622	3,660
<b>Net book amount at 31 December 2011</b>	<b>2,038</b>	<b>1,860</b>	<b>3,898</b>
Net book amount at 31 December 2010	-	1,296	1,296

The carrying amount of the material intangible asset – Eos Work Programme contract is £2,000,000  
 The remaining amortisation period is 4.5 years

There are no intangible assets with restricted title

#### Impairment testing

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

## 12 Property, plant and equipment

	Land and buildings £'000	Computer equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
<b>Gross carrying amount</b>					
At 1 January 2010	600	1,955	315	-	2,870
Additions - business combinations	-	9	11	118	138
Additions	-	466	5	-	471
Disposals	-	(1,840)	(174)	(73)	(2,087)
At 31 December 2010	600	590	157	45	1,392
Additions - business combinations	808	184	107	14	1,113
Additions	570	464	255	0	1,289
Disposals	0	(95)	(158)	(13)	(266)
<b>At 31 December 2011</b>	<b>1,978</b>	<b>1,143</b>	<b>361</b>	<b>46</b>	<b>3,528</b>

	Land and buildings £'000	Computer equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
<b>Depreciation</b>					
At 1 January 2010	24	1,853	268	-	2,145
Provided in year	12	103	30	4	149
Disposals	-	(1,840)	(174)	(4)	(2,018)
<b>At 31 December 2010</b>	<b>36</b>	<b>116</b>	<b>124</b>	<b>-</b>	<b>276</b>
Provided in year	264	300	117	16	697
Disposals	0	(94)	(158)	(4)	(256)
At 31 December 2011	300	322	83	12	717
<b>Net book value at 31 December 2011</b>	<b>1,678</b>	<b>821</b>	<b>278</b>	<b>34</b>	<b>2,811</b>
Net book value at 31 December 2010	564	474	33	45	1,116

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

### 13 Trade and other receivables

	2011 £'000	2010 £'000
Trade and other receivables	46,744	30,476
Amount due from Directors	-	157
<b>Total trade and other receivables</b>	<b>46,744</b>	<b>30,633</b>

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. Other than those disclosed in note 4, 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:

	2011 £'000	2010 £'000
Not more than three months	8,585	5,490
More than three months but no more than six months	139	8
	<b>8,724</b>	<b>5,498</b>

During the year, Andy Hogarth, a Director of the Group, has repaid his loan account which arose in relation to a share transfer in prior years.

**14 Cash and cash equivalents**

	2011 £'000	2010 £'000
Cash and cash equivalents	3,687	1,871
Bank overdraft (see note 16)	(1,846)	(1,474)
Cash and cash equivalents per cash flow statement	1,841	397

Cash and cash equivalents consist of cash on hand and balances with banks only. At the year-end £3,687,000 (2010 £1,871,000) of cash on hand and balances with banks were held by subsidiary undertakings, however this balance is available for use by the Company.

**15 Trade and other payables**

	2011 £'000	2010 £'000
Trade and other payables	38,463	23,328

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.

**16 Borrowings**

Bank loans and overdrafts are repayable as follows

	2011 £'000	2010 £'000
In one year or less or on demand	2,984	2,395
In more than one year but not more than two years	603	1,120
In more than two years but not more than three years	5,034	598
In more than three years but not more than four years	25	61
In more than four years but not more than five years	-	25
	<b>8,646</b>	<b>4,199</b>
Debt issue costs	(38)	(64)
	<b>8,608</b>	<b>4,135</b>

	2011 £'000	2010 £'000
<b>Split</b>		
<b>Current liabilities:</b>		
Bank loans	1,138	921
Overdraft	1,846	1,474
	<b>2,984</b>	<b>2,395</b>
<b>Non-current liabilities:</b>		
Bank loans and revolving credit facility	5,624	1,740
	<b>8,608</b>	<b>4,135</b>

The bank loans and revolving credit facility (RCF) and overdrafts are secured by a debenture over all the assets of the Group. The balance of the first bank loan is repayable in 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% (2010: 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% (2010: 1.5%) above base rate.

The RCF of £5million was drawn down in full on 3 November 2011. The facility is repayable at the latest on 21 July 2014. Interest accrues on the loan at 2.2% above LIBOR plus a non-utilisation fee of 0.88%.

During the period repayments totalling £930,000 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 comfortably satisfied in 2010 and 2011.

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 £1,680,777 at 31 December 2011 (2010: £2,467,000). Fair values of the bank and other loans have been determined by calculating the present values at the balance sheet date of the future cash flows, using fixed effective market interest rates available to the Group.

## 17 Other liabilities

	2011 £'000	2010 £'000
<b>Due within one year</b>		
Deferred income	17	17
Deferred consideration	2,328	1,527
	<b>2,345</b>	<b>1,544</b>
<b>Due after more than one year</b>		
Deferred income	85	107
Deferred consideration	307	100
	<b>392</b>	<b>207</b>

The deferred income relates to the current head office building for the Group which was subject to a sale and lease back transaction in December 2007, with a sales price above fair value. The excess of proceeds over fair value has been deferred and is being amortised over the remaining lease term. The subsequent leasing agreement is treated as an operating lease. See note 22 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 acquisitions. See note 20 for further details on the deferred consideration.

## 18 Deferred tax

	2011 £'000	2010 £'000
Due in greater than one year		
Deferred tax	946	-

The deferred tax relates to the liability arising on the intangibles asset balance in respect of acquisitions.

## 19 Share capital

	2011 £'000	2010 £'000
Authorised		
30,000,000 ordinary 10p shares	3,000	3,000
Allotted and issued		
22,844,915 ordinary 10p shares	2,284	2,264

	Ordinary 10p shares	
	Year ended 31 December 2011	Year ended 31 December 2010
Shares issued and fully paid at the beginning of the period	22,628,502	21,215,795
Shares issued during the year	203,127	1,412,707
Shares issued and fully paid	22,831,629	22,628,502
Shares issued but not fully paid	13,286	13,286
Shares issued	22,844,915	22,641,788
Shares authorised but unissued	7,155,085	7,358,212
Total equity shares authorised at end of period	30,000,000	30,000,000

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

Shares totalling 13,286 (2010: 13,286) were not fully paid at 31 December 2011. The shares issued but not fully paid will become fully paid on the completion of their sale to a third party.

## 20 Business combinations

The Company made a total of 5 acquisitions during the year. An adjustment was required to the book values of the assets and liabilities of the businesses acquired in order to present the net assets at fair values in accordance with group accounting policies. The purchases were accounted for as acquisitions.

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

Amounts relating to the acquisitions are detailed below.

### 20.1 Acquisition of Eos Works Group Limited

On 21 April 2011 the Company acquired Fourstar Group Limited (Fourstar) from the Dutch company Lern Holding B V, a company registered in the Netherlands and assumed control through owning 100% of the voting rights. Fourstar was an incumbent provider of the Flexible New Deal Programme and has secured a Work Programme (WP) contract for the West Midlands. Fourstar is paid for finding work for those claiming Job Seeker's Allowance and Incapacity Benefit and then for keeping them in work. Staffline is well placed to utilise its database of jobs to place people back into work. The WP alone will also bring a strong relationship with the Department for Work and Pensions and provide access to potential new work streams. On 20 June 2011 Fourstar changed its name to Eos Works Group Limited (Eos).

The amounts in respect of the above are:

	Book value at acquisition £'000	Fair value adjustment £'000	Provisional fair value to group £'000
Intangible assets – customer contracts	-	3,076	3,076
Property, plant and equipment	1,060	-	1,060
Trade and other receivables	2,056	-	2,056
Cash at bank	8,209	-	8,209
Deferred tax liability	(23)	(769)	(792)
Trade and other payables	(10,292)	(1,600)	(11,892)
<b>Net assets</b>	<b>1,010</b>	<b>707</b>	<b>1,717</b>
Goodwill		1,583	1,583
			<b>3,300</b>
<b>Satisfied by:</b>			
Cash			3,000
Contingent deferred consideration			300

Acquisition costs recognised as expenses in the year amounted to £50,000.

#### Consideration transferred

The acquisition of Eos was settled in cash amounting to £3,000,000. The purchase agreement included an additional consideration of £300,000 payable only if Eos meets the target levels agreed by both parties. The fair value of the contingent consideration liability initially recognised also reflects management's estimate as at the date of acquisition.

#### Identifiable net assets

The fair value of trade and other receivables acquired as part of the business combination amounted to £2,056,000, with a gross contractual amount of £2,056,000. As of the acquisition date, the Group's best estimate of the contractual cash flow not expected to be collected amounted to £nil.

#### Eos contribution to the Group results

Eos generated post acquisition revenues of £9,672,000 and an operating profit before amortisation of intangibles of £544,000. If the acquisition had been made on 1 January 2011 revenues of £14,328,000 and an operating profit before amortisation of intangible assets of £1,550,000 would have been included.

#### Goodwill

The rationale for calculating goodwill on acquisitions is set out in note 10.

#### 20.2 Other acquisitions

The following acquisitions were also made during the year to enhance the Group's recruitment services segment:

- On 4 January 2011 a Group undertaking acquired the trade and assets of Kelburn Industrial Limited, based in Newcastle,
- On 14 March 2011 a Group undertaking acquired Ethos Recruitment Limited, based in Daventry and assumed control by acquiring 100% of the voting rights,
- On 22 July 2011 the trade and certain assets of Arnashade Recruitment Limited were acquired from the receivers by a Group undertaking, and
- On 12 September 2011 a Group undertaking acquired Taskforce Recruitment Limited based in Peterborough and assumed control by acquiring 100% of the voting rights.

These acquisitions were individually immaterial to the Group and have therefore been disclosed in aggregate. The aggregate amounts in respect of the above are detailed below.

	Book value at acquisition £'000	Fair value adjustment £'000	Provisional fair value to group £'000
Intangible assets – customer lists	-	2,131	2,131
Fixtures and fittings	53	-	53
Trade and other receivables	3,731	-	3,731
Cash at bank	686	-	686
Deferred tax liability	-	(731)	(731)
Trade and other payables	(2,266)	-	(2,266)
<b>Net assets</b>	<b>2,204</b>	<b>1,400</b>	<b>3,604</b>
Goodwill		2,284	2,284
			<b>5,888</b>
<b>Satisfied by.</b>			
Cash			3,200
Contingent deferred consideration			<b>2,688</b>

Acquisition costs recognised as expenses in the year amounted to £57,000.

#### Consideration transferred

The acquisitions were settled in cash amounting to £3,200,000. The purchase agreements included an additional consideration of £2,688,000 payable only if the profits met the target level agreed by both parties. The additional consideration will be paid in accordance with the specific agreements for each acquisition. The fair value of the contingent consideration liability initially recognised also reflects management's estimate as at 31 December 2011.

#### Identifiable net assets

The fair value of trade and other receivables acquired as part of the business combination amounted to £3,731,000, which equated to the gross contractual amount.

#### Contribution to the Group results

The above acquisitions contributed post acquisition revenues of £11,863,000 and profits totalling £420,000. If the acquisitions had been made on 1 January 2011 revenues of £30,079,000 and an operating profit before amortisation of intangible assets of £1,003,000 would have been included.

#### Goodwill

The goodwill recognised relates to expected synergies to be achieved as a result of the acquisitions.

## 21 Related party transactions

The only related parties are the Group's Directors and Group undertakings not wholly owned.

Transactions with Group undertakings not wholly owned

A Group undertaking has paid for certain expenses on behalf of House of Logistics Limited during the year amounting to £2,737,539 (2010 £741,470) The Group made sales of £253,400 and purchases of £261,209 during the year The balance owing to the Group undertaking at 31 December 2011 was £382,160 (2010 £216,910) House of Logistics Limited is a related party due to the Group's shareholding being 51%

Transactions with Group Directors

The Group Directors' personal remuneration includes the following expenses

	2011 £'000	2010 £'000
Short-term employee benefits		
Salaries and fees	635	599
Bonus – unpaid	294	243
Social security costs	190	128
Pension contributions	52	48
Share based employee remuneration	136	33
Short-term employee benefits		
Benefits in kind	8	5
	<b>1,315</b>	<b>1,056</b>

**22 Operating leases**

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

	2011 Land and buildings £'000	2010 Land and buildings £'000
In one year or less	113	10
Between one and five years	1,864	345
In five years or more	1,722	816
	<b>3,699</b>	<b>1,171</b>

Lease payments recognised as an expense during the year ended 31 December 2011 amounted to £477,000 (2010 £328,000)

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

## 23 Contingencies

The Group had no contingent assets or liabilities at 31 December 2011 or 31 December 2010

## 24 Capital commitments

The Group had no capital commitments at 31 December 2011 or 31 December 2010

## 25 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.

	2011 Loans and receivables and balance sheet totals £'000	2010 Loans and receivables and balance sheet totals £'000
Trade and other receivables	46,744	30,476
Amount due from Directors	-	157
Cash and cash equivalents	3,687	1,871
<b>Total</b>	<b>50,431</b>	<b>32,504</b>

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 2011 are provided in note 13.

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 £15,000,000 to 31 December 2011 and £10,000,000 from 1 January 2012.

#### Interest rate risk

All financial liabilities of the Group are subject to floating interest rates. Competitive rates have been renegotiated with the Group's bankers and the rate paid on bank loans has been set at 1% or 1.5% above base rate. The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates of +/- one percentage point with effect from the beginning of the year.

	2011	2011	2010	2010
	+1%	-1%	+1%	-1%
(Decrease)/increase in net result and equity £'000	(86)	86	(41)	41

#### Financial currency sensitivity

Most of the Group's transactions are carried out in sterling. Exposure to currency exchange rates arises from the Group's overseas sales and purchases which are predominantly denominated in Polish zloty. These sales and purchases are immaterial to the Group's total sales and purchases. Due to the highly immaterial nature of these foreign currency transactions the Group has not entered into any foreign currency risk mitigation strategies to date. This will be kept under review as overseas business continues to grow.

#### Financial liabilities

The Group's financial liabilities are classified as follows:

	2011 Other financial liabilities at amortised cost £'000	2011 Liabilities not within the scope of IAS 39 £'000	2011 Balance sheet total £'000	2010 Other financial liabilities at amortised cost £'000	2010 Liabilities not within the scope of IAS 39 £'000	2010 Balance sheet total £'000
Bank loan	1,762	-	1,762	2,661	-	2,661
RCF	5,000	-	5,000	-	-	-
Overdraft	1,846	-	1,846	1,474	-	1,474
Trade and other payables	38,463	-	38,463	23,328	-	23,328
Other liabilities	-	2,737	2,737	-	1,751	1,751
Deferred tax	-	946	946	-	-	-
<b>Total</b>	<b>47,071</b>	<b>3,683</b>	<b>50,754</b>	<b>27,463</b>	<b>1,751</b>	<b>29,214</b>

## Maturity of financial liabilities

The analysis of the maturity of financial liabilities at 31 December 2011 is as follows

	2011 Less than one year £'000	2011 Two to five years £'000	2011 More than five years £'000	2011 Total £'000	2010 Less than one year £'000	2010 Two to five years £'000	2010 More than five years £'000	2010 Total £'000
Bank loan	1,138	624	-	1,762	921	1,740	-	2,661
RCF	-	5,000	-	5,000	-	-	-	-
Overdraft	1,846	-	-	1,846	1,474	-	-	1,474
Trade and other payables	38,463	-	-	38,463	23,328	-	-	23,328
Other liabilities	2,345	392	-	2,737	1,544	168	39	1,751
<b>Total</b>	<b>43,792</b>	<b>6,016</b>	<b>-</b>	<b>49,808</b>	<b>27,267</b>	<b>1,908</b>	<b>39</b>	<b>29,214</b>

## 26 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

**27 Presentation of summarised consolidated statement of comprehensive income**

The effect of the amortisation of the Group's intangible assets has been separately disclosed on the face of the consolidated statement of comprehensive income. This is reported below, together with the comparatives for 2010

Note	2011	2011	2011	2010	2010	2010
	Before amortisation	Amortisation	Total	Before amortisation	Amortisation	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Continuing operations</b>						
Sales revenue	288,303	-	288,303	206,158	-	206,158
Cost of sales	(257,161)	-	(257,161)	(183,017)	-	(183,017)
<b>Gross profit</b>	<b>31,142</b>	-	<b>31,142</b>	<b>23,141</b>	-	<b>23,141</b>
Administrative expenses	(20,876)		(20,876)	(15,311)	-	(15,311)
<b>Operating profit before amortisation of intangibles</b>	<b>10,266</b>		<b>10,266</b>	<b>7,830</b>	-	<b>7,830</b>
Amortisation of intangibles	-	(2,606)	(2,606)	-	(721)	(721)
<b>Profit from operations</b>	<b>10,266</b>	<b>(2,606)</b>	<b>7,660</b>	<b>7,830</b>	<b>(721)</b>	<b>7,109</b>
Finance costs	(126)	-	(126)	(126)	-	(126)
<b>Profit for the year before taxation</b>	<b>10,140</b>	<b>(2,606)</b>	<b>7,534</b>	<b>7,704</b>	<b>(721)</b>	<b>6,983</b>
Tax expense	(2,611)	635	(1,976)	(2,035)	100	(1,935)
<b>Net profit and total comprehensive income for the year</b>	<b>7,529</b>	<b>(1,971)</b>	<b>5,558</b>	<b>5,669</b>	<b>(621)</b>	<b>5,048</b>

The above splits out 2010 so that it is directly comparable to 2011

Staffline Group plc

**Company statutory financial statements  
(prepared under UK GAAP)**

For the year ended 31 December 2011

Company number 05268636

## Director's responsibility statement

For the year ended 31 December 2011

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company for that period. In preparing these financial statements, the Directors are required to

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

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

In so far as each of the Directors is aware

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

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

# Independent auditor's report to the members of Staffline Group plc

For the year ended 31 December 2011

We have audited the parent company financial statements of Staffline Group plc for the year ended 31 December 2011 which comprise the parent company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

## Respective responsibilities of Directors and auditors

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

## Scope of the audit and financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

## Opinion on financial statements

In our opinion the parent company financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

## Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Other matters

We have reported separately on the group financial statements of Staffline Group plc for the year ended 31 December 2011

*Grant Thornton UK LLP*

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

Date *27 February* 2012

## Principal accounting policies

For the year ended 31 December 2011

### 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. Deferred tax is not discounted.

### 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.

## Company balance sheet

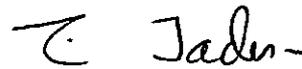
At 31 December 2011

	Note	2011 £'000	2010 £'000
<b>Fixed assets</b>			
Investments	30	18,528	17,228
Goodwill	31	2,000	-
<b>Current assets – amounts due from group companies</b>			
Creditors amounts falling due within one year	32	1,316	-
Net current (liabilities)/assets		(1,316)	1,771
<b>Total assets less current liabilities and net assets</b>		<b>19,212</b>	<b>18,999</b>
<b>Capital and reserves</b>			
Called up share capital	33	2,284	2,264
Share premium account	34	15,928	15,735
Profit and loss account	34	1,000	1,000
<b>Equity shareholder's funds</b>		<b>19,212</b>	<b>18,999</b>

The financial statements were approved by the Board of Directors on 27 February 2012



A J Hogarth  
 Director



T D Jackson  
 Director

## Notes to the UK GAAP financial statements

For the year ended 31 December 2011

### 28 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 £1,436,935 (2010 £872,000)

Auditors remuneration incurred by the Company during the year for audit services totalled £7,000 (2010 £7,000), and for tax compliance services totalled £1,000 (2010 £1,000) which was borne by the subsidiary undertaking Staffline Recruitment Limited

### 29 Directors and employees remuneration

As in previous years all Group Directors are remunerated by Staffline Recruitment Limited. Details of Directors' remuneration is disclosed within the Report on Remuneration on page 15

The average number of persons (including Directors) employed by the Company during the year was 6 (2010 6)

### 30 Fixed asset investments

	Investment in group undertakings £'000
Cost and net book amount at 31 December 2010	<b>17,228</b>
Additions	3,300
Transfer to goodwill (see note 31)	(2,000)
Cost and net book amount at 31 December 2011	<b>18,528</b>

Following the hive up of the trade and assets on Onsite Partnership into Staffline Recruitment Limited, the excess of the investment in On-site Partnership Limited over the net assets of that company has been transferred to goodwill during the year. The goodwill is supported to by corresponding trade and assets in Staffline Recruitment Limited

The Company holds interests in the following companies

Subsidiaries	Proportion of ordinary share capital held	Country of incorporation	Nature of business
Staffline Recruitment Limited	100%	England and Wales	Recruitment
Peter Rowley Limited*	100%	England and Wales	Training
A La Carte Recruitment Limited*	100%	England and Wales	Recruitment
Staffline Polska Sp z o o*	100%	Poland	Recruitment
House of Logistics Limited	51%	England and Wales	Business Consultancy
Eos Works Limited*	100%	England and Wales	Welfare to work
Ethos Recruitment Limited*	100%	England and Wales	Recruitment
Taskforce Recruitment Limited*	100%	England and Wales	Recruitment

\*These companies are owned indirectly through other group companies

Joint ventures	Proportion of ordinary share capital held	Country of incorporation	Nature of business
Group Learner Limited	40%	England and Wales	Training

The financial position and performance of Group Learner Limited for the year ended 31 December 2011 is highly immaterial to Staffline Group plc

### 31 Goodwill

	£'000
Brought forward at 31 December 2010	-
Transferred from investments (see note 30)	2,000
Cost carried forward at 31 December 2011	2,000

### 32 Creditors: amounts falling due within one year

	2011 £'000	2010 £'000
Amounts due to Group undertakings	1,316	-

### 33 Share capital

Authorised	2011 £'000	2010 £'000
30,000,000 (2010 30,000,000) ordinary 10p shares	3,000	3,000

Allotted and issued	2011 £'000	2010 £'000
22,844,915 (2010 22,641,788) ordinary 10p shares	2,284	2,264

#### Share options

At 31 December 2011 the following ordinary share options granted were outstanding

Date of grant	Number	Exercise price	Exercise period
8 June 2005	490	107 5p	09/06/07 - 08/06/12
8 December 2005	910	86 5p	09/12/07 - 08/12/12
8 June 2006	4,463	130p	09/06/08 - 08/06/13
9 December 2006	5,723	120p	10/12/08 - 09/12/13
8 June 2007	11,428	174p	09/06/09 - 08/06/14
1 October 2007	11,673	143p	02/10/09 - 01/10/14
1 April 2008	13,167	121p	02/04/10 - 01/04/15
1 October 2008	12,762	66p	02/10/10 - 01/10/15
1 October 2009	19,479	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 7.

### 34 Reserves

	Share premium £'000	Profit and loss account £'000
At 1 January 2011	15,735	1,000
Retained profit for the year	-	1,437
Share options exercised	193	-
Dividends paid	-	(1,437)
At 31 December 2011	15,928	1,000

### 35 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 £8,646,000

### 36 Capital commitments

There were no capital commitments at 31 December 2011 or at 31 December 2010

