

**STAFFLINE GROUP PLC**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**31 DECEMBER 2010**

**TUESDAY**



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COMPANIES HOUSE

Company No 05268636

# STAFFLINE GROUP PLC

## Directors and advisors

For the year ended 31 December 2010

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

# **STAFFLINE GROUP PLC**

## **Chairman and Chief Executive's statement**

For the year ended 31 December 2010

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# STAFFLINE GROUP PLC

## Chairman and Chief Executive's statement

For the year ended 31 December 2010

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### Introduction

#### 2010 Financial Results

It is very pleasing to be able to report a significant increase in the Group's revenue and profits given the continuing demanding trading environment in which we operate. Sales have increased by 79% to £206.2million (2009 £115.0million) whilst profit before tax increased by 100% to £7.0million (2009 £3.5million). Operating profit before amortisation increased by 110% to £7.8million (2009 £3.7m). The increased profitability, and a continued focus on debtor collections led to a further significant decline in the net bank debt of the Group, which stood at £2.3million at the year end (2009 £5.0million).

#### Dividends

The Group has already paid an interim dividend of 2.4p per share (2009 1.4p) and the Directors propose a final dividend for the year of 3.8p (2009 1.7p) giving a total dividend for the year of 6.2p (2009 3.1p). This represents an increase of 100% and is within the Board's stated desired level of cover of earnings of 3.75 times.

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

#### 2010 Trading and Operational Review

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

1. increase in demand from existing customers
2. new *OnSite* openings during the year
3. acquisitions made both in 2009 and in 2010

##### *Existing customers*

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

##### *New OnSite locations*

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

# **STAFFLINE GROUP PLC**

## **Chairman and Chief Executive's statement**

For the year ended 31 December 2010

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### *Acquisitions*

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

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

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

### **Group Strategy**

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

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

### **Employees**

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

### **Travel and Subsistence Schemes**

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

# STAFFLINE GROUP PLC

## Chairman and Chief Executive's statement

For the year ended 31 December 2010

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### Industry Appointments

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

### Health & Safety

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

During 2010 we introduced Health & Safety audits, which are intended to help us maintain and develop a continuously improving health & safety culture. Our commitment to safety has been shown by our consistent improvement in performance, recording an accident frequency rate (AFR) for the whole year of 0.32, a significant improvement on the previous year's AFR of 0.77. This equates to a 58% reduction in reportable accidents. This accident rate compares against an average of 6.1 for the industries in which Staffline works. The AFR is calculated using the number of reportable accidents and total hours worked.

### Environmental Policy

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

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

### ISO 9001 and Investors in People (IIP)

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

### Information Technology

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

## **STAFFLINE GROUP PLC**

### **Chairman and Chief Executive's statement**

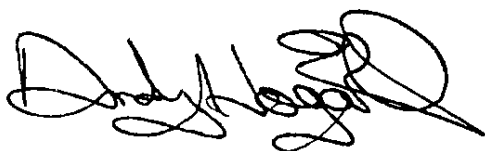
For the year ended 31 December 2010

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#### **Current Trading and Prospects**

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

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



**Andy Hogarth**  
**Chairman and Chief Executive**  
**Date: 28 February 2011**

# STAFFLINE GROUP PLC

## Finance Director's statement

For the year ended 31 December 2010

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### Financial Highlights

The total revenues for the year increased by 79% to £206.2million (2009: £115.0million) reflecting the impact of strong demand for our services from existing customers, new business wins in 2009 and 2010 and also the impact of the acquisitions made during last year and this year. The successful growth of our *OnSite* business, which achieves lower gross margins on higher volumes, has continued. The change in business mix has resulted in a reduction in gross margin to 11.2% (2009: 12.9%). However, profit from operations has increased by 98% to £7.1million (2009: £3.6m), and the net operating margin, including amortisation of intangibles, has increased to 3.5% from 3.1% in 2009. The charge for amortisation has increased by £579,000 to £721,000 during the year.

The investment in acquisitions, offset by continued tight management of our debtor book and strong cash flow generation, has led to finance charges being flat at £0.1million (2009: £0.1million) and this has meant that we have continued to improve interest cover, which has now reached 56 times (2009: 33 times). The interest rates on our overdraft facility changed slightly during the year, at 2.5% (2009: 2.0%) over bank base rate, while the rate for term borrowings remained at 1.0% (2009: 1.0%) over bank base rate.

Profit before tax for the reporting year increased to £7.0million (2009: £3.5million) and profit after tax was increased to £5.0million (2009: £2.4million).

### Earnings per Share

The basic earnings per share more than doubled to 23.7p (2009: 11.5p). The diluted earnings per share also increased significantly to 22.6p (2009: 11.2p) and the diluted earnings per share before amortisation increased by 111% to 24.9p (2009: 11.8p).

### Dividends

The directors propose a final dividend of 3.8p per share against 1.7p per share last year. This gives a total dividend for the year of 6.2p per share which is 100% ahead of the 3.1p per share paid last year.

### Acquisitions

During the year we completed three acquisitions for a total consideration of £4.8million, net of cash balances acquired. This amount is comprised of £3.7million cash paid during the year, and further potential consideration of £1.1million which is dependent on future profitability. These acquisitions will add around £37million to turnover in a full year. The acquisitions have resulted in the recognition in the Group balance sheet of additions to goodwill of £1.2million and additions to intangible assets of £1.3million. The intangible assets will be amortised over a period of 2 years. The acquisitions have been funded from existing bank facilities.

# STAFFLINE GROUP PLC

## Finance Director's statement

For the year ended 31 December 2010

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### Balance Sheet

The Group balance sheet has strengthened during the year, with net current assets rising by £0.9million to £3.9million (2009 £3.0million) and a broadly unchanged ratio of current assets to current liabilities of 1.14 (2009 1.18). It is also pleasing to report a significant fall in gearing to 7% (2009 19%). The Group continues to be focused on cash generation and ensuring a robust balance sheet.

### Financing

The Group's current bank facilities include a term loan of £2.7million, repayable in quarterly instalments up to 2013, and an overdraft of up to £10.0million. At 31 December 2010 the Group was in a net cash position (excluding term loans). The overdraft facility is renewable annually and is due to be renewed in March 2011. Substantive discussions have already been held with the bank, which have resulted in an indicative offer of similar facilities for the period to March 2012 at a similar cost of funding as currently in place. The Board believes that these facilities, once finalised, will ensure that the Group has sufficient headroom to manage the current operations as well as providing further headroom to support the continued growth of the business.

Post tax cash generation during the year has been strong and the relentless focus on debtor management has succeeded in reducing our working capital requirement by £0.3million despite the 79% increase in sales. In addition, we have invested £3.7million in acquisitions during the year covering A La Carte Recruitment Limited, DKM Labour Solutions and Qubic Recruitment Solutions Limited, and also invested £0.4million on our systems to assist the growth and development of the business. Despite these investments we still ended the year with a £2.7million reduction in net debt to £2.3million (2009 £5.0million). During the year staff exercised share options raising £0.2million for the Company.



**Tim Jackson**  
**Finance Director**  
**Date: 28 February 2011**

# STAFFLINE GROUP PLC

## Report of the Directors

For the year ended 31 December 2010

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

### Principal activity and business review

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

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

An interim dividend of £508,808 (2.4 p per share) was paid during the year (2009 £297,207, 1.4 p per share). The directors have proposed a final dividend of £812,612 (3.8 p per share) (2009 £360,894, 1.7 p per share) to be paid on 6 July 2011, to shareholders registered on 3 June 2011. This has not been included within creditors as it was not formally approved before the year end.

### Directors

The Directors who held office during the year were as follows

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

### Substantial shareholdings

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

|                             | Ordinary<br>shares of 10p<br>each<br>Number | Percentage of<br>ordinary shares<br>% |
|-----------------------------|---------------------------------------------|---------------------------------------|
| ISIS Equity Partners        | 4,174,791                                   | 18.44                                 |
| A J Hogarth                 | 3,068,629                                   | 13.55                                 |
| Octopus Asset Management    | 2,802,101                                   | 12.38                                 |
| Generali                    | 2,073,750                                   | 9.16                                  |
| M O Evans                   | 1,454,080                                   | 6.42                                  |
| Invesco Perpetual           | 1,054,714                                   | 4.66                                  |
| Baronsmead VCT 2 plc        | 958,792                                     | 4.23                                  |
| Baronsmead VCT plc          | 958,792                                     | 4.23                                  |
| Goldman Sachs International | 811,325                                     | 3.58                                  |

# **STAFFLINE GROUP PLC**

## **Report of the Directors**

For the year ended 31 December 2010

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

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

### **Payment to suppliers**

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

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

### **Financial risk management objectives and policies**

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

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

#### **Credit risk**

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

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

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

#### **Liquidity risk**

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

#### **Interest rate risk**

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

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

# **STAFFLINE GROUP PLC**

## **Report of the Directors**

For the year ended 31 December 2010

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### **Employee Involvement**

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

### **Disabled persons**

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

# STAFFLINE GROUP PLC

## Report of the Directors

For the year ended 31 December 2010

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### Directors' Responsibilities Statement

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

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

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

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

In so far as each of the directors is aware:

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

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

### Auditors

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

BY ORDER OF THE BOARD



T D Jackson  
Company Secretary  
Date 28 February 2011  
05268636

# STAFFLINE GROUP PLC

## Corporate governance statement

For the year ended 31 December 2010

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

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

### The Board

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

### Shaun Brittain - Executive Director

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

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

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

### Marshall Evans – Executive Director

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

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

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

# **STAFFLINE GROUP PLC**

## **Corporate governance statement**

For the year ended 31 December 2010

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### **Tim Jackson - Finance Director**

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

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

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

### **Relations with shareholders**

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

### **Internal control**

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

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

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

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

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

# STAFFLINE GROUP PLC

## Corporate governance statement

For the year ended 31 December 2010

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

### Risks

- Because of the industries in which the Group specialises, principally food processing, the Directors consider the Group likely to be relatively less affected than others in the sector during a general economic downturn. However, this sector is subject to great change and consolidation as the buying power of major retailers continues to drive the need for rationalisation and greater economies of scale. We are at risk if our clients lose business in this process. We continue to counter this risk by expanding our client base and can expect to gain as much business as we lose if we have a wide enough spread of clients.
- Because we allow credit to our clients we are at risk if one of them runs into financial difficulties and is unable to pay their outstanding debt. To minimise the risks we monitor client payment patterns, subscribe to a monitoring service and employ pro-active credit control systems. To date these actions have been successful and the total bad debt charge to the Group in the last three years, excluding VAT, has been £50,000 on sales of £441 million, equating to 0.01% of sales.
- We face the risk that one of our members of staff may deliberately by-pass the procedures set up to ensure we fully comply with all legislative requirements. Although the systems we have should detect most of such acts there is a reputational and financial risk to the business should someone deliberately choose to do this.
- Major failure of IT systems. The Group has a robust Disaster Recovery plan in place in the event of a major internal failure of our IT systems, which has proven to be successful three times in the past five years. However as our business grows we become ever more reliant on third party telecommunication and other providers, including BT, BACS and Project Telecom. A major failure by any of these suppliers might prove very disruptive.
- Competition. The Group operates in a sector where there are a significant number of competitors and barriers to entry are relatively low. To counter the threat of competitors seeking to win business from us the Group aims to build strong long term relationships with its customers through excellent service levels and through its rigorous selection and checking procedures which ensure that all contractors provided by the Group are fully compliant with the legal requirements.

### Uncertainties

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

### Going concern

In considering the ongoing funding requirements of the Group, the directors have prepared detailed cash flow forecasts extending to March 2012 and these indicate that the Group expects to be able to continue to operate within its existing bank facilities for the foreseeable future. The Group enjoys a strong working relationship with its bank and had undrawn overdraft facilities of £7.5m at 31 December 2010. Coupled with a strong financial performance for the year ended 31 December 2010 and a strong start to 2011 the directors are of the view that it remains appropriate for the financial statements to be prepared on a going concern basis.

# STAFFLINE GROUP PLC

## Report on remuneration

For the year ended 31 December 2010

### Remuneration Committee

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

### Policy on Executive Directors' remuneration

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

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

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

|                                   | A J<br>Hogarth<br>£'000 | M O<br>Evans<br>£'000 | T D<br>Jackson<br>£'000 | S<br>Brittain<br>£'000 | N<br>Keegan<br>£'000 | J<br>Crabtree<br>£'000 | Total<br>£'000 |
|-----------------------------------|-------------------------|-----------------------|-------------------------|------------------------|----------------------|------------------------|----------------|
| <b>2010</b>                       |                         |                       |                         |                        |                      |                        |                |
| 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>     |
|                                   | A J<br>Hogarth<br>£'000 | M O<br>Evans<br>£'000 | T D<br>Jackson<br>£'000 | S Brittain<br>£'000    | N<br>Keegan<br>£'000 | J<br>Crabtree<br>£'000 | Total<br>£'000 |
| <b>2009</b>                       |                         |                       |                         |                        |                      |                        |                |
| Salary and fees                   | 170                     | 116                   | 97                      | 102                    | 31                   | 39                     | 555            |
| Bonus                             | 80                      | 54                    | 45                      | 51                     | -                    | -                      | 230            |
| Pension contributions             | 16                      | 11                    | 9                       | 9                      | -                    | -                      | 45             |
| Benefits in kind                  | 1                       | 2                     | 1                       | 1                      | -                    | -                      | 5              |
| Share based employee remuneration | 1                       | 1                     | 1                       | 1                      | -                    | -                      | 4              |
| <b>Total</b>                      | <b>268</b>              | <b>184</b>            | <b>153</b>              | <b>164</b>             | <b>31</b>            | <b>39</b>              | <b>839</b>     |

# **STAFFLINE GROUP PLC**

## **Report on remuneration**

For the year ended 31 December 2010

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### **Basic salary**

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

### **Annual bonus**

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

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

### **Share Option Scheme**

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

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

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

# STAFFLINE GROUP PLC

## Report on remuneration

For the year ended 31 December 2010

### Directors' share options

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

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

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

|            | Date of Grant | 1 January 2010 | Granted | Lapsed/<br>exercised | 31 December<br>2010 | Exercise price |
|------------|---------------|----------------|---------|----------------------|---------------------|----------------|
| A Hogarth  | 19 Oct 2009   | 150,000        | -       | -                    | 150,000             | 47.5p          |
| M Evans    | 19 Oct 2009   | 150,000        | -       | -                    | 150,000             | 47.5p          |
| S Brittain | 19 Oct 2009   | 150,000        | -       | -                    | 150,000             | 47.5p          |
| T Jackson  | 19 Oct 2009   | 150,000        | -       | -                    | 150,000             | 47.5p          |

On 9 November 2010 S Brittain exercised 18,200 share options under the Company's Approved Employee Share Option Plan at an average exercise price of £1.16 and sold the resulting ordinary shares on the market. The market price on the date of exercise was £2.06 resulting in a gain on exercise of £16,183. S Brittain still holds options over 5,950 options in this Plan at a weighted average exercise price of £1.27.

### Joint Share Ownership Plan

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

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

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

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

# **STAFFLINE GROUP PLC**

## **Report on remuneration**

For the year ended 31 December 2010

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### **Policy on Non-Executive Directors' Remuneration**

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

### **Service contracts**

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

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

### **Pension arrangements**

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

### **Benefits in kind**

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

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

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

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

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

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

### **SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS**

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

### **OPINION ON FINANCIAL STATEMENTS**

In our opinion the group financial statements

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

### **OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006**

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

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

### **MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

We have nothing to report in respect of the following

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

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

### **OTHER MATTER**

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



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

Date: 28 February 2011

# STAFFLINE GROUP PLC

## Consolidated statement of comprehensive income

For the year ended 31 December 2010

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

The accompanying notes form an integral part of these financial statements

# STAFFLINE GROUP PLC

## Consolidated statement of changes in equity

For the year ended 31 December 2010

|                                                                | Share capital<br>£'000 | Own shares<br>JSOP<br>£'000 | Share premium<br>£'000 | Share based<br>payment<br>reserve<br>£'000 | Profit<br>and loss<br>account<br>£'000 | Total<br>attributable<br>to owners of<br>parent<br>£'000 | Non-<br>controlling<br>interest<br>£'000 | Total<br>equity<br>£'000 |
|----------------------------------------------------------------|------------------------|-----------------------------|------------------------|--------------------------------------------|----------------------------------------|----------------------------------------------------------|------------------------------------------|--------------------------|
| <b>At 1 January 2010</b>                                       | 2,123                  | -                           | 14,525                 | 170                                        | 9,318                                  | 26,136                                                   | -                                        | 26,136                   |
| Dividends                                                      | -                      | -                           | -                      | -                                          | (872)                                  | (872)                                                    | -                                        | (872)                    |
| Share options issued in equity<br>settled share based payments | -                      | -                           | -                      | 28                                         | -                                      | 28                                                       | -                                        | 28                       |
| Share options exercised                                        | 15                     | -                           | 179                    | -                                          | -                                      | 194                                                      | -                                        | 194                      |
| Issue of new shares to Joint<br>Share Ownership Plan           | 126                    | (1,157)                     | 1,031                  | -                                          | -                                      | -                                                        | -                                        | -                        |
| <b>Transactions with owners</b>                                | <b>2,264</b>           | <b>(1,157)</b>              | <b>15,735</b>          | <b>198</b>                                 | <b>8,446</b>                           | <b>25,486</b>                                            | <b>-</b>                                 | <b>25,486</b>            |
| Profit for the period                                          | -                      | -                           | -                      | -                                          | 5,066                                  | 5,066                                                    | (18)                                     | 5,048                    |
| <b>Total comprehensive<br/>income for the period</b>           | <b>-</b>               | <b>-</b>                    | <b>-</b>               | <b>-</b>                                   | <b>5,066</b>                           | <b>5,066</b>                                             | <b>(18)</b>                              | <b>5,048</b>             |
| <b>Balance at 31 December<br/>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>            |
|                                                                | Share capital<br>£'000 | Own shares<br>JSOP<br>£'000 | Share premium<br>£'000 | Share based<br>payment<br>reserve<br>£'000 | Profit<br>and loss<br>account<br>£'000 | Total<br>attributable<br>to owners of<br>parent<br>£'000 | Non-<br>controlling<br>interest<br>£'000 | Total equity<br>£'000    |
| <b>At 1 January 2009</b>                                       | 2,123                  | -                           | 14,525                 | 149                                        | 7,489                                  | 24,286                                                   | -                                        | 24,286                   |
| Dividends                                                      | -                      | -                           | -                      | -                                          | (616)                                  | (616)                                                    | -                                        | (616)                    |
| Share options issued in equity<br>settled share based payments | -                      | -                           | -                      | 21                                         | -                                      | 21                                                       | -                                        | 21                       |
| <b>Transactions with owners</b>                                | <b>2,123</b>           | <b>-</b>                    | <b>14,525</b>          | <b>170</b>                                 | <b>6,873</b>                           | <b>23,691</b>                                            | <b>-</b>                                 | <b>23,691</b>            |
| Profit for the period                                          | -                      | -                           | -                      | -                                          | 2,445                                  | 2,445                                                    | -                                        | 2,445                    |
| <b>Total comprehensive income<br/>for the period</b>           | <b>-</b>               | <b>-</b>                    | <b>-</b>               | <b>-</b>                                   | <b>2,445</b>                           | <b>2,445</b>                                             | <b>-</b>                                 | <b>2,445</b>             |
| <b>Balance at 31 December<br/>2009</b>                         | <b>2,123</b>           | <b>-</b>                    | <b>14,525</b>          | <b>170</b>                                 | <b>9,318</b>                           | <b>26,136</b>                                            | <b>-</b>                                 | <b>26,136</b>            |

The accompanying notes form an integral part of these financial statements

# STAFFLINE GROUP PLC

## Consolidated statement of financial position

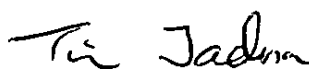
At 31 December 2010

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

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



A J Hogarth  
Director



T D Jackson  
Director

The accompanying notes form an integral part of these financial statements

# STAFFLINE GROUP PLC

## Consolidated statement of cash flows

For the year ended 31 December 2010

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

The accompanying notes form an integral part of these financial statements

# STAFFLINE GROUP PLC

## Notes to the financial statements

For the year ended 31 December 2010

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### 1 GENERAL INFORMATION

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

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

The Group does not have an ultimate controlling related party.

### 2 ACCOUNTING POLICIES

#### Basis of preparation

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

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

#### Changes in accounting policy

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

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

##### *Adoption of IFRS 3 Business Combinations (revised 2008)*

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

- (a) acquisition-related costs of the combination are recorded as an expense in the profit or loss. Previously, these costs would have been accounted for as part of the cost of the acquisition.
- (b) any contingent consideration is measured at fair value at the acquisition date. If the contingent consideration arrangement gives rise to a financial liability, any subsequent changes are generally recognised in profit or loss. Previously, contingent consideration was recognised only once its payment was probable and changes were recognised as an adjustment to goodwill.

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

# STAFFLINE GROUP PLC

## Notes to the financial statements

For the year ended 31 December 2010

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

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

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

# **STAFFLINE GROUP PLC**

## **Notes to the financial statements**

For the year ended 31 December 2010

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The principal accounting policies of the Group are set out below

### **Consolidation of subsidiaries**

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

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

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

### **Revenue recognition**

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

### **Goodwill**

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

### **Impairment**

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

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

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

# STAFFLINE GROUP PLC

## Notes to the financial statements

For the year ended 31 December 2010

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

### Intangible assets

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

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

#### *Customer contracts*

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

#### *Certificates and Accreditations, and favourable service agreement*

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

### Property, plant and equipment

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

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

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

# **STAFFLINE GROUP PLC**

## **Notes to the financial statements**

For the year ended 31 December 2010

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### **Leases**

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

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

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

### **Taxation**

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

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

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

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

### **Pensions**

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

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

# **STAFFLINE GROUP PLC**

## **Notes to the financial statements**

For the year ended 31 December 2010

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### **Financial assets**

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

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

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

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

### **Cash and cash equivalents**

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

### **Equity**

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

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

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

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

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

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

### **Share based employee remuneration**

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

# STAFFLINE GROUP PLC

## Notes to the financial statements

For the year ended 31 December 2010

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### *Equity settled share based remuneration*

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

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

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

### *Cash settled share based remuneration*

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

### **Financial liabilities**

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

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

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

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

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

# STAFFLINE GROUP PLC

## Notes to the financial statements

For the year ended 31 December 2010

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### **Other provisions, contingent liabilities and contingent assets**

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

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

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

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

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

### **Critical accounting estimates and assumptions**

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

#### ***Impairment of goodwill***

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

#### ***Deferred contingent consideration***

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

# STAFFLINE GROUP PLC

## Notes to the financial statements

For the year ended 31 December 2010

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### *Business combinations*

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

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

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

### **Adoption of new or amended IFRS**

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

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

# STAFFLINE GROUP PLC

## Notes to the financial statements

For the year ended 31 December 2010

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### 3 SEGMENTAL REPORTING

(a) By business segment (primary segment)

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

(b) By geographical segment (secondary segment)

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

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

During 2010, one customer contributed greater than 10% of the group's revenues being £21,659,000 (10.5% of total revenues) (2009: no customers greater than 10%).

### 4 ADMINISTRATIVE EXPENSES

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

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

### 5 FINANCE COSTS

|                                                        | 2010<br>£'000 | 2009<br>£'000 |
|--------------------------------------------------------|---------------|---------------|
| Interest payable on bank and other loans and overdraft | <u>126</u>    | <u>108</u>    |

# STAFFLINE GROUP PLC

## Notes to the financial statements

For the year ended 31 December 2010

### 6 DIRECTORS AND EMPLOYEES REMUNERATION

#### Employee benefits expense

Expense recognised for employee benefits is analysed below

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

|                                                                                               | Number     | Number     |
|-----------------------------------------------------------------------------------------------|------------|------------|
| The average number of persons (including directors) employed by the Group during the year was | <u>291</u> | <u>208</u> |

#### Directors' remuneration

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

|                                   | A J<br>Hogarth<br>£'000 | M O<br>Evans<br>£'000 | T D<br>Jackson<br>£'000 | S<br>Brittain<br>£'000 | N<br>Keegan<br>£'000 | J<br>Crabtree<br>£'000 | Total<br>£'000 |
|-----------------------------------|-------------------------|-----------------------|-------------------------|------------------------|----------------------|------------------------|----------------|
| <b>2010</b>                       |                         |                       |                         |                        |                      |                        |                |
| Salary and fees                   | 178                     | 121                   | 109                     | 115                    | 33                   | 43                     | 599            |
| Bonus                             | 84                      | 56                    | 50                      | 53                     | -                    | -                      | 243            |
| Pension contributions             | 17                      | 11                    | 10                      | 10                     | -                    | -                      | 48             |
| Benefits in kind                  | 1                       | 2                     | 1                       | 1                      | -                    | -                      | 5              |
| Share based employee remuneration | 10                      | 7                     | 8                       | 8                      | -                    | -                      | 33             |
| Total                             | <u>290</u>              | <u>197</u>            | <u>178</u>              | <u>187</u>             | <u>33</u>            | <u>43</u>              | <u>928</u>     |
|                                   | A J<br>Hogarth<br>£'000 | M O<br>Evans<br>£'000 | T D<br>Jackson<br>£'000 | S Brittain<br>£'000    | N<br>Keegan<br>£'000 | J<br>Crabtree<br>£'000 | Total<br>£'000 |
| <b>2009</b>                       |                         |                       |                         |                        |                      |                        |                |
| Salary and fees                   | 170                     | 116                   | 97                      | 102                    | 31                   | 39                     | 555            |
| Bonus                             | 80                      | 54                    | 45                      | 51                     | -                    | -                      | 230            |
| Pension contributions             | 16                      | 11                    | 9                       | 9                      | -                    | -                      | 45             |
| Benefits in kind                  | 1                       | 2                     | 1                       | 1                      | -                    | -                      | 5              |
| Share based employee remuneration | 1                       | 1                     | 1                       | 1                      | -                    | -                      | 4              |
| Total                             | <u>268</u>              | <u>184</u>            | <u>153</u>              | <u>164</u>             | <u>31</u>            | <u>39</u>              | <u>839</u>     |

# STAFFLINE GROUP PLC

## Notes to the financial statements

For the year ended 31 December 2010

### Share based employee remuneration

#### *Approved Employee Share Option Plan*

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

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

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

#### *Performance Related Share Option Plan*

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

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

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

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

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

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

# STAFFLINE GROUP PLC

## Notes to the financial statements

For the year ended 31 December 2010

The Group has the following outstanding share options and exercise prices

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

Share options have exercise prices between 47 5p and 174p The weighted average share price during the year was 117p (2009 46p)

During the year, options over 148,951 ordinary shares (2009 nil) were exercised and the market price on the date of exercise was 206p

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

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

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

### Joint Share Ownership Plan

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

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

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

# STAFFLINE GROUP PLC

## Notes to the financial statements

For the year ended 31 December 2010

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

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

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

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

### Share-based employee remuneration

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

### Key management personnel

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

## 7 TAX EXPENSE

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

|                                                                                     | 2010  |      | 2009  |      |
|-------------------------------------------------------------------------------------|-------|------|-------|------|
|                                                                                     | £'000 | %    | £'000 | %    |
| Result for the year before tax                                                      | 6,983 |      | 3,475 |      |
| Tax rate                                                                            | 28.0% |      | 28.0% |      |
| Expected tax expense                                                                | 1,955 | 28.0 | 973   | 28.0 |
| Adjustment for non-deductible expenses relating to short term temporary differences | 26    |      | 30    |      |
| Other non-deductible expenses                                                       | 44    |      | 27    |      |
| Adjustment in respect of previous year                                              | (90)  |      | -     |      |
| Actual tax expense                                                                  | 1,935 | 27.7 | 1,030 | 29.6 |
| <b>Tax expense comprises:</b>                                                       |       |      |       |      |
| Current tax expense                                                                 | 1,935 |      | 1,030 |      |

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

# STAFFLINE GROUP PLC

## Notes to the financial statements

For the year ended 31 December 2010

### 8 EARNINGS PER SHARE

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

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

|                                   | Basic<br>2010     | 2009              | Diluted<br>2010   | 2009              |
|-----------------------------------|-------------------|-------------------|-------------------|-------------------|
| Earnings (£'000)                  | <u>5,048</u>      | <u>2,445</u>      | <u>5,048</u>      | <u>2,445</u>      |
| Weighted average number of shares | <u>21,254,988</u> | <u>21,229,081</u> | <u>22,369,807</u> | <u>21,854,101</u> |
| Earnings per share (pence)        | <u>23.7p</u>      | <u>11.5p</u>      | <u>22.6p</u>      | <u>11.2p</u>      |

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

### Dividends

During the year, Staffline Group plc paid interim dividends of £508,808 (2009: £297,207) to its equity shareholders. This represents a payment of 2.4p (2009: 1.4p) per share. A final dividend of £812,612 has been proposed (2009: £360,894) but has not been accrued within these financial statements. This represents a payment of 3.8p (2009: 1.7p) per share. The final dividend for 2009 was declared and paid in 2010.

### 9 GOODWILL

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

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

# STAFFLINE GROUP PLC

## Notes to the financial statements

For the year ended 31 December 2010

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Goodwill above relates to the following acquisitions

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

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

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

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

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

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

# STAFFLINE GROUP PLC

## Notes to the financial statements

For the year ended 31 December 2010

### 10 OTHER INTANGIBLE ASSETS

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

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

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

# STAFFLINE GROUP PLC

## Notes to the financial statements

For the year ended 31 December 2010

### 11 PROPERTY, PLANT AND EQUIPMENT

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

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

### 12 TRADE AND OTHER RECEIVABLES

|                                   | 2010<br>£'000 | 2009<br>£'000 |
|-----------------------------------|---------------|---------------|
| Trade and other receivables       | 30,476        | 18,452        |
| Amount due from directors         | 157           | 157           |
| Total trade and other receivables | <u>30,633</u> | <u>18,609</u> |

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

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

# STAFFLINE GROUP PLC

## Notes to the financial statements

For the year ended 31 December 2010

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

|                                                    | 2010<br>£'000 | 2009<br>£'000 |
|----------------------------------------------------|---------------|---------------|
| Not more than three months                         | 5,490         | 3,539         |
| More than three months but no more than six months | 8             | 21            |
|                                                    | <u>5,498</u>  | <u>3,560</u>  |

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

### 13 CASH AND CASH EQUIVALENTS

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

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

### 14 TRADE AND OTHER PAYABLES

|                          | 2010<br>£'000 | 2009<br>£'000 |
|--------------------------|---------------|---------------|
| Trade and other payables | <u>23,328</u> | <u>12,030</u> |

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.

# STAFFLINE GROUP PLC

## Notes to the financial statements

For the year ended 31 December 2010

### 15 BORROWINGS

Bank loans and overdrafts are repayable as follows

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

The bank loans and overdrafts are secured by a debenture over all the assets of the Group. The first bank loan is repayable in 12 equal quarterly instalments of £215,000 to 31 December 2011 then five equal quarterly instalments of £268,000 plus one final payment of £269,000 on 30 June 2013. Interest accrues on the loan at 1% (2009 1.0%) above base rate.

The second bank loan is secured by a first legal charge over a freehold property and is repayable in 120 monthly capital and interest payments of £5,830 until 20 June 2015. Interest accrues on the loan at 1.5% (2009 1.5%) above base rate.

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

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

# STAFFLINE GROUP PLC

## Notes to the financial statements

For the year ended 31 December 2010

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### 16 OTHER LIABILITIES

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

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

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

# STAFFLINE GROUP PLC

## Notes to the financial statements

For the year ended 31 December 2010

### 17 SHARE CAPITAL

|                                                             | 2010<br>£'000                          | 2009<br>£'000                          |
|-------------------------------------------------------------|----------------------------------------|----------------------------------------|
| Authorised                                                  |                                        |                                        |
| 30,000,000 ordinary 10p shares                              | <u>3,000</u>                           | <u>3,000</u>                           |
| Allotted and issued                                         |                                        |                                        |
| 22,641,788 (2009 21,229,081) ordinary 10p shares            | <u>2,264</u>                           | <u>2,123</u>                           |
|                                                             | <b>Ordinary 10p shares</b>             |                                        |
|                                                             | <b>Year ended 31<br/>December 2010</b> | <b>Year ended 31<br/>December 2009</b> |
| Shares issued and fully paid at the beginning of the period | 21,229,081                             | 21,197,520                             |
| Shares issued but not fully paid                            | -                                      | 31,561                                 |
| Share issued during the year                                | <u>1,412,707</u>                       | <u>-</u>                               |
| Shares issued                                               | <u>22,641,788</u>                      | <u>21,229,081</u>                      |
| Shares authorised but unissued                              | 7,358,212                              | 8,770,919                              |
| Total equity shares authorised at end of period             | <u>30,000,000</u>                      | <u>30,000,000</u>                      |

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

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

# STAFFLINE GROUP PLC

## Notes to the financial statements

For the year ended 31 December 2010

### 18 BUSINESS COMBINATIONS

#### Acquisitions

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

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

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

#### Identifiable net assets

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

#### Goodwill

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

# STAFFLINE GROUP PLC

## Notes to the financial statements

For the year ended 31 December 2010

### Contingent deferred consideration

For two of the businesses acquired, an element of the consideration is dependent on future profits of the acquired businesses. The amount of contingent deferred consideration has been estimated using forecast income statements for the coming period, taking into account management estimates of future performance. The total consideration for the three businesses acquired is capped at £7.64 million, therefore the possible (undiscounted) range of the contingent consideration is from nil to £2.855m. Contingent deferred consideration is classified as a financial liability, measured at amortised cost with any changes in estimated value recognised in profit and loss.

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

## 19 RELATED PARTY TRANSACTIONS

The only related parties are the Group's Directors.

### Transactions with Group Directors

The Group Directors' personal remuneration includes the following expenses:

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

Details of amounts due from directors are included in note 12.

## 20 OPERATING LEASES

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

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

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

# STAFFLINE GROUP PLC

## Notes to the financial statements

For the year ended 31 December 2010

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

### 21 CONTINGENCIES

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

### 22 CAPITAL COMMITMENTS

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

### 23 POST BALANCE SHEET EVENT

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

### 24 RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

#### Credit risk

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

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

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

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

# STAFFLINE GROUP PLC

## Notes to the financial statements

For the year ended 31 December 2010

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

### Liquidity risk

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

### Interest rate risk

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

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

### Financial liabilities

The Group's financial liabilities are classified as follows

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

## STAFFLINE GROUP PLC

### Notes to the financial statements

For the year ended 31 December 2010

#### *Maturity of financial liabilities*

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

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

## 25 CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group's capital management objectives are,

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

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

**STAFFLINE GROUP PLC**

**COMPANY STATUTORY  
FINANCIAL STATEMENTS  
(PREPARED UNDER UK GAAP)**

**FOR THE YEAR ENDED  
31 DECEMBER 2010**

**COMPANY NUMBER 05268636**

# **STAFFLINE GROUP PLC**

## **Contents**

For the year ended 31 December 2010

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# STAFFLINE GROUP PLC

## Directors' Responsibilities Statement

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### Directors' responsibilities statement

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

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

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

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

In so far as each of the directors is aware

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

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

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

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

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

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

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

### **SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](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 2010,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

### **OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006**

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

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

### MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

### OTHER MATTER

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



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

Date 28 February 2011

# **STAFFLINE GROUP PLC**

## **Principal accounting policies**

For the year ended 31 December 2010

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### **Basis of preparation**

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

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

### **Investments**

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

### **Deferred taxation**

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

### **Financial instruments**

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

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

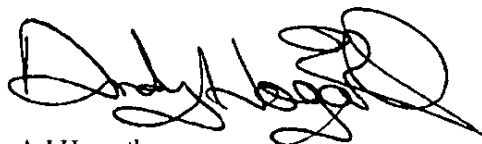
Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

# STAFFLINE GROUP PLC

## Balance sheet at 31 December 2010

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

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



A J Hogarth  
Director



T D Jackson  
Director

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

# STAFFLINE GROUP PLC

## Notes to the financial statements

For the year ended 31 December 2010

### 26 PROFIT FOR THE FINANCIAL YEAR

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

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

### 27 DIRECTORS AND EMPLOYEES REMUNERATION

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

### 28 FIXED ASSET INVESTMENTS

|                                              | Investment in<br>group<br>undertakings<br>£'000 |
|----------------------------------------------|-------------------------------------------------|
| Cost and net book amount at 31 December 2010 | <u>17,228</u>                                   |
| Cost and net book amount at 31 December 2009 | <u>17,228</u>                                   |

The Company holds interests in the following companies

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

\*These companies are owned indirectly through other group companies

### 29 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

|                                   | 2010<br>£'000 | 2009<br>£'000 |
|-----------------------------------|---------------|---------------|
| Amounts due to Group undertakings | <u>-</u>      | <u>580</u>    |

# STAFFLINE GROUP PLC

## Notes to the financial statements

For the year ended 31 December 2010

### 30 SHARE CAPITAL

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

#### Share options

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

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

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

### 31 RESERVES

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

# **STAFFLINE GROUP PLC**

## **Notes to the financial statements**

For the year ended 31 December 2010

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### **32 CONTINGENT LIABILITIES**

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

### **33 CAPITAL COMMITMENTS**

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