

**Kellan Group plc**  
**Half year interim report 2011**

# Highlights

## Financial summary

- Improved adjusted EBITDA levels resulting in a loss of £0.1 million (June 2010: loss £0.2 million).
- Increased savings made by streamlining administrative expenses (exclusive of impairment), resulting in a 12.5% reduction from H1-2010 and a 10.3% reduction from H2-2010.
- Basic loss per share reduced to 0.7p (June 2010: loss 0.9p).
- Cash inflow from financing activities of £0.6 million (June 2010: outflow £0.2 million).
- Reduction in revenue to £13.2 million (June 2010: £14.3 million), a result of the Group moving away from unprofitable business. Further demonstrated by a reduced loss for the period of £0.6 million (June 2010: loss £0.8 million)

## Operational summary

We are confident that, despite the evident difficulties in the economy, there are significant opportunities for the Group to achieve improved revenues. To maximise these exciting opportunities the Group has been involved in a number of far-reaching and key strategic initiatives that should bring, barring a significant downturn in the labour market, much enhanced revenues in 2012 and beyond.

- New services launched by core brands. These will maximise some exciting opportunities in established markets and also gain new market share in previously unexploited markets
- Further launches planned into fresh recruitment sectors identified as robust and under-populated
- Recruitment of key leadership staff, well-known in their respective markets, to drive the business forward which in turn is making the Group increasingly more attractive to experienced recruiters
- Berkeley Scott launched a new senior appointments service. It now offers a comprehensive recruitment service at all levels across its market from temporary waiting staff through to Director-level
- In the Part-Qualified/Qualified market, RK Accountancy is rebranding as Robinson Keane Finance Professionals and is rapidly building a leadership team of well known, proven professionals. Here we have already identified avenues for business in both established and new customers and have established a presence in the key urban areas of the UK.
- RK Accountancy brand is now more sharply defined and the team is focused on delivering a more assertive service to its very active markets

## Highlights

- Quantica Technology has established a London hub from which it will serve the busy and resilient South of England market and mainland Europe where it has already secured exciting opportunities
- Quantica Retail is mirroring the globalisation of the retail market and is establishing its brand as a European market-leader in senior level recruitment, opening many new territories up to Kellan Group companies. It has added an e-commerce offering which is gaining traction swiftly
- Investment in the business infrastructure to provide best-in-class tools to all areas of the Group
- Consolidation of premises delivers cost saving synergies throughout the Group.
- Further streamlining of operations with the discontinuation of RKAcumen, RKConnect and RKCatalyst brands.
- Continued focus on consolidation and cost base rationalisation, whilst identifying critical areas of investment that will enable the Group to support growth more efficiently.

The much-enhanced leadership team is already reinvigorating a talented and experienced workforce, now supplemented increasingly by proven recruitment professionals who share the Kellan vision of an exciting and progressive future.

Whilst watchful of an unhelpful and irritatingly turbulent environment which makes predictions problematic and somewhat unreliable, we nevertheless look forward with confidence to reporting excellent progress during 2012.

# Highlights

## Summary

Continued uncertainty in all areas of the economy has led to difficult trading conditions in all markets. Clients continue to be wary in terms of staff investments and any signs of recovery are quickly being balanced by new reasons for caution, making any confident predictions regarding demand difficult.

Despite this, H1 2011 has been a period of substantial change throughout the Group. The improved Adjusted EBITDA of £89,000 (loss) (H1 2010: £236,000 loss) reflected the focus on reducing and managing costs and right sizing the business as a platform for the Board's long-term growth strategy. This more than counterbalanced the decline in H1 2011 NFI.

As a result we enter H2 2011 in a much improved position with the Group having laid the foundations for our planned growth. Throughout the organisation, markets have been clarified and brands refreshed and redefined. The process of renewing and reinforcing the leadership roles within the Group is well underway and to work with this team we are recruiting energetic, enthusiastic and ambitious salespeople who share our attitude and vision.

New services have been launched by our core brands to clarify market positioning and to maximise opportunities presented. In addition, new regional hubs are now well established, not only ensuring full UK coverage, but also supporting expansion into mainland Europe where initial results have been very encouraging.

New sectors have been identified into which we will be launching new recruitment services led by professionals with significant experience of building successful businesses in these markets.

Relocation and consolidation of premises has, and is expected to continue to deliver significant savings through the remainder of 2011 and beyond in to 2012. Staff costs have been reduced to make way for important hires at all levels of the organisation, many of whom are already in place.

Investments, geared towards new technology and consolidation of front office systems, are expected to improve productivity and internal reporting, while easing the administrative burden, thus allowing the Group to make further cost reductions.

The balancing act continues as we reduce our property costs whilst improving our talent pool of leaders and sales staff with the capability to deliver growth from gaining market share. The key difference now is that progressively we are facing these challenges with the right people and we are confident that the Group will be better placed to match or outperform our contemporaries. The drive is to ensure that everything we do leads us towards growing NFI. Increasing productivity and improving our systems will play a key part in this.

# Highlights

The strategic changes made over the last few months have placed the Group in an excellent position to maximise the opportunities we have identified in the market. We look forward to consistent growth from this point.

## Financial Highlights

The continued cost control has translated to a reduced loss for the six months ended 30 June 2011 of £0.6 million (June 2010: loss £0.8 million) with the Group nearing a break-even position at Adjusted EBITDA level in the period (£0.1 million loss compared with £0.2 million loss last year).

Administrative expenses have reduced from £6.7 million for the six months to 30 June 2010 to £5.9 million in the half year under review, a reduction of 12.5%.

The Group's revenue for the six months to 30 June 2011 was £13.2 million representing a decrease of 7.2% compared to the corresponding period in 2010 (£14.3 million). This produced NFI of £5.5 million for the six months to 30 June 2011, a decline of 8.1% compared to corresponding period in 2010 (£6.0 million).

Net cash outflow for the six months to 30 June 2011 was £0.2 million (30 June 2010: outflow £0.5 million). The repayment schedules for loans and servicing of debt have been maintained throughout the period and in February 2011 the Group raised £1.35 million before expenses via the issue of a convertible loan note and equity with the funds being used to strengthen the Group's balance sheet.

I would like to thank our management and staff as well as business associates and investors for their continued confidence in our Group and for helping us to move ahead. We will continue to move forward and grow the business whilst achieving new successes.



**Ross Eades**  
Chief Executive Officer

# Highlights

	Note	Unaudited 6 months ended 30 June 2011 £000	Unaudited 6 months ended 30 June 2010 Restated £000	Audited 12 months ended 31 December 2010 £000
<b>Revenue</b>		<b>13,235</b>	14,263	29,827
Cost of sales		<b>(7,726)</b>	(8,266)	(17,441)
<b>Net Fee Income</b>		<b>5,509</b>	5,997	12,386
Administrative expenses		<b>(5,860)</b>	(6,700)	(22,707)
<b>Operating loss before impairment charge</b>		<b>(351)</b>	(703)	(846)
Impairment of goodwill and intangibles		—	—	(9,475)
<b>Operating loss</b>	3	<b>(351)</b>	(703)	(10,321)
Financial income		<b>2</b>	16	46
Financial expenses		<b>(282)</b>	(219)	(447)
<b>Loss before tax</b>		<b>(631)</b>	(906)	(10,722)
Tax credit	2	—	62	986
<b>Loss for the period</b>		<b>(631)</b>	(844)	(9,736)
<b>Attributable to:</b>				
Equity holders of the parent		<b>(631)</b>	(844)	(9,736)
<b>Basic loss per share in pence</b>	4	<b>(0.7)</b>	(0.9)	(11.1)
<b>Diluted loss per share in pence</b>	4	<b>(0.7)</b>	(0.9)	(11.1)

The above results relate to continuing operations.

There are no adjustments between the loss for the period and the total comprehensive expense for the period or the comparative periods.

# Consolidated Statement of Financial Position

as at 30 June 2011

	Note	Unaudited 30 June 2011 £000	Unaudited 30 June 2010 Restated £000	Audited 31 December 2010 £000
<b>Non-current assets</b>				
Property, plant and equipment		573	688	542
Intangible assets	7	13,188	22,981	13,285
		<b>13,761</b>	<b>23,669</b>	<b>13,827</b>
<b>Current assets</b>				
Trade and other receivables	5	4,367	4,758	4,399
Cash and cash equivalents		110	191	350
		<b>4,477</b>	<b>4,949</b>	<b>4,749</b>
<b>Total assets</b>		<b>18,238</b>	<b>28,618</b>	<b>18,576</b>
<b>Current liabilities</b>				
Loans and borrowings		2,015	3,896	3,906
Trade and other payables	6	3,073	3,599	3,470
Other financial liabilities		57	87	57
Provisions		361	491	399
		<b>5,506</b>	<b>8,073</b>	<b>7,832</b>
<b>Non-current liabilities</b>				
Loans and borrowings		3,301	934	927
Provisions		153	279	300
Deferred tax liabilities		—	925	—
		<b>3,454</b>	<b>2,138</b>	<b>1,227</b>
<b>Total liabilities</b>		<b>8,960</b>	<b>10,211</b>	<b>9,059</b>
<b>Net assets</b>		<b>9,278</b>	<b>18,407</b>	<b>9,517</b>
<b>Equity attributable to equity holders of the parent</b>				
Share capital		2,112	1,742	1,757
Share premium		13,739	13,728	13,734
Merger reserve		—	16,081	—
Warrant reserve		36	35	36
Convertible option reserve		34	17	17
Capital redemption reserve		2	2	2
Retained earnings		(6,645)	(13,198)	(6,029)
<b>Total equity</b>		<b>9,278</b>	<b>18,407</b>	<b>9,517</b>

# Consolidated Statement of changes in equity

for the 6 months ended 30 June 2011

	Unaudited Share capital £000	Unaudited Share premium £000	Unaudited Merger reserve £000	Unaudited Warrant reserve £000	Unaudited Convertible reserve £000	Unaudited Redemption reserve £000	Unaudited Retained earnings £000	Unaudited Total equity £000
<b>Balance at 31 December 2009 restated</b>	<b>1,742</b>	<b>13,728</b>	<b>16,081</b>	—	—	<b>2</b>	<b>(12,354)</b>	<b>19,199</b>
Loss for the period restated	—	—	—	—	—	—	(844)	(844)
Total comprehensive income for the 6 month period ended 30 June 2010	—	—	—	—	—	—	(844)	(844)
Equity component of convertible loan notes	—	—	—	35	17	—	—	52
<b>Balance at 30 June 2010 restated</b>	<b>1,742</b>	<b>13,728</b>	<b>16,081</b>	<b>35</b>	<b>17</b>	<b>2</b>	<b>(13,198)</b>	<b>18,407</b>
Loss for the period restated	—	—	—	—	—	—	(8,892)	(8,892)
Total comprehensive income for the 6 month period ended 31 December 2010	—	—	—	—	—	—	(8,892)	(8,892)
Share-based payment adjustment	—	—	—	—	—	—	(20)	(20)
Reserve transfer	—	—	(16,081)	—	—	—	16,081	—
Issue of shares	15	6	—	—	—	—	—	21
Equity component of convertible loan notes	—	—	—	1	—	—	—	1
<b>Balance at 31 December 2010</b>	<b>1,757</b>	<b>13,734</b>	—	<b>36</b>	<b>17</b>	<b>2</b>	<b>(6,029)</b>	<b>9,517</b>
Total comprehensive income for the 6 month period ended 30 June 2011	—	—	—	—	—	—	(631)	(631)
Issue of shares	355	5	—	—	—	—	—	360
Share based payment	—	—	—	—	—	—	15	15
Equity component of convertible loan notes	—	—	—	—	17	—	—	17
<b>Balance at 30 June 2011</b>	<b>2,112</b>	<b>13,739</b>	—	<b>36</b>	<b>34</b>	<b>2</b>	<b>(6,645)</b>	<b>9,278</b>

# Consolidated Statement of Cash Flows

for the 6 months ended 30 June 2011

	Unaudited 6 months ended 30 June  2011 £000	Unaudited 6 months ended 30 June 2010 Restated £000	Audited 12 months ended 31 December  2010 £000
<b>Cash flows from operating activities</b>			
Loss for the period	(631)	(844)	(9,736)
Adjustments for:			
Depreciation and amortisation	247	393	784
Interest income	(2)	(1)	(1)
Interest paid	220	162	331
Amortisation of loan cost	44	41	82
Net gain on measurement of interest rate swap to fair value	—	(15)	(45)
Loss on disposal of property, plant and equipment	—	—	30
Impairment of goodwill	—	—	9,475
Equity settled convertible loan interest	17	17	34
Equity settled share-based payment/ (credit)	15	—	(20)
Non- cash taxation credit	—	(62)	(986)
	(90)	(309)	(52)
Increase/(decrease) in trade and other receivables	32	(17)	343
(Increase)/decrease in trade and other payables	(396)	362	233
Decrease in provisions	(185)	(222)	(294)
	(639)	(186)	230
Tax received	—	—	—
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(639)</b>	<b>(186)</b>	<b>230</b>
<b>Cash flows from investing activities</b>			
Interest received	2	1	1
Acquisition of property, plant and equipment	(181)	(58)	(111)
<b>Net cash outflow from investing activities</b>	<b>(179)</b>	<b>(57)</b>	<b>(110)</b>
<b>Cash flows from financing activities</b>			
(Repayment) / drawdown of invoice discounting balances	(538)	(591)	(198)
Interest paid and loan costs	(220)	(162)	(331)
Repayment of term loan borrowings	—	(420)	(840)
Proceeds from the issue of share capital	8	340	—
Net proceeds of Convertible Loan notes	8	996	966
<b>Net cash inflow/(outflow) from financing activities</b>	<b>578</b>	<b>(207)</b>	<b>(411)</b>
Net decrease in cash and cash equivalents	(240)	(450)	(291)
Cash and cash equivalents at the beginning of the period	350	641	641
<b>Cash and cash equivalents at the end of the period</b>	<b>110</b>	<b>191</b>	<b>350</b>

# Notes

(forming part of the financial statements)

## 1 Accounting policies

### **Accounting periods**

The accounting reference date of the Group is 31 December. The current half year interim results are for the six months ended 30 June 2011. The comparative half year interim results are for the six months ended 30 June 2010 (restated). The comparative period end's results are for the twelve months ended 31 December 2010.

### **Financial information**

The financial information for the six months ended 30 June 2011 and the six months ended 30 June 2010 are unaudited and un-reviewed and do not constitute the Group's statutory financial statements for those periods. The comparative financial information for the full year ended 31 December 2010 has, however, been derived from the audited statutory financial statements for that period. A copy of those statutory accounts for that period has been delivered to the Registrar of Companies. The auditors report on those accounts was not qualified and did not contain statements under Chapter 3 of Part 16 of the Companies Act 2006, but did include an emphasis of matter paragraph as a result of the Group being in breach of the financial covenants contained in its borrowing agreement with its lender and the possibility that further funding would be required. These conditions indicated the existence of material uncertainties which may have cast doubt about the Group's ability to continue as a going concern.

### **Change in accounting policy**

Previously revenue for permanent placements was recognised at the date an offer is accepted by a candidate and where a start date has been determined. The directors reviewed this policy during the prior financial year and due to the degree of estimation in determining possible cancellations at placement changed to a policy of recognising revenue at the date the candidate commences employment on the basis this is more reliable. The effect of this change on the current period is to increase revenue by £106,000 (June 2010 – decrease revenue by £177,000), decrease the loss after tax by £106,000 (June 2010 – increase the loss after tax by £177,000) and increase net assets by £613,000 (June 2010 – reduce net assets by £667,000).

### **Basis of preparation**

The half year interim financial statements have been prepared on a going concern basis using the recognition and measurement principles of IFRS as endorsed for use in the European Union. The accounting policies used in the preparation of these condensed financial statements are set out in the statutory financial statements for the period ended 31 December 2010 which are also the policies that are expected to be applicable at 31 December 2011.

The accounts for the 12 month period ended 31 December 2010 highlighted that due to the continuing downturn in the UK recruitment market, the Group remained in breach of some of the financial covenants contained in its borrowing agreement with its lender. Covenants on these borrowings, which comprise a term loan taken out to acquire Quantica Plc in September 2007 and an invoice discounting facility used for working capital, are tested quarterly using the 12 month period to the date of the respective test.

In February 2011 the Group entered into an amendment letter to restructure its debt with respect to its existing facilities agreement with its lender. Under the amendment letter the Group's lender has agreed to a repayment holiday to be applied to all principal amounts outstanding under the facility during 2011. The Group has been repaying £210,000 of capital per quarter during 2010 and at 31 December 2010 an aggregate principal amount of £1.68 million remained outstanding under the facility. These quarterly payments have been subject to a one year repayment holiday and repayments of the principal amount outstanding under the facility will recommence on 31 March 2012. On recommencement, repayments will remain at £210,000 of capital per quarter and, accordingly, the maturity date has been extended by one year. The amendment letter also resets the debt covenants under the facility with the first test date on 31 March 2012.

On 14 February 2011, the Group raised £1.35 million before expenses of £14,000, via the issue of convertible loan notes, with warrants attached, to six existing shareholders. The additional funding has been used by the Group to provide working capital and to improve fee earner capability.

The directors recognise that there are material uncertainties in the wider macro-economic environment and of the highly sensitive nature of the impact a reduction in trading activity would have on bank covenants attaching to existing facilities which may cast significant doubt about the group's ability to continue as a going concern. Nevertheless, having reviewed the forecasts for a period of twelve months and the ability to obtain funding should it be required, the Directors consider that there is a reasonable expectation that the Group will be able to meet its liabilities as they fall due for the foreseeable future. It is on this basis that the Directors consider it appropriate to prepare the Group's financial statements on a going concern basis.

# Notes

(forming part of the financial statements)

## 2 Taxation

### Recognised in the income statement

	Unaudited 6 month period ended 30 June  2011 £000	Unaudited 6 month period ended 30 June 2010 Restated £000	Audited 12 month period ended 31 December  2010 £000
<b>Current tax expense</b>			
Current period	—	—	—
<b>Deferred tax expense</b>			
Origination and reversal of temporary differences	—	(62)	(986)
<b>Tax credit</b>	—	(62)	(986)

## 3 Reconciliation of operating loss to adjusted EBITA and adjusted EBITDA

	Unaudited 6 month period ended 30 June  2011 £000	Unaudited 6 month period ended 30 June 2010 Restated £000	Audited 12 month period ended 31 December  2010 £000
<b>Operating loss as per accounts</b>	<b>(351)</b>	<b>(703)</b>	<b>(10,321)</b>
<b>Add back</b>			
Impairment of intangible	—	—	9,475
Amortisation of intangible assets	97	221	442
Share-based payments charge/(release)	15	—	(20)
Onerous leases	—	(114)	—
Restructuring costs	—	188	188
Adjusted EBITA	<b>(239)</b>	<b>(408)</b>	<b>(236)</b>
Depreciation	150	172	342
<b>Adjusted EBITDA</b>	<b>(89)</b>	<b>(236)</b>	<b>106</b>

## 4 Earnings per share

### Basic earnings per share

The calculation of basic earnings per share is as follows:

	Unaudited 6 month period ended 30 June  2011	Unaudited 6 month period ended 30 June Restated 2010	Audited 12 month period ended 31 December  2010
<b>Weighted average number of shares</b>			
Issued ordinary shares at 1 January	87,839,586	87,086,336	87,086,336
Effect of shares issued	5,899,909	-	313,854
Weighted average number of shares at end of period	93,739,495	87,086,336	87,400,190
Loss for the period	<b>(631,000)</b>	<b>(844,000)</b>	<b>(9,736,000)</b>
Basic loss per share in pence	<b>(0.7)</b>	<b>(0.9)</b>	<b>(11.1)</b>
Diluted loss per share in pence	<b>(0.7)</b>	<b>(0.9)</b>	<b>(11.1)</b>

# Notes

(forming part of the financial statements)

## 5 Trade and other receivables

	Unaudited 30 June 2011 £000	Unaudited 30 June 2010 £000	Audited 31 December 2010 £000
Trade receivables	3,538	3,841	3,705
Other receivables	100	18	180
Prepayments and accrued income	729	899	514
	<b>4,367</b>	4,758	4,399

## 6 Trade and other payables

	Unaudited 30 June 2011 £000	Unaudited 30 June 2010 £000	Audited 31 December 2010 £000
Trade payables	439	476	279
Social security and other taxes	813	867	1,414
Other creditors	365	917	224
Accruals and deferred income	1,456	1,339	1,553
	<b>3,073</b>	3,599	3,470

## 7 Intangible Assets

The intangible assets balance at 30 June 2011 of £13,188,000 includes an amount of £11,930,000 relating to goodwill acquired through business combinations. Impairment of this balance has been assessed as at 30 June 2011 and no adjustment was considered necessary. The Directors believe the assumptions used in testing impairment at 31 December 2010 are still valid and have not materially changed. These assumptions will continue to be reassessed on a six monthly basis.

## 8 Convertible Loan Notes

On 14 February 2011 the Group raised £1.35 million before expenses of £14,000 via a combination issue of equity and convertible loan notes to six existing shareholders. The additional funding has been used by the Group to provide working capital and to increase its fee earner headcount to drive organic growth.

**Directors**

**J Bowmer** – Co-Chairman  
**A Reeves** – Co-Chairman  
**R Eades** – Chief Executive Officer  
**M Jackson** – Non-executive Director  
**J McHugh** – Non-executive Director

**Advisers**

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**Solicitor/Company Secretary**

Irwin Mitchell/  
 IMCO Secretary Ltd  
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**Registered office**

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 London W1T 3BL

**Registered number**

2228050

**Shareholder information****London Stock Exchange**

The ordinary shares of the Company are traded on the Alternative Investment Market of the London Stock Exchange with the code KLN.L.

**Website**

The Group operate a website which can be found at [www.kellangroup.co.uk](http://www.kellangroup.co.uk).

This site is regularly updated to provide information about the Group. In particular, all of the Group's press releases and announcements can be found on this site.

**Financial calendar**

Financial year end	31 December 2011
Announcement of final results	March 2012
Annual report to shareholders	April 2012
Annual General Meeting	May 2012