

kellan

Kellan /ke:l:an/ *adj.* 1. Meaning powerful. 2. Celtic origin.
3. Acquisitive, diverse and expanding group of recruitment companies.



➔ **Kellan Group** is a market leading recruitment business operating across a wide range of functional disciplines and industry sectors. The Group's stated strategy is to grow into a significant business in the UK market, achieved both by acquisition and organic growth.

Our intention is to use Kellan Group as a vehicle to develop a portfolio of premium brands within the currently fragmented recruitment sector. Currently, through its three recruitment brands, Berkeley Scott, Quantica and RK, Kellan Group has the capability and resource to recruit professionals into finance & accounting, information technology, supply chain & procurement, legal, retail, manufacturing, catering, hospitality and leisure.



**LEADING BRAND NAMES
LARGE MARKET OPPORTUNITY
EXPERIENCED MANAGEMENT
22 OFFICES**

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Highlights

Financial Highlights

- **Revenue of £25.4m** (June 2007: £8.3m) and a profit for the period of **£1.3m** (June 2007: loss £1.2m) headlining the turnaround of the Group over the last 12 months.
- **Net fee income** ("NFI"; Revenue less the cost of wages and fees paid to temporary workers and contractors) of **£13.1m**, a like-for-like (adjusted to only include existing businesses at 30 June 2008) **increase of 20%** on first six months of 2007.
- **Return to profitability** with an Adjusted EBITA (note 3) of **£2.04m** (June 2007: loss £0.4m).
- **Conversion ratio** (Adjusted EBITA as a percentage of NFI) at **15.6%**, (June 2007: negative 9.1%) ahead of expectations.
- Significant improvement in **Basic EPS** (note 4) to **1.5p** (June 2007: loss 5.8p).
- **Net £1.2m cash generated** after repayment of previously drawn down working capital facilities of £1.0m.
- **Reduction in gearing to 12.4%** (31 December 2007: 18.4%) with facilities providing a healthy platform to fund investment and growth strategies in H2.
- Berkeley Scott like-for-like **NFI increased by 39%** over same period for prior year.
- **Above market growth** of acquired Quantica and RK businesses, **NFI increase of 13%** on same period for prior year.

Operational Highlights

- **Change of Group name** from Berkeley Scott Group PLC to **Kellan Group PLC**, to distinguish the publicly listed company from its trading brands.
- **Integration of businesses** along with plans for new Kellan Group head office on track; significant property consolidation.
- **RK Accountancy** opened first **new office** for five years; more planned for H2. A new front office operating system implemented. Consultant headcount already **25% up** on start of year with more recruitment planned.
- **Strengthened management team** including appointment of new managing director for RK Supply Chain.
- **Continued marked progress** in Berkeley Scott, now trading profitably on a consistent basis.
- **20% increase in consultant headcount** across the Group fuelling expansion of Quantica and RK businesses into new markets and geographies, with continued investment in people planned for H2.
- **Cautiously confident about Group prospects**, despite deteriorating conditions for recruitment.

Chief Executive Officer's statement



John Rose Chief Executive Officer

Introduction

The six months we are reporting on have been a period of considerable achievement for the Kellan Group. We are showing strong progress and have moved solidly into profitability and growth and a new phase of development. I am pleased to report we have achieved all our objectives for the business and produced excellent results for the first half of 2008, despite a background of economic slowdown. The majority of our businesses have made great progress and delivered strong organic growth. We have invested, and will continue to invest heavily in them, in order to realise their longer term potential. We have delivered on our aim of growing the Kellan brands faster than the market and we will work hard to ensure that the short term economic environment does not slow down our longer term ability to build a successful, durable company that will be a significant force in recruitment in the coming years.

We are not complacent about the economic outlook, we will continue to structure and invest for the future during the second half of the year, as well as continue to look for further potential value enhancing acquisitions.

Financial Highlights

We are reporting strong Group profitability, Adjusted EBITA for the half year is £2.04m (June 2007: loss £0.4m) with a bottom line profit for the period of £1.3m (2007: loss £1.2m). However because the Group changed its year end, and following the acquisition of Quantica Plc in September 2007, the financial comparisons reported in these results are previously unpublished and do not include pre-acquisition Quantica trading. The Group's revenue for the six months was £25.4m, producing NFI of £13.08m. Like-for-like NFI grew (from the January – June 2007 period) by 20%, consisting of 13% from the Quantica and RK businesses and a significant 39% on a like-for-like basis from the re-structured Berkeley Scott business, as the new management's strategy continued to strongly re-build the company.

Our balance sheet continued to strengthen; improved profitability and the collection of aged Quantica and RK trade debtors following the integration of our credit control functions allowed us to pay off our year end invoice discounting position of £1.02m and still generate net cash for the period of £1.2m. Gearing (face value of loans and borrowings as a percentage of total equity) improved further to 12.6% from a year end 18.4%. Whilst we maintain the original planned repayment schedules for loans taken out as part of the Quantica acquisition, surplus cash balances of £1.8m along with other unutilised facilities provide a healthy platform to fund planned investment and growth strategies by the Group in H2.

**“Berkeley Scott...
has rightfully
regained its position
as a pre-eminent
hospitality and
leisure recruitment
brand.”**

Operating Review

Berkeley Scott

Berkeley Scott is a turnaround success story. The company has rightfully regained its position as a pre-eminent hospitality and leisure recruitment brand. The measures taken in 2007 to re-focus and re-energise Berkeley Scott, and to return it to profitability have continued to pay dividends. The ‘higher margin, higher value’ strategy introduced has seen huge improvement in the key metrics. Average permanent fee has increased from £2,900 (January – June 2007) to £4,150 (January – June 2008) and from 13.7% to 16.2% as a percentage of salary. This has enabled consultant productivity to rise by 18%, whilst consultants’ costs have reduced from 63% of NFI to 50%. These two factors have contributed greatly to the increased profitability of Berkeley Scott. Furthermore, the London permanent recruitment market, key to our longer term growth, saw a 59% year on year NFI improvement. Although conditions in the hospitality and leisure sector have more recently been weakening, we will seek to invest in new and existing talent to enable Berkeley Scott to move up to the next level of performance and be in prime position as and when the environment improves.

RK Accountancy

The company has produced a solid and pleasing performance with 14% NFI growth and the continued building of a platform for the future. The growth in the business is reflected in the opening of its first new office for five years with a new Warrington branch in June and we plan for at least one more office to be opened in 2008 (expected to be Sheffield) and two further locations in the first half of 2009. A new operating system (Bond Adapt) was implemented towards the end of the half year which will assist with the growth plans for the business. Consultant headcount is planned to be 70 by year end, having commenced 2008 with 52. As we have previously stated, we believe there is enormous roll-out potential for RK Accountancy and we remain excited about its future potential, including the important and lucrative London market.

RK Supply Chain

Overall, a disappointing performance against our expectations in H1, but with the appropriate actions in place to improve performance in this area and to ensure our Supply Chain business maximises its potential. A new Managing Director (Miles McLeod) joined on 1st July and already has plans in place to drive the business forward. Once again, market conditions will not stop us expanding and investing for the future in order to gain market share. The second half of the year will see new offices opening in Manchester and Leeds, and the creation of new divisions in the Interim and International markets, in addition to organic growth in our London Procurement team.

Chief Executive Officer's statement continued

“A significant component of the additional savings will be subject to the crystallisation of our plans to centralise our head office into London, and we expect to do this by the beginning of 2009.”

RK Search/Robinson Keane

Our niche search businesses enjoyed strong growth (17% increase in NFI) whilst establishing two new sub-brands in RK Catalyst and RK Connect. We continue to drive the strategy within niche, focussed areas of the search market and fully expect continued strong growth going forward.

Quantica Technology

A challenging climate for our IT business, yet despite this the business still managed to achieve NFI growth of 12% on prior year. We are working hard to increase our client base and on hiring new talent into the business. We are confident in the long-term growth potential of the business under its hugely experienced leadership team.

Quantica Search & Selection

During H1 we focussed on the expansion of our specialist manufacturing business on two fronts, namely geographic expansion replicating and complementing our existing business, and also functional expansion in the sector to maximise revenues from existing client relationships. We have been particularly successful at hiring experienced recruiters from some of our competitors, which has resulted in fresh accounts opening up. This has allowed our Manchester office, a start-up at the end of 2007, to grow to 10 people, with further expansion planned.

During the period we closed Quantica Solutions, a small utilities recruitment business, as a result of underperformance and our desire to focus on the premium markets within Quantica Search & Selection.

In our Retail business, we refined our offering, cutting out lower margin contingent based UK work operating in tough market conditions, to focus on specialist higher level international work, where margins are higher and markets are more stable.

These investments allowed the business to grow its NFI by 13%.

Integration of Quantica

We are beginning to enjoy the synergies envisaged at the time of the Quantica plc acquisition and continue to identify cost savings, whilst consolidating the support areas and building the appropriate central functions to support our planned growth. During H1 we consolidated five Leeds properties into two and three Manchester offices into two. Divisional support areas have been replaced with group expertise, and appointments made into Group Training, Marketing, HR, and Finance positions. Our 31 December 2007 Annual Report highlighted synergy savings implemented and identified at that time of £1.1m. We are continuing to identify areas for cost saving, efficiencies and consolidation, and, as we previously announced, still expect annualised synergies to total £1.3m by 2009. A significant component of the additional savings will be subject to the crystallisation of our plans to centralise our head office into London, and we expect to do this by the beginning of 2009. Although no costs have yet been incurred, we still expect a one-off cost of £250k in order to achieve our plan.

“We are pleased that these results reflect further significant progress in our stated operational, strategic and financial aims.”

Summary and Outlook

Kellan Group has now moved into a new phase of profitability and growth and we are focussed on developing the business efficiently, and on delivering shareholder value. We are pleased that these results reflect further significant progress in our stated operational, strategic and financial aims. The first half of the year produced an excellent performance for the Group with some outstanding divisional performances; the huge turnaround in Berkeley Scott has continued and the growth of the Quantica and RK businesses has been significantly above market average. Whilst conditions in some of our markets are deteriorating and our visibility remains short in the current economic environment, we remain cautiously confident about the potential for our Group. We intend to continue investing in the future and are committed to our strategy over the remainder of the current financial year.

We would like to thank our management and staff, as well as business associates and investors for their continued confidence in the Kellan Group and for helping us to move forwards ahead of expectations, particularly in such difficult markets. We will continue to move forwards and grow the business profitably and achieve new successes.



John Rose
Chief Executive Officer

Consolidated income statement

for the six months ended 30 June 2008

	Note	Unaudited 6 months ended 30 June 2008 £000	Unaudited 6 months ended 30 June 2007 £000	Audited 15 months ended 31 December 2007 £000
Revenue		25,352	8,305	30,275
Cost of sales		(12,277)	(4,006)	(15,294)
Gross profit		13,075	4,299	14,981
Administrative expenses		(11,346)	(5,418)	(16,293)
Operating profit/(loss)	3	1,729	(1,119)	(1,312)
Financial income		45	2	56
Financial expenses		(182)	(77)	(538)
Profit/(Loss) before tax		1,592	(1,194)	(1,794)
Tax (charge)/credit	2	(311)	—	32
Profit/(Loss) for the period		1,281	(1,194)	(1,762)
Attributable to:				
Equity holders of the parent		1,281	(1,194)	(1,762)
Basic Profit/(loss) per share in pence	4	1.5	(5.8)	(5.4)
Diluted Profit/(loss) per share in pence	4	1.3	(5.8)	(5.4)

The above results relate to continuing operations.

Consolidated balance sheet

at 30 June 2008

	Note	Unaudited 30 June 2008 £000	Unaudited 30 June 2007 £000	Audited 31 December 2007 £000
Non-current assets				
Property, plant and equipment		872	692	833
Intangible assets		29,180	2,518	29,407
		30,052	3,210	30,240
Current assets				
Trade and other receivables	5	9,432	3,300	10,572
Other financial assets		2	—	—
Cash and cash equivalents		1,803	3	692
		11,237	3,303	11,264
Total assets		41,289	6,513	41,504
Current liabilities				
Bank overdraft		—	—	73
Other loans and borrowings		840	1,351	1,692
Trade and other payables	6	5,823	2,011	6,186
Corporation tax payable		753	—	378
Other financial liabilities		—	—	37
Provisions		22	—	45
		7,438	3,362	8,411
Non-current liabilities				
Other loans and borrowings		2,630	142	3,141
Provisions		178	—	200
Deferred tax liabilities		1,174	—	1,237
		3,982	142	4,578
Total liabilities		11,420	3,504	12,989
Net assets		29,869	3,009	28,515
Equity attributable to equity holders of the parent				
Share capital		1,742	456	1,742
Share premium		13,728	5,549	13,740
Merger reserve		16,081	—	16,081
Capital redemption reserve		2	2	2
Retained earnings		(1,684)	(2,998)	(3,050)
Total equity		29,869	3,009	28,515

Consolidated statement of changes in equity

for the six months ended 30 June 2008

	Share capital £000	Share premium £000	Merger reserve £000	Redemption reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2008	1,742	13,740	16,081	2	(3,050)	28,515
Profit/(Loss) for the period	—	—	—	—	1,281	1,281
Share issue costs	—	(12)	—	—	—	(12)
	1,742	13,728	16,081	2	(1,769)	29,784
Total recognised income and expense for the period						
Share based payment charge	—	—	—	—	85	85
Balance at 30 June 2008	1,742	13,728	16,081	2	(1,684)	29,869

Consolidated cash flow statement

for the six months ended 30 June 2008

	Unaudited 6 months ended 30 June 2008 £000	Unaudited 6 months ended 30 June 2007 £000	Audited 15 months ended 31 December 2007 £000
Cash flows from operating activities			
Profit/(Loss) for the period	1,281	(1,194)	(1,762)
<i>Adjustments for:</i>			
Depreciation and amortisation	437	144	522
Financial income	(45)	(2)	(56)
Financial expense	182	77	538
Loss on sale of property, plant and equipment	9	58	63
Equity settled share-based payment expenses	85	69	301
Taxation	311	—	(32)
	2,260	(848)	(426)
(Increase)/decrease in trade and other receivables	1,140	313	(256)
(Decrease)/increase in trade and other payables	(363)	(781)	(2,681)
Increase/(decrease) in provisions	(45)	—	245
	2,992	(1,316)	(3,118)
Tax (paid)/receivable	1	—	(336)
Net cash (outflow)/inflow from operating activities	2,993	(1,316)	(3,454)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	—	5	5
Interest received	45	2	56
Acquisition of subsidiary, net of cash acquired	—	—	(7,592)
Acquisition of property, plant and equipment	(258)	(112)	(261)
Net cash from investing activities	(213)	(105)	(7,792)
Cash flows from financing activities			
Proceeds from the issue of share capital, net of issue costs	(12)	2,263	10,956
Proceeds from new loan	—	—	4,200
Repayment of invoice discounting balances	(978)	(496)	(1,512)
Interest paid and loan costs	(182)	(77)	(847)
Repayment of borrowings	(423)	(50)	(316)
Payment of the capital element of finance lease liabilities	(1)	(16)	(26)
Payment of the interest element of finance lease liabilities	—	(1)	(1)
Net cash from financing activities	(1,596)	1,623	12,454
Net increase/(decrease) in cash and cash equivalents	1,184	202	1,208
Cash and cash equivalents at the beginning of the period	619	(199)	(589)
Cash and cash equivalents at the end of the period	1,803	3	619

Notes

(Forming part of the financial statements)

1 Accounting policies

Accounting periods

The accounting reference date of the Group is 31 December. The current interim results are for the six months ended 30 June 2008. The comparative interim results are for the six months ended 30 June 2007 and are previously unpublished due to the change in accounting reference date. The comparative period end's results are for the fifteen months ended 31 December 2007.

Financial information

The interim financial information for the six months ended 30 June 2008 does not constitute statutory accounts as defined by Section 240 of the Companies Act 1985. The financial information for the periods ended 30 June 2008 and 30 June 2007 are unaudited and unreviewed. The comparative figures for the fifteen months ended 31 December 2007 are not the full statutory accounts for the period. A copy of the statutory accounts for that period has been delivered to the Registrar of Companies. The auditors have reported on those accounts; their reports were unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain statements under s237(2) or(3) of the Companies Act 1985.

Basis of Preparation

The interim financial statements have been prepared 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 2007 which are also the policies that are expected to be applicable at 31 December 2008.

2 Taxation

Recognised in the income statement

	6 month period ended 30 June 2008 £000	6 month period ended 30 June 2007 £000	15 month period ended 31 December 2007 £000
Current tax expense			
Current period	374	—	—
Deferred tax expense			
Origination and reversal of temporary differences	(63)	—	(32)
Tax charge/(credit)	311	—	(32)

The current period tax charge has been based on the estimated tax rate for the full year to 31 December 2008.

3 Reconciliation of Operating Profit/(Loss) to Adjusted EBITA and Adjusted EBITDA

	6 month period ended 30 June 2008 £000	6 month period ended 30 June 2007 £000	15 month period ended 31 December 2007 £000
Operating Profit/(loss) as per accounts	1,729	(1,119)	(1,312)
Add back			
Amortisation of intangible assets	227	—	113
Share based payments charge	85	69	301
Non-recurring costs ⁽ⁱ⁾	—	659	891
Adjusted EBITA	2,041	(391)	(7)
Depreciation of assets	210	144	409
Adjusted EBITDA ⁽ⁱⁱ⁾	2,251	(247)	402

(i) Non-recurring items for the period to 30 June 2008 were £Nil. The 15 month period to 31 December 2007 non-recurring costs of £891,000 related to costs of £245,000 incurred in respect of onerous leases and £646,000 incurred in respect of the restructuring of the Group. Non-recurring costs for the six month period to 30 June 2007 of £659,000 related to restructuring costs.

(ii) In calculating its Adjusted EBITA and adjusted EBITDA the Group adds back share based payments charges and non-recurring costs.

4 Earnings per share

Basic earnings per share

The calculation of basic earnings per share is as follows:

	June 2008	June 2007	December 2007
Weighted average number of shares			
Issued ordinary shares brought forward	87,086,336	8,518,615	8,518,615
Effect of share options exercised	—	—	5 5
Effect of warrants exercised	—	—	124,750
Effect of shares issued	—	11,917,916	23,968,638
Weighted average number of shares at end of period	87,086,336	20,436,531	32,612,008
Dilutive effect of potential shares	7,980,916	—	—
Diluted weighted average number of shares at end of period	95,067,252	20,436,531	32,612,008
Profit/(loss) for the period	1,281,000	(1,194,000)	(1,762,000)
Basic Profit/(loss) per share in pence	1.5	(5.8)	(5.4)
Diluted Profit/(loss) per share in pence	1.3	(5.8)	(5.4)

Notes continued

(Forming part of the financial statements)

5 Trade and other receivables

	30 June 2008 £000	30 June 2007 £000	31 December 2007 £000
Trade receivables	7,150	2,439	8,187
Other receivables	783	63	267
Prepayments and accrued income	1,499	798	2,118
	9,432	3,300	10,572

6 Trade and other payables

	30 June 2008 £000	30 June 2007 £000	31 December 2007 £000
Trade payables	737	289	777
Social security and other taxes	2,082	655	1,715
Other creditors	346	171	1,261
Accruals and deferred income	2,658	896	2,433
	5,823	2,011	6,186

Directors and advisers

Directors

A Reeves – Co-Chairman
J Bowmer – Co-Chairman
J Rose – Chief Executive
W Coker – Chief Financial Officer
M Jackson – Non-executive Director

Advisers

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Registered number

2228050

Shareholder information and financial calendar

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. 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

Announcement of interim results	18 September 2008
Financial year end	31 December 2008
Announcement of final results	March 2009
Annual report posted to shareholders	April 2009
Annual General Meeting	May 2009



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