Kellan Group plc

Annual report and accounts 2011

Headline figures

- 54.5% increase in adjusted EBITDA profit to £0.17 million (2010: £0.11 million) (note 2).
- Continued streamline improvements with administrative expenses (excluding impairment, amortisation, depreciation, shared based payments and restructuring costs) reducing by 13% year on year from £12.2 million in 2010 to £11 million in 2011.
- Improved operating loss (before impairment charge) position of £0.44 million for the year (2010: £0.85 million).
- Non-cash goodwill & Intangibles impairment charge of £5 million (2010: £9.5 million).
- (5.72) p per basic and diluted share, compared with (11.1) p per basic and diluted share for 2010.
- £1.40 million raised subsequent to the year end through share subscription and £1.26 million facility in place to draw down against repayment of bank senior debt (at favourable interest rates), conditions only on the final issuance and admission of subscription shares to AIM. Conclusive financing package to fund the growth in fee earners with the aim to execute management's growth strategy
- £0.65 million of loan notes converted to equity to reduce financing costs and improve leverage ratio for the Group.

Chairman's Statement

The market upturn of late 2010 proved short-lived and as a consequence 2011 was another challenging year for Kellan Group, but one in which adjusted EBITDA profit for the year of £0.17 million showed a 54.5% increase against 2010 and costs were reduced by a further 13% through tight control.

In February 2011 the Group secured an additional £1.35 million of funding. At that time the markets still looked promising and we were able to move our growth strategy forwards, bringing on board a number of industry-leading recruitment professionals who share our vision for the Group. They set about the task of restructuring parts of the Group and improving each brand's position in our key markets. These new fee earners were in place just at the time the recruitment market dipped again and the expected Net Fee Income growth was therefore not realised. Aligning our overall business with the market, we reduced our workforce to 162 (2010:185).

We also continued the ongoing restructuring of our property portfolio, exiting a further two properties and sub-letting one property in 2011.

We initially approached 2012 with a high degree of caution due to the volatile nature of the economic environment, with the management team maintaining its focus on Net Fee Income growth, cost control and working capital management. Our outlook has changed for the better, however, with the announcement today of a placing to raise £1.40 million from existing investors, which will be available for investment in fee earners and projects to stimulate growth and £1.26 million as a drawdown facility that can be drawn down in line with the scheduled repayments of the existing bank term loan. Also £0.65 million loan notes converted to equity to reduce financing costs and to improve the leverage ratio of the group.

We welcome Rakesh Kirpalani to the Board following 18 months as the Finance Director. Guiding the Group through the past year has taken considerable skill, patience and diplomacy and we are delighted to have him with us.

John Bowmer's California base has dictated that he steps down as co-Chairman. I am extremely grateful for his expertise and support as my Co-Chair and I am sure that his vast experience and insight will continue to be readily available to us in his role as non executive director.

Our people have demonstrated consummate professionalism, resilience and good humour during the past year supported by a creative and dedicated team of managers – we would like to thank them all for their dedication and sterling efforts on behalf of our customers.

We would also like to thank the unwavering support of the Group's shareholders whom we join in looking forward to improved market conditions and the realisation of the tremendous potential in the Group.

Tony Reeves
Chairman
20 September 2012

Chief Executive Officer's Report

Business Review

After a slow start to 2011 there were short lived signs of an upturn before renewed concerns around the Euro zone and sovereign debt hit business confidence and forced a further retraction of the recruitment market. The Group has used this time to reshape a number of its key brands in readiness for the delayed but inevitable upturn as well as successfully controlling and further reducing costs. With additional funding now secured, the Group is out of survival mode and can now look forward with real purpose, determination and optimism.

Although the revenue of £26.9 million (2010: £29.8 million) represents a year on year reduction of 9.8%, the benefits of our 2010 cost reduction strategy combined with further efficiency savings during 2011 led to a significant reduction in operating losses for the year before non-cash goodwill & intangibles impairment charge to £0.44 million. (2010: £0.85 million operating loss). Sequentially, the Group made a H2 2011 profit of £0.26 million at adjusted EBITDA level (2010: £0.17 million adjusted EBITDA profit) compared with a H1 2011 loss of £0.09 million (2010: £0.24 million adjusted EBITDA loss)

Phase 2 of our growth strategy was implemented following the securing of £1.35 million additional funding in February 2011 to support the organic growth of the Group's established brands. We maintained our plan to grow our temporary and contract business at a quicker rate than permanent business to ensure the Group is more resilient to adverse changes in the macro economic climate. During the year it became apparent that further changes were necessary within some of the brands and our strategy was revised accordingly to accommodate this.

Phase 3, the strengthening of the Group's brands through tuck-in acquisitions, is planned to commence once sustained profitability is achieved.

Berkeley Scott maintained its position as market leader in the hospitality and leisure markets. In a very difficult climate the company showed creditable flexibility in being able to adapt its business to deliver a performance very similar to that of 2010. The senior appointment and general management businesses remain consistent and our chef specialism continues to be a real focus in the corporate client and independent hotel and leisure markets. We are also seeing increased competition from in-house recruitment teams and smaller niche businesses. Overall 2012 remains difficult to predict with significant opportunities presented by the Olympics tempered by continued pressure on temporary margin and permanent fees.

Quantica Technology, the Group's IT specialist, continued to build its London and regional UK operations and has now established robust trading links across mainland Europe. The company defended its position in a very challenging environment to deliver a performance largely in line with 2010. Most encouraging was the growth of the contract business in line with our Group strategy. 2012 has started well for Quantica Technology and we believe that they will benefit from the predicted leadership of IT in any recovery.

Following a leadership change for our RK and search brands at the beginning of H2, we confirmed our focus on developing the qualified end of the market through the launch of **Robinson Keane Finance Professionals.** This frees **RK Accountancy** to concentrate on the non-qualified and clerical side of the market where its strength has traditionally resided. Both businesses are in an excellent position to make the most of any market improvements.

The Group has been considerably strengthened by the launch in January 2012 of **Robinson Keane HR Professionals** by two of the HR industry's top recruiters. This is a resilient part of the professional recruitment market and naturally has tangential benefits to all the other brands in the Group.

I would also like to thank our increasingly loyal customer base and our shareholders for their invaluable support throughout 2011. 2012 started in the same vein as the end of 2011 – fleeting signs of improvement in a nervous and volatile trading environment. We have been carefully managing costs and cash whilst maximising opportunities to take market share in a taciturn economic climate. During this challenging time, the Group's staff has worked with tireless enthusiasm, flexibility and spirit to protect, develop and enhance our service offerings and I would like to thank them for their patience, commitment and loyalty.

I would particularly like to thank our Finance Director, Rakesh Kirpalani, for his invaluable, unwavering and expert support. He has played a significant role in rationalising the Group's cost base by driving efficiencies where possible and I welcome him warmly to the Board.

The newly secured funds will allow us to robustly support these excellent people who have helped us through this difficult period. We will invest in making sure they are fully equipped to exploit our growth opportunities and to place the Group at the forefront of our specialist markets. There are very exciting and positive times ahead for everyone associated with Kellan Group.

Financial Review

Continued cost control translated to a significantly reduced operating loss before impairment to £0.44 million (2010: £0.85 million) with the group reaching a break even position at an Adjusted EBITDA level in the second half of the year.

Administrative expenses have decreased to £16.3 million in the year to 31 December 2011, from £22.71 million in 2010. Adjusting the cost base for the impairment, amortisation, depreciation, share based payments and restructuring, like for like costs have reduced from £12.2 million for the year to 31 December 2010 to £11 million for the year to 31 December 2011 which represents a reduction of 13% year on year.

The Group's revenue for the year ended 31 December 2011 was £26.9 million representing a decrease of 9.8% (2010: £29.83 million). This produced Net Fee Income ("NFI") of £10.85 million for the year ended 31 December 2011, a decline of 12.4% (2010:£12.39 million).

Impairment of Intangibles

The impairment review undertaken in 2011 resulted in a non-cash goodwill & intangibles impairment charge of £5 million (2010: 9.48 million).

The non cash impairment of goodwill and intangibles reflects a conservative view to the future growth prospects based on the macro-economic conditions currently in place. Whilst the business aspires to grow at a much faster rate, management deemed it appropriate to impair the intangibles to ensure a fair valuation based on current market conditions.

Monitoring, risk and KPIs

Risk management is an important part of the management process throughout the Group. The composition of the Board is structured to give balance and expertise when considering governance, financial and operational recruitment issues. Meetings incorporate, amongst other agenda items, a review of monthly management accounts, operational and financial KPIs and major issues and risks facing the business.

The most important KPIs used in monitoring the business are as follows:

	Year ended 31 December 2011	**Year ended 31 December 2010**
Revenue	£26,902,000	£ 29,827,000
Net Fee Income	£10,853,000	£ 12,386,000
Adjusted EBITDA	£166,000	£ 106,000
Adjusted EBITA as a % of Net Fee Income	(1.1%)	(1.9%)
Days sales outstanding (DSO)	38	38
Headroom on working capital facilities	£466,000	£ 1,303,000

The principal risks faced by the Group in the current economic climate are considered to be financial, market and people related:

• **Financial** - The main financial risks arising from the Group's activities are liquidity risk and credit risk. These are monitored by the Board and are disclosed further in notes 1 and 16 of the financial statements.

The Group reset the financial covenants contained in its borrowing agreement with its lender during 2011 and remain within agreed levels at 31 December 2011.

In February 2011 the Group raised £1.35 million of funding through a combination of new equity and convertible loan notes. The Group also 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 had agreed to a repayment holiday to be applied to all principal amounts outstanding under the facility during 2011. The Group had previously been repaying £210,000 of capital per quarter and as at 31 December 2011 an aggregate principal amount of £1.68 million (2010: £1.68 million) remained outstanding under the facility. These quarterly payments were subject to a one year repayment holiday and repayments of the principal amount outstanding under the facility recommenced on 31 March 2012, with repayments remaining at £210,000 of capital per quarter.

In September 2012 the Group raised £2.66 million of funding through a combination of new equity of £1.40 million and a drawdown facility of £1.26 million that can be drawn down in line with the scheduled repayments of the existing bank term loan. The Group also entered into an amendment letter to restructure its debt with respect to its existing facilities agreement with its lender with repayments of the principal amount outstanding under the facility to continue as planned, with repayments remaining at £210,000 of capital per quarter. Also, £0.65 million loan notes converted to equity to reduce financing costs and improve leverage ratio for the group.

Based on the Group's latest cash flow forecasts and current trading performance it is not expected that any further funding will be required for the foreseeable future. The directors' consideration of the appropriateness of the going concern basis in preparing the financial statements is set out in note 1 to the financial statements.

- **Market** - the Group operates in a dynamic market place and constantly seeks to ensure the solutions it offers to customers are completive. By operating in various diverse sectors, the Group is, to some degree, protected from a deteriorating market. Nevertheless, throughout most of 2011 the economic downturn significantly affected the recruitment sector. The depth and length of the downturn, combined with the Group's predominance of permanent recruitment fees, generated mostly in the UK, represent a risk.
- **People** - In a people intensive business, the resignation of key individuals (both billing consultants and influential management) and the potential for them to exit the business taking clients, candidates and other employees to their new employers is a risk. Kellan mitigates this risk through a number of methods including the application of competitive pay structures and share plans to incentivise retention. In addition the Group's employment contracts contain restrictive covenants that reduce a leaver's ability to approach Kellan clients, candidates and employees for certain periods following the end of their employment with the Group.

Cashflow

Net cash outflow at operating level was £0.64 million for the year ended 31 December 2011 (2010: £0.23 million inflow). Investing activities comprised of capital expenditure of £270,000 (2010: £111,000). Net cash inflow from financing activities amounted to £964,000 (2010: £411,000 outflow) comprising the net proceeds of convertible loan notes and the repayment of invoice discounting facility balances as well as the servicing of loan interest. The net increase in cash and cash equivalents in the period was £60, 000 (2010: £291,000 decrease).

Ross Eades
Chief Executive Officer
20 September 2012

Board of directors

Tony Reeves (R, A)

Chairman

Tony Reeves has over 45 years' experience in the recruitment sector, most recently as chairman and chief executive officer of Hotgroup plc from 2002 until its acquisition by Trinity Mirror Group plc in September 2005. Prior to that Tony was chairman and chief executive officer of the Delphi Group plc until its acquisition by Adecco SA in 1998. He is also a private investor in various early stage companies. Before joining Delphi Group plc, Tony was chairman, president and chief executive officer of Lifetime Corporation, which was then a public company listed on the New York Stock Exchange.

Ross Eades

Chief Executive Officer

Ross began his career in IT recruitment in 1988 with Hunterskil. In 1997, he was appointed CEO of MPS Group International plc, a group of IT and Professional Services recruitment companies which included such brands as Modis and Badenoch & Clark. During his tenure the group grew both organically and through acquisition, increasing sales revenue from £72 million to £286 million and EBIT from £3 million to £21 million. Ross joined InterQuest Group, an AIM listed specialist staffing business, as CEO in 2003 where he achieved increasing sales revenue from £12million to £104million and EBIT from £180k to £5.4 million. Ross joined Kellan Group as its CEO in April 2009.

Rakesh Kirpalani

Group Finance Director

After 10 years in various commercial Finance roles within the retail industry, Rakesh joined MPS in 2006 where he held senior Finance positions providing commercial support to the operating brands. He helped to guide the Group through its integration with Adecco post acquisition and remained there until joining Kellan in 2011. Since then he has rationalised the Group's cost base significantly where appropriate and successfully steered the Group through a challenging time. Rakesh is a Fellow of the ACCA.

John Bowmer (R, A)

Non -executive Director

John is the former chairman of Swiss quoted Adecco SA, the world's largest staffing company where he was chief executive officer from its formation in 1996, through the merger of Ecco and Adia, to 2002. Prior to this, between 1992 and 1996 he was chief executive officer of Adia and between 1987 and 1992 he served in a variety of executive positions at Adia in the UK, Asia, Australia and the US. Previously, Mr Bowmer held a range of management positions in marketing and finance at companies including MAI plc, a financial services and media organisation and Polaroid (UK) Ltd. He is an investor in, and adviser to, several private equity companies in the US. He was a director of CP Ships from its flotation on the New York Stock Exchange in 2001 until its disposal to TUI AG at the end of 2005. In 2007 he became a non-executive director of Hireright Inc, a NASDAQ quoted employment screening company, until it was sold recently.

Michael Jackson (R, A)

Non-executive Director

Michael Jackson founded Elderstreet Investments Limited in 1990 and is its Executive Chairman. For the past 20 years, he has specialised in raising finance and investing in the smaller companies sector. Mr Jackson is chairman of PartyGaming plc and until August 2006 was chairman of FTSE100 company, The Sage Group plc. He is also a director and investor in many other quoted and unquoted companies, including Netstore plc and Computer Software Group plc. Mr Jackson studied law at Cambridge University, and qualified as a chartered accountant with Coopers & Lybrand before spending 5 years in marketing for various US multinational technology companies.

James McHugh

Non -executive Director

James McHugh founded K2 Partnering Solutions (a specialist niche staffing company in the Enterprise Resource Planning space) in 1997 and was its CEO until 2007. During this period the company grew globally with offices established in London, Stuttgart, Geneva, Boston & San Francisco, overseeing in the US the successful acquisitions of Jotorok, and most recently overseeing the opening of a Tokyo office for the group. In 2008 the group achieved annual revenues of $150m (4% EBIT). Mr McHugh remains a board member of K2's holding company Fionnoel AG (based in Switzerland), and in 2008 his role changed to Director of Strategic initiatives. In addition to the above, James runs a semi - professional sailing program & keeps a base in Beijing as well as Switzerland & the US.

R Remuneration Committee

A Audit Committee

Advisers, financial calendar and shareholder information

Advisers

Broker/Nomad
Merchant Securities Ltd
51 – 55 Gresham St
London
EC2V 7EL

Bank
Barclays Bank plc
1 Churchill Place
London E14 5HP

Auditors
BDO LLP
55 Baker Street
London
W1U 7EU

Solicitor/Company Secretary
Irwin Mitchell/
IMCO Secretary Ltd
2 Wellington Place
Leeds LS1 4BZ

Registrar
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA

Registered office
4th Floor
27 Mortimer Street
London W1T 3BL

Registered number
2228050

Shareholder information

AGM details

The Company's last AGM was held on 31 May 2011 in London. Two ordinary resolutions and two special resolutions were listed in the annual report and accounts for the year ended 31 December 2010 and all were passed unanimously.

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 website 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.

Major shareholders (as of 1 September 2012)

	Amount	% holding
PA Bell Esq	25,991,840	23.82
JP Bowmer	13,893,602	12.73
AH Reeves	13,724,332	12.58
J McHugh	10,650,992	9.76
G Bereika	5,996,779	5.50
Adam & Company nominees	3,369,233	3.09

Financial calender

Next Annual General Meeting

Wednesday 17 October at 2.00pm in the Group's head office: 4th Floor, 27 Mortimer Street, London W1T 3BL

Next interim announcement

September 2012 (covering 6 months to 30 June 2012)

Next year end

31 December 2012

Report of the directors

For the year ended 31 December 2011

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

Results and dividends

The results of the Group for the period are set out on page 12 and show a loss for the period after the impairment of goodwill and intangibles of £5,910,000 (2010: loss of £9,736,000). The directors do not propose the payment of a dividend on the ordinary shares (2010: £nil).

Principal activities

Kellan Group plc (the “Group” or the “Company” or “Kellan”), is a market leading recruitment business operating across a wide range of functional disciplines and industry sectors. The Company joined the AIM market in December 2004.

Business review

Please refer to pages 2 to 4 for the trading results and operational review of the business.

Monitoring, risk and KPIs

Please refer to pages 3 and 4.

Post balance sheet events

In September 2012, the Group raised funding of £2.66 million before costs through a combination of new equity and a debt facility. Of this, £1.40m will be available for investment in fee earners and projects to stimulate growth and £1.26m in reserve as a drawdown facility that can be drawn down in line with the scheduled repayments of the existing bank term loan. £0.65 million loan notes converted to equity to reduce financing costs and improve leverage ratio for the group.

Future developments

Please refer to the Chief Executive Officer’s statement on pages 2 and 4 for a review of future developments.

Going concern

The directors’ consideration of the appropriateness of the going concern basis in preparing the financial statements is set out in note 1 to the financial statements.

Corporate social responsibility

The Company has published its policies on employees, health and safety and the environment on the investor relations page of the Group’s website. Please visit www.kellangroup.co.uk for details.

Corporate governance

The Company has published its policies on corporate governance on the investor relations page of the Group’s website. Please visit www.kellangroup.co.uk for details.

Charitable and political contributions

The Group made no charitable donations or political contributions during the current or prior year.

Employees

The Group has a policy of involving employees in its affairs where possible and creating the opportunity for senior members to explain to employees matters which affect the Group’s performance. The Group practices equality of employment opportunities irrespective of sex, race, creed or colour and recruits, trains and promotes on merit accordingly. Throughout the Group where practicable, opportunities are taken to employ disabled people and to ensure that they take part in training and career development.

Directors

The directors of the Company who held office during the period and after the period were as follows:

AH Reeves – Chairman

RD Eades – Chief Executive Officer

R Kirpalani –Group Finance Director (appointed 28 March 2012)

J Melbourne – Chief Financial Officer (resigned 28 April 2011)

JP Bowmer – Non-executive Director

Report of the directors

For the year ended 31 December 2011

ME Jackson – Non-executive Director
J McHugh – Non-executive Director

Remuneration

Remuneration and benefits received during the 12 months ended 31 December 2011 for directors were as follows:

	Gross salary Including car allowance £	Benefits £	Directors' fees £	Outstanding share options at 31 Dec 2011 Number	Exercise price £
JP Bowmer	25,000	—	—	1,000,000	0.026
AH Reeves	25,000	—	—	1,000,000	0.026
ME Jackson	17,500	—	—	500,000	0.026
J McHugh	—	—	17,500	—	—
RD Eades	236,500	23,779	—	5,000,000	0.031
J Melbourne	43,223	4,394	—	—	—
Total	347,223	28,173	17,500	7,500,000	—

Statement of Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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 of the group and company and of the profit or loss of the group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that 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 requirements of 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.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Report of the directors

For the year ended 31 December 2011

Auditors

Each individual director has taken all the steps necessary to make themselves aware of any information needed by the Company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information to which the auditors are unaware.

BDO LLP have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the Annual General Meeting.

On behalf of the Board

Ross Eades
Chief Executive Officer
20 September 2012

Independent auditors' report

To the members of the Kellan Group plc

We have audited the financial statements of Kellan Group plc for the year ended 31 December 2011 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position and company balance sheet, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent company financial statements 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 sections 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 statement of directors' responsibilities, the directors are responsible for the preparation of the 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 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.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2011 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters 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 financial statements.

Independent auditors' report

To the members of the Kellan 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.

James Fearon (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom

Date 20 September 2012

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated statement of comprehensive income

for the year ended 31 December 2011

	Note	**Year ended 31 December 2011 £000**	Year ended 31 December 2010 £000
Revenue		**26,902**	29,827
Cost of sales		**(16,049)**	(17,441)
Gross profit/net fee income		**10,853**	12,386
Administrative expenses		**(16,298)**	(22,707)
Operating loss before impairment charge		**(444)**	(846)
Impairment of goodwill and intangibles	10	**(5,001)**	(9,475)
Operating loss	2	**(5,445)**	(10,321)
Financial income	5	**15**	46
Financial expenses	5	**(480)**	(447)
Loss before tax	3	**(5,910)**	(10,722)
Tax credit	6	—	986
Loss for the period		**(5,910)**	(9,736)
Attributable to:			
Equity holders of the parent		**(5,910)**	(9,736)
Loss per share in pence			
Basic and diluted	7	(5.72)	(11.1)

The above results relate to continuing operations.

There are no other items of comprehensive income for the year or for the comparative year.

The notes on pages 16 to 36 form part of these financial statements.

Consolidated statement of financial position

as at 31 December 2011

	Note	**As at 31 December 2011 £000**	As at 31December 2010 £000
Non-current assets			
Property, plant and equipment	9	**532**	542
Intangible assets	10	**8,093**	13,285
		8,625	13,827
Current assets			
Trade and other receivables	12	**4,205**	4,399
Cash and cash equivalents	13	**410**	350
		4,615	4,749
Total assets		**13,240**	18,576
Current liabilities			
Loans and borrowings	14	**3,093**	3,906
Trade and other payables	15	**2,914**	3,470
Derivatives		**42**	57
Provisions	18	**328**	399
		6,377	7,832
Non-current liabilities			
Loans and borrowings	14	**2,759**	927
Provisions	18	**79**	300
		2,838	1,227
Total liabilities		**9,215**	9,059
Net assets		**4,025**	9,517
Equity attributable to equity holders of the parent			
Share capital	19	**2,146**	1,757
Share premium	20	**13,746**	13,734
Merger reserve	20	—	—
Convertible debt reserve	20	**34**	17
Warrant reserve	20	**36**	36
Capital redemption reserve	20	**2**	2
Retained earnings		**(11,939)**	(6,029)
Total equity		**4,025**	9,517

These financial statements were approved by the Board of directors on 20 September 2012 and were signed on its behalf by:

RD Eades

Ross Eades
Director

Tony Reeves
Director

Consolidated statement of changes in equity

for the year ended 31 December 2011

	Note	Share capital £000	Share premium £000	Merger reserve £000	Convertible reserve £000	Warrant reserve £000	Capital redemption reserve £000	Retained earnings £000	Total Equity £000
Balance at 1 January 2010		**1,742**	**13,728**	**16,081**	**—**	**—**	**2**	**(12,354)**	**19,199**
Loss for the year		—	—	—	—	—	—	(9,736)	(9,736)
Total comprehensive loss for the year ended 31 December 2010		—	—	—	—	—	—	(9,736)	(9,736)
Share-based payment		—	—	—	—	—	—	(20)	(20)
Reserve transfer		—	—	(16,081)	—	—	—	16,081	—
Issue of shares		15	6	—	—	—	—	—	21
Equity component of convertible loan notes		—	—	—	17	36	—	—	53
Balance at 31 December 2010		**1,757**	**13,734**	**—**	**17**	**36**	**2**	**(6,029)**	**9,517**
Loss for the year		—	—	—	—	—	—	**(5,910)**	**(5,910)**
Total comprehensive loss for the year ended 31 December 2011		—	—	—	—	—	—	(5,910)	(5,910)
Issue of shares	19	389	12	—	—	—	—	—	401
Equity component of convertible loan notes	14	—	—	—	17	—	—	—	17
Balance at 31 December 2011		**2,146**	**13,746**	**—**	**34**	**36**	**2**	**(11,939)**	**4,025**

Consolidated statement of cash flows

for the year ended 31 December 2011

	Note	**Year ended 31 December 2011 £000**	Year ended 31 December 2010 £000
Cash flows from operating activities			
Loss for the period		**(5,910)**	(9,736)
Adjustments for:			
Depreciation and amortisation		**472**	784
Interest income		**—**	(1)
Interest paid		**312**	331
Amortisation of loan costs		**89**	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		**5,001**	9,475
Equity-settled convertible loan interest		**62**	34
Equity-settled share-based payment expenses/ (credit)		**30**	(20)
Non - cash taxation credit		**—**	(986)
		41	(52)
Decrease in trade and other receivables		**194**	343
(Decrease) / Increase in trade and other payables		**(578)**	233
(Decrease) in provisions		**(292)**	(294)
Net cash (outflow) / inflow from operating activities		**(635)**	230
Cash flows from investing activities			
Interest received		**—**	1
Acquisition of property, plant and equipment	9	**(270)**	(111)
Net cash outflow from investing activities		**(270)**	(110)
Cash flows from financing activities			
Proceeds from the issue of share capital		**340**	—
(Repayment) of invoice discounting facility balances		**(46)**	(198)
Interest paid and loan costs		**(312)**	(331)
Repayment of term loan borrowings		**—**	(840)
Net proceeds of convertible loan notes		**983**	958
Net cash inflow / (outflow) from financing activities		**965**	(411)
Net increase/(decrease) in cash and cash equivalents		**60**	(291)
Cash and cash equivalents at the beginning of the period		**350**	641
Cash and cash equivalents at the end of the period	13	**410**	350

Notes to the financial statements

(forming part of the financial statements)

1 Accounting policies

Basis of preparation

Kellan Group plc (the "Company") is a public limited company incorporated in the UK.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The parent company financial statements present information about the Company as a separate entity and not about its Group.

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as endorsed for use by the EU ("Adopted IFRS"). The Company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 37 to 41.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

Going concern

The financial statements have been prepared on a going concern basis.

During 2011, the Group reset the financial covenants contained in its borrowing agreement with its lender and remained within agreed levels as at 31 December 2011.

In February 2011 the Group raised £1.35 million of funding through a combination of new equity and convertible loan notes. This, in addition to an amendment letter enabling the Group to restructure its debt with respect to its existing facilities agreement with its lender, provided the group with additional working capital. Under the amendment letter, the Group's lender agreed to a repayment holiday to be applied to all principal amounts outstanding under the term loan facility during 2011. At the year ended December 2011, an aggregate principal amount of £1.68 million remained outstanding under the term loan facility.

In September 2012, the Group raised funding of £2.66 million before costs through a combination of new equity and a new debt facility. Investors are committed to subscribing for shares of £1.40m and all conditions relating to their subscription have been met, subject only to the issue of the actual shares on AIM which is in process. The subscription funds are held either by the company or in a broker's account for the sole benefit of the company. The equity injection will be used for investment in fee earners and projects to stimulate growth.

A further facility has been signed with Paul Bell for £1.26m and this facility will become available for drawdown as amounts become due under the Barclays term loan facility. This facility effectively underwrites the bank's term loan although there are limitations should the Barclay's term loan become immediately repayable, as in this event the facility can still only be drawn in line with the agreed repayment schedule under the Barclay's facility. The directors have considered the prospect of an immediate payment being required in this situation and although they acknowledge it as an uncertainty consider it to be remote.

As part of the fundraising, £0.65 million loan notes were also converted to equity to reduce financing costs and improve leverage ratio for the group.

The Group breached covenants on the Barclay's term loan and ID facility at 31 March 2012 and 30 June 2012, however Barclays have granted a waiver of the breaches at 31 March 2012 and 30 June 2012 and a covenant test waiver for 30 September 2012. As at 20 September the Group has an aggregate principal amount of £1.26 million remaining outstanding under the facility. Due to the financial restructuring the covenants require rebasing. This has yet to be completed but Barclays have provided written assurances to the directors that they will agree and reset the covenants before the next test date and that these covenants will include an appropriate level of tolerance.

Based on the Group's latest cash flow forecasts which cover the period to 31 December 2013 and current trading performance, together with the financial restructuring and undertaking by Barclays to rebase the covenants, the directors do not consider there to be any reasonable prospect that any further funding will be required for the foreseeable future and they consider that the group will be able to operate within the level of its current facility.

Having considered the above, the Directors are of the opinion that there is a reasonable expectation that the Group will be able to meet its liabilities as they fall due for the foreseeable future and that there are no material uncertainties that would give cast significant doubt over the group's ability to continue as a going concern.

It is on this basis that the Directors consider it appropriate to prepare the Group's financial statements on a going concern basis

Notes to the financial statements

(forming part of the financial statements)

1 Accounting policies continued

Measurement convention

The financial statements are prepared on the historical cost basis except for derivative financial instruments that are stated at fair value.

Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The annual rates used are generally:

• motor vehicles and computer equipment	25%
• office equipment	10% – 33%
• short leasehold premises	over the duration of the lease

Goodwill

Goodwill represents amounts arising on the acquisition of subsidiaries. Subject to the transitional relief in IFRS 1, all business combinations are accounted for by applying the purchase method. In respect of business acquisitions that have occurred since 1 October 2005, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRS in the transition period. The Group and Company elected not to restate business combinations that took place prior to 1 October 2005. In respect of acquisitions prior to 1 October 2005, goodwill is included at 1 October 2005 on the basis of its deemed cost, which represents the carrying value recorded under UK GAAP which was broadly comparable save that no intangibles were recognised and goodwill was amortised.

Externally acquired intangible assets

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques (see section related to critical estimates and judgements on page 20).

Amortisation is recognised in profit and loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

The significant intangibles recognised by the Group, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

Intangible asset	*Useful economic life*	*Valuation method*
Brand name	10 years	Relief from royalty method
Customer relations	10 years	Means extended excess method

Cash and cash equivalents

Cash and cash equivalents comprise cash balances on current accounts, cash balances on invoice discounting facilities and call deposits.

Impairment

The carrying values of assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated. Where the asset does not generate cash flows which are independent from other assets, the recoverable amount of the cash-generating unit to which the asset belongs is estimated.

The recoverable amount of a non-financial asset is the higher of its fair value less costs to sell, and its value-in-use. Value-in-use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit calculated using a suitable discount factor.

An impairment loss is recognised in the statement of comprehensive income whenever the carrying amount of an asset or cash-generating unit exceeds its recoverable amount.

1 Accounting policies continued

Goodwill is tested for impairment annually and whenever there is an indication that the asset may be impaired. Any impairment recognised on goodwill is not reversed.

The impairment review is assessed by reference to value in use, using internal forecasts and estimated growth rates to forecast future cash flows, and a suitable discount rate based on the Group's weighted average cost of capital. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax risk-free rate.

Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black Scholes option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest, except where forfeiture is due only to share prices not achieving market vesting conditions.

The Group and Company took advantage of the option available in IFRS 1 to apply IFRS 2 only to equity instruments that were granted after 7 November 2002 and that had not vested by 1 October 2005.

Revenue and income recognition

Revenue, which excludes value added tax ("VAT"), constitutes the value of services undertaken by the Group as its principal activities, which are recruitment consultancy and other ancillary services. These consist of:

- revenue from temporary placements, which represents amounts billed for the services of temporary staff including the salary cost of these staff. This is recognised when the service has been provided;
- revenue for permanent placements, which is based on a percentage of the candidate's remuneration package, is recognised at the date at which a candidate commences employment. Provision is made for the expected cost of meeting obligations where employees do not work for the specified contractual period.
- revenue from amounts billed to clients for expenses incurred on their behalf (principally advertisements) is recognised when the expense is incurred.

Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Taxation

Tax on the profit or loss for the period comprises current tax charge.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

1 Accounting policies continued

Financial assets

Financial assets are classified into the following specified categories: “financial assets at fair value through profit or loss (FVTPL)”, and “loans and receivables”. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Group does not hold any “held-to-maturity” investments or “available-for-sale” financial assets. The Group’s accounting policy for each category is as follows:

Financial assets at FVTPL

This category comprises only in-the-money interest rate derivatives (see financial liabilities section for out-of-the-money derivatives). They are carried in the balance sheet at fair value with changes in fair value recognised in the consolidated income statement in the finance income or expense line. The Group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

Loans and receivables

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. They are initially measured at fair value and subsequently at amortised cost less any provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. This provision represents the difference between the asset’s carrying amount and the present value of estimated future cash flows. The amount of the provision is recognised in the income statement.

Cash and cash equivalents include cash in hand, deposits at call with banks and bank overdrafts. Bank overdrafts where there is no right of set-off are shown within borrowings in current liabilities on the balance sheet.

Financial liabilities and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements. Financial liabilities are classified as either “financial liabilities at fair value through profit or loss (FVTPL)” or “other financial liabilities”.

When the company issues multiple instruments in a single transaction the proceeds are allocated to each separate instrument in accordance with their respective fair values. Where convertible debt is issued the company determines the allocation of the proceeds to the debt and equity components by first of all determining the fair value of debt and then subtracting the amount of the debt from the proceeds of the instrument as a whole to determine the equity component.

Where a restructuring of debt arises the terms are reviewed to consider whether there has been a substantial modification and if so that there is an extinguishment of the existing debt and the recognition of a new financial liability based on the amended terms.

Financial liabilities at FVTPL

This category comprises only out-of-the-money interest rate derivatives. They are carried in the balance sheet at fair value with subsequent movements in fair value taken to the income statement in the finance income or expense line. Other than these derivative financial instruments, the Group does not have any liabilities held for trading nor has it designated any financial liabilities as being at fair value through profit or loss.

Other financial liabilities

Trade and other payables are recognised on the trade date of the related transactions. Trade payables are not interest bearing and are stated at the amount payable which is fair value on initial recognition.

Interest bearing loans are recognised initially at fair value, net of direct issue costs incurred, and are subsequently carried at amortised cost using the effective interest method.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Adoption of new and revised standards

Standards and interpretations in issue not yet adopted

The International Accounting Standards Board and the International Financial Reporting Interpretations Committee have issued the following standards and amendments to standards to be applied to financial statements with periods commencing on or after the following dates:

International Accounting Standards (IAS/IFRS)		Effective date
IAS 1*	Presentation of Items of Other Comprehensive Income	01/07/2012
IAS 12*	Deferred Tax – Recovery of underlying assets	01/01/2012
IAS 19*	Employee Benefits	01/01/2013
IAS 27*	Separate Financial Statements	01/01/2013
IAS 28*	Investments in Associates and Joint Ventures	01/01/2013
IAS 32*	Amendment on Offsetting Financial Assets and Financial Liabilities	01/01/2014
IFRS	Annual Improvements to IFRSs	01/01/2013
IFRS 1*	Amendment on severe hyperinflation and removal of fixed dates	01/07/2011
IFRS 1*	Amendment on Government Loans	01/01/2013
IFRS 7*	Transfer of financial assets disclosure	01/07/2011
IFRS 7*	Amendment on Offsetting Financial Assets and Financial Liabilities	01/07/2011
IFRS 9*	Financial Instruments	01/01/2015
IFRS 10*	Consolidated Financial Statements	01/01/2013
IFRS 11*	Joint Arrangements	01/01/2013
IFRS 12*	Disclosure of Interests in Other Entities	01/01/2013
IFRS 13*	Fair Value Measurement	01/01/2013

* These standards and interpretations are not endorsed by the EU at present.

The directors do not anticipate that the adoption of these standards will have a material impact on the Group's financial statements in the period of initial application.

Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included below:

(a) Impairment of intangibles

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment and other assets where there has been an indication of impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. Actual outcomes may vary particularly in light of the current volatility of the recruitment sector to changes in the wider macro-economic environment. More information including carrying values is included in note 10.

(b) Useful lives of intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are amortised or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated income statement in specific periods. More details including carrying values are included in notes 9 and 10.

(c) Share-based payments

Employee services received are measured by reference to the fair value of the equity instruments at the date of grant, excluding the impact of any non-market vesting conditions. The fair value of share options is estimated by using the Black Scholes valuation model on the date of grant based on certain assumptions. Those assumptions

1 Accounting policies continued

are described in note 17. The charge also depends on estimates of the number of options that will ultimately vest based on the satisfaction of non market and service vesting conditions.

(d) Determination of fair values of intangible assets acquired in business combinations

The fair value of brand names is based on the discounted estimated royalty payments that would have been avoided as a result of the brand name being used. The fair value of customer relations is based on the discounted mean extended excess future cash flows from existing customers. These methods require the estimation of future cash flows, the choice of a suitable royalty and discount rates in order to calculate the fair values.

(e) Derivative instruments

The fair value of the Group's interest rate swap derivatives are determined using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realised immediately.

(f) Onerous leases and dilapidations

Inherent uncertainties in estimates of rents that will be received in the future on vacant property when determining the onerous lease obligation and estimating the cost of returning the properties to their original state at the end of the lease.

(g) Convertible loan notes and warrants

The fair value of warrants is estimated by using the Black Scholes valuation model on the date of grant based on certain assumptions. Those assumptions are described in note 20. In determining the fair value of the convertible option, estimates are made of the market rate of interest for similar company debt issues when discounting cash flows relating to the debt component.

2 Reconciliation of operating loss to Adjusted EBITDA and EBITA

	Year Ended 31 December 2011 £000	Year ended 31 December 2010 £000
Operating loss	**(5,445)**	(10,321)
Add back		
Impairment of intangible	**5,001**	9,475
Amortisation of intangible assets	**191**	442
Share-based payments charge/(credit)	**30**	(20)
Restructuring costs	**108**	188
Adjusted EBITA	**(115)**	(236)
Depreciation	**281**	342
Adjusted EBITDA	**166**	106

Notes to the financial statements

(forming part of the financial statements)

3 Expenses and auditors' remuneration

Included in loss before tax is the following:

	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Pension contributions	**136**	117
Depreciation of owned property, plant and equipment	**281**	342
Impairment of intangible	**5,001**	9,475
Amortisation of intangible assets	**191**	442
Operating leases rentals – hire of plant and machinery	**60**	87
Operating leases rentals – hire of other assets	**819**	1,046
Loss on disposal of property, plant and equipment	**—**	30

Auditors' remuneration:

Amounts payable to BDO LLP in respect of both audit and non-audit services are set out below:

	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Fees payable to the auditors for the audit of the Company's annual accounts	**10**	15
Fees payable to the auditors for other services:		
The audit of the Company's subsidiaries	**16**	26
Other services relating to taxation	**4**	22
Other non-audit services	**—**	—
	20	48

Notes to the financial statements

(forming part of the financial statements)

4 Staff numbers and costs

The weighted average number of persons employed by the Group (including directors) during the period, analysed by category, was as follows:

	Number of employees 2011	2010
Recruitment	**124**	139
Administrative staff	**38**	46
Temporary workers (whose costs are included in cost of sales and services charged within revenue)	**924**	912
	1,086	1,097

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Wages and salaries	**20,813**	22,603
Social security costs	**2,649**	2,877
Other pension costs	**136**	147
	23,598	25,627
Share-based payments/(charge) (see note 17)	**30**	(20)
	23,628	25,607

Directors' and key management personnel remuneration:

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. During the period these were considered to be the directors of the Company.

	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Emoluments	**365**	429
Compensation for loss of office	—	123
Company contributions to money purchase pension schemes	**27**	39
Share-based payments (see note 17)	**11**	4
	403	595

There were 2 directors in defined contribution pension schemes during the period (2010: 3).

The total amount payable to the highest paid director in respect of emoluments was £237,779 (2010: £238,756). Company pension contributions of £22,500 (2010: £22,500) were made to a money purchase scheme on his behalf.

No options were exercised by directors during the current or prior periods.

5 Finance income and expense

	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Interest income on financial assets	—	1
Net profit on measurement of interest rate collar to fair value	**15**	45
Financial income	**15**	46
Interest expense on financial liabilities	**391**	365
Amortisation of loan costs	**89**	82
Financial expenses	**480**	447

Notes to the financial statements

(forming part of the financial statements)

6 Taxation

Recognised in the income statement

	Year ended 31 December 2011 £000	Year ended 31 December Restated 2010 £000
Current tax credit		
Current period	**—**	—
Adjustments for prior periods	**—**	—
	—	—
Deferred tax credit		
Origination and reversal of temporary differences	**—**	(986)
	—	(986)
Total tax credit	**—**	(986)

Reconciliation of effective tax rate

	Year ended 31 December 2011 £000	Year ended 31 December Restated 2010 £000
Loss before tax for the period	**(5,910)**	(10,722)
Total tax credit	**—**	986
Loss after tax	**(5,910)**	(9,736)
Tax using the UK corporation tax rate of 26% (2010: 28%)	**(1,537)**	(3,002)
Non-deductible expenses including impairment	**1,439**	2,884
Losses carried forward	**98**	226
Effect of restatement	**—**	(138)
Other items	**—**	30
Origination and reversal of temporary deferred tax difference	**—**	(986)
Total tax charge/ (credit)	**—**	(986)

7 Earnings per share

Basic and diluted earnings per share

The calculation of basic earnings per share for the year ended 31 December 2011 was based on the loss attributable to ordinary shareholders of £5,910,000 (2010: loss of £9,736,000) and a weighted average number of ordinary shares outstanding of 102,889,074 (2010: 87,400,190) calculated as follows:

Weighted average number of shares	**2011**	2010
Issued ordinary shares at 1 January	**87,839,586**	87,086,336
Effect of shares issued	**15,488,884**	313,854
Weighted average number of shares at end of period	**103,328,470**	87,400,190
Loss for the year	**(5,910,000)**	(9,736,000)
Basic and diluted loss per share in pence	**(5.72)**	(11.1)

There was no dilution in the current and prior period due to the loss in the period.

8 Operating segments

Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker (“CEO”) in deciding how to allocate resources and in assessing performance.

The Group identifies its reportable operating segments by divisions, each of which is run by a divisional managing director. Each identifiable business division operates in a different market of recruitment, has its own brand, engages in business activities from which it may earn revenues and incur expenses, discrete financial information is readily available and its operating results are regularly reviewed by the CEO. Operating segment results are reviewed to controllable contribution level which is gross profit less employee costs and marketing costs directly controlled by the managing director of that division. All other costs are controlled at Group level and are disclosed as Kellan central costs, which for the purposes of internal reporting in 2011 was a non-profit making centralised Group cost function.

Each division derives its revenues from supplying one or more of contingent permanent, contract, temporary and retained search recruitment services. The RK Search and Robinson Keane divisions have been aggregated as they individually fall under the threshold for separate disclosure and have similar economic characteristics.

Transactions with the Group’s largest customer do not account for more than 10% of the Group’s revenues and the Group’s revenues attributed to foreign countries are immaterial for the purpose of segmental reporting.

Assets and liabilities are reviewed at a Group level and are not reviewed by the CEO on a segmental basis.

Notes to the financial statements

(forming part of the financial statements)

8 Operating segments continued

Operating segment		**2011 £000**	2010 £000
	Revenue	**3,158**	3,703
	Net Fee Income	**1,898**	2,429
Quantica S&S	Controllable contribution	**593**	860
	Revenue	**4,460**	5,073
	Net Fee Income	**842**	865
Quantica Technology	Controllable contribution	**221**	419
	Revenue	**12,666**	11,716
	Net Fee Income	**4,448**	4,522
Berkeley Scott	Controllable contribution	**1,761**	1,874
	Revenue	**4,405**	5,702
	Net Fee Income	**2,400**	3,062
RK Accountancy	Controllable contribution	**786**	1,234
	Revenue	**1,193**	1,894
	Net Fee Income	**643**	703
RK SCP	Controllable contribution	**167**	197
RK Search and	Revenue	**1,020**	1,739
Robinson Keane	Net Fee Income	**622**	805
(aggregated)	Controllable contribution	**320**	231
Kellan central costs	Other costs	**(3,682)**	(4,709)
	Revenue	**26,901**	29,827
	Net Fee Income	**10,853**	12,386
	Controllable contribution	**3,848**	4,815
	Other costs	**(3,682)**	(4,709)
Kellan Group Total	**Adjusted EBITDA**	**166**	106

The total of the reportable segments' Adjusted EBITDA for the year agrees to the reconciliation to Group operating loss (see note 2).

Notes to the financial statements

(forming part of the financial statements)

9 Property, plant and equipment

	Short leasehold premises and Improvements £000	Computer and office equipment £000	Total £000
Cost			
Balance at 1 January 2010	749	2,509	3,258
Additions	16	95	111
Disposals	(40)	(19)	(59)
Balance at 31 December 2010	725	2,585	3,310
Additions	61	209	270
Disposals	(22)	(582)	(604)
Balance at 31 December 2011	764	2,212	2,976
Depreciation and impairment			
Balance at 1 January 2010	345	2,110	2,455
Depreciation charge for the period	96	246	342
Disposals	(18)	(11)	(29)
Balance at 31 December 2010	423	2,345	2,768
Depreciation charge for the period	109	172	281
Disposals	(22)	(583)	(605)
Balance at 31 December 2011	510	1,934	2,444
Net book value			
At 31 December 2009	404	399	803
At 31 December 2010	302	240	542
At 31 December 2011	**254**	**278**	**532**

10 Intangible assets

	Goodwill £000	Brand name £000	Customer relations £000	Total £000
Cost				
Balance at 1 January 2010, 31 December 2010 and 31 December 2011	24,717	922	3,609	29,248
Amortisation and impairment				
Balance at 1 January 2010	5,049	203	794	6,046
Amortisation	—	90	352	442
Impairment charge	7,738	—	1,737	9,475
Balance at 31 December 2010	12,787	293	2,883	15,963
Amortisation	—	90	101	191
Impairment charge	5,001	—	—	5,001
Balance at 31 December 2011	17,788	383	2,984	21,155
Net book value				
At 31 December 2009	19,668	719	2,815	23,202
At 31 December 2010	11,930	629	726	13,285
At 31 December 2011	**6,929**	**539**	**625**	**8,093**

Goodwill

	31 December 2011 £000	31 December 2010 £000
Berkeley Scott Regional (Former Gold Helm Roche) branch network	**1,920**	1,920
Berkeley Scott London (Former Sherwoods) branch network	**569**	569
RK Group	**1,731**	4,253
Quantica Technology	**1,429**	3,044
Quantica Search & Selection	**1,251**	2,115
Other	**29**	29
	6,929	11,930

The impairment review undertaken in 2011 resulted in a charge of £5,001,000 (2010: £9,475,000) and the reason for impairment are further explained in the business review. The key assumptions used in the impairment testing were the discount rates and cash flows.

A discount rate of 14.0 - % (2010: 14.0%) reflects management's current estimate of the pre-tax cost of capital of the group and this rate is applied to the CGUs listed above. An increase in the discount rate of 1% would result in an additional impairment of £555,000.

Cash flows for 2012 to 2016 are based on the forecast figures of each CGU for 2012 to 2016 based on a conservative approach whilst considering the anticipated economic conditions, corporate strategy and the related risk, market intelligence/sentiment and specific knowledge of the individual CGUs. Growth has been restricted to 3% for cash flows extending beyond five years. An adjustment to reduce the forecast cash flows by 5% would result in an additional impairment of £2,854,000.

11 Deferred tax assets and liabilities

Recognised deferred tax liabilities

Recognised deferred tax liabilities are attributable to intangible assets. The movement on the accounts is as follows:

	31 December 2011 £000	31 December 2010 £000
Balance at 1 January 2011	—	986
Credited to the income statement	—	(986)
Balance at 31 December 2011	—	—

	31 December 2011 £000	31 December 2010 £000
Trading losses carried forward	5,010	3,770
Capital losses carried forward	561	561
Decelerated capital allowances	1,231	877
Other temporary and deductible differences	272	285
	7,074	5,493

A deferred tax asset has not been recognised as there is insufficient evidence that future taxable profits will be available against which the asset can be utilised.

12 Trade and other receivables

	31December 2011 £000	31 December 2010 £000
Trade receivables	**3,704**	3,705
Other receivables	**81**	180
Prepayments and accrued income	**420**	514
	4,205	4,399

An analysis of the allowance against accounts receivable and details of trade receivables past due and not impaired is included in note 16.

13 Cash and cash equivalents

	31 December 2011 £000	31 December 2010 £000
Cash and cash equivalents	**410**	350

14 Other interest-bearing loans and borrowings

The carrying value and face value of loans and borrowings are as follows:

	31 December 2011 £000	31 December 2010 £000
Non-current liabilities		
Secured Bank loan	**840**	-
Convertible loan notes	**1,919**	927
	2,759	927
Current liabilities		
Current portion of secured bank loans	**785**	1,552
Invoice discounting facility	**2,308**	2,354
	3,093	3,906

14 Other interest-bearing loans and borrowings continued

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 31 December 2011 £000	Carrying Amount 31 December 2011 £000	Face value 31 December 2010 £000	Carrying amount 31 December 2010 £000
Convertible loan notes	**Sterling**	**10%**	**2015/16**	**2,011**	**1,919**	1,000	927
Bank loan (Barclays)	**Sterling**	**4% above LIBOR**	**2013**	**1,680**	**1,625**	1,680	1,552
				3,691	**3,544**	2,680	2,479

The 5 year term loan of £1,680,000 (2010: £1,680,000) and invoice discounting facility balance utilised of £2,308, 000 (2010: £2,354,000) are secured through deeds of composite guarantees and mortgage debentures on Group companies. The Group makes use of an interest rate collar swap on two thirds of the sum of the term loan. The collar is based on LIBOR and has a lower threshold of 5.51% plus 4% margin and an upper threshold of 6.50% plus 4% margin. The invoice discounting facility has an interest rate of 3% above Barclay's base rate.

The loan notes comprise £1,011,000 issued in February 2011 repayable at par in February 2016 and £1,000,000 issued in February 2010 repayable at par in February 2015.Interest is payable on the loan notes at a rate of 10% per annum on the par value. The loan notes are redeemable before the maturity date at the option of the company at a premium of 10% of par value and can also be converted at the option of the note holders into ordinary share capital at any point up to the date of maturity. The loan notes are secured on the assets of the Group but subordinated to the bank loans and overdraft under the terms of an inter-creditor deed. The equity element of the convertible loan notes has been separately classified within equity and issue costs allocated to the debt and equity components.

15 Trade and other payables

	31 December 2011 £000	31 December 2010 £000
Trade payables	**150**	279
Social security and other taxes	**988**	1,414
Other creditors	**505**	224
Accruals and deferred income	**1,271**	1,553
	2,914	3,470

Trade payables are non-interest bearing and are normally settled within 45 day terms.

16 Financial instruments

Financial risk management

The Group is exposed through its operations to the following financial risks:

- liquidity risk;
- interest rate risk;
- credit risk; and
- foreign currency risk.

Liquidity risk

Liquidity risk is managed centrally on a Group basis. The Group's policy in respect of liquidity risk is to maintain a mixture of long term and short term debt finance, including an invoice discounting facility, to ensure the Group has sufficient funds for operations for the foreseeable future. Budgets and forecasts are agreed and set by the Board in advance to enable the Group's cash requirements to be anticipated.

16 Financial instruments continued

Interest rate risk

Debt is maintained at bank variable rates which inherently bring interest rate risk and the Group makes use of interest rate collar swaps to achieve the desired interest rate profile. The Group maintains detailed cash flow forecasts enabling it to factor incremental changes in interest rates into its risk profile and liquidity and react accordingly.

Credit risk

The Group's principal financial assets are bank balances and cash and trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables.

The Group's policy in respect of trade receivables credit risk requires appropriate credit checks on potential customers before sales are made, the appropriate limiting of credit to each customer and the close monitoring of KPI trending such as days' sales outstanding and debtor ageing. The Group records impairment losses on its trade receivables separately from the gross receivable and calculates the allowance based on evidence of its likely recovery. At the balance sheet date there were no significant concentrations of credit risk.

The Group's credit risk on liquid funds is limited due to the Group's policy of monitoring counter party exposures and only transacting with high credit-quality financial institutions.

Foreign currency risk

The Group's foreign currency denominated activity is not significant and the impact of foreign exchange movements on reported profits, net assets and gearing are not significant. The day-to-day transactions of overseas branches are carried out in local currency and Group exposure to currency risk at a transactional level is minimal.

The Group does not enter into speculative treasury arrangements and there are no significant balances or exposures denominated in foreign currencies.

Capital risk management

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern whilst maximising optimising the debt and equity balance.

In managing its capital, the Group's primary objective is to ensure its ability to provide a return for its equity shareholders through capital growth. In order to achieve this objective, the Group seeks to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, the Group considers not only its short-term position but also its long-term operational and strategic objectives. The Group's gearing profile, being the face value of loans and borrowings £5,999, 000 (2010: £5,034,000) as a percentage of total equity £4,025,000 (2010: £9,517,000) increased to 149.0% from 52.9% during the year.

Trade receivables impairment

Movement on trade receivables impairment provision:

	31 December 2011 £000	31 December 2010 £000
Provision brought forward	**231**	118
Increase/(decrease) in provision	**(56)**	113
Provision carried forward at year end	**175**	231

The trade receivables past due and not impaired at the balance sheet date amounted to £2,099,000 (2010: £1,526,000) and comprised £1,755,000 (2010: £1,354,000) overdue by up to 30 days, £271,000 (2010: £288,000) overdue by 30-60 days and £73,000 (2010: £42,000) overdue by more than 60 days.

The directors consider that all other receivables are fully recoverable.

Notes to the financial statements

(forming part of the financial statements)

16 Financial instruments continued

Categories of financial instruments

Financial assets

The financial assets of the Group comprised:

	Loans and receivables	
	2011	2010
	£000	£000
Current financial assets		
Trade and other receivables	**3,785**	3,885
Net cash and cash equivalents	**410**	350
Total financial assets	**4,195**	4,235

Financial liabilities

The financial liabilities of the Group comprised:

	Measured at amortised cost	
	2011	2010
	£000	£000
Current financial liabilities		
Trade and other payables	**2,914**	3,470
Loans and borrowings	**3,093**	3,906
Total current financial liabilities	**6,007**	7,376
Non-current financial liabilities		
Loans and borrowings	**2,759**	927
Total financial liabilities	**8,766**	8,303

Bank loans and invoice discounting balances amounting to £3,933,000 (2010: £3,906,000) are secured by cross guarantees and mortgage debentures on certain Group companies. The convertible loan notes of £1,919,000 (2010: £927,000) are secured on the assets of the Group but subordinated to the bank loans and overdraft under the terms of an inter-creditor deed.

In addition to the above financial liabilities measured at amortised cost the carrying value of derivatives which are classified as fair value through profit and loss is £42,000 (2010: £57,000). The directors consider that the carrying amounts of financial assets and liabilities recorded at amortised cost in the financial statements approximate their fair values.

Effective interest rates and repricing analysis – Group

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they mature or, if earlier, are repriced.

	2011					2010				
	Effective interest rate	**Total £000**	**0 to <1 years £000**	**1 to <2 years £000**	**2 to <5 years £000**	Effective interest rate	Total £000	0 to <1 years £000	1 to <2 years £000	2 to <5 years £000
Cash and cash equivalents	**0.1%**	**410**	**410**	**—**	**—**	0.1%	350	350	—	—
Convertible loan	**10%**	**(1,919)**	**—**	**—**	**(1,919)**	10%	(927)	—	—	(927)
Bank loans	**7.8%**	**(1,625)**	**(785)**	**(840)**	**—**	7.8%	(1,552)	(1,552)	—	—
Derivative collar	**n/a**	**(42)**	**(42)**	**—**	**—**	n/a	(57)	(57)	—	—
Invoice discounting	**3.5%**	**(2,308)**	**(2,308)**	**—**	**—**	3.5%	(2,354)	(2,354)	—	—
		(5,484)	**(2,725)**	**(840)**	**(1,919)**		(4,540)	(3,613)	—	(927)

The above table is based on the balances at the balance sheet date. The effect of future interest cash flows and sensitivities applied thereon can be determined from the above effective interest rates.

17 Employee benefits

Defined contribution plans

The Group operates a number of defined contribution pension plans. The total expense relating to these plans in the current period was £136,000 (2010: £117,000). No pension contributions were outstanding at the period end (2010: £7,000).

Share-based payments

Approved and unapproved share schemes

The Group has 4 share option schemes with options remaining unexercised at 31 December 2011:

1999 Unapproved Scheme – Nil options remain unexercised at 31 December 2011

The scheme is no longer used to grant new options and all residual options in existence have vested.

2004 Approved EMI Scheme – 11,000,000 options remain unexercised at 31 December 2011

The ability of a company to utilise EMI options is governed by conditions, including those of size, that are prescribed by the HMRC. A reduction in headcount and net assets since 2009 has resulted in the group becoming eligible to grant new EMI options during the year.

2008 Unapproved All Employee Scheme –3,526,667 options remain unexercised at 31 December 2011

Options granted to management under this scheme have vesting criteria including length of service, minimum trading performance levels and conditions related to the share price of the Group. There were no exercisable options in this scheme at the year end. All options granted have a contract life of 4 years.

2009 SAYE Scheme – 1,426,915 options remain unexercised at 31 December 2011

The scheme was established in 2009 offering all employees the opportunity to purchase shares. Vesting conditions are purely length of service related with all options vesting and exercisable after 3 years.

2010 SAYE Scheme – 1,350,000 options remain unexercised at 31 December 2011

The scheme was established in 2010 offering all employees the opportunity to purchase shares. Vesting conditions are purely length of service related with all options vesting and exercisable after 3 years.

The number and weighted average exercise prices of share options - are as follows:

	31 December 2011		31 December 2010	
	Weighted average exercise price £	**Number of options**	Weighted average exercise price £	Number of options
Outstanding at the beginning of the period	**0.04**	**7,514,725**	0.20	11,666,694
Options granted during the period	**0.03**	**13,500,000**	0.03	3,000,000
Options exercised during the period	**—**	**—**	—	—
Options lapsed during the period	**0.05**	**(3,711,143)**	0.3	(7,151,969)
Outstanding at the end of the period	**0.03**	**17,303,582**	0.04	7,514,725
Exercisable at the end of the period	**—**	**—**	0.25	70,000

The exercise price of options outstanding at the end of the period ranged between £0.03 and £0.99 (2010: £0.03 and £0.99) and their weighted residual contractual life was 7 years (2010:8 years). There were no options exercised during the current or prior period. The weighted average fair value of each option granted during the period was £0.02 (2010: £0.03).

17 Employee benefits continued

The fair value of employee share options is measured using the Black Scholes model. Measurement inputs and assumptions on options granted during the period are as follows:

	31 December 2011	31 December 2010
Fair value at measurement date	**£229,940**	£78,000
Weighted average share price	**£0.03**	£0.04
Weighted average exercise price	**£0.03**	£0.03
Expected volatility	**90%**	90%
Expected option life (years)	**4**	3.5
Expected dividends	**0%**	0%
Risk-free interest rate	**2.5%**	2.5%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options). The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations. The total charge recognised for the period arising from share-based payments was £30,000 (2010: income £20,000).

18 Provisions

	Onerous Contracts and Dilapidations £000
Balance at 1 January 2011	699
Provisions made during the period	29
Provisions used during the period	(321)
Balance at 31 December 2011	**407**
Non-current at 31 December 2010	300
Current at 31 December 2010	399
	699
Non-current at 31 December 2011	79
Current at 31 December 2011	328
	407

Onerous contracts and dilapidations predominantly relate to the costs payable on properties which have been vacated and incremental costs that will be incurred on exiting existing properties where a commitment to do so exists at the balance sheet date.

19 Capital

Share capital

	Ordinary shares	
In thousands of shares	**31 December 2011**	31 December 2010
In issue at 1 January – fully paid	**87,839**	87,086
Shares issued	**19,474**	753
In issue at 31 December – fully paid	**107,313**	87,839

19 Capital continued

	31 December 2011 £000	31 December 2010 £000
Authorised		
Ordinary shares of £0.02 each	**2,895**	2,895
Allotted, called up and fully paid		
Ordinary shares of £0.02 each	**2,146**	1,757

On 14 February 2011, the company allotted 16,975,000 ordinary shares of £0.02 each for consideration of £339,500. In addition to this, in February and July 2011, the company issued 724,728 and 1,773,866 ordinary shares of £0.02 each for consideration in settlement of interest of £61,500 on the loan notes issued.

The holders of ordinary shares are entitled to receive dividends when declared and are entitled to 1 vote per share at meetings of the company.

20 Reserves

Share premium

The share premium account represents the excess of the proceeds from the issue of shares over the nominal value of shares issued less related issue costs.

Merger reserve

The merger reserve represents the excess of the fair value of shares issued on acquisition over the nominal value of shares issued where merger relief for the purposes of Companies legislation applies. The balance was transferred to retained earnings during the year following an impairment of the related investment.

Convertible reserve

The convertible reserve represents the equity component of the convertible loan note.

Warrant reserve

On 5 February 2010, 1,000,000 warrants were issued to the convertible loan note holders, with the right to subscribe for ordinary shares until 5 February 2015 at the lower of 6.5p per share or the price of any new issue, but not less than 2.0p per share. There are no other outstanding warrants at 31 December 2011. The warrant reserve reflects the fair value of the warrants issued with the convertible loan note and was measured using the Black Scholes model.

Capital redemption reserve

The capital redemption reserve relates to the cancellation of the Company's own shares.

21 Operating leases

The total future minimum lease payments of non-cancellable operating lease rentals are payable as follows:

	31 December 2011 £000	31 December 2010 £000
Less than 1 year	**1,001**	1,181
Between 1 and 5 years	**873**	1,911
More than 5 years	**-**	44
	1,874	3,136

During the period £879,000 was recognised as an expense in the income statement in respect of operating leases (2010: £1,133,000), excluding amounts charged in respect of onerous contracts.

22 Related party transactions

On 2 February 2011, the directors J P Bowmer, A H Reeves and J McHugh each subscribed for £150,000 of the convertible loan notes. At 31 December 2011 there were convertible loan notes amounting to £900,000 (2010: £450,000) due to the directors J P Bowmer, A H Reeves and J McHugh of £300,000 each. In addition to this there were convertible loan notes amounting to £150,000 (2010: £150,000) due to R D Eades. The terms attaching to the convertible loan notes and related warrants are set out in note 14 and note 20 respectively.

23 Post balance sheet events

In September 2012 the Group raised £2.66 million of funding through a combination of new equity of £1.40 million and a drawdown facility of £1.26 million that can be drawn down in line with the scheduled repayments of the existing bank term loan, conditions only on the final issuance and admission of subscription shares to AIM. Also £0.65 million loan notes converted to equity to reduce financing costs and improve leverage ratio for the group.

Company balance sheet

Registered Number 2228050

At 31 December 2011

	Note	31 December 2011		31 December 2010	
		£000	£000	£000	£000
Fixed assets					
Property, plant and equipment	26		**480**		378
Investments	27		**8,958**		14,633
			9,438		15,011
Current assets					
Debtors – due within 1 year	28	**453**		1,319	
Debtors – due after more than 1 year	28	**7,790**		4,998	
Cash at bank and in hand		**283**		103	
		8,526		6,420	
Creditors: amounts falling due within 1 year					
Loans and borrowings	30	**786**		1,552	
Trade and other payables	29	**1,003**		1,087	
Amounts owed to Group undertakings		**5,575**		3,907	
		7,364		6,546	
Net current assets/(liabilities)			**1,162**		(126)
Total assets less current liabilities			**10,600**		14,885
Creditors: amounts falling due after 1 year					
Loans and borrowings	30		**2,760**		927
Provisions	31		**406**		698
Net assets			**7,434**		13,260
Capital and reserves					
Called up share capital	32		**2,146**		1,757
Share premium account	33		**13,746**		13,734
Merger reserve	33		**—**		—
Convertible option reserve	33		**34**		17
Warrant reserve	33		**36**		36
Capital redemption reserve	33		**2**		2
Profit and loss account	33		**(8,530)**		(2,286)
Shareholders' funds			**7,434**		13,260

These financial statements were approved by the Board of directors on 20 September 2012 and were signed on its behalf by:

Ross Eades
Director

Tony Reeves
Director

Notes to the financial statements of the Company

(forming part of the financial statements)

24 Accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in the Company financial statements and are in accordance with applicable accounting standards.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules.

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account. The Consolidated Statement of Comprehensive Income for the period includes a loss after tax and dividends of £6,274,000 (2010: £16,246, 000) which is dealt with in the financial statements of the parent company.

As these financial statements are presented together with the consolidated financial statements, the Company has taken advantage of the exception in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the Group.

The financial statements have been prepared on a going concern basis as set out in note 1.

Turnover

Turnover represents amounts receivable for goods and services net of VAT and trade discounts.

Investments

Investments held as fixed assets are stated at cost less any provision for permanent diminution in value.

Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black Scholes option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

The Company took advantage of the option to apply FRS 20 only to equity instruments that were granted after 7 November 2002 and that had not vested by 1 October 2005.

Pension costs

The Group makes contributions to money purchase pension schemes of certain staff and directors. The assets of the schemes are held separately from those of the Group in independently administered funds. Contributions are charged to the profit and loss account in the period in which they are payable.

Finance costs

Finance costs associated with the issue of debt are deducted from the carrying value of the debt and charged to profit over the term of the debt so that the amount charged is at a constant rate on the carrying amount.

Financial instruments

Financial instruments are measured initially and subsequently at cost. Financial liabilities and equity are classified according to the substance of the financial instruments' contractual obligations rather than the financial instruments' legal form.

25 Staff numbers and costs

The only employees of the Company at the period end were 3 directors (2010: 6) and 22 Group employees (2010: 22). The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Wages and salaries	**1,238**	1,469
Social security costs	**142**	163
Other pension costs	**41**	36
	1,421	1,668

Details of directors' emoluments, share option schemes and pension entitlements are given in the note 4.

26 Property, plant and equipment

	Short leasehold premises and improvements £000	Computer and office equipment £000	Total £000
Cost			
Balance at 1 January 2010	347	247	594
Additions	69	201	270
Balance at 31 December 2011	416	448	864
Depreciation and impairment			
Balance at 1 January 2010	129	87	216
Depreciation charge for the period	82	86	168
Balance at 31 December 2011	211	173	384
Net book value			
At 31 December 2010	218	160	378
At 31 December 2011	**205**	**275**	**480**

27 Fixed asset investments

	Shares in Group undertakings £000
Cost	
At 1 January and 31 December 2011	**32,162**
Provisions	
At beginning of period	17,529
Provided in period	5,675
At end of period	**23,204**
Net book value	
At 31 December 2010	14,633
At 31 December 2011	**8,958**

The Company has the following investments in subsidiaries:

	Country of Incorporation	Class of shares held	Ownership 2011	2010
Berkeley Scott Limited	England and Wales	Ordinary	**100%**	100%
Quantica Limited	England and Wales	Ordinary	**100%**	100%
Quantica Group Limited (1)	England and Wales	Ordinary	**100%**	100%
Quantica Solutions Limited (1)	England and Wales	Ordinary	**100%**	100%
RK Group Limited (1)	England and Wales	Ordinary	**100%**	100%
Robinson Keane Limited (1)	England and Wales	Ordinary	**100%**	100%

(1) indirectly held

Notes to the financial statements of the Company
(forming part of the financial statements)

28 Debtors

	31 December 2011 £000	31 December 2010 £000
Trade Debtors	**5**	-
Amounts owed by Group undertakings	**7,790**	4,998
Other receivables	**33**	827
Prepayments and accrued income	**415**	492
	8,243	6,317

Included within amounts owed by Group undertakings is an amount of £7,790,000 due after more than 1 year (2010: £4,998,000).

29 Trade and other payables

	31 December 2011 £000	31 December 2010 £000
Trade and other creditors	**327**	277
Accruals and deferred income	**676**	810
	1,003	1,087

30 Other interest bearing loans and borrowings

	31 December 2011 £000	31 December 2010 £000
Convertible loan notes	**1,920**	927
Bank loan	**1,626**	1,552

The maturity of bank loans and overdrafts is as follows:

	31 December 2011 £000	31 December 2010 £000
Within 1 year	**786**	1,552
In the 2nd to 5th years	**2,760**	927
	3,546	2,479

See note 14 for further information.

31 Provisions

	Onerous Contracts and Dilapidations £000
Balance at 1 January 2011	698
Provisions made during the period	29
Provisions used during the period	(321)
Balance at 31 December 2011	**406**

Onerous contracts and dilapidations predominantly relate to the costs payable on properties which have been vacated and incremental costs that will be incurred on exiting existing properties where a commitment to do so exists at the balance sheet date.

32 Called up share capital

	31 December 2011 £000	31 December 2010 £000
Authorised		
Ordinary shares of £0.02 each	**2,895**	2,895
Allotted, called up and fully paid		
Ordinary shares of £0.02 each	**2,146**	1,757

See note 19 for further information.

Details of share options are given in note 17 to the Group accounts.

33 Share premium and reserves

	Share Capital £000	Share premium account £000	Convertible reserve £000	Warrant reserve £000	Capital redemption reserve £000	Profit and loss account £000	Total Equity £000
At beginning of period	1,757	13,734	17	36	2	(2,286)	13,260
Loss for the period	—	—	—	—	—	(6,274)	(6,274)
Share-based payments	—	—	—	—	—	30	30
Equity component of convertible loan notes	—	—	17	—	—	—	17
Issue of shares	389	12	—	—	—	—	401
At end of period	**2,146**	**13,746**	**34**	**36**	**2**	**(8,530)**	**7,434**

34 Contingent liabilities

At 2011 period end the invoice discounting overdraft balances in the Company's subsidiaries amounted to £2,308,000 and were secured by cross guarantees and mortgage debentures on the Company (2010: £2,354,000).

35 Pension scheme

Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £41,000 (2010: £36,000). There were no pension contributions outstanding at the end of the financial period (2010: £9,000 outstanding).

Notice of annual general meeting

(incorporated in England and Wales under the Companies Act 1985 with registration number 02228050)

Notice is hereby given that the Annual General Meeting of Members of The Kellan Group plc (the "AGM") will be held at 4th Floor, 27 Mortimer Street, London, W1T 3BL at **2pm on 17 October 2012** for the purposes of considering and, if thought fit, passing the Resolutions listed below.

All resolutions, with the exception of Resolutions 5 and 6 will be proposed as ordinary resolutions. Resolutions 5 and 6 will be proposed as special resolutions.

<u>Ordinary Business</u>

To propose the following resolutions and transact any other ordinary business of an AGM:

Resolution 1

THAT the Directors' Report, statement of accounts and Independent Auditor's Report for the year ended 31 December 2011 be received and approved.

Resolution 2

To re-elect Rakesh Kirpalani who was appointed since the last Annual General Meeting and retires in accordance with Article 91.1 of the Company's Article of Association and who, being eligible offers himself for re-election as a Director.

Resolution 3

THAT BDO LLP be and is re-appointed as Auditor of the Company to hold office from the conclusion of this Meeting until the conclusion of the next General Meeting at which accounts are laid before the Company at a remuneration to be fixed by the Directors.

Resolution 4

To authorise the Directors to determine the auditors' remuneration.

TO TRANSACT ANY OTHER ORDINARY BUSINESS OF THE COMPANY.

<u>Special Business</u>

To propose the following resolutions:

Resolution 5

THAT the Directors be generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company:

(a) up to an aggregate nominal amount of £726,660; and

(b) comprising equity securities (as defined in section 560(1) of the Companies Act 2006) up to a further nominal amount of £726,660, in connection with an offer by way of rights issue.

and such authority shall expire at the conclusion of the next AGM of the Company or the date falling 15 months after the passing of this Resolution, whichever is the earlier (both dates inclusive) but so that this authority shall allow the Company to make offers and enter into agreements during the relevant period which would, or might, require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after the authority ends.

This authority is in addition and without prejudice to any subsisting unutilised authorities conferred upon the Directors under section 80 of the Companies Act 1985 or section 551 of the Companies Act 2006 and is without prejudice to any allotment of shares or grant of rights already made or offered or agreed to be made pursuant to all previous authorities conferred on the Directors in accordance with such sections.

For the purposes of this resolution, 'rights issue' means an offer to:

i. ordinary Shareholders in proportion (as nearly as practicable) to their existing holdings; and

ii. people who are holders of other equity securities if this is required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities,

to subscribe further securities by means of the issue of a renounceable letter (or other negotiable document) which may be traded for a period before payment for the securities is due, but subject in both cases to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or legal, regulatory or practical problems in, or under the laws of, any territory.

Resolution 6

THAT, subject to the passing of the preceding Resolution, the Directors be empowered in accordance with section 570 of the Companies Act 2006 to allot equity securities (as defined in Section 560(1) of the Companies Act 2006) wholly for cash:

(a) pursuant to the authority given by paragraph (a) of Resolution 5 above or where the allotment constitutes an allotment of equity securities by virtue of Section 560(2) of the Companies Act 2006:

  i in connection with a pre-emptive offer; and

  ii otherwise than in connection with a pre-emptive offer, up to an aggregate nominal amount of £436,432; and

(b) pursuant to the authority given by paragraph (b) of Resolution 5 above in connection with a rights issue,

as if Section 561(1) of the said Act did not apply to any such allotment, such power to expire at the conclusion of the next AGM of the Company or the date falling 15 months after the passing of this Resolution, whichever is the earlier (both dates inclusive) but so that the Company may before the expiry of any power contained in this resolution make offers or enter agreements which would, or might, require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

For the purposes of this Resolution:

(a) “rights issue” has the same meaning as Resolution 5 above.

(b) “pre-emptive offer” means an offer of equity securities open for acceptance for a period fixed by the Directors to holders (other than the Company) on the register on a record date fixed by the Directors of ordinary shares in proportion to their respective holdings but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or legal, regulatory or practical problems in, or under the law of, any territory;

(c) references to an allotment of equity securities shall include a sale of treasury shares; and

(d) the nominal amount of any securities shall be taken to be, in the case of rights to subscribe for or convert any securities into shares of the Company, the nominal amount of such shares which may be allotted pursuant to such rights.

Resolution 7

THAT, the Company be and is hereby generally and unconditionally pursuant to and in accordance with section 701 of the Companies Act 2006 to make market purchases (within the meaning of section 693(4) of the Companies Act 2006) of Ordinary Shares of 2 pence each in the Company ("Ordinary Shares") on such terms and in such manner as the Directors of the Company shall from time to time determine provided that:

(a) The maximum aggregate number of Ordinary Shares so authorised to be purchased shall not exceed 14.99 per cent of the present issued Ordinary Share Capital of the company;

(b) the minimum price which may be paid for an Ordinary Share shall be 2 pence;

(c) the maximum price, exclusive of expenses, which may be paid for an Ordinary Share is an amount equal to 105 per cent of the average of the middle market quotations for an Ordinary Share taken from the London Stock Exchange Daily Official List for the 5 business days immediately preceding the day on which the Ordinary Share is contracted to be purchased.

(d) the authority conferred comes to an end at the conclusion of the Annual General Meeting of the Company for the calendar year 2013, unless previously revoked, varied or renewed by the Company in general meeting provided that:

   a. the Company may make a contract or contracts to purchase Ordinary Shares under this authority prior to its expiry which will or may be executed wholly or partly after the expiry of the authority; and

   b. the Company may make a purchase of Ordinary Shares in pursuance of any such contract or contracts

By order of the Board

RD Eades

Ross Eades
Director

20 September 2012

REGISTERED OFFICE

The Kellan Group Plc
4th Floor
27 Mortimer Street
London

Notice of annual general meeting

(incorporated in England and Wales under the Companies Act 1985 with registration number 02228050)

Notes

Voting and Proxies

1 A form of proxy is enclosed for use by Members and, if appropriate, must be deposited with the Company's registrars, Capita Registrars, PXS, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 not less than 48 hours before the time of the Annual General Meeting ("AGM"). Appointment of a proxy does not preclude a Member from attending the AGM and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.

2 A Member entitled to attend and vote at the AGM may appoint one or more proxies (who need not be a member of the Company) to attend and to speak and to vote on his or her behalf whether by show of hands or on a poll. A member can appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attaching to different shares held by him. A form of proxy is enclosed with this notice and instructions for its use are set out on the form.

3 In order to be valid an appointment of proxy (together with any authority under which it is executed or a copy of the authority certified notarially) must be either (a) sent to the Company's registrars, Capita Registrars, PXS, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, or (b) the proxy appointment must be lodged using the CREST Proxy Voting Service in accordance with note 3 below or (c) the proxy appointment must be registered electronically on the website at www.capitashareportal.com, in each case so as to be received not less than 48 hours before the time of the Meeting. If option (c) is used and a member has not previously registered to use the portal, the member will first be asked to register as a new user, for which that member will require their investor code (which can be found on their share certificate and enclosed proxy form). In the event of a conflict between a blank proxy form and a proxy form which states that the number of shares to which it applies, the specific proxy form shall be counted first regardless of whether it was sent or received before or after the blank proxy form, and any remaining shares in respect of which you are a registered holder will be apportioned to the blank proxy form.

4 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the AGM and any adjournment(s) thereof by using the procedures described in the CREST Manual (available from https://www.euroclear.com/site/public.EUI). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

5 In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("EUI") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the Company's agent, Capita Registrars Limited (CREST Participant ID: RA10) by 2pm 15 October 2012. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

6 CREST members and, where applicable, their CREST sponsor or voting service provider should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsor or voting service provider are referred in particular to those

sections of the CREST Manual concerning practical limitations of the CREST system and timings.

7 The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

8 To change your proxy instructions simply submit a proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

9. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard-copy notice clearly stating your intention to revoke your proxy appointment to Capita Registrars, PXS, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney of the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. In either case the revocation notice must be received not less than 48 hours before the time of the AGM. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to note 1 above, your proxy appointment will remain valid.

10. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.

11. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

12. A corporation which is a Member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

13. In order to be able to attend and vote at the AGM or any adjourned Meeting (and also for the purpose of calculating how many votes a person may cast), a person must have his/her name entered on the register of Members of the Company by no later than 6pm 15 October 2012 or 48 hours before any Meeting or adjourned Meeting. Changes to entries on the register of Members after this time shall be disregarded in determining the rights of any person to attend or vote at the Meeting

14. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

15. Information regarding the Meeting is available from www.kellangroup.co.uk.

16. As at 20 September 2012, the Company's issued share capital comprised 109,108, 057 Ordinary shares of £0.02 each. Each ordinary share, carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at date is 109,108,057. [The website referred to at note 13 will include information on the number of shares and voting rights].

17. Except as provided above, Members who have general enquiries about the Meeting should use the following means of communication (no other methods of communication will be accepted):

(a) calling 0871 664 0300 (calls cost 10p per minute plus network extras; lines are open 8.30 am to 5.30 pm, Mon-Fri)

(b) by emailing ssd@capitaregistrars.com

(c) by writing to Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

You may not use any electronic address provided either in this Notice of Meeting or any related documents (including the proxy form) to communicate with the Company for any purposes other than those expressly stated.

Further information is available on the website: www.kellangroup.co.uk

Explanation of the resolutions contained in the Notice of Meeting

The purpose of this section (which does not form part of the notice) is to explain certain elements of the business to be considered at the AGM. Resolutions 1, 2, 3 and 4 are standard matters that are dealt with at every AGM. Resolutions 5, 6 and 7 are special business to be considered at the AGM.

<u>Ordinary Business</u>

Approval of Report and Accounts (Resolution 1)

Members will be asked to approve the Directors' Report and the audited accounts for the year ended 31 December 2011.

Re-election of Directors (Resolutions 2)

The Articles of Association provide that any Director appointed during the year shall hold office until the next following AGM and then shall be eligible for re-election. Mr Kirpalani stand for re-election on this basis. Brief biographical details of Directors seeking re-election are set out in the annual report accompanying this Notice. The resolutions for re-election shall be voted on separately.

Accordingly, the Board unanimously recommends the re-election of Mr Kirpalani.

Copies of the service contracts and letters of appointment of all Directors of the Company are available for inspection during normal business hours at the registered office of the Company on weekdays (Saturdays, Sundays and public holidays excluded) and will also be available for inspection at the place of the Meeting from 9.00 am on the day of the Meeting until its conclusion.

Re-appointment of Auditors (Resolution 3 and 4)

Shareholders will be asked to vote on the re-appointment of BDO LLP as the Company's auditor and to authorise the Directors to agree the remuneration of the auditor.

<u>Special Business</u>

Authority to Allot Shares (Resolution 5)

If approved, this resolution (which is proposed as an ordinary resolution) will enable the Directors to allot new shares in the capital of the Company.

Under the Companies Act 2006, Directors are not permitted to allot new shares (or grant certain rights over shares) unless authorised to do so by the Company's Articles of Association or the Shareholders. At the last AGM of the Company, which was held on 31 May 2011, the Directors were given the authority to allot relevant securities. This authority expires at the end of this year's AGM.

Notice of annual general meeting

(incorporated in England and Wales under the Companies Act 1985 with registration number 02228050)

The Board of Directors considers it appropriate that Directors continue to have the authority to allot unissued ordinary shares. Therefore, this resolution to seek to grant a new authority, pursuant to Section 551 of the Companies Act 2006, to authorise the Directors to allot new shares in the Company and grant rights to subscribe for, or convert other securities into, shares in the Company.

The authority in paragraph (a) will allow the Directors to allot new shares and grant rights to subscribe for, or convert other securities into, shares up to a nominal value of £726,660 which is equivalent to approximately 33.3% of the total issued ordinary share capital of the Company, exclusive of treasury shares, as at 20 September 2012. The authority at paragraph (b) of resolution 5 will allow the Directors to allot new shares and other relevant securities only in connection with a pre-emptive offer by way of a rights issue up to a further nominal value of £726,660. This is in line with corporate governance guidelines.

As at the close of business on 20 September 2012 the Company held no treasury shares.

The Directors have no present intention to exercise the authority proposed by this Resolution. The Directors consider it desirable to have the flexibility to allow them to respond to market developments and to enable allotments to take place to finance business opportunities as they arise.

If approved, the authority granted under resolution 5 will be valid until the conclusion of AGM in 2013 or the close of business on the date falling 15 months from the date of the resolution, whichever is the earlier, subject to the exception set out in Resolution 5.

The authority proposed under Resolution 5 is in addition and without prejudice to the authority granted to the Directors under the special resolution passed on the 18 January 2010.

Partial Disapplication of Pre-Emption Rights (Resolution 6)

If the Directors wish to allot new shares and other equity securities, or sell treasury shares, for cash (other than in connection with the executive or employee share scheme), Company law requires that these shares are offered first to existing Members in proportion to their existing holdings.

If approved, this resolution (which is proposed as a special resolution) will enable the Directors to allot new shares in the Company, and to sell treasury shares, for cash, as if the pre-emption restrictions set out in section 561 of the Companies Act 2006 did not apply.

The purpose of paragraph (a) to Resolution 6 is to authorise the Directors to allot new shares pursuant to the authority given in paragraph (a) of Resolution 5, or sell treasury shares, for cash:

in connection with a pre-emptive offer; or

otherwise up to a nominal value of £436,432, equivalent to 20% of the total issued ordinary share capital of the company as at 20 September 2012, being the latest practicable date before the publication of this notice,

in each case without the shares first being offered to existing Shareholders in proportion to their existing holdings.

The purpose of paragraph (b) of Resolution 6 is to authorise Directors to allot new shares pursuant to the authority given in paragraph (b) of Resolution 5, or sell treasury shares, for cash in connection with a rights issue without the shares first being offered to existing Members in proportion to their existing holdings.

If approved, the authority will be valid until the conclusion of the AGM in 2013 or 15 months from the date of the resolution, whichever is the sooner, subject to the exceptions set out in Resolution 5.

The Directors considers the authority in Resolution 6 to be appropriate in order to allow the Company flexibility to finance business opportunities, ensure adequate management incentives via options or to conduct a pre-emptive offer or rights issue without the need to comply with the strict requirements of the statutory pre-emption provisions.

The authority proposed under Resolution 6 is in addition and without prejudice to the authority granted to the Directors under the special resolution passed on 18 January 2010.

Authority to Make Market Purchases (Resolution 7)

Resolution 7 will be proposed as a Special Resolution for the renewal of the Company's authority to purchase its own shares in the market provided that the maximum number of shares so authorised shall not exceed 14.99 per cent of the issued share capital of the Company. The price payable shall be not more than 5 per cent above the average price of the middle market quotation as served from the Daily Official List of London Stock Exchange plc for the Ordinary Shares for the 5 business days before the purchase is made and in any event not less than 2 pence per share, being the nominal value of the shares.

It is the Directors' intention only to exercise the authority to purchase the Company's shares where it would increase the earnings per share of those Ordinary Shares that are not re-purchased. The Company intends either to cancel such shares or to hold them in treasury. This power will only be used if the Directors consider that to do so would be in the best interests of the shareholders generally