Kellan Group plc

Annual report and accounts 2012

Headline figures

- Operating loss narrowing from £5.4 million in 2011 to £2.1 million in 2012.

- Continued streamlining with administrative expenses (including impairment,) reducing by 34% year on year from £16.3 million in 2011 to £10.8 million in 2012. Non-cash impairment of goodwill and intangibles reducing from £5.00 million in 2011 to £1.07 million in 2012.

- Loss of 1.92 p per basic and diluted share (2011 - loss 5.72 p).

- In September 2012, £0.65 million of loan notes converted to equity, £1.40 million raised through share subscription and £1.26 million facility put in place at interest rates that are more favourable than the existing bank senior debt. The £1.26 million facility is being draw down in line with the repayments of the bank senior debt.

- Interim £0.6 million unsecured related party loan facility arranged in March 2013 pending Group recapitalisation.

- Fundraising of £1.5 million, comprising £0.9 million in equity and £0.6 million in unsecured convertible debt is at an advanced stage of discussion with the Company's largest shareholder.

Executive Chairman's Statement

2012 was a year in which the recruitment market continued to be affected by the slow-moving UK economy. The opportunity for growth during 2012 has been a particular challenge and the Group has demonstrated strong resilience in poor market conditions. With the diverse nature of the Kellan Group as a business, we have displayed intelligence in difficult trading conditions, focusing our core efforts on increasing market share in the sectors in which we operate.

The Group's operating loss for 2012 narrowed to £2.17 million compared to £5.45 million in 2011. Continued focus on streamlining administrative expenses (including impairment) resulted in a year on year saving of 34% from £16.3 million in 2011 to £10.8 million in 2012.

With Ross Eades stepping down from Chief Executive Officer to Non-executive Director in March 2013, I have assumed the role of Executive Chairman, meaning that I am fulfilling the role of strategic leader for the Kellan Group. This confirms my commitment to the business is absolute, as is the Group's Board. Together with Rakesh Kirpalani and Mark Darby, who has taken on a wider operational leadership role within the Group, we have adopted a very open and frank means of communication and are extremely confident of future prospects. This is evident by the continued financial support and investment in Kellan, combined with the recognition and implementation of necessary changes within the Group.

We have proactively controlled our cost base by consolidating locations and renegotiating with suppliers where appropriate resulting in the Group being streamlined for expansion. We are now in a position to focus on areas of the business where we have expertise and are able to create critical mass to achieve attainable growth.

The Group has realigned the Leadership & Management team to ensure we have the right people in the right roles, creating a robust operational infrastructure to provide support to everyone across our business.

The Kellan Group has a number of strong niche brands with strong sector focus and expertise, driven by strong and passionate leadership. We have added a cohesive, supportive and proactive highly visible Group influence to that mix and created an exciting and successful future for all those involved in the Kellan Group.

Fundraising of £1.5 million, comprising a proposed £0.9 million in equity and £0.6 million in unsecured convertible debt, which will replace the £0.6 million interim related party loan facility arranged on 21 March 2013, is at an advanced stage of discussion with the Company's largest shareholder. This fundraising along with the recent steps to restructure the operational structure of the Group, which will yield an annualised saving of circa £0.59 million per annum, puts the Group in a good position to deliver improved results.

John Bowmer and James McHugh stepped down from Non-executive Director roles in Q4 2012 to pursue their overseas business interests and I would like to thank them both for their contributions to the Group.

Business review

With the UK recruitment market being very inconsistent with some specialist sectors doing significantly better than others, the Group has proactively taken the opportunity to ensure it is in the strongest position possible. We have implemented a positive restructure into the business to make certain that the businesses within the Group are in the best position to maximise market share as and when the opportunity arises, while maintaining a clear focus on controlling and further reducing our cost base. Our clear strategy is to invest in growth markets and niche sectors ensuring the most productive return on investment. The diverse brands within the Group de-risk the overall impact of an inconsistent market, and we saw some strong performances from our hospitality and technology brands, while the professional services brands have faced numerous challenges in the last year.

Berkeley Scott continues to be a market leader in the hospitality and leisure markets. The brand has shown great strength especially in the senior appointment and general management market with the new finance division generating some strong market traction. The temporary divisions enjoyed new business and increased revenue due to high profile events such as the Olympics, Paralympics and Queen’s Jubilee, and the northern division has successfully expanded into the Warrington market place winning vital new business. The main challenges that Berkeley Scott now face is the competition from direct hires and smaller specialist agencies and the pressure on reduced margins due to such a competitive marketplace.

Quantica Technology, the Group’s specialist IT Division, has continued to build it’s presence in London & regional UK operations with increased revenue streams from mainland Europe, in particular Germany & Switzerland. Continued growth in all niche areas has given the business increased confidence in what is an extremely competitive market. 2013 has started very well for Quantica Technology with increased fees coupled with costs being managed effectively helping to ensure that the brand will continue to grow in carefully identified markets.

The RK and search brands had a difficult second half in 2012 but are showing promise under new leadership with a clear focus on the specialist markets they work in. **RK Accountancy** and **RK Finance** are gaining a valuable reputation with the key message of local finance specialists in the North of England. **RKHR Professionals** has enabled strong cross selling opportunities for the Group. **Quantica Search and Selection** is winning new business and maintaining its reputation as a food manufacturing recruitment specialist in the northern regions, an area of targeted growth and investment for our business.

I would also like to thank our increasingly loyal customer base and our shareholders for their invaluable support throughout 2012. 2013 has begun in a similar fashion as the end of 2012 - with market conditions still displaying a hesitant and unpredictable trading environment. We have been vigilant at managing costs and cash whilst being acute to increase market share in our respective markets. During this challenging time, I would like to thank the Group’s staff for their unwavering passion, flexibility and willingness to develop and enhance our core businesses. I would also like to thank them for their undeniable patience, commitment and loyalty to the Group.

Tony Reeves
Executive Chairman
23 May 2013

Group Finance Director's Report

Financial Review

Administrative expenses have decreased to £10.8 million in the year ended 31 December 2012, from £16.3 million in 2011. Adjusting the cost base for the impairment, amortisation, depreciation, share based payments and restructuring, like-for-like costs have reduced from £10.7 million for the year ended 31 December 2011 to £9.1 million for the year ended 31 December 2012 which represents a reduction of 15% year on year.

The Group's revenue for the year ended 31 December 2012 was £24.2 million representing a decrease of 10% (2011: £26.9 million). This produced Net Fee Income ("NFI") of £8.6 million for the year ended 31 December 2012, a decline of 20.7% (2011:£10.9 million).

Impairment of Intangibles

The impairment review undertaken in 2012 resulted in a non-cash goodwill & intangibles impairment charge of £1.08 million (2011: £5.0 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 based on current market conditions with modest forecast growth.

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 2012	Year ended 31 December 2011
Revenue	£24,196,000	£26,902,000
Net Fee Income	£8,602,000	£10,853,000
Adjusted EBITDA	(£524,000)	£166,000
Adjusted EBITDA as a % of Net Fee Income	(6.09%)	1. 5%
Days sales outstanding (DSO)	40	38
Headroom on CID facility	£136,000	£466,000

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.

In September 2012, £0.65 million of loan notes were converted to equity, £1.40 million was raised through a share subscription and a £1.26 million facility was put in place at interest rates that are more favourable than the existing bank senior debt. The £1.26 million facility is being draw down in line with the repayments of the bank senior debt and is due for repayment in September 2017.

On 21 March 2013 the Group obtained an interim working capital facility amounting to £0.6 million. The facility is unsecured and is accruing interest at a rate of 4% per annum.

The £1.26 million facility and £0.6 million interim working capital facility have been provided by Paul Bell, who is a major shareholder, owning 41.77% of the issued share capital of the Company.

Fundraising of £1.5 million comprising a proposed £0.9 million in equity and £0.6 million in unsecured convertible debt which is proposed to replace the £0.6 million working capital facility, is at advanced stage of discussions with the Company's largest shareholder.

Based on the Group's latest cash flow forecasts, current trading performance and a timely and successful conclusion of the proposed funding of £1.5 million, 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 2012 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 an operating level was £1.16 million for the year ended 31 December 2012 (2011: £0.64 million). Investing activities comprised of capital expenditure of £29,000 (2011: £270,000). Net cash inflow from financing activities amounted to £854,000 (2011: £965,000) comprising the proceeds from issue of share capital, movement on the invoice discounting facility balances and repayment of term loan as well as the servicing of loan interest. The net decrease in cash and cash equivalents in the period was £339,000 (2011: increase of £60,000).

Rakesh Kirpalani
Group Finance Director
23 May 2013

Board of directors

Tony Reeves (R, A)

Executive 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.

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.

Quentin Spratt (R, A)

Non-executive Director

Quentin Spratt is head of mergers and acquisitions at corporate finance advisers, WH Ireland. He is also an active investor in the smaller company sector. Previously his career has been in M&A, turnaround and senior operational management as managing, marketing and business development director with a number of major blue chip engineering, consumer and building product companies including Hepworth, Tube Investments and Thorn EMI. He has also led two MBI's, Stoves Group and RiteVent Group, the latter sold to Lafarge in 2007 following which he joined WH Ireland. Originally an electronics graduate, he has an MBA from Manchester and is a Chartered Engineer.

.

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.

Ross Eades

Non-executive Director

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 and stepped down to Non-executive Director in March 2013

R Remuneration Committee

A Audit Committee

Advisers, financial calendar and shareholder information

Advisers

Broker/Nomad
Sanlam Securities UK Limited
10 King William Street
London
EC4N 7TW

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 17 October 2012 in London. Five ordinary resolutions and two special resolutions were listed in the annual report and accounts for the year ended 31 December 2011 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 10 April 2013)

	Amount	% holding
PA Bell Esq	88,991,840	41.77
AH Reeves	27,531,948	12.92
G Bereika	15,693,929	7.37
JP Bowmer	14,491,136	6.80
J McHugh	11,169,019	5.24
Adam & Company nominees	9,930,466	4.66
RD Eades	9,785,305	4.59

Financial calendar

Next Annual General Meeting

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

Next interim announcement

September 2013 (covering 6 months to 30 June 2013)

Next year end

31 December 2013

Report of the directors

For the year ended 31 December 2012

The directors present their report together with the audited financial statements for the year ended 31 December 2012.

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 £2,583,000 (2011: loss of £5,910,000). The directors do not propose the payment of a dividend on the ordinary shares (2011: £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 1 and 2 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

On 15 March 2013 the Group CEO, R D Eades stepped down to become a Non Executive Director. The Non-executive Chairman, A H Reeves was appointed as the Executive Chairman on the same date.

On 21 March 2013 the Group entered into a working capital facility amounting to £600,000 provided by Paul Bell, a major shareholder.

Future developments

Please refer to the Executive Chairman’s statement on pages 1 and 2 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.

Report of the directors

For the year ended 31 December 2012

Directors

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

AH Reeves – Executive Chairman
R Kirpalani – Group Finance Director (appointed 28 March 2012)
Q Spratt – Non-executive Director (appointed 26 September 2012)
ME Jackson – Non-executive Director
RD Eades – Non-executive Director
JP Bowmer – Non-executive Director (resigned 30 November 2012)
J McHugh – Non-executive Director (resigned 11 December 2012)

Remuneration

Remuneration and benefits received during the year ended 31 December 2012 for directors were as follows:

	Gross salary Including car allowance £	Benefits £	Directors' fees £	Outstanding share options at 31 Dec 2012 Number	Exercise price £
JP Bowmer	23,625	—	—	—	—
AH Reeves	20,000	—	—	1,000,000	0.026
ME Jackson	14,000	—	—	500,000	0.026
J McHugh	—	—	17,500	—	—
RD Eades	191,500	24,237	—	5,000,000	0.031
R Kirpalani	100,000	10,880	—	5,000,000	0.026
Total	349,125	35,117	17,500	11,500,000	—

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.

Report of the directors

For the year ended 31 December 2012

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.

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

Rakesh Kirpalani
Group Finance Director
23 May 2013

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 2012 which comprise the consolidated statement of financial position and company balance sheet, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in equity 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2012 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.

Emphasis of matter –Going concern

In forming our opinion, on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the Group's ability to continue as a going concern. As set out in note 1, there are material uncertainties that may cast significant doubt about the group's ability to continue as a going concern, in respect of the successful and timely completion of the £1.5 million fundraising and that if expected trading levels are not achieved there may be a requirement for additional funding. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year [period] 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.

BDO LLP

James Fearon (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
23 May 2013

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

Consolidated statement of comprehensive income

for the year ended 31 December 2012

	Note	**Year ended 31 December 2012 £000**	Year ended 31 December 2011 £000
Revenue		24,196	26,902
Cost of sales		(15,594)	(16,049)
Gross profit/net fee income		8,602	10,853
Administrative expenses		(10,768)	(16,298)
Operating loss before impairment charge		(1,089)	(444)
Impairment of goodwill and intangibles	10	(1,077)	(5,001)
Operating loss	2	(2,166)	(5,445)
Financial income	5	30	15
Financial expenses	5	(447)	(480)
Loss before tax	3	(2,583)	(5,910)
Tax credit	6	—	—
Loss for the period		(2,583)	(5,910)
Attributable to:			
Equity holders of the parent		(2,583)	(5,910)
Loss per share in pence			
Basic and diluted	7	(1.92)	(5.72)

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 34 form part of these financial statements.

Consolidated statement of financial position

as at 31 December 2012

	Note	**As at 31 December 2012 £000**	As at 31December 2011 £000
Non-current assets			
Property, plant and equipment	9	**324**	532
Intangible assets	10	**6,829**	8,093
		7,153	8,625
Current assets			
Trade and other receivables	12	**4,357**	4,205
Cash and cash equivalents	13	**71**	410
		4,428	4,615
Total assets		**11,581**	13,240
Current liabilities			
Loans and borrowings	14	**3,588**	3,093
Trade and other payables	15	**2,690**	2,914
Derivatives		**13**	42
Provisions	18	**149**	328
		6,440	6,377
Non-current liabilities			
Loans and borrowings	14	**1,487**	2,759
Provisions	18	**30**	79
		1,517	2,838
Total liabilities		**7,957**	9,215
Net assets		**3,624**	4,025
Equity attributable to equity holders of the parent			
Share capital	19	**4,224**	2,146
Share premium	20	**13,772**	13,746
Convertible debt reserve	20	**26**	34
Warrant reserve	20	**36**	36
Capital redemption reserve	20	**2**	2
Retained earnings		**(14,436)**	(11,939)
Total equity		**3,624**	4,025

These financial statements were approved by the Board of directors on 23 May 2013 and were signed on its behalf by:

Tony Reeves
Director

Rakesh Kirpalani
Director

Consolidated statement of changes in equity

for the year ended 31 December 2012

	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 2011		**1,757**	**13,734**	—	17	36	**2**	**(6,029)**	**9,517**
Total comprehensive loss for the year ended 31 December 2011		—	—	—	—	—	—	(5,910)	(5,910)
Issue of shares		389	12	—	—	—	—	—	401
Equity component of convertible loan notes		—	—	—	17	—	—	—	17
Balance at 31 December 2011		**2,146**	**13,746**	—	**34**	**36**	**2**	**(11,939)**	**4,025**
Total comprehensive loss for the year ended 31 December 2012		—	—	—	—	—	—	(2,583)	(2,583)
Share-based payment		—	—	—	—	—	—	86	86
Issue of shares	19	1,460	26	—	—	—	—	—	1,486
Conversion of convertible debt	19	610	—	—	—	—	—	—	610
Equity component of convertible loan notes	14	8	—	—	(8)	—	—	—	—
Balance at 31 December 2012		**4,224**	**13,772**	—	**26**	**36**	**2**	**(14,436)**	**3,624**

Consolidated statement of cash flows

for the year ended 31 December 2012

	Note	**Year ended 31 December 2012 £000**	Year ended 31 December 2011 £000
Cash flows from operating activities			
Loss for the period		**(2,583)**	(5,910)
Adjustments for:			
Depreciation and amortisation		**424**	472
Interest paid		**347**	312
Amortisation of loan costs		**48**	89
Net gain on measurement of interest rate swap to fair value		**(30)**	(15)
Impairment of goodwill		**1,077**	5,001
Equity-settled convertible loan interest		**84**	62
Equity-settled share-based payment expenses/		**86**	30
		(547)	41
(Increase)/Decrease in trade and other receivables		**(152)**	194
Decrease in trade and other payables		**(237)**	(578)
Decrease in provisions		**(228)**	(292)
Net cash outflow from operating activities		**(1,164)**	(635)
Cash flows from investing activities			
Acquisition of property, plant and equipment	9	**(29)**	(270)
Net cash outflow from investing activities		**(29)**	(270)
Cash flows from financing activities			
Proceeds from the issue of share capital		**1,400**	340
Increase/(Repayment) of invoice discounting facility balances		**477**	(46)
Proceeds from other loan		**260**	—
Interest paid and loan costs		**(347)**	(312)
(Repayment) of term loan borrowings		**(840)**	—
Net proceeds of convertible loan notes		—	983
Debt and equity issue cost		**(96)**	—
Net cash inflow from financing activities		**854**	965
Net (decrease) / increase in cash and cash equivalents		**(339)**	60
Cash and cash equivalents at the beginning of the period		**410**	350
Cash and cash equivalents at the end of the period	13	**71**	410

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 35 to 39.

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.

Based on the Group's latest trading expectations and associated cash flow forecasts, the directors have considered the cash requirements of the Company and subject to the completion of the on-going fundraising of £1.5 million, which as disclosed in the Executive Chairman's and Group Finance Director's statement is expected to be concluded in the near future, the Group will be able to operate within its existing facilities for the next twelve months following approval of these financial statements. These facilities comprise an invoice discounting facility of up to £4 million dependant on trading levels, a related party loan of up to £1.26 million repayable in September 2017, a bank loan of £690,000 due to be repaid by the end of August 2013 and an interim related party working capital facility of £600,000 which will be replaced as part of the £1.5 million fundraising. The related party loan is being drawn down to meet bank loan repayments as they fall due and is on more favourable terms with no financial covenants attached. The Directors intend to fully utilise the related party loan to repay the bank loan.

The Directors recognise that there are material uncertainties around the successful and timely completion of the fundraising and a general sensitivity to the wider macro-economic environment which may necessitate a requirement for additional funding. These uncertainties may cast significant doubt over the Group's ability to continue as a going concern. However, based on the position of the fundraising, the current market outlook and management's trading expectations; the Directors are confident that the Group will be able to meet its liabilities as they fall due for the foreseeable future. It is on this basis that the Directors consider it appropriate to prepare the Group's financial statements on a going concern basis.

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

1 Accounting policies continued

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

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.

1 Accounting policies continued

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.

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 and deferred 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.

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.

Notes to the financial statements

(forming part of the financial statements)

1 Accounting policies continued

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 19*	Employee Benefits	01/01/2013
IAS 27*	Separate Financial Statements	01/01/2014
IAS 28*	Investments in Associates and Joint Ventures	01/01/2014
IAS 32*	Amendment on Offsetting Financial Assets and Financial Liabilities	01/01/2014
IFRS	Annual Improvements to IFRSs	01/01/2013
IFRS 7*	Amendment on Offsetting Financial Assets and Financial Liabilities	01/01/2013
IFRS 9*	Financial Instruments	01/01/2015
IFRS 10*	Consolidated Financial Statements	01/01/2014
IFRS 11*	Joint Arrangements	01/01/2014
IFRS 12*	Disclosure of Interests in Other Entities	01/01/2014
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.

1 Accounting policies continued

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 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.

(h) Permanent placement provision

A provision is made for the expected cost of meeting obligations where employees do not work for the specified contractual period.

Notes to the financial statements

(forming part of the financial statements)

2 Reconciliation of operating loss to Adjusted EBITDA and EBITA

	Year Ended 31 December 2012 £000	Year ended 31 December 2011 £000
Operating loss	**(2,166)**	(5,445)
Add back		
Impairment of intangible	**1,077**	5,001
Amortisation of intangible assets	**187**	191
Share-based payments charge	**86**	30
Restructuring costs	**55**	108
Adjusted EBITA	**(761)**	(115)
Depreciation	**237**	281
Adjusted EBITDA	**(524)**	166

3 Expenses and auditors' remuneration

Included in loss before tax is the following:

	Year ended 31 December 2012 £000	Year ended 31 December 2011 £000
Pension contributions	**75**	136
Depreciation of owned property, plant and equipment	**237**	281
Impairment of intangible	**1,077**	5,001
Amortisation of intangible assets	**187**	191
Operating leases rentals – hire of plant and machinery	**28**	60
Operating leases rentals – hire of other assets	**573**	819

Auditors' remuneration:

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

	Year ended 31 December 2012 £000	Year ended 31 December 2011 £000
Fees payable to the auditors for the audit of the Company's annual accounts	**10**	10
Fees payable to the auditors for other services:		
The audit of the Company's subsidiaries	**16**	16
Other services relating to taxation	**4**	4
	20	20

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	
	2012	2011
Recruitment	**116**	124
Administrative staff	**30**	38
Temporary workers (whose costs are included in cost of sales and services charged within revenue)	**941**	924
	1,087	1,086

The aggregate payroll costs of these persons were as follows:

	Year Ended 31 December 2012 £000	Year ended 31 December 2011 £000
Wages and salaries	**20,391**	20,813
Social security costs	**1,616**	2,649
Other pension costs	**74**	136
	22,081	23,598
Share-based payments (see note 17)	**86**	30
	22,167	23,628

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 2012 £000	Year ended 31 December 2011 £000
Emoluments	**367**	365
Compensation for loss of office	**—**	—
Company contributions to money purchase pension schemes	**32**	27
Share-based payments (see note 17)	**34**	11
	433	403

There were 2 directors in defined contribution pension schemes during the period (2011: 2).

The total amount payable to the highest paid director in respect of emoluments was £240,917 (2011: £237, 779). Company pension contributions of £22,500 (2011: £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 2012 £000	Year ended 31 December 2011 £000
Net profit on measurement of interest rate collar to fair value	**30**	15
Financial income	**30**	15
Interest expense on financial liabilities	**399**	391
Amortisation of loan costs	**48**	89
Financial expenses	**447**	480

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

6 Taxation

Reconciliation of effective tax rate

	Year ended 31 December 2012 £000	Year ended 31 December Restated 2011 £000
Loss before tax for the period	**(2,583)**	(5,910)
Total tax credit	**—**	—
Loss after tax	**(2,583)**	(5,910)
Tax using the UK corporation tax rate of 24% (2011: 26%)	**(620)**	(1,537)
Non-deductible expenses including impairment	**322**	1,439
Losses carried forward	**298**	98
Total tax charge/ (credit)	**—**	—

7 Earnings per share

Basic and diluted earnings per share

The calculation of basic earnings per share for the year ended 31 December 2012 was based on the loss attributable to ordinary shareholders of £2,583,000 (2011: loss of £5,910,000) and a weighted average number of ordinary shares outstanding of 134,418,922 (2011: 103,328,470) calculated as follows:

Weighted average number of shares	**2012**	2011
Issued ordinary shares at 1 January	**107,313,200**	87,839,586
Effect of shares issued	**27,105,722**	15,488,884
Weighted average number of shares at end of period	**134,418,922**	103,328,470
Loss for the year	**(2,583,000)**	(5,910,000)
Basic and diluted loss per share in pence	**(1.92)**	(5.72)

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 (“Executive Chairman”) 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 Executive Chairman. 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.

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 Executive Chairman on a segmental basis.

Notes to the financial statements

(forming part of the financial statements)

8 Operating segments continued

Operating segment		**2012 £000**	2011 £000
	Revenue	**1,653**	3,158
	Net Fee Income	**875**	1,898
Quantica S&S	Controllable contribution	**266**	593
	Revenue	**3,876**	4,460
	Net Fee Income	**842**	842
Quantica Technology	Controllable contribution	**184**	221
	Revenue	**13,828**	12,666
	Net Fee Income	**4,500**	4,448
Berkeley Scott	Controllable contribution	**1,912**	1,761
	Revenue	**3,001**	4,405
	Net Fee Income	**1,664**	2,400
RK Accountancy	Controllable contribution	**240**	786
	Revenue	**1,017**	1,193
	Net Fee Income	**255**	643
RK SCP	Controllable contribution	**40**	167
RK Search RKHR and	Revenue	**821**	1,020
Robinson Keane	Net Fee Income	**466**	622
(aggregated)	Controllable contribution	**(43)**	320
	Other costs	(3,123)	(3.682)
	Revenue	**24,196**	26,901
	Net Fee Income	**8,602**	10,853
	Controllable contribution	**2,599**	3,848
	Other costs	**(3,123)**	(3,682)
Kellan Group Total	**Adjusted EBITDA**	**(524)**	166

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 2011	725	2,585	3,310
Additions	61	209	270
Disposals	(22)	(582)	(604)
Balance at 31 December 2011	764	2,212	2,976
Additions	—	29	29
Disposals	—	—	—
Balance at 31 December 2012	764	2241	3005
Depreciation and impairment			
Balance at 1 January 2011	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
Depreciation charge for the period	102	135	237
Disposals	—	—	—
Balance at 31 December 2012	612	2069	2681
Net book value			
At 31 December 2010	302	240	542
At 31 December 2011	254	278	532
At 31 December 2012	**152**	**172**	**324**

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 2011	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
Amortisation	—	86	101	187
Impairment charge	1,077	—	—	1,077
Balance at 31 December 2012	18,865	469	3,085	22,419
Net book value				
At 31 December 2010	11,930	629	726	13,285
At 31 December 2011	6,929	539	625	8,093
At 31 December 2012	**5,852**	**453**	**524**	**6,829**

Goodwill

	31 December 2012 £000	31 December 2011 £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	**654**	1,731
Quantica Technology	**1,429**	1,429
Quantica Search & Selection	**1,251**	1,251
Other	**29**	29
	5,852	6,929

The impairment review undertaken in 2012 resulted in a charge of £1,077,000 (2011: £5,001,000) 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% (2011: 14%) has been applied to the CGUs listed above. Discount rates are based on management's assessment of specific risks related to the CGUs, which approximates to the Group's pre-tax weighted average cost of capital. An increase in the discount rate of 1% would result in an additional impairment of £160,000.

Cash flows for 2013 to 2017 are based on the forecast figures of each CGU for 2013 to 2017 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 £73,000.

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 2012 £000	31 December 2011 £000
Trading losses carried forward	**6,293**	5,010
Capital losses carried forward	**619**	561
Decelerated capital allowances	**1,011**	1,231
Other deductible temporary differences	**156**	272
	8,079	7,074

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 2012 £000	31 December 2011 £000
Trade receivables	**3,902**	3,704
Other receivables	**159**	81
Prepayments and accrued income	**296**	420
	4,357	4,205

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 2012 £000	31 December 2011 £000
Cash and cash equivalents	**71**	410

14 Interest-bearing loans and borrowings

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

	31 December 2012 £000	31 December 2011 £000
Non-current liabilities		
Secured Bank loan	—	840
Convertible loan notes	**1,288**	1,919
Other loans	**199**	—
	1,487	2,759
Current liabilities		
Current portion of secured bank loans	**803**	785
Invoice discounting facility	**2,785**	2,308
	3,588	3,093

14 Interest-bearing loans and borrowings continued

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 31 December 2012 £000	Carrying Amount 31 December 2012 £000	Face value 31 December 2011 £000	Carrying amount 31 December 2011 £000
Convertible loan notes	**Sterling**	**10%**	**2015/16**	**1,361**	**1,288**	2,011	1,919
Bank loan (Barclays)	**Sterling**	**4% above LIBOR**	**2013**	**840**	**803**	1,680	1,625
						—	—
Other loan	**Sterling**	**4%**	**2017**	**260**	**199**	—	—
				2,461	**2,290**	3,691	3,544

The bank loan of £840,000 (2011: £1,680,000) and invoice discounting facility balance utilised of £2,785,000 (2011: £2,308,000) 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 0.67% plus 4% margin and an upper threshold of 0.90% plus 4% margin. The invoice discounting facility has an interest rate of 3% above Barclay's base rate.

The loan notes comprise £811,000 (2011: £1,011,000) issued in February 2011 repayable at par in February 2016 and £550,000 (2011: £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 2012 £000	31 December 2011 £000
Trade payables	**164**	150
Social security and other taxes	**912**	988
Other creditors	**389**	505
Accruals and deferred income	**1,225**	1,271
	2,690	2,914

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 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 of £5,246,000 (2011: £5,999,000) as a percentage of total equity £3,624,000 (2011: £4,025,000) decreased to 144.8% from 149.0% during the year.

Trade receivables impairment

Movement on trade receivables impairment provision:

	31 December 2012 £000	31 December 2011 £000
Provision brought forward	**175**	231
Increase/(decrease) in provision	**(75)**	(56)
Provision carried forward at year end	**100**	175

The trade receivables past due and not impaired at the balance sheet date amounted to £2,986,000 (2011: £2,099,000) and comprised £2,001,000 (2011: £1,755,000) overdue by up to 30 days, £614,000 (2011: £271,000) overdue by 30-60 days and £372,000 (2011: £73,000) overdue by more than 60 days.

The directors consider that all these receivables are fully recoverable.

16 Financial instruments continued

Categories of financial instruments

Financial assets

The financial assets of the Group comprised:

	Loans and receivables 2012 £000	2011 £000
Current financial assets		
Trade and other receivables	**4,061**	3,785
Net cash and cash equivalents	**71**	410
Total financial assets	**4,132**	4,195

Financial liabilities

The financial liabilities of the Group comprised:

	Measured at amortised cost 2012 £000	2011 £000
Current financial liabilities		
Trade and other payables	**2,690**	2,914
Loans and borrowings	**3,588**	3,093
Total current financial liabilities	**6,278**	6,007
Non-current financial liabilities		
Loans and borrowings	**1,487**	2,759
Total financial liabilities	**7,765**	8,766

Bank loans and invoice discounting balances amounting to £3,588,000 (2011: £3,933,000) are secured by cross guarantees and mortgage debentures on certain Group companies. The convertible loan notes of £1,288,000 (2011: £1,919,000) 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 £13,000 (2011: £42,000). 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 – 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.

	2012					2011				
	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%	71	71	—	—	0.1%	410	410	—	—
Convertible loan	10%	(1,288)	—	—	(1,288)	—	(1,919)	—	—	(1,919)
Bank loans	7.8%	(803)	(803)	—	—	7.8%	(1,625)	(785)	(840)	—
Derivative collar	n/a	(13)	(13)	—	—	n/a	(42)	(42)	—	—
Invoice discounting	3.5%	(2,785)	(2,785)	—	—	3.5%	(2,308)	(2,308)	—	—
Other loan	4%	(199)	(199)	—	—					
		(5,017)	(3,729)	—	(1,288)		(5,484)	(2,725)	(840)	(1,919)

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 £74,000 (2011: £136,000). No pension contributions were outstanding at the period end (2011: Nil).

Share-based payments

Approved and unapproved share schemes

The Group has 4 share option schemes with options remaining unexercised at 31 December 2012:

1999 Unapproved Scheme – Nil options remain unexercised at 31 December 2012

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

2004 Approved EMI Scheme – 22, 500,000 options remain unexercised at 31 December 2012

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 –2,526,667 options remain unexercised at 31 December 2012

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 – 913,225 options remain unexercised at 31 December 2012

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 – 630,000 options remain unexercised at 31 December 2012

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 2012		31 December 2011	
	Weighted average exercise price £	**Number of options**	Weighted average exercise price £	Number of options
Outstanding at the beginning of the period	**0.03**	**17,303,582**	0.04	7,514,725
Options granted during the period	**0.02**	**13,500,000**	0.03	13,500,000
Options exercised during the period	—	—	—	—
Options lapsed during the period	**0.03**	**(4,233,690)**	0.05	(3,711,143)
Outstanding at the end of the period	**0.02**	**26,569,892**	0.03	17,303,582
Exercisable at the end of the period	—	—	—	—

The exercise price of options outstanding at the end of the period ranged between £0.03 and £0.99 (2011: £0.03 and £0.99) and their weighted residual contractual life was 8 years (2011:7 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 (2011: £0.02).

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 2012	31 December 2011
Fair value at measurement date	**208,877**	£229,940
Weighted average share price	**£0.02**	£0.03
Weighted average exercise price	**£0.02**	£0.03
Expected volatility	**90%**	90%
Expected option life (years)	**4**	4
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 £86,000 (2011: income £30,000).

18 Provisions

	Onerous Contracts and Dilapidations £000
Balance at 1 January 2012	407
Provisions made during the period	48
Provisions used during the period	(276)
Balance at 31 December 2012	**179**
Non-current at 31 December 2011	79
Current at 31 December 2011	328
	407
Non-current at 31 December 2012	30
Current at 31 December 2012	149
	179

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 2012**	31 December 2011
In issue at 1 January – fully paid	**107,313**	87,839
Shares issued	**103,928**	19,474
In issue at 31 December – fully paid	**211,241**	107,313

19 Capital continued

	31 December 2012 £000	31 December 2011 £000
Allotted, called up and fully paid		
Ordinary shares of £0.02 each	**4,224**	2,146

On 27 September 2012, the company allotted 70,000,000 ordinary shares of £0.02 each for a total consideration of £1,400,000. In addition to this £650,000 nominal of loan notes were converted into 30,500,000 new Ordinary Shares. In February and October 2012, the company issued 1,797,104 and 1,633,029 ordinary shares of £0.02 each, respectively, for consideration in settlement of interest of £91,000 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.

Convertible debt 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 2012. 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 2012 £000	31 December 2011 £000
Less than 1 year	**778**	1,001
Between 1 and 5 years	**269**	873
More than 5 years	—	—
	1,047	1,874

During the period £601,000 was recognised as an expense in the income statement in respect of operating leases (2011: £879,000), excluding amounts charged in respect of onerous contracts.

22 Related party transactions

On 27 September 2012, the directors, A H Reeves and R D Eades converted £300,000 and £150,000 nominal of loan notes into an aggregate 21,000,000 new Ordinary shares. At 31 December 2012 there were convertible loan notes amounting to £600,000 (2011: £900,000) due to the directors J P Bowmer (resigned 30 November 2012) and J McHugh (resigned 11 December 2012) of £300,000 each. In addition on 27 September 2012, Rakesh Kirpalani, Group finance director of Kellan invested £20,000 through the subscription of 1,000,000 new Ordinary Shares at 2p per share.

On 27 September 2012, a loan facility of £1.26 million was provided to the company by Paul Bell, a major shareholder owning 41.77% of the issued share capital of the Company. As at 31 December 2012, an amount of £260,000 had been drawn down.

Notes to the financial statements

(forming part of the financial statements)

23 Post balance sheet events

On 15 March 2013, the Group CEO, R D Eades stepped down to become a Non-executive Director. The Non Executive Chairman, A H Reeves was appointed as the Executive Chairman on the same date.

On 21 March 2013, the Group obtained an unsecured interim working capital facility of £600,000 from Paul Bell.

Company balance sheet

Registered Number 2228050

At 31 December 2012

	Note	**31 December 2012** £000	£000	31 December 2011 £000	£000
Fixed assets					
Property, plant and equipment	26		**311**		480
Investments	27		**8,403**		8,958
			8,714		9,438
Current assets					
Debtors – due within 1 year	28	**427**		453	
Debtors – due after more than 1 year	28	**9,455**		7,790	
Cash at bank and in hand		**76**		283	
		9,958		8,526	
Creditors: amounts falling due within 1 year					
Loans and borrowings	30	**804**		786	
Trade and other payables	29	**1,106**		1,003	
Amounts owed to Group undertakings		**6,048**		5,575	
		7,958		7,364	
Net current assets/(liabilities)			**2,000**		1,162
Total assets less current liabilities			**10,714**		10,600
Creditors: amounts falling due after 1 year					
Loans and borrowings	30		**1,487**		2,760
Provisions	31		**179**		406
Net assets			**9,048**		7,434
Capital and reserves					
Called up share capital	32		**4,224**		2,146
Share premium account	33		**13,772**		13,746
Convertible option reserve	33		**26**		34
Warrant reserve	33		**36**		36
Capital redemption reserve	33		**2**		2
Profit and loss account	33		**(9,012)**		(8,530)
Shareholders' funds			**9,048**		7,434

These financial statements were approved by the Board of directors on 23 May 2013 and were signed on its behalf by:

Tony Reeves
Director

Rakesh Kirpalani
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 £568,000 (2011: £6,274,000) 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.

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.

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 4 directors (2011:3) and 22 Group employees (2011: 22). The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2012 £000	Year ended 31 December 2011 £000
Wages and salaries	**1,141**	1,238
Social security costs	**114**	142
Other pension costs	**37**	41
	1,292	1,421

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

Notes to the financial statements of the Company

(forming part of the financial statements)

26 Property, plant and equipment

	Short leasehold premises and improvements £000	Computer and office equipment £000	Total £000
Cost			
Balance at 1 January 2012	416	448	864
Additions	—	24	24
Balance at 31 December 2012	416	472	888
Depreciation and impairment			
Balance at 1 January 2012	211	173	384
Depreciation charge for the period	85	108	193
Balance at 31 December 2012	296	281	577
Net book value			
At 31 December 2011	205	275	480
At 31 December 2012	**120**	**191**	**311**

27 Fixed asset investments

	Shares in Group undertakings £000
Cost	
At 1 January and 31 December 2012	32,162
Provisions	
At beginning of period	23,204
Provided in period	555
At end of period	**23,759**
Net book value	
At 31 December 2011	8,958
At 31 December 2012	**8,403**

The Company has the following investments in subsidiaries:

	Country of Incorporation	Class of shares held	Ownership 2012	2011
Berkeley Scott Limited	England and Wales	Ordinary		100%
Quantica Limited	England and Wales	Ordinary		100%
Quantica Group Limited (1)	England and Wales	Ordinary		100%
Quantica Solutions Limited (1)	England and Wales	Ordinary		100%
RK Group Limited (1)	England and Wales	Ordinary		100%
Robinson Keane Limited (1)	England and Wales	Ordinary		100%

(1) indirectly held

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

28 Debtors

	31 December 2012 £000	31 December 2011 £000
Trade Debtors	—	5
Amounts owed by Group undertakings	**9,455**	7,790
Other receivables	**147**	33
Prepayments and accrued income	**280**	415
	9,882	8,243

Included within amounts owed by Group undertakings is an amount of £9,455,000 due after more than 1 year (2011: £7,790,000).

29 Trade and other payables

	31 December 2012 £000	31 December 2011 £000
Trade and other creditors	**337**	327
Accruals and deferred income	**769**	676
	1,106	1,003

30 Other interest bearing loans and borrowings

	31 December 2012 £000	31 December 2011 £000
Current portion of secured bank loans	**804**	786
	804	786

Non-current liabilities

	31 December 2012 £000	31 December 2011 £000
Convertible loan notes	**1,288**	1,920
Bank loan	—	840
Other loan	**199**	—
	1,487	2,760

The maturity of bank loans and overdrafts is as follows:

	31 December 2012 £000	31 December 2011 £000
Less than 1 year	**804**	786
2 to 5 years	**1,487**	2,760
	2,291	3,546

See note 14 for further information.

31 Provisions

	Onerous Contracts and Dilapidations £000
Balance at 1 January 2012	406
Provisions made during the period	49
Provisions used during the period	(276)
Balance at 31 December 2012	**179**

Notes to the financial statements of the Company

(forming part of the financial statements)

31 Provisions continued

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 2012 £000	31 December 2011 £000
Allotted, called up and fully paid		
Ordinary shares of £0.02 each	**4,224**	2,146

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
Balance at 1 January 2012	2,146	13,746	34	36	2	(8,530)	7,434
Loss for the period	—	—	—	—	—	(568)	(568)
Share-based payments	—	—	—	—	—	86	86
Equity component of convertible loan notes	8	—	(8)	—	—	—	—
Conversion of convertible loan notes	610	—	—	—	—	—	610
Issue of shares	1,460	26	—	—	—	—	1,486
Balance at 31 December 2012	**4,224**	**13,772**	**26**	**36**	**2**	**(9,012)**	**9,048**

34 Contingent liabilities

At 2012 period end the invoice discounting overdraft balances in the Company's subsidiaries amounted to £2,785,000 and were secured by cross guarantees and mortgage debentures on the Company (2011: £2,308,000).

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 £38,000 (2011: £41,000). There were no pension contributions outstanding at the end of the financial period (2011: Nil).

Notice of Annual General Meeting

(incorporated in England and Wales under the Companies Act 2006 with registration number 02228050)

If you have sold or transferred all of your shares in The Kellan Group plc (the "Company") please forward this document, together with the accompanying proxy form, as soon as possible, either to the purchaser or transferee or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice from your stockbroker or other independent legal adviser authorised under the Financial Services and Markets Act 2000.

Notice is hereby given that the Annual General Meeting of The Kellan Group plc (the "AGM") will be held at 4th Floor, 27 Mortimer Street, London, W1T 3BL at **2pm on 27 June 2013** for the following purposes:

Ordinary Business

To consider and, if thought fit, pass the following resolutions which will be proposed as ordinary resolutions:

Resolution 1
THAT the Directors' Report, statement of accounts and Independent Auditor's Report for the year ended 31 December 2012 be received and approved.

Resolution 2
THAT Mr M Jackson who retires as a Director by rotation in accordance with the Company's Articles of Association be re-elected as a Director.

Resolution 3
THAT Mr R Eades who retires as a Director by rotation in accordance with the Company's Articles of Association be re-elected as a Director.

Resolution 4
THAT Mr T Reeves who retires as a Director by rotation in accordance with the Company's Articles of Association be re-elected as a Director

Resolution 5
To re-elect Quentin Spratt who was appointed since the last Annual General Meeting and retires in accordance with Article 94 of the Company's Article of Association and who, being eligible offers himself for re-election as a Director.

Resolution 6
THAT BDO LLP be re-appointed as auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.

Resolution 7
To authorise the Directors to determine the auditors' remuneration.

Special Business

To consider and if thought fit, pass the following resolutions, of which resolution 7 will be proposed as an ordinary resolution and resolutions 8 and 9 will be proposed as special resolutions:

Resolution 8
THAT the Directors of the Company be and hereby are generally and unconditionally authorised pursuant to and 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 convert any security into shares in the Company:

(a) up to a maximum aggregate nominal amount equal to £1,419,028; and

(b) comprising equity securities (as defined in section 560(1) of the Companies Act 2006) up to a further nominal amount of £1,419,028, in connection with an offer by way of a rights issue,

The authority hereby conferred 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). Under the authority hereby conferred the Directors of the company may before such expiry make arrangements which would or might require relevant securities to be allotted after such expiry, and the Directors of the Company may allot such relevant securities as if the authority hereby conferred had not expired.

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.

The authority proposed under this resolution 7 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.

Resolution 9

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 7 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 £852,269; and

(b) pursuant to the authority given by paragraph (b) of resolution 7 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:

i. “rights issue” has the same meaning as resolution 7 above;

ii. “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;

iii. references to an allotment of equity securities shall include a sale of treasury shares; and

iv. 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 10

THAT, the Company be and is hereby generally and unconditionally authorised 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 said Act) of ordinary shares in the capital of the Company 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 10% 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, such minimum price being exclusive of any advance corporation tax and any expenses;

(c) the maximum price, exclusive of expenses, which may be paid for an ordinary share is an amount equal to 105% of the average middle market prices for an ordinary share taken from the London Stock Exchange Daily Official List for the five 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 next AGM of the Company, or if earlier, 15 months from the date of passing this resolution, unless previously revoked, varied or renewed by the Company in general meeting provided that:

   i. 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

   ii. the Company may make a purchase of ordinary shares in pursuance of any such contract or contracts as if the power conferred hereby had not expired.

By order of the Board

Tony Reeves
Executive Chairman

23 May 2013

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 2006 with registration number 02228050)

Notes

Voting and Proxies

1 A form of proxy is enclosed for use by shareholders 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 AGM. Appointment of a proxy does not preclude a shareholder 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 shareholder 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 AGM, 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 AGM. 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 the shareholder is 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 25 June 2013. 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 new 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 AGM to represent you. Details of how to appoint the Chairman of the AGM 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 AGM 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 shareholder 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 Pursuant to regulation 41 of the Uncertified Securities Regulations 2001, the Company specifies that only those persons with his/her name entered on the register of members of the Company at 6pm 25 June 2013 (or if the AGM is adjourned, 48 hours before the adjourned AGM) shall be entitled to attend and vote at the AGM in respect of the number of shares registered in their name at that time. 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 AGM

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 AGM.

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

16 As at 23 May 2013, the Company's issued share capital comprised 213,067,300 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 23 May 2013 is 213,067,300. The website referred to at note 15 will include information on the number of shares and voting rights.

17 Except as provided above, shareholders who have general enquiries about the AGM 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.

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

19 The following documents are available for inspection at the registered office of the Company during the usual business hours (Saturday, Friday or public holidays excluded) from the date of this Notice until the conclusion of the AGM and during the AGM itself:

(a) the register of Directors' interest in the shares of the Company; and

(b) copies of all Directors' Service Contracts and letters of appointment.

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, 4, 5, 6 and 7 are standard matters that are dealt with at every AGM. Resolutions 8, 9 and 10 are special business to be considered at the AGM.

Ordinary Business

Approval of Report and Accounts (Resolution 1)

Shareholders will be asked to approve the Directors' Report and the audited accounts for the year ended 31 December 2012. A copy of the Directors' Report is available on our website www.kellangroup.co.uk and copies will be available at the AGM.

Re-election of Directors (Resolutions 2, 3 and 4)

The Articles of Association provide for the retirement and re-election of Directors by rotation every three years.

Mr T Reeves is proposed for re-election as an Executive Director

Mr M Jackson and Mr R Eades are proposed for re-election as Non-Executive Directors.

Biographical details concerning each of the proposed candidates for re-election can be found on page 5 of the Annual Report and Accounts 2012.

Accordingly, the Board unanimously recommends the re-election of Mr T Reeves, Mr M Jackson and Mr R Eades.

Re-election of Directors (Resolutions 5)

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 Spratt stands 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 Spratt.

Re-appointment of Auditors (Resolutions 6 and 7)

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

Notice of Annual General Meeting

(incorporated in England and Wales under the Companies Act 2006 with registration number 02228050)

Special Business

Authority to Allot Shares (Resolution 8)

The Companies Act 2006 provides that Directors shall only allot unissued shares (or grant certain rights over shares) with the prior authority of the shareholders in general meeting. The existing authority granted to the Directors at the last AGM of the Company held on 17 October 2012 to allot unissued ordinary shares expires at the conclusion of the AGM.

The Board of Directors considers it appropriate that Directors continue to have the authority to allot unissued ordinary shares. Therefore, resolution 7 seeks 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) of resolution 7 will be proposed to allow the Directors to allot new shares (and other relevant securities as defined within section 551 of the Companies Act 2006) with a nominal value up to £1,419,028 which is equivalent to approximately 33.3% of the total current issued ordinary share capital of the Company, exclusive of treasury shares, as at 23 May 2013 being the last practicable date prior to publication of this notice). The authority at paragraph (b) of resolution 7 will be proposed to allow the Directors to allot new shares and other relevant securities in connection with a pre-emptive offer by way of a rights issue up to a further nominal value of £1,419,028.

Although the Directors have no present intention to exercise the authority proposed by resolution 7, 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 7 will be valid until the conclusion of the AGM of the Company to be held in 2014 or, if earlier, the close of business on the date falling 15 months from the date of the resolution, subject to the exception set out in resolution 7. The Directors intend to renew such power at successive AGMs in accordance with current best practice.

As at the close of business on 23 May 2013 the Company held no treasury shares.

The authority proposed under resolution 7 is in addition and without prejudice to the authority granted to the Directors under the special resolution passed on the 18 January 2010.

Dis-application of Statutory Pre-Emption Rights (Resolution 9)

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 8 is to authorise the Directors to allot new shares pursuant to the authority given in paragraph (a) of resolution 7, or sell treasury shares, for cash:

a) in connection with a pre-emptive offer; or

b) otherwise up to a nominal value of £852,269, equivalent to 20% of the total issued ordinary share capital of the company as at 23 May 2013, 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 8 is to authorise Directors to allot new shares pursuant to the authority given in paragraph (b) of resolution 7, 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 2014 or 15 months from the date of the resolution, whichever is the sooner.

The Directors consider the authority in resolution 8 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 8 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 10)

Resolution 9 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 10% of the issued share capital of the Company. The price payable shall be not more than 5% 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.