Kellan Group plc

Annual report and accounts 2010

Headline figures

- Revenue of £29.83 million represented an increase of 1.2% from £29.46 million for 2009.
- Net Fee Income (NFI) of £12.39 million represented a decrease of 3.7% from £12.86 million for 2009, with H2-2010 NFI of £6.56 million representing a sequential improvement of 12.6% on H1-2010 and 8.7% improvement on H2-2009.
- Continued focus on administrative expenses (excluding impairment, amortisation, shared based payments, onerous leases and restructuring costs) reducing by 14.9% year on year from £14.43 million in 2009 to £12.28 million in 2010.
- Adjusted EBITDA profit for the year of £0.10 million against a loss of £1.56M for 2009 (note 2).
- Operating loss, excluding the impairment of goodwill and intangibles for the year, of £0.85 million for the year (2009 Operating loss of £4.24 million).
- Impairment charge (non cash) against goodwill of £9.5 million (2009 – nil).
- Net Loss of £9.74 million or 11.1p per basic and diluted share, compared with net loss of £4.22 million or 4.8p per basic and diluted share for 2009.
- Cash inflow from operating activities of £0.23 million. Significantly ahead of the cash outflow of £1.80 million in 2009.
- £1.35 million raised subsequent to the year end through the issue of shares and convertible loan stock to fund the growth in the number of fee earners with aim of executing management's growth strategy.

Co Chairmen's Statement

2010 was a year in which we saw gradual recovery of the recruitment markets in which we operate following a tough 2009. The second half of the year showed signs of improvement in a number of the Group's key markets, which together, with tight cost control, enabled the Group to break even at Adjusted EBITDA level in the last 6 months of 2010, which was the first time since the first half of 2008.

In February 2011 the Group secured an additional £1.35 million of funding together with a deferral of quarterly loan repayments throughout 2011 totalling £0.84 million. This, in addition to renegotiated bank covenants, puts the business in a very much stronger financial position going forward.

The management team continues to focus attention on net fee income growth, cost control and working capital management. The additional funding will be used to recruit fee earners to grow the business by expanding market share in existing markets and developing new geographical markets from the Group's network further strengthening the positioning of the Group's specialist brands.

Underlying operational costs have been reduced by 14.9% year on year to £12.28 million. Through 2010, head count remained static at approximately 185, yet we were able to achieve increased productivity per fee earner by 10.8%. We are continuing to focus on aligning the property portfolio to future plans and medium term staffing levels. The Group took the opportunity to exit three properties during the year and we hope to exit a further three over the next 18 months. We intend to ensure that we are in the right locations with suitable room for expansion but keeping excess space to a minimum

Control of cash remains a priority. We continue to work with the Group's clients and suppliers alike to ensure that we maximise working capital. Pleasingly, the Group's day sales outstanding fell by six days to thirty eight from December 2009 to December 2010.

We continue to invest wisely in technology. Projects in 2010 resulted in the consolidation of the group data centre together with improved robustness in the IT infrastructure that will provide a strong platform to cater for an increase in the size of the business.

The success of any business is based on the hard work, dedication and the passion of its people. Management must set the tone to create the right environment in which people can excel and meet their full potential. We would like to thank the Group's staff for their hard work throughout the year as they continue to focus on providing our customers with exemplary service.

We would also like to thank the Group's shareholders for their continued support of the business; with the recent investment we are looking forward to the business growing in 2011 and delivering consistent profits in the future.

J.P. Bowmer

John Bowmer	**Tony Reeves**
Co-Chairman	Co-Chairman
11th April 2011	11th April 2011

Chief Executive Officer's Report

Business Review

After a challenging 2009, 2010 started with markets continuing to present difficult trading conditions, however as the year progressed we saw a steady recovery in trading in a number of key areas and we are optimistic about the outlook for our key markets over the coming year.

Although Net Fee Income ("NFI") reduced year on year, sequential improvement from H2-2009 together with a continued focus on the Group's cost base meant that losses significantly reduced in 2010 (at Adjusted EBITA, loss of £0.2 million in 2010 against a loss of £2.00 million in 2009), with the business reaching break even at Adjusted EBITDA level in the second half of the year. This signalled the successful conclusion of Phase 1 of management's growth strategy.

Phase 2 has begun by securing £1.35 million additional funding to support the organic growth of the Group's established brands. Here, management continue to pursue a strategy of growing our temporary and contract business at a quicker rate than permanent business. With a better balance of income streams, this ensures the group is more resilient to adverse changes in the macro economic climate.

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

2011 has seen a slow start with indications that trading, although improving, will continue to be tempered by economic uncertainty across the recruitment sector. This requires the Board to balance the speed of investment in new opportunities with the overall business performance whilst continuing to control costs and cash.

Berkeley Scott is a market leader in the hospitality and leisure markets. NFI in 2010 grew year on year, which together with improved productivity, led to significant improvement in operating leverage. The Berkeley Scott brand holds an enviable position with both candidates and clients, when combined with strong business execution, this provides a great platform to further grow the business in 2011.

Quantica Technology, the Group's IT specialist, continues to be focused in the North West and Yorkshire markets. Early investments in London are starting to pay off, with plans to build on this initial investment in the first half of 2011 as the Group expands its speciality practice areas.

RK Accountancy, the Group's accounting and finance business, saw a slight reduction in NFI year on year as both the North West and Yorkshire (representing 81% of NFI) showed a slower recovery than markets in London and the South East. In January 2011 the Group opened it's first RK Accountancy office in London with early positive indications on trading. The board is also focusing more on servicing and growing the qualified end of the market, diversifying RK's offering.

The Kellan Search and Selection markets (**RK Supply Chain, Quantica Search & Selection and RK Search**) continue to suffer with both manufacturing and retail businesses cutting down on recruitment spend which together with the high dependency on permanent recruitment, has meant NFI fell year on year.

Returning the business to breakeven has been challenging and I would like to thank our staff, our increasingly loyal customer base and our shareholders for their invaluable support throughout 2010. I am also extremely grateful to John Melbourne for answering my call a year ago and for his sensitive and skilled handling of the Group's finances since then. I thank him for identifying his successor, Rakesh Kirpalani, and wish him well in his future career. Rakesh is a highly commercial finance professional who has held a number of senior financial roles within the recruitment sector latterly at Adecco and MPS Inc where he worked closely with the Managing Directors in the various brands to help grow the businesses and improve profitability. He has a great knowledge of the professional recruitment markets and we are looking forward to him working closely with the operational team.

Financial Review

The Group's revenue for the 12 months ended 31 December 2010 was £29.83 million representing an increase of 1.2% on December 2009 (£29.46 million). This produced NFI of £12.39 million for the 12 months to 31 December 2010, a decline of 3.7% on December 2009 (£12.86 million).

Administrative expenses have increased to £22.71 million in the 12 months to 31 December 2010, from £17.10 million in 2009. Adjusting the cost base for the impairment, amortisation, share based payments, onerous leases and restructuring, like for like costs have reduced by 14.9% year on year.

Sequential growth in NFI combined with continued cost control translated to a significantly reduced operating loss excluding impairment of goodwill and intangibles for the year to £0.8 million (2009: £4.2 million) with the group reaching a break even position at an Adjusted EBITDA level in the second half of the year.

Impairment of Intangibles

The impairment review undertaken in 2010 resulted in an impairment of goodwill of £7.74 million (2009: £Nil) and impairment of other intangible assets of £1.74 million (2009: £Nil).

The impairment of goodwill is predominantly in relation to RK Group with the remainder relating to Quantica Search & Selection. RK Group is not expected to return to 2008 trading levels in 3 of its 4 brands as rapidly as was assumed at the end of 2009 (RK Search, Robinson Keane and RK Supply Chain) and the same applies to the Quantica Search & Selection brand. Due to the performance of these businesses in 2010, management made the decision that these brands were no longer areas of strategic focus for the Group and that material investment in consultants would not be made. RK Accountancy remains an area of strategic focus and is still expected to return to 2008 trading levels in the near term.

The impairment of other intangible assets relates to a change in the fair value assigned to customer relations in Quantica Technology. Several key clients at acquisition that significantly reduced their spend with the Group due to the economic downturn, are now not expected to return as their relationship is with former senior members of the business who have set up in competition during 2010. Future growth is expected to be driven by current and new relationships rather than the renewal of these dormant relationships.

Change in accounting policy

Previously, revenue for permanent placements was recognised at the date an offer is accepted by a candidate and where a start date has been determined. The directors reviewed this policy during the current financial year and due to the degree of estimation in determining possible cancellations at placement have changed to a policy of recognising revenue at the date the candidate commences employment on the basis this is more reliable. The effect of this change on the current year is outlined in note 1.

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 2010	Year ended 31 December 2009 *Restated*	Year ended 31 December 2008 *Restated*
Revenue	£ 29,827,000	£ 29,463,000	£ 47,825,000
Net Fee Income	£ 12,386,000	£ 12,864,000	£ 23,917,000
Adjusted EBITDA	£ 106,000	£ (1,563,000)	£ 3,683,000
Adjusted EBITA as a % of Net Fee Income	(1.9%)	(15.6%)	13.6%
Days sales outstanding (DSO)	38	44	39
Headroom on working capital facilities	£ 1,303,000	£ 808,000	£ 4,700,000

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

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

The Group breached its financial covenants contained in its borrowing agreement with its lender in 2009 and remained in breach at 31 December 2010, therefore amounts have been disclosed as due in less than one year.

In February 2011 the Group raised £1.35 million of funding through a combination of new equity and convertible loan notes. In addition the Group entered into an amendment letter to restructure its debt with respect to its existing facilities agreement with its lender. Under the amendment letter the Group's lender has agreed to a repayment holiday to be applied to all principal amounts outstanding under the facility during 2011. The Group has been repaying £210,000 of capital per quarter and as at 31 December 2010 an aggregate principal amount of £1.68 million remained outstanding under the facility. These quarterly payments will be subject to a one year repayment holiday and repayments of the principal amount outstanding under the facility will recommence on 31 March 2012. On recommencement, repayments will remain at £210,000 of capital per quarter and, accordingly, the maturity date has been extended by one year. The amendment letter also resets the debt covenants under the facility.

The additional funding will be used by the Group to provide working capital and to increase its fee earner headcount to drive organic growth. Based on the Group's latest cash flow forecasts and current trading performance it is not expected that any further funding will be required for the foreseeable future.

• **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 2010 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.

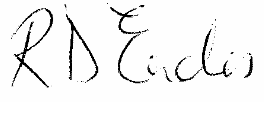
• **People** - In a people intensive business, the resignation of key individuals (both billing consultants and influential management) and the potential for them to exit the business taking clients, candidates and other employees to their new employers is a risk. Kellan mitigates this risk through a 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 inflow at operating level was £0.23 million for the 12 months to 31 December 2010 (£1.80 million outflow 2009).

Investing activities comprised of capital expenditure of £111,000 (2009: £372,000). Capital was spent mainly on IT hardware. Net cash outflow from financing activities amounted to £411,000 (2009: inflow of £1,425,000) comprising the net proceeds of convertible loan notes and the repayment of invoice discounting facility balances as well as the servicing of scheduled loan repayments and interest.

The net decrease in cash and cash equivalents in the period was £291,000 (2009: £738,000).



Ross Eades
Chief Executive Officer
11th April 2011

Board of directors

John Bowmer (R, A)

Non-executive Co-Chairman

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

Tony Reeves (R, A)

Non-executive Co-Chairman and acting Chief Executive Officer

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

Ross Eades

Chief Executive Officer

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

John Melbourne

Chief Financial Officer

John Melbourne began his career as a graduate trainee with Mars, before qualifying as a Chartered Accountant through Ernst and Young. John then spent 3 years in the construction industry before a move into recruitment in 1997 saw him become FD of Modis International. Following a brief spell with Reed Executive, John was recruited as Chief Financial Officer of MPS Group International PLC, a group of IT and Professional Services recruitment companies. John played a part in taking the business from £72M to £500M, eventually becoming Senior Vice President of Operations with responsibility for acquisitions, co-ordinating international expansion and commercial support of operating boards. John remained at MPS following its acquisition by Adecco.

John joined Kellan Group in June 2010 as Chief Financial Officer.

Michael Jackson (R, A)

Non-executive Director

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

James McHugh

Non Executive Director

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

R Remuneration Committee
A Audit Committee

Advisers, financial calendar and shareholder information

Advisers

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

Bank
Barclays Bank plc
1 Churchill Place
London E14 5HP

Auditors
BDO LLP
Emerald House
East Street
Epsom KT17 1HS

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 18 May 2010 in London. All 7 ordinary resolutions and 4 special resolution listed in the annual report and accounts for the 12 months ended 31 December 2010 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 18 March 2011)

	Amount	% holding
PA Bell Esq	14,489,840	13.82
JP Bowmer	13,176,826	12.57
AH Reeves	13,150,911	12.55
J McHugh	10,077,571	9.61
Gartmore Investment Limited	7,212,952	6.88
J Bereika	5,577,660	5.32
J Melbourne	3,750,000	3.58
Goldman Sachs	3,286,375	3.14

Financial calender

Next Annual General Meeting
Tuesday 31st May at 3.00pm in the Group's head office: 4th Floor, 27 Mortimer Street, London W1T 3BL

Next interim announcement
September 2011 (covering 6 months to June 2011)

Next year end
31 December 2011

Report of the directors

For the year ended 31 December 2010

The directors present their report together with the audited financial statements for the period ended 31 December 2010.

Results and dividends

The results of the Group for the period are set out on page 12 and show a loss for the period of £9,736,000 (2009: loss of £4,219,000). The directors do not propose the payment of a dividend on the ordinary shares (2009: £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 AIM in December 2004.

Business review

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

Monitoring, risk and KPIs

Please refer to pages 3 and 4.

Post balance sheet events

In February 2011, the Group raised funding of £1,350,000 before costs through a combination of new equity and convertible loan notes.

Future developments

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

Going concern

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

Corporate social responsibility

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

Corporate governance

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

Charitable and political contributions

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

Employees

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

Directors

The directors of the Company during the period were as follows:

JP Bowmer – Co-Chairman

AH Reeves – Co-Chairman

RD Eades – Chief Executive Officer

WJ Coker – Chief Financial Officer (resigned 4 June 2010)

J Melbourne – Chief Financial Officer (appointed 6 June 2010)

ME Jackson – Non-executive Director

J McHugh - Non-executive Director

Report of the directors

For the year ended 31 December 2010

Remuneration

Remuneration and benefits received during the 12 months ended 31 December 2010, for those directors of the Company at 31 December 2010, were as follows:

	Gross salary Including car allowance £	Benefits including bonus £	Director's Compensation for loss of office £	Directors' fees £	Outstanding share options at 31 Dec 2010 Number	Exercise price £
JP Bowmer	25,000	—	—	—	—	—
AH Reeves	25,000	—	—	—	—	—
ME Jackson	17,500	—	—	—	—	—
J McHugh	—	—	—	17,500	—	—
RD Eades	236,500	24,756	—	—	1,000,000	0.050
WJ Coker	60,277	11,796	123,447	—	—	—
J Melbourne	64,765	6,404	—	—	—	—

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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Website publication

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

Auditors

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

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

On behalf of the Board

Ross Eades
Chief Executive Officer
11th April 2011

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 2010 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position and company balance sheet, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2010 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. Due to the lack of visibility that still exists in the wider economic environment and the highly sensitive impact a reduction in trading activity would have on group's compliance with its bank covenants there is considered to be a material uncertainty over the ongoing availability of existing facilities and the ability of the Group to obtain funding from alternative sources should it be required. These conditions, along with the matters disclosed in note 1, indicate the existence of material uncertainties which may cast significant doubt about the group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Independent auditors' report

To the members of the Kellan Group plc

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

David Eagle (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Epsom
United Kingdom

Date 11 April 2011

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

Consolidated statement of comprehensive income

for the year ended 31 December 2010

	Note	**Year ended 31 December 2010 £000**	Year ended 31 December 2009 Restated £000
Revenue		**29,827**	29,463
Cost of sales		**(17,441)**	(16,599)
Gross profit/net fee income		**12,386**	12,864
Administrative expenses		**(22,707)**	(17,104)
Operating loss before impairment charge		**(846)**	(4,240)
Impairment of goodwill and intangibles	10	**(9,475)**	-
Operating loss	2	**(10,321)**	(4,240)
Financial income	5	**46**	44
Financial expenses	5	**(447)**	(359)
Loss before tax	3	**(10,722)**	(4,555)
Tax credit	6	**986**	336
Loss for the period		**(9,736)**	(4,219)
Attributable to:			
Equity holders of the parent		**(9,736)**	(4,219)
Loss per share in pence			
Basic and diluted	7	**(11.1)**	(4.8)

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 35 form part of these financial statements.

Consolidated statement of financial position

as at 31 December 2010

	Note	**Year ended 31 December 2010**	Year ended 31 December 2009 Restated	Year ended 31 December 2008 Restated
Non-current assets				
Property, plant and equipment	9	**542**	803	970
Intangible assets	10	**13,285**	23,202	23,644
		13,827	24,005	24,614
Current assets				
Trade and other receivables	12	**4,399**	4,742	6,402
Cash and cash equivalents	13	**350**	641	1,379
		4,749	5,383	7,781
Total assets		**18,576**	29,388	32,395
Current liabilities				
Loans and borrowings	14	**3,906**	4,871	767
Trade and other payables	15	**3,470**	3,237	3,986
Other financial liabilities		**57**	102	135
Corporation tax payable		**-**	-	207
Provisions	18	**399**	368	326
		7,832	8,578	5,421
Non-current liabilities				
Loans and borrowings	14	**927**	-	2,320
Provisions	18	**300**	625	59
Deferred tax liabilities	11	**-**	986	1,110
		1,227	1,611	3,489
Total liabilities		**9,059**	10,189	8,910
Net assets		**9,517**	19,199	23,485
Equity attributable to equity holders of the parent				
Share capital	19	**1,757**	1,742	1,742
Share premium	20	**13,734**	13,728	13,728
Merger reserve	20	**-**	16,081	16,081
Convertible debt reserve	20	**17**	-	-
Warrant reserve	20	**36**	-	-
Capital redemption reserve	20	**2**	2	2
Retained earnings		**(6,029)**	(12,354)	(8,068)
Total equity		**9,517**	19,199	23,485

These financial statements were approved by the Board of directors on 11th April 2011 and were signed on its behalf by:

R D Eades

J Melbourne

Ross Eades
Director

John Melbourne
Director

Consolidated statement of changes in equity

for the year ended 31 December 2010

	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 2009		**1,742**	**13,728**	**16,081**			**2**	**(7,374)**	**24,179**
Restatement		—	—	—	—	—	—	**(694)**	**(694)**
Balance at 1 January 2009		**1,742**	**13,728**	**16,081**	—	—	**2**	**(8,068)**	**23,485**
Loss for the year restated		—	—	—	—	—	—	(4,219)	(4,219)
Total comprehensive income for the year ended 31 December 2009 restated		—	—	—	—	—	—	(4,219)	(4,219)
Share-based payment		—	—	—	—	—	—	(67)	(67)
Balance at 31 December 2009 restated		**1,742**	**13,728**	**16,081**	—	—	**2**	**(12,354)**	**19,199**
Loss for the year restated		—	—	—	—	—	—	(9,736)	(9,736)
Total comprehensive income for the year ended 31 December 2010		—	—	—	—	—	—	(9,736)	(9,736)
Share-based payment	17	—	—	—	—	—	—	(20)	(20)
Reserve transfer	20	—	—	(16,081)	—	—	—	16,081	—
Issue of shares	19	15	6	—	—	—	—	—	21
Equity component of convertible loan notes	20	—	—	—	17	36	—	—	53
Balance at 31 December 2010		**1,757**	**13,734**	**-**	**17**	**36**	**2**	**(6,029)**	**9,517**

Consolidated statement of cash flows

for the year ended 31 December 2010

	Note	**Year ended 31 December 2010**	Year ended 31 December 2009 Restated
Cash flows from operating activities			
Loss for the period		**(9,736)**	(4,219)
Adjustments for:			
Depreciation and amortisation		**784**	886
Interest income		**(1)**	(10)
Interest paid		**331**	286
Amortisation of loan costs		**82**	73
Net gain on measurement of interest rate swap to fair value		**(45)**	(34)
Loss on disposal of property, plant and equipment		**30**	95
Impairment of goodwill		**9,475**	—
Equity-settled convertible loan interest		**34**	—
Equity-settled share-based payment expenses/ (credit)		**(20)**	(67)
Non cash taxation credit		**(986)**	(336)
		(52)	(3,326)
Decrease in trade and other receivables		**343**	1,661
Increase / (decrease) in trade and other payables		**233**	(749)
(Decrease) / Increase in provisions		**(294)**	608
		230	(1,806)
Tax received		**-**	5
Net cash inflow / (outflow) from operating activities		**230**	(1,801)
Cash flows from investing activities			
Interest received		**1**	10
Acquisition of property, plant and equipment	9	**(111)**	(372)
Net cash outflow from investing activities		**(110)**	(362)
Cash flows from financing activities			
(Repayment) / drawdown of invoice discounting facility balances		**(198)**	2,551
Interest paid and loan costs		**(331)**	(286)
Repayment of term loan borrowings		**(840)**	(840)
Net proceeds of convertible loan notes		**958**	—
Net cash (outflow) / inflow from financing activities		**(411)**	1,425
Net decrease in cash and cash equivalents		**(291)**	(738)
Cash and cash equivalents at the beginning of the period		**641**	1,379
Cash and cash equivalents at the end of the period	13	**350**	641

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 36 to 41.

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

Change in accounting policy

Previously revenue for permanent placements was recognised at the date an offer is accepted by a candidate and where a start date has been determined. The directors reviewed this policy during the current financial year and due to the degree of estimation in determining possible cancellations at placement have changed to a policy of recognising revenue at the date the candidate commences employment on the basis this is more reliable. The effect of this change on the current year is to reduce revenue by £134,000 (2009 – increase revenue by £214,000), increase the loss after tax by £123,000 (2009 – decrease the loss after tax by £204,000) and reduce net assets by £613,000 (2009 – reduce net assets by £490,000).

Going concern

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

At the year ended 31 December 2010, the Group was in breach of certain financial covenants contained in its borrowing agreement with its lender and therefore amounts have been disclosed as due in less than one year.

In February 2011 the Group raised £1.35 million of funding through a combination of new equity and convertible loan notes. In addition to this the Group entered into an amendment letter to restructure its debt with respect to its existing facilities agreement with its lender. Under the amendment letter the Group's lender has agreed to a repayment holiday to be applied to all principal amounts outstanding under the facility during 2011. The Group has been repaying £210,000 of capital per quarter and at the year ended December 2010 an aggregate principal amount of £1.68 million remained outstanding under the facility. These quarterly payments will be subject to a one year repayment holiday and repayments of the principal amount outstanding under the facility will recommence on 31 March 2012. On recommencement, repayments will remain at £210,000 of capital per quarter and, accordingly, the maturity date has been extended by one year. The amendment letter also resets the debt covenants under the facility with the first test date on 31 March 2012.

The additional funding will be used by the Group to provide working capital and to increase its fee earner headcount to drive organic growth. Based on the Group's latest cash flow forecasts and current trading performance it is not expected that any further funding will be required for the foreseeable future.

Having assessed the position of the fundraising and debt restructure, the resetting of debt covenants and the trading outlook, the Directors consider 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.

However, the directors recognise that there are material uncertainties that may cast significant doubt about the Group's ability to continue as a going concern and therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business. These material uncertainties comprise of uncertainties in the wider macro economic environment and of the highly sensitive nature of the impact a reduction in trading activity would have on bank covenants resulting in uncertainty over the ongoing availability of existing facilities and the ability of the Group to obtain funding from alternative sources. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Measurement convention

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

Notes to the financial statements

(forming part of the financial statements)

1 Accounting policies continued

Basis of consolidation

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

Property, plant and equipment

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

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

Goodwill

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

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

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

Externally acquired intangible assets

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques (see section related to critical estimates and judgements on page 28).

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 excluding deferred tax assets

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

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

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

1 Accounting policies continued

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

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

Provisions

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

Employee benefits

Defined contribution plans

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

Share-based payment transactions

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

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

Revenue and income recognition

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

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

Expenses

Operating lease payments

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

Taxation

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

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

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

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

1 Accounting policies continued

Financial assets

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

Financial assets at FVTPL

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

Loans and receivables

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

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

Financial liabilities and equity instruments

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

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

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.

Notes to the financial statements

(forming part of the financial statements)

1 Accounting policies continued

Financial liabilities and equity instruments continued

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 24	Revised related party disclosures	01/01/2011
IAS 32	Classification of rights issues	01/02/2010
IFRS	Improvements to IFRS for clarification and consistency	01/01/2011
IFRS 1	Additional exemptions for first time adopters	01/01/2010
IFRS 1	Amendment to transitional provisions in respect of IFRS 7	01/07/2010
IFRS 2	Group cash-settled share-based payments transactions	01/01/2010
IFRS 7*	Transfer of financial assets disclosure	01/07/2011
IFRS 1*	Amendment on severe hyperinflation and removal of fixed dates	01/07/2011
IAS 12*	Deferred Tax – Recovery of underlying assets	01/01/2012
IFRS 9*	Replacement of IAS 39	01/01/2013

International Financial Reporting Interpretations Committee (IFRIC)		Effective date
IFRIC 19	Extinguishing financial liabilities with equity instruments	01/07/2010
IFRIC 14	Amendment in respect defined benefit schemes	01/01/2011

* 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) Revenue recognition

In determining revenue for permanent placements, an adjustment is made for possible cancellations of placements after the commencement of employment applying an estimate based on the Group's experience of such an event occurring.

(h) 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.

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 2010 £000	Year ended 31 December 2009 £000
Operating loss as per accounts	**(10,321)**	(4,240)
Add back		
Impairment of intangible	**9,475**	—
Amortisation of intangible assets	**442**	442
Share-based payments credit	**(20)**	(67)
Onerous leases	**-**	945
Restructuring costs	**188**	913
Adjusted EBITA	**(236)**	(2,007)
Depreciation	**342**	444
Adjusted EBITDA	**106**	(1,563)

3 Expenses and auditors' remuneration

Included in loss before tax is the following:

	Year ended 31 December 2010 £000	Year ended 31 December 2009 £000
Pension contributions	**117**	164
Depreciation of owned property, plant and equipment	**342**	444
Impairment of intangible	**9,475**	—
Amortisation of intangible assets	**442**	442
Operating leases rentals – hire of plant and machinery	**87**	95
Operating leases rentals – hire of other assets	**1,046**	1,183
Loss on disposal of property, plant and equipment	**30**	95

Auditors' remuneration:

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

	Year ended 31 December 2010 £000	Year ended 31 December 2009 £000
Fees payable to the auditors for the audit of the Company's annual accounts	**15**	20
Fees payable to the auditors for other services:		
The audit of the Company's subsidiaries	**26**	53
Other services relating to taxation	**22**	24
Other non-audit services	**-**	2
	48	79

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	
	2010	2009
Recruitment	**139**	160
Administrative staff	**46**	64
Temporary workers (whose costs are included in cost of sales and services charged within revenue)	**912**	1,162
	1,097	1,386

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2010 £000	Year ended 31 December 2009 £000
Wages and salaries	**15,764**	16,411
Social security costs	**1,382**	1,481
Other pension costs	**117**	164
	17,263	18,056
Share-based payments (see note 17)	**(20)**	(67)
	17,243	17,989

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 2010 £000	Year ended 31 December 2009 £000
Emoluments	**429**	402
Compensation for loss of office	**123**	-
Company contributions to money purchase pension schemes	**39**	33
Share-based payments (see note 17)	**4**	(92)
	595	343

There were 3 directors in defined contribution pension schemes during the period (2009: 3).

The total amount payable to the highest paid director in respect of emoluments was £238,756 (2009: £170.227). Company pension contributions of £22,500 (2009: £15,469) 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 2010 £000	Year ended 31 December 2009 £000
Interest income on financial assets	**1**	10
Net profit on measurement of interest rate collar to fair value	**45**	34
Financial income	**46**	44
Interest expense on financial liabilities	**365**	286
Amortisation of loan costs	**82**	73
Financial expenses	**447**	359

6 Taxation

Recognised in the income statement

	Year ended 31 December 2010 £000	Year ended 31 December Restated 2009 £000
Current tax credit		
Current period	—	—
Adjustments for prior periods	—	(212)
	—	(212)
Deferred tax credit		
Origination and reversal of temporary differences	**(986)**	(124)
	(986)	(124)
Total tax credit	**(986)**	(336)

Reconciliation of effective tax rate

	Year ended 31 December 2010 £000	Year ended 31 December Restated 2009 £000
Loss before tax for the period	**(10,722)**	(4,555)
Total tax credit	**986**	336
Loss after tax	**(9,736)**	(4,219)
Tax using the UK corporation tax rate of 28% (2009: 28%)	**(3,002)**	(1,275)
Non-deductible expenses including impairment	**2,884**	66
Losses carried forward	**226**	1,166
Utilised brought forward losses	**-**	(24)
Prior year provision release	**-**	(212)
Effect of restatement	**(138)**	(57)
Other short term timing differences	**30**	14
Origination and reversal of temporary deferred tax difference	**(986)**	(14)
Total tax charge/ (credit)	**(986)**	(336)

7 Earnings per share

Basic and diluted earnings per share

The calculation of basic earnings per share at 31 December 2010 was based on the loss attributable to ordinary shareholders of £9,736,000 (2009: loss of £4,219,000) and a weighted average number of ordinary shares outstanding of 87,525,739 (2009: 87,086,336), calculated as follows:

Weighted average number of shares	2010	Restated 2009
Issued ordinary shares at 1 January	**87,086,336**	87,086,336
Effect of shares issued	**313,854**	—
Weighted average number of shares at end of period	**87,400,190**	87,086,336
Loss for the year	**(9,736,000)**	(4,219,000)
Basic and diluted loss per share in pence	**(11.1)**	(4.8)

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

8 Operating segments

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

The Group identifies its reportable operating segments by divisions, each of which is run by a divisional managing director. Each identifiable business division operates in a different market of recruitment, has its own brand, engages in business activities from which it may earn revenues and incur expenses, discrete financial information is readily available and its operating results are regularly reviewed by the CEO. Operating segment results are reviewed to controllable contribution level which is gross profit less employee costs and marketing costs directly controlled by the managing director of that division. All other costs are controlled at Group level and are disclosed as Kellan central costs, which for the purposes of internal reporting in 2010 was a non-profit making centralised Group cost function.

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

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

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

8 Operating segments continued

Operating segment		2010 £000	Restated 2009 £000
	Revenue	**3,703**	4,144
	Net Fee Income	**2,429**	2,734
Quantica S&S	Controllable contribution	**860**	831
	Revenue	**5,073**	6,403
	Net Fee Income	**865**	1,099
Quantica Technology	Controllable contribution	**419**	596
	Revenue	**11,716**	8,234
	Net Fee Income	**4,522**	3,360
Berkeley Scott	Controllable contribution	**1,874**	1,012
	Revenue	**5,702**	6,368
	Net Fee Income	**3,062**	3,179
RK Accountancy	Controllable contribution	**1,234**	1,271
	Revenue	**1,894**	2,309
	Net Fee Income	**703**	1,267
RK SCP	Controllable contribution	**197**	203
RK Search and	Revenue	**1,739**	2,005
Robinson Keane	Net Fee Income	**805**	1,225
(aggregated)	Controllable contribution	**231**	255
Kellan central costs	Other costs	**(4,709)**	(5,731)
	Revenue	**29,827**	29,463
	Net Fee Income	**12,386**	12,864
	Controllable contribution	**4,815**	4,168
	Other costs	**(4,709)**	(5,731)
Kellan Group Total	**Adjusted EBITDA**	**106**	(1,563)

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

9 Property, plant and equipment

	Short leasehold premises and improvements £000	Computer and office equipment £000	Total £000
Cost			
Balance at 1 January 2009	665	2,595	3,260
Additions	270	102	372
Disposals	(186)	(188)	(374)
Balance at 31 December 2009	749	2,509	3,258
Additions	16	95	111
Disposals	(40)	(19)	(59)
Balance at 31 December 2010	725	2,585	3,310
Depreciation and impairment			
Balance at 1 January 2009	302	1,988	2,290
Depreciation charge for the period	161	283	444
Disposals	(118)	(161)	(279)
Balance at 31 December 2009	345	2,110	2,455
Depreciation charge for the period	96	246	342
Disposals	(18)	(11)	(29)
Balance at 31 December 2010	423	2,345	2,768
Net book value			
At 31 December 2008	363	607	970
At 31 December 2009	404	399	803
At 31 December 2010	**302**	**240**	**542**

10 Intangible assets

	Goodwill £000	Brand name £000	Customer relations £000	Total £000
Cost				
Balance at 1 January 2009, 31 December 2009 and 31 December 2010	24,717	922	3,609	29,248
Amortisation and impairment				
Balance at 1 January 2009	5,049	113	442	5,604
Amortisation	-	90	352	442
Balance at 31 December 2009	5,049	203	794	6,046
Amortisation	-	90	352	442
Impairment charge	7,738	-	1,737	9,475
Balance at 31 December 2010	12,787	293	2,883	15,963
Net book value				
At at 31 December 2008	19,668	809	3,167	23,644
At at 31 December 2009	19,668	719	2,815	23,202
At 31 December 2010	**11,930**	**629**	**726**	**13,285**

Goodwill

	31 December 2010 £000	31 December 2009 £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	**4,253**	10,482
Quantica Technology	**3,044**	3,202
Quantica Search & Selection	**2,115**	3,466
Other	**29**	29
	11,930	19,668

The impairment review undertaken in 2010 for goodwill resulted in a charge of £7,738,000 (2009: £Nil) and the reasons for the impairment are further explained in the business review. The key assumptions used in the impairment testing were the discount rates and cash flows.

A discount rate of 14.0 % (2009: 14.0%) reflects management's current estimate of the pre-tax cost of capital of the group and this rate is applied to the CGUs listed above. An increase in the discount rate of 1% would result in an additional impairment of £1,000,000.

Cash flows for 2011 to 2015 are based on the budgeted figures of each CGU for 2011 with forecasts for 2012 to 2015 based on 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 2% for cash flows extending beyond five years. An adjustment to reduce the forecast cash flows by 10% would result in an additional impairment of £1,076,000.

Customer relations

Due to an indicator of impairment in 2010, the customer relations in respect of Quantica Technology were subject to an impairment review resulting in a charge of £1,737,000 (2009: £Nil). The key assumptions used in the impairment testing were the discount rate and cash flows.

A discount rate of 14.0 % (2009: 14.0%) reflects management's current estimate of the pre-tax cost of capital of the group. A decrease in the discount rate of 1% would not result in a reduction in the impairment.

Cash flows were based on a review of the customer relations that existed at the date of acquisition and the expected cash flows arising from those relations going forward adjusted for expected customer attrition levels and contributory asset charges. An adjustment to increase the forecast cash flows by 10% would not result in a reduction in the impairment.

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 2010 £000	31 December 2009 £000
Balance at 1 January 2010	**986**	1,110
Credited to the income statement	**(986)**	(124)
Balance at 31 December 2010	**-**	986

At 31 December 2010 the amount of deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognised are as follows:

	31 December 2010 £000	31 December 2009 £000
Trading losses carried forward	**3,770**	4,243
Capital losses carried forward	**561**	561
Decelerated capital allowances	**877**	693
Other temporary and deductible differences	**285**	275
	5,493	5,772

12 Trade and other receivables

	31 December 2010 £000	31 December Restated 2009 £000	31 December Restated 2008 £000
Trade receivables	**3,705**	3,967	5,630
Other receivables	**180**	175	409
Prepayments and accrued income	**514**	600	363
	4,399	4,742	6,402

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 2010 £000	31 December 2009 £000
Cash and cash equivalents	**350**	641

14 Other interest-bearing loans and borrowings

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

	31 December 2010 £000	31 December 2009 £000
Non-current liabilities		
Convertible loan notes	**927**	—

	31 December 2010 £000	31 December 2009 £000
Current liabilities		
Current portion of secured bank loans	**1,552**	2,320
Invoice discounting facility	**2,354**	2,551
	3,906	4,871

Terms and debt repayment schedule

	Currency	**Nominal interest rate**	**Year of maturity**	**Face value 31 December 2010 £000**	**Carrying amount 31 December 2010 £000**	Face value 31 December 2009 £000	Carrying amount 31 December 2009 £000
Convertible loan notes	**Sterling**	**10%**	**2015**	**1,000**	**927**	—	—
Bank loan (Barclays)	**Sterling**	**4% above LIBOR**	**2012**	**1,680**	**1,552**	2,520	2,320
				2,680	**2,479**	2,520	2,320

The 5 year term loan of £1,680,000 (2009: £2,520,000) and invoice discounting facility balance utilised of £2,354,000 (2009: £2,551,000) are secured through deeds of composite guarantees and mortgage debentures on Group companies. The Group makes use of an interest rate collar swap on two thirds of the sum of the term loan. The collar is based on LIBOR and has a lower threshold of 5.51% plus 4% margin and an upper threshold of 6.50% plus 4% margin. The invoice discounting facility has an interest rate of 3% above Barclay's base rate.

On 5 February 2010, the company issued £1,000,000 convertible loan notes. These are repayable at par on 5 February 2015 and interest is payable at a rate of 10% per annum on the par value. The loan notes are redeemable 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 deducted from the carrying value of the debt.

15 Trade and other payables

	31 December 2010 £000	31 December 2009 £000
Trade payables	**279**	386
Social security and other taxes	**1,414**	823
Other creditors	**224**	374
Accruals and deferred income	**1,553**	1,654
	3,470	3,237

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.

16 Financial instruments continued

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.

Interest rate risk

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

Credit risk

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

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

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

Foreign currency risk

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

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

Capital risk management

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

In managing its capital, the Group's primary objective is to ensure its ability to provide a return for its equity shareholders through capital growth. In order to achieve this objective, the Group seeks to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, the Group considers not only its short-term position but also its long-term operational and strategic objectives. The Group's gearing profile, being the face value of loans and borrowings £5,034,000 (2009: £5,071,000) as a percentage of total equity £9,517,000 (2009: £19,199,000) increased to 52,9% from 26.4% during the year.

Trade receivables impairment

Movement on trade receivables impairment provision:

	2010 £000	2009 Restated £000	2008 Restated £000
Provision brought forward	**118**	250	253
Increase/(decrease) in provision	**113**	(132)	(3)
Provision carried forward at year end	**231**	118	250

The trade receivables past due and not impaired at the balance sheet date amounted to £1,526,000 (2009: £2,274,000) and comprised £1,354,000 (2009: £1,809,000) overdue by up to 30 days, £288,000 (2009: £320,000) overdue by 30-60 days and £42,000 (2009: £145,000) overdue by more than 60 days.

The directors consider that all other receivables are fully recoverable.

16 Financial instruments continued

Categories of financial instruments

Financial assets

The financial assets of the Group comprised:

	Loans and receivables		
	2010	Restated 2009	Restated 2008
	£000	£000	£000
Current financial assets			
Trade and other receivables	**3,885**	4,142	6,039
Net cash and cash equivalents	**350**	641	1,379
Total financial assets	**4,235**	4,783	7,418

Financial liabilities

The financial liabilities of the Group comprised:

	Measured at amortised cost	
	2010	2009
	£000	£000
Current financial liabilities		
Trade and other payables	**3,470**	3,237
Loans and borrowings	**3,906**	4,871
Total current financial liabilities	**7,376**	8,108
Non-current financial liabilities		
Loans and borrowings	**927**	—
Total financial liabilities	**8,303**	8,108

Bank loans and invoice discounting balances amounting to £3,906,000 (2009: £4,871,000) are secured by cross guarantees and mortgage debentures on certain Group companies. The convertible loan notes of £927,000 (2009: nil) 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 £57,000 (2009: £102,000). The directors consider that the carrying amounts of financial assets and liabilities recorded at amortised cost in the financial statements approximate their fair values.

Effective interest rates and repricing analysis – Group

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

	2010					2009				
	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%**	**350**	**350**	**—**	**—**	0.1%	641	641	—	—
Convertible loan	**10%**	**(927)**	**—**	**—**	**(927)**	—	—	—	—	—
Bank loans	**7.8%**	**(1,552)**	**(1,552)**	**—**	**—**	7.8%	(2,320)	(2,320)	—	—
Derivative collar	**n/a**	**(57)**	**(57)**	**—**	**—**	n/a	(102)	(102)	—	—
Invoice discounting	**3.5%**	**(2,354)**	**(2,354)**	**—**	**—**	3.5%	(2,551)	(2,551)	—	—
		(4,540)	**(3,613)**	**—**	**(927)**		(4,332)	(4,332)	—	—

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 £116,896 (2009: £164,463). Pension contributions totalling £6,960 (2009: £3,700) were outstanding at the period end.

Share-based payments

Approved and unapproved share schemes

The Group has 4 share option schemes with options remaining unexercised at 31 December 2010:

1999 Unapproved Scheme – 525 options remain unexercised at 31 December 2010

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

2008 Unapproved All Employee Scheme – 1,400,005 options remain unexercised at 31 December 2010

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 70,000 exercisable options in this scheme at the year end. However, their strike price was in excess of the Group's share price at that time, deeming them "underwater". All options granted have a contract life of 10 years.

2009 SAYE Scheme – 3,213,290 options remain unexercised at 31 December 2010

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 – 2,900,905 options remain unexercised at 31 December 2010

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 and warrants are as follows:

	31 December 2010		31 December 2009	
	Weighted average exercise price £	**Number of options**	Weighted average exercise price £	Number of options
Outstanding at the beginning of the period	**0.20**	**11,666,694**	0.37	8,168,289
Options granted during the period	**0.03**	**3,000,000**	0.03	6,707,659
Options exercised during the period	—	—	—	—
Options lapsed during the period	**0.3**	**(7,151,969)**	0.26	(3,209,254)
Outstanding at the end of the period	**0.04**	**7,514,725**	0.20	11,666,694
Exercisable at the end of the period	**0.25**	**70,000**	0.39	4,577,581

The exercise price of options outstanding at the end of the period ranged between £0.03 and £0.99 (2009: £0.03 and £0.99) and their weighted residual contractual life was 8 years (2009: 9 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 £0.026 (2009: £0.026).

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 2010	31 December 2009
Fair value at measurement date	**£78,000**	£176,000
Weighted average share price	**£0.04**	£0.04
Weighted average exercise price	**£0.03**	£0.03
Expected volatility	**90%**	90%
Expected option life (years)	**3.5**	3.5
Expected dividends	**0%**	0%
Risk-free interest rate	**2.5%**	2.5%

17 Employee benefits continued

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 income recognised for the period arising from share-based payments was £20,000 (2009: £67,000).

18 Provisions

	Onerous Contracts and Dilapidations £000
Balance at 1 January 2010	993
Provisions made during the period	204
Provisions used during the period	(498)
Balance at 31 December 2010	**699**
Non-current at 31 December 2009	625
Current at 31 December 2009	368
	993
Non-current at 31 December 2010	300
Current at 31 December 2010	399
	699

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 2010**	31 December 2009
In issue at 1 January – fully paid	87,086	87,086
Shares issued	753	-
In issue at 31 December – fully paid	**87,839**	87,086

	31 December 2010 £000	31 December 2009 £000
Authorised		
Ordinary shares of £0.02 each	**2,895**	2,895
Allotted, called up and fully paid		
Ordinary shares of £0.02 each	**1,757**	1,742

On 31 July 2010, the company issued 753,250 ordinary shares of £0.02 each for consideration of £21,000 in settlement of interest on the loan notes issued.

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

20 Reserves

Share premium

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

Merger reserve

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

Convertible reserve

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

Warrant reserve

On 5 February 2010, 1,000,000 warrants were issued to the convertible loan note holders, with the right to subscribe for ordinary shares until 5 February 2015 at the lower of 6.5p per share or the price of any new issue, but not less than 0.2p per share. There are no other outstanding warrants at 31 December 2010. The warrant reserve reflects the fair value of the warrants issued with the convertible loan note and was measured using the Black Scholes model. The measurement inputs and assumptions were as follows:

Fair value at measurement date	**£36,000**
Weighted average share price	**£0.05**
Weighted average exercise price	**£0.07**
Expected volatility	**90%**
Expected option life (years)	**5**
Expected dividends	**0%**
Risk-free interest rate	**2.5%**

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 2010 £000	31 December 2009 £000
Less than 1 year	**1,181**	1,307
Between 1 and 5 years	**1,911**	3,286
More than 5 years	**44**	41
	3,136	4,634

During the period £1,132,000 was recognised as an expense in the income statement in respect of operating leases (2009: £1,278,000), excluding amounts charged in respect of onerous contracts.

22 Related party transactions

On 15 February 2010, the directors J P Bowmer, A H Reeves, R D Eades and J McHugh each subscribed for £150,000 of the convertible loan notes and each received 150,000 warrants to subscribe for ordinary shares. All of the loan notes and warrants were outstanding at the year end. The terms attaching to the convertible loan notes and warrants are set out in note 14 and note 20 respectively.

23 Post balance sheet events

In February 2011 the Group raised £1.35 million of funding through a combination of new equity and convertible loan notes. In addition to this the Group entered into an amendment letter to restructure its debt with respect to its existing facilities agreement with its lender and further details are included in note 1.

Company balance sheet

Registered Number 2228050

At 31 December 2010

	Note	**31 December 2010**		31 December 2009	
		£000	**£000**	£000	£000
Fixed assets					
Property, plant and equipment	26		**378**		404
Investments	27		**14,633**		30,972
			15,011		31,376
Current assets					
Debtors – due within 1 year	28	**1,319**		662	
Debtors – due after more than 1 year	28	**4,998**		3,404	
Cash at bank and in hand		**103**		239	
		6,420		4,305	
Creditors: amounts falling due within 1 year					
Loans and borrowings	30	**1,552**		2,320	
Trade and other payables	29	**1,087**		1,536	
Amounts owed to Group undertakings		**3,907**		1,380	
		6,546		5,236	
Net current liabilities			**(126)**		(931)
Total assets less current liabilities			**14,885**		30,445
Creditors: amounts falling due after 1 year					
Loans and borrowings	30		**927**		—
Provisions	31		**698**		993
Net assets			**13,260**		29,452
Capital and reserves					
Called up share capital	32		**1,757**		1,742
Share premium account	33		**13,734**		13,728
Merger reserve	33		**-**		16,081
Convertible option reserve	33		**17**		-
Warrant reserve	33		**36**		-
Capital redemption reserve	33		**2**		2
Profit and loss account	33		**(2,286)**		(2,101)
Shareholders' funds			**13,260**		29,452

These financial statements were approved by the Board of directors on 11th April 2011 and were signed on its behalf by:

Ross Eades
Director

John Melbourne
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 £16,246,000 (2009: profit of £1,351,000) which is dealt with in the financial statements of the parent company.

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

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

Turnover

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

Investments

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

Share-based payment transactions

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

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

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the Company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

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 6 (2009: 5) directors and 22 (2009: 28) Group employees. The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2010 £000	Year ended 31 December 2009 £000
Wages and salaries	**1,469**	1,865
Social security costs	**163**	196
Other pension costs	**36**	59
	1,668	2,120

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

26 Property, plant and equipment

	Short leasehold premises and improvements £000	Computer and office equipment £000	Total £000
Cost			
Balance at 1 January 2010	353	152	505
Additions	8	103	111
Disposals	(14)	(8)	(22)
Balance at 31 December 2010	347	247	594
Depreciation and impairment			
Balance at 1 January 2010	65	36	101
Depreciation charge for the period	69	54	123
Disposals	(5)	(3)	(8)
Balance at 31 December 2010	129	87	216
Net book value			
At 31 December 2009	288	116	404
At 31 December 2010	**218**	**160**	**378**

27 Fixed asset investments

	Shares in Group undertakings £000
Cost	
At 1 January and 31 December 2010	**32,162**
Provisions	
At beginning of period	(1,190)
Provided in period	(16,339)
At end of period	(17,529)
Net book value	
At 31 December 2009	30,972
At 31 December 2010	**14,633**

27 Fixed asset investments continued

The Company has the following investments in subsidiaries:

	Country of Incorporation	Class of shares held	Ownership 2010	2009
Berkeley Scott Limited	England and Wales	Ordinary	**100%**	100%
Quantica Limited	England and Wales	Ordinary	**100%**	100%
Quantica Group Limited (1)	England and Wales	Ordinary	**100%**	100%
Quantica Solutions Limited (1)	England and Wales	Ordinary	**100%**	100%
RK Group Limited (1)	England and Wales	Ordinary	**100%**	100%
Robinson Keane Limited (1)	England and Wales	Ordinary	**100%**	100%

(1) indirectly held

28 Debtors

	31 December 2010 £000	31 December 2009 £000
Amounts owed by Group undertakings	**4,998**	3,404
Other receivables	**827**	132
Prepayments and accrued income	**492**	530
	6,317	4,066

Included within amounts owed by Group undertakings is an amount of £4,998,000 (2009: £3,404,000) due after more than 1 year.

29 Trade and other payables

	31 December 2010 £000	31 December 2009 £000
Trade creditors	**277**	378
Accruals and deferred income	**810**	1,158
	1,087	1,536

30 Other interest bearing loans and borrowings

	31 December 2010 £000	31 December 2009 £000
Convertible loan notes	**927**	—
Bank loan	**1,552**	2,320

The maturity of bank loans and overdrafts is as follows:

	31 December 2010 £000	31 December 2009 £000
Within 1 year	**1,552**	2,320
In the 2nd to 5th years	**927**	—
	2,479	2,320

The bank loan is secured through deeds of composite guarantees and mortgage debentures on Group companies. The loan attracts interest at 4% per annum above LIBOR. The Group makes use of an interest rate collar swap on two thirds of the sum of the term loan. The collar is based on LIBOR and has a lower threshold of 5.51% plus 4% margin and an upper threshold of 6.50% plus 4% margin.

30 Other interest bearing loans and borrowings continued

On 5 February 2010, the company issued £1,000,000 convertible loan notes. These are repayable at par on 5 February 2015 and interest is payable at a rate of 10% per annum on the par value. The loan notes are redeemable 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 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 deducted from the carrying value of the debt.

31 Provisions

	Onerous Contracts and Dilapidations £000
Balance at 1 January 2010	993
Provisions made during the period	203
Provisions used during the period	(498)
Balance at 31 December 2010	**698**

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 2010 £000	31 December 2009 £000
Authorised		
Ordinary shares of £0.02 each	**2,895**	2,895
Allotted, called up and fully paid		
Ordinary shares of £0.02 each	**1,757**	1,742

On 31 July 2010, the company issued 753,250 ordinary shares of £0.02 each for consideration of £21,000 in settlement of interest on the loan notes issued.

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

33 Share premium and reserves

	Share premium account £000	Merger reserve £000	Convertible reserve £000	Warrant reserve £000	Capital redemption reserve £000	Profit and loss account £000
At beginning of period	13,728	16,081	—	—	2	(2,101)
Loss for the period	—	—	—	—	—	(16,246)
Share-based payments	—	—	—	—	—	(20)
Equity component of convertible loan notes	—	—	17	36	—	—
Issue of shares	6	—	—	—	—	—
Share-based payments credit	—	(16,081)	—	—	—	16,081
At end of period	**13,734**	**-**	**17**	**36**	**2**	**(2,286)**

Notes to the financial statements of the Company

(forming part of the financial statements)

34 Contingent liabilities

At 2010 period end the invoice discounting overdraft balances in the Company's subsidiaries amounted to £2,354,000 and were secured by cross guarantees and mortgage debentures on the Company (2009: £2,551,000).

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 £36,000 (2009: £59,000). Pension contributions totalling £9,000 (2009: £4,000) were outstanding at the end of the financial period.

Notice of annual general meeting

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

Notice is hereby given that the Annual General Meeting of Members of The Kellan Group plc (the "AGM") will be held at 4th Floor, 27 Mortimer Street, London, W1T 3BL on at **3pm on 31st May 2011** for the purposes of considering and, if thought fit, passing the Resolutions listed below.

All resolutions, with the exception of Resolution 4 will be proposed as ordinary resolutions. Resolution 4 will be proposed as a special resolution.

Ordinary Business

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

Resolution 1

THAT the Directors' Report, statement of accounts and Independent Auditor's Report for the year ended 31st December 2010 be received and approved.

Resolution 2

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

Special Business

To propose the following resolutions:

Resolution 3

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

up to an aggregate nominal amount of £698,065; and

comprising equity securities (as defined in section 560(1) of the Companies Act 2006) up to a further nominal amount of £698,065, in connection with an offer by way of rights issue,

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

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

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

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

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.

Notice of annual general meeting

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

Resolution 4

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

pursuant to the authority given by paragraph (a) of Resolution 4 above or where the allotment constitutes an allotment of equity securities by virtue of Section 560(2) of the Companies Act 2006:

in connection with a pre-emptive offer; and

otherwise than in connection with a pre-emptive offer, up to an aggregate nominal amount of £419,258; and

pursuant to the authority given by paragraph (b) of Resolution 4 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:

"rights issue" has the same meaning as Resolution 4 above.

"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;

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

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.

By order of the Board

Ross Eades
Director

9 May 2011

REGISTERED OFFICE

The Kellan Group Plc
4th Floor
27 Mortimer Street
London

Notice of annual general meeting

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

Notes

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

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

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

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.

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 [insert time and date]. 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.

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.

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.

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

5. 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.

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

7. 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).

8. The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communication from the Company in accordance with Section 146 of the Companies Act 2006 ("nominated persons"). Nominated persons may have a right under an agreement with the registered Member who holds shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights. Your main point of contact in terms of your investment in the Company remains the registered Member (or, perhaps, your custodian or broker) and you should continue to contact them and not the Company regarding any changes or queries regarding your personal details and your interest in the Company. The only exception to this is where the Company expressly requests a response from you.

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

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

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

12. Biographical details of the Directors who are standing for re-election are set out in the annual report accompanying the Notice of Meeting.

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

Notice of annual general meeting

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

14. As at 5pm on 6th May 2011, the Company's issued share capital comprised 104,814,599 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 5pm on 5th May 2011 is 104,814,599. The website referred to at note 13 will include information on the number of shares and voting rights.

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

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

by emailing ssd@capitaregistrars.com

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

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

Notice of annual general meeting

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

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 and 2 are standard matters that are dealt with at every AGM. Resolutions 3 and 4 are special business to be considered at the AGM.

<u>Ordinary Business</u>

Approval of Report and Accounts (Resolution 1)

Members will be asked to approve the Directors' Report and the audited accounts for the year ended 31 December 2010.

Re-appointment of Auditors (Resolution 2)

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

<u>Special Business</u>

Authority to Allot Shares (Resolution 3)

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

Under the Companies Act 2006, Directors are not permitted to allot new shares (or grant certain rights over shares) unless authorised to do so by the Company's Articles of Association or the Shareholders. At the last AGM of the Company, which was held on 18th May 2010, the Directors were given the authority to allot relevant securities. This authority expires at the end of this year's AGM.

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

The authority in paragraph (a) will allow the Directors to allot new shares and grant rights to subscribe for, or convert other securities into, shares up to a nominal value of £698,065 which is equivalent to approximately 33.3% of the total issued ordinary share capital of the Company, exclusive of treasury shares, as at 6th May 2011. The authority at paragraph (b) of resolution 3 will allow the Directors to allot new shares and other relevant securities only in connection with a pre-emptive offer by way of a rights issue up to a further nominal value of £698,065. This is in line with corporate governance guidelines.

As at the close of business on 6th May 2011 the Company held no treasury shares.

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

If approved, the authority granted under resolution 3 will be valid until the conclusion of AGM in 2012 or the close of business on the date falling 15 months from the date of the resolution, whichever is the earlier, subject to the exception set out in Resolution 3.

The authority proposed under Resolution 3 is in addition and without prejudice to the authority granted to the Directors under the special resolution passed on the 18 January 2010.

Notice of annual general meeting

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

Partial Disapplication of Pre-Emption Rights (Resolution 4)

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 4 is to authorise the Directors to allot new shares pursuant to the authority given in paragraph (a) of Resolution 3, or sell treasury shares, for cash:

in connection with a pre-emptive offer; or

otherwise up to a nominal value of £419,258, equivalent to 20% of the total issued ordinary share capital of the company as at 6th May 2011, 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 4 is to authorise Directors to allot new shares pursuant to the authority given in paragraph (b) of Resolution 3, 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 2012 or 15 months from the date of the resolution, whichever is the sooner, subject to the exceptions set out in Resolution 4.

The Board considers the authority in Resolution 4 to be appropriate in order to allow the Company flexibility to finance business opportunities 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 4 is in addition and without prejudice to the authority granted to the Directors under the special resolution passed on 18th January 2010.