Kellan Group plc

Half year interim report 2012

Highlights

The Kellan Group PLC ("Kellan" or "the Group")

Kellan is a market leading recruitment business operating across a wide range of functional disciplines and industry sectors.

The Group aims to develop, through acquisition and organic growth, a portfolio of premium brands within the currently fragmented recruitment sector in the UK. Currently, through its three recruitment brands, Berkeley Scott, Quantica and RK, the Group has the capability and resource to recruit professionals into finance & accounting, information technology, supply chain & procurement, contract management, retail, manufacturing, catering, hospitality & leisure and human resources sectors.

Financial summary

- Adjusted EBITDA maintained with a loss of £0.1 million (six months ended June 2011: loss £0.1 million).
- Increased savings made by streamlining administrative expenses (exclusive of impairment), resulting in a 17.1% reduction against the comparable period in the prior year and a further 10.7% reduction against second half of 2011.
- Basic loss per share reduced to 0.61p (six months ended June 2011: loss 0.67p).
- Cash outflow from financing activities of £0.7 million (six month ended June 2011: inflow £0.6 million).
- In September 2012, £1.40 million raised through a new share issue plus a £1.26 million loan facility, put in place for the purpose of repaying senior bank debt at more favourable interest rates and to fund the growth in the number of fee earners with the aim of executing the board's growth strategy.
- £0.65 million of loan notes converted to equity in September 2012 to reduce financing costs and improve leverage ratio for the Group.

Operational summary

- New revenue streams launched within core brands – 'niche within niche'
  - Finance in Hospitality
  - Hotel senior appointments
  - Technology in Utilities
- New markets with excellent prospects entered:
  - Human Resources launched in January and performing ahead of expectations
  - New brand launched in commercial & industrial sector in H2
- Significant new customer wins and key major accounts retained
- Apprentice development programme launched to identify and nurture new talent
- Group-wide training and development programme initiated
- Brand and website refreshment programme accelerated

Highlights

- On-going investment in the business infrastructure to provide best-in-class tools to all areas of the Group
- Continued restructuring and consolidation of property portfolio delivered cost saving synergies throughout the Group

CEO's Statement

The recruitment market continued to mirror the protracted and frustrating stagnancy of the overall UK economy during H1 2012. Opportunities for growth have been few and far between and the Group has worked hard to maximise these wherever they have arisen and I was particularly encouraged by a number of major new customer wins and by our retention of key clients.

During H1 2012, our relocation and consolidation of premises programme continued, contributing to significant savings on administrative costs of 17.1% on H1 2011. Staff costs remained under rigorous control although we are confident that we have the talent pool of leaders and sales staff with the capability to deliver growth from gaining market share even in the current economic environment. The drive is always towards growing NFI. The adjusted EBITDA of £121,000 (loss) (H1 2011: £89,000 loss) reflected the difficult trading environment.

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

We have also identified a number of promising 'niche within niche' opportunities in all our brands and have launched a new and promising operation in the commercial and industrial sector.

Since I joined the Group three years ago, unhelpful trading conditions, pressure to service increasingly onerous bank debt and a cumbersome portfolio of premises have severely hampered our ability to invest in growth. Despite this, our people have worked with tireless enthusiasm to build and maintain our brands' positions in key markets and over the past year I am pleased that we have been able to build a talented pool of proven performers ready to take advantage of any market and growth opportunities that might arise.

I am delighted that the Group's growth strategy has been given new and exciting momentum by the recent successful completion of lengthy negotiations around a funding package that will relieve us of the pressure to service onerous bank debt and provide us with resources to invest in infrastructure and actions for positive growth. Drawn from existing investors, the package consists of £1.40 million raised subsequent to the year end through the issue of shares and a £1.26 million draw-down facility with a five year term to repay bank senior debt at favourable interest rates. Additionally, £0.65 million loan notes have been converted to equity to reduce financing costs and improve the leverage ratio of the Group.

Highlights

As a result we look forward to the remainder of H2 2012 and 2013 with optimism and momentum. Plans for the new funds are ready to be executed and we are excited by the opportunity we now have to unleash the undoubted potential of the Group.

My thanks go to all Kellan Group staff for their focus and diligence during these challenging times and to our investors for their enthusiasm and very tangible support for our plans.

Ross Eades
Chief Executive Officer

Consolidated Statement of Comprehensive Income

For the 6 months ended 30 June 2012

	Note	**Unaudited 6 months ended 30 June 2012 £000**	Unaudited 6 months ended 30 June 2011 £000	Audited 12 months ended 31 December 2011 £000
Revenue		**11,684**	13,235	26,902
Cost of sales		**(7,214)**	(7,726)	(16,049)
Net Fee Income		**4,470**	5,509	10,853
Administrative expenses		**(4,856)**	(5,860)	(16,298)
Operating loss before impairment charge		**(386)**	(351)	(444)
Impairment of goodwill and intangibles		—	—	(5,001)
Operating loss	2	**(386)**	(351)	(5,445)
Financial income		2	2	15
Financial expenses		**(268)**	(282)	(480)
Loss before tax		**(652)**	(631)	(5,910)
Tax credit		—	—	—
Loss for the period		**(652)**	(631)	(5,910)
Attributable to:				
Equity holders of the parent		**(652)**	(631)	(5,910)
Basic loss per share in pence	3	**(0.61)**	(0.67)	(5.72)
Diluted loss per share in pence	3	**(0.61)**	(0.67)	(5.72)

The above results relate to continuing operations.

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

Consolidated Statement of Financial Position

as at 30 June 2012

	Note	**Unaudited 30 June 2012 £000**	Unaudited 30 June 2011 £000	Audited 31 December 2011 £000
Non-current assets				
Property, plant and equipment		**429**	573	532
Intangible assets	6	**7,997**	13,188	8,093
		8,426	13,761	8,625
Current assets				
Trade and other receivables	4	**3,744**	4,367	4,205
Cash and cash equivalents		**86**	110	410
		3,830	4,477	4,615
Total assets		**12,256**	18,238	13,240
Current liabilities				
Loans and borrowings		**3,051**	2,015	3,093
Trade and other payables	5	**3,053**	3,073	2,914
Other financial liabilities		**27**	57	42
Provisions		**295**	361	328
		6,426	5,506	6,377
Non-current liabilities				
Loans and borrowings		**2,342**	3,301	2,759
Provisions		**30**	153	79
		2,372	3,454	2,838
Total liabilities		**8,798**	8,960	9,215
Net assets		**3,458**	9,278	4,025
Equity attributable to equity holders of the parent				
Share capital		**2,182**	2,112	2,146
Share premium		**13,756**	13,739	13,746
Merger reserve		—	—	—
Warrant reserve		**36**	36	36
Convertible option reserve		**30**	34	34
Capital redemption reserve		**2**	2	2
Retained earnings		**(12,548)**	(6,645)	(11,939)
Total equity		**3,458**	9,278	4,025

Consolidated Statement of changes in equity

for the 6 months ended 30 June 2012

	Unaudited Share capital £000	Unaudited Share premium £000	Unaudited Merger reserve £000	Unaudited Warrant reserve £000	Unaudited Convertible reserve £000	Unaudited Redemption reserve £000	Unaudited Retained earnings £000	Unaudited Total equity £000
Balance at 31 December 2010	**1,757**	**13,734**	**—**	**36**	**17**	**2**	**(6,029)**	**9,517**
Total comprehensive income for the 6 month period ended 30 June 2011	—	—	—	—	—	—	(631)	(631)
Issue of shares	355	5	—	—	—	—	—	360
Share based payment	—	—	—	—	—	—	15	15
Equity component of convertible loan notes	—	—	—	—	17	—	—	17
Balance at 30 June 2011	**2,112**	**13,739**	**—**	**36**	**34**	**2**	**(6,645)**	**9,278**
Total comprehensive income for the 6 month period ended 31 December 2011	—	—	—	—	—	—	(5,279)	(5,279)
Share-based payment adjustment	—	—	—	—	—	—	(15)	(15)
Issue of shares	34	7	—	—	—	—	—	41
Balance at 31 December 2011	**2,146**	**13,746**	**—**	**36**	**34**	**2**	**(11,939)**	**4,025**
Total comprehensive income for the 6 month period ended 30 June 2012	—	—	—	—	—	—	(652)	(652)
Issue of shares	36	10	—	—	—	—	—	46
Share based payment	—	—	—	—	—	—	43	43
Equity component of convertible loan notes	—	—	—	—	(4)	—	—	(4)
Balance at 30 June 2012	**2,182**	**13,756**	**—**	**36**	**30**	**2**	**(12,548)**	**3,458**

Consolidated Statement of Cash Flows

for the 6 months ended 30 June 2012

	Unaudited 6 months ended 30 June 2012 £000	Unaudited 6 months ended 30 June 2011 £000	Audited 12 months ended 31 December 2011 £000
Cash flows from operating activities			
Loss for the period	**(652)**	(631)	(5,910)
Adjustments for:			
Depreciation and amortisation	**222**	247	472
Interest income	**(2)**	(2)	—
Interest paid	**199**	220	312
Amortisation of loan cost	**45**	44	89
Net gain on measurement of interest rate swap to fair value	**(16)**	—	(15)
Impairment of goodwill	—	—	5,001
Equity settled convertible loan interest	**42**	17	62
Equity settled share-based payment/ (credit)	**43**	15	30
	(119)	(90)	41
Decrease in trade and other receivables	**461**	32	194
Increase/(decrease) in trade and other payables	**138**	(396)	(578)
Decrease in provisions	**(83)**	(185)	(292)
	397	(639)	(635)
Tax received	—	—	—
Net cash inflow/(outflow) from operating activities	**397**	(639)	(635)
Cash flows from investing activities			
Interest received	**2**	2	—
Acquisition of property, plant and equipment	**(22)**	(181)	(270)
Net cash outflow from investing activities	**(20)**	(179)	(270)
Cash flows from financing activities			
(Repayment) / drawdown of invoice discounting balances	**(294)**	(538)	340
Interest paid and loan costs	**(197)**	(220)	(46)
Repayment of term loan borrowings	**(420)**	—	(312)
Proceeds from short term loan	**210**	—	—
Proceeds from the issue of share capital	—	340	—
Net proceeds of Convertible Loan notes	—	996	983
Net cash (outflow)/inflow from financing activities	**(701)**	578	965
Net (decrease)/increase in cash and cash equivalents	**(324)**	(240)	60
Cash and cash equivalents at the beginning of the period	**410**	350	350
Cash and cash equivalents at the end of the period	**86**	110	410

Notes

(forming part of the financial statements)

1 Accounting policies

Accounting periods

The accounting reference date of the Group is 31 December. The current half year interim results are for the six months ended 30 June 2012. The comparative half year interim results are for the six months ended 30 June 2011. The comparative period end's results are for the twelve months ended 31 December 2011.

Financial information

The financial information for the six months ended 30 June 2012 and the six months ended 30 June 2011 are unaudited and un-reviewed and do not constitute the Group's statutory financial statements for those periods. The comparative financial information for the full year ended 31 December 2011 has, however, been derived from the audited statutory financial statements for that period. A copy of those statutory accounts for that period has been delivered to the Registrar of Companies. The auditors report on those accounts was not qualified and did not contain statements under Chapter 3 of Part 16 of the Companies Act 2006.

Basis of preparation

The half year interim financial statements have been prepared on a going concern basis using the recognition and measurement principles of IFRS as endorsed for use in the European Union. The accounting policies used in the preparation of these condensed financial statements are set out in the statutory financial statements for the period ended 31 December 2011 which are also the policies that are expected to be applicable at 31 December 2012.

The accounts for the 12 month period ended 31 December 2011 highlighted that due to the continuing downturn in the UK recruitment market, the Group reset the financial covenants contained in its borrowing agreement with its lender and remained within agreed levels.

In September 2012, the Group raised funding of £2.66 million before costs through a combination of new equity and a new debt facility. Investors are committed to subscribing for shares of £1.40m. The subscription funds are held by the company for the sole benefit of the company. The equity injection will be used for investment in fee earners and projects to stimulate growth.

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

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

The Group breached covenants on the Barclay's term loan and ID facility at 31 March 2012 and 30 June 2012, however Barclays have granted a waiver of the breaches at 31 March 2012 and 30 June 2012 and a covenant test waiver for 30 September 2012. As at 25 September the Group has an aggregate principal amount of £1.26 million remaining outstanding under the facility. Due to the financial restructuring the covenants require rebasing. This has yet to be completed but Barclays have provided written assurances to the directors that they will agree and reset the covenants before the next test date and that these covenants will include an appropriate level of tolerance.

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

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

Notes

(forming part of the financial statements)

2 Reconciliation of operating loss to adjusted EBITA and adjusted EBITDA

	Unaudited 6 month period ended 30 June 2012 £000	Unaudited 6 month period ended 30 June 2011 £000	Audited 12 month period ended 31 December 2011 £000
Operating loss as per accounts	**(386)**	(351)	**(5,445)**
Add back			
Impairment of intangible	—	—	**5,001**
Amortisation of intangible assets	**96**	97	**191**
Share-based payments charge	**43**	15	**30**
Restructuring costs	—	—	**108**
Adjusted EBITA	**(247)**	(239)	**(115)**
Depreciation	**126**	150	**281**
Adjusted EBITDA	**(121)**	(89)	**166**

3 Earnings per share

Basic earnings per share

The calculation of basic earnings per share is as follows:

Weighted average number of shares	**Unaudited 6 month period ended 30 June 2012**	Unaudited 6 month period ended 30 June 2011	Audited 12 month period ended 31 December 2011
Issued ordinary shares at 1 January	**107,313,200**	87,839,586	87,839,586
Effect of shares issued	**449,275**	5,899,909	15,488,884
Weighted average number of shares at end of period	**107,762,475**	93,739,495	103,328,470
Loss for the period	**(652,000)**	(631,000)	(5,910,000)
Basic loss per share in pence	**(0.61)**	(0.67)	(5.72)
Diluted loss per share in pence	**(0.61)**	(0.67)	(5.72)

4 Trade and other receivables

	Unaudited 30 June 2012 £000	Unaudited 30 June 2011 £000	Audited 31 December 2011 £000
Trade receivables	**3,323**	3,538	3,704
Other receivables	**87**	100	81
Prepayments and accrued income	**334**	729	420
	3,744	4,367	4,205

Notes
(forming part of the financial statements)

5 Trade and other payables

	Unaudited 30 June 2012 £000	Unaudited 30 June 2011 £000	Audited 31 December 2011 £000
Trade payables	**413**	439	150
Social security and other taxes	**948**	813	988
Other creditors	**677**	365	505
Accruals and deferred income	**1,015**	1,456	1,271
	3,053	3,073	2,914

6 Intangible Assets
The intangible assets balance at 30 June 2012 of £7,997,000 includes an amount of £6,929,000 relating to goodwill acquired through business combinations. Impairment of this balance has been assessed as at 30 June 2012 and no adjustment was considered necessary. The Directors believe the assumptions used in testing impairment at 31 December 2011 are still valid and have not materially changed. These assumptions will continue to be reassessed on a six monthly basis.

Directors

AH Reeves – Chairman

RH Eades – Chief Executive Officer

R Kirpalani – Group Finance Director

JP Bowmer – Non-executive Director

ME Jackson – Non-executive Director

J McHugh– Non-executive Director

Q Spratt- Non-executive Director (appointed 26 September 2012)

Advisers

Broker/Nomad

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Auditors

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Solicitor/Company Secretary

Irwin Mitchell/
IMCO Secretary Ltd
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Registrar

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Registered office

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Registered number

2228050

Shareholder information

London Stock Exchange

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

Website

The Group operate a website which can be found at www.kellangroup.co.uk.

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

Financial calendar

Financial year end	31 December 2012
Announcement of final results	March 2013
Annual report to shareholders	April 2013
Annual General Meeting	May 2013