Kellan Group plc

Half year interim report 2013

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, engineering, contract management, retail, manufacturing, catering, hospitality & leisure and human resources sectors.

Financial summary

- In the six months ended 30 June 2013, the Group incurred a loss before tax of £1.2 million (six months ended 30 June 2012 £0.65 million) on revenue of £11.1 million (2012: £11.7 million).

- Basic loss per share reduced to 0.56p (six months ended June 2012: loss 0.61p).

- Increased savings made by streamlining administrative expenses (exclusive of impairment), resulting in a 2.7% reduction against the comparable period in the prior year and a 2.3% reduction against second half of 2012.

- Cash outflow from financing activities of £0.2 million (six months ended June 2012: £0.7 million).

- Increase in cash and cash equivalent to £0.2 million (six months ended June 2012: £0.1 million)

- Fundraising of £1.5 million, comprising £0.9 million in equity and £0.6 million in unsecured convertible debt with the Company’s largest shareholder completed in August 2013.

Operational summary

- Consolidation of Kellan Group brands and restructure of leadership team to create focus and specialist structure at senior operational management level.
- Continued investment in I.T. to improve infrastructure and performance across all areas.
- Productivity per fee earner improving by 13% from Q1 to Q2 of 2013.

RK Group

- Business demonstrating improved performance with both Yorkshire & Preston showing strong growth.
- New preferred supplier accounts coupled with new client wins and the cross fertilisation of business from other brands have resulted in NFI being in line with expectation.

Quantica Search & Selection

- Considerable improvement in year on year productivity per fee earner.

- As a key strategy we have achieved a number of significant client preferred supplier account wins with industry leading businesses.

Berkeley Scott

- The establishment of a key sector focus has resulted in significant client wins within the hospitality branded and SME market place and the contract and facilities market.
- A number of framework agreements and business wins have been achieved in our core London temp business, with consolidated supplier arrangements being agreed with a number of key clients.
- The London H&L and Chefs business in general is achieving significant growth and is a key focus area for perm development in Berkeley Scott.

Quantica Technology

- Quantica Technology has continued to build it's presence in London & regional UK operations with increased revenue streams from mainland Europe, in particular Germany & Switzerland.
- Business well positioned for growth in H2 2013; with increasing revenues coming from mainland Europe.

Executive Chairman's Statement

The first half of 2013 was a period in which the recruitment market continued to be affected by the sluggish UK economy. The diverse nature of the brands within the Kellan Group allows us to continue to focus our efforts on increasing market share in the sectors demonstrating growth opportunities. Penetrating these opportunities effectively has been an ongoing challenge but the Group has once again demonstrated flexibility and is well positioned for underlying growth in the second half of the year.

Focus on strong cost control has continued with H1 2013 costs (excluding non-cash impairment of intangibles) reducing by 2.7% compared to last year and 2.3% compared to H2 2012.

With the Group's recently realigned management and leadership and our continuing success in reducing our cost base, I believe we have created a robust operational infrastructure to provide support across our business enabling the Group to move forward.

We have had some encouraging indications of growth in H1 2013 with Q2 2013 productivity per fee earner increasing by 13% compared to Q1 2013. Quantica Search and Selection have secured a number of significant client preferred supplier account wins with leading businesses. Investment in this developing area has resulted in the expansion of the team with some experienced new hires. Berkeley Scott is continuing to gain market share in the North of England with year on year revenue growth. RK Accountancy has increased temporary revenue in H1 2013 over H1 2012 and Quantica Technology is well positioned to grow in the second half of 2013 with increased fees coupled with increasing international contractors.

Continual investment in our I.T. infrastructure has helped to ensure our fee earners are fully equipped to succeed and further committed investment for H2 2013 will continue to improve our set-up.

I am delighted that the Group's growth strategy has been given new and exciting momentum by the recent successful completion of a funding package that will provide us with additional resources to further invest in our infrastructure and our people. The fundraising of £1.5 million, comprising £0.9 million in equity and £0.6 million in unsecured convertible debt with the Company's largest shareholder completed in August 2013.

My thanks go to all Kellan Group staff for their focus, desire and diligence and to our investors for their enthusiasm and very tangible support for our plans.

Tony Reeves
Executive Chairman

Consolidated Statement of Comprehensive Income

For the 6 months ended 30 June 2013

	Note	**Unaudited 6 months ended 30 June 2013 £000**	Unaudited 6 months ended 30 June 2012 £000	Audited 12 months ended 31 December 2012 £000
Revenue		**11,085**	11,684	24,196
Cost of sales		**(7,348)**	(7,214)	(15,594)
Net Fee Income		**3,737**	4,470	8,602
Administrative expenses		**(4,726)**	(4,856)	(10,768)
Operating loss before impairment charge		**(989)**	(386)	(1,089)
Impairment of goodwill and intangibles		—	—	(1,077)
Operating loss	2	**(989)**	(386)	(2,166)
Financial income		12	2	30
Financial expenses		**(222)**	(268)	(447)
Loss before tax		**(1,199)**	(652)	(2,583)
Tax credit		—	—	—
Loss for the period		**(1,199)**	(652)	(2,583)
Attributable to:				
Equity holders of the parent		**(1,199)**	(652)	(2,583)
Basic loss per share in pence	3	**(0.56)**	(0.61)	(1.92)
Diluted loss per share in pence	3	**(0.56)**	(0.61)	(1.92)

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 2013

	Note	**Unaudited 30 June 2013 £000**	Unaudited 30 June 2012 £000	Audited 31 December 2012 £000
Non-current assets				
Property, plant and equipment		**259**	429	324
Intangible assets	6	**6,733**	7,997	6,829
		6,992	8,426	7,153
Current assets				
Trade and other receivables	4	**3,698**	3,744	4,357
Cash and cash equivalents		**216**	86	71
		3,914	3,830	4,428
Total assets		**10,906**	12,256	11,581
Current liabilities				
Loans and borrowings		**3,072**	3,051	3,588
Trade and other payables	5	**3,032**	3,053	2,690
Other financial liabilities		**4**	27	13
Provisions		**134**	295	149
		6,242	6,426	6,440
Non-current liabilities				
Loans and borrowings		**2,084**	2,342	1,487
Provisions		**41**	30	30
		2,125	2,372	1,517
Total liabilities		**8,367**	8,798	7,957
Net assets		**2,539**	3,458	3,624
Equity attributable to equity holders of the parent				
Share capital		**4,261**	2,182	4,224
Share premium		**13,772**	13,756	13,772
Warrant reserve		**36**	36	26
Convertible option reserve		**31**	30	36
Capital redemption reserve		**2**	2	2
Retained earnings		**(15,563)**	(12,548)	(14,436)
Total equity		**2,539**	3,458	3,624

Consolidated Statement of changes in equity

for the 6 months ended 30 June 2013

	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 2011	**2,146**	**13,746**	**—**	**36**	**34**	**2**	**(11,939)**	**4,025**
Total comprehensive loss 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**
Total comprehensive loss for the 6 month period ended 31 December 2012	—	—	—	—	—	—	(1,931)	(1,931)
Share-based payment adjustment	—	—	—	—	—	—	43	43
Equity component of convertible loan notes	—	—	—	—	(4)	—	—	(4)
Issue of shares	2,042	16	—	—	—	—	—	2,058
Balance at 31 December 2012	**4,224**	**13,772**	**—**	**36**	**26**	**2**	**(14,436)**	**3,624**
Total comprehensive loss for the 6 month period ended 30 June 2013	—	—	—	—	—	—	(1,199)	(1,199)
Issue of shares	37	—	—	—	—	—	—	37
Share based payment	—	—	—	—	—	—	72	72
Equity component of convertible loan notes	—	—	—	—	5	—	—	5
Balance at 30 June 2013	**4,261**	**13,772**	**—**	**36**	**31**	**2**	**(15,563)**	**2,539**

Consolidated Statement of Cash Flows

for the 6 months ended 30 June 2013

	Unaudited 6 months ended 30 June 2013 £000	Unaudited 6 months ended 30 June 2012 £000	Audited 12 months ended 31 December 2012 £000
Cash flows from operating activities			
Loss for the period	**(1,199)**	(652)	(2,583)
Adjustments for:			
Depreciation and amortisation	**188**	222	424
Interest income	**(3)**	(2)	—
Interest paid	**189**	199	347
Amortisation of loan cost	**45**	45	48
Net gain on measurement of interest rate swap to fair value	**(9)**	(16)	(30)
Impairment of goodwill	—	—	1,077
Equity settled convertible loan interest	**33**	42	84
Equity settled share-based payment	**72**	43	86
	(684)	(119)	(547)
Decrease/(Increase) in trade and other receivables	**659**	461	(152)
Increase/(Decrease) in trade and other payables	**350**	138	(237)
Decrease in provisions	**(5)**	(83)	(228)
Net cash inflow/(outflow) from operating activities	**320**	397	(1,164)
Cash flows from investing activities			
Interest received	**3**	2	—
Acquisition of property, plant and equipment	**(26)**	(22)	(29)
Net cash outflow from investing activities	**(23)**	(20)	(29)
Cash flows from financing activities			
(Repayment) / Drawdown of invoice discounting balance	**(723)**	(294)	477
Interest paid and loan costs	**(189)**	(197)	(347)
Repayment of term loan borrowings	**(420)**	(420)	(840)
Proceeds from other loans	**1,180**	210	260
Proceeds from the issue of share capital	—	—	1,400
Debt and equity issue cost	—	—	(96)
Net cash (outflow)/inflow from financing activities	**(152)**	(701)	854
Net Increase/(decrease) in cash and cash equivalents	**145**	(324)	(339)
Cash and cash equivalents at the beginning of the period	**71**	410	410
Cash and cash equivalents at the end of the period	**216**	86	71

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 2013. The comparative half year interim results are for the six months ended 30 June 2012. The comparative year's results are for the twelve months ended 31 December 2012.

Financial information

The financial information for the six months ended 30 June 2013 and the six months ended 30 June 2012 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 2012 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, but did include an emphasis of matter in respect of the successful and timely completion of the £1.5 million fundraising and that if expected trading levels are not achieved there may be a requirement for additional funding. These conditions indicated the existence of material uncertainties which may have cast doubt about the Group's ability to continue as a going concern. However, following the successful completion of the fundraising in August 2013, demonstrating the continued support of our major shareholders and trading levels being broadly in line with expectation, the Directors feel these uncertainties are no longer material.

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 2012 which are also the policies that are expected to be applicable at 31 December 2013.

Based on the Group's post year end trading expectations and associated cash flow forecasts as at 31 December 2012, the directors have considered the cash requirements of the Company and with the fundraising of £1.5 million successfully completed in August 2013, which was previously on-going as disclosed in the Executive Chairman's and Group Finance Director's statement for the year ended 31 December 2012, the Group is now able to operate within its existing facilities for the next twelve months.

Based on the successful completion of the fundraising in August 2013, the current market outlook, trading levels being broadly in line with management's expectations and the continued support of major shareholders; the Directors are confident that the Group will be able to meet its liabilities as they fall due for the foreseeable future. It is on this basis that the Directors consider it appropriate to prepare the Group's financial statements on a going concern basis.

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 2013 £000	Unaudited 6 month period ended 30 June 2012 £000	Audited 12 month period ended 31 December 2012 £000
Operating loss as per accounts	**(989)**	**(386)**	**(2,166)**
Add back			
Impairment of intangible	—	—	**1,077**
Amortisation of intangible assets	**95**	**96**	**187**
Share-based payments charge	**72**	**43**	**86**
Restructuring costs	**215**	—	**55**
Adjusted EBITA	**(607)**	**(247)**	**(761)**
Depreciation	**93**	**126**	**237**
Adjusted EBITDA	**(514)**	**(121)**	**(524)**

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 2013**	Unaudited 6 month period ended 30 June 2012	Audited 12 month period ended 31 December 2012
Issued ordinary shares at 1 January	**211,241,086**	107,313,200	107,313,200
Effect of shares issued	**1,369,661**	449,275	27,105,722
Weighted average number of shares at end of period	**212,610,747**	107,762,475	134,418,922
Loss for the period	**(1,199,000)**	(652,000)	(2,583,000)
Basic loss per share in pence	**(0.56)**	(0.61)	(1.92)
Diluted loss per share in pence	**(0.56)**	(0.61)	(1.92)

4 Trade and other receivables

	Unaudited 30 June 2013 £000	Unaudited 30 June 2012 £000	Audited 31 December 2012 £000
Trade receivables	**3,255**	3,323	3,902
Other receivables	**155**	87	159
Prepayments and accrued income	**288**	334	296
	3,698	3,744	4,357

Notes

(forming part of the financial statements)

5 Trade and other payables

	Unaudited 30 June 2013 £000	Unaudited 30 June 2012 £000	Audited 31 December 2012 £000
Trade payables	**122**	413	164
Social security and other taxes	**741**	948	912
Other creditors	**592**	677	389
Accruals and deferred income	**1,577**	1,015	1,225
	3,032	3,053	2,690

6 Intangible Assets

The intangible assets balance at 30 June 2013 of £6,733,000 includes an amount of £5,852,000 relating to goodwill acquired through business combinations. Impairment of this balance has been assessed as at 30 June 2013 and no adjustment was considered necessary. The Directors believe the assumptions used in testing impairment at 31 December 2012 are still valid and have not materially changed. These assumptions will continue to be reassessed on a six monthly basis.

Directors

AH Reeves – Executive Chairman

R Kirpalani – Group Finance Director

ME Jackson – Non-executive Director

Q Spratt- Non-executive Director

RH Eades – Non-executive Director (resigned 31 May 2013)

Advisers

Broker/Nomad

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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 2013
Announcement of final results	April 2014
Annual report to shareholders	April 2014
Annual General Meeting	May 2014