

Kellan Group plc
Half year interim report 2014

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 2014, the Group achieved year on year net fee income (“NFI”) growth of 6% with £3.9 million compared with £3.7 million in H1 2013.
- Operating profit for H1 2014 of £0.1 million compared with a loss of £1.0 million in H1 2013.
- Increased savings made by streamlining administrative expenses (exclusive of impairment), resulting in an 18.6% reduction against the comparable period in the prior year and an 8.2% reduction against second half of 2013.
- Adjusted EBITDA profit of £0.3 million (six months ended June 2013: loss of £0.5 million) – see note 2.
- Cash inflow from operating activities of £1.1 million (six months ended June 2013: £0.3 million).

Operational summary

- Ongoing investment in I.T systems and processes to improve efficiency and increase performance.
- 19% year on year improvement in NFI per fee earner.
- Strategic closure/consolidation of five branches into two new offices.

RK

- Improved performance across H1 with 8.2% uplift in NFI compared with H2 2013.

Berkeley Scott

- H1 2014 NFI of £2.2million compared with £2.1million in H1 2013
- Significant market engagement with a number of large PSL wins as well as new business from previously dormant accounts.

Quantica

- Quantica Technology saw new strategic appointments in two new business operations managers to drive the London business forward.
- Headcount also rose in the already established Birmingham and Elland offices with key new hires whilst also monopolising other areas of growth.
- Significant client win in Search and Selection; KP Snacks
- Business well positioned for further growth in H2 2014.

Executive Chairman's Statement

2014 was predicted to be a year of opportunity for the UK recruitment industry. Each brand within the Kellan Group has taken full advantage of this in H1, by engaging and retaining new clients, developing candidate relationships and appointing new, experienced managers to drive the businesses forward and ensure maximum efficiency and profitability. I am pleased to report year on year NFI growth of 6% for H1 2014 with £3.9 million in H1 2014 compared with £3.7 million in H1 2013.

The restructure of our property portfolio with the strategic closure/consolidation of five offices during 2014 and investment in new premises has also enabled a realigned focus on core growing markets in key locations.

As a result of the above, and a continued focus on cost control, administrative expenses reduced by 18.6% compared to H1 last year, the group achieved an operating profit of £0.1 million in H1 2014 compared with a loss of £1.0 million during H1 2013. Adjusted EBITDA has improved from a loss of £0.5 million in H1 2013 to a profit of £0.3 million in H1 2014.

This is a significant achievement for the Group and evidence of the commitment of a dedicated and committed workforce, with NFI per fee earner increasing by 19% compared to H1 last year and 7% compared to H2 2013.

We are determined to build on the success achieved during the first half of 2014, with continual investment in our people and our I.T. infrastructure in order to ensure that we are best equipped to take advantage of the opportunities expected to arise from the improving recruitment industry and UK economy as a whole.

I am delighted with the H1 results and look forward to the future accomplishments of each of the brands within the Group.

My thanks go to all the Kellan Group staff for their dedication and commitment and also to our investors for their continued support and belief in our business.

Tony Reeves
Executive Chairman

Consolidated Statement of Comprehensive Income

For the 6 months ended 30 June 2014

	Note	Unaudited 6 months ended 30 June 2014 £000	Unaudited 6 months ended 30 June 2013 £000	Audited 12 months ended 31 December 2013 £000
Revenue		10,669	11,085	23,383
Cost of sales		(6,723)	(7,348)	(15,722)
Net Fee Income		3,946	3,737	7,661
Administrative expenses		(3,847)	(4,726)	(8,918)
Operating profit/(loss) before impairment charge		99	(989)	(1,155)
Impairment of goodwill and intangibles		—	—	(102)
Operating profit/(loss)	2	99	(989)	(1,257)
Financial income		3	12	19
Financial expenses		(176)	(222)	(480)
Loss before tax		(74)	(1,199)	(1,718)
Tax credit		—	—	—
Loss for the period		(74)	(1,199)	(1,718)
Attributable to:				
Equity holders of the parent		(74)	(1,199)	(1,718)
Basic loss per share in pence	3	(0.02)	(0.56)	(0.66)
Diluted loss per share in pence	3	(0.02)	(0.56)	(0.66)

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 2014

	Note	Unaudited 30 June 2014 £000	Unaudited 30 June 2013 £000	Audited 31 December 2013 £000
Non-current assets				
Property, plant and equipment		324	259	249
Intangible assets	6	6,440	6,733	6,536
		6,764	6,992	6,785
Current assets				
Trade and other receivables	4	3,318	3,698	3,932
Cash and cash equivalents		190	216	818
		3,508	3,914	4,750
Total assets		10,272	10,906	11,535
Current liabilities				
Loans and borrowings		1,043	3,072	2,510
Trade and other payables	5	2,929	3,032	2,749
Other financial liabilities		—	4	—
Provisions		161	134	189
		4,133	6,242	5,448
Non-current liabilities				
Loans and borrowings		2,978	2,084	2,957
Provisions		2	41	4
		2,980	2,125	2,961
Total liabilities		7,113	8,367	8,409
Net assets		3,159	2,539	3,126
Equity attributable to equity holders of the parent				
Share capital		4,273	4,261	4,273
Share premium		14,680	13,772	14,647
Warrant reserve		36	36	36
Convertible debt reserve		168	31	172
Capital redemption reserve		2	2	2
Retained earnings		(16,000)	(15,563)	(16,004)
Total equity		3,159	2,539	3,126

Consolidated Statement of changes in equity

for the 6 months ended 30 June 2014

	Unaudited Share capital £000	Unaudited Share premium £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 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
Total comprehensive loss for the 6 month period ended 31 December 2013	—	—	—	—	—	(519)	(519)
Issue of shares	12	875	—	—	—	—	887
Share-based payment adjustment	—	—	—	—	—	78	78
Equity component of convertible loan notes	—	—	—	141	—	—	141
Balance at 31 December 2013	4,273	14,647	36	172	2	(16,004)	3,126
Total comprehensive loss for the 6 month period ended 30 June 2014	—	—	—	—	—	(74)	(74)
Issue of shares	—	33	—	—	—	—	33
Share based payment	—	—	—	—	—	78	78
Equity component of convertible loan notes	—	—	—	(4)	—	—	(4)
Balance at 30 June 2014	4,273	14,680	36	168	2	(16,000)	3,159

Consolidated Statement of Cash Flows

for the 6 months ended 30 June 2014

	Unaudited 6 months ended 30 June 2014 £000	Unaudited 6 months ended 30 June 2013 £000	Audited 12 months ended 31 December 2013 £000
Cash flows from operating activities			
Loss for the period	(74)	(1,199)	(1,718)
Adjustments for:			
Depreciation and amortisation	167	188	376
Interest income	(3)	(3)	—
Interest paid	126	189	340
Amortisation of loan cost	21	45	72
Net gain on measurement of interest rate swap to fair value	—	(9)	(13)
Impairment of goodwill	—	—	102
Equity settled convertible loan interest	29	33	62
Equity settled share-based payment	78	72	150
	344	(684)	(629)
Decrease in trade and other receivables	614	659	425
Increase in trade and other payables	180	350	67
(Decrease)/Increase in provisions	(29)	(5)	14
Net cash inflow/(outflow) from operating activities	1,109	320	(123)
Cash flows from investing activities			
Interest received	3	3	—
Acquisition of property, plant and equipment	(147)	(26)	(110)
Net cash outflow from investing activities	(144)	(23)	(110)
Cash flows from financing activities			
Repayment of invoice discounting balance	(1,467)	(723)	(275)
Interest paid and loan costs	(126)	(189)	(340)
Repayment of term loan borrowings	—	(420)	(840)
Proceeds from other loans	—	1,180	1,000
Net Proceeds of convertible loan notes	—	—	600
Proceeds from the issue of share capital	—	—	900
Debt and equity issue cost	—	—	(65)
Net cash (outflow)/inflow from financing activities	(1,593)	(152)	980
Net Increase/(decrease) in cash and cash equivalents	(628)	145	747
Cash and cash equivalents at the beginning of the period	818	71	71
Cash and cash equivalents at the end of the period	190	216	818

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 2014. The comparative half year interim results are for the six months ended 30 June 2013. The comparative year's results are for the twelve months ended 31 December 2013.

Financial information

The financial information for the six months ended 30 June 2014 and the six months ended 30 June 2013 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 2013 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 auditor's 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 ability to refinance the convertible loan notes of £1.36 million repayable in February 2015 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.

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 2013 which are also the policies that are expected to be applicable at 31 December 2014.

Based on the Group's post year end trading expectations and associated cash flow forecasts as at 31 December 2013, the Directors considered the cash requirements of the Company and concluded the Group would be able to operate within its existing facilities for the twelve months ending 31 December 2014.

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 profit/(loss) to adjusted EBITA and adjusted EBITDA

	Unaudited 6 month period ended 30 June 2014 £000	Unaudited 6 month period ended 30 June 2013 £000	Audited 12 month period ended 31 December 2013 £000
Operating profit/(loss) as per accounts	99	(989)	(1,257)
Add back			
Impairment of intangible	—	—	102
Amortisation of intangible assets	95	95	191
Share-based payments charge	78	72	150
Restructuring costs	—	215	276
Adjusted EBITA	272	(607)	(538)
Depreciation	72	93	185
Adjusted EBITDA	344	(514)	(353)

3 Earnings per share

Basic earnings per share

The calculation of basic earnings per share is as follows:

	Unaudited 6 month period ended 30 June 2014	Unaudited 6 month period ended 30 June 2013	Audited 12 month period ended 31 December 2013
Weighted average number of shares			
Issued ordinary shares at 1 January	334,667,538	211,241,086	211,241,086
Effect of shares issued	1,220,068	1,369,661	48,565,965
Weighted average number of shares at end of period	335,887,606	212,610,747	259,807,051
Loss for the period	(74,000)	(1,199,000)	(1,718,000)
Basic loss per share in pence	(0.02)	(0.56)	(0.66)
Diluted loss per share in pence	(0.02)	(0.56)	(0.66)

4 Trade and other receivables

	Unaudited 30 June 2014 £000	Unaudited 30 June 2013 £000	Audited 31 December 2013 £000
Trade receivables	3,019	3,255	3,589
Other receivables	69	155	156
Prepayments and accrued income	230	288	187
	3,318	3,698	3,932

Notes

(forming part of the financial statements)

5 Trade and other payables

	Unaudited 30 June 2014 £000	Unaudited 30 June 2013 £000	Audited 31 December 2013 £000
Trade payables	146	122	48
Social security and other taxes	718	741	801
Other creditors	487	592	468
Accruals and deferred income	1,578	1,577	1,432
	2,929	3,032	2,749

6 Intangible Assets

The intangible assets balance at 30 June 2014 of £6,440,000 includes an amount of £5,750,000 relating to goodwill acquired through business combinations. Impairment of this balance has been assessed as at 30 June 2014 and no adjustment was considered necessary. The Directors believe the assumptions used in testing impairment at 31 December 2013 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**Advisers****Broker/Nomad**Sanlam Securities UK
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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.

Financial calendar

Financial year end	31 December 2014
Announcement of final results	March 2015
Annual report to shareholders	March 2015
Annual General Meeting	May 2015

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.

