Kellan Group plc

Half year unaudited interim report 2015

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

Kellan Group plc (the "Group" or the "Company" or "Kellan") is a market leading recruitment business operating across a wide range of functional disciplines and industry sectors. The Company joined the AIM market in December 2004.

Financial Summary

- In the six months ended 30 June 2015, the Group achieved year on year sales growth of 8% with £11.5 million, compared with £10.7 million in H1 2014; while Net Fee Income (NFI) declined from £3.9 million in H1 2014 to £3.7 million in H1 2015.
- Operating profit for H1 2015 of £0.3 million, compared with £0.1 million in H1 2014 and £0.16 million in H2 2014.
- Continuous focus on overheads with administrative expenses reduced by 13% to £3.4 million over H1 2015, compared with £3.8 million during the comparable period in H1 2014 and £3.9 million in H2 2014.
- Profit of £0.2 million during H1 2015, compared with a loss of £0.1 million during the comparable period last year.
- Adjusted EBITDA profit of £0.4 million during H1 2015 compared with £0.3 million during H1 2014.
- Basic earnings per share of 0.06p compared with loss per share of (0.02p) in H1 2014.

Operational summary

- Berkeley Scott continues to be the leader in hospitality and leisure recruitment markets. Temporary recruitment grew year-on-year across all locations.
- The RK business saw the benefits of consolidation and restructuring carried out in 2014. Continued success with SME's coupled with penetration in large PLC businesses.
- Significant new client wins in Quantica including Easyjet, Zurich and Haven Power.
- Continuous investment in IT systems with new fleet of front end hardware installed for every member of staff. A back-end infrastructure project is ongoing to further strengthen the existing robust environment.
- Upgraded CRM system to improve efficiency due to go live in Q4 2015.
- Strategic closure of loss making Midlands operation to focus investment in better performing areas.

Executive Chairman's Statement

I am pleased to announce that the Group has continued on its upward trajectory over the past six months. Group sales have increased by 8% from £10.7 million in H1 2014 to £11.5 million in H1 2015, while administrative expenses have reduced by 13% from £3.8 million in H1 2014 to £3.4 million in H1 2015. Overall profit for H1 2015 of £187,000 compared with a loss of (£74,000) in H1 2014 and Adjusted EBITDA for H1 2015 of £382,000 compared with £344,000 in H1 2014.

During the year, the Group carried out a review of the outstanding options. After considering the number of options that are expected to vest, a favourable share based payment adjustment of £150,000 has been included in administrative expenses in the H1 2015 accounts.

The business has had many client wins and is well positioned to deliver improved results in H2 2015. The Board has continued to invest in its IT infrastructure to ensure the Group's fee earners are properly equipped to take advantage of the improving recruitment climate. All staff have received new front-end hardware with an upgraded CRM system due to go live in Q4 2015.

Berkeley Scott continues to be the leader in hospitality and leisure markets. Temporary recruitment services saw year-on-year growth over H1 2015 across all locations with the business taking advantage of a number of PSL wins and continuous focus on the candidate short chef market. The branded restaurant market was strong in permanent recruitment, with a number of key clients requiring assistance with new openings.

The RK business has seen continued success within SME businesses on permanent and contract teams across all locations. This has been coupled with pockets of breakthrough success within large PLC and shared service environments such as Sodexo, DWP, Co-Op, Provident and Virgin Media.

Quantica has developed its market offering to focus in the IT and increasingly the Telecoms space in order to increase professional contractor numbers.

My sincerest thanks goes to our loyal staff for their uncompromising efforts, all of our customers, and to our shareholders for their continued support.

Richard Ward
Executive Chairman

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2015

	Note	**Unaudited 6 months ended 30 June 2015 £000**	Unaudited 6 months ended 30 June 2014 £000	Audited 12 months ended 31 December 2014 £000
Revenue		**11,492**	10,669	22,963
Cost of sales		**(7,788)**	(6,723)	(14,969)
Net Fee Income		**3,704**	3,946	7,994
Administrative expenses		**(3,363)**	(3,847)	(7,735)
Operating profit	2	**341**	99	259
Financial income		**2**	3	5
Financial expenses		**(156)**	(176)	(319)
Profit/(Loss) before tax		**187**	(74)	(55)
Tax credit		**—**	—	—
Profit/(Loss) for the period		**187**	(74)	(55)
Attributable to:				
Equity holders of the parent		**187**	(74)	(55)
Basic profit/(loss) per share in pence	3	**0.06**	(0.02)	(0.02)
Diluted profit/(loss) per share in pence	3	**0.06**	(0.02)	(0.02)

The above results relate to continuing operations.

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

Consolidated Statement of Financial Position

as at 30 June 2015

	Note	**Unaudited 30 June 2015 £000**	Unaudited 30 June 2014 £000	Audited 31 December 2014 £000
Non-current assets				
Property, plant and equipment		**307**	324	332
Intangible assets	6	**6,237**	6,440	6,345
		6,544	6,764	6,677
Current assets				
Trade and other receivables	4	**3,733**	3,318	3,855
Cash and cash equivalents		**219**	190	1,192
		3,952	3,508	5,047
Total assets		**10,496**	10,272	11,724
Current liabilities				
Loans and borrowings		**845**	1,043	3,753
Trade and other payables	5	**3,289**	2,929	2,949
Provisions		**128**	161	154
		4,262	4,133	6,856
Non-current liabilities				
Loans and borrowings		**2,993**	2,978	1,660
Provisions		**2**	2	2
		2,995	2,980	1,662
Total liabilities		**7,257**	7,113	8,518
Net assets		**3,239**	3,159	3,206
Equity attributable to equity holders of the parent				
Share capital		**4,274**	4,273	4,274
Share premium		**14,746**	14,680	14,711
Warrant reserve		**—**	36	36
Convertible debt reserve		**170**	168	164
Capital redemption reserve		**2**	2	2
Retained earnings		**(15,953)**	(16,000)	(15,981)
Total equity		**3,239**	3,159	3,206

Consolidated Statement of changes in equity

for the six months ended 30 June 2015

	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 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**
Total comprehensive profit for the 6 month period ended 31 December 2014	—	—	—	—	—	19	19
Issue of shares	1	31	—	—	—	—	32
Share-based payment	—	—	—	—	—	—	—
Equity component of convertible loan notes	—	—	—	(4)	—	—	(4)
Balance at 31 December 2014	**4,274**	**14,711**	**36**	**164**	**2**	**(15,981)**	**3,206**
Total comprehensive profit for the 6 month period ended 30 June 2015	—	—	—	—	—	187	188
Issue of shares	—	35	—	—	—	—	35
Share based payment adjustment	—	—	—	—	—	(150)	(150)
Equity component of convertible loan notes	—	—	(36)	6	—	(9)	(39)
Balance at 30 June 2015	**4,274**	**14,746**	**—**	**170**	**2**	**(15,953)**	**3,239**

In February 2015, the warrants in relation to the 2010 convertible loan notes lapsed.

Consolidated Statement of Cash Flows

for the six months ended 30 June 2015

	Unaudited 6 months ended 30 June 2015 £000	Unaudited 6 months ended 30 June 2014 £000	Audited 12 months ended 31 December 2014 £000
Cash flows from operating activities			
Profit/(loss) for the period	**187**	**(74)**	(55)
Adjustments for:			
Depreciation and amortisation	**171**	**167**	339
Interest income	**(2)**	**(3)**	—
Interest paid	**129**	**126**	**235**
Amortisation of loan cost	**19**	**21**	**27**
Equity settled convertible loan interest	**7**	**29**	**57**
Equity settled share-based payment/(adjustment)	**(150)**	**78**	**78**
	361	**344**	**681**
Decrease in trade and other receivables	**122**	**614**	**77**
Increase in trade and other payables	**333**	**180**	**189**
Decrease in provisions	**(26)**	**(29)**	**(37)**
Net cash inflow from operating activities	**790**	**1,109**	**910**
Cash flows from investing activities			
Interest received	**2**	**3**	—
Acquisition of property, plant and equipment	**(37)**	**(147)**	**(231)**
Net cash outflow from investing activities	**(35)**	**(144)**	**(231)**
Cash flows from financing activities			
Repayment of invoice discounting balance	**(1,584)**	**(1,467)**	**(81)**
Interest paid and loan costs	**(129)**	**(126)**	**(224)**
Net proceeds of convertible loan notes	**(15)**	—	—
Net cash outflow from financing activities	**(1,728)**	**(1,593)**	**(305)**
Net (decrease) / increase in cash and cash equivalents	**(973)**	**(628)**	**374**
Cash and cash equivalents at the beginning of the period	**1,192**	**818**	**818**
Cash and cash equivalents at the end of the period	**219**	**190**	**1,192**

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 2015. The comparative half year interim results are for the six months ended 30 June 2014. The comparative year's results are for the twelve months ended 31 December 2014.

Financial information

The financial information for the six months ended 30 June 2015 and the six months ended 30 June 2014 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 2014 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. The Directors recognise that there is a general sensitivity to the wider macro-economic environment, however, based on the ongoing support from major shareholders, current market outlook and management's trading expectations; the Directors are confident that the Group will be able to meet its liabilities as they fall due for the foreseeable future. It is on this basis that the Directors consider it appropriate to prepare the Group's financial statements on a going concern basis.

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 2014 which are also the policies that are expected to be applicable at 31 December 2015.

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

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 2015 £000	Unaudited 6 month period ended 30 June 2014 £000	Audited 12 month period ended 31 December 2014 £000
Operating profit/loss as per accounts	**341**	99	259
Add back			
Amortisation of intangible assets	**108**	95	191
Share-based payments (adjustment) / charge	**(150)**	78	78
Restructuring costs	**20**	—	51
Adjusted EBITA	**319**	272	579
Depreciation	**63**	72	148
Adjusted EBITDA	**382**	344	727

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 2015**	Unaudited 6 month period ended 30 June 2014	Audited 12 month period ended 31 December 2014
Issued ordinary shares at beginning of period	**337,894,529**	334,667,538	334,667,538
Effect of shares issued	**1,750,532**	1,220,068	2,040,132
Weighted average number of shares at end of period	**339,154,527**	335,887,606	336,707,670
Profit/(Loss) for the period	**187,000**	(74,000)	(55,000)
Basic profit/(loss) per share in pence	**0.06**	(0.02)	(0.02)
Diluted profit/(loss) per share in pence	**0.06**	(0.02)	(0.02)

The effect of the conversion of the loan notes and the outstanding Employee options has been determined as non-dilutive. As such they have been excluded from the diluted earnings per share calculation.

4 Trade and other receivables

	Unaudited 30 June 2015 £000	Unaudited 30 June 2014 £000	Audited 31 December 2014 £000
Trade receivables	**3,429**	3,019	3,586
Other receivables	**23**	69	23
Prepayments and accrued income	**281**	230	246
	3,733	3,318	3,855

Notes

(forming part of the financial statements)

5 Trade and other payables

	Unaudited 30 June 2015 £000	Unaudited 30 June 2014 £000	Audited 31 December 2014 £000
Trade payables	**57**	146	54
Social security and other taxes	**902**	718	997
Other creditors	**910**	487	362
Accruals and deferred income	**1,420**	1,578	1,536
	3,289	2,929	2,949

6 Intangible Assets

The intangible assets balance at 30 June 2015 of £6,237,000 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 2015 and no adjustment was considered necessary. The Directors believe the assumptions used in testing impairment at 31 December 2014 are still valid and have not materially changed. These assumptions will continue to be reassessed on a six monthly basis.

Directors
R Ward – Executive Chairman
R Kirpalani – Group Finance Director
M Darby – Chief Operating Officer
ME Jackson – Non-executive Director

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Shareholder information
London Stock Exchange
The ordinary shares of the Company are traded on the AIM 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 2015
Announcement of final results	March 2016
Annual report to shareholders	March 2016
Annual General Meeting	May 2016