# Kellan Group plc

# Half year unaudited interim report 2016

**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.

**Financial Summary**

- In the six months ended 30 June 2016, the Group's year-on-year sales declined by 13% to £10.0 million, compared with £11.5 million in H1 2015; while Net Fee Income (NFI) declined by 10% from £3.7 million in H1 2015 to £3.3 million in H1 2016.
- Continuous focus on overheads with administrative expenses reduced by 2% to £3.3 million over H1 2016, compared with £3.4 million during the comparable period in H1 2015 and £3.5 million in H2 2015.
- Adjusted EBITDA profit (Note 2) of £0.2 million during H1 2016 compared with £0.4 million during H1 2015.
- Loss of £0.1 million during H1 2016, compared with a profit of £0.2 million during the comparable period last year. Excluding the effect of the £150,000 favourable share based payment adjustment in H1 2015, year-on-year earnings before tax declined from break even in H1 2015 to a loss of £0.1 million in H1 2016.

**Operational summary**

- Berkeley Scott continues to be the leader in hospitality and leisure recruitment markets. January saw Berkeley Scott return to the Birmingham market, and the team have performed well.
- The RK business has continued to grow and has seen increased success within the construction, manufacturing and practice markets.

**<u>Executive Chairman's Statement</u>**

The results for the first six months of 2016 have been disappointing, although the Group has had success in securing new clients and growing some areas of the business. Group sales have decreased by 13% from £11.5 million in H1 2015 to £10.0 million in H1 2016, while administrative expenses have reduced by 2% from £3.4 million in H1 2015 to £3.3 million in H1 2016. Overall loss for H1 2016 of £141,000 compared with a profit of £187,000 in H1 2015. Excluding the effect of the £150,000 favourable share-based payment adjustment in H1 2015, year-on-year earnings before tax declined from break even in H1 2015 to a loss of £0.1 million in H1 2016. Adjusted EBITDA for H1 2016 of £211,000 compared with £382,000 in H1 2015.

Berkeley Scott's temporary business was flat year-on-year with the new Living Wage impacting H1 performance. The Tourism, Hospitality and Leisure sector has one of the highest proportion of jobs paying the minimum wage of any sector in the UK. Berkeley Scott saw several major clients re-evaluate their staffing levels, pay structures and usage of temporary workers to negate the impact of the minimum wage on their business. January saw Berkeley Scott return to the Birmingham market to leverage many of our national contract catering clients who have been supportive of this Midlands opening.

Berkeley Scott's permanent business NFI declined by 10% on H1 2015 with the London market proving to be more challenging than anticipated with NFI from London declining by 14% on H1 2015.

Following careful evaluation of our performance, the Berkeley Scott business was restructured with Mark Darby becoming directly responsible and managing Berkeley Scott London which, as a whole, was one of the main contributors to the underperformance. The Directors believe it is very important that this large part of the business is turned around over H2.

The RK business continues to grow and has seen increased success within property, construction and manufacturing sectors. A focus on practice markets has delivered promising results, particularly in Lancashire.

Quantica Technology has seen its NFI decline by £290,000; of which £127,000 relates to the closure of the Birmingham branch in Q2 2015. The retail division has benefited from the rise of new hybrid roles in the market and has delivered growth on the same period last year. Quantica Search and Selection has re-established relationships with PSL clients and won new SME business.

Uncertainty surrounding the EU referendum has been a distraction in H1 of 2016 with many clients taking longer to make decisions. We have also seen some general slowness post referendum in job flow and candidate attraction.

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

**Richard Ward**
**Executive Chairman**

# Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2016

| | Note | **Unaudited 6 months ended 30 June 2016 £000** | Unaudited 6 months ended 30 June 2015 £000 | Audited 12 months ended 31 December 2015 £000 |
|---|---|---|---|---|
| **Revenue** | | **9,985** | 11,492 | 24,864 |
| Cost of sales | | **(6,650)** | (7,788) | (17,163) |
| **Net Fee Income** | | **3,335** | 3,704 | 7,701 |
| Administrative expenses | | **(3,304)** | (3,363) | (6,877) |
| **Operating profit** | 2 | **31** | 341 | 824 |
| Financial income | | — | 2 | 8 |
| Financial expenses | | **(172)** | (156) | (406) |
| **(Loss)/Profit before tax** | | **(141)** | 187 | 426 |
| Tax credit | | — | — | — |
| **(Loss)/Profit for the period** | | **(141)** | 187 | 426 |
| **Attributable to:** | | | | |
| Equity holders of the parent | | **(141)** | 187 | 426 |
| **(Loss)/Profit per share in pence** | | | | |
| Basic | 3 | **(0.04)** | 0.06 | 0.13 |
| Diluted | 3 | **(0.04)** | 0.06 | 0.11 |

The above results relate to continuing operations.

There are no other items of comprehensive income for the period or for the comparative periods.

# Consolidated Statement of Financial Position

as at 30 June 2016

| | Note | **Unaudited 30 June 2016 £000** | Unaudited 30 June 2015 £000 | Audited 31 December 2015 £000 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | | **338** | 307 | 382 |
| Intangible assets | 6 | **6,021** | 6,237 | 6,129 |
| | | **6,359** | 6,544 | 6,511 |
| **Current assets** | | | | |
| Trade and other receivables | 4 | **3,288** | 3,733 | 4,415 |
| Cash and cash equivalents | | **315** | 219 | 1,708 |
| | | **3,603** | 3,952 | 6,123 |
| Total assets | | **9,962** | 10,496 | 12,634 |
| **Current liabilities** | | | | |
| Loans and borrowings | | **2,118** | 845 | 2,887 |
| Trade and other payables | 5 | **2,639** | 3,289 | 3,056 |
| Provisions | | **18** | 128 | 67 |
| | | **4,775** | 4,262 | 6,010 |
| **Non-current liabilities** | | | | |
| Loans and borrowings | | **1,776** | 2,993 | 3,095 |
| Provisions | | **65** | 2 | 42 |
| | | **1,841** | 2,995 | 3,137 |
| Total liabilities | | **6,616** | 7,257 | 9,147 |
| **Net assets** | | **3,346** | 3,239 | 3,487 |
| **Equity attributable to equity holders of the parent** | | | | |
| Share capital | | **4,274** | 4,274 | 4,274 |
| Share premium | | **14,746** | 14,746 | 14,746 |
| Convertible debt reserve | | **170** | 170 | 170 |
| Capital redemption reserve | | **2** | 2 | 2 |
| Retained earnings | | **(15,846)** | (15,953) | (15,705) |
| **Total equity** | | **3,346** | 3,239 | 3,487 |

# Consolidated Statement of Changes in Equity

for the six months ended 30 June 2016

| | 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 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 | 187 |
| Issue of shares | — | 35 | — | — | — | — | 35 |
| Share based payment | — | — | — | — | — | (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** |
| Total comprehensive profit for the 6 month period ended 31 December 2015 | — | — | — | — | — | 239 | 239 |
| Equity component of convertible loan notes | — | — | — | — | — | 9 | 9 |
| **Balance at 31 December 2015** | **4,274** | **14,746** | **—** | **170** | **2** | **(15,705)** | **3,487** |
| Total comprehensive loss for the 6 month period ended 30 June 2016 | — | — | — | — | — | (141) | (141) |
| **Balance at 30 June 2016** | **4,274** | **14,746** | **—** | **170** | **2** | **(15,846)** | **(3,346)** |

# Consolidated Statement of Cash Flows

for the six months ended 30 June 2016

| | **Unaudited 6 months ended 30 June 2016 £000** | Unaudited 6 months ended 30 June 2015 £000 | Audited 12 months ended 31 December 2015 £000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| (Loss)/Profit for the period | **(141)** | 187 | 426 |
| Adjustments for: | | | |
| Depreciation and amortisation | **157** | 171 | 327 |
| Interest income | — | (2) | — |
| Interest paid | **138** | 129 | 370 |
| Amortisation of loan cost | **10** | 19 | 29 |
| Equity settled convertible loan interest | **24** | 7 | 7 |
| Equity settled share-based payment/(adjustment) | — | (150) | (150) |
| | **188** | 361 | 1,009 |
| Decrease/(Increase) in trade and other receivables | **1,127** | 122 | (560) |
| (Decrease)/Increase in trade and other payables | **(417)** | 333 | 108 |
| Decrease in provisions | **(26)** | (26) | (47) |
| **Net cash inflow from operating activities** | **872** | 790 | 510 |
| **Cash flows from investing activities** | | | |
| Interest received | — | 2 | — |
| Acquisition of property, plant and equipment | **(5)** | (37) | (161) |
| **Net cash outflow from investing activities** | **(5)** | (35) | (161) |
| **Cash flows from financing activities** | | | |
| Repayment of invoice discounting balance | **(2,122)** | (1,584) | 458 |
| Interest paid and loan costs | **(138)** | (129) | (276) |
| Repayment of term loan borrowings | — | (15) | (15) |
| **Net cash inflow/(outflow) from financing activities** | **(2,260)** | (1,728) | 167 |
| Net (decrease) / increase in cash and cash equivalents | **(1,393)** | (973) | 516 |
| Cash and cash equivalents at the beginning of the period | **1,708** | 1,192 | 1,192 |
| **Cash and cash equivalents at the end of the period** | **315** | 219 | 1,708 |

# 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 2016. The comparative half year interim results are for the six months ended 30 June 2015. The comparative year's results are for the twelve months ended 31 December 2015.

***Financial information***

The financial information for the six months ended 30 June 2016 and the six months ended 30 June 2015 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 2015 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.

***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 2015 which are also the policies that are expected to be applicable at 31 December 2016.

Based on the Group's latest trading expectations and associated cash flow forecasts, the directors have considered the cash requirements of the Company and, subject to the refinancing or conversion of the £1.35m loan notes which are repayable in February 2017, have concluded that the Group will be able to operate within its existing facilities for the next twelve months. These facilities comprise an invoice discounting facility of up to £4 million dependent on trading levels. The Directors also recognise that there is a general sensitivity to the wider macro-economic environment which may necessitate a requirement for additional funding. However, based on the ongoing support from major shareholders 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.

# 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 2016 £000** | Unaudited 6 month period ended 30 June 2015 £000 | Audited 12 month period ended 31 December 2015 £000 |
|---|---|---|---|
| **Operating profit as per accounts** | **31** | 341 | 824 |
| **Add back** | | | |
| Amortisation of intangible assets | **108** | 108 | 216 |
| Share-based payments adjustment | **—** | (150) | (150) |
| Restructuring costs | **23** | 20 | 20 |
| Adjusted EBITA | **162** | 319 | 910 |
| Depreciation | **49** | 63 | 111 |
| **Adjusted EBITDA** | **211** | 382 | 1,021 |

## 3 Loss per share

***Basic loss per share***

The calculation of basic (loss)/earnings per share is as follows:

| **Weighted average number of shares** | **Unaudited 6 month period ended 30 June 2016** | Unaudited 6 month period ended 30 June 2015 | Audited 12 month period ended 31 December 2015 |
|---|---|---|---|
| Issued ordinary shares at beginning of period | 339,645,061 | 337,894,529 | 337,894,529 |
| Effect of shares issued | — | 1,750,532 | 1,506,605 |
| Weighted average number of shares at end of period | 339,645,061 | 339,154,527 | 339,401,134 |
| (Loss)/Profit for the period | **(141,000)** | 187,000 | 426,000 |
| Basic (loss)/profit per share in pence | **(0.04)** | 0.06 | 0.13 |
| Diluted (loss)/ profit per share in pence | **(0.04)** | 0.06 | 0.11 |

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

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 2016 £000** | Unaudited 30 June 2015 £000 | Audited 31 December 2015 £000 |
|---|---|---|---|
| Trade receivables | **2,923** | 3,429 | 4,131 |
| Other receivables | **23** | 23 | 21 |
| Prepayments and accrued income | **342** | 281 | 263 |
| | **3,288** | 3,733 | 4,415 |

# Notes

(forming part of the financial statements)

**5 Trade and other payables**

| | **Unaudited 30 June 2016 £000** | Unaudited 30 June 2015 £000 | Audited 31 December 2015 £000 |
|---|---|---|---|
| Trade payables | **113** | 57 | 74 |
| Social security and other taxes | **755** | 902 | 965 |
| Other creditors | **604** | 910 | 589 |
| Accruals and deferred income | **1,167** | 1,420 | 1,428 |
| | **2,639** | 3,289 | 3,056 |

**6 Intangible Assets**

The intangible assets balance at 30 June 2016 of £6,021,000 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 2016 and no adjustment was considered necessary. The Directors believe the assumptions used in testing impairment at 31 December 2015 are still valid and have not materially changed. These assumptions will continue to be reassessed on a six monthly basis.

**7 Availability of Interim Results**

The half year results for the six months to 30 June 2016 will not be posted to shareholders but will be available on the Company's website, www.kellangroup.co.uk.

**Directors**
**R Ward** – Executive Chairman
**R Kirpalani** – Group Finance Director
**M Darby** – Chief Operations Officer
**M E Jackson** – Non-executive Director

**Advisers**
**Broker/Nomad**
Allenby Capital Limited
3 St Helen's Place
London
EC3A 6AB

**Bank**
Barclays Bank plc
1 Churchill Place
London
E14 5HP

**Auditors**
BDO LLP
55 Baker Street
London
W1U 7EU

**Company Secretary**
IMCO Secretary Ltd
2 Wellington Place
Leeds
LS1 4BZ

**Solicitors**
Fieldfisher LLP
Riverbank House
2 Swan Lane
London
EC4R 3TT

**Registrar**
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

**Registered office**
4th Floor
27 Mortimer Street
London
W1T 3BL

**Registered number**
02228050

**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 2016 |
| Announcement of final results | April 2017 |
| Annual report to shareholders | April 2017 |
| Annual General Meeting | May 2017 |