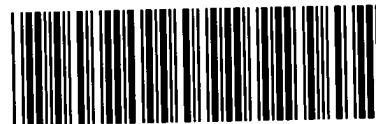


# kellan

**Kellan Group plc**  
**Annual report and accounts 2017**

Kellan Group Plc  
Report and accounts 2017

WEDNESDAY



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04/07/2018  
COMPANIES HOUSE

## Headline figures

- Full year revenue of £22.0 million representing an increase of 0.5% (2016: £21.9 million).
- H2 2017 revenue of £11.7 million grew by 13.7% compared with H1 2017 (£10.3 million); while H2 net fee income (NFI) of £3.4 million grew by 8.0% compared to H1 2017 (£3.2 million).
- Full year adjusted EBITDA (note 2) profit of £1 million compared to a profit of £0.8 million in 2016.
- Operating profit of £0.7 million compared with an operating profit before impairment of £0.4 million in 2016.
- Net profit of £0.4 million compared with a net loss (including non-cash impairment charge) of £2.5 million in 2016, and a net profit of £0.1 million (excluding the non-cash impairment charge of £2.6 million) in 2016.
- Continued streamlining with administrative expenses reduced by 6.7% year-on-year from £6.4 million in 2016 to £5.9 million in 2017.

## Executive Chairman's Statement

Group sales have increased by 0.5% from £21.9 million in 2016 to £22.0 million in 2017, while administrative expenses have reduced by 6.7% from £6.4 million in 2016 to £5.9 million in 2017. The impairment review undertaken in 2017 resulted in no impairment charge (2016: £2.6 million impairment charge (non-cash) in relation to Quantica Group). Excluding the effect of the £2.6 million goodwill impairment in 2016, year-on-year earnings before tax increased from £0.1 million in 2016 to £0.4 million in 2017. Adjusted EBITDA for 2017 of £1.02 million compared with £0.77 million in 2016 is very encouraging.

Berkeley Scott's 2017 NFI grew by 9.7% over 2016 with both temporary and permanent operations seeing growth. The temporary operation for 2017 grew by 13.4% over 2016, and the permanent operation grew by 2.2%. The Birmingham and London offices saw the 2017 NFI grow significantly over 2016, while the Bristol office declined by 17.5% due to a reduced headcount.

NFI from the RK business declined by 32.2% from £1.35 million in 2016 to £0.91 million in 2017. However following changes in senior management in Q1 2017 and local management in H2 2017, the business returned to growth in H2 2017, with NFI increasing 8.6% over H1 2017. Although productivity remains low, the business has shifted focus to develop separate temporary and permanent operations, which positions the business well to grow in 2018 and 2019. The phrase; one step back to achieve two steps forward is relevant here.

NFI from the Quantica business declined by £0.35 million in 2017, although £0.32 million related to the closure of underperforming operations in Leeds and London. While the remaining Technology operation was broadly flat year-on-year, the Retail and Manufacturing operations underperformed. As a result, the Retail operation has been closed and the Manufacturing team was changed through Q4 2017 and Q1 2018.

The Group leveraged its back office support function to generate an added income stream by providing back-office Finance support to businesses. During 2017, the Group generated revenue of £217,000 via this model.

I am very pleased with the impact made to the business by our Managing Director Liam Humphreys, who was appointed in November 2016. Under his leadership, the operational team is demonstrating good signs of growth in Berkeley Scott and positive progress in other divisions. His hands on approach was much needed to provide a clear steer of direction. Overall Group performance to date for 2018, is ahead of Board expectation and I am confident that the changes implemented will lead the Group to increase its revenue in 2018 and beyond.

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



**Richard Ward**  
**Executive Chairman**  
22 March 2018

## Strategic report

### Business Model

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 AIM, a market of the London Stock Exchange, in December 2004.

A review of the business and a detailed explanation of performance and key performance indicators is set out below.

### Business review

The UK recruitment market is providing good opportunities with some specialist sectors doing significantly better than others, the Group has proactively taken the opportunity to ensure it is in the strongest position possible. Business operations are focussed in our core markets being Hospitality & Leisure, Technology and Accounting & Finance. While we also operate in certain other niche areas, our aim is to continue to develop our core businesses in major city centres. The diverse brands within the Group de-risk the overall impact of a potentially inconsistent market, and despite the overall decline in NFI, we saw some strong performances within various parts of our business during 2017.

**Berkeley Scott's** temporary recruitment operation grew NFI by 13.4% from £3.1 million to £3.4 million in 2017. NFI from the Leeds and Manchester offices declined by 5.3% year-on-year, while all other offices delivered good growth. The Birmingham and London businesses performed particularly well and represent significant opportunities for 2018. Our strong track record of delivery and quality saw our volumes increase in most of our large accounts. This, combined with a policy of client diversity and an increased client base, helped us grow most of our teams. A number of operational improvements were identified across the year, which resulted in a 10.4% year-on-year increase in average productivity per fee earner.

NFI from Berkeley Scott's permanent recruitment operation was flat year-on-year at £1.5 million. The management was restructured in early 2017 following the decline in NFI in 2016. As a result of this change, the average fee earners reduced by 23.2% year-on-year, while still delivering the same NFI as 2016. This led to an overall increase in productivity per fee earner of 31.6%. We pursued higher value roles where clients require a higher level of service and knowledge which saw a 5.7% rise in our average fee. We have embarked on a process of narrowing the focus of our people and therefore increasing their levels of specialisation leading to improved fill-rates.

**The RK Group** underperformed in 2017, with NFI declining 32.2% from £1.35 million in 2016 to £0.91 million in 2017. NFI declined significantly in H1 2017 as we implemented a number of changes within the management team. The NFI recovered in H2 2017, with RK Group delivering 8.6% NFI growth in H2 2017 compared to H1 2017.

In addition we changed the strategic focus of a number of individuals in order to develop our capability within the temporary market, moving away from a "Dual Desk" policy. This has led to a consistent growth of temporary/interim work in the second half of the year which will continue to build a secure base for the group.

Whilst the finance recruitment market is highly developed and competitive we are well positioned to continue this trend of growth across 2018

**The Quantica Group's** NFI declined by £0.35 million (41.2%) from £0.84 million in 2016 to £0.49 million in 2017. £0.32 million of this decline relates to the closure of the underperforming Leeds operation in 2016 and the closure of the underperforming London operation in Q1 2017. Although Quantica Group's NFI reduced £0.35 million year-on-year, Quantica's controllable contribution was flat year-on-year. This has led to several managerial changes and a refocusing on the core markets of Manufacturing and Technology. These markets remain strong and present good opportunities for growth in 2018.

## Financial Review

The Group's revenue for the year ended 31 December 2017 was £22.0 million representing an increase of 0.5% (2016: £21.9 million). This produced NFI of £6.6 million for the year ended 31 December 2017, a decrease of 2.2% (2016: £6.8 million). 2017 full year adjusted EBITDA (note 2) was a profit of £1 million compared to a profit of £0.8 million in 2016.

Temporary NFI increased by 9.2% from £3.7 million in 2016 to £4.0 million in 2017, whilst permanent NFI declined by 15.8% from £3.1 million in 2016 to £2.6 million in 2017. Permanent NFI declined due to underperformance from RK Group and Quantica Group with RK Group declining by £0.34 million and Quantica Group declining by £0.18 million.

The administrative expenses have decreased to £5.9 million in the year ended 31 December 2017, from £6.4 million in 2016, which represents a reduction of 6.7% year-on-year.

### Cashflow

Net cash inflow at an operating level was £0.78 million for the year ended 31 December 2017 (2016: £0.68 million). Investing activities comprised of capital expenditure of £29,000 (2016: £28,000). Net cash outflow from financing activities amounted to £676,000 (2016: £448,000) comprising movement on the invoice discounting facility balances, the servicing of loan interest and the repayment of £666,000 to the loan note holders. The net increase in cash and cash equivalents in the period was £72,000 (2016: £202,000).

On 15 September 2017, the Company announced that it had agreed terms to purchase the outstanding £523,000 loan notes which were due for repayment on 20 September 2022, for the purchase price of £366,100 (such sum being equal to 70 per cent. of the principal £523,000). This was funded by drawdown on the existing confidential invoice discounting facility provided by Barclays. The Barclays drawdown is currently at a substantially lower rate of 2% (1.5% over base) than the interest on the Loan Notes (5%) and ensures the Company uses its cheapest means of funding first.

In summary, before the first refinancing and redemption transaction dated 26 October 2016, the Group had loan notes amounting to £3,206,000 outstanding, with £1,346,000 due for repayment on 14 February 2017 and the remaining £1,860,000 due for repayment on 20 September 2017. Following the transactions announced on 26 October 2016, 5 January 2017 and 15 September 2017, the Group has loan notes amounting to £1,860,000 outstanding and due for repayment on 20 September 2022.

### Monitoring, risk and KPIs

Risk management is an important part of the management process throughout the Group. The composition of the Board is structured to give balance and expertise when considering governance, financial and operational recruitment issues. Meetings incorporate, amongst other agenda items, a review of monthly management accounts, operational and financial KPIs and major issues and risks facing the business.

The most important KPIs used in monitoring the business are as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Revenue	£22,037,000	£21,932,000
Net Fee Income	£6,636,000	£6,783,000
Adjusted EBITDA (Note 2)	£1,015,000	£772,000
Adjusted EBITDA as a % of Net Fee Income	15.30%	11.38%
Days sales outstanding (DSO) (Note 12)	39	38
Headroom on Confidential Invoice Discounting "CID" facility	£2,035,620	£1,952,000

The principal risks faced by the Group in the current economic climate are considered to be financial, market and people related:

- **Financial** - The main financial risks arising from the Group's activities are liquidity risk and credit risk. These are monitored by the Board and are disclosed further in notes 1 and 16 of the financial statements.

Based on the Group's latest cash flow forecasts and current trading performance, it is not expected that any further funding will be required for the foreseeable future. The directors' consideration of the appropriateness of the going concern basis in preparing the financial statements is set out in note 1 to the financial statements.

- **Market** - the Group operates in a dynamic market place and constantly seeks to ensure the solutions it offers to customers are competitive. By operating in diverse sectors, the Group is, to some degree, protected from a deteriorating market. The Group is operating at a 60/40 mix of temporary and permanent recruitment fees at NFI level (2016: near 50/50), which de-risks the overall impact of a potentially inconsistent market.

- **People** - In a people intensive business, the resignation of key individuals (both billing consultants and influential management) and the potential for them to exit the business taking clients, candidates and other employees to their new employers is a risk. Kellan mitigates this risk through a number of methods including the application of competitive pay structures and share plans to incentivise retention. In addition the Group's employment contracts contain restrictive covenants that reduce a leaver's ability to approach Kellan clients, candidates and employees for certain periods following the end of their employment with the Group.

The Strategic Report was approved by order of the Board on 22 March 2018.



**Rakesh Kirpalani**  
**Group Finance Director**  
22 March 2018



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

# Board of directors

## **Richard Ward (R, A)**

### ***Executive Chairman***

Richard Ward has over 16 years' experience in the recruitment industry and 10 years as a Senior Executive Director. He has a solid track record of success in business growth, turnaround and change management and an in-depth understanding of multiple sectors, ranging from engineering, I.T, built, and commercial, to name a few. In addition, Richard has been involved first-hand in overseas start-ups and established businesses, both in Europe, Africa and Asia. He has worked for corporate, private and PE organisations.

## **Rakesh Kirpalani (R, A)**

### ***Group Finance Director***

After 10 years in various commercial Finance roles within the retail industry, Rakesh joined MPS in 2006 where he held senior Finance positions providing commercial support to the operating brands. He helped to guide the Group through its integration with Adecco post acquisition and remained there until joining Kellan in 2011. Since then he has rationalised the Group's cost base significantly where appropriate, and successfully steered the Group through a challenging time. Rakesh is a Fellow of the ACCA.

R Remuneration Committee

A Audit Committee

## **Michael Jackson (R, A)**

### ***Non-executive Director***

Michael founded Elderstreet Investments Limited in 1990 and is its executive chairman. For the past 25 years, he has specialised in raising finance and investing in the smaller companies quoted and unquoted sector. From 1983 until 2006 he was a director of FTSE 100 Company, The Sage Group plc, becoming chairman in 1997. He was also chairman of PartyGaming plc, another FTSE 100 company. He is also a director and investor in many other quoted and unquoted companies. Michael studied law at Cambridge University, and qualified as a chartered accountant with Coopers & Lybrand before spending five years in marketing for various US multinational technology companies.

## **Liam Humphreys**

### ***Managing Director***

Liam Humphreys has over 15 years' experience within the recruitment industry leading large teams within a variety of recruitment sectors including: retail, consumer, hospitality, professional services, engineering, financial services and strategy. He has operated within transactional markets through to specialist executive search practices. Liam worked for The Page Group for over ten years where he launched a number of new businesses from start-up and has a proven track record of commercial success.

# Advisers, financial calendar and shareholder information

## **Nomad and Broker**

Allenby Capital Limited  
5 St Helen's Place  
London  
EC3A 6AB

## **Bank**

Barclays Bank plc  
1 Churchill Place  
London  
E14 5HP

## **Registered office**

4th Floor  
27 Mortimer Street  
London  
W1T 3BL

## **Auditors**

Moore Stephens  
150 Aldersgate Street  
London  
EC1A 4AB

## **Company Secretary**

Martin Kumar  
4<sup>th</sup> Floor  
27 Mortimer Street  
London  
W1T 3BL

## **Registered number**

02228050

## **Registrar**

Link Asset Services  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

## **Solicitors**

Pannone Corporate LLP  
378-380 Deansgate  
Manchester  
M3 4LY

## **Shareholder information**

### **AGM details**

The Company's last AGM was held on 19 July 2017 in London. Four ordinary resolutions and three special resolutions were listed in the annual report and accounts for the year ended 31 December 2016 and all were passed unanimously.

### **London Stock Exchange**

The ordinary shares of the Company are traded on AIM, a market of the London Stock Exchange with the code KLN.L.

### **Website**

The Group website can be found at [www.kellangroup.co.uk](http://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.

## **Major shareholders (as of 21 March 2018)**

	Amount	% Holding
Bell P A Esq	210,591,840	62.00
Reeves A H Esq	28,931,948	8.52
Bowmer J Esq	16,019,900	4.72
Bereika G Dr	15,693,929	4.62
BMN Commercial Limited	13,548,545	3.99
Ward R	12,392,029	3.65

## **Financial calendar**

### **Next Annual General Meeting**

27 April 2018 at 2pm in the Group's head office: 4th Floor, 27 Mortimer Street, London, W1T 3BL

### **Next interim announcement**

September 2018 (covering 6 months to 30 June 2018)

### **Next year end**

31 December 2018

# Report of the directors

For the year ended 31 December 2017

The directors present their report together with the audited financial statements for the year ended 31 December 2017.

## **Future developments**

Please refer to the Executive Chairman's statement on page 1 for a review of future developments.

## **Going concern**

The directors' consideration of the appropriateness of the going concern basis in preparing the financial statements is set out in note 1 to the financial statements.

## **Corporate social responsibility**

The Company has published its policies on employees, health and safety and the environment on the investor relations page of the Group's website. Please visit [www.kellangroup.co.uk](http://www.kellangroup.co.uk) for details.

## **Corporate governance**

The Company has published its policies on corporate governance on the investor relations page of the Group's website. Please visit [www.kellangroup.co.uk](http://www.kellangroup.co.uk) for details.

## **Charitable and political contributions**

The Group made no charitable donations or political contributions during the current or prior year.

## **Employees**

The Group has a policy of involving employees in its affairs where possible and creating the opportunity for senior members to explain to employees matters which affect the Group's performance. The Group practices equality of employment opportunities irrespective of sex, race, creed or colour and recruits, trains and promotes on merit accordingly. Throughout the Group where practicable, opportunities are taken to employ disabled people and to ensure that they take part in training and career development.

## **Dividends**

The directors do not recommend the payment of a final dividend (2016: Nil). No interim dividend was paid in the year (2016: Nil).

## **Financial Instruments**

Information on financial risk management, objectives and policies is included in note 16 to the financial statements.



# Report of the directors

For the year ended 31 December 2017

## Directors

The directors of the Company who held office during the year and after the year end were as follows:

R Ward – Executive Chairman

R Kirpalani – Group Finance Director

L Humphreys - Managing Director

ME Jackson – Non-executive Director

## Remuneration

Remuneration and benefits received during the year ended 31 December 2017 for directors were as follows:

	Gross Pay £	Benefits in kind £	Pension £	Outstanding share options at 31 Dec 2017 Number	Exercise price £
R Ward	10,000	549	41	—	—
R Kirpalani	161,200	804	13,336	2,000,000	0.026
ME Jackson	17,500	—	116	—	—
L Humphreys	112,700	—	5,654	—	—
<b>Total</b>	<b>301,400</b>	<b>1,353</b>	<b>19,147</b>	<b>2,000,000</b>	<b>0.026</b>

The share options outstanding as at 31 December 2017 have vested.

The group has 3<sup>rd</sup> party indemnity insurance for the directors.

## Statement of Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 (FRS101) Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and company and of the profit or loss of the Group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Report of the directors

For the year ended 31 December 2017

## Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

## Auditors

Each individual director has taken all the steps necessary to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information to which the auditors are unaware.

Moore Stephens LLP were appointed in 2017 following a change from BDO. Moore Stephens LLP have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the Annual General Meeting.

On behalf of the Board



**Rakesh Kirpalani**

**Group Finance Director**

22 March 2018

# Independent auditors' report

To the members of the Kellan Group plc

## Our opinion

We have audited the financial statements of Kellan PLC (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2017 which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and Parent Company statements of financial position;
- the consolidated and Parent Company statements of changes in equity;
- the consolidated and Parent Company cash flow statements; and
- the notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 (FRS 101) Reduced Disclosure Framework.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate, or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Completeness and cut off of revenue

There is a risk that revenue due to the group has not been recorded, especially for transactions around the reporting date as the result of inappropriate cut off and timing of revenue recognition.

# Independent auditors' report

To the members of the Kellan Group plc

In response to the risk:

- We performed testing to ensure that revenue transactions had been recorded in the consolidated statement of comprehensive income at the right time. For temporary placements we selected a sample of bookings, traced these through to timesheets, sales invoices and nominal ledger. We also linked this through to payroll costs. For permanent placements we traced a sample of bookings through to sales invoices and nominal ledger.
- For a sample of sales, we assessed that they had been recorded in the correct period through review of timesheet and placement dates. We performed testing either side of the year end by tracing candidates from the booking system to timesheets for temporary placements and start dates of permanent placements, through to sales invoices and nominal ledger.
- We tested credit notes issued after the reporting date to gain assurance that any material credit notes relating to sales made in the year had been accounted for correctly.

## *Completeness and classification of related party transactions and balances*

Due to a high level of related party balances and transactions there is a significant risk that not all balances and transactions are disclosed within the financial statements or are incorrectly disclosed.

In response to the risk:

- We reconciled all balances and transactions reconciled to corresponding Group companies on consolidation.
- During the course of the audit we paid particular attention to non-routine transactions and any with unusual characteristics that might indicate unrecorded related parties.

## *Valuation of Group goodwill recognised on acquisition*

Assessment of the carrying value of goodwill recognised on acquisition requires the Directors to exercise judgement as to whether there has been an indication of impairment. The directors' impairment review is assessed by reference to value in use, using internal forecasts and estimated growth rates to forecast future cash flows, and a suitable discount rate based on the Group's weighted average cost of capital.

In response to the risk:

- We reviewed management's assumptions used in its impairment models for goodwill. In particular we reviewed and agreed the projected future cash flows based which are based on historical financial information and we also reviewed and recalculated the allocation of central overheads across each cash generating unit.
- We performed sensitivity analysis to assess the impact of changes in expected net fee income and the group's weighted average cost of capital as the key assumptions in the model to calculate the net present value of the future cash flows.

## *Valuation of subsidiary investments (Parent Company only)*

Assessment of the carrying value of subsidiary investments requires the Directors to exercise judgement as to whether there has been an indication of impairment.

In response to the risk:

- We reviewed the financial performance and position of each of the investments to gain assurance that no impairment is required.
- We reviewed the budgets and forecasts as part of our review of going concern to gain assurance that there is no potential future impairment of the investments.
- We also compared the carrying value to the net present value of future cash flows for each cash generating unit, as prepared in the consideration of the carrying value of goodwill

## **Our application of materiality**

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

We determined the materiality for the Group financial statements as a whole to be £185,000 calculated with reference to a benchmark of the average results before tax for the last three years, of which it represents 7.5%. The parent company materiality was set as £135,000 and was calculated on the same basis.

This is the threshold above which missing or incorrect information in financial statements is considered to have an impact on the decision makers of users.

# Independent auditors' report

To the members of the Kellan Group plc

We agreed to report to the Audit and Risk Committee all potential adjustments in excess of £9,250 being 5% of Group financial statement materiality as a whole, in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group audit team performed the full-scope audit of four of the Group's components which were audited to component materialities, which ranged from £10,000 to £177,000

## **An overview of the scope of our audit**

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls and the industry in which they operate.

The Group operates through three trading subsidiary undertakings, comprising the Group's operating business and centralised functions. The head office maintain all accounting records and controls for all entities. The Group audit team performed the statutory audit of the three trading UK subsidiaries.

## **Other information**

The Directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

## **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

## **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## **Responsibilities of Directors**

As explained more fully in the Statement of Directors' Responsibilities on page 8, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

# Independent auditors' report

To the members of the Kellan Group plc

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs(UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

*Moore Stephens LLP*

Paul Fenner, Senior Statutory Auditor  
For and on behalf of Moore Stephens LLP,  
Chartered Accountants and Statutory Auditor  
150 Aldersgate Street  
London  
EC1A 4AB

*22 March 2018*

# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2017

	Note	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
<b>Revenue</b>	8	<b>22,037</b>	21,932
Cost of sales	8	(15,401)	(15,149)
<b>Gross profit/net fee income</b>	8	<b>6,636</b>	6,783
Administrative expenses		(5,944)	(6,369)
<b>Operating profit before impairment charge</b>		<b>692</b>	414
Impairment of goodwill	10	—	(2,578)
<b>Operating profit/(loss)</b>	2	<b>692</b>	(2,164)
Finance expenses	5	(235)	(322)
<b>Profit/(Loss) before tax</b>	3	<b>457</b>	(2,486)
Taxation	6	(70)	—
<b>Profit/(Loss) for the period</b>		<b>387</b>	(2,486)
<b>Attributable to:</b>			
Equity holders of the parent		<b>387</b>	(2,486)
<b>Profit/(Loss) per share in pence</b>			
Basic	7	<b>0.13</b>	(0.73)
Diluted	7	<b>0.13</b>	(0.73)

The above results relate to continuing operations.

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

The notes on pages 18 to 35 form part of these financial statements.

# Consolidated statement of financial position

as at 31 December 2017

	Note	As at 31 December 2017 £'000	As at 31 December 2016 £'000
<b>Non-current assets</b>			
Intangible assets	10	3,172	3,335
Property, plant and equipment	9	199	290
		<b>3,371</b>	<b>3,625</b>
<b>Current assets</b>			
Trade and other receivables	12	4,362	4,359
Cash and cash equivalents	13	1,982	1,910
		<b>6,344</b>	<b>6,269</b>
<b>Total assets</b>		<b>9,715</b>	<b>9,894</b>
<b>Current liabilities</b>			
Loans and borrowings	14	3,230	3,375
Trade and other payables	15	2,829	2,956
Provisions	18	15	8
		<b>6,074</b>	<b>6,339</b>
<b>Non-current liabilities</b>			
Loans and borrowings	14	1,543	1,881
Provisions	18	70	75
		<b>1,613</b>	<b>1,956</b>
<b>Total liabilities</b>		<b>7,687</b>	<b>8,295</b>
<b>Net assets</b>		<b>2,028</b>	<b>1,599</b>
<b>Equity attributable to equity holders of the parent</b>			
Share capital	19	4,274	4,274
Share premium	20	14,746	14,746
Capital contribution reserve	20	810	768
Capital redemption reserve	20	2	2
Retained earnings		(17,804)	(18,191)
<b>Total equity</b>		<b>2,028</b>	<b>1,599</b>

These financial statements were approved by the Board of directors on 22 March 2018 and were signed on its behalf by:



**Richard Ward**  
**Director**



**Rakesh Kirpalani**  
**Director**

The notes on pages 18 to 35 form part of these financial statements.



# Consolidated statement of changes in equity

for the year ended 31 December 2017

Note	Share capital £'000	Share premium £'000	Convertible reserve £'000	Capital contribution reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total Equity £'000
<b>Balance at</b>							
<b>1 January 2016</b>	<b>4,274</b>	<b>14,746</b>	<b>170</b>	<b>—</b>	<b>2</b>	<b>(15,705)</b>	<b>3,487</b>
Total comprehensive loss for the year ended 31 December 2016	—	—	—	—	—	(2,486)	(2,486)
Capital contribution	—	—	—	768	—	—	768
Equity component of convertible loan notes	—	—	(170)	—	—	—	(170)
<b>Balance at</b>							
<b>31 December 2016</b>	<b>4,274</b>	<b>14,746</b>	<b>—</b>	<b>768</b>	<b>2</b>	<b>(18,191)</b>	<b>1,599</b>
Total comprehensive loss for the year ended 31 December 2017	—	—	—	—	—	384	384
Capital contribution	—	—	—	42	—	—	42
<b>Balance at</b>							
<b>31 December 2017</b>	<b>4,274</b>	<b>14,746</b>	<b>—</b>	<b>810</b>	<b>2</b>	<b>(17,807)</b>	<b>2,025</b>

The notes on pages 18 to 35 form part of these financial statements.

# Consolidated statement of cash flows

for the year ended 31 December 2017

	Note	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
<b>Cash flows from operating activities</b>			
Profit/(Loss) for the year		387	(2,486)
Adjustments for:			
Depreciation and amortisation		283	335
Impairment of goodwill		—	2,578
Interest paid		235	305
Amortisation of loan costs		—	17
		905	749
(Increase)/Decrease in trade and other receivables		(3)	56
Decrease in trade and other payables		(127)	(101)
Increase/(Decrease) in provisions		2	(26)
<b>Net cash inflow from operating activities</b>		777	678
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment	9	(29)	(28)
<b>Net cash outflow from investing activities</b>		(29)	(28)
<b>Cash flows from financing activities</b>			
Increase of invoice discounting facility balances		155	188
Interest paid and loan costs		(165)	(270)
New loan receipt		—	366
Repayment of loan notes		(666)	(732)
<b>Net cash outflow from financing activities</b>		(676)	(448)
Net increase in cash and cash equivalents		72	202
Cash and cash equivalents at the beginning of the year		1,910	1,708
<b>Cash and cash equivalents at the end of the year</b>	13	1,982	1,910

The notes on pages 18 to 35 form part of these financial statements.

# Notes to the financial statements

(forming part of the financial statements)

## 1 Accounting policies

### ***Basis of preparation***

Kellan Group plc (the "Company") is a public limited company, limited by shares, incorporated in the UK.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The parent company financial statements present information about the Company as a separate entity and not about its Group.

The Group financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed for use by the EU ("Adopted IFRS"). The Company has elected to prepare its parent company financial statements in accordance with Financial Reporting Standard 100 - Application of Financial Reporting Requirements ("FRS 100") and Financial Reporting Standard 101 - Reduced Disclosure Framework ("FRS 101"); these are presented on pages 36 to 43.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

### ***Going concern***

The financial statements have been prepared on a going concern basis.

Based on the Group's latest trading expectations and associated cash flow forecasts, the directors have considered the cash requirements of the Company and the Group will be able to operate within its existing facilities for at least the next twelve months following approval of these financial statements. These facilities comprise an invoice discounting facility of up to £4 million dependent on trading levels. 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.

### ***Measurement convention***

The financial statements are prepared on the historical cost basis.

### ***Basis of consolidation***

Subsidiaries are entities controlled by the Group.

The Company controls a subsidiary if all three of the following elements are present; power over the subsidiary, exposure to variable returns from the subsidiary, and the ability of the investor to use its power to affect those variable returns. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

### ***Property, plant and equipment***

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The annual rates used are generally:

- |   |                                |
|---|--------------------------------|
| • Computer equipment                        | 25%                            |
| • Office equipment                          | 10% – 33%                      |
| • Short leasehold premises and improvements | over the duration of the lease |

# Notes to the financial statements

(forming part of the financial statements)

## 1 Accounting policies continued

### **Goodwill**

Goodwill represents amounts arising on the acquisition of subsidiaries. Subject to the transitional relief in IFRS 1, all business combinations are accounted for by applying the purchase method. Impairment tests on goodwill are undertaken annually at the financial year end. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Identifiable intangibles are those which can be sold separately or which arise from legal or contractual rights regardless of whether those rights are separable.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

### **Externally acquired intangible assets**

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques (see section related to critical estimates and judgements on page 22).

Amortisation is recognised in administration costs within the statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

The significant intangibles recognised by the Group, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

<i>Intangible asset</i>	<i>Useful economic life</i>	<i>Valuation method</i>
Brand name	10 years	Relief from royalty method
Customer relations	10 years	Means extended excess method

### **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances on current accounts and call deposits.

### **Impairment**

The carrying values of assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated. Where the asset does not generate cash flows which are independent from other assets, the recoverable amount of the cash-generating unit to which the asset belongs is estimated.

The recoverable amount of a non-financial asset is the higher of its fair value less costs to sell, and its value-in-use. Value-in-use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit calculated using a suitable discount factor.

An impairment loss is recognised in the statement of comprehensive income whenever the carrying amount of an asset or cash-generating unit exceeds its recoverable amount.

Goodwill is tested for impairment annually or whenever there is an indication that the asset may be impaired. Any impairment recognised on goodwill is not reversed.

The impairment review is assessed by reference to value in use, using internal forecasts and estimated growth rates to forecast future cash flows, and a suitable discount rate based on the Group's weighted average cost of capital. Any impairment is recognised immediately in the statement of comprehensive income and is not subsequently reversed.

### **Provisions**

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax risk-free rate.

### **Employee benefits**

#### **Defined contribution plans**

Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of comprehensive income as incurred.

# Notes to the financial statements

(forming part of the financial statements)

## 1 Accounting policies continued

### **Share-based payment transactions**

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black Scholes option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest, except where forfeiture is due only to share prices not achieving market vesting conditions.

### **Revenue and income recognition**

Revenue, which excludes value added tax ("VAT"), constitutes the value of services undertaken by the Group as its principal activities, which are recruitment consultancy and other ancillary services. These consist of:

- Revenue from temporary placements, which represents amounts billed for the services of temporary staff including the salary cost of these staff. This is recognised when the service has been provided;
- Revenue for permanent placements, which is based on a percentage of the candidate's remuneration package, is recognised at the date at which a candidate commences employment. Provision is made for the expected cost of meeting obligations where employees do not work for the specified contractual period.

### **Expenses**

#### **Operating lease payments**

Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the statement of comprehensive income as an integral part of the total lease expense.

### **Taxation**

Tax on the profit or loss for the period comprises current and deferred tax charge.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

### **Financial assets**

#### **Loans and receivables**

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. They are initially measured at fair value and subsequently at amortised cost less any provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. This provision represents the difference between the asset's carrying amount and the present value of estimated future cash flows. The amount of the provision is recognised in the statement of comprehensive income.

Cash and cash equivalents include cash in hand, deposits at call with banks and bank overdrafts. Bank overdrafts where there is no right of set-off are shown within borrowings in current liabilities on the statement of financial position.

# Notes to the financial statements

(forming part of the financial statements)

## 1 Accounting policies continued

### **Financial liabilities and equity instruments**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements. Financial liabilities are classified as either "financial liabilities at fair value through profit or loss (FVTPL)" or "other financial liabilities".

When the company issues multiple instruments in a single transaction the proceeds are allocated to each separate instrument in accordance with their respective fair values. Where convertible debt is issued the company determines the allocation of the proceeds to the debt and equity components by first of all determining the fair value of debt and then subtracting the amount of the debt from the proceeds of the instrument as a whole to determine the equity component.

Where a restructuring of debt arises the terms are reviewed to consider whether there has been a substantial modification and if so that there is an extinguishment of the existing debt and the recognition of a new financial liability based on the amended terms.

### **Other financial liabilities**

Trade and other payables are recognised on the trade date of the related transactions. Trade payables are not interest bearing and are stated at the amount payable which is fair value on initial recognition.

Interest bearing loans are recognised initially at fair value, net of direct issue costs incurred, and are subsequently carried at amortised cost using the effective interest method.

### **Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

### **Adoption of new and revised standards**

The new standards, interpretations and amendments, effective from 1 January 2017, have not had a material effect on the financial statements.

The amendments and interpretations to published standards that have an effective date on or after 1 January 2018 or later periods have not been adopted early by the Group and are not expected to materially affect the Group when they do come in to effect, with the exception of IFRS 16 which at the date of transition, would add an asset of £0.70 million and a liability of £0.70 million. There would be no material change on the profit for the period.

International Accounting Standards (IAS/IFRS)		Effective date
IFRS 9	Financial Instruments	01/01/2018
IFRS 15	Revenue from Contracts with Customers	01/01/2018
IFRS 16	Leases	01/01/2019

# Notes to the financial statements

(forming part of the financial statements)

## 1 Accounting policies continued

### *Use of estimates and judgements*

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included below:

#### *(a) Impairment of intangibles*

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment and other assets where there has been an indication of impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. Actual outcomes may vary particularly in light of the current volatility of the recruitment sector to changes in the wider macro-economic environment. More information including carrying values is included in note 10.

#### *(b) Useful lives of intangible assets and property, plant and equipment*

Intangible assets excluding goodwill and property, plant and equipment are amortised or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated income statement in specific periods. More details including carrying values are included in notes 9 and 10.

#### *(c) Share-based payments*

Employee services received are measured by reference to the fair value of the equity instruments at the date of grant, excluding the impact of any non-market vesting conditions. The fair value of share options is estimated by using the Black Scholes valuation model on the date of grant based on certain assumptions. The charge also depends on estimates of the number of options that will ultimately vest based on the satisfaction of non-market and service vesting conditions. No options were granted in the current or the prior year.

#### *(d) Onerous leases and dilapidations*

There are inherent uncertainties in estimates of rents that will be received in the future on vacant property when determining the onerous lease obligation and estimating the cost of returning the properties to their original state at the end of the lease.

# Notes to the financial statements

(forming part of the financial statements)

## 2 Reconciliation of operating profit/(loss) to Adjusted EBITDA and EBITA

Adjusted EBITDA is earnings before interest, taxes, depreciation and amortisation adjusted for any one off or non-cash administrative expenses.

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
<b>Operating profit/(loss)</b>	<b>692</b>	<b>(2,164)</b>
<b>Add back</b>		
Amortisation of intangible assets	163	216
Impairment of goodwill	—	2,578
Restructuring costs	40	23
<b>Adjusted EBITA</b>	<b>895</b>	<b>653</b>
Depreciation	120	119
<b>Adjusted EBITDA</b>	<b>1,015</b>	<b>772</b>

## 3 Expenses and auditors' remuneration

*Included in profit/(loss) before tax are the following:*

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Pension contributions	99	76
Depreciation of owned property, plant and equipment	120	119
Amortisation of intangible assets	163	216
Operating leases rentals – hire of plant and machinery	29	24
Operating leases rentals – hire of other assets	321	325

### **Auditors' remuneration:**

Amounts payable to Moore Stephens LLP (2016: BDO LLP) in respect of both audit and non-audit services are set out below:

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
<b>Fees payable to the auditors for the audit of the Company's annual accounts</b>	<b>10</b>	<b>13</b>
<b>Fees payable to the auditors for other services:</b>		
The audit of the Company's subsidiaries	15	18
Other services relating to taxation	—	4
	<b>15</b>	<b>22</b>



# Notes to the financial statements

(forming part of the financial statements)

## 4 Staff numbers and costs

The weighted average number of persons employed by the Group (including directors) during the period, analysed by category, was as follows:

	Number of employees	
	2017	2016
Recruitment	66	76
Administrative staff	22	21
Temporary workers (whose costs are included in cost of sales and services charged within revenue)	991	993
	<b>1,079</b>	<b>1,090</b>

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Wages and salaries	17,720	17,998
Social security costs	1,005	979
Contribution to money purchase pension scheme	99	76
	<b>18,824</b>	<b>19,053</b>

## Directors' and key management personnel remuneration:

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. During the period these were considered to be the directors of the Company as disclosed on page 8.

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Emoluments	338	426
Company contributions to money purchase pension schemes	23	27
	<b>361</b>	<b>453</b>

There were 4 directors in defined contribution pension schemes during the period (2016: 4).

The total amount payable to the highest paid director in respect of emoluments was £162,004 (2016: £192,427). Company pension contributions of £13,336 (2016: £13,336) were made to a money purchase scheme on his behalf. No options were exercised by directors during the current or prior periods.

## 5 Finance expense

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Interest expense on financial liabilities	235	305
Amortisation of loan costs	—	17
Finance expenses	<b>235</b>	<b>322</b>

# Notes to the financial statements

(forming part of the financial statements)

## 6 Taxation

### Reconciliation of effective tax rate

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Profit/(Loss) before tax for the period	457	(2,486)
Total tax credit	—	—
Profit/(Loss) after tax	457	(2,486)
Tax using the UK corporation tax rate of 19.25% (2016: 20%)	88	(497)
Non-deductible expenses including impairment	56	564
Deferred tax not recognised in respect of losses	(74)	(67)
Total tax charge	70	—

A reduction in the UK corporation tax rate from 20% to 19% took effect from 1 April 2017, therefore the effective tax rate for 2017 is 19.25%. A further reduction in the UK corporation tax rate to 17% from 1 April 2020 was substantively enacted on 6 September 2016.

## 7 Profit/(Loss) per share

### Basic and diluted profit/(loss) per share

The calculation of basic profit/(loss) per share for the year ended 31 December 2017 was based on the profit attributable to ordinary shareholders of £384,000 (2016: loss of £2,486,000) and a weighted average number of ordinary shares outstanding of 339,401,134 (2016: 339,401,134) calculated as follows:

Weighted average number of shares	2017	2016
Issued ordinary shares at 1 January	339,645,061	339,645,061
Effect of shares issued	—	—
Weighted average number of shares used in basic profit/(loss) per share	339,645,061	339,645,061
Effect of employee share options	2,000,000	2,375,000
Weighted average number of shares used in diluted profit/(loss) per share	341,645,061	342,020,061
Profit/(Loss) for the year in pounds	384,000	(2,486,000)
Basic profit/(loss) per share in pence	0.13	(0.73)
Diluted profit/(loss) per share in pence	0.13	(0.73)

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

# Notes to the financial statements

(forming part of the financial statements)

## 8 Operating segments

Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker ("Executive Chairman") in deciding how to allocate resources and in assessing performance.

The Group identifies its reportable operating segments by divisions, each of which is run by a business leader. Each identifiable business division operates in a different market of recruitment, has its own brand, engages in business activities from which it may earn revenues and incur expenses, discrete financial information is readily available and its operating results are regularly reviewed by the Executive Chairman. Operating segment results are reviewed to controllable contribution level which is gross profit less employee costs and marketing costs directly controlled by the business leader of that division.

Each division derives its revenues from supplying one or more of contingent permanent, contract, temporary and retained search recruitment services. Assets and liabilities are reviewed at a Group level and are not reviewed by the Executive Chairman on a segmental basis.

Operating Segment		2017 £'000	2016 £'000
Berkeley Scott	Revenue	18,673	17,237
	Net Fee Income	5,014	4,572
	Controllable contribution	2,936	2,419
RK Group	Revenue	1,490	2,191
	Net Fee Income	913	1,347
	Controllable contribution	229	532
Quantica Group	Revenue	1,657	2,477
	Net Fee Income	492	837
	Controllable contribution	128	261
Other	Other Revenue	217	27
	Other Net Fee Income	217	27
	Controllable contribution	217	27
Other Costs		(2,495)	(2,467)
Kellan Group Total	Revenue	22,037	21,932
	Net Fee Income	6,636	6,783
	Controllable contribution	3,510	3,239
	Other costs	(2,495)	(2,467)
Adjusted EBITDA		1,015	772

The total of the reportable segments' Adjusted EBITDA for the year agrees to the reconciliation to Group operating loss (see note 2).

# Notes to the financial statements

(forming part of the financial statements)

## 9 Property, plant and equipment

	Short leasehold premises and improvements £'000	Computer and office Equipment £'000	Total £'000
<b>Cost</b>			
Balance at 1 January 2016	754	2,034	2,788
Additions	1	27	28
Disposals	—	(427)	(427)
Balance at 31 December 2016	755	1,634	2,389
Additions	—	29	29
Disposals	(323)	(644)	(967)
Balance at 31 December 2017	432	1,019	1,451
<b>Depreciation and impairment</b>			
Balance at 1 January 2016	672	1,734	2,406
Depreciation charge for the period	20	99	119
Disposals	—	(426)	(426)
Balance at 31 December 2016	692	1,407	2,099
Depreciation charge for the period	20	100	120
Disposals	(323)	(644)	(967)
Balance at 31 December 2017	389	863	1,252
<b>Net book value</b>			
At 31 December 2015	82	300	382
At 31 December 2016	63	227	290
<b>At 31 December 2017</b>	<b>43</b>	<b>156</b>	<b>199</b>

# Notes to the financial statements

(forming part of the financial statements)

## 10 Intangible assets

	Goodwill £'000	Brand name £'000	Customer relations £'000	Total £'000
<b>Cost</b>				
Balance at 1 January 2016, 31 December 2016 and 31 December 2017	24,717	922	3,609	29,248
<b>Amortisation and impairment</b>				
Balance at 1 January 2016	18,967	699	3,453	23,119
Amortisation	—	128	88	216
Impairment charge	2,578	—	—	2,578
Balance at 31 December 2016	21,545	827	3,541	25,913
Amortisation	—	95	68	163
Impairment charge	—	—	—	—
Balance at 31 December 2017	21,545	922	3,609	26,076
<b>Net book value</b>				
At 31 December 2015	5,750	223	156	6,129
At 31 December 2016	3,172	95	68	3,335
At 31 December 2017	3,172	—	—	3,172

### Goodwill

	31 December 2017 £'000	31 December 2016 £'000
Berkeley Scott Regional (Formerly Gold Helm Roche) branch network	1,920	1,920
Berkeley Scott London (Formerly Sherwoods) branch network	569	569
RK Group	654	654
Other	29	29
	3,172	3,172

The recoverable amounts of all the above CGUs have been determined from value in use calculations based on cash flow projections from budgets covering a five year period to 31 December 2022. The major assumptions are as follows:

A discount rate of 6.29% (2016: 8.90%) has been applied to the CGUs listed above. Discount rates are based on management's assessment of specific risks related to the CGUs, which approximates to the Group's pre-tax weighted average cost of capital.

NFI and operating margins have been based on past performance and future expectations in the light of anticipated economic and market conditions. Cash flows for 2018 to 2022 are based on the forecast figures of each CGU for 2018 to 2022 based on a conservative approach whilst considering the anticipated economic conditions, corporate strategy and the related risk, market intelligence/sentiment and specific knowledge of the individual CGUs. NFI growth has been restricted to 2% for cash flows extending beyond five years.

NFI assumptions for the cash flows for 2018 to 2022 are as follows: 5% per annum for Berkeley Scott Regional (Formerly Gold Helm Roche) branch network, 5% per annum for Berkeley Scott London (Formerly Sherwoods) branch network, 8% average per annum for RK Group. If the following changes were made to the above key assumptions, the carrying amount and recoverable amount would be equal. RK Group NFI growth reduced from 8% to 5%, Berkeley Scott London NFI growth reduced from 5% to a decline of 30% and Berkeley Scott Regional NFI growth reduced from 5% to a decline of 14%.

An adjustment to reduce the forecast net cash flows by 5% would not result in an impairment. An increase in the discount rate of 1% would not result in an impairment.

# Notes to the financial statements

(forming part of the financial statements)

## 11 Deferred tax assets and liabilities

At 31 December 2017 the amount of deductible temporary differences, unused tax losses and unused tax credits are as follows:

	31 December 2017 £'000	31 December 2016 £'000
Trading losses carried forward	6,405	6,653
Capital losses carried forward	620	620
Decelerated capital allowances	655	1,037
Other deductible temporary differences	101	101
	<b>7,781</b>	<b>8,411</b>

There is also a temporary difference in respect of the fair value adjustments for intangible assets on previous acquisitions of £274,000 (2016: £274,000) for which a corresponding deferred tax liability has been recognised and offset against an equivalent deferred tax asset in respect of unused tax losses, resulting in a net position of £nil. In respect of the excess balances from the table above, a deferred tax asset has not been recognised as there is insufficient evidence that future taxable profits will be material enough to reliably recognise a deferred tax asset.

## 12 Trade and other receivables

	31 December 2017 £'000	31 December 2016 £'000
Trade receivables	4,056	3,766
Other receivables	69	250
Prepayments and accrued income	237	343
	<b>4,362</b>	<b>4,359</b>

Days sales outstanding for 2017 was 39 days (2016: 38 days) presenting a delay in cash collection of 1 day. An analysis of the allowance against accounts receivable and details of trade receivables past due and not impaired is included in note 16.

## 13 Cash and cash equivalents

	31 December 2017 £'000	31 December 2016 £'000
Cash and cash equivalents	1,982	1,910

## 14 Loans and borrowings

The carrying value and face value of loans and borrowings are as follows:

	31 December 2017 £'000	31 December 2016 £'000
<b>Non-current liabilities</b>		
Other loans	1,543	1,881
	<b>1,543</b>	<b>1,881</b>
<b>Current liabilities</b>		
Loan notes	—	300
Invoice discounting facility	3,230	3,075
	<b>3,230</b>	<b>3,375</b>

# Notes to the financial statements

(forming part of the financial statements)

## 14 Loans and borrowings continued

### Terms and debt repayment schedule

				Face value 31 December 2017	Carrying Amount 31 December 2017	Face value 31 December 2016	Carrying amount 31 December 2016
	Currency	Nominal interest rate	Year of maturity	£'000	£'000	£'000	£'000
Secured loan	<b>Sterling</b>	<b>10%</b>	<b>2022</b>	<b>1,260</b>	<b>1,045</b>	1,260	994
Secured loan	<b>Sterling</b>	<b>10%</b>	<b>2022</b>	<b>600</b>	<b>498</b>	600	474
Secured loan	<b>Sterling</b>	<b>10%</b>	<b>2022</b>	—	—	523	413
Loan notes	<b>Sterling</b>	<b>12%</b>	<b>2017</b>	—	—	300	300
				<b>1,860</b>	<b>1,543</b>	2,683	2,181

The invoice discounting facility balance utilised of £3,230,000 (2016: £3,075,000) is secured through deeds of composite guarantees and mortgage debentures on Group companies. The invoice discounting facility has an interest rate of 1.5% above Barclays base rate.

In September 2017 the Company agreed terms to purchase from BMN Commercial Limited ("BMN Commercial") all of the outstanding Secured Fixed Rate Secured Loan Notes 2022 (the "Loan Notes") that were issued to BMN Commercial pursuant to the terms of a Fixed Rate Secured Loan Note Instrument dated 26 October 2016 ("2016 Loan Note Instrument") and which Loan Notes were outstanding in the principal sum of £523,000. The purchase price for all the Loan Notes is £366,100 (such sum being equal to 70 per cent. of the aggregate principal amount ("Purchase Price")).

The Purchase Price was funded by drawdown on the existing confidential invoice discounting facility provided to the Company by Barclays. The Barclays drawdown is at a substantially lower rate of 1.5% over base (2%), than the interest on the Loan Notes (5%) and ensures the Company uses its cheapest means of funding first. In addition, the purchase of the Loan Notes improved the balance sheet to the extent of the discount obtained.

In summary, before the first refinancing and redemption transaction dated 26 October 2016, the Group had loan notes amounting to £3,206,000 outstanding with £1,346,000 due for repayment on 14 February 2017 and the remaining £1,860,000 due for repayment on 20 September 2017. Following the transactions announced on 26 October 2016, 5 January 2017 and 15 September 2017, the Group has loan notes amounting to £1,860,000 outstanding and due for repayment on 20 September 2022.

Additionally, the Company also has a revolving secured facility of £516,100 from BMN Commercial (ranking behind Barclays) capable of drawdown at any time up to 20 August 2022, carrying an interest rate of 5% per annum and repayable on 20 September 2022 ("the Revolving Facility").

## 15 Trade and other payables

	31 December 2017 £'000	31 December 2016 £'000
Trade payables	<b>58</b>	53
Other creditors	<b>666</b>	631
Social security and other taxes	<b>1,081</b>	1,175
Accruals and deferred income	<b>1,024</b>	1,097
	<b>2,829</b>	2,956

Trade payables are non-interest bearing and are normally settled within 45 day terms.

# Notes to the financial statements

(forming part of the financial statements)

## 16 Financial instruments

### **Financial risk management**

The Group is exposed through its operations to the following financial risks:

- Liquidity risk;
- Interest rate risk;
- Credit risk;
- Market risk;
- Foreign currency risk and
- Capital risk management

### **Liquidity risk**

Liquidity risk is managed centrally on a Group basis. The Group's policy in respect of liquidity risk is to maintain a mixture of long term and short term debt finance, including an invoice discounting facility, to ensure the Group has sufficient funds for operations for the foreseeable future. Budgets and forecasts are agreed and set by the Board in advance to enable the Group's cash requirements to be anticipated.

### **Interest rate risk**

Debt is maintained at bank variable rates which inherently bring interest rate risk. Related party loans are maintained at the fair value of interest rates on issue. The Group maintains detailed cash flow forecasts enabling it to factor incremental changes in interest rates into its risk profile and liquidity and react accordingly.

### **Credit risk**

The Group's principal financial assets are bank balances and cash and trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables.

The Group's policy in respect of trade receivables credit risk requires appropriate credit checks on potential customers before sales are made, the appropriate limiting of credit to each customer and the close monitoring of KPI trending such as days' sales outstanding and debtor ageing. The Group records impairment losses on its trade receivables separately from the gross receivable and calculates the allowance based on evidence of its likely recovery. At the balance sheet date there were no significant concentrations of credit risk.

The Group's credit risk on liquid funds is limited due to the Group's policy of monitoring counter party exposures and only transacting with high credit-quality financial institutions.

### **Market risk**

The Group operates in a dynamic market place and constantly seeks to ensure the solutions it offers to customers are competitive. By operating in diverse sectors, the Group is, to some degree, protected from a deteriorating market. The Group aims to operate a 50/50 mix of temporary and permanent recruitment fees at NFI level, which de-risks the overall impact of a potentially inconsistent market.

### **Foreign currency risk**

The Group's foreign currency denominated activity is not significant and the impact of foreign exchange movements on reported profits, net assets and gearing are not significant. The day-to-day transactions of overseas revenues are carried out in local currency and Group exposure to currency risk at a transactional level is minimal.

The Group does not enter into speculative treasury arrangements and there are no significant balances or exposures denominated in foreign currencies.

### **Capital risk management**

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern whilst optimising the debt and equity balance.

In managing its capital, the Group's primary objective is to ensure its ability to provide a return for its equity shareholders through capital growth. In order to achieve this objective, the Group seeks to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, the Group considers not only its short-term position but also its long-term operational and strategic objectives. The Group's gearing profile, being the carrying amount of loans and borrowings of £4,773,000 (2016: £5,256,000) as a percentage of total equity £2,025,000 (2016: £1,599,000) decreased to 236% from 329% during the year.



# Notes to the financial statements

(forming part of the financial statements)

## 16 Financial instruments continued

### Trade receivables impairment

Movement on trade receivables impairment provision:

	31 December 2017 £'000	31 December 2016 £'000
Provision brought forward	101	101
Provision carried forward at year end	101	101

The trade receivables past due and not impaired at the balance sheet date amounted to £2,054,000 (2016: £1,770,000) and comprised £1,365,000 (2016: £1,299,000) overdue by up to 30 days, £499,000 (2016: £402,000) overdue by 30-60 days and £190,000 (2016: £69,000) overdue by more than 60 days.

The directors consider that all receivables are fully recoverable.

### Categories of financial instruments

#### Financial assets

The financial assets of the Group comprised:

	<u>Loans and receivables</u>	
	2017 £'000	2016 £'000
<b>Current financial assets</b>		
Trade and other receivables	4,125	4,016
Net cash and cash equivalents	1,982	1,910
<b>Total financial assets</b>	<b>6,107</b>	<b>5,926</b>

#### Financial liabilities

The financial liabilities of the Group comprised:

	<u>Measured at amortised cost</u>	
	2017 £'000	2016 £'000
<b>Current financial liabilities</b>		
Trade and other payables	724	684
Loans and borrowings	3,230	3,375
<b>Total current financial liabilities</b>	<b>3,954</b>	<b>4,059</b>
<b>Non-current financial liabilities</b>		
Loans and borrowings	1,543	1,881
<b>Total financial liabilities</b>	<b>5,497</b>	<b>5,940</b>

The invoice discounting balance amounted to £3,230,000 (2016: £3,075,000) and is secured by cross guarantees and mortgage debentures on certain Group companies. The loan from BMN Commercial Limited for £1,860,000 (2016: £2,383,000) is subordinated to the invoice discounting facility and overdraft under the terms of an inter-creditor deed. The carrying amount of these loans at the balance sheet date is £1,543,000 (2016: 1,881,000).

The directors consider that the carrying amounts of financial assets and liabilities recorded at amortised cost in the financial statements approximate their fair values. The fair value of the items classified as loans and borrowings is classified as Level 3 in the fair value hierarchy. The fair value for disclosure purposes has been determined using discounted cash flow pricing models. Significant inputs include the discount rate used to reflect the associated credit risk.

# Notes to the financial statements

(forming part of the financial statements)

## 16 Financial instruments continued

### Effective interest rates – Group

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they mature. The following financial liabilities are stated at face value.

	2017					2016				
	Effective interest rate	Total £'000	0 to <1 years £'000	1 to <2 years £'000	2 to <5 years £'000	Effective interest rate	Total £'000	0 to <1 years £'000	1 to <2 years £'000	2 to <5 years £'000
Cash and cash equivalents	0.1%	1,982	1,982	—	—	0.1%	1,910	1,910	—	—
Loan notes	—	—	—	—	—	12%	(300)	(300)	—	—
Invoice discounting	2%	(3,230)	(3,230)	—	—	2.1%	(3,075)	(3,075)	—	—
Secured loan	10%	(1,260)	—	—	(1,260)	10%	(1,260)	—	—	(1,260)
Secured loan	10%	(600)	—	—	(600)	10%	(600)	—	—	(600)
Secured loan	—	—	—	—	—	10%	(523)	—	—	(523)
		(3,108)	(1,248)	—	(1,860)		(3,848)	(1,465)	—	(2,383)

The above table is based on the balances at the balance sheet date. The effect of future interest cash flows and sensitivities applied thereon can be determined from the above effective interest rates. With the exception of the invoice discounting facility, all interest rates are fixed.

## 17 Employee benefits

### Defined contribution plans

The Group operates a number of defined contribution pension plans. The total expense relating to these plans in the current period was £99,000 (2016: £76,000). £11,000 of pension contributions remained outstanding at the period end (2016: £10,000).

### Share-based payments

The Group has 1 share option scheme with options remaining unexercised at 31 December 2017:

#### 2004 Approved EMI Scheme – 2,000,000 vested options remain unexercised at 31 December 2017

The ability of a company to utilise EMI options is governed by conditions, including those of size, that are prescribed by HMRC.

The number and weighted average exercise prices of share options - are as follows:

	31 December 2017		31 December 2016	
	Weighted average exercise price £	Number of options	Weighted average exercise price £	Number of options
Outstanding at the beginning of the year	0.02	2,375,000	0.02	4,125,000
Options forfeited during the year	0.03	(375,000)	0.03	(1,750,000)
Outstanding at the end of the year	0.02	2,000,000	0.02	2,375,000
Exercisable at the end of the year	0.02	2,000,000	0.02	2,375,000

# Notes to the financial statements

(forming part of the financial statements)

## 17 Employee benefits continued

The exercise price of options outstanding at the end of the period was £0.026 (2016: ranged between £0.02 and £0.03) and their weighted residual contractual life was 3 years (2016: 4 years). All options currently in issue have vested as at 31 December 2017. There were no options exercised during the current or prior period. The weighted average fair value of each option granted during the period was nil as no options were granted (2016: £nil).

The fair value of employee share options is measured using the Black Scholes model. No options were granted in 2017.

## 18 Provisions

	Onerous Contracts and Dilapidations £'000
Balance at 1 January 2017	83
Provisions made during the period	3
Provisions used during the period	(1)
<b>Balance at 31 December 2017</b>	<b>85</b>
Non-current at 31 December 2016	75
Current at 31 December 2016	8
	<b>83</b>
Non-current at 31 December 2017	70
Current at 31 December 2017	15
	<b>85</b>

Onerous contracts and dilapidations predominantly relate to the costs payable on properties which have been vacated and incremental costs that will be incurred on exiting existing properties where a commitment to do so exists at the balance sheet date.

## 19 Capital

### Share capital

	31 December 2017 £'000	31 December 2016 £'000
<b>Allotted, called up and fully paid</b>		
Ordinary shares of £0.0001 each (339,645,061 shares; 2016: 339,645,061)	34	34
Deferred shares of £0.02 each (212,872,170 shares; 2016: 212,872,170)	4,240	4,240
	<b>4,274</b>	<b>4,274</b>

The holders of ordinary shares are entitled to receive dividends when declared and are entitled to one vote per share at meetings of the Company. The deferred shares do not carry any dividend and voting rights and have limited rights in a winding up of the company.

## 20 Reserves

### Share premium

The share premium account represents the excess of the proceeds from the issue of shares over the nominal value of shares issued less related issue costs.

### Capital redemption reserve

The capital redemption reserve relates to the cancellation of the Company's own shares.

### Capital contribution reserve

The capital contribution reserve represents contributions from shareholders.

# Notes to the financial statements

(forming part of the financial statements)

## 21 Operating leases

The total future minimum lease payments of non-cancellable operating lease rentals are payable as follows:

	31 December 2017 £'000	31 December 2016 £'000
Less than 1 year	370	395
Between 1 and 5 years	118	444
More than 5 years	1	—
	<b>489</b>	<b>839</b>

During the period £350,186 was recognised as an expense in the income statement in respect of operating leases (2016: £348,893), excluding amounts charged in respect of onerous contracts.

## 22 Related party transactions

The Company has Loan Notes amounting to £1,860,000 with BMN Commercial Limited, which are due for repayment in September 2022. Under the AIM Rules, BMN Commercial Limited is deemed to be a related party as the owners of BMN Commercial Limited are relatives of a substantial shareholder.

There was interest of £99,165 paid to BMN Commercial Limited for the year ended 31 December 2017 (2016: £60,947).

### Clement May Limited

R Ward is a director of Clement May Limited

Receipts for services provided to Clement May Limited

2017	2016
<b>£24,000</b>	£25,577

### Support on the Spot Limited

R Ward is a director of Support on the Spot Limited

Payments for services provided by Support on the Spot Limited

2017	2016
<b>£31,069</b>	£233,848

Receipts for services provided to Support on the Spot Limited

<b>£4,800</b>	—
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Amounts due from Support on the Spot Limited at the year end

<b>£30,000</b>	—
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The ultimate controlling party of the Company is Mr PA Bell.

# Company balance sheet

At 31 December 2017

Registered Number 2228050

	Note	31 December 2017		31 December 2016	
		£'000	£'000	£'000	£'000
<b>Fixed assets</b>					
Property, plant and equipment	26		198		288
Investments	27		2,130		3,758
			<b>2,328</b>		<b>4,046</b>
<b>Current assets</b>					
Debtors – due within 1 year	28	4,904		4,649	
Cash at bank and in hand		74		33	
		<b>4,978</b>		<b>4,682</b>	
<b>Creditors: amounts falling due within 1 year</b>					
Trade and other payables	29	1,313		728	
Loans and borrowings	30	—		300	
Provisions	31	15		8	
		<b>1,328</b>		<b>1,036</b>	
<b>Net current assets</b>			<b>3,650</b>		<b>3,646</b>
<b>Total assets less current liabilities</b>			<b>5,978</b>		<b>7,692</b>
<b>Creditors: amounts falling due after 1 year</b>					
Loans and borrowings	30		1,543		1,881
Provisions	31		70		75
<b>Net assets</b>			<b>4,365</b>		<b>5,736</b>
<b>Capital and reserves</b>					
Called up share capital	32		4,274		4,274
Share premium account	33		14,746		14,746
Capital contribution reserve	33		810		768
Capital redemption reserve	33		2		2
Profit and loss account			(15,467)		(14,054)
<b>Shareholders' funds</b>			<b>4,365</b>		<b>5,736</b>

Kellan Company's loss for the current year is £1,412,881 (2016: loss of £1,634,678)

These financial statements were approved by the Board of directors on 22 March 2018 and were signed on its behalf by:



**Richard Ward**  
Director



**Rakesh Kirpalani**  
Director

**Company statement of changes in equity**  
as at 31 December 2017

**Registered Number 2228050**

	Share Capital £'000	Share premium account £'000	Convertible reserve £'000	Capital contribution reserve £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total Equity £'000
<b>Balance at 1 January 2016</b>	<b>4,274</b>	<b>14,746</b>	<b>170</b>	<b>—</b>	<b>2</b>	<b>(12,419)</b>	<b>6,773</b>
Loss for the period	—	—	—	—	—	(1,635)	(1,635)
Equity component of convertible loan notes	—	—	(170)	—	—	—	(170)
Capital contribution	—	—	—	768	—	—	768
<b>Balance at 31 December 2016</b>	<b>4,274</b>	<b>14,746</b>	<b>—</b>	<b>768</b>	<b>2</b>	<b>(14,054)</b>	<b>5,736</b>
Loss for the period	—	—	—	—	—	(1,413)	(1,413)
Capital contribution	—	—	—	42	—	—	42
<b>Balance at 31 December 2017</b>	<b>4,274</b>	<b>14,746</b>	<b>—</b>	<b>810</b>	<b>2</b>	<b>(15,467)</b>	<b>4,365</b>

# Notes to the financial statements of the Company

(forming part of the financial statements)

## 23 Accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in the Company financial statements and are in accordance with applicable accounting standards.

### ***Basis of preparation***

The financial statements have been prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101") on a going concern basis as set out in note 1.

### ***Disclosure exemptions adopted***

In preparing these financial statements the company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore these financial statements do not include:

- certain comparative information as otherwise required by EU endorsed IFRS;
- certain disclosures regarding the company's capital;
- a statement of cash flows;
- the effect of future accounting standards not yet adopted;
- the disclosure of the remuneration of key management personnel; and
- disclosure of related party transactions with other wholly owned members of Kellan Group Plc group of companies.

In addition, and in accordance with FRS 101 further disclosure exemptions have been adopted because equivalent disclosures are included in the company's consolidated financial statements. These financial statements do not include certain disclosures in respect of:

- Share based payments;
- Financial instruments; or
- Fair value measurement (other than certain disclosures required as a result of recording financial instruments at fair value).

### ***Principal accounting policies***

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

### ***Basis of accounting***

The financial statements have been prepared under the historical cost convention. The presentation currency used is sterling and amounts have been presented in round thousands ("£'000s").

### ***Investments***

Investments held as fixed assets are stated at cost less any provision for permanent diminution in value.

### ***Share-based payment transactions***

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black Scholes option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

### ***Pension costs***

The Group makes contributions to money purchase pension schemes of certain staff and directors. The assets of the schemes are held separately from those of the Group in independently administered funds. Contributions are charged to profit and loss in the period in which they are payable.

### ***Finance costs***

Finance costs associated with the issue of debt are deducted from the carrying value of the debt and charged to profit over the term of the debt so that the amount charged is at a constant rate on the carrying amount.

# Notes to the financial statements of the Company

(forming part of the financial statements)

## 23 Accounting policies continued

### *Financial instruments*

Financial instruments are measured initially and subsequently at cost. Financial liabilities and equity are classified according to the substance of the financial instruments' contractual obligations rather than the financial instruments' legal form.

### *Share capital*

The Group's ordinary shares are classified as equity instruments.

## 24 Profit and loss account

A separate profit and loss account for the Company is not presented. In accordance with Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account. The company's loss after tax for the financial year is £1,412,881 (2016: £1,634,678 loss) which is dealt with in the financial statements of the parent company.

The remuneration of the directors of the Company is disclosed in note 4 to the group financial statements.

Auditor's remuneration is disclosed in to note 3 to the group financial statements.

## 25 Staff numbers and costs

The only employees of the Company at the period end were 4 directors (2016: 4) and 18 Group employees (2016: 17). The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Wages and salaries	893	891
Social security costs	94	94
Contributions to money purchase pension schemes	31	32
	<b>1,018</b>	<b>1,017</b>

Details of directors' emoluments, share option schemes and pension entitlements are given in the note 4.



# Notes to the financial statements of the Company

(forming part of the financial statements)

## 26 Property, plant and equipment

	Short leasehold premises and improvements £'000	Computer and office equipment £'000	Total £'000
<b>Cost</b>			
Balance at 1 January 2017	512	897	1,409
Additions	—	28	28
Disposals	—	—	—
Balance at 31 December 2017	512	925	1,437
<b>Depreciation and impairment</b>			
Balance at 1 January 2017	470	651	1,121
Depreciation charge for the year	19	99	118
Balance at 31 December 2017	489	750	1,239
<b>Net book value</b>			
At 31 December 2016	42	246	288
<b>At 31 December 2017</b>	<b>23</b>	<b>175</b>	<b>198</b>

## 27 Fixed asset investments

	Total £'000
<b>Cost</b>	
At 1 January 2017 and 31 December 2017	32,659
<b>Provisions</b>	
At 1 January 2017	28,901
Provided in year	1,628
At end of year	30,529
<b>Net book value</b>	
At 31 December 2016	3,758
<b>At 31 December 2017</b>	<b>2,130</b>

The Company has the following investments in subsidiaries:

	Country of Incorporation	Class of shares held	Ownership	
			2016	2015
Berkeley Scott Limited	England and Wales	Ordinary	100%	100%
Quantica Limited	England and Wales	Ordinary	100%	100%
Quantica Group Limited <sup>(1)</sup>	England and Wales	Ordinary	100%	100%
Quantica Solutions Limited <sup>(1)</sup>	England and Wales	Ordinary	100%	100%
RK Group Limited <sup>(1)</sup>	England and Wales	Ordinary	100%	100%
Robinson Keane Limited <sup>(1)</sup>	England and Wales	Ordinary	100%	100%

(1) indirectly held

The registered address for all subsidiaries is the same as for Kellan Group Plc as listed on page 6.

# Notes to the financial statements of the Company

(forming part of the financial statements)

## 28 Debtors

	31 December 2017 £'000	31 December 2016 £'000
Trade Debtors	178	—
Amounts owed by Group undertakings	4,483	4,093
Other receivables	12	232
Prepayments and accrued income	231	324
	<b>4,904</b>	<b>4,649</b>

## 29 Trade and other payables

	31 December 2017 £'000	31 December 2016 £'000
Trade and other creditors	669	69
Accruals and deferred income	644	659
	<b>1,313</b>	<b>728</b>

## 30 Loans and borrowings

### Current liabilities

	31 December 2017 £'000	31 December 2016 £'000
Loan notes	—	300
	<b>—</b>	<b>300</b>

### Non-current liabilities

	31 December 2017 £'000	31 December 2016 £'000
Other loan	1,543	1,881
	<b>1,543</b>	<b>1,881</b>

The maturity of loans and overdrafts is as follows:

	31 December 2017 £'000	31 December 2016 £'000
Less than 1 year	—	300
1 to 2 years	—	—
2 to 5 years	1,543	1,881
	<b>1,543</b>	<b>2,181</b>

See note 14 for further information.

# Notes to the financial statements of the Company

(forming part of the financial statements)

## 31 Provisions

	Onerous Contracts and Dilapidations £'000
Balance at 1 January 2017	83
Provisions made during the period	3
Provisions used during the period	(1)
<b>Balance at 31 December 2017</b>	<b>85</b>
Non-current at 31 December 2016	75
Current at 31 December 2016	8
	<b>83</b>
Non-current at 31 December 2017	70
Current at 31 December 2017	15
	<b>85</b>

Onerous contracts and dilapidations predominantly relate to the costs payable on properties which have been vacated and incremental costs that will be incurred on exiting existing properties where a commitment to do so exists at the balance sheet date.

## 32 Called up share capital

	31 December 2017 £'000	31 December 2016 £'000
<b>Allotted, called up and fully paid</b>		
Ordinary shares of £0.0001 each (339,645,061 shares; 2016: 339,645,061)	34	34
Deferred shares of £0.02 each (212,872,170 shares; 2016: 212,872,170)	4,240	4,240
	<b>4,274</b>	<b>4,274</b>

See note 19 for further information.

Details of share options are given in note 17.

## 33 Reserves

### Share premium

The share premium account represents the excess of the proceeds from the issue of shares over the nominal value of shares issued less related issue costs.

### Capital redemption reserve

The capital redemption reserve relates to the cancellation of the Company's own shares.

### Capital contribution reserve

The capital contribution reserve represents contributions from shareholders.

## 34 Contingent liabilities

At 2017 period end the invoice discounting overdraft balances in the Company's subsidiaries amounted to £3,230,000 and were secured by cross guarantees and mortgage debentures on the Company (2016: £3,075,000).

# Notes to the financial statements of the Company

(forming part of the financial statements)

## 35 Pension scheme

### ***Defined contribution pension scheme***

The Company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £29,000 (2016: £32,000).

£600 of pension contributions remained outstanding at the end of the financial period (2016: £400).

# Notice of Annual General Meeting

(incorporated in England and Wales under the Companies Act 2006 with registration number 02228050)

## THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice from your stockbroker or other independent legal adviser authorised under the Financial Services and Markets Act 2000.

If you have sold or transferred all of your shares in The Kellan Group plc (the "Company") please forward this document, together with the accompanying proxy form, as soon as possible, either to the purchaser or transferee or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

Notice is hereby given that the Annual General Meeting ("AGM") of The Kellan Group plc ("the Company") will be held at 4th Floor, 27 Mortimer Street, London, W1T 3BL at 2pm on 27 April 2018 for the following purposes:

### Ordinary Business

To consider and, if thought fit, pass the following resolutions which will be proposed as ordinary resolutions:

#### **Resolution 1**

THAT the Directors' Report, statement of accounts and Independent Auditor's Report for the year ended 31 December 2017 be received and approved.

#### **Resolution 2**

THAT Mr R Ward who retires as a Director by rotation in accordance with the Company's Articles of Association, be re-elected as a Director.

#### **Resolution 3**

THAT Moore Stephens LLP who were appointed since the last Annual General Meeting, be re-appointed as auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.

#### **Resolution 4**

To authorise the Directors to determine the auditors' remuneration.

### Special Business

To consider and if thought fit, pass the following resolutions, of which resolution 5 will be proposed as an ordinary resolution and resolutions 6 and 7 will be proposed as special resolutions:

#### **Resolution 5**

THAT the Directors of the Company be and are hereby generally and unconditionally authorised pursuant to and in accordance with section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company or grant rights to subscribe for or convert any security into shares in the Company ("Rights"):

- (a) up to a maximum aggregate nominal amount equal to £11,320; and
- (b) comprising equity securities (as defined in section 560(1) of the Companies Act 2006) up to a further nominal amount of £11,320, in connection with an offer by way of a rights issue,

The authority hereby conferred shall expire at the conclusion of the next AGM of the Company or the date falling 15 months after the passing of this resolution, whichever is the earlier (both dates inclusive). Under the authority hereby conferred the Directors of the company may before such expiry make arrangements which would or might require relevant securities to be allotted after such expiry, and the Directors of the Company may allot such relevant securities as if the authority hereby conferred had not expired.

For the purposes of this resolution, "rights issue" means an offer to:

- i. ordinary shareholders in proportion (as nearly as practicable) to their existing holdings; and

# Notice of Annual General Meeting

(incorporated in England and Wales under the Companies Act 2006 with registration number 02228050)

- ii. people who are holders of other equity securities if this is required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities,

to subscribe further securities by means of the issue of a renounceable letter (or other negotiable document) which may be traded for a period before payment for the securities is due, but subject in both cases to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or legal, regulatory or practical problems in, or under the laws of, any territory.

The authority proposed under this resolution 5 is in addition and without prejudice to any subsisting unutilised authorities conferred upon the Directors under section 80 of the Companies Act 1985 or section 551 of the Companies Act 2006 and is without prejudice to any allotment of shares or grant of rights already made or offered or agreed to be made pursuant to all previous authorities conferred on the Directors in accordance with such sections.

## Resolution 6

THAT, subject to the passing of the preceding resolution, the Directors be and are hereby empowered in accordance with section 570 of the Companies Act 2006 to allot equity securities (as defined in Section 560(1) of the Companies Act 2006) wholly for cash:

- (a) pursuant to the authority given by paragraph (a) of resolution 5 above or where the allotment constitutes an allotment of equity securities by virtue of Section 560(2) of the Companies Act 2006:
  - i in connection with a pre-emptive offer; and
  - ii otherwise than in connection with a pre-emptive offer, up to an aggregate nominal amount of £6,793; and
- (b) pursuant to the authority given by paragraph (b) of resolution 5 above in connection with a rights issue,

as if Section 561(1) of the said Act did not apply to any such allotment, such power to expire at the conclusion of the next AGM of the Company or the date falling 15 months after the passing of this resolution, whichever is the earlier (both dates inclusive) but so that the Company may before the expiry of any power contained in this resolution make offers or enter agreements which would, or might, require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

For the purposes of this resolution:

- i. "rights issue" has the same meaning as set out in resolution 5 above;
- ii. "pre-emptive offer" means an offer of equity securities open for acceptance for a period fixed by the Directors to holders (other than the Company) on the register on a record date fixed by the Directors of ordinary shares in proportion to their respective holdings but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or legal, regulatory or practical problems in, or under the law of, any territory;
- iii. references to an allotment of equity securities shall include a sale of treasury shares; and
- iv. the nominal amount of any securities shall be taken to be, in the case of rights to subscribe for or convert any securities into shares of the Company, the nominal amount of such shares which may be allotted pursuant to such rights.

## Resolution 7

THAT, the Company be and is hereby generally and unconditionally authorised pursuant to and in accordance with section 701 of the Companies Act 2006 to make market purchases (within the meaning of section 693(4) of the said Act) of ordinary shares in the capital of the Company on such terms and in such manner as the Directors of the Company shall from time to time determine provided that:

# Notice of Annual General Meeting

(incorporated in England and Wales under the Companies Act 2006 with registration number 02228050)

- (a) the maximum aggregate number of ordinary shares so authorised to be purchased shall not exceed 10% of the present issued ordinary share capital of the Company;
- (b) the minimum price which may be paid for an ordinary share shall be 0.01 pence, such minimum price being exclusive of any advance corporation tax and any expenses;
- (c) the maximum price, exclusive of expenses, which may be paid for an ordinary share is an amount equal to 105% of the average middle market prices for an ordinary share taken from the London Stock
- (d) Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased;
- (e) the authority conferred comes to an end at the conclusion of the next AGM of the Company, or if earlier, 15 months from the date of passing this resolution, unless previously revoked, varied or renewed by the Company in general meeting provided that:
  - i. the Company may make a contract or contracts to purchase ordinary shares under this authority prior to its expiry which will or may be executed wholly or partly after the expiry of the authority; and
  - ii. the Company may make a purchase of ordinary shares in pursuance of any such contract or contracts as if the power conferred hereby had not expired.

The Directors of the Company consider that all the proposals to be considered at the AGM are in the best interests of the Company and its members as a whole and are most likely to promote the success of the Company for the benefit of its members as a whole. The Directors unanimously recommend that you vote in favour of all the proposed resolutions as they intend to do in respect of their own beneficial holdings.

By order of the Board



Richard Ward  
Executive Chairman  
22 March 2018

REGISTERED OFFICE

The Kellan Group Plc  
4th Floor  
27 Mortimer Street  
London  
W1T 3BL

# Notice of Annual General Meeting

(incorporated in England and Wales under the Companies Act 2006 with registration number 02228050)

## Notes

### Voting and Proxies

1. A form of proxy is enclosed for use by shareholders and, if appropriate, must be deposited with the Company's registrars, Link Asset Services at PXS 1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF not less than 48 hours before the time of the AGM. Appointment of a proxy does not preclude a shareholder from attending the AGM and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
2. A shareholder entitled to attend and vote at the AGM may appoint one or more proxies (who need not be a member of the Company) to attend and to speak and to vote on his or her behalf whether by show of hands or on a poll. A member can appoint more than one proxy in relation to the AGM, provided that each proxy is appointed to exercise the rights attaching to different shares held by him. A form of proxy is enclosed with this notice and instructions for its use are set out on the form. In order to be valid an appointment of proxy (together with any authority under which it is executed or a copy of the authority certified notarially) must be either (a) sent to the Company's registrars, Link Asset Services at PXS 1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF, or (b) the proxy appointment must be lodged using the CREST Proxy Voting Service in accordance with note 3 below, in each case so as to be received not less than 48 hours before the time of the AGM. In the event of a conflict between a blank proxy form and a proxy form that states the number of shares to which it applies, the specific proxy form shall be counted first regardless of whether it was sent or received before or after the blank proxy form, and any remaining shares in respect of which the shareholder is a registered holder will be apportioned to the blank proxy form.
3. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the AGM and any adjournment(s) thereof by using the procedures described in the CREST Manual (available from <https://www.euroclear.com/site/public.EUI>). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("EUI") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the Company's agent, Link Asset Services (CREST Participant ID: RA10) by 2pm 25 April 2018. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001.

4. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
5. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard-copy notice clearly stating your intention to revoke your proxy appointment to Link Asset Services at PXS 1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF. In the case of a member that is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an



# Notice of Annual General Meeting

(incorporated in England and Wales under the Companies Act 2006 with registration number 02228050)

attorney of the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received not less than 48 hours before the time of the AGM. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to note 1 above, your proxy appointment will remain valid.

6. A proxy does not need to be a member of the Company but must attend the AGM to represent you. Details of how to appoint the Chairman of the AGM or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the AGM you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
7. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
8. A corporation that is a shareholder can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.
9. Pursuant to regulation 41 of the Uncertified Securities Regulations 2001, the Company specifies that only those persons with his/her name entered on the register of members of the Company at close of business on 25 April 2018 (or if the AGM is adjourned, 48 hours before the adjourned AGM) shall be entitled to attend and vote at the AGM in respect of the number of shares registered in their name at that time. Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the AGM.
10. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the AGM.
11. Any shareholder attending the AGM has the right to ask questions. The Company must answer any question you ask relating to the business being dealt with at the AGM unless:
  - answering the question would interfere unduly with the preparation for the AGM or involve the disclosure of confidential information;
  - the answer has already been given on a website in the form of an answer to a question; or
  - it is not in the interests of the Company or the good order of the AGM that the question be answered.
12. Information regarding the AGM is available from [www.kellangroup.co.uk](http://www.kellangroup.co.uk).
13. As at close of business on 21 March 2018, being the last practicable date prior to publication of the Notice of the AGM, the Company's issued share capital comprised 339,645,061 ordinary shares of £0.0001 each. Each ordinary share held 48 hours (excluding weekends and bank holidays) before the AGM carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at close of business on 21 March 2018 was 339,645,061. The website referred to in note 12 will include information on the number of shares and voting rights.
14. The following documents are available for inspection at the registered office of the Company during the usual business hours (Saturday, Friday or public holidays excluded) from the date of this Notice until the time of the AGM and at the AGM venue itself for at least 15 minutes prior to the AGM and until the end of the AGM:
  - (a) the register of Directors' interest in the shares of the Company; and
  - (b) copies of all Directors' Service Contracts and letters of appointment.
15. Except as provided above, shareholders who have general enquiries about the AGM should use the following means of communication (no other methods of communication will be accepted):
  - (a) calling 0371 664 0300 (calls cost 12p per minute plus network extras; lines are open 9:00 am to 5.30 pm, Mon-Fri)

# Notice of Annual General Meeting

(incorporated in England and Wales under the Companies Act 2006 with registration number 02228050)

(b) by emailing [enquiries@linkgroup.co.uk](mailto:enquiries@linkgroup.co.uk); or

(c) by writing to Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

You may not use any electronic address provided either in this Notice of AGM or any related documents (including the proxy form) to communicate with the Company for any purposes other than those expressly stated.

## **Explanation of the resolutions contained in the Notice of Meeting**

The purpose of this section (which does not form part of the notice) is to explain certain elements of the business to be considered at the AGM. Resolutions 1, 2, 3 and 4 are standard matters that are dealt with at every AGM. Resolutions 5, 6 and 7 are special business to be considered at the AGM.

## **Ordinary Business**

### **Approval of Report and Accounts (Resolution 1)**

Shareholders will be asked to approve the Directors' Report and the audited accounts for the year ended 31 December 2017. A copy of the Directors' Report is available on our website [www.kellangroup.co.uk](http://www.kellangroup.co.uk) and copies will be available at the AGM.

### **Re-Election of Directors (Resolution 2)**

The Articles of Association provide for the retirement and re-election of Directors by rotation every three years.

Mr R Ward is proposed for re-election as a Director.

Accordingly, the Board unanimously recommends the re-election of Mr R Ward.

### **Re-appointment of Auditors (Resolutions 3 and 4)**

Shareholders will be asked to vote on the re-appointment of Moore Stephens LLP as the Company's auditors and to authorise the Directors to agree the remuneration of the auditors.

## **Special Business**

### **Authority to Allot Shares (Resolution 5)**

The Companies Act 2006 provides that Directors shall only allot unissued shares (or grant certain rights over shares) with the prior authority of the shareholders in general meeting. The existing authority granted to the Directors at the last General Meeting of the Company held on 19 July 2017 to allot unissued ordinary shares expires at the conclusion of the AGM.

The Board of Directors considers it appropriate that Directors continue to have the authority to allot unissued ordinary shares. Therefore, resolution 5 seeks to grant a new authority, pursuant to section 551 of the Companies Act 2006, to authorise the Directors to allot new shares in the Company and grant rights to subscribe for, or convert other securities into, shares in the Company.

The authority in paragraph (a) of resolution 5 will be proposed to allow the Directors to allot new shares (and other relevant securities as defined within section 551 of the Companies Act 2006) with a nominal value up to £11,320 which is equivalent to approximately 33.33% of the total current issued ordinary share capital of the Company, exclusive of treasury shares, as at 6pm on 21 March 2018 being the last practicable date prior to publication of this notice). The authority at paragraph (b) of resolution 6 will be proposed to allow the Directors to allot new shares and other relevant securities in connection with a pre-emptive offer by way of a rights issue up to a further nominal value of £11,320.

Although the Directors have no present intention to exercise the authority proposed by resolution 5, the Directors consider it desirable to have the flexibility to allow them to respond to market developments and to enable allotments to take place to finance business opportunities as they arise.

# Notice of Annual General Meeting

(incorporated in England and Wales under the Companies Act 2006 with registration number 02228050)

If approved, the authority granted under resolution 5 will be valid until the conclusion of the AGM of the Company to be held in 2019 or, if earlier, the close of business on the date falling 15 months from the date of the resolution, subject to the exception set out in resolution 5. The Directors intend to renew such power at successive AGMs in accordance with current best practice.

As at the close of business on 21 March 2018 the Company held no treasury shares.

The authority proposed under resolution 5 is in substitution for the authority granted to the Directors under the special resolution passed on 19 July 2017.

## Dis-application of Statutory Pre-Emption Rights (Resolution 6)

If the Directors wish to allot new shares and other equity securities, or sell treasury shares, for cash (other than in connection with the executive or employee share scheme), Company law requires that these shares are offered first to existing Members in proportion to their existing holdings.

If approved, this resolution (which is proposed as a special resolution) will enable the Directors to allot new shares in the Company, and to sell treasury shares, for cash, as if the pre-emption restrictions set out in section 561 of the Companies Act 2006 did not apply.

The purpose of paragraph (a) to resolution 6 is to authorise the Directors to allot new shares pursuant to the authority given in paragraph (a) of resolution 5, or sell treasury shares, for cash:

- a) in connection with a pre-emptive offer; or
- b) otherwise up to a nominal value of £6,793, equivalent to 20% of the total issued ordinary share capital of the company as at 6pm on 21 March 2018, being the latest practicable date before the publication of this notice,

in each case without the shares first being offered to existing shareholders in proportion to their existing holdings.

The purpose of paragraph (b) of resolution 6 is to authorise Directors to allot new shares pursuant to the authority given in paragraph (b) of resolution 5, or sell treasury shares, for cash in connection with a rights issue without the shares first being offered to existing Members in proportion to their existing holdings.

If approved, the authority will be valid until the conclusion of the AGM in 2019 or 15 months from the date of the resolution, whichever is the sooner.

The Directors consider the authority in resolution 6 to be appropriate in order to allow the Company flexibility to finance business opportunities, ensure adequate management incentives via options or to conduct a pre-emptive offer or rights issue without the need to comply with the strict requirements of the statutory pre-emption provisions.

The authority proposed under resolution 6 is in substitution for the authority granted to the Directors under the special resolution passed on 19 July 2017.

## Authority to Make Market Purchases (Resolution 7)

Resolution 7 will be proposed as a special resolution for the renewal of the Company's authority to purchase its own shares in the market provided that the maximum number of shares so authorised shall not exceed 10% of the issued share capital of the Company. The price payable shall be not more than 5% above the average price of the middle market quotation as served from the Daily Official List of London Stock Exchange plc for the ordinary shares for the 5 business days before the purchase is made and in any event not less than 0.01 pence per share, being the nominal value of the shares.

It is the Directors' intention only to exercise the authority to purchase the Company's shares where it would increase the earnings per share of those ordinary shares that are not re-purchased. The Company intends either to cancel such shares or to hold them in treasury. This power will only be used if the Directors consider that to do so would be in the best interests of the shareholders generally.