The Kelly Group

Kelly Group Limited

(Incorporated in the Republic of South Africa)
(Registration number 1999/026249/06)
Share code: KEL ISIN: ZAE000093373
("Kelly Group" or "the Company")

Acquisition of iChoices Call Centre Outsourcing (Proprietary) Limited and withdrawal of cautionary announcement

1 Introduction

Further to the cautionary announcements released on SENS on 20 September 2007 and 31 October 2007, shareholders are advised that Kelly Group has entered into an agreement with MMC Holdings (Proprietary) Limited and Crestwell Trading 2 (Proprietary) Limited ("the Sellers") ("the Sale Agreement") to purchase the entire issued share capital of iChoices Call Centre Outsourcing (Proprietary) Limited ("iChoices") ("the Acquisition").

2 The Acquisition

2.1 Rationale

The Acquisition was a strategic one designed to extend the group's presence in the high-growth call centre sector. Kelly Group already provides staffing for call centres and through iChoices will now also offer call centre infrastructure and facilities, thus providing the market with a one-stop service. iChoices is a leading-edge call centre outsourcing provider that is well versed in face-to-face, as well as telephonic and electronic customer relationships. iChoices is able to offer a variety of solutions ranging from renting call centre facilities to a complete outsourcing solution. Operating principally in Johannesburg and Cape Town, iChoices operates in a core business that enhances the current business processing outsourcing offerings of Kelly Group. This allows for the leveraging of client relationships and enhanced offerings. It is anticipated that the Acquisition will be earnings enhancing in the short and medium term.

2.2 The Acquisition consideration

The Acquisition consideration will be calculated in accordance with a formula based on the audited financial statements of iChoices for the 12 months ending 31 December 2007. The Acquisition consideration is subject to the adjustment based on iChoices achieving profit warranties for the years 2008 to 2010, provided that the total consideration payable by Kelly Group in relation to the Acquisition (including any agterskot payment and/or other payment) shall not exceed R110 000 000.

The Acquisition consideration shall be discharged in cash in four annual tranches and 50% of each tranche shall be applied by the Sellers to purchase listed shares ("Kelly Group shares") in Kelly Group on the open market and Kelly Group will purchase the shares as agent for the Sellers. The first tranche of the purchase price is payable on the effective date of the Acquisition and the further tranches are payable annually after the determination of the warranted profits for each of the years 2008 to 2010.

The Kelly Group shares will be acquired at the 30-day weighted average market price immediately preceding the payment date of the particular tranche. In terms of the Sale Agreement, certain restrictions have been placed on the Sellers in relation to their ability to dispose of the Kelly Group shares.

The Sale Agreement signed on 13 November 2007 does not contain any warranties that are unusual in transactions of this nature.

2.3 Pro forma financial effects of the Acquisition

The table below sets out the unaudited pro forma financial effects of the Acquisition on earnings per share ("EPS"), headline EPS, net asset value ("NAV") and net tangible asset value ("NTAV") per share.

The unaudited pro forma financial effects are the responsibility of the directors and have been prepared for illustrative purposes only to provide information about how the Acquisition may impact shareholders on the relevant reporting date and because of its nature may not give a fair reflection of the Company's financial position, changes in equity, results of operations or cash flows after implementation of the Acquisition or of the Company's future earnings.

	Before the Acquisition(1) (cents)	After the Acquisition(2,3,4,5) (cents)	Change (%)
EPS	19.2	3.86	(80)
Headline EPS	19.2	3.86	(80)
NAV per share	(181.09)	(181.09)	-
NTAV per share	(387.99)	(532.40)	(37)
Weighted average shares in issue (000)	46 555	46 555	-
Shares in issue (000)	65 479	65 479	-

The financial effects are based on the following:

1 the published unaudited interim results of Kelly Group for the six-months ended 31 March 2007;
2 earnings and headline earnings effects are based on the following assumptions:
  a the Acquisition was effective 1 October 2006;
  b the cash consideration of R110 000 000 was financed by bank borrowings incurring interest at 13.5% pa; and
  c deferred tax has been raised at 29% on current year iChoice losses;
3 NAV and NTAV effects are based on the following assumptions:
  a the Acquisition was effective 31 March 2007 for balance sheet purposes;
  b the cash consideration of R110 000 000 was financed by bank borrowings incurring interest at 13.5% pa; and
  c the Sellers will make good any net liability value prior to the Acquisition;
4 a purchase price allocation exercise will need to be performed at the effective date of the Acquisition in terms of IFRS3: Business Combinations. For purposes of the pro forma financial effects, the difference between the carrying value of the assets and liabilities acquired has been allocated to goodwill; and
5 the number of ordinary shares in issue and weighted number of shares does not change as a result of the Acquisition.

The negative change in the financial information provided above is due to the nature of the call centre industry. Accordingly, the business incurred losses during the first months of trading due to high setup costs.

3 Effective date and conditions precedent

The effective date of the Acquisition is the later of:

- the first business day after the fulfilment of the last of the conditions; or
- 14 days after determination of the profits for the financial year ending 31 December 2007; or
- receipt by the Kelly Group of signed audited financial statements for the 12 months ending 31 December 2007.

The implementation of the Acquisition is subject to the fulfillment of the following conditions precedent:

- the satisfactory completion of the due diligence by 28 February 2008;
- the Acquisition being unconditionally approved by the Competition Commission and/or Competition Tribunal (as the case may be);
- supplier and customer approvals to the extent necessary, or required by Kelly Group in respect of a change of control in iChoices; and
- signature of Restraint Agreements by other key parties identified by Kelly Group within 30 days of the signature of the Sale Agreement.

4 Withdrawal of cautionary announcement

Shareholders are advised that caution is no longer required to be exercised by shareholders when dealing in their Kelly Group shares.

Sandton
14 November 2007

Merchant bank and sponsor

RAND MERCHANT BANK
A division of FirstRand Bank Limited

Attorneys

read hope phillips
ATTORNEYS