

InterQuest Group plc ("InterQuest" or "the Group") Interim Results

InterQuest Group plc (AIM: ITQ), the specialist IT Recruitment Group, is pleased to announce its unaudited interim results for the six months ended 30 June 2011.

Financial highlights

- Revenue up 10% to £61,057,000 (2010: £55,332,000)
- Net Fee Income ("NFI") up 11% to £7,812,000 (2010: £7,035,000)
- Adjusted EBITA up 2% to £1,761,000 (2010: £1,730,000)
- Loss before taxation of £1,669,000 (2010: profit of £1,060,000) after £2,892,000 of exceptional costs (2010: £nil)
- Diluted adjusted earnings per share 3.8 pence (2010: 3.8 pence)
- Basic loss per share (5.6) pence (2010: 2.7 pence)
- Net cash generated from operating activities £2.5m (2010: £1.4m)
- Net debt £5.4m (2010: £2.7m)
- Interim dividend of 0.5 pence to be paid on 28 October 2011

Operational highlights

- Robust growth across the majority of divisions, reflecting continued resilience of our niche IT recruitment model
- Strong growth in net fee income from private sector markets, particularly banking and finance and retail has more than offset the anticipated decrease in public sector activity
- IQ Equity start up division delivered first half year of profitability
- Group fee earner headcount increased by 24% to 170 at 30 June 2011 (30 June 2010: 137)
- Continued resilience of our niche IT recruitment model
- Appointment of Mark Braund as the Group's new Chief Executive Officer on 25 April 2011
- Acquisition of Contract Connection Limited ("CCL") on 21 June 2011
- Singapore Managing Director appointed on 1 September and office expected to open in Q4

Gary Ashworth, Chairman of InterQuest, commented, "The general economic outlook appears to have improved slightly during 2011 however future trends are difficult to predict. Our focus is therefore on the strong operational management of the Group and we were delighted to report growth in many areas of the business and in particular the profitability of our IQ Equity division. We continue to closely monitor costs but are investing carefully for the future by hiring and training new fee earners via our own iQaD programme and progressing with select international expansion plans. The second half of the year has begun strongly and we expect full year trading to be in line with expectations."

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About InterQuest

The InterQuest Group is a specialist IT recruitment Group providing contract and permanent recruitment services within niche disciplines in the UK and Europe. The Group comprises eleven separately branded specialist divisions covering demand for key skill sets including; Java, SAP, CRM Testing, Infrastructure, Analytics and Telecommunications and demand in key industry sectors including; Banking and Financial Services, Insurance, Legal, Media, Public Sector, Not-for-Profit and Retail. In addition the Group has majority shareholdings in four further specialist businesses within the IQ Equity division.

Review:

The Group has had a solid first half of 2011 with trading strengthening in the majority of our divisions. Overall, the Group experienced 10% growth in Revenue, 11% growth in NFI and 2% growth in adjusted EBITA (excluding exceptional costs, amortisation and movement in the fair value of employee share options) in the first half of 2011 compared to the first half of 2010. This has been achieved despite a decrease of 36% in the NFI from our public sector focused business, Sand Resources, as we had anticipated, thereby demonstrating both the resilience of our business model and the strength of growth in the private sector.

Our private sector focussed businesses saw increased demand for both permanent and contract recruitment services, with the areas of financial services and retail showing the largest increases in revenue, accounting for 39% (31% in H1 2010) and 16% (H1 2010 8%) of Group turnover respectively.

We continue to carefully manage our portfolio of businesses; optimising operations in areas of modest growth whilst increasing investment in select niche markets prone to demand with limited supply, these suit our high-value, network driven recruitment techniques. As a result we are beginning to see an improvement in gross margins counter-acting the past downward pressure on margins experienced in the broader recruitment market.

A renewed focus on expanding our permanent recruitment capability has lifted NFI from permanent recruitment 29% higher in the first half of 2011 at £2,282k (2010: £1,765k) and contract recruitment margin was 5% higher at £5,530k (2009: £5,270k).

The number of contractors working onsite at clients was 1,274 in the last week of June (including 163 in CCL) compared to 1,127 in the last week of June 2010.

We are pleased to report that our business incubator division, IQ Equity has reached profitability in line with our expectations, returning a positive EBIT contribution for the first time. It made a loss in January, February and April and a profit in March, May and June. While the contribution to this period was marginal, we expect an increasing positive contribution going forward. The division now consists of four businesses, Peregrine which supplies the Insurance and Financial Services sector, Korus which supplies specialist IT recruitment services, Fulcrum supplying the Telecoms industry and PayQuest, a contractor umbrella company. We do not anticipate funding any further IQ Equity divisions at this stage, but will instead focus on supporting the growth of these four ventures.

We continue to invest cautiously for future growth and have increased the number of fee earners across the Group from 137 at 30 June 2010 to 170 (including 14 at CCL) at 30 June 2011 and 174 at the date of this report.

This investment is reflected in our profit conversion ratio of NFI to EBITA, which reduced from 24.6% in the first of 2010 to 22.5% in this period. We expect this to improve in the second half of 2011.

Cashflow and Funding

The Group generated £2.6m of pre-tax operating cashflow in the first half of the year and raised £0.1m from the issue of new shares to our new Chief Executive Officer. Following the cash outflow of £3.9m (including costs and cash acquired) towards the purchase of CCL, tax of £0.6m, dividends of £0.6m, capital expenditure of £0.3m and finance costs of £0.1m the Group's net debt has increased from £2.7m at the start of the year to £5.4m at 30 June 2011.

We are declaring an interim dividend of 0.5 pence in line with our progressive dividend policy and this will be paid on 28 October 2011 to shareholders on the register on 30 September 2011. The ex-dividend date is 28 September 2011.

We have recently increased our debt facilities to £15m (from £12m) at competitive rates and remain alert to potential acquisition and investment opportunities should they arise.

International expansion opportunities

Following several months of exploratory research and in response to demand from our financial services customers in particular, we have begun the process of expansion into the Asian markets, initially via Singapore. We appointed an experienced Managing Director for Singapore earlier this month and expect to open a local office shortly. This is an exciting new area of expansion for the Group, representing our first foray into international markets. Margins in Asia tend to be higher than in the UK and with the support of our customers, who are themselves expanding into these markets, we believe this has the potential to stimulate additional profitable growth.

Acquisition of CCL, subsequent loss of key contract and exceptional costs booked in this reporting period

The Group completed the acquisition of CCL on 21 June 2011.

On 12 August 2011, we announced that due to apparent impropriety and alleged fraud within a major client of CCL, the client terminated its contract with CCL (“the Termination”).

As noted on 12 August 2011, the client has withheld, pending an ongoing independent investigation, £0.6 million owed to CCL which arose during the normal course of business. Most of this debt was incurred in July and early August, after the end of the current reporting period.

Even though the Board believes that there will be a path to seeking restitution and potentially damages in due course, we have impaired the whole debt, including the post period end element, within the result reported in the interim statement.

In addition, the Board believes it is appropriate to impair goodwill arising on the business combination by £2.0 million.

These two items and other related costs have been analysed separately on the face of the statement of comprehensive income as exceptional costs totalling approximately £2.9 million.

The Termination is not considered material in relation to the prospects of the Group in future financial periods as it will reduce the number of contractors currently on assignment by approximately 40 out of a total in excess of 1,200 across the Group.

Since 12 August 2011 we have launched our own independent investigation (using external forensic accountants) into the facts surrounding this incident and expect to report to our shareholders with an update in due course.

Outlook

The general economic outlook appears to have improved slightly during 2011 however future trends are difficult to predict. Our focus is therefore on the strong operational management of the Group and we were delighted to report growth in many areas of the business and in particular the profitability of our IQ Equity divisions. We continue to closely monitor costs but are investing carefully for the future by hiring and training new fee earners via our own iQad programme and progressing with select international expansion plans. The second half of the year has begun strongly and we expect full year trading to be in line with expectations.

Unaudited condensed consolidated interim statement of comprehensive income

		6 months to 30 June 2011 £'000	6 months to 30 June 2010 £'000	Year to 31 December 2010 £'000
Revenue		61,057	55,332	112,192
Cost of sales		(53,245)	(48,297)	(97,534)
Gross profit		7,812	7,035	14,658
Amortisation		(377)	(501)	(1,011)
Other administration costs		(6,117)	(5,395)	(11,239)
Total administrative expenses		(6,494)	(5,896)	(12,250)
Operating profit before exceptional items		1,318	1,139	2,408
Exceptional items	4	(2,892)	-	-
Operating (loss)/profit		(1,574)	1,139	2,408
Comprising of:				
- Core businesses		(1,577)	1,321	2,812
- Start-up profit/(loss) IQ Equity division		3	(182)	(404)
		(1,574)	1,139	2,408
Finance costs		(95)	(79)	(191)
(Loss)/profit before tax		(1,669)	1,060	2,217
Income tax expense	5	(82)	(267)	(388)
(Loss)/profit for the period		(1,751)	793	1,829
Other comprehensive income		-	-	-
Total comprehensive income for the period		(1,751)	793	1,829
(Loss)/profit and total comprehensive income attributable to:				
- Owners of the parent		(1,749)	843	1,900
- Minority interests		(2)	(50)	(71)
Total comprehensive income for the period		(1,751)	793	1,829
(Loss)/earnings per share from both total and continuing operations:				
		Pence	Pence	Pence
Basic (loss)/earnings per share	6	(5.6)	2.7	6.1
Diluted (loss)/earnings per share	6	(5.6)	2.6	5.9

All results for the Group are derived from continuing operations in both the current and preceding periods.

The accompanying notes form an integral part of this unaudited condensed consolidated interim report.

Unaudited condensed consolidated interim statement of financial position

	30 June 2011 £'000	30 June 2010 £'000	31 December 2010 £'000
Note			
ASSETS			
Non-current assets			
Property, plant and equipment	666	350	484
Goodwill	14,635	14,005	14,005
Other intangible assets	1,834	1,369	859
Deferred tax asset	-	-	93
Total non-current assets	17,135	15,724	15,441
Current assets			
Trade and other receivables	23,351	20,955	19,690
Cash and cash equivalents	270	700	495
Total current assets	23,621	21,655	20,185
Total assets	40,756	37,379	35,626
LIABILITIES			
Current liabilities			
Trade and other payables	(15,228)	(13,427)	(10,700)
Borrowings	(5,707)	(3,397)	(3,186)
Current tax payable	(681)	(513)	(831)
Total current liabilities	(21,616)	(17,337)	(14,717)
Non-current liabilities			
Deferred income tax liabilities	(135)	(107)	-
Total non-current liabilities	(135)	(107)	-
Total liabilities	(21,751)	(17,444)	(14,717)
Net assets	19,005	19,935	20,909
EQUITY			
Capital and reserves attributable to the Company's equity holders:			
Share capital	320	322	313
Share premium account	9,339	8,859	8,919
Capital redemption reserve	11	-	11
Retained earnings	9,262	10,174	11,636
Share based payment reserve	737	580	672
Share buy back	(641)	-	(621)
Minority interest	(23)	-	(21)
Total equity	19,005	19,935	20,909

The accompanying notes form an integral part of this unaudited condensed consolidated interim report.

Unaudited condensed interim statement of changes in equity

	Share Capital £'000	Share premium account £'000	Capital redemption reserve £'000	Retained earnings £'000	Share based payment reserve £'000	Share buy back reserve £'000	Non controlling interest £'000	Total equity £'000
Balance at 1 January 2010	306	8,479	-	10,505	490	-	50	19,830
Comprehensive income								
Profit for the period	-	-	-	843	-	-	(50)	793
Total other comprehensive income for the period	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	843	-	-	(50)	793
Transactions with owners								
Movement in share based payment reserve	-	-	-	-	90	-	-	90
Purchase of own share for cancellation	-	-	-	-	-	(563)	-	(563)
Issue of share capital	16	380	-	-	-	-	-	396
Dividends relating to 2010	-	-	-	(611)	-	-	-	(611)
Total contributions by and distributions to owners	16	380	-	(611)	90	(563)	-	(688)
Total transactions with owners	16	380	-	232	90	(563)	(50)	105
Balance at 30 June 2010	322	8,859	-	10,737	580	(563)	-	19,935
Balance at 1 July 2010	322	8,859	-	10,737	580	(563)	-	19,935
Comprehensive income								
Profit for the period	-	-	-	1,057	-	-	(21)	1,036
Total other comprehensive income for the period	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	1,057	-	-	(21)	1,036
Transactions with owners								
Movement in share based payment reserve	-	-	-	-	92	-	-	92
Capital redemption reserve	(11)	-	11	-	-	-	-	-
Share buy back	-	-	-	-	-	(58)	-	(58)
Issue of share capital	2	60	-	-	-	-	-	62
Dividends relating to 2010	-	-	-	(158)	-	-	-	(158)
Total contributions by and distributions to owners	(9)	60	11	(158)	92	(58)	-	(62)
Balance at 31 December 2010	313	8,919	11	11,636	672	(621)	(21)	20,909
Balance at 1 January 2011	313	8,919	11	11,636	672	(621)	(21)	20,909
Comprehensive income								
Loss for the period	-	-	-	(1,749)	-	-	(2)	(1,751)
Total other comprehensive income for the period	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	(1,749)	-	-	(2)	(1,751)
Transactions with owners								
Movement in share based payment reserve	-	-	-	-	65	-	-	65
Issue of share capital	7	420	-	-	-	-	-	427
Purchase of own shares	-	-	-	-	-	(20)	-	(20)
Dividends relating to 2011	-	-	-	(625)	-	-	-	(625)
Total contributions by and distributions to owners	7	420	-	(625)	65	(20)	-	(153)
Balance at 30 June 2011	320	9,339	11	9,262	737	(641)	(23)	19,005

Unaudited condensed consolidated interim statement of cash flows

	6 months to 30 June 2011 £'000	6 months to 30 June 2010 £'000	Year to 31 December 2010 £'000
Cash flows from operating activities			
(Loss)/profit after taxation	(1,749)	793	1,829
Adjustments for:			
Depreciation	101	67	169
Impairment of intangible asset	2,000	-	-
Loss on sale of assets	2	-	-
Share based payment charge	65	90	182
Finance costs	95	79	191
Amortisation	377	501	1,011
Income tax expense	82	267	388
Increase in trade and other receivables	(1,990)	(5,092)	(3,827)
Increase in trade and other payables	3,566	4,700	2,536
Cash generated from operations	<u>2,549</u>	<u>1,405</u>	<u>2,479</u>
Income taxes paid	(584)	(665)	(668)
Net cash from operating activities	<u>1,965</u>	<u>740</u>	<u>1,811</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	(259)	(125)	(361)
Acquisition of subsidiaries net of cash acquired	(3,863)	-	-
Net cash used in investing activities	<u>(4,122)</u>	<u>(125)</u>	<u>(361)</u>
Cash flows from financing activities			
Proceeds from issue of share capital	130	396	458
Cost to buy back shares	20	-	(621)
Net increase in trade receivables finance facility	2,502	234	23
Interest paid	(95)	(79)	(191)
Dividends paid	(625)	(611)	(769)
Net cash generated/(used) in financing activities	<u>1,932</u>	<u>(60)</u>	<u>(1,100)</u>
Net increase in cash and cash equivalents	<u>(225)</u>	<u>555</u>	<u>350</u>
Cash and cash equivalents at beginning of period	<u>495</u>	<u>145</u>	<u>145</u>
Cash and cash equivalents at end of period	<u>270</u>	<u>700</u>	<u>495</u>

The accompanying notes form an integral part of this unaudited condensed consolidated interim report.

Notes to the unaudited condensed consolidated interim report

1 Nature of operations and general information

InterQuest Group plc and its subsidiaries' ("the Group") principal activity is the provision of contract and permanent IT recruitment services within niche disciplines in the UK and Europe. The Group comprises eleven separately branded specialist divisions covering demand for key skill sets including; Java, SAP, CRM Testing, Infrastructure, Analytics and Telecommunications and demand in key industry sectors including; Banking and Financial Services, Insurance, Legal, Media, Public Sector, Not-for-Profit and Retail. In addition the Group has majority shareholdings in four further specialist businesses within the IQ Equity division.

The Group's unaudited condensed consolidated interim report is presented in Pounds Sterling (£'000).

The unaudited condensed consolidated interim report has been approved for issue by the Board of Directors on 12 September 2011.

The financial information set out in this interim report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Group's statutory financial statements for the year ended 31 December 2010 have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

2 Basis of preparation

The unaudited condensed consolidated interim report is for the six months ended 30 June 2011 and has been prepared in accordance with the accounting policies as set out in the annual financial statements for the year ended 31 December 2010. The unaudited condensed consolidated interim report should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with IFRSs as adopted by the European Union (EU).

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of the unaudited condensed consolidated interim report.

3 Summary of significant accounting policies

The same accounting policies, presentation and methods of computation are followed in this unaudited condensed consolidated interim report as were applied in the preparation of the Group's annual financial statements for the year ended 31 December 2010.

4 Exceptional costs

Exceptional items comprise:

Following notification of the apparent impropriety and alleged fraud within a major client of Contract Connections Limited ("CCL") and the termination of the contract between CCL and the client, the Board conducted an impairment review on the carrying value of the goodwill arising on the acquisition of the company. As a result of the review, an impairment charge of £2m has been recognised in the interim period and has been treated as an exceptional item.

A provision of £0.6m has been made in the interim period, and treated as an exceptional item, to impair certain trade receivable balances which have been withheld as a result of the alleged fraud. Although the Board believes that there will be a path to seeking restitution, in light of the above circumstances, it is considered appropriate to impair these balances. Approximately £0.5m of these impaired balances were incurred post period end.

A further £0.3m of costs have been treated as exceptional during the period which relate to the acquisition of CCL, an onerous lease provision within CCL, some redundancy costs and certain professional fees in connection with the Group's independent investigation by forensic accountants into the alleged fraud.

5 Income tax expense

	6 months to 30 June 2011 £'000	6 months to 30 June 2010 £'000	Year to 31 December 2010 £'000
Current tax			
Corporation tax on profits for the period	433	490	822
Adjustment in respect of prior periods	-	-	(11)
Adjustment in respect of exceptional items	(206)	-	-
Total current tax	227	490	811
Deferred tax			
Other timing differences	-	-	(29)
Accelerated capital allowance	-	-	40
Charge on share based payments	(46)	(55)	(138)
Tax losses carried forward	-	(28)	(46)
Intangible asset temporary differences	(99)	(140)	(250)
Total deferred tax	(145)	(223)	(423)
Total tax charge	82	267	388

6 Earnings per share

The calculation of the basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year.

The calculation of diluted earnings per share is based on the basic earnings per share, adjusted to allow for the issue of shares and the post tax effect of dividends and/or interest, on the assumed conversion of all dilutive options and other dilutive potential ordinary shares.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below.

	6 months ended 30 June 2011 £'000	6 months ended 30 June 2010 £'000	Year ended 31 December 2010 £'000
(Loss)/profit for the period			
Basic earnings	(1,749)	843	1,900
Adjustments to basic (loss)/earnings			
Intangible assets amortisation	377	501	1,011
Share based payment charge	65	90	182
Deferred tax credit on intangible asset amortisation	(99)	(140)	(250)
Deferred tax on share based payment	(46)	(55)	(138)
Exceptional items	2,892	-	-
Tax credit on exceptional items	(206)	-	-
Adjusted earnings	1,234	1,239	2,705
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share	31,317,115	31,381,512	31,372,877
Weighted average number of ordinary shares for the purposes of diluted earnings per share	32,473,550	32,699,764	32,441,491
Earnings per share	Pence	Pence	Pence
Basic earnings per share	(5.6)	2.7	6.1
Diluted earnings per share	(5.6)	2.6	5.9
Adjusted earnings per share			
Basic earnings per share	3.9	3.9	8.6
Diluted earnings per share	3.8	3.8	8.3

7 Business combinations

Contract Connections Limited

On 21 June 2011 the Group acquired the entire share capital of Contract Connections Limited for a total consideration of £3.7m in cash and £0.3m in new InterQuest Group shares issued at 63.5 pence each.

Analysis of the acquisition of Contract Connections Limited.

Net assets at date of acquisition:

	Book value £'000	Adjustments £'000	Provisional fair values £'000
Tangible fixed assets	12	-	12
Intangible asset	-	1,353	1,353
Deferred tax on intangible asset	-	(350)	(350)
Investments	12	-	12
Trade and other receivables	1,713	(42)	1,671
Borrowings	(162)	3	(159)
Trade and other payables	(1,115)	2	(1,113)
Total	460	966	1,426
Total net assets acquired			1,426
Goodwill arising on acquisition			2,574
			<u>4,000</u>
Discharged by:			
Initial consideration in cash			3,704
Initial consideration in shares			296
			<u>4,000</u>

The fair value adjustments are provisional as the Directors intend to reserve their right to re-appraise fair values up to twelve months from the date of acquisition.

8 Post balance sheet events

On 12 August 2011, the Board of Directors announced to the market that an alleged fraud within a major client of Contract Connections Limited had been brought to their attention. In light of these circumstances a number of exceptional items have been recognised (see note 4).