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 2010.

Financial highlights

- Revenue up 12% to £55,332,000 (2009: £49,211,000)
- Net Fee Income ("NFI") up 14% to £7,035,000 (2009: £6,181,000)
- Adjusted EBITA (excluding start up losses in IQ Equity, movement in the fair value of share based payment transactions and amortisation charges) up 16% to £1,912,000 (2009: £1,642,000)
- Profit before taxation also up 16% to £1,060,000 (2009: £913,000)
- Diluted adjusted earnings per share up 17% to 4.2 pence (2009: 3.6 pence)
- Basic earnings per share up 14% to 2.5 pence (2009: 2.2 pence)
- Net cash generated from operating activities £1.4m (2009: £4.5m)
- Net debt £2.7m (2009: £1.4m)
- Interim dividend of 0.5 pence to be paid on 28 October 2010

Operational highlights

- A return to growth in the majority of markets
- Group headcount increased by 15% to 137 at 30 June 2010 (2009: 119)
- Growth in private sector markets, particularly banking and finance, has more than offset decrease in public sector activity
- Resilience of our niche IT recruitment model demonstrated by solid profitability throughout the recent downturn
- First two client wins secured in our Recruitment Process Outsourcing ("RPO") division
- Successful launch of our new in-house training programme, iQad, with first intake inducted in June and second intake having joined in September
- Reduced losses in our IQ Equity start up division as it moves towards break even

Gary Ashworth, Chairman of InterQuest, commented, "The Group has had a successful first half of 2010 trading in line with management's expectations. We have benefitted from a return to growth in the majority of our markets. The number of contractors working at our client sites reached an all time high at the end of June which has been surpassed since. We have achieved our first client wins in our RPO business, started to hire new fee earners, developed and launched our new in-house training programme iQad and moved our incubator IQ Equity businesses nearer to profitability. We look forward to meeting the challenges ahead and 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 a broad range of skill sets and industries including Public Sector, SAP, Oracle, CRM Testing, Banking, Insurance, Retailing, Pharmaceuticals, Media, Analytics, Infrastructure and Communications plus majority shareholdings in five further specialist businesses within the IQ Equity division.

Review:

The Group has had a successful first half of 2010 and trading has been in line with the Board's expectations. We have returned a much improved set of financial results compared to the same period last year. Trading strengthened during the first half of the year and we have seen increased demand for both permanent and contract recruitment services.

Returning to Growth

The first half of 2010 saw most of our niche IT market sectors return to growth after a difficult 2009. We experienced 12% growth in Revenue, 14% growth in NFI and 16% growth in adjusted EBITA (ignoring amortisation, movement in the fair value of employee share options and one off start up costs in our IQ Equity division) in the first half of 2010 compared to the first half of 2009. This has been achieved despite a decrease of 16% in the NFI from our public sector focused business, Sand Resources. That business represented 21% of the Group's NFI in the first half of 2010 compared to 29% of the Group's NFI in the first half of 2009.

NFI from permanent recruitment is 55% higher in the first half of 2010 at £1,765k (2009: £1,139k) and contract margin is 5% higher at £5,270k (2009: £5,042k).

The number of contractors working onsite at clients reached 1,127 in the last week of June, up 16% from 975 in the last week of December 2009. Our niche model helps us to achieve good margins on contract recruitment but during the recent downturn we have seen a tightening in our margins.

Having pared back the number of fee earners in the business during the downturn we started 2010 with 118 fee earners and increased this to 137 in June. As of the date of this report we have 146 fee earners.

Financial Services Fuelling Growth

We have seen a significant increase in the proportion of the Group's business derived from the Banking and Financial Services sectors and this, together with growth in the other parts of the private sector has more than mitigated the decrease in public sector NFI. Across the Group's whole client base the Revenue from clients in the Banking and Financial Services sectors has increased by approximately 48% in the first half of 2010 from 2009 levels.

The impact of the banking crisis is evident in the areas which are seeing the highest levels of activity; risk systems and liquidity programmes are both at the fore, whilst the more traditional sources of income such as FX and interest rate trading are seeing a return to popularity. Not surprisingly, it is areas such as credit derivatives which have seen an almost complete cessation of investment in IT personnel.

It is not just the investment banking sector which is showing strong signs of growth. Solvency II is pushing demand for IT staff in the insurance sector. We expect these trends to continue through into the second half.

Whilst NFI from the public sector has decreased, this continues to be a valuable source of business for the Group. We are pleased to announce that our public sector focused division, Sand Resources, with its strategic partners, is one of only four suppliers to have recently been awarded the Project and Programme Management category of the government's new non-permanent staff framework agreement.

Cashflow and Funding

The Group generated £1.4m of pre-tax operating cashflow in the first half of the year and raised £0.4m from the issue of new shares to staff exercising share options. After paying tax of £0.7m, dividends of £0.6m, capital expenditure of £0.1m and finance costs of £0.1m we have reduced net debt from £3.0m at the start of the year to £2.7m at 30 June.

We are declaring our interim dividend of 0.5 pence in line with our progressive dividend policy and this will be paid on 28 October 2010 to shareholders on the register on 1 October 2010.

We have £12m of debt facilities in place at competitive rates and remain alert to potential acquisition opportunities should they arise.

Significant progress with IQ Equity

The IQ Equity division, our incubator for start up businesses, reported a monthly profit for the first time in May 2010 (and for the second time in August) and we are moving closer to all components becoming net contributors to the Group.

We have separately identified the start up losses so that the growth within the established businesses is clear to the reader of this report.

Cumulative start up losses in the IQ Equity division are £541k to the end of June 2010. Of these, £64k was incurred in the first half of 2009, £295k in the second half of 2009 and £182k in the first half of 2010.

Outlook

The general economic outlook has improved during 2010 and most of our markets have been better than they were in 2009, however future trends are difficult to predict. During the downturn we maintained a robust and scalable platform to support renewed growth in our core businesses and sowed the seeds for additional organic growth in the new operations formed within IQ Equity. In addition we strengthened our balance sheet significantly and reduced our debts. We also remained consistently profitable even after accounting for start up losses in our new businesses.

We look forward to meeting the challenges ahead and expect full year trading to be in line with expectations.

Unaudited condensed consolidated interim statement of comprehensive income

	Note	**6 months to 30 June 2010 £'000**	6 months to 30 June 2009 £'000	Year to 31 December 2009 £'000
Revenue		**55,332**	49,211	97,434
Cost of sales		**(48,297)**	(43,030)	(85,042)
Gross profit		**7,035**	6,181	12,392
Amortisation		**(501)**	(501)	(1,011)
Other administration costs		**(5,395)**	(4,700)	(9,467)
Total administration expenses		**(5,896)**	(5,201)	(10,478)
Operating profit		**1,139**	980	1,914
Comprising of:				
- Core businesses		**1,321**	1,044	2,273
- Start-up losses IQ Equity division		**(182)**	(64)	(359)
		1,139	980	1,914
Finance costs		**(79)**	(67)	(127)
Profit before tax		**1,060**	913	1,787
Income tax expense	**4**	**(267)**	(255)	(487)
Profit for the period		**793**	658	1,300
Other comprehensive income		**-**	-	-
Total comprehensive income for the period		**793**	658	1,300
Profit and total comprehensive income attributable to:				
- Owners of the parent		**843**	658	1,350
- Minority interests		**(50)**	-	(50)
Total comprehensive income for the period		**793**	658	1,300
Earnings per share from both total and continuing operations:				
		Pence	Pence	Pence
Basic earnings per share	**5**	**2.5**	2.2	4.3
Diluted earnings per share	**5**	**2.4**	2.1	4.0

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

	Note	**30 June 2010 £'000**	30 June 2009 £'000	31 December 2009 £'000
ASSETS				
Non-current assets				
Property, plant and equipment		**350**	325	292
Goodwill		**14,005**	13,890	14,005
Other intangible assets		**1,369**	2,380	1,870
Total non-current assets		**15,724**	16,595	16,167
Current assets				
Trade and other receivables		**20,955**	15,596	15,863
Cash and cash equivalents	**6**	**700**	402	145
Total current assets		**21,655**	15,998	16,008
Total assets		**37,379**	32,593	32,175
LIABILITIES				
Current liabilities				
Trade and other payables		**(13,427)**	(9,828)	(8,164)
Borrowings		**(3,397)**	(1,757)	(3,163)
Current tax payable		**(513)**	(1,220)	(688)
Deferred consideration		**-**	(200)	-
Total current liabilities		**(17,337)**	(13,005)	(12,015)
Non-current liabilities				
Deferred income tax liabilities		**(107)**	(506)	(330)
Total non-current liabilities		**(107)**	(506)	(330)
Total liabilities		**(17,444)**	(13,511)	(12,345)
Net assets		**19,935**	19,082	19,830
EQUITY				
Capital and reserves attributable to the Company's equity holders:				
Share capital		**322**	306	306
Share premium account		**8,859**	8,479	8,479
Retained earnings		**10,174**	9,813	10,505
Share based payment reserve		**580**	484	490
Minority interest		**-**	-	50
Total equity		**19,935**	19,082	19,830

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	Retained earnings £'000	Share based payment reserve £'000	Minority interest £'000	Total equity £'000
Balance at 1 January 2009	**306**	**8,479**	**9,461**	**387**	**-**	**18,633**
Comprehensive income						
Profit for the period	-	-	658	-	-	658
Total other comprehensive income for the period	-	-	-	-	-	-
Total comprehensive income for the period	-	-	**658**	-	-	**658**
Transactions with owners						
Movement in share based payment reserve	-	-	-	97	-	97
Dividends relating to 2009	-	-	(306)	-	-	(306)
Total contributions by and distributions to owners	-	-	(306)	97	-	(209)
Total transactions with owners	**-**	**-**	**(306)**	**97**	**-**	**(209)**
Balance at 30 June 2009	**306**	**8,479**	**9,813**	**484**	**-**	**19,082**
Balance at 1 July 2009	**306**	**8,479**	**9,813**	**484**	**-**	**19,082**
Comprehensive income						
Profit for the period	-	-	692	-	-	692
Total other comprehensive income for the period	-	-	-	-	-	-
Total comprehensive income for the period	-	-	**692**	-	-	**692**
Transactions with owners						
Movement in share based payment reserve	-	-	-	6	-	6
Total contributions by and distributions to owners	-	-	-	**6**	-	**6**
Minority interests	-	-	-	-	50	50
Balance at 31 December 2009	**306**	**8,479**	**10,505**	**490**	**50**	**19,830**
Balance at 1 January 2010	**306**	**8,479**	**10,505**	**490**	**50**	**19,830**
Comprehensive income						
Profit for the period	-	-	843	-	-	843
Total other comprehensive income for the period	-	-	-	-	-	-
Total comprehensive income for the period	-	-	**843**	-	-	**843**
Transactions with owners						
Movement in share based payment reserve	-	-	-	90	-	90
Purchase of own share for cancellations	-	-	(563)	-	-	(563)
Issue of share capital	16	380	-	-	-	396
Dividends relating to 2010	-	-	(611)	-	-	(611)
Total contributions by and distributions to owners	**16**	**380**	**(1,174)**	**90**	**-**	**(688)**
Minority interests	-	-	-	-	(50)	(50)
Balance at 30 June 2010	**322**	**8,859**	**10,174**	**580**	**-**	**19,935**

Unaudited condensed consolidated interim statement of cash flows

	Note	**6 months to 30 June 2010 £'000**	6 months to 30 June 2009 £'000	Year to 31 December 2009 £'000
Cash flows from operating activities				
Profit after taxation		**793**	658	1,300
Adjustments for:				
Depreciation		**67**	86	183
Share based payment charge		**90**	97	103
Loss on sale of assets		**-**	2	-
Finance costs		**79**	67	127
Amortisation		**501**	501	1,011
Income tax expense		**267**	255	487
(Increase)/decrease in trade and other receivables		**(5,092)**	1,422	1,191
Increase/(decrease) in trade and other payables		**4,700**	1,416	(263)
Cash generated from operations		**1,405**	4,504	4,139
Income taxes (paid)/received		**(665)**	67	(859)
Net cash from operating activities		**740**	4,571	3,280
Cash flows from investing activities				
Purchase of property, plant and equipment		**(125)**	(20)	(74)
Acquisition of subsidiaries net of cash acquired		**-**	-	(59)
Payment of deferred consideration		**-**	-	(200)
Net cash used in investing activities		**(125)**	(20)	(333)
Cash flows from financing activities				
Proceeds from issue of share capital		**396**	-	-
Net increase/(decrease) in trade receivables finance facility		**234**	(3,620)	(2,213)
Interest paid		**(79)**	(67)	(127)
Dividends paid		**(611)**	(306)	(306)
Net cash used in financing activities		**(60)**	(3,993)	(2,646)
Net increase in cash and cash equivalents		**555**	558	301
Cash and cash equivalents at beginning of period		**145**	(156)	(156)
Cash and cash equivalents at end of period	6	**700**	402	145

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 IT recruitment solutions. The Group is one of the UK's leading staffing businesses in the information and communications technology sector. The Group comprises eleven specialist niche businesses plus majority shareholdings in five further specialist businesses within the IQ Equity division, combined with a centralised finance and administration function.

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

The unaudited condensed consolidated interim report has been approved for issue by the Board of Directors on 14 September 2010.

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 2009 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 2010 and has been prepared in accordance with the accounting policies as set out in the annual financial statements for the year ended 31 December 2009. The unaudited condensed consolidated interim report should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2009, 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 2009.

4 Income Tax expense

	6 months to 30 June 2010 £'000	6 months to 30 June 2009 £'000	Year to 31 December 2009 £'000
Current tax			
Corporation tax on profits for the period	**490**	423	870
Adjustment in respect of prior periods	**-**	-	(39)
Total current tax	**490**	423	831
Deferred tax			
Accelerated capital allowance	**-**	-	24
Charge on share based payments	**(55)**	(28)	(44)
Tax losses carried forward	**(28)**	-	(41)
Intangible asset temporary differences	**(140)**	(140)	(283)
Total deferred tax	**(223)**	(168)	(344)
Total tax charge	**267**	**255**	**487**

5 **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 2010 £'000	6 months ended 30 June 2009 £'000	Year ended 31 December 2009 £'000
Profit for the period			
Basic earnings	**793**	658	1,300
Adjustments to basic earnings			
Intangible assets amortisation	**501**	501	1,011
Share based payment charge	**90**	97	103
Deferred tax credit on intangible asset amortisation	**(140)**	(140)	(283)
Start-up losses IQ Equity division	**182**	64	359
Deferred tax on start-up losses IQ Equity division	**(51)**	(18)	(101)
Adjusted earnings	**1,375**	1,162	2,389
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share	**31,381,512**	30,578,076	30,578,076
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**32,699,764**	31,989,460	32,196,569
Earnings per share	**Pence**	Pence	Pence
Basic earnings per share	**2.5**	2.2	4.3
Diluted earnings per share	**2.4**	2.1	4.0
Adjusted earnings per share			
Basic earnings per share	**4.4**	3.8	7.8
Diluted earnings per share	**4.2**	3.6	7.4

6 **Cash and cash equivalents**

	30 June 2010 £'000	30 June 2009 £'000	31 December 2009 £'000
Cash and cash equivalents include the following for the purposes of the cash flow statement:			
Cash at bank and in hand	700	651	145
Bank overdrafts	-	(249)	-
Total	700	402	145