

InterQuest Group plc

Unaudited interim results for the six months ended 30 June 2008

The Board of InterQuest Group plc ("InterQuest" or "the Group") is pleased to announce its unaudited interim results for the six months ended 30 June 2008.

Financial highlights

- Revenue up 39% to £53,445,000 (2007: £38,561,000)
- Gross profit up 42% to £8,140,000 (2007: £5,717,000)
- EBITA (before IFRS 2 and amortisation charges) up 52% to £2,937,000 (2007: £1,937,000)
- Profit before taxation up 42% to £2,009,000 (2007: £1,419,000)
- Basic adjusted earnings per share up 50% to 6.9 pence (2007: 4.6 pence)
- Basic earnings per share up 43% to 5.0 pence (2007: 3.5 pence)
- Organic, like for like growth of 5% in gross profit and 9% in EBITA
- Net cash inflow of £2.6m reducing net debt to £6.6m

Chairman's and Chief Executive's statement:

The first half of 2008 has been yet another period of strong growth for the InterQuest Group. Our established strategy of niche specialism within IT continues to deliver excellent trading results and we have made successful investments in staff, training, brand profile and infrastructure.

Revenue for the six months ended 30 June 2008 increased by 39% to £53.4m as we benefitted from full period contributions from the two acquisitions that we made in 2007 (Intellect Recruitment plc and ecrm People Limited). Gross profit (net fee income) increased by 42% to £8.1m and EBITA increased by 52% to £2.9m.

On a like for like basis the Group has achieved organic growth of 5% in gross profit and 9% in EBITA in the first half of 2008 when compared to the first half of 2007. We are pleased to have maintained the contract bias in our business such that two-thirds of our gross margin is derived from contract assignments and one-third from permanent recruitment. Contract recruitment is a more predictable and long term income stream.

Strong profits and tight control of working capital have delivered £3.6m of operating cashflow in the first half of the year and an overall net cash inflow of £2.6m. As a result we have reduced the Group's net debt from £9.2m at the start of the year to £6.6m at 30 June.

All of our acquisitions are now firmly embedded and integrated into the Group and we have launched a new branding system linking each Group company whilst maintaining their separate identities. Our efforts in raising the profile of the Group via a specialist PR campaign and pertinent surveys have paid off with a significantly heightened media presence in our niche sectors.

Our bespoke training academy continues to develop impressive new fee earners and we have set up internal strategic action groups to focus on key issues relating to our future growth and staff retention.

Outlook

Although the current economic climate in the UK and Europe remains challenging, we are pleased that in July and August trading was ahead of the same period last year and our public sector business continues to trade at an all time high.

Our flexible cost base allows us to adapt quickly to market changes and our senior management team is experienced in dealing with all types of market conditions. Furthermore, our profits convert to cash more quickly if our business ceases to grow and we are very well placed in our various specialist markets to take advantage of any acquisition opportunities as and when they arise.

Group background

The InterQuest Group is a specialist IT recruitment business providing contract and permanent recruitment services within niche disciplines in the UK and Europe. The Group currently comprises seven 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 with over 1,100 IT contractors working on assignment and 170+ permanent staff in 6 offices in the UK.

Enquiries

For further information please contact:

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Unaudited condensed consolidated interim income statement

	6 months to 30 June 2008 £'000	6 months to 30 June 2007 £'000	Year to 31 December 2007 £'000
Note			
Revenue	53,445	38,561	86,772
Cost of sales	(45,305)	(32,844)	(73,864)
Gross profit	8,140	5,717	12,908
Amortisation	(501)	(287)	(741)
Other administration costs	(5,285)	(3,819)	(8,491)
Total administration expenses	(5,786)	(4,106)	(9,232)
Finance costs	(345)	(192)	(535)
Profit before tax	2,009	1,419	3,141
Income tax expense	4 (500)	(426)	(741)
Profit for the period	1,509	993	2,400
Earnings per share			
from both total and continuing operations:			
	Pence	Pence	Pence
Basic earnings per share	5 5.0	3.5	8.2
Diluted earnings per share	5 4.6	3.1	7.4

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 condensed consolidated interim report.

Unaudited condensed consolidated interim balance sheet

	Note	30 June 2008 £'000	30 June 2007 £'000	31 December 2007 £'000
ASSETS				
Non-current assets				
Property, plant and equipment		426	451	488
Goodwill	6	15,255	10,357	15,183
Other intangible assets	6	3,391	2,185	3,892
Total non-current assets		19,072	12,993	19,563
Current assets				
Trade and other receivables		19,549	15,273	18,661
Cash and cash equivalents	7	148	-	135
Total current assets		19,697	15,273	18,796
Total assets		38,769	28,266	38,359
LIABILITIES				
Current liabilities				
Trade and other payables		(10,832)	(8,828)	(9,363)
Financial liabilities – borrowings		(6,783)	(4,147)	(9,398)
Current tax payable		(873)	(278)	(833)
Deferred consideration		(625)	(832)	(664)
Total current liabilities		(19,113)	(14,085)	(20,258)
Non-current liabilities				
Obligations under hire purchase contracts		-	(39)	-
Deferred consideration		(1,495)	(476)	(1,495)
Deferred tax liability		(784)	(75)	(768)
Total non-current liabilities		(2,279)	(590)	(2,263)
Total liabilities		(21,392)	(14,675)	(22,521)
Net assets		17,377	13,591	15,838
EQUITY				
Capital and reserves attributable to the Company's equity holders:				
Share capital		305	288	301
Share premium account		8,479	7,422	8,344
Retained earnings		8,233	5,653	6,916
Share based payment reserve		360	228	277
Total equity		17,377	13,591	15,838

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

Unaudited condensed consolidated interim statement of changes in equity

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Share based payment reserve £'000	Total equity £'000
Balance at 1 January 2007	287	7,383	4,526	189	12,385
Deferred tax on employee share options	-	-	134	-	134
Profit for the 6 months to 30 June 2007	-	-	993	-	993
Total recognised income and expense for the period	-	-	1,127	-	1,127
Movement in share based payment reserve	-	-	-	39	39
Issue of share capital	1	39	-	-	40
Balance at 30 June 2007	288	7,422	5,653	228	13,591
Deferred tax on employee share options	-	-	(144)	-	(144)
Profit for the 6 months to 31 December 2007	-	-	1,407	-	1,407
Total recognised income and expense for the period	-	-	1,263	-	1,263
Movement in share based payment reserve	-	-	-	49	49
Issue of share capital	13	922	-	-	935
Balance at 31 December 2007	301	8,344	6,916	277	15,838
Deferred tax on employee share options	-	-	(192)	-	(192)
Profit for the 6 months to 30 June 2008	-	-	1,509	-	1,509
Total recognised income and expense for the period	-	-	1,317	-	1,317
Movement in share based payment reserve	-	-	-	83	83
Issue of share capital	4	135	-	-	139
Balance at 30 June 2008	305	8,479	8,233	360	17,377

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

Unaudited condensed consolidated interim cash flow statement

	6 months to 30 June 2008 £'000	6 months to 30 June 2007 £'000	Year to 31 December 2007 £'000
Cash flows from operating activities			
Profit after taxation	1,509	993	2,400
Adjustments for:			
Depreciation	99	70	160
Share based payment charge	83	39	88
Loss on sale of assets	12	-	-
Interest charge	345	192	535
Amortisation	501	287	741
Income tax expense	500	426	741
Increase in trade and other receivables	(888)	(2,219)	(2,186)
Increase in trade and other payables	1,446	1,783	856
	3,607	1,571	3,335
Cash generated from operations			
Income taxes paid	(690)	(280)	(586)
Net cash from operating activities	2,917	1,291	2,749
Cash flows from investing activities			
Purchase of property, plant and equipment	(99)	(284)	(356)
Sale of tangible fixed assets	44	-	-
Acquisition of subsidiaries net of cash acquired	-	(12)	(5,773)
Payment of deferred consideration	(55)	-	(622)
Net cash used in investing activities	(110)	(296)	(6,751)
Cash flows from financing activities			
Proceeds from issue of share capital	139	40	312
Net (decrease) / increase in trade receivables finance facility	(1,593)	(354)	3,952
Repayment of hire purchase liabilities	-	-	(22)
Interest paid	(345)	(192)	(535)
Net cash (used in) / from financing activities	(1,799)	(506)	3,707
Net increase / (decrease) in cash and cash equivalents	1,008	489	(295)
Cash and cash equivalents at beginning of period	(860)	(565)	(565)
Cash and cash equivalents at end of period	7	148	(76)

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

Notes to the condensed unaudited 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 of seven specialist niche businesses currently operating from six UK locations, combined with a centralised finance and administration function.

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

The condensed consolidated interim report has been approved for issue by the Board of Directors on 17 September 2008.

The financial information set out in this interim report does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The Group's statutory financial statements for the year ended 31 December 2007 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 237(2) of the Companies Act 1985.

2 Basis of preparation

The condensed consolidated interim report is for the six months ended 30 June 2008 and has been prepared in accordance with the accounting policies as set out in the annual financial statements for the year ended 31 December 2007. The condensed consolidated interim report should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2007, 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 condensed consolidated interim report.

3 Summary of significant accounting policies

The same accounting policies, presentation and methods of computation are followed in this interim condensed consolidated report as were applied in the preparation of the Group's annual financial statements for the year ended 31 December 2007.

4 Taxation

	6 months ended 30 June 2008 £'000	6 months ended 30 June 2007 £'000	Year ended 31 December 2007 £'000
Current tax			
Corporation tax on profits for the period	675	459	847
Adjustment in respect of prior periods	-	-	27
	<u>675</u>	<u>459</u>	<u>874</u>
Deferred tax			
Utilisation of tax losses	-	64	64
Accelerated capital allowance	-	-	43
Charge on share based payments	(25)	(12)	(21)
Other temporary differences	-	-	3
Intangible asset temporary differences	(150)	(85)	(222)
	<u>(175)</u>	<u>(33)</u>	<u>(133)</u>
Total deferred tax	(175)	(33)	(133)
	<u>500</u>	<u>426</u>	<u>741</u>
Total tax charge	500	426	741

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 2008 £'000	6 months ended 30 June 2007 £'000	Year ended 31 December 2007 £'000
Profit for the period			
Basic earnings	1,509	993	2,400
Adjustments to basic earnings			
Intangible assets amortisation	501	287	741
Share based payment charge	83	39	88
Adjusted earnings	2,093	1,319	3,229
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share	30,298,818	28,770,449	29,299,010
Weighted average number of ordinary shares for the purposes of diluted earnings per share	32,600,779	32,332,151	32,359,086
Earnings per share	Pence	Pence	Pence
Basic earnings per share	5.0	3.5	8.2
Diluted earnings per share	4.6	3.1	7.4
Adjusted earnings per share			
Basic earnings per share	6.9	4.6	11.0
Diluted earnings per share	6.4	4.1	10.0

6 Other intangible assets

The following table show the significant movements in intangible assets.

	Goodwill £'000	Customer relationships £'000	Total £'000
Carrying amount at 1 January 2007	10,193	2,472	12,665
Additions from business combinations	4,795	2,161	6,956
Revision to deferred consideration	195	-	195
Amortisation	-	(741)	(741)
Net book amount at 1 January 2008	15,183	3,892	19,075
Revision to deferred consideration	16	-	16
Amortisation	-	(501)	(501)
Fair value adjustment on Intellect Recruitment plc	56	-	56
Net book amount at 30 June 2008	15,255	3,391	18,646
Cost at 30 June 2008	15,255	5,055	20,310
Accumulated amortisation	-	(1,664)	(1,664)
Net book amount at 30 June 2008	15,255	3,391	18,646

The Group has used the income approach to measure the forecasted economic benefit streams of the acquired businesses key customer relationships. These benefit streams have been discounted to a present value with an appropriate risk adjusted weighted average cost of capital. Risk adjusted includes general market rates of return at the valuation date, business risks associated with the industry and other risks specific to the assets being valued. Customer relationships are being amortised over a period of five years.

7 Cash and cash equivalents

	30 June 2008 £'000	30 June 2007 £'000	31 December 2007 £'000
Cash and cash equivalents include the following for the purposes of the cash flow statement:			
Cash at bank and in hand	148	-	135
Bank overdrafts	-	(76)	(995)
Total	148	(76)	(860)