

# **InterQuest Group plc**

Annual report for the year ended 31 December 2011

# Company details

Company registration number:	04298109
Registered office:	16 - 18 Kirby Street London EC1N 8TS
Directors:	G P Ashworth M A Braund A W Found P M L Frew M R S Joyce G C Goldsmith
Secretary:	M R S Joyce
Bankers:	The Royal Bank of Scotland Benwell House Green Street Sunbury-on-Thames Middlesex TW16 6QT
Solicitors:	Pinsent Masons Citypoint One Ropemaker Street London EC2Y 9AH
Auditors:	Grant Thornton UK LLP Registered Auditors Grant Thornton House Melton Street Euston Square London NW1 2EP

# Contents

Highlights	1
Chairman's Statement	2
Chief Executive's Report	3
Finance Director's Report	6
Report of the directors	8
Corporate Governance Report	14
 <b>Consolidated financial statements</b>	
Report of the independent auditors	17
Principal accounting policies	19
Consolidated statement of comprehensive income	27
Consolidated statement of financial position	28
Consolidated statement of changes in equity	29
Consolidated statement of cash flows	30
Notes to the consolidated financial statements	31
 <b>Parent company financial statements</b>	
Report of the independent auditors	52
Principal accounting policies	54
Parent Company balance sheet	56
Notes to the Parent Company financial statements	57

# Highlights

## Financial Highlights

- § Revenue £120.9m (2010: £112.2m) up 8%
- § Net fee income (NFI) £16.6m (2010: £14.7m) up 14%
- § EBITA before non-recurring items and IFRS 2 charges £3.8m (2010: £3.6m) up 4%
- § Loss for the year £1.1m (2010: £1.8m profit)
- § Basic adjusted earnings per share 8.0 pence (2010: 8.6 pence) down 7%
- § Basic loss per share 3.4 pence (2010: earnings of 6.1 pence)
- § Net cash from operating activities £2.6m (2010: £1.8m)
- § Net debt increased from £2.7m at start of 2011 to £5.5m at 31 December 2011
- § Second interim dividend of 2 pence per share is proposed and will be paid on 12 April 2012 (2010: 2 pence per share) bringing the total dividend for the year to 2.5 pence per share (2010: 2.5 pence per share)
- § Exceptional charge of £2.9m comprising impairment and other costs following notification of apparent impropriety within a major client of Contract Connections Limited

EBITA = Earnings before interest, tax and amortisation

## Operational Highlights

- § Investment in Singapore, the Group's first international office, provides platform for expansion
- § IT industry seeing areas of growth, particularly in financial services and retail
- § Non public sector NFI grew by 22% to £14.7m (2010: £12.0m)
- § Successful programme to increase permanent recruitment resulted in 34% increase in Permanent NFI to £5.0m (2010: £3.8m)
- § IQ Equity businesses profitable
- § Group fee earner headcount increased by 17% to 169 31 December 2011 (31 December 2010: 144)
- § Clear strategy in place for UK and International expansion

## Outlook

Gary Ashworth, Executive Chairman: "The Group commenced its plan for accelerated growth in 2011, with the appointment of Mark Braund as CEO in April 2011. This has led to investment in overseas markets and organic growth in both contract margin and permanent placement levels. Despite the sluggish nature of UK markets in 2011, I am delighted with the progress which has been achieved in the year.

With market conditions and margins in the UK now improving slightly, plus the operational contribution we expect from the already profitable IQ Equity businesses and our investment in Asia, I am confident that we will see Net Fee Income grow respectably in 2012, enabling increased investment in the business both in the UK and internationally."

## Chairman's Statement

The Group commenced its plan for accelerated growth in 2011, with the appointment of Mark Braund as CEO in April 2011. This has led to investment in overseas markets and organic growth in both contract margin and permanent placement levels. Despite the sluggish nature of UK markets in 2011, I am delighted with the progress which has been achieved so far.

Revenue for the year increased by 8% to £120.9m and Net Fee Income by 14% to £16.6m, confirming our position as one of the largest IT recruiters in the UK.

Within these figures, the IQ Equity majority owned businesses that we have seeded over the last two years delivered their first full year of profit, and EBITA before non-recurring items and IFRS 2 charges across the Group as a whole increased by 4% to £3.8m (2010: £3.6m).

While we have begun a programme to grow our permanent recruitment activities, 70% of our NFI came in the year from the recurring revenue associated with contract recruitment. This revenue provides a strong, profitable base for the business moving forward.

Perhaps one of the most significant developments in the year was the opening of our first overseas office in Singapore; an important first step towards the broadening of our fee income outside the UK. We have been pleased with the initial success of the office. Following the end of the year under report, we have taken further steps to align our strategy towards the areas of the technology market which we believe will provide InterQuest with an increased opportunity for growth.

A great deal of the success of a recruitment business depends upon the quality of its staff. We continued to "grow our own" sales force via our iQAD training academy programme and have added a middle managers training programme. We are confident we have one of the most skilled recruitment workforces in the UK.

The Board is recommending a second interim dividend of 2p which in addition to the interim dividend of 0.5p maintains the total for the year of 2.5p.

With market conditions and margins in the UK improving slightly, plus the operational contribution we expect from the already profitable IQ Equity businesses and our investment in Asia, I am confident that we will see Net Fee Income grow respectably in 2012, enabling increased investment in the business both in the UK and internationally.

I would like to thank all of our staff for their passion, commitment and hard work over the last twelve months.

**Gary Ashworth**  
**Executive Chairman**  
6 March 2012

## Chief Executive's Report

### Highlights

InterQuest is a group of specialist recruitment businesses, placing both Contract and Permanent staff into niche disciplines within the information & communications technology sector (ICT).

We operate a balanced portfolio of recruitment businesses with an increasing focus on markets where there is both growth in demand and a shortage of key technology skills. Our interests are aligned to customers where quality is much more valued than quantity and as such, we increasingly target markets where our services derive higher than industry average margins.

The Group delivered a solid performance in 2011 growing net fee income (NFI) by 14% to £16.6m and EBITA before non-recurring items and IFRS 2 charges by 4% to £3.8m, in a lacklustre UK market impacted by slow economic growth and market uncertainty.

Significant, is the 22% growth in NFI earned by our businesses operating in markets outside the Public Sector, which as an industry sector has witnessed a steady decline in demand due to government cutbacks in expenditure. This shift in market focus and performance demonstrates the increasing level of agility at InterQuest to direct our expertise into markets where there is both growth in demand and a shortage of key technology skills.

Public Sector represented just 12% of the Group's NFI in 2011 (18% in 2010). It is worth noting that despite depressed demand we saw modest growth in NFI of 2% in our Public Sector business as we moved from the first half into the second half of 2011. This not only shows the strength of our brand in a market that has shrunk dramatically, it also acknowledges the strength of our value proposition - something we intend to further leverage across all our businesses in the following year to win market share from our competitors.

To strengthen our position for profitable growth the Group has begun to implement its strategy to streamline and focus its business into niche markets with strong demand for highly skilled niche candidates and to develop its footprint overseas in stable yet fast growing markets.

Early signs of success in following this strategy have enabled InterQuest to lift gross margins. Overall gross margin has improved by 80-basis points from 13.0% to 13.8%. Just as importantly, we converted 22.6% of our gross profit (or NFI) into EBITA before non-recurring items and IFRS 2 charges of £3.8m.

Equally impressive is the improvement in Contract recruitment margins (excluding PayQuest Group Limited); these have improved on a run-rate basis during 2011 by 120-basis points increasing from 9.6% at the beginning of the year to 10.8% in December 2011, despite the intense competitive nature of the UK market during this period.

Leveraging best practice across the Group also helped redefine our Permanent recruitment capability, lifting performance to £5.0m of NFI, up 34% on the previous year (2010: £3.8m).

Whilst I am delighted to report NFI from Permanent recruitment has increased, it is reassuring to recognise that 70% of our income comes from the recurring revenue associated with our specialist Contract recruitment business.

## New Customer Acquisition

Improvements to our performance in winning new business helped InterQuest add a further 261 new customer accounts from which we derived £3.0m of incremental NFI in 2011; 18% of the total. With a strong track record of customer retention, these new customers are set to add further income in the year to follow.

The Group's Solutions business, which provides customers with a single, easy-to-use process to source and pay for a selection of specialist recruitment services from niche businesses within InterQuest, also delivered growth, adding two new mid-sized RPO contracts to their customer base.

## IQ Equity grows into Profit

IQ Equity delivered strong growth in 2011. Our majority-owned business-incubator for recruitment entrepreneurs achieved NFI growth of 53% to enable IQ Equity to deliver its first full year of profit.

## Developing our International footprint

In 2011 InterQuest made its first material step into international markets by opening an office in Singapore; a recruitment market experiencing sustained growth in which a large number of our UK customers are present. We have attracted an experienced local team under the direction of an experienced local executive, with a solid track record of growing specialist recruitment businesses in the region. The first commercial fee earning placements, both Contract and Permanent, have been made and the office sees a growing pipeline of opportunities.

## Sector analysis

InterQuest Group operates a portfolio of specialist recruitment businesses operating in deliberately targeted markets. All of these markets experienced growth in NFI during 2011 with the exception of Public Sector.

The strongest sector growth came from Financial Services and Retail. Financial Services experienced a level of volatility through the year as pressures within the industry sector ebbed and flowed. Retail however has seen sustained growth brought on largely by demand for specialist skills in areas such as ecommerce, digital media and analytics; niche markets in which InterQuest has a strong niche capability to support.

## People

At the heart of our success are the exceptional people that make up our team throughout the InterQuest Group. In addition to our thanks for a solid year of improving the business in a tough market, we have continued our programme of people development. The focus of our efforts include;

- Ø Industry leading training and development; 80% of our new Recruitment Specialists are 'home grown', passing through an intensive iQAD training programme (iQAD : InterQuest Advanced Development).
- Ø Development of a highly competitive remuneration package and career structure.
- Ø A strong and focused management development programme to support personal aspirations and the scalability of our business.

These initiatives have helped us retain exceptional talent in our team and underpinned the growth in the number of fee earners across the Group from 147 at the start of the year to 169 in December 2011.

## Outlook

We continue into 2012 the process begun in the second half of 2011, restructuring the business to align our strategy towards sectors of the market we believe provide InterQuest with increased opportunity for profitable growth. The central elements of this strategy are;

- Ø To increase our International footprint in Asia, Europe and UAE.
- Ø To carry out further investment in key niche disciplines such as Analytics, Business Intelligence, Digital Media, eCommerce, ERP, Infrastructure and Enterprise Service Management, Project and Programme management.
- Ø The migration of our candidate-centric recruitment business - sometimes referred to as Spot Recruitment - into a single, separate practice aimed at placing niche candidates into niche roles rather than just filling vacancies.

I am also delighted with the post-balance sheet appointment to the InterQuest Board of Gary Goldsmith as Chief Operating Officer. Gary is a highly experienced Recruitment Executive with an exceptional track record of building industry leading recruitment practices operating in the UK and overseas – his appointment is complimentary to, and indicative of, our ambition. As such, 2012 will be a year of continued investment to strengthen the quality and performance of the key attributes of our business, specifically; our people, our value proposition and the recognition of our brand.

Inevitably there will be a 'cost of change', however this change is rapidly being completed to set the business on a clear path towards strong growth in resilient markets in 2013 and beyond.

We will use the appropriate measures and key performance indicators (KPI's) to monitor progress in both real-time and on a periodic basis, remaining agile in our response to material changes in market conditions.

**Mark Braund**  
**Chief Executive**  
**6 March 2012**



## Finance Director's Report

### Revenue

Revenue (all from continuing operations) increased by 8% during 2011 to £120.9m (2010: £112.2m).

### Net fee income ("NFI")

Net fee income increased by £1.9m or 14% to £16.6m (2010: £14.7m). Our net fee income (gross margin) percentage increased from 13.0% to 13.8% reflecting the fact that a larger proportion of our gross profit was derived from permanent recruitment in 2011; 30% versus 26% in 2010.

Our contract recruitment gross margin % was unchanged from 2010 at 10%. It is worth noting that PayQuest Group Limited, our contractor payroll service (not recruitment) business which operates a 2% gross margin contributed £8.2m of our turnover in 2011 versus only £2.7m in 2010. Our recruitment businesses therefore registered an improvement in contract % margin from 10.3% to 10.6%.

As pointed out in the operational review our contract margin has been on an upward trend by month during 2011 registering a 120 basis point increase between January and December 2011.

### EBITA

EBITA before non-recurring items and IFRS 2 share charge increased by 4% to £3.8m (2010: £3.6m).

The intangible asset amortisation decreased by 28% to £0.7m (2010: £1.0m). The net finance cost increased to £0.3m (2010: £0.2m), as we have utilised our invoice discounting facilities to fund our contract business as well as the acquisition of Contract Connections Limited during the year.

Loss before tax increased to £0.2m (2010: profit of £2.2m).

Tax on profits was £0.9m; a detailed analysis is included at note 6.

### Loss per share and dividend

Basic loss per share was 3.4 pence (2010: earnings of 6.1 pence). When non-recurring items, amortisation and the IFRS 2 share based payment charge and the deferred tax credits in respect of the three items are removed, the basic adjusted earnings per share is 8.0 pence representing a decrease of 7% from 8.6 pence in 2010. See note 7 for details of the calculation.

An interim dividend of 0.5 pence per share (2010: 0.5 pence) was paid on 28 October 2011. A second interim dividend of 2 pence per share (2010: 2 pence per share) has been proposed. The dividend will be paid on 12 April 2012 to all eligible shareholders on the register as at 14 March 2012. The corresponding ex-dividend date will be 16 March 2012.

### Acquisition of 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 Plc shares issued at 63.5 pence each.

## Non-recurring items

Following notification of an apparent impropriety and alleged fraud within a major client of Contract Connections Limited and the termination of the contract between Contract Connections Limited and the client, the Board conducted an impairment review on the carrying value of the goodwill arising on the acquisition of the company. The impairment review was based on the value in use of the company using a discount rate of 10.48%. The discount rate represents the weighted average cost of capital of the 'Private Other' segment. The post acquisition results of the company are included within the 'Private Other' segment. As a result of the review, an impairment charge of £2m has been recognised in the financial year and has been treated as a non-recurring item.

A provision of £0.5m has been made in the financial year, and treated as a non-recurring item, to impair certain trade receivable balances which have been withheld as a result of the alleged fraud.

A further £0.4m of costs have been treated as non-recurring during the period which relate to the acquisition of Contract Connections Limited, an onerous lease provision within, some redundancy costs, certain professional fees in connection with the Group's independent investigation by forensic accountants into the alleged fraud and legal fee's in connection with a warranty claim announced on 8 February 2012 totalling £3.8m (see note 10).

## Balance sheet, cash flow and financing

The Group's net assets decreased by £1.4m to £19.5m at 31 December 2011 (2010: £20.9m).

Underlying profitability and tight control of working capital delivered £3.4m of operating cash flow (before tax and interest payments). The Group paid £0.8m of corporation tax and £0.3m of interest during the year. Net capital expenditure was £0.6m and dividends of £0.8m were paid. The cash consideration paid to the vendors of CCL was £3.7m and as a result of these cash flows, net debt increased from £2.7m at the start of the year to £5.5m at the end of 2011.

**Michael Joyce**  
**Finance Director**  
**6 March 2012**

# Report of the directors

## Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report, the Directors' 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's financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and have elected to prepare the Company's financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and Applicable law). 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 and profit or loss of the Company and Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- for the Group financial statements, state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements;
- for the Group financial statements, state whether applicable UK accounting standards have been followed, 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 Group and 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 its Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the directors is aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### **Principal activities and business review**

The InterQuest Group is a specialist IT recruitment Group providing contract and permanent recruitment services within niche disciplines in the UK, Europe and Singapore. The Group's specialist divisions cover a broad range of skill sets and industries including Public Sector, SAP, Oracle, CRM Testing, Banking, Insurance, Retailing, Pharmaceuticals, Media, Analytics, Infrastructure and Communications. The Group operates from eight United Kingdom locations and Singapore and has a centralised finance and administration function.

A review of the Group's business activities and strategy and performance during the year are included in the Chairman's Statement and Chief Executive's Report and Finance Director's Report on pages 2 to 5.

### **Results and dividends**

The Group's loss for the year amounted to £1.1m (2010: profit of £1.8m). The directors propose to pay a second interim dividend of 2 pence per share on 12 April 2012 (2010: 2 pence per share).

### **Post balance sheet events**

There are no material post balance sheet events to report.

### **Principal business risks**

Recent employment legislation has increased the burden of compliance upon staffing companies and their clients. Future employment legislation could have a negative impact upon the UK recruitment market and the IT contractor market in particular. Future tax legislation or rulings could have a negative impact upon the financial status of IT contractors' personal service companies. The Group mitigates these risks by adopting a conservative and diligent approach to compliance led by our in house legal counsel and compliance team.

Parts of the Group's businesses depend on technology systems and services provided by third parties. Whilst the Group has comprehensive contingency planning, disaster recovery procedures and insurance in place, it cannot guarantee that if there is any interruption to the systems or services provided by those third parties or those systems or services are not as scalable as anticipated or at all, or there are problems in upgrading such systems or services, the Group's business will not be adversely affected. In addition, the Group may be unable to find adequate replacement services on a timely basis or at all.

The Group's success depends to a significant extent upon a limited number of key employees. No assurances can be given that the loss of any executive officer or key employee of the Company would not have a material effect on the business, financial condition or results of operations of the Group, particularly within any business recently acquired by the Group. In addition, the Group may be adversely affected by staff turnover at more junior levels. The Group operates industry leading training and development programmes for its people and has endeavoured to ensure that employees at all levels are incentivised, but the retention of staff cannot be guaranteed.

### **Going concern**

The Board have reviewed and adopted the Group's 2012 financial budget and reviewed cash flow projections to the end of 2013 together with capital expenditure projections and has considered the availability of finance under its current banking arrangements which are expected to be maintained throughout the next 12 months. In light of these deliberations, the Board has concluded that it is appropriate to prepare the accounts on a going concern basis.

## Key Performance Indicators

The Directors use a range of performance indicators to measure the delivery of the Group's strategic objectives. The most important of these measures are considered Key Performance Indicators ("KPI's") and their targets are determined annually. Our KPI's are set out below:

	31 December 2011 £'000	31 December 2010 £'000
<b>Financial KPI's:</b>		
Revenue	120,919	112,192
Gross profit percentage	13.8%	13.0%
EBITA* before non-recurring items	3,650	3,419
EBITA* (before non-recurring items and FRS 2 charges)	3,711	3,601
Net cash from operating activities	4,024	1,811
Net debt	5,511	2,691
<b>Non-financial KPI's:</b>		
Recruitment staff (average number during the year)	157	134
Administration staff (average number during the year)	34	30

\* EBITA = Earnings before interest, tax and amortisation

Due to improvements in the economic market the Group's revenue and EBITA increased from 2010 to 2011.

## Directors and their interests

The Directors who served during the year are set out below. The interests of the Directors and their families in the shares of the company as at 1 January 2011 and 31 December 2011 were as follows:

	Ordinary shares of 1p each	
	31 December 2011	1 January 2011
G P Ashworth	12,622,912	12,622,912
M A Braund (appointed 28 April 2011)	375,000	-
A W Found	226,000	126,000
M R S Joyce	285,830	366,830
P M L Frew	40,000	40,000

G C Goldsmith was appointed as Director of the company on 17 February 2012 and has no interest in the shares of the company at the date of this report.

At 31 December 2011 the Directors who served during the year had interests in the following options:

	Scheme	Date of grant	Number of options	Option price	Date from which exercisable	Expiry date
M R S Joyce	EMI scheme	21 November 2005	30,000	48p	21 November 2007	21 November 2015
M R S Joyce	EMI scheme	21 November 2005	58,000	55p	21 November 2007	21 November 2015
M R S Joyce	Unapproved scheme	21 November 2005	12,000	55p	21 November 2007	21 November 2015
M R S Joyce	Unapproved scheme	17 July 2007	50,000	116.5p	17 July 2009	17 July 2017
M R S Joyce	EMI scheme	23 December 2008	83,839	1p	1 January 2012	23 December 2018
M R S Joyce	EMI scheme	16 October 2009	26,000	1p	16 October 2012	16 October 2019
MR S Joyce	Unapproved scheme	16 October 2009	19,161	1p	16 October 2012	16 October 2019

No director had, during or at the end of the year, a material interest in any contract that was significant in relation to the Company's business. The Company's share price has ranged from a low of 49.0 pence to a high of 71.75 pence during the year with a closing price of 54.5 pence at 31 December 2011.

### Share capital

Details of changes in the share capital of the Company during the year are shown in note 16 to the consolidated Financial Statements.

### Directors remuneration

Remuneration in respect of directors during the year was as follows:

	Salary and fee's £'000	Benefits £'000	Bonuses £'000	Total £'000	Pensions £'000	Total £'000
<b>2011</b>						
<b>Executive Directors</b>						
Gary Ashworth	136	2	26	164	-	164
Mark Braund	156	1	29	186	5	191
Michael Joyce	144	2	27	173	-	173
Alan Found	86	-	18	104	-	104
Gary Goldsmith	-	-	-	-	-	-
<b>Non-Executive Director</b>						
Paul Frew	18	-	-	18	-	18
	<b>540</b>	<b>5</b>	<b>100</b>	<b>645</b>	<b>5</b>	<b>650</b>
<b>2010</b>	£'000	£'000	£'000	£'000	£'000	£'000
<b>Executive Directors</b>						
Gary Ashworth	200	2	-	202	-	202
Michael Joyce	137	2	30	169	-	169
Alan Found	89	-	22	111	-	111
<b>Non-Executive Directors</b>						
Paul Frew	15	-	3	18	-	18
Luke Johnson	-	-	-	-	-	-
	<b>441</b>	<b>4</b>	<b>55</b>	<b>500</b>	<b>-</b>	<b>500</b>

### Substantial shareholdings

As at 1 February 2012, the directors are aware of the following interests in the ordinary share capital of the Company representing an interest of 3% or more of the Company's issued share capital.

Name of holder	Number of shares	Percentage shareholding
G P Ashworth	12,622,912	39.0%
ISIS Equity Partners	2,250,789	7.0%
Jim Mellon	1,818,181	5.6%
AXA Framlington Investment Managers	1,700,000	5.3%
Williams de Broe, stockbrokers	1,638,353	5.1%
Octopus Investments	1,518,550	4.7%
Martyn Barrow	1,084,190	3.4%
Newton Investment Management	999,793	3.1%

### **Corporate responsibility**

The Chief Executive takes responsibility at Board level for ensuring that the Board recognises its health and safety, employment and environmental responsibilities. The Group's policies are monitored, reviewed and updated on an ongoing basis.

The Group is committed to ensuring that it operates in the most environmentally responsible manner. The Group has policies in place to ensure that it adheres to Health and Safety legislation and relevant codes of practice for the industry.

The Group acknowledges that its employees are key to the success of its business. To this end the Group encourages a culture of effective communication, equal opportunities and complying with anti-discrimination legislation. Communication with employees throughout the Group is facilitated through:

- management presentations (formal and informal);
- Group and divisional meetings; and
- Group conferences and via the Group's information and email systems.

The Group offers an EMI share option scheme to certain senior employees. The Group is fully committed to promoting equal opportunities in all aspects of its employment and business, regardless of age, disability, ethnic origin, gender, marital status, religion, sexual orientation or any other grounds not bearing on a person's ability or potential.

### **Payment policy and practice**

It is the Group's payment policy to ensure settlement of suppliers invoices in accordance with the stated terms. In certain circumstances settlement terms are agreed prior to any business taking place. It is our policy to abide by those terms.

At the year end the Group had an average of 21 days (2010: 21 days) purchases outstanding in trade creditors.

### **Charitable donations**

During the year the Group made a total of £7,193 (2010: £11,395) donations to charity.

### **Financial risk management and policies**

The Group finances its operations through a mixture of retained earnings and borrowings. The borrowings all carry variable rates of interest and no interest swaps or other hedging mechanisms have been utilised. All treasury activities are undertaken primarily to finance the business and the Group does not plan to profit from such activities and does not enter into speculative treasury arrangements. The Group has no material transactions or balances denominated in foreign currencies. For further information on the Groups financial risk management and policies refer to note 21.

**Auditors**

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 489 of the Companies Act 2006.

BY ORDER OF THE BOARD

A handwritten signature in dark ink, appearing to be 'M R S Joyce', written over a horizontal line.

M R S Joyce  
Secretary  
6 March 2012



## Corporate Governance Report

The Board believes that good corporate governance is key to ensuring that the Group is managed in an effective, efficient and entrepreneurial manner, to the benefit of all stakeholders.

The purpose of this report is to give the Group's stakeholders an understanding as to how the Group achieves good corporate governance.

### **Operation of the Board**

The primary role of the Board is to provide leadership and strategic direction to the Group and to conduct the Group's business in the best interest of the shareholders. The Board is also responsible for ensuring that good corporate governance is observed throughout the Group and that business and financial risks are reviewed and managed.

To achieve these objectives the Board meets on a monthly basis and discusses progress against its strategic objectives. A detailed financial budget and business plan are drawn up and approved by the Board on an annual basis and detailed financial and operational reports are presented to the Board every month which include discussion of performance against the annual budget and business plan. Board papers are circulated to all members of the Board well in advance of the monthly Board meetings allowing directors who are unable to attend an opportunity to contribute to the matters to be discussed. All discussions, including issues which are not resolved, are recorded in minutes which are circulated to all directors in a timely fashion.

In addition, business and financial risks are reviewed and discussed including legal and other external developments and the Group's cash flow and funding requirements are monitored to ensure that they are sufficient to facilitate the Group's business objectives.

### **Composition of the Board**

The Board now comprises five Executive (including G C Goldsmith who joined on 17 February 2012) and one Non-Executive Director with considerable business experience particularly within the IT sector.

The Board considers the Non-Executive Director to be independent. Paul Frew provides no services to the Group other than acting as Non-Executive Director and he receives a basic salary but no bonus. He holds 40,000 shares and was granted an option over 40,000 shares on 1 November 2012 but has no other interest in the share capital of the Group..

### **Executive Chairman and Chief Executive**

Gary Ashworth holds the position of Executive Chairman. As Executive Chairman he is responsible for the operation of the Board, investor relations and leading the Group's acquisition strategy. Mark Braund was appointed as Chief Executive on 28 April 2012 and he is responsible for the day-to-day operations of the Group and building the Group's business for long-term growth.

## **Board committees**

There are three committees of the Board whose terms of reference and authority are delegated by the board.

### **Audit Committee**

The Audit Committee comprises Paul Frew (Chairman) and Gary Ashworth. The Audit Committee plans to meet a minimum of twice a year. The Finance Director and the external auditors attend the meetings when requested by the Committee.

Paul Frew is considered by the Board to have recent and relevant financial experience.

The Committee's principal responsibilities are to review the integrity of the Group's annual and interim reports, preliminary results announcements and any other formal announcements relating to its financial performance, and reviewing the Group's systems of internal control and risk management.

The Committee monitors the independence, objectivity and independence of the audit process and matters relating to the appointment of the Company's auditor which is Grant Thornton UK LLP. Both the Committee and the auditors themselves have safeguards in place to ensure that the objectivity and independence of the auditors is maintained. In addition to the annual appointment of the auditors by shareholders, the Committee regularly reviews their independence taking into consideration relevant UK professional and regulatory requirements. The Committee also reviews their performance and fees charged.

Non-audit work is carried out by the auditors where the Committee believes that it is in the Group's best interests to make use of the auditor's extensive knowledge of the business. The Committee continuously monitors the quality and volume of this work and other accounting firms are used where appropriate.

Details of fees paid to the auditors for both audit and non-audit work is given in note 2 to the consolidated financial statements.

### **Nomination Committee**

The members of the Nomination Committee are Gary Ashworth (Chairman) and Paul Frew.

The Nomination Committee's terms of reference are to regularly review the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations to the Board with regard to any changes. The Nomination Committee also considers future succession for appointments to the Board and to senior management, so as to maintain an appropriate balance of skills and expertise within the Company and on the Board.

### **Remuneration Committee**

The Remuneration Committee comprises Paul Frew.

The Committee meets at least twice a year to determine the remuneration policy and the individual remuneration packages of the five Executive Directors.

The remuneration of senior management throughout the Group is discussed in general but detailed matters are delegated to the Chief Executive and Finance Director.

### **Attendance at board and committee meetings**

During 2011, the Board met formally eleven times in addition to informal meetings and attendance at the AGM. Gary Ashworth, Alan Found and Paul Frew attended all eleven meetings. Michael Joyce attended ten meetings. There were eight meetings in the period between the appointment of Mark Braund as a Director and the end of the year and he attended all eight of them.

The Remuneration Committee met twice, the Audit Committee twice and the Nominations Committee once. All Committee members were present at all of these meetings.

### **Performance evaluation**

The Board reviews and will continue to review its performance and that of the Committees.

### **Assessment of risk and internal control**

The Board has overall responsibility for the Group's internal control systems and for monitoring their effectiveness in order to safeguard shareholders' investments and the Group's assets. Executive Directors and senior management are responsible for the implementation and maintenance of the internal control systems, which are subject to periodic, and at least annual, review by the Board.

The Board monitors the ongoing process by which critical risks to the business are identified, evaluated and managed. The Board and particularly the Audit Committee assesses the effectiveness of the Group's system of internal controls, including financial, organisational and compliance controls and risk management systems.

The Group's internal control systems are designed to manage, rather than eliminate, the risk of failure to achieve the Group's objectives, and can only provide reasonable, and not absolute, assurance against material misstatement or loss. In assessing what constitutes reasonable accuracy the Board considers the materiality of financial risks and the relationship between the cost of, and benefit from, internal control systems.

Every month the Board reviews the actual financial performance of the company against the budget, as well as other key performance indicators.

The Group's policies and procedures continue to be refined and updated for distribution throughout the Group.

### **Internal audit**

The Group does not currently have an internal audit function. The need for an internal audit function has been and is regularly reviewed by the Audit Committee in light of the growth of the business.

# Report of the independent auditors to the members of InterQuest Group plc

We have audited the consolidated financial statements of InterQuest Group plc for the year ended 31 December 2011 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, principal accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

## **Respective responsibilities of directors and auditors**

As explained more fully in the Statement of Directors' Responsibilities (set out on page 8), the directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## **Opinion on financial statements**

In our opinion the consolidated financial statements:

- gives a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements.

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

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

- 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.

### **Other matter**

We have reported separately on the parent company financial statements of InterQuest Group plc for the year ended 31 December 2011.



Marc Summers, BSc, FCA  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
London  
6 March 2012

## Principal accounting policies

### Nature of operations and general information

InterQuest Group plc and its subsidiaries' ("the Group") principal activity is the provision of IT recruitment solutions in the United Kingdom and Singapore. The Group is one of the UK's leading staffing businesses in the information and communications technology sector. The Group comprises sixteen specialist niche businesses operating from eight UK locations, combined with a centralised finance and administration function.

The Group's consolidated financial statements are presented in thousands of Pounds Sterling (£'000).

InterQuest Group plc is the Group's ultimate parent company. It is incorporated and domiciled in England and Wales. The address of InterQuest Group plc's registered office, which is also its principal place of business, is 16 - 18 Kirby Street, London, EC1N 8TS. InterQuest Group plc's shares are listed on the Alternative Investment Market (AIM).

### Basis of preparation

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU) and company law applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

The Group's accounting policies as set out below, have been applied consistently throughout the Group to all the periods presented, unless otherwise stated.

The factors considered by the Directors in exercising their judgement of the Groups ability to continue to operate in the foreseeable future are set out on page 9. On these grounds the Board considers it reasonable to continue to adopt the going concern basis for the preparation of the Financial Statements.

### International Accounting Standards (IAS / IFRS) and interpretations not yet adopted

At the date of authorisation of these financial statements, the following Standards and Interpretations that have not been applied in these financial statements were in issue but not yet effective or endorsed (unless otherwise stated):

IFRS 9	Financial Instruments (effective 1 January 2015)
IFRS 10	Consolidated Financial Statements (effective 1 January 2013)
IFRS 11	Joint Arrangements (effective 1 January 2013)
IFRS 12	Disclosure of Interests in Other Entities (effective 1 January 2013)
IFRS 13	Fair Value Measurement (effective 1 January 2013)
IAS 1	Amendments to Presentation of Items of Other Comprehensive Income (effective 1 July 2012)
IAS 19	Employee Benefits (Revised June 2011) (effective 1 January 2013)
IAS 27	(Revised), Separate Financial Statements (effective 1 January 2013)

IAS 28	(Revised) Investments in Associates and Joint Ventures (effective 1 January 2013)
IAS 32	Amendments to offsetting Financial Assets and Financial Liabilities (effective 1 January 2014)
IAS 32	Amendments to Deferred Tax: Recovery of Underlying Assets (effective 1 January 2012)

The directors anticipate that the adoption of the remaining Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

### **Basis of consolidation**

The Group's financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 31 December 2011. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

### **Business combinations**

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (ie gain on a bargain purchase) is recognised in profit or loss immediately.

### **Intangible assets**

#### **Other intangible assets**

An intangible asset, which is an identifiable non-monetary asset without physical substance, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its cost can be measured reliably. The asset is deemed to be identifiable when it is separable or when it arises from contractual or other legal rights.

Customer relationships, acquired as part of a business combination are capitalised separately from goodwill and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight line method over a period of five years.

#### Goodwill

Goodwill representing the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired, is capitalised and reviewed annually for impairment. Goodwill is carried at cost less accumulated impairment losses.

Goodwill written off to reserves prior to date of transition to IFRS remains in reserves. There is no re-instatement of goodwill that was amortised prior to transition to IFRS.

#### Impairment of assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at the cash-generating unit level. Goodwill is allocated to all cash-generating units, including those that have arisen from business combinations and represent the lowest level within the Group at which management monitors the related cash flows.

Goodwill, other individual assets or cash-generating units that include goodwill, other intangible assets with an indefinite useful life, and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

#### Revenue

Revenue is measured by reference to the fair value of consideration received or receivable by the Group's provision of IT recruitment services.

Revenue for temporary contract assignments is recognised over the contract period for the services of the temporary contractor. Revenue recognised, but not yet invoiced, at the reporting date, is correspondingly accrued on the statement of financial position within "trade and other receivables".

Revenue from permanent placements, which is based on a percentage of the candidate's remuneration package, is derived from both retained assignments (income recognised on completion of defined stages of work) and non-retained assignments (income is recognised at the time the candidate accepts an offer of full time employment and where a start date has been determined).

Provision is made for the expected cost of meeting contractual obligations where employees do not work for the specified contractual period.



The Group assess whether it acts as a principal in any transactions or as an agent acting on behalf of others. In situations where the Group acts as the principal in a transaction and bears the risks and rewards of the transaction, the revenue and associated costs are recorded gross in the Consolidated Statement of Comprehensive Income. Where the Group acts as an agent in a transaction, only the fees associated to the services provided by the Group in the capacity of an agent are recognised as income. Where the de-recognition criteria of IAS 39 are met, any assets related to the transaction is reported net.

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

Property, plant and equipment are stated at cost, net of depreciation and any provisions for impairment. Management reassess residual values at least annually. Depreciation is calculated to write down the cost less estimated residual value of all property, plant and equipment by annual instalments over their expected useful lives. The rates generally applicable are:

Leasehold improvements	20% straight line
Office furniture and equipment	20% straight line

### **Leased assets**

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit or loss over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the profit or loss on a straight line basis over the lease term. Lease incentives are spread over the term of the lease.

### **Equity**

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares.
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- "Retained earnings" represents retained profits.
- "Share based payment reserve" represents equity-settled share-based employee remuneration until such share options are exercised.
- "Share buy back reserve" represents shares which were purchased and subsequently cancelled.
- "Non-controlling interests" represents that portion of equity attributable to shareholders outside of the Group.

### **Current and deferred tax**

Current tax is the tax currently payable based on taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the profit or loss, except where they relate to items that are charged or credited directly to other comprehensive income or equity in which case the related deferred tax is also charged or credited directly to other comprehensive income or equity as appropriate.

### **Financial instruments**

Financial assets and liabilities are recognised on the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

#### **Financial liability and equity instruments**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

#### **Trade receivables and trade payables**

Trade receivables and payables are initially recognised initially at fair value and thereafter at amortised cost using the effective interest rate method.

#### **Bank borrowings**

Interest-bearing bank loans and overdrafts are recorded at fair value, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they relate.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents. Bank overdrafts are included within the statement of financial position in current financial liabilities – borrowings.

## Employee benefits

### Defined contribution pension scheme

Group companies contribute to defined contribution pension plans of some employees at rates agreed between the companies and the employees. The assets of each scheme are held separately from those of the Group. Contributions are recognised as they become payable.

### Equity settled share-based payment

There is an Inland Revenue approved Enterprise Management Incentive Share Option Plan and an Unapproved Share Option Plan under which share options are granted to key employees.

All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2006 are recognised in the financial statements.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions.

All equity-settled share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to "share based payment reserve". Payments are recognised in the period to which they relate.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options that have vested are not exercised.

Upon exercise of share options, the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

### Long Term Incentive Plan

In December 2008, shareholders approved a share-based Long Term Incentive Plan ('LTIP'). This Plan provides EMI share option awards to Executive Directors and Senior Management which cannot be exercised before 1 January 2012. The level of awards is linked to the financial performance of the Group during 2009, 2010 and 2011.

### Growth Securities Ownership Plan

Senior management incentive plans which include participants acquiring financial instruments whose value is linked to the achievement of certain performance measures and are payable in equity (growth securities ownership plan - GSOP) are treated as equity settled share based payments under IFRS 2.

### **Acquisition and working capital finance facilities**

The Group has access to acquisition and working capital finance facilities provided by its bankers in the form of a confidential trade receivables finance facility which is secured by a fixed and floating charge over the Group's assets. The borrowings under this are included within current liabilities and described as "Financial Liabilities - borrowings" on the Group's statement of financial position and the facility is secured specifically against the Group's trade receivables. Trade receivables which have been discounted are included with trade receivables within current assets in the Group's statement of financial position.

In accordance with IAS 39, discounted trade receivables have been separately presented within trade receivables at the year end as management consider that the risks and rewards that are associated with those trade receivables remain with the Group.

### **Provisions, contingent liabilities and contingent assets**

Provisions for dilapidations, onerous leases and deemed employment exposures are recognised when there is a legal or constructive obligation as a result of past events, where it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

### **Non-recurring items**

Material and non-recurring items of income and expense are disclosed in the income statement as 'non-recurring items'. Examples of items which may give rise to disclosure as 'Non-recurring' include inter alia gains or losses on the disposal of businesses, investments and property, plant and equipment, costs of restructuring and reorganisation of existing businesses and asset impairment.

### **Significant judgements and estimates**

The preparation of these financial statements under IFRS as adopted by the European Union requires the Group to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The judgements and estimates which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below.

### **Judgements**

#### **Trade receivable finance facility**

Discounted trade receivables have been separately presented within trade receivables at the year end as management consider that the risks and rewards that are associated with those trade receivables remain with the Group.

## Estimates

### Share based payments

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions. All equity-settled share-based payments are ultimately recognised as an expense in profit or loss with a corresponding credit to "share based payment reserve". Estimates and assumptions used are set out in note 15.

During 2011 the Group implemented an incentive plan (the growth securities ownership plan - GSOP) for certain members of its senior management team. The Directors have assessed the fair value of this arrangement at grant date as £0.2m based on expectations over the achievement of predetermined performance measures but equity value of this arrangement could be lower or higher than this amount.

### Goodwill impairment

The Group is required to test, at least annually, whether goodwill has suffered any 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 suitable discount rate in order to calculate the present value of these cash flows. Actual outcomes could vary. Estimates and assumptions used are set out in note 9.

### Intangible assets

The Group recognises intangible assets acquired as part of business combinations at fair value at the date of acquisition. The determination of these fair values is based upon management's judgement and includes assumptions on the timing and amount of future incremental cash flows generated by the assets and selection of an appropriate cost of capital. Furthermore, management must estimate the expected useful lives of intangible assets and charge amortisation on these assets accordingly. Estimates and assumptions used are set out in note 9.

### Contingent assets and liabilities

Following appropriate due diligence and legal advice the Directors will assess the probability of success in any given legal case to determine if an asset, a contingent asset, a liability or a contingent liability is required. Refer to note 24.

## Consolidated statement of comprehensive income

	Note	2011 £'000	2010 £'000
Revenue		116,851	112,192
Acquisitions		4,068	-
<b>Group revenue</b>	1	<b>120,919</b>	112,192
Cost of sales		(104,270)	(97,534)
Gross profit	1	<b>16,649</b>	14,658
Amortisation	2	(732)	(1,011)
Other administrative expenses		(12,953)	(11,239)
Total administrative expenses	2	<b>(13,685)</b>	(12,250)
<b>Operating profit:</b>			
Continuing operations		2,701	2,408
Acquisitions		263	-
<b>Group operating profit before non-recurring items</b>	2	<b>2,964</b>	2,408
Non-recurring items	2,3	(2,898)	-
<b>Operating profit</b>		<b>66</b>	2,408
Finance costs	5	(266)	(191)
(Loss) / profit before taxation		<b>(200)</b>	2,217
Income tax expense	6	(899)	(388)
(Loss)/profit for the year		<b>(1,099)</b>	1,829
Other comprehensive income for the year		-	-
Total comprehensive (expense) / income for the year		<b>(1,099)</b>	1,829
(Loss)/profit and total comprehensive income attributable to:			
- Owners of the parent		(1,073)	1,900
- Non controlling interests		(26)	(71)
Total comprehensive (expense) / income for the year		<b>(1,099)</b>	1,829

**(Loss) / earnings per share  
from both total and continuing operations:**

	Note	Pence	Pence
Basic (loss) / earnings per share	7	<b>(3.4)</b>	6.1
Diluted (loss) / earnings per share	7	<b>(3.4)</b>	5.9

All results for the Group are derived from continuing operations in both the current and prior year.

The accompanying principal accounting policies and notes form part of these consolidated financial statements.

## Consolidated statement of financial position

	Note	2011 £'000	2010 £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	807	484
Goodwill	9	14,683	14,005
Intangible assets	9	1,480	859
Deferred income tax assets	14	-	93
<b>Total non-current assets</b>		<b>16,970</b>	<b>15,441</b>
<b>Current assets</b>			
Trade and other receivables	10	21,991	19,690
Cash at bank and in hand	11	257	495
<b>Total current assets</b>		<b>22,248</b>	<b>20,185</b>
<b>Total assets</b>		<b>39,218</b>	<b>35,626</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	12	(12,600)	(10,700)
Borrowings	13	(5,768)	(3,186)
Current tax payable		(1,197)	(831)
<b>Total current liabilities</b>		<b>(19,565)</b>	<b>(14,717)</b>
<b>Non-current liabilities</b>			
Deferred income tax liabilities	14	(153)	-
<b>Total non-current liabilities</b>		<b>(153)</b>	<b>-</b>
<b>Total liabilities</b>		<b>(19,718)</b>	<b>(14,717)</b>
<b>Net assets</b>		<b>19,500</b>	<b>20,909</b>
<b>EQUITY</b>			
Share capital	16	321	313
Share premium account		9,370	8,919
Capital redemption reserve		12	11
Retained earnings		9,777	11,636
Share based payment reserve		733	672
Share buy back reserve		(666)	(621)
Total issued share capital and reserves attributable to the owners of the parent		19,547	20,930
Non controlling interests		(47)	(21)
<b>Total equity</b>		<b>19,500</b>	<b>20,909</b>

The consolidated financial statements were approved by the board on 6 March 2012 and were signed on its behalf by:

M R S Joyce  
Finance Director



Company Registration No. 04298109

## Consolidated 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
<b>Balance at 1 January 2010</b>	<b>306</b>	<b>8,479</b>	<b>-</b>	<b>10,505</b>	<b>490</b>	<b>-</b>	<b>50</b>	<b>19,830</b>
<b>Comprehensive income</b>								
Profit for the year	-	-	-	1,900	-	-	(71)	1,829
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,900</b>	<b>-</b>	<b>-</b>	<b>(71)</b>	<b>1,829</b>
<b>Transactions with owners</b>								
Movement in share based payment reserve	-	-	-	-	182	-	-	182
Capital redemption reserve	(11)	-	11	-	-	-	-	-
Issue of share capital	18	440	-	-	-	-	-	458
Dividends relating to 2010	-	-	-	(769)	-	-	-	(769)
Share buy back reserve	-	-	-	-	-	(621)	-	(621)
<b>Total contributions by and distributions to owners</b>	<b>7</b>	<b>440</b>	<b>11</b>	<b>(769)</b>	<b>182</b>	<b>(621)</b>	<b>-</b>	<b>(750)</b>
<b>Balance at 31 December 2010</b>	<b>313</b>	<b>8,919</b>	<b>11</b>	<b>11,636</b>	<b>672</b>	<b>(621)</b>	<b>(21)</b>	<b>20,909</b>
<b>Comprehensive income</b>								
Loss for the year	-	-	-	(1,073)	-	-	(26)	(1,099)
<b>Total comprehensive expense for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,073)</b>	<b>-</b>	<b>-</b>	<b>(26)</b>	<b>(1,099)</b>
<b>Transactions with owners</b>								
Movement in share based payment reserve	-	-	-	-	61	-	-	61
Capital redemption reserve	(1)	-	1	-	-	-	-	-
Issue of share capital	9	451	-	-	-	-	-	460
Dividends relating to 2011	-	-	-	(786)	-	-	-	(786)
Share buy back reserve	-	-	-	-	-	(45)	-	(45)
<b>Total contributions by and distributions to owners</b>	<b>8</b>	<b>451</b>	<b>1</b>	<b>(786)</b>	<b>61</b>	<b>(45)</b>	<b>-</b>	<b>(310)</b>
<b>Balance at 31 December 2011</b>	<b>321</b>	<b>9,370</b>	<b>12</b>	<b>9,777</b>	<b>733</b>	<b>(666)</b>	<b>(47)</b>	<b>19,500</b>



## Consolidated statement of cash flows

	Note	2011 £'000	2010 £'000
<b>Cash flows from operating activities</b>			
(Loss)/profit after taxation		(1,099)	1,829
Adjustments for:			
Depreciation	2	330	169
Impairment on intangible assets	2	2,000	-
Share based payment charge	2	61	182
Finance costs	5	266	191
Amortisation	2	732	1,011
Income tax expense	6	899	388
(Increase) in trade and other receivables		(711)	(3,827)
Increase in trade and other payables		967	2,536
Cash generated from operations		3,445	2,479
Income taxes paid		(828)	(668)
<b>Net cash from operating activities</b>		<b>2,617</b>	<b>1,811</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	8	(641)	(361)
Acquisition of subsidiaries, net of cash acquired		(3,744)	-
<b>Net cash used in investing activities</b>		<b>(4,385)</b>	<b>(361)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital		164	458
Cost to buy back shares		(45)	(621)
Net increase in discounting facility		2,463	23
Interest paid		(266)	(191)
Dividends paid	22	(786)	(769)
<b>Net cash generated/(used in) in financing activities</b>		<b>1,530</b>	<b>(1,100)</b>
<b>Net (decrease) / increase in cash, cash equivalents and overdrafts</b>		<b>(238)</b>	<b>350</b>
<b>Cash, cash equivalents and overdrafts at beginning of year</b>	11	<b>495</b>	<b>145</b>
<b>Cash, cash equivalents and overdrafts at end of year</b>	11	<b>257</b>	<b>495</b>

# Notes to the consolidated financial statements

## 1 Revenue and segmental reporting

For management reporting purposes the Group is organised by individual specialist business units. All business units, with the exception of PayQuest Group Limited, provide Contract and Permanent recruitment services. Our UK recruitment businesses have similar economic characteristics and are considered to meet the aggregation criteria of IFRS. They are analysed below with respect to the market segments where they focus their activities – Private Sector Financial Services, Private Sector Non-Financial Services (described as 'Other') and Public Sector focused. Our IQ Equity division was founded in 2009 to provide start up capital and infrastructure to new specialist IT recruitment and related businesses, and forms a separate reportable segment. PayQuest Group Limited is part of our IQ Equity division but is shown as a separate reportable segment because it does not provide recruitment services. It provides payroll services to contractors.

The information provided below is consistent with the information provided to the Groups chief operating decision maker.

2011	Private Other £'000	Private Financial Services £'000	Public Sector £'000	IQ Equity £'000	PayQuest Payroll Services £'000	Intercompany trading £'000	Total £'000
Revenue	50,307	43,029	18,909	5,743	8,240	(5,309)	120,919
Gross profit	8,404	4,667	1,954	1,447	177		16,649
EBITA per management accounts	1,543*	1,546	647	(37)	58 <sup>1</sup>		3,757
Reconciling items to amounts reported in the statement of comprehensive income:							
- share based payment charge							(61)
- non-recurring items							(2,898)
- amortisation							(732)
IFRS operating profit							66
Finance costs							(266)
Loss before tax							<u>(200)</u>

\* Includes newly formed Singapore operation

<sup>1</sup> PayQuest Group Limited, our payroll services business, is part of our IQ Equity division but shown separately because it does not provide recruitment services.

2010	Private Other £'000	Private Financial Services £'000	Public Sector £'000	IQ Equity £'000	PayQuest Payroll Services £'000	Intercompany trading £'000	Total £'000
Revenue	46,121	33,284	28,051	3,884	2,659	(1,807)	112,192
Gross profit	6,915	4,022	2,660	1,042	19		14,658
EBITA per management accounts	1,082	1,728	1,106	(243)	(72) <sup>1</sup>		3,601
Reconciling items to amounts reported in the statement of comprehensive income:							
- share based payment charge							(182)
- amortisation							(1,011)
IFRS operating profit							2,408
Finance costs							(191)
Profit before tax							2,217

<sup>1</sup> PayQuest Group Limited, our payroll services business, is part of our IQ Equity division but shown separately because it does not provide recruitment services.

	Revenue		Gross profit	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Permanent	5,046	3,775	5,046	3,775
Contract	115,873	108,417	11,603	10,883
	<b>120,919</b>	<b>112,192</b>	<b>16,649</b>	<b>14,658</b>

The information reviewed or otherwise regularly provided to the chief operating decision maker does not include net assets. The cost to develop this information would be excessive in comparison to the value that would be derived.

There is one external customer that represented more than 10% of the entity's external revenues with revenue of £15.8m in the Financial Services segment (2010: £12.7m).

## 2 Administrative expenses

Administrative expenses include the following:	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>
Auditors remuneration:		
Fees payable to the company's auditor for the audit of parent company and consolidated financial statements	<b>26</b>	25
Fees payable to the company's auditor and its associates for other services		
- audit of company's subsidiaries pursuant to legislation	<b>77</b>	56
- other services pursuant to legislation	<b>55</b>	3
- taxation services	<b>102</b>	22
Amortisation of intangible assets	<b>732</b>	1,011
Depreciation	<b>330</b>	169
Non-recurring items (see note 3)	<b>2,898</b>	-
Operating lease rentals – land and buildings	<b>544</b>	388
Share based payment charge	<b>61</b>	182

## 3 Non-recurring items

The following non-recurring items were incurred during the year:

Following notification of an apparent impropriety and alleged fraud within a major client of Contract Connections Limited and the termination of the contract between Contract Connections Limited and the client, the Board conducted an impairment review on the carrying value of the goodwill arising on the acquisition of the company. The impairment review was based on the value in use of the company using a discount rate of 10.48%. The discount rate represents the weighted average cost of capital of the 'Private Other' segment. The post acquisition results of the company are included within the 'Private Other' segment. As a result of the review, an impairment charge of £2.0m has been recognised in the financial year and has been treated as a non-recurring item.

A provision of £0.5m has been made in the financial year, and treated as a non-recurring item, to impair certain trade receivable balances which have been withheld as a result of the alleged fraud.

A further £0.4m of costs have been treated as non-recurring during the period which relate to the acquisition of Contract Connections Limited, an onerous lease provision within, some redundancy costs, certain professional fees in connection with the Group's independent investigation by forensic accountants into the alleged fraud and legal fee's in connection with a warranty claim announced on 8 February 2012 totalling £3.8m (see note 24).

#### 4 Directors and employees

Staff costs during the year were as follows:

	2011 £'000	2010 £'000
Wages and salaries	7,623	7,294
Social security costs	853	805
Other pension costs	22	12
	<b>8,498</b>	<b>8,111</b>

The average number of employees of the Group during the year was:

	2011 Number	2010 Number
Recruitment consultants	157	134
Administration	34	30
	<b>191</b>	<b>164</b>

Remuneration in respect of directors was as follows:

	2011 £'000	2010 £'000
Emoluments	650	500
Share based payment	1	44
	<b>651</b>	<b>544</b>

During the year, Mark Braund was the only Director (2010: nil) to participate in a pension scheme.

Information on Directors emoluments and interests, which form part of those audited financial statements, is given in the Report of the directors.

The amounts set out above include remuneration in respect of the highest director as follows:

	2011 £'000	2010 £'000
Emoluments	191	202
Share based payment	-	32
	<b>191</b>	<b>234</b>

#### 5 Finance costs

	2011 £'000	2010 £'000
Interest payable on borrowings	266	191
	<b>266</b>	<b>191</b>

## 6 Income tax expense

	2011 £'000	2010 £'000
<b>Current tax</b>		
Corporation tax on profits for the year	989	822
Adjustments in respect of prior periods	14	(11)
<b>Total current tax</b>	<b>1,003</b>	<b>811</b>
<b>Deferred tax</b>		
Other timing differences	(13)	(29)
Tax losses carried forward	(22)	(46)
Differences between depreciation and capital allowances	43	40
Charge on share based payments	111	(138)
Intangible asset temporary differences	(223)	(250)
Adjustments in respect of prior periods	(104)	(423)
<b>Total income tax expense</b>	<b>899</b>	<b>388</b>

	2011 £'000	2010 £'000
(Loss) / profit before taxation	(200)	2,217
(Loss) / Profit before taxation multiplied by standard rate of corporation tax in the UK of 26.5% (2010: 28%)	(55)	621
Effects of:		
Net effect of tax losses in the year	38	(6)
Expenses not deductible for tax purposes	309	77
Schedule 23 deduction on exercise of share options	(29)	(127)
Temporary difference with respect to share based payment charge	111	(138)
Other tax adjustments	(2)	(32)
Under / (over) provisions in prior years	14	(11)
Impairment of goodwill	548	-
Difference in tax rates	(35)	4
<b>Total income tax expense</b>	<b>899</b>	<b>388</b>

## 7 (Loss) / 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.

	2011 £'000	2010 £'000
<b>(Loss) / profit for the year</b>	<b>(1,073)</b>	<b>1,900</b>
<b>Adjustments to basic earnings</b>		
Intangible assets amortisation	732	1,011
Deferred tax credit on intangible asset amortisation	(183)	(250)
Share based payment charge	61	182
Deferred tax credit on share based payment charge	111	(138)
Non-recurring items	2,898	-
<b>Adjusted earnings</b>	<b>2,546</b>	<b>2,705</b>

	2011	2010
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic earnings per share	31,691,716	31,372,877
Weighted average number of share options in issue	806,507	1,068,614
Weighted average number of ordinary shares for the purposes of diluted earnings per share	32,498,223	32,441,491

	Pence	Pence
<b>(Loss) / earnings per share</b>		
Basic (loss) / earnings per share	(3.4)	6.1
Diluted (loss) / earnings per share	(3.4)	5.9

<b>Adjusted earnings per share</b>		
Basic earnings per share	8.0	8.6
Diluted earnings per share	7.8	8.3

## 8 Property, plant and equipment

	Leasehold improvements £'000	Office furniture and equipment £'000	Total £'000
<b>Cost</b>			
At 1 January 2010	46	1,260	1,306
Additions	-	361	361
<b>At 31 December 2010</b>	<b>46</b>	<b>1,621</b>	<b>1,667</b>
<b>At 1 January 2011</b>	<b>46</b>	<b>1,621</b>	<b>1,667</b>
Additions – continuing operations	395	246	641
Additions - acquisitions	-	12	12
<b>At 31 December 2011</b>	<b>441</b>	<b>1,879</b>	<b>2,320</b>
<b>Depreciation</b>			
At 1 January 2010	46	968	1,014
Provided in the year	-	169	169
<b>At 31 December 2010</b>	<b>46</b>	<b>1,137</b>	<b>1,183</b>
<b>At 1 January 2011</b>	<b>46</b>	<b>1,137</b>	<b>1,183</b>
Provided in the year	46	284	330
<b>At 31 December 2011</b>	<b>92</b>	<b>1,421</b>	<b>1,513</b>
NBV at 1 January 2010	-	292	292
NBV at 31 December 2010	-	484	484
<b>NBV at 31 December 2011</b>	<b>349</b>	<b>458</b>	<b>807</b>

## 9 Goodwill and intangible assets

	Goodwill £'000	Customer relationships £'000	Total £'000
<b>Cost at 1 January 2010</b>	14,005	5,055	19,060
Accumulated at 1 January 2010	-	(3,185)	(3,185)
Amortisation for year	-	(1,011)	(1,011)
<b>Net book amount at 31 December 2010</b>	<b>14,005</b>	<b>859</b>	<b>14,864</b>
<b>Net book amount at 1 January 2011</b>	<b>14,005</b>	<b>859</b>	<b>14,864</b>
Additions from business combinations	2,678	1,353	4,031
Impairment	(2,000)	-	(2,000)
Amortisation	-	(732)	(732)
<b>Net book amount at 31 December 2011</b>	<b>14,683</b>	<b>1,480</b>	<b>16,163</b>
<b>Cost at 31 December 2011</b>	<b>16,683</b>	<b>6,408</b>	<b>23,091</b>
Impairment	(2,000)	-	(2,000)
Accumulated amortisation	-	(4,928)	(4,928)
<b>Net book amount at 31 December 2011</b>	<b>14,683</b>	<b>1,480</b>	<b>16,163</b>



Goodwill is allocated to the Group's cash generating units (CGU's) identified according to business units as follows:

	2011 £'000	2010 £'000
InterQuest Group (UK) Limited	5,053	5,053
PeopleCo Worldwide Limited	3,093	3,093
Sand Resources Limited	2,239	2,239
Intelect Recruitment plc	1,894	1,894
e-CRM People Limited	1,611	1,611
Korus Recruitment Group Limited	115	115
Contract Connections Limited	678	-
	<b>14,683</b>	<b>14,005</b>

The recoverable amount of goodwill and intangible assets associated with each CGU is determined based on value-in-use calculations. The key assumptions used for value-in-use calculations as at 31 December 2011 are that the CGU's will trade in accordance with the 2012 budget, which has a higher financial result than that reported for 2011, followed by range 5% growth in sales and 5% growth in costs (from 2011 levels) in subsequent years until 31 December 2016 across all CGU's based on managements experience of the IT recruitment market place. A terminal value has not been used in the value-in-use calculations.

Following notification of the apparent impropriety and alleged fraud within a major client of Contract Connections Limited and the termination of the contract between Contract Connections Limited and the client, the Board conducted an impairment review on the carrying value of the goodwill arising on the acquisition of the company. The impairment review was based on the value-in-use of the company using a discount rate of 10.48%. The discount rate represents the weighted average cost of capital of the 'Private Other' segment. The post acquisition results of the company are included within the 'Private Other' segment. As a result of the review, an impairment charge of £2m has been recognised in the financial year and has been treated as a non-recurring item. Following notification of the apparent impropriety and alleged fraud within a major client of Contract Connections Limited and the termination of the contract between Contract Connections Limited and the client, the Board conducted an impairment review on the carrying value of the goodwill arising on the acquisition of the company. The impairment review was based on the value in use of the company using a discount rate of 10.48%. The discount rate represents the weighted average cost of capital of the 'Private Other' segment. The post acquisition results of the company are included within the 'Private Other' segment. As a result of the review, an impairment charge of £2m has been recognised in the financial year and has been treated as a non-recurring item.

The resulting projected cashflows have been discounted at 10.48% to calculate their net present value at 31 December 2011. The discount rate represents the Groups weighted average cost of capital. This is consistent across all CGU's. An expected gross margin of 10% to 20%, 12% and 11% has been used for the 'Private Other', 'Private Financial Services' and 'Public Sector' operating segments respectively.

The Board believes that the growth rates used in the value-in-use calculations are appropriate. The growth rate assumptions used between 2012 and 2016 are based on the results for 2011. Current trading activity in 2012 supports the growth rates used in our calculations.

Each CGU has been considered on an individual basis and these assumptions used fall within historic variations experienced by the Group and are considered as reasonable estimations. The discount rate is pre-tax and reflects specific risks relating to the relevant CGU's.

The assessment for value in use for the CGU is sensitive to both growth rates and gross margin. There would have to be a significant reduction in both growth rates and growth margin before impairment would need to be considered. These assumptions have been used for the analysis of each CGU because each CGU share similar attributes and it is appropriate to use similar assumptions.

## 10 Trade and other receivables

	2011 £'000	2010 £'000
Gross trade receivables	20,124	16,442
Provisions	(676)	(30)
Net trade receivables	19,448	16,412
Prepayments and accrued income	2,329	2,835
Other current assets	214	443
	<b>21,991</b>	<b>19,690</b>

Included within gross trade receivables is £6.5m (2010: £3.3m;) in respect of invoice discounted debts outstanding at the year end.

All trade receivable amounts are short term. The Group's trade receivables have been reviewed for indicators of impairment. The carrying value of trade receivables is considered as a reasonable approximation of the fair value of the receivables.

The age of financial assets past due but not considered impaired is as follows:

	2011 £'000	2010 £'000
Not more than 30 days	1,993	574
More than 30 days but less than 60 days	3,809	4,598
More than 60 days but less than 90 days	1,020	1,253
More than 90 days	1,348	979
	<b>8,170</b>	<b>7,404</b>

Movements on the Group provision for impairment of trade receivables is as follows:

	2011 £'000	2010 £'000
Provision for receivables impairment at 1 January	30	20
Arising from acquisition (see note 23)	15	-
Fair value adjustments on acquisition	99	-
Exceptional items (see note 3)	524	-
New provision in the year	8	10
Provision for receivables impairment at 31 December	<u>676</u>	<u>30</u>

During the year a provision of £0.5m was made in respect of the matters set out in note 24.

The creation of provision for impaired receivables have been included in the consolidated statement of comprehensive income. The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

## 11 Cash and cash equivalents

	2011 £'000	2010 £'000
Cash and cash equivalents	<u>257</u>	<u>495</u>

The carrying value of cash and cash equivalents are considered to be a reasonable approximation of fair value.

## 12 Trade and other payables

	2011 £'000	2010 £'000
Trade payables	7,990	6,699
Other tax and social security	409	484
Other payables	1,301	1,262
Accruals and deferred income	2,900	2,255
	<u>12,600</u>	<u>10,700</u>

The carrying values of trade and other payables are considered to be a reasonable approximation of fair value.

### 13 Financial liabilities – borrowings

	2011 £'000	2010 £'000
<b>Less than one year</b>		
Invoice discounting facility	5,768	3,186
	<u>5,768</u>	<u>3,186</u>

The Group has access to acquisition and working capital finance facilities provided by its bankers. These facilities comprise a confidential trade receivables finance facility and an overdraft which are secured by a fixed and floating charge over the Group's assets. The confidential trade receivables finance facility is secured specifically against the Group's trade receivables. Trade receivables which have been discounted are included with trade receivables within current assets in the Group's statement of financial position. A debenture dated 12 June 2006 was executed to secure all the Company's liabilities to National Westminster Bank plc. A cross corporate guarantee and indemnity is in place on the invoice discounting facility between the Company, InterQuest Group (UK) Ltd, FJB (Contracts) Limited, PeopleCo Worldwide Limited, Sand Resources Limited, Peregrine Recruitment Limited, Fulcrum Telecom Limited, Korus Recruitment Group Limited and Contract Connections Limited.

### 14 Deferred income tax assets and liabilities

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	Asset £'000	Liability £'000	Net £'000
Depreciation charged in excess of capital allowances	22	-	22
Tax losses carried forward	109	-	109
Deferred tax on employee share options	73	-	73
Other timing differences	13	-	13
Intangible asset temporary differences	-	(370)	(370)
<b>Asset /(liability) at 31 December 2011</b>	<u>217</u>	<u>(370)</u>	<u>(153)</u>

The gross movement on the deferred income tax amount is as follows:

	2011 £'000	2010 £'000
Liability at 1 January	(93)	330
Profit or loss (note 6)	(104)	(423)
Deferred consideration on acquisition	350	-
<b>(Asset) / liability at 31 December</b>	<u>153</u>	<u>(93)</u>

## 15 Employee benefits

The following amounts have been recognised in the consolidated statement of comprehensive income in relation to defined contribution retirement benefit plans:

	2011 £'000	2010 £'000
Defined contributions	<u>22</u>	<u>12</u>

Equity settled share based payments:

	Options	2011 weighted average exercise price	Options	2010 weighted average exercise price
Outstanding at beginning of the year	2,377,500	£0.39	4,928,500	£0.34
Granted during the year	105,000	£0.38	40,000	£0.01
Forfeited during the year	(442,000)	£0.62	(755,000)	£0.40
Exercised during the year	<u>(245,928)</u>	£0.14	<u>(1,836,000)</u>	£0.25
Outstanding at end of year	<u>1,794,572</u>	£0.37	<u>2,377,500</u>	£0.39
Exercisable during the year	<u>4,834,952</u>	£0.39	<u>5,123,500</u>	£0.37
Exercisable at the year end	<u>1,422,733</u>	£0.45	<u>1,337,500</u>	£0.69
Weighted average remaining contractual life of options outstanding at the end of the year	<u>5.7 years</u>		<u>6.7 years</u>	

The options outstanding at 31 December 2011 had an exercise price ranging from £0.01 to £1.17 (2010: £0.25 to £1.17). The estimated fair value of the options granted in the year was £39,000 (2010: £1,000). Fair value is the value of the options at the date of grant based on their exercise price. Expected volatility was calculated by using a suitable competitor's previous share price for the two years prior to the grant of the options. The weighted average share price during the year was £0.60.

Details of the Company's share options are as follows:

#### EMI scheme

Date granted	Number of options granted and still outstanding	Exercise price	Date from which exercisable	Expiry date
22 January 2004	30,000	36p	22 January 2006	22 January 2014
5 January 2005	30,000	35p	5 January 2007	5 January 2015
14 June 2005	115,000	55p	14 June 2007	14 June 2015
1 July 2005	20,000	55p	1 July 2007	1 July 2015
21 November 2005	30,000	48p	21 November 2007	21 November 2015
21 November 2005	58,000	55p	21 November 2007	21 November 2015
1 March 2006	285,000	52p	1 March 2008	1 March 2016
12 June 2006	100,000	57p	12 June 2008	12 June 2016
15 June 2006	127,500	62p	15 June 2008	15 June 2016
20 December 2006	40,000	85p	20 December 2008	20 December 2016
24 May 2007	45,000	115p	24 May 2009	24 May 2017
12 July 2007	25,000	114p	12 July 2009	12 July 2017
22 October 2007	50,000	100p	22 October 2009	22 October 2017
23 December 2008	296,839	1p	1 January 2012	1 January 2018
16 October 2009	386,000	1p	16 October 2012	16 October 2019
31 March 2010	20,000	1p	31 March 2013	31 March 2020
24 March 2011	15,000	60p	24 March 2014	24 March 2021
	<b>1,673,339</b>			

Some share options have sales performance criteria attached to the options.

All share options are settled with equity.

#### Unapproved scheme

Date granted	Number of options granted and still outstanding	Exercise price	Date from which exercisable	Expiry date
21 November 2005	12,000	55p	21 November 2005	21 November 2015
19 July 2007	50,000	116.5p	19 July 2009	19 July 2017
16 October 2009	19,161	1p	16 October 2012	16 October 2019
1 November 2011	40,000	1p	1 November 2011	1 November 2021
	<b>121,161</b>			

The inputs into the Black-Scholes valuation model for options granted during the year were as follows:

	2011 £ '000	2010 £ '000
Weighted average share price	£0.60	£0.56
Weighted average exercise price	£0.60	£0.01
Expected volatility	35%	34%
Expected life	1 year	1 year
Risk free rate	0.5	0.5

Expected volatility was calculated by using suitable comparative historical share prices for the two years prior to the date of grant of the options. The share based payment charge expense for 2011 is £3,000 (2010: £182,000).

During 2011 the Group implemented an incentive plan (the growth securities ownership plan - GSOP) for certain members of its senior management team. Under the terms of the GSOP a participant acquires a financial instrument, the value of which is linked to the achievement of certain performance measures, with settlement in equity at the end of the arrangement. Performance criteria relate to achievement of pre-determined profit targets by 31 December 2012 in conjunction with development of the businesses management team. Of the £0.2m fair value of the arrangement at grant date, £0.1m has been charged to the statement of comprehensive income.

## 16 Share capital

	2011 £'000	2010 £'000
<b>Authorised:</b>		
80,000,000 ordinary shares of 1p each	800	800
<b>Allotted, called up and fully paid:</b>	£'000	
As at 1 January 2010:		
31,286,087 ordinary shares of 1p each	313	
Issue of share capital	9	
Cancelled share capital	(1)	
	<u>321</u>	
As at 31 December 2010:		
31,286,087 ordinary shares of 1p each	<u>313</u>	
As at 31 December 2011:		
32,131,377 ordinary shares of 1p each:	<u><u>321</u></u>	

During the year total consideration of £428,000 was paid in relation to the shares issued.

Details of ordinary share capital issued and cancelled during the year is as follows:

	<b>Mark Braund</b>	<b>Michael Joyce</b>	<b>Alan Found</b>	<b>Market Purchasers</b>	<b>Total</b>
<b>Issues:</b>					
Issued on 22 June 2011	-	-	-	466,790	466,790
Issued on 23 June 2011	208,000	-	38,709	-	246,709
Issued on 4 July 2011	-	-	-	60,000	60,000
Issued on 21 October 2011	-	86,000	61,291	-	147,291
	<u>208,000</u>	<u>86,000</u>	<u>100,000</u>	<u>526,790</u>	<u>920,790</u>
<b>Buy backs:</b>					
Share buy back on 4 May 2011	-	-	-	(30,000)	(30,000)
Share buy back on 2 November 2011	-	-	-	(13,500)	(13,500)
Share buy back on 3 November 2011	-	-	-	(10,000)	(10,000)
Share buy back on 8 December 2011	-	-	-	(22,000)	(22,000)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(75,500)</u>	<u>(75,500)</u>

The Group's objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by providing recruitment services commensurately with the level of risk.



The Group monitors capital on the basis of debt-to-capital ratio. This is calculated as net debt divided by total equity. Net debt is calculated as total debt as shown in the statement of financial position less cash and cash equivalents.

	2011 £'000	2010 £'000
Total debt	5,768	3,186
Less: Cash and cash equivalents	(257)	(495)
Net debt	<u>5,511</u>	<u>2,691</u>
Total equity	<u>19,500</u>	<u>20,909</u>
Debt-to-capital ratio	<u>0.28</u>	<u>0.13</u>

The financial risk management policies of the Group are set out in note 21. The debt-to-capital ratio increased during the year due to the acquisition of Contract Connections Limited.

## 17 Operating leases

The future aggregated minimum lease payments under non-controllable operating leases are:

	2011 £'000 Land and buildings	2010 £'000 Land and buildings
Within one year	-	-
Between one and five years	424	306
Over five years	1,911	542
	<u>2,335</u>	<u>848</u>

## 18 Capital commitments

The Group had no capital commitments at 31 December 2011 or 31 December 2010.

## 19 Related party transactions

Related party	Nature of business	2011 £	2010 £	Directors involved
Vail Securities Limited	Consultancy services	45,000	65,000	G P Ashworth
Vail Securities Limited	Business expenses	10,034	27,144	G P Ashworth

No amounts were outstanding at 31 December 2011 or 31 December 2010.

Details of dividends paid during the year to Directors are as follows:

## 2011

Dividends declared	Date paid	Gary Ashworth £	Mark Braund £	Michael Joyce £	Alan Found £	Paul Frew £
2.0 pence per share	6 April 2011	252,458	-	7,337	2,520	800
0.5 pence per share	28 October 2011	63,115	1,875	999	824	200
		<u>315,573</u>	<u>1,875</u>	<u>8,336</u>	<u>3,344</u>	<u>1,000</u>

## 2010

Dividends declared	Date paid	Gary Ashworth £	Michael Joyce £	Alan Found £	Paul Frew £	Luke Johnson £
2.0 pence per share	19 February 2010	250,858	7,337	-	400	76,041
0.5 pence per share	28 October 2010	63,115	1,834	630	200	15,135
		<u>313,973</u>	<u>9,171</u>	<u>630</u>	<u>600</u>	<u>91,176</u>

Compensation paid to key senior management of the Group was as follows:

	2011 £'000	2010 £'000
Salaries and other short-term employee benefits	1,770	1,661
Share-based payments	3	115
	<u>1,773</u>	<u>1,776</u>

The Group has taken advantage of the exemptions contained within IAS 24 - Related Party Disclosures from the requirement to disclose transactions between Group companies as those have been eliminated on consolidation.

## 20 Events after the balance sheet date

There were no material events after the reporting date.

## 21 Financial risk management

### Interest rate sensitivity

At 31 December 2011, the Group is exposed to changes in market interest rates through its invoice discounting and bank overdraft facilities, which are subject to variable interest rates – see note 13 for further information. The Group does not hedge the exposure to variations in interest rates.

The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates of +3% and –0.5% (2010: +3% and -0.5%), with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's financial instruments held at each reporting date. All other variables are held constant.

	2011 £'000 +3%	2011 £'000 -0.5%	2010 £'000 +3%	2010 £'000 -0.5%
Net result for the year	(399)	66	(229)	76
Equity	(399)	66	(229)	76

### Credit risk analysis

The Group's exposure to credit risk is limited to the carrying amount of trade receivables. The Group continuously monitors defaults of customers and other counterparties, identified either individually or by Group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. Group's policy is to deal only with creditworthy counterparties.

Group management considers that trade receivables are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. See note 10 for further information on impairment or financial assets that are past due.

None of the Group's financial assets are secured by collateral or other credit enhancements.

The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

### Liquidity risk analysis

The Group manages its liquidity needs by carefully monitoring scheduled deferred consideration payments as well as cash-outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly.

The Group maintains cash and marketable securities to meet its liquidity requirements for up to 30-day periods. Funding in regards to long-term liquidity needs is additionally secured by an adequate amount of committed invoice discounting facilities

Analysis of the Group's contractual maturities of liabilities are set out in note 13.

	2011 £'000	2010 £'000
Loans and receivables	21,947	19,742
Total financial assets	<u>21,947</u>	<u>19,742</u>

	2011 £'000	2010 £'000
<b>Current assets</b>		
Trade receivables	19,361	16,412
Prepayments and accrued income	2,329	2,835
Cash and cash equivalents	257	495
	<u>21,947</u>	<u>19,742</u>

	2011 £'000	2010 £'000
Financial liabilities measured at amortised cost	17,918	13,402
	<u>17,918</u>	<u>13,402</u>

	2011 £'000	2010 £'000
<b>Current liabilities</b>		
Borrowings	5,768	3,186
Trade payables	7,990	6,699
Other payables	1,347	1,262
Accruals and deferred income	2,813	2,255
	<u>17,918</u>	<u>13,402</u>

## 22 Dividends paid

	2011 £'000	2010 £'000
Final dividend for the year ended 31 December 2010 of 2 pence per share	<u>786</u>	<u>769</u>

The directors proposed a second interim dividend of 2 pence per share to be paid on 12 April 2012 (2010: 2 pence per share).

## 23 Acquisitions

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. The company was identified by management as a complementary specialist niche recruitment business.

### 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	(157)	1,556
Borrowings	(162)	3	(159)
Trade and other payables	(1,115)	25	(1,090)
<b>Total</b>	<b>460</b>	<b>862</b>	<b>1,322</b>
Total net assets acquired			1,322
Goodwill arising on acquisition			2,678
			<b>4,000</b>
Discharged by:			
Initial consideration in cash			3,704
Initial consideration in shares			296
			<b>4,000</b>

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.

The goodwill arising on the acquisition relates to the Groups investment in the staff and management of the company.

During the year £2.0m of the goodwill arising on acquisition was impaired, see note 9 for further details. The customer relationship intangible asset arising on acquisition does not ascribe any value to the customer relationship that was terminated following the acquisition.

A fair value adjustment of £0.1m has been made to reflect trade receivables not expected to be recovered.

Contract Connections Limited incurred a loss of £0.4m for the 7 month period from 21 June 2011. If Contract Connections Limited had been acquired on 1 January 2011, revenue of the group would have been £134.3m, and profit for the year would have increased by £0.3m.

## 24 Contingent assets

Subsequent to the acquisition of Contract Connections Limited on 12 August 2011 InterQuest Group Plc announced that due to apparent impropriety and alleged fraud within a major client of Contract Connections Limited, the client subsequently terminated its contract with Contract Connections Limited.

The Board has no further update to our announcement on 8 February 2012 confirming the lodgement of a Warranty Claim totalling £3,835,909 excluding interests and costs against the vendors of Contract Connections Limited.

The information usually required by IAS 37 Provisions, Contingent Liabilities and Contingent Assets is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation. The directors are of the opinion that the claim will be successful.

# Report of the independent auditors to the members of InterQuest Group plc

We have audited the parent company financial statements of InterQuest Group plc for the year ended 31 December 2011 which comprise the parent company balance sheet, principal accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

## **Respective responsibilities of directors and auditors**

As explained more fully in the Statement of Director's Responsibilities (set out on page 8), the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## **Opinion on financial statements**

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

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

We have nothing to report in respect of the following matters where 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.

### **Other matter**

We have reported separately on the Group financial statements of InterQuest Group plc for the year ended 31 December 2011.



**Marc Summers, BSc, FCA**  
**Senior Statutory Auditor**  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
London  
6 March 2012



## Principal accounting policies

### Basis of preparation

The Company financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

The principal accounting policies of the Company have been applied consistently and remain unchanged from the previous year.

### Fixed assets

Fixed assets are stated at cost or valuation, net of depreciation and any provisions for impairment. Depreciation is calculated to write down the cost less estimated residual value of all property, plant and equipment by annual instalments over their expected useful lives. The rates generally applicable are:

Computer equipment	20% straight line
--------------------	-------------------

### Investments

Fixed asset investments are shown at cost less provisions for impairment.

### Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the Company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

### Financial instruments

The Company's policy is to manage exposure to interest rate fluctuations on its borrowings by the use of floating and short terms deposits. Financial assets are recognised in the balance sheet at the lower of cost and net realisable value. Provision is made for diminution in value where appropriate.

### **Employee benefits**

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

The Company contributes to defined contribution pension plans of some employees at rates agreed between the Company and the employees. The assets of each scheme are held separately from those of the Company. Contributions are recognised as they become payable.

#### **Equity settled share-based payment**

There is an Inland Revenue approved Enterprise Management Incentive Share Option Plan and an Unapproved Share Option Plan under which share options are granted to key employees.

All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2006 are recognised in the financial statements.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions.

All equity-settled share-based payments are ultimately recognised as an expense in the Company's income statement with a corresponding credit to "share based payment reserve".

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options that have vested are not exercised.

Upon exercise of share options, the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

The share based payment charge is recognised in the subsidiary entity in which the employees receiving the share options provides services.

### **Deferred consideration**

Where deferred consideration is payable in cash, the liability is discounted to its present value. Where the deferred consideration is contingent and dependent upon future trading performance, an estimate of the present value of the likely consideration payable is made. Where a business combination agreement provides for an adjustment to the cost that is contingent on future events, contingent consideration is included in the cost of an acquisition if the adjustment is probable (that is, more likely than not) and can be measured reliably.

# Parent Company balance sheet

	Note	2011 £'000	2010 £'000
<b>FIXED ASSETS</b>			
Tangible assets	1	54	59
Investments	2	25,241	23,241
		<u>25,295</u>	<u>23,300</u>
<b>CURRENT ASSETS</b>			
Debtors	3	6,681	4,834
Cash at bank and in hand	4	27	262
		<u>6,708</u>	<u>5,096</u>
Creditors: amounts falling due within one year	5	(18,302)	(12,274)
Net current liabilities		<u>(11,594)</u>	<u>(7,178)</u>
Total assets less current liabilities and net assets		<u>13,701</u>	<u>16,122</u>
		<u>13,701</u>	<u>16,122</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	7	321	313
Share premium account	8	9,370	8,919
Capital redemption reserve	8	12	11
Profit and loss account	8	4,250	7,086
Share based payment reserve	8	414	414
Share buy back reserve	8	(666)	(621)
		<u>13,701</u>	<u>16,122</u>

These parent company financial statements were approved by the board on 6 March 2012 and were signed



**M R S Joyce**  
**Finance Director**

The accompanying principal accounting policies and notes form part of these financial statements.

Company registration number: 04298109

# Notes to the Parent Company financial statements

## 1 Tangible fixed assets

	Computer equipment £'000	Total £'000
<b>Cost</b>		
As at 1 January 2011	255	255
Additions	21	21
As at 31 December 2011	<u>276</u>	<u>276</u>
<b>Depreciation</b>		
As at 1 January 2011	196	196
Provided in the year	26	26
As at 31 December 2011	<u>222</u>	<u>222</u>
<b>Net book value at 31 December 2011</b>	<u>54</u>	<u>54</u>
Net book value at 31 December 2010	<u>59</u>	<u>59</u>

## 2 Investments

	Total £'000
<b>Cost</b>	
As at 1 January 2011	23,241
Additions	4,000
Impairment	(2,000)
<b>As at 31 December 2011</b>	<u><u>25,241</u></u>

Following notification of the apparent impropriety and alleged fraud within a major client of Contract Connections Limited and the termination of the contract Contract Connections Limited and the client, the Board conducted an impairment review on the carrying value of the investment arising on the acquisition of the company. The impairment review was based on the value-in-use of the company using a discount rate of 10.48%. The discount rate represents the weighted cost of capital of the Group. As a result of the review, an impairment charge of £2m has been recognised in the financial year.

Details of material investments in which the Company holds 100% of the nominal value of any class of share capital are as follows:

Name of subsidiary undertaking	Country of incorporation	Holding	Nature of Business
InterQuest Group (UK) Limited	UK	Ordinary shares	IT recruitment
Lighthouse Testing Limited	UK	Ordinary shares	IT recruitment
Contract Connection Group Ltd	UK	Ordinary shares	IT recruitment
InterQuest Asia Pte	Singapore	Ordinary shares	IT recruitment
Peregrine Recruitment Limited	UK	Ordinary shares	IT recruitment
PayQuest Group Limited	UK	Ordinary shares	IT recruitment
Lighthouse Test Resources Ltd (formerly FJB (Contracts) Limited)	UK	Ordinary shares	IT recruitment
Sapian Solutions Limited	UK	Ordinary shares	Non trading
e-CRM People Limited	UK	Ordinary shares	Non trading
Intellect Recruitment Plc	UK	Ordinary shares	Non trading
Peopleco Worldwide Limited	UK	Ordinary shares	Non trading
Sand Resources Limited	UK	Ordinary shares	Non trading
Maxridge Limited	UK	Ordinary shares	Non trading
Osiris Connections Limited	UK	Ordinary shares	Non trading
Genesis Computer Resources Limited	UK	Ordinary shares	Non trading
SBS (UK) Limited	UK	Ordinary shares	Non trading
Insight Computer Recruitment Limited	UK	Ordinary shares	Non trading
InterQuest (UK) Limited	UK	Ordinary shares	Non trading
Test Match Solutions Limited	UK	Ordinary shares	Non-trading
Sand Limited	UK	Ordinary shares	Non-trading

The Company also holds 50.1% of the nominal value of the share capital of Korus Recruitment Group Limited and 67.5% of Fulcrum Telecom Ltd, companies incorporated in the UK.

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertaking held directly by the parent company do not differ from the proportion of the ordinary shares held.

### 3 Debtors

	2011 £'000	2010 £'000
Trade debtors	2	-
Amounts owed by Group undertakings	6,026	4,721
Prepayments and accrued income	248	98
Other debtors	40	10
Taxation and social security	356	-
Deferred tax asset	9	5
	<b>6,681</b>	<b>4,834</b>

#### 4 Cash and cash equivalents

	2011 £'000	2010 £'000
Cash at bank	27	262
	<u>27</u>	<u>262</u>

#### 5 Creditors: amounts falling due within one year

	2011 £'000	2010 £'000
Trade creditors	138	87
Amounts owed to Group undertakings	17,835	12,048
Corporation tax	25	-
Other creditors	304	139
	<u>18,302</u>	<u>12,274</u>

The trade debtor finance facilities are secured by fixed and floating charges over the Company's assets and had a maximum facility of £15m at the year end. Interest is charged at 1.85% over the prevailing bank base rate.

A debenture dated 12 June 2006 was executed to secure all the Company's liabilities to National Westminster Bank plc. A cross corporate guarantee and indemnity is in place on the invoice discounting facility between the Company, InterQuest Group (UK) Ltd, FJB (Contracts) Limited, PeopleCo Worldwide Limited and Sand Resources Limited.

#### 6 Deferred taxation asset

	£'000
Asset at 1 January 2011	5
Movement during the year	<u>4</u>
Asset at 31 December 2011	<u>9</u>

The deferred taxation asset has been recognised in respect of the following items:

	2011 £'000	2010 £'000
Other timing differences	9	5
	<u>9</u>	<u>5</u>

## 7 Share capital

	2011 £'000	2010 £'000
<b>Authorised:</b>		
80,000,000 ordinary shares of 1p each	<u>800</u>	<u>800</u>
<b>Allotted, called up and fully paid:</b>	<b>£'000</b>	
As at 1 January 2010:		
31,286,087 ordinary shares of 1p each	313	
Issue of share capital	9	
Cancelled share capital	(1)	
	<u>321</u>	
As at 31 December 2010:		
31,286,087 ordinary shares of 1p each	<u>313</u>	
As at 31 December 2011:		
32,131,377 ordinary shares of 1p each:	<u>321</u>	

## 8 Share premium account and reserves

	Share premium account £'000	Capital redemption reserve £'000	Profit and loss account £'000	Share based payment reserve £'000	Share buy back reserve £'000
As at 1 January 2011	8,919	11	7,086	414	(621)
Issue of share capital	451	-	-	-	-
Capital redemption reserve	-	1	-	-	-
Loss for the year	-	-	(2,050)	-	-
Dividends paid	-	-	(786)	-	-
Share buy back	-	-	-	-	(45)
<b>As at 31 December 2011</b>	<b><u>9,370</u></b>	<b><u>12</u></b>	<b><u>4,250</u></b>	<b><u>414</u></b>	<b><u>(666)</u></b>

**9 Reconciliation of movements in shareholders' funds**

	2011 £'000	2010 £'000
(Loss) / profit for the year	(2,050)	264
Issue of shares	9	18
Cancellation of share capital	(1)	(11)
Share proceeds from share options exercised in the year	451	440
Share based payment reserve	-	83
Dividends paid	(786)	(769)
Share buy back reserve	(45)	(621)
Capital redemption reserve	1	11
Net (decrease) in shareholder's funds	(2,421)	(585)
Shareholders' funds at 1 January	16,122	16,707
Shareholders' funds at 31 December	13,701	16,122

**10 Capital commitments**

The company had no capital commitments at 31 December 2011 or 31 December 2010.

**11 Contingent liabilities**

There were no contingent liabilities at 31 December 2011 or 31 December 2010.



## 12 Operating leases

	2011 £'000 Land and buildings	2010 £'000 Land and buildings
Within one year	-	-
Between one and five years	837	248
	<u>837</u>	<u>248</u>

## 13 Transactions with directors and other related companies

Related party	Nature of business	2011 £	2010 £	Directors involved
Vail Securities Limited	Consultancy services	45,000	65,000	G P Ashworth
Vail Securities Limited	Business expenses	10,034	27,144	G P Ashworth

Details of dividends paid during the year to Directors are as follows:

Dividends declared	Date paid	Gary Ashworth £	Mark Braund £	Michael Joyce £	Alan Found £	Paul Frew £
2.0 pence per share	6 April 2011	252,458	-	7,337	2,520	800
0.5 pence per share	28 October 2011	63,115	1,875	999	824	200
		<u>315,573</u>	<u>1,875</u>	<u>8,336</u>	<u>3,344</u>	<u>1,000</u>

Transactions between the Parent and subsidiaries not 100% owned during the year were as follows:

	Korus Recruitment Group £	Fulcrum Telecom Ltd £
Central recharges	115,124	74,490
	<u>115,124</u>	<u>74,490</u>

Amounts due to the Parent at 31 December 2011 from subsidiaries not 100% owned were as follows:

	Korus Recruitment Group £	Fulcrum Telecom Ltd £
InterQuest Group Plc	283,271	138,657

The company has taken advantage of the exemption in FRS8 and has therefore not disclosed transactions or balances with wholly owned subsidiaries which form part of the Group.

#### 14 Post balance sheet events

The company had no material post balance sheet events.

#### 15 (Loss) / profit attributable to the Company

The loss for the financial year of the Company was £2,050,000 (2010: £264,000 profit). As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the Company.

#### 16 Dividends paid

	2011 £'000	2010 £'000
Final dividend for the year ended 31 December 2011 of 2 pence per share	786	769

The directors propose to pay a second interim dividend of 2 pence per share on 12 April 2012 (2010: 2 pence per share).