InterQuest Group plc is more than just a market-leading IT and technology recruitment firm, we're experts in our field – a trusted source of specialist knowledge backed up by impressive resources.

The Board of InterQuest Group plc presents the Annual Report and Accounts for the year ended 31 December 2007 and is delighted that the Group has enjoyed another year of substantial growth and progress during 2007.

Strong organic growth has continued in our existing businesses and two more successful acquisitions were completed during the year. As a result we have delivered our best set of financial results to date including a 52% increase in revenue, a 43% increase in gross profit and a 41% increase in profit before tax.

Group overview

Insight IQ

Specialism: PC, Comms and Infrastructure

www.insight-it.com

Genesis IQ

Specialism: Banking & Finance

www.gcr.co.uk

SBS IQ

Specialism: Central and Local Government Agencies, Media

www.sbsukltd.com

ecrm people IQ

Specialism: Enterprise Asset/Service Management, Storage and Security

www.ecrmpeople.com

People Co IQ

Specialism: Retail, ERP, Software Development and Testing

www.peopleco.co.uk

Intelect IQ

Specialism: Analytics, Professional Services and Software Engineering

www.intelectplc.com

Sand Resources IQ

Specialism: Public Sector – Catalist approved

www.sand-uk.com

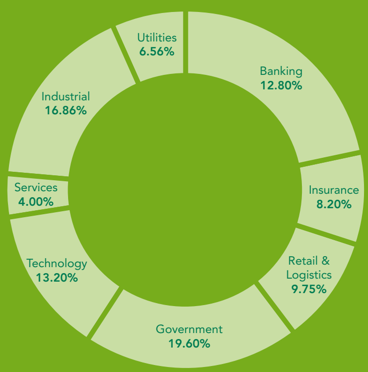
InterQuest Group plc

Annual Report & Accounts 2007

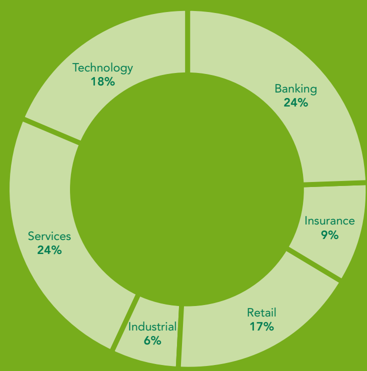
Group overview

We are very pleased that despite the current uncertain economic environment all our businesses have enjoyed a strong start to 2008. We remain confident that our Group structure, comprising a variety of specialist businesses, stands us in good stead to meet the challenges of 2008 and beyond.

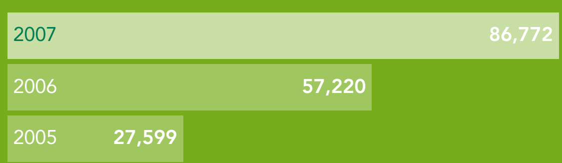
Contractor numbers by sector_



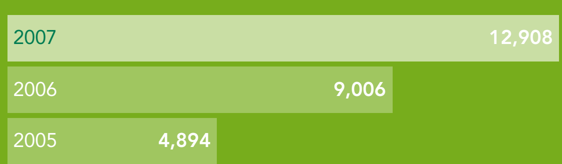
Permanent fees by sector_



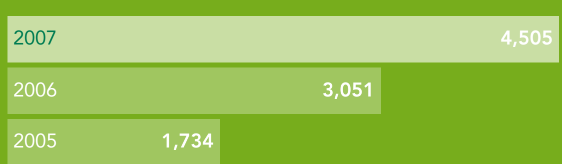
Revenue_



Gross profit_



EBITA (excl FRS charge)_



01
Highlights 2007

£86.7m
Year on year revenue up 52%

£12.9m
Gross profit up 43%

£4.5m
EBITA (excluding share based payment charge) up 48%

£3.1m
Profit on ordinary activities before taxation up 41%

£2.7m
Operating cash inflow in 2007 (2006: £0.4m)

8.2p
Basic earnings per share (2006: 6.1 pence)

11.0p
Basic adjusted earnings per share (2006: 8.0 pence)

- **Strong organic growth of 18% in like-for-like operating profits on a proforma basis**
- **40% increase in contractor numbers during 2007 including 10% organic growth**
- **Acquisition of Intelect Recruitment plc in July 2007**
- **Acquisition of e-CRM People Limited in September 2007**
- **London operations moved into new larger offices in April 2007 to underpin long-term growth**
- **Several major new client wins in 2007 including Serco Group, Turner Broadcasting and the Foreign & Commonwealth Office**
- **Board strengthened with the appointment of Paul Frew as a Non-executive Director in May 2007**

02
Chairman's and Chief Executive's Statement

Gary Ashworth
Chairman

Our strategy

Organic growth of specialist recruitment businesses, adding acquisitions of suitable companies when appropriate, complemented by a strong central and administrative core. A trusted source of knowledge for the technology sector.

Our market

We focus on niche markets in the technology sector, providing clients with the right skills to deliver the solutions they need.

Introduction_We are delighted to report that the Group has once again made significant progress in 2007. We remain committed to focusing upon niche markets within the technology sector and have continued to follow our long term strategy of growing our specialist businesses organically and adding acquisitions of suitable companies when appropriate, complemented by a strong central administrative and financial core. This strategy has delivered another year of impressive financial results, our third in a row since flotation in 2005.

Two more specialist IT recruitment businesses have joined our Group in 2007. Intelect Recruitment plc, which provides niche recruitment services predominantly within the software engineering and manufacturing software sectors, was acquired in July 2007. In September 2007, e-CRM People Limited which focuses on the Enterprise Asset Management, IT Service Management, IT Storage and Security sectors also joined the Group. Both businesses have performed well since acquisition.

As ever, our key asset is our people and we thank our dedicated sales and administrative teams for their hard work, thorough knowledge of their individual markets and their dedication to growing the business in the last 12 months.

Results_During the year the Group's existing businesses grew organically on a like-for-like basis by 18%. Contractors working on assignments grew by 40% during the year (including acquisitions), of which 10% was organic growth. We are particularly pleased with the performance of PeopleCo Worldwide and Sand Resources as they represented significant investments for the Group when they were acquired in 2006. Both have delivered very strong growth in net fee income, contractors working and operating profits during 2007.

Total revenues, including part year figures for the two acquisitions, grew by 52% to £86.7m, and gross profit ("net fee income") grew by 43% to £12.9m. This contributed to the Group increasing its EBITA to £4.5m after adding back the charge for IFRS 2 share-based payments. Profit before tax increased by 41% to £3.1m and basic adjusted earnings per share (see note 6) increased by 38% to 11.0 pence (2006: 8.0 pence).

"As ever our key asset is our people and we thank our dedicated sales and administrative teams for their hard work."

Operations_We have continued to grow our client base during 2007 by adding a number of significant new wins including Serco Group, Turner Broadcasting and the Foreign & Commonwealth Office. The two Catalist accreditations which were awarded to us during 2006 for at least a three year period by the Office of Government Commerce to allow us to supply specialist IT contractors and interim managers to public sector organisations have underpinned exceptional growth for us in the public sector.

We expanded our "Academy" training and development programme for new recruits into the industry during 2007 and this has continued to deliver new fee earners into the different business units. We consider the Academy to be an essential driver for future growth.

In April 2007 our London head office and operating divisions moved into a new, larger office twice the size of its predecessor, which will provide space for continued organic growth. The move enabled both PeopleCo Worldwide and Intelect Recruitment to establish new operations in London during the summer to complement their main offices in Harrogate and Manchester. We expect that e-CRM, which is based in Aylesbury, will do the same in 2008.

During the summer of 2007 we relocated our two smallest offices out of Wickford, Essex and East Grinstead, Sussex and moved those operations and staff into London and Tunbridge Wells respectively. The Wickford migration was part of the merger of our smallest division, FJB (Contracts) into Genesis Computer Resources, our specialist banking division. This merger will allow FJB, which already has a position in the banking sector to benefit from Genesis' expertise and reputation in that sector. It also gives that business more critical mass in its operations.

I came to PeopleCo 9 months ago from a Financial Services company in New York. Whilst I think I was ready for the fast pace of recruitment, I wasn't prepared for the challenge of selling to three different parties at the same time! But I've had some great training from InterQuest, from a complete market and technology overview to specific processes courses on candidate resourcing, candidate control and sales – all with a heavy emphasis on customer service. These have given me the confidence to speak to department heads on all kinds of market issues, to encourage and guide my candidates towards a better career and to understand and balance the needs of the hiring manager. And now I'm working with PeopleCo's largest account, leading a team of Account Managers, and billing significant amounts every month!

Kate Emberlin, Account Manager, PeopleCo South

Chairman's and Chief Executive's Statement continued_

Ross Eades
Chief Executive Officer

Key Achievements

- Several major new client wins in 2007 including Serco Group, Turner Broadcasting and the Foreign & Commonwealth Office
- Strong organic growth of 18% in like-for-like operating profits on a proforma basis
- 40% increase in contractor numbers during 2007 including 10% organic growth

The Genesis operations at East Grinstead have moved to Tunbridge Wells which has made it easier for the business to attract new sales staff.

We believe the strategy that we have adopted from the outset of focusing on niche sectors by acquiring and growing independently branded specialists is working and providing the right impetus for present and future success.

We will continue to follow our growth strategy by:
- Building our specialist businesses to deliver long-term organic growth;
- Developing and incentivising our staff at all levels;
- Accelerating our training Academy programme to deliver high calibre fee earners into our businesses;
- Offering our specialist divisions the benefits of a strong group structure;
- Maintaining robust centralised financial control; and
- Identifying and acquiring complementary specialist businesses.

During the first quarter of 2008 we are undertaking a Group rebranding exercise to strengthen our corporate image and unify the Group by bridging all our individual brands with a common link. Part of this exercise will be to revamp all our corporate communications including our websites. In addition, we are undertaking increased industry public relations to strengthen the Group's profile within the IT sector. These initiatives, and others, are being implemented in order to underpin sustainable long-term growth for the Group.

On 1 May 2007, Paul Frew joined the Group and the Board as an independent non-executive director. Paul is an experienced non-executive director with significant knowledge and understanding of the technology sector. His input has been invaluable, particularly when the Board have been discussing potential hot new areas within the IT sector.

Acquisitions_ On 4 July 2007, the Group acquired the entire issued share capital of Intelect Recruitment plc for initial consideration of £3.7m comprising £3.5m in cash and £0.2m in InterQuest shares issued at 107.5 pence per share. Deferred consideration up to a maximum of £0.9m is payable over the next three years dependant upon the financial performance of the business in the years ending 31 March 2008, 2009 and 2010. The business provides niche recruitment services predominantly within the software engineering and manufacturing software sectors and has performed very well since joining the Group.

Joining the InterQuest Group has been a very positive and smooth move for PeopleCo. With senior management support, a substantial investment in new people, training and development of a new IT system PeopleCo has doubled its staff, moved into new technology areas, opened new offices in Harrogate and London, and increased net profit by 60%. The InterQuest "hands-off" management style suits us well, but we have excellent support available to us from the Board and from peers throughout the Group. We've gone from strength to strength and we're very excited about our future with InterQuest.

Martyn Barrow, MD of PeopleCo

"We continue to cultivate a healthy pipeline of future acquisitions that meet our criteria of niche-focused, specialist IT recruitment businesses."

Already, a new operation has been successfully established in the Group's London office.

On 25 September 2007, the Group acquired the entire issued share capital of e-CRM People Limited for initial consideration of £2.7m comprising £2.4m in cash and £0.3m in InterQuest shares issued at 105 pence per share. Further consideration up to a maximum of £2.3m is payable in September 2008 and September 2009 provided that certain financial targets are achieved in the years ending 31 July 2008 and 31 July 2009.

Of course, we continue to cultivate a healthy pipeline of future acquisitions that meet our criteria as niche-focused, specialist IT recruitment businesses.

Outlook_All our businesses are trading in line or ahead of expectations so far in 2008. The two companies that we acquired in 2007 will contribute a full year of earnings in 2008, our staff remain highly talented, motivated and committed to the future of the Group and we are excited about our achievements in 2007.

In light of the progress we made last year and with current trading levels more than satisfactory we believe that we are well positioned to respond quickly to the challenges we may face in the next 12 months. Consequently, we are confident that we can achieve our future goals and deliver another successful outcome for our shareholders in 2008.

Gary Ashworth
Chairman

Ross Eades
Chief Executive Officer

Finance Director's Report

Michael Joyce
Finance Director

Key Achievements

- Year on year revenue up 52% to £86.7m
- Gross profit up 43% to £12.9m
- Basic earnings per share of 8.2 pence (2006: 6.1 pence)

Profit and loss account_ Revenue grew by 52% during 2007 to £86.7m (2006: £57.2m). Two acquisitions were made during the year, Intelect Recruitment plc in July and e-CRM People Limited in September and they contributed £6.9m of the increased revenue whilst revenue from existing operations increased by 40% to £79.8m (2006: £57.2m).

Gross profit increased by £3.9m or 43% to £12.9m (2006: £9.0m) with £2.3m of the growth derived from continuing operations and £1.6m from the acquisitions.

Cash based EBITA (earnings before interest, tax, amortisation of goodwill and IFRS 2 share-based payment charge) increased by 48% to £4.5m (2006: £3.0m).

The intangible amortisation charge increased to £0.7m (2006: £0.4m) reflecting the two acquisitions made during the year and the net interest charge increased to £0.5m (2006: £0.3m) as the Group increased its borrowings to finance the two acquisitions.

Profit before tax increased by 41% to £3.1m (2006: £2.2m).

Tax on profits was £0.7m representing an effective tax rate of 24% as the Group benefitted from tax relief on the exercise of share options and a deferred tax credit arising from the amortisation of intangible assets.

Basic earnings per share were 8.2 pence in 2007 (2006: 6.1 pence). When the effect of non-cash and non-trading items, being amortisation and the IFRS 2 share-based payment charge, are removed the basic adjusted earnings per share were 11.0 pence in 2007 representing an increase of 38% from 8.0 pence in 2006. See note 6 for details of the calculation.

Balance sheet, cash flow and financing_ The Group had net assets of £15.8m at 31 December 2007 (2006: £12.4m). The majority of the increase in net assets was due to the retained profit of £2.4m for the year.

Improved profitability and tight control of working capital delivered £3.3m of operating cash flow (before tax and interest payments) despite the burden of funding strong organic growth in contractor numbers. The issue of new shares during the year raised £0.3m of cash and new shares with a market value of £0.7m were issued as consideration for acquisitions.

“Improved probability and tight control of working capital delivered £3.3m of operating cash flow”

The Group paid £0.6m of tax and £0.5m of interest during the year and capital expenditure was £0.4m, the majority of which was spent on fitting out our new London offices. In addition, the Group invested £5.8m of cash in the two latest acquisitions and £0.6m of deferred consideration was paid in respect of the acquisition of Sand Resources Limited, purchased in 2006.

As a result of these cash flows, net debt increased from £5.0m at the start of the year to £9.3m at the end of 2007.

International Financial Reporting Standards (“IFRS”)_

The Group is applying IFRS for the first time in its 2007 consolidated financial statements including the restatement of 2006 comparative information. The main areas of the financial statements affected by the application of IFRS are:

- the accounting for acquisitions including the recognition of intangible assets and the treatment of goodwill arising upon consolidation including related amortisation;
- the accounting for deferred tax on share-based payments; and
- the presentation of the Group financial statements.

An explanation of the transition to IFRS and a reconciliation to UK GAAP are included within the notes to the financial statements.

Michael Joyce
Finance Director

I’d been in recruitment for 2 years and I was looking for a chance to begin to specialise in certain areas of IT and Finance. The InterQuest Group, and Genesis in particular, were strongly recommended to me and in my 5 months here I’ve not been disappointed.

My manager backed my plans and I was immediately given the freedom to build my own specialism in Risk. Already I’ve now become the sole supplier to one of the larger consultancies, and have begun doing business with two more. My business has spread beyond the UK and things are looking very exciting going forward. Billings and earnings are excellent and I’ve got my sights firmly fixed on the next sales incentive trip!

Tim Chattaway, Senior Consultant, Genesis

Board of Directors

01_

Ross Eades
Chief Executive Officer

Age 45

Ross joined the Group as CEO in August 2003. He began his career in IT recruitment in 1988 with Hunterskil and in 1997 was appointed CEO of MPS International plc, a group of IT and Professional Services recruitment companies which included such brands as Modis and Badenoch & Clark. Between 1997 and 2002, Ross was responsible for both organic and acquisitive growth, which resulted in the Group increasing sales revenue from £72m to £286m and EBIT growth from £3m to £21m.

02_

Gary Ashworth
Executive Chairman

Age 47

Gary founded the InterQuest Group in November 2001. Previously Gary was the founder of Abacus Recruitment plc, a group of recruitment agencies, including two in the IT recruitment sector. Abacus was floated on AIM in September 1995, was the best performing AIM share in both 1996 and 1997 and subsequently sold to Carlisle Holdings in 1998; initial investors achieved a ten fold multiple on their investment. Gary is a Fellow and past President of the Institute of Employment Consultants and has worked in recruitment since 1980.

03_

Michael Joyce, ACA
Finance Director

Age 38

Michael graduated in Mathematics from Leeds University in 1990 and joined Coopers & Lybrand where he qualified as a Chartered Accountant in 1993 and gained a wide variety of experience during a 7 year tenure in Leeds and Melbourne, Australia. Michael spent 1998 and 1999 as part of the finance team at Robert Walters Plc and two and a half years (to July 2002) as Group Financial Controller of Rebus Group Limited, an HR and Insurance software business. Prior to joining the Group in January 2004 he was Finance Director of the £130m Overseas Division of Heath Lambert Group Limited, the sixth largest insurance broker in the world.

04_

Luke Johnson
Non-executive Director
Age 46

Luke graduated in medicine from Oxford University. He worked for Kleinwort Benson Securities as a Stockbroking Analyst and has served as a Director of a number of public and private companies since 1988. Luke is currently Chairman of Channel Four Television Corporation and Risk Capital Partners.

05_

Paul Frew
Non-executive Director
Age 47

Paul has a wide range of experience and contacts in the IT sector and considerable experience as a non-executive director of fast growing technology based businesses. Paul is the Managing Partner of Elderstreet Capital Partners, a venture capital fund that is a specialist investor in the software and computer services market. Prior to joining Elderstreet, Paul was Managing Director of Softwright Systems Limited, an IT consulting company.

06_

Alan Found
Non-executive Director
Age 46

Alan is a director of New Generation Learning Ltd which designs and develops business-training initiatives. His major focus is in the areas of management development , sales skills and customer service. Clients include Inter-Continental Hotels, The Kier Group and the National Commercial Bank of Saudi Arabia.

Report of the Directors

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable 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 Company will continue in business.

In so far as the Directors are aware:

- there is no relevant audit information of which the Company's and Group'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 keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 Group's principal activity is the provision of IT recruitment solutions in the United Kingdom. The Group is one of the UK's leading staffing businesses in the information and communications technology sector. The Group comprises seven specialist niche businesses, operating from six United Kingdom locations, combined with a centralised finance and administration function.

A review of the Group's business activities, strategy, key performance indicators (sales revenue, gross profit & EBITDA) and performance during the year are included in the Chairman's and Chief Executive's Statement and Finance Director's Report on pages 2 to 7.

Results and dividends

The Group's profit on ordinary activity after taxation amounted to £2,400,000 (2006: £1,719,000). The Directors do not recommend the payment of a dividend (2006: £nil).

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's clients require large numbers of staff, both permanent and temporary. To meet this demand, the Group has developed increasingly sophisticated and flexible recruitment and consultancy services. However, it cannot guarantee that it will be able to supply sufficient numbers of, or suitably skilled, candidates to meet the future demand of its clients. This may adversely affect the Group's business.

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 plans to continue its growth will place additional demands on the Group's management, customer support, marketing, administrative and technological resources. If the Group is unable to manage its growth effectively, its businesses, operations and/or financial condition may deteriorate.

The Group's strategy is reliant on the availability of suitable acquisition opportunities at realistic prices. Whilst management are confident in their ability to identify, transact and execute acquisitions, there can be no guarantee that such acquisitions will be available.

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 has endeavoured to ensure that employees at all levels are incentivised, but the retention of such staff cannot be guaranteed.

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 2007 and 31 December 2007 were as follows:

	Ordinary shares of 1p each	
	31 December 2007	1 January 2007
G P Ashworth	12,542,912	12,537,912
R D Eades	1,277,830	1,246,000
A W Found	–	–
L O Johnson	3,802,033	3,797,033
M R S Joyce	366,830	115,000
P M L Frew (appointed 1 May 2007)	–	–

Report of the Directors_continued_

At 31 December 2007 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
G P Ashworth	Unapproved scheme	28 August 2004	1,128,493	25p	28 August 2004	31 December 2010
G P Ashworth	Unapproved scheme	20 May 2005	331,507	25p	20 May 2005	31 December 2010
R D Eades	EMI scheme	23 June 2004	400,000	25p	23 June 2006	23 June 2014
R D Eades	Unapproved scheme	28 August 2004	164,246	25p	28 August 2004	31 December 2010
R D Eades	Unapproved scheme	20 May 2005	40,154	25p	20 May 2005	31 December 2010
R D Eades	Unapproved scheme	21 November 2005	50,000	55p	21 November 2007	21 November 2015
A W Found	Unapproved scheme	13 January 2004	60,000	25p	13 January 2006	13 January 2014
A W Found	Unapproved scheme	28 April 2005	66,000	25p	28 April 2007	27 April 2015
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	100,000	116.5p	17 July 2009	17 July 2017
M R S Joyce	EMI scheme	19 July 2007	47,500	116.5p	19 July 2009	19 July 2017

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 80.5p to a high of 153.5p during the year with a closing price of 86p at 31 December 2007.

Share capital

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

Substantial shareholdings

As at 7 February 2008, 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	12,542,912	41.67%
L O Johnson	3,802,033	12.63%
Chase Nominees Limited	2,395,789	7.96%
R D Eades	1,277,830	4.24%
Waterhouse Nominees Limited	1,142,157	3.79%
Martyn Barrow	1,056,190	3.51%
Cenkos Channel Island Nominees	986,656	3.28%

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 its 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 23 days (2006: 20 days) purchases outstanding in trade creditors.

Charitable donations

During the year the Group made a total of £1,200 (2006: £675) donations to charity.

Report of the Directors_continued_

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.

Auditors

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

By order of the Board

M R S Joyce
Secretary
6 March 2008

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 comprises three Executive and three Non-executive Directors with considerable business experience particularly within the IT and recruitment sectors.

The Board considers all three Non-executive Directors to be independent. For transparency it is noted that Luke Johnson is a founding shareholder of the Group and that Alan Found supplies part time consulting services to the Group in addition to services as a Non-executive Director and also participates in the Group's share option scheme. Paul Frew does not hold any shares in the Group nor does he provide any services other than acting as an independent Non-executive Director.

Executive Chairman and Chief Executive

There is a clear division of responsibility between the Executive Chairman and the Chief Executive. The Executive Chairman is responsible for the operation of the Board, investor relations and leading the Group's acquisition strategy. The Chief Executive is responsible for the day-to-day operations of the Group and building the Group's business for long-term growth. No one individual has a dominant influence upon the operation of the Board.

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 Luke Johnson (Chairman), Alan Found and Paul Frew. 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.

Luke Johnson is considered by the Board to have recent and relevant financial experience.

The Committee's principal responsibilities are to review the integrity of the Company'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.

Corporate Governance Report_continued_

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 financial statements.

Nomination Committee

The members of the Nomination Committee are Gary Ashworth (Chairman), Luke Johnson and Alan Found.

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 Alan Found (Chairman), Luke Johnson and Paul Frew.

The Committee meets at least twice a year to determine the remuneration policy and the individual remuneration packages of the Executive Chairman, Chief Executive Officer and Finance Director.

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

Attendance at Board and Committee meetings

During 2007, the Board met formally 11 times in addition to informal meetings, attendance at the AGM and two strategy days. All Board members attended all 11 formal meetings except for Gary Ashworth who attended 10 of the meetings and Paul Frew who attended seven of the meetings, being all those since his appointment on 1 May 2007.

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.

Going concern

The Board has reviewed the Group's 2008 financial budget including cash flow projections, capital expenditure and the availability of finance and concluded that it is appropriate to prepare the accounts on a going concern basis.

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 2007 which comprise the principal accounting policies, the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in shareholders' equity, the consolidated cash flow statement and notes to the consolidated financial statements 1 to 23. These consolidated financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of InterQuest Group plc for the year ended 31 December 2007.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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

The Directors' responsibilities for preparing the Annual Report and the consolidated financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the consolidated financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the consolidated financial statements give a true and fair view and whether the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements. The information given in the Report of the Directors includes that specific information presented in the Chairman's and Chief Executive's Statement and Finance Director's Report that is cross referred from the principal activities and business review section of the Report of the Directors.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited consolidated financial statements. The other information comprises only Report of the Directors, the Chairman's and Chief Executive's Statement, the Finance Director's Report and the Corporate Governance Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements.

Opinion

In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

Grant Thornton UK LLP
Registered Auditor
Chartered Accountants
London
6 March 2008

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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. The Group is one of the UK's leading staffing businesses in the information and communications technology sector. The Group comprises seven specialist niche businesses, including the recent acquisitions of Intelect Recruitment plc and e-CRM People Limited, operating from six 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 principle 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 the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, except for financial instruments.

Following the transition to IFRS, 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 Group's consolidated financial statements were prepared in accordance with United Kingdom Generally Accepted Accounting Principles until 31 December 2006.

Transition to adopted IFRSs

IFRS 1 sets out the requirements for the first time adoption of IFRS. The Group is required to establish its IFRS accounting policies for the year to 31 December 2007 and, in general, apply these retrospectively to determine the IFRS opening balance sheet at its date of transition, 1 January 2006. The Group has elected not to apply IFRS 3 "Business Combinations" retrospectively to business combinations prior to 1 January 2006.

IFRS standards and interpretations not yet adopted

The following new Standards and Interpretations, which are yet to become mandatory have not been applied in the Group's 2007 financial statements:

Standard or Interpretation	Effective for reporting periods starting on or after
IAS 1 Presentation of Financial Statements (revised 2007)	1 January 2009
IAS 23 Borrowing Costs (revised 2007)	1 January 2009
Amendment to IAS 32 Financial Instruments: Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
IAS 27 Consolidated and Separate Financial Statements (Revised 2008)	1 July 2009
Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations	1 January 2009
IFRS 3 Business Combinations (Revised 2008)	1 July 2009
IFRS 8 Operating Segments	1 January 2009
IFRIC 11 IFRS 2 Group and Treasury Share Transactions	1 March 2007
IFRIC 12 Service Concession Arrangements	1 January 2008
IFRIC 13 Customer Loyalty Programmes	1 July 2008
IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008

The impact of the above standards and interpretations is either not known or reasonably estimable.

Basis of consolidation

The Group's financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 31 December 2007. 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 are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the basis for subsequent measurement in accordance with the Group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

Business combinations completed prior to date of transition to IFRS

The Group has elected not to apply IFRS 3 "Business Combinations" retrospectively to business combinations prior to 1 January 2006. Accordingly the classification of the combination (acquisition, reverse acquisition or merger) remains unchanged from that used under UK GAAP. Assets and liabilities are recognised at date of transition if they would be recognised under IFRS, and are measured using their UK GAAP carrying amount immediately post-acquisition as deemed cost under IFRS, unless IFRS requires fair value measurement. Deferred tax is adjusted for the impact of any consequential adjustments after taking advantage of the transitional provisions.

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 reinstatement 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 those cash-generating units that have arisen from business combinations and represent the lowest level within the Group at which management monitors the related cash flows.

Principal accounting policies_continued_

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 balance sheet date, is correspondingly accrued on the balance sheet 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 obligations where employees do not work for the specified contractual period.

Property, plant and equipment
Property, plant and equipment is stated at cost, 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:

Leasehold improvements	20% straight line
Office furniture and equipment	20% straight line
Motor vehicles	25% reducing balance

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 income statement over the period of the lease.

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

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 balance sheet in current financial liabilities – borrowings.

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.

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 balance sheet date.

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

Financial instruments

Financial assets and liabilities are recognised on the Group's balance sheet 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 at fair value and thereafter at amortised cost using the effective interest rate method.

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Principal accounting policies_continued_

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.

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".

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.

Acquisition and working capital finance facilities
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 borrowings under both of these facilities are included within current liabilities and described as "Financial Liabilities – borrowings" on the Group's balance sheet. 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 balance sheet.

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.

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 estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below.

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.

Impairment of goodwill

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.

Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates.

Depreciation of property, plant and equipment

Depreciation is provided so as to write down assets to their residual values over their estimated useful lives as set out above. The selection of these estimated lives requires the exercise of management judgement.

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.

Consolidated income statement

	Note	2007 £'000	2006 £'000
Revenue	1	86,772	57,220
Cost of sales		(73,864)	(48,214)
Gross profit		12,908	9,006
Amortisation	2,8	(741)	(422)
Other administrative expenses		(8,491)	(6,043)
Total administrative expenses	2	(9,232)	(6,465)
Operating profit		3,676	2,541
Finance income	4	–	1
Finance costs	4	(535)	(312)
Profit before tax		3,141	2,230
Income tax expense	5	(741)	(511)
Profit for the year		2,400	1,719

Earnings per share from both total and continuing operations

	Note	Pence	Pence
Basic earnings per share	6	8.2	6.1
Diluted earnings per share	6	7.4	5.6

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 balance sheet

	Note	2007 £'000	2006 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	488	238
Goodwill	8	15,183	10,193
Intangible assets	8	3,892	2,472
Total non-current assets		19,563	12,903
Current assets			
Trade and other receivables	9	18,661	13,054
Cash and cash equivalents	10	135	–
Total current assets		18,796	13,054
Total assets		38,359	25,957
LIABILITIES			
Current liabilities			
Trade and other payables	11	(9,363)	(7,022)
Financial liabilities – borrowings	12	(9,398)	(4,998)
Current tax payable	–	(833)	(133)
Deferred consideration	13	(664)	(661)
Total current liabilities		(20,258)	(12,814)
Non-current liabilities			
Financial liabilities – borrowings	12	–	(39)
Deferred consideration	13	(1,495)	(476)
Deferred income tax liabilities	14	(768)	(243)
Total non-current liabilities		(2,263)	(758)
Total liabilities		(22,521)	(13,572)
Net assets		15,838	12,385
EQUITY			
Share capital	16	301	287
Share premium account	–	8,344	7,383
Retained earnings	–	6,916	4,526
Share-based payment reserve	–	277	189
Total equity	–	15,838	12,385

The consolidated financial statements were approved by the Board on 6 March 2008 and were signed on its behalf by:

M R S Joyce
Finance Director

Consolidated statement of changes in equity

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Share-based payment reserve £'000	Total equity £'000
Balance at 1 January 2006	258	5,955	2,612	101	8,926
Profit for the 12 months to 31 December 2006	–	–	1,719	–	1,719
Total recognised income and expense	–	–	1,719	–	1,719
Deferred tax on employee share options	–	–	195	–	195
Movement in share-based payment reserve	–	–	–	88	88
Issue of share capital	29	1,428	–	–	1,457
Balance at 31 December 2006	287	7,383	4,526	189	12,385
Profit for the 12 months to 31 December 2007	–	–	2,400	–	2,400
Total recognised income and expense	–	–	2,400	–	2,400
Deferred tax on employee share options	–	–	(10)	–	(10)
Movement in share-based payment reserve	–	–	–	88	88
Issue of share capital	14	961	–	–	975
Balance at 31 December 2007	301	8,344	6,916	277	15,838

Consolidated cash flow statement

	Note	2007 £'000	2006 £'000
Cash flows from operating activities			
Profit after taxation		2,400	1,719
Adjustments for:			
Depreciation	2	160	104
Share-based payment charge	2	88	88
Interest charge	4	535	312
Interest receivable	4	–	(1)
Amortisation	2	741	422
Income tax expense	5	741	511
Increase in trade and other receivables		(2,186)	(3,550)
Increase in trade and other payables		856	1,625
Cash generated from operations		3,335	1,230
Income taxes paid		(586)	(851)
Net cash from operating activities		2,749	379
Cash flows from investing activities			
Purchase of property, plant and equipment		(356)	(95)
Acquisition of subsidiaries net of cash acquired	18	(5,773)	(6,324)
Payment of deferred consideration	13	(622)	–
Proceeds from sale of equipment		–	1
Net cash used in investing activities		(6,751)	(6,418)
Cash flows from financing activities			
Proceeds from issue of share capital		312	45
Net increase in discounting facility		3,952	4,424
Repayment of hire purchase liabilities		(22)	–
Interest received		–	1
Interest paid		(535)	(312)
Net cash from financing activities		3,707	4,158
Net decrease in cash, cash equivalents and overdrafts		(295)	(1,881)
Cash, cash equivalents and overdrafts at beginning of period	10	(565)	1,316
Cash, cash equivalents and overdrafts at end of period	10	(860)	(565)

Notes to the consolidated financial statements

1 Revenue and segmental reporting

The Group's primary and only business segment is the provision of IT recruitment services. All services are provided in the United Kingdom.

2 Administrative expenses

Administrative expenses include the following:

	2007 £'000	2006 £'000
Auditors remuneration:		
Fees payable to the Company's auditor for the audit of parent company and consolidated financial statements	25	20
Fees payable to the Company's auditor and its associates for other services		
– audit of Company's subsidiaries pursuant to legislation	45	35
– other services pursuant to legislation	10	15
– taxation services	20	15
Amortisation of intangible assets	741	422
Depreciation	160	104
Operating lease rentals – land and buildings	394	142
Share-based payment charge	88	88

3 Directors and employees

Staff costs during the year were as follows:

	2007 £'000	2006 £'000
Wages and salaries	5,180	3,468
Social security costs	583	386
Other pension costs	39	14
	5,802	3,868

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

	2007 Number	2006 Number
Recruitment consultants	103	65
Administration	24	23
	127	88

Remuneration in respect of Directors was as follows:

	2007 £'000	2006 £'000
Emoluments	433	304
Share-based payment	5	2
	438	306

During the year, no Directors (2006: nil) participated in pension schemes.

3 Directors and employees_continued_

The amounts set out on page 30 include remuneration in respect of the highest Director as follows:

	2007 £'000	2006 £'000
Emoluments	193	171
Share-based payment	–	2
	193	173

4 Finance income and costs

	2007 £'000	2006 £'000
Interest payable	535	312
Interest received	–	(1)
	535	311

5 Taxation

	2007 £'000	2006 £'000
Current tax		
Corporation tax on profits for the period	847	317
Adjustments in respect of prior periods	27	(29)
Total current tax	874	288
Deferred tax		
Utilisation of tax losses	64	400
Accelerated capital allowance	43	(23)
Charge on share-based payments	(21)	(23)
Other temporary differences	3	(6)
Intangible asset temporary differences	(222)	(125)
Total deferred tax	(133)	223
Total tax charge	741	511

	2007 £'000	2006 £'000
Profit before taxation	3,141	2,230
Profit before taxation multiplied by standard rate of corporation tax in the UK of 30% (2006: 30%)	942	669
Effects of:		
Expenses not deductible for tax purposes	17	203
Capital allowances in excess of depreciation	–	(6)
Other tax adjustments	(226)	(189)
Tax losses utilised in the year	–	36
Under/(over) provisions in prior years	27	(29)
Profits chargeable at lower rates	15	(6)
Other intangible asset temporary differences	(34)	(167)
Total tax charge	741	511

Notes to the consolidated financial statements_continued_

5 Taxation_continued_

Factors that may effect future tax charges

The standard rate of corporation tax in the United Kingdom changes to 28% with effect from 1 April 2008.

6 Earnings per share

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

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

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

	2007 £'000	2006 £'000
Profit for the period		
Basic earnings	2,400	1,719
Adjustments to basic earnings		
Intangible assets amortisation	741	422
Share-based payment charge	88	88
Adjusted earnings	3,229	2,229

	2007 £'000	2006 £'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	29,299,010	27,966,694
Weighted average number of share options in issue	3,060,076	2,551,473
Weighted average number of ordinary shares for the purposes of diluted earnings per share	32,359,086	30,518,167

	Pence	Pence
Earnings per share		
Basic earnings per share	8.2	6.1
Diluted earnings per share	7.4	5.6
Adjusted earnings per share		
Basic earnings per share	11.0	8.0
Diluted earnings per share	10.0	7.3

7 Property, plant and equipment

	Leasehold improvements £'000	Office furniture and equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 January 2006	46	452	–	498
Additions				
Continuing businesses	–	95	–	95
Acquisition of subsidiaries	–	50	40	90
At 31 December 2006	46	597	40	683
Additions	–	–	–	–
Continuing businesses	–	356	–	356
Acquisition of subsidiaries	–	54	–	54
At 31 December 2007	46	1,007	40	1,093
Depreciation				
At 1 January 2006	37	304	–	341
Provided in the year	9	89	6	104
At 31 December 2006	46	393	6	445
Provided in the year	–	154	6	160
At 31 December 2007	46	547	12	605
NBV at 31 December 2006	–	204	33	238
NBV at 31 December 2007	–	460	28	488

Included in the total net book value of motor vehicles is £28,000 (2006: £33,000) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation of £6,000 (2006: £6,000) has been charged in respect of these assets.

Notes to the consolidated financial statements_continued_

8 Goodwill and intangible assets

	Goodwill £'000	Customer relationships £'000	Total £'000
Cost at 1 January 2006	5,053	–	5,053
Accumulated amortisation	–	–	–
Net book amount at 1 January 2006	5,053	–	5,053
Net book amount at 1 January 2006	5,053	–	5,053
Additions	5,140	2,894	8,034
Amortisation	–	(422)	(422)
Net book amount at 31 December 2006	10,193	2,472	12,665
Cost at 31 December 2006	10,193	2,894	13,087
Accumulated amortisation	–	(422)	(422)
Net book amount at 31 December 2006	10,193	2,472	12,665
Net book amount at 1 January 2007	10,193	2,472	12,665
Additions from business combinations	4,795	2,161	6,956
Revision to deferred consideration	195	–	195
Amortisation	–	(741)	(741)
Net book amount at 31 December 2007	15,183	3,892	19,075
Cost at 31 December 2007	15,183	5,055	20,238
Accumulated amortisation	–	(1,163)	(1,163)
Net book amount at 31 December 2007	15,183	3,892	19,075

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

	2007 £'000	2006 £'000
InterQuest Group (UK) Limited	5,053	5,053
PeopleCo Worldwide Limited	3,093	3,093
Sand Resources Limited	2,242	2,047
Intelect Recruitment plc	2,197	–
e-CRM People Limited	2,598	–
	15,183	10,193

The recoverable amount of a CGU is determined based on value-in-use calculations. The key assumptions used for value-in-use calculations are as follows:

Range from/to	%	%
Gross margin	16	31
Growth rate	10	10
Discount rate	13	15

These assumptions have been used for the analysis of each CGU.

Management determine budgeted gross margin and growth rates based upon past performance, detailed budgets and expectations of market developments. The discount rates are pre-tax and reflect specific risks relating to the relevant CGU's. The value-in-use calculations are not considered to be sensitive to a change in any key assumptions.

9 Trade and other receivables

	2007 £'000	2006 £'000
Gross trade receivables	16,020	10,750
Provisions	(25)	(30)
Net trade receivables	15,995	10,720
Prepayments and accrued income	2,586	2,308
Other current assets	80	26
Deferred tax asset	–	–
	18,661	13,054

Included within gross trade receivables is £10,107,783 (2006: £4,706,251) 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:

	2007 £'000	2006 £'000
Not more than 30 days	4,630	1,912
More than 30 days but less than 60 days	3,269	1,832
More than 60 days but less than 90 days	606	664
More than 90 days	49	157
	8,554	4,565

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

	2007 £'000	2006 £'000
Provision for receivables impairment at 1 January	30	24
Unused amounts reversed	(5)	–
New provision in the year	–	6
Provision for receivables impairment at 31 December	25	30

The creation and release of provision for impaired receivables have been include in the income statement. 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.

Notes to the consolidated financial statements_continued_

10 Cash and cash equivalents

	2007 £'000	2006 £'000
Cash and cash equivalents	135	–

Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:

	2007 £'000	2006 £'000
Cash and cash equivalents	135	–
Bank overdrafts (note 12)	(995)	(565)
	(860)	(565)

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

11 Trade and other payables

	2007 £'000	2006 £'000
Trade payables	5,559	3,643
Other tax and social security	1,308	1,170
Other payables	237	243
Accruals and deferred income	2,259	1,966
	9,363	7,022

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

12 Financial liabilities – borrowings

	2007 £'000	2006 £'000
Less than one year		
Bank overdrafts	995	565
Invoice discounting facility	8,376	4,424
Obligations under finance leases	27	9
	9,398	4,998
One to two years		
Obligations under finance leases	–	39
	–	39

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 debtors. Trade debtors which have been discounted are included with trade receivables within current assets in the Group's balance sheet. 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.

13 Deferred consideration

	2007 £'000	2006 £'000
Deferred consideration at 1 January 2006	1,137	–
Business combination – Sand	195	1,137
Business combination – Intelect and e-CRM	1,668	–
Settlement in cash and shares	(841)	–
Deferred consideration at 31 December 2007	2,159	1,137
Less than one year	664	661
One year to two years	1,310	288
Two years to three years	185	188
	2,159	1,137

Deferred consideration on Intelect Recruitment plc

There is a maximum further cash consideration of £0.5m payable in respect of the year to 31 March 2008, together with further amounts of £0.2m and £0.2m payable in respect of the following two years thereafter, in each case provided that certain financial targets are met.

Based on the forecast financial performance of Intelect Recruitment Limited the Directors estimate that deferred consideration of £0.41m is payable. The consideration will be payable in three instalments with the amount of £0.04m falling due within one year, £0.19m falling due within one to two years and £0.18m falling due between two to five years. The deferred consideration has been discounted to its present value using an appropriate discount value. The discount rate is a rate at which the Group could obtain a similar borrowing, taking into account the Group's credit standing and securities in place.

Deferred consideration on e-CRM People Limited

A maximum of £2.28m is payable in September 2008 and September 2009 provided increased financial targets are achieved in the years ending July 2008 and July 2009.

Based on the forecast financial performance of e-CRM People Limited the Directors estimate that deferred consideration of £1.26m is payable. The consideration will be payable in two instalments with the amount of £0.33m falling due within one year and £0.93m falling due within one to two years. The deferred consideration has been discounted to its present value using an appropriate discount value. The discount rate is a rate at which the Group could obtain a similar borrowing, taking into account the Group's credit standing and securities in place.

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
Accelerated tax depreciation	133	–	133
Share-based payment temporary differences	269	–	269
Intangible asset temporary differences	–	(1,167)	(1,167)
Other short-term temporary differences	–	(3)	(3)
Asset/(liability) at 31 December 2007	402	(1,170)	(768)

Notes to the consolidated financial statements_continued_

14 Deferred income tax assets and liabilities_continued_

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

	2007 £'000	2006 £'000
Liability/(asset) at 1 January 2007	243	(653)
Income statement charge (note 5)	(133)	223
Tax charged direct to equity	10	(195)
Acquisition of subsidiaries (note 18)	648	868
Liability at 31 December 2007	768	243

15 Employee benefits

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

	2007 £'000	2006 £'000
Defined contributions	37	14

Equity settled share-based payments:

	Options	2007 weighted average exercise price	Options	2006 weighted average exercise price
Outstanding at beginning of the year	5,475,400	£0.37	4,425,400	£0.31
Granted during the year	610,000	£0.88	1,400,000	£0.55
Forfeited during the year	(440,000)	£0.75	(240,000)	£0.56
Exercised during the year	(610,000)	£0.34	(110,000)	£0.41
Outstanding at end of year	5,035,400	£0.43	5,475,400	£0.37
Exercisable during the year	4,305,400	£0.31	4,415,400	£0.31
Exercisable at the year end	3,540,400	£0.29	3,954,900	£0.27
Weighted average remaining contractual life of options outstanding at the end of the year	7.4 years		8.9 years	

The weighted average share price at the date of exercise for share options exercised during the period was £0.34 (2006: £0.59). The options outstanding at 31 December 2007 had an exercise price ranging from £0.25 to £0.55 (2006: £0.25 to £0.55). The estimated fair value of the options granted in the year was £670,579 (2006: £828,425). 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.

15 Employee benefits_continued_

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	130,000	36p	22 January 2006	22 January 2014
23 June 2004	400,000	25p	23 June 2006	23 June 2014
5 January 2005	30,000	35p	5 January 2007	5 January 2015
14 June 2005	240,000	55p	14 June 2007	14 June 2017
1 July 2005	20,000	55p	1 July 2007	1 July 2017
21 November 2005	58,000	48p	21 November 2007	21 November 2017
21 November 2005	80,000	55p	21 November 2007	21 November 2017
1 March 2006	580,000	52p	1 March 2008	1 March 2018
12 June 2006	100,000	57p	12 June 2008	12 June 2018
15 June 2006	210,000	62p	15 June 2008	15 June 2018
20 December 2006	55,000	85p	20 December 2008	20 December 2018
24 May 2007	137,500	115p	24 May 2009	24 May 2019
12 July 2007	135,000	114p	12 July 2009	12 July 2019
19 July 2007	47,500	116.5p	19 July 2009	19 July 2019
22 October 2007	130,000	100p	22 October 2009	22 October 2019
	2,353,000			

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
13 January 2004	60,000	25p	13 January 2004	13 January 2014
28 August 2004	1,856,985	25p	28 August 2004	31 December 2010
28 May 2005	66,000	25p	28 April 2005	28 April 2015
20 May 2005	537,415	25p	20 May 2005	31 December 2010
21 November 2005	62,000	55p	21 November 2005	21 November 2015
19 July 2007	100,000	116.5p	19 July 2009	19 July 2019
	2,682,400			

Notes to the consolidated financial statements_continued_

15 Employee benefits_continued_

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

	2007	2006
Weighted average share price	£1.10	£0.60
Weighted average exercise price	£1.10	£0.60
Expected volatility	50%	76%
Expected life	1 year	1 year
Risk free rate	5.69%	4.63%
Expected dividend yield	–	–

Expected volatility was calculated by using suitable comparative historical share prices for the two years prior to the date of grant of the options.

16 Share capital

	2007 £'000	2006 £'000
Authorised:		
80,000,000 ordinary shares of 1p each	800	800
Allotted, called up and fully paid:		
As at 1 January 2006		
25,756,839 ordinary shares of 1p each	258	
Issue of share capital	29	
As at 31 December 2006		
28,690,645 ordinary shares of 1p each	287	
Issue of share capital	14	
As at 31 December 2007:		
30,103,076 ordinary shares of 1p each:	301	

16 Share capital_continued_

The following shares were issued during the year:

Date	Type of issue	Number of ordinary shares	Nominal value £	Share premium £
22 January 2007	Exercise of share option	61,000	610	21,140
22 February 2007	Exercise of share option	30,000	300	10,500
3 April 2007	Exercise of share option	5,000	50	2,700
8 May 2007	Exercise of share option	4,500	45	1,530
4 June 2007	Exercise of share option	4,500	45	1,530
8 June 2007	Exercise of share option	5,000	50	1,750
5 July 2007	Acquisition of Intelect Recruitment plc	164,940	1,649	175,661
12 July 2007	Exercise of share option	25,000	250	8,750
13 July 2007	Exercise of share option	50,000	500	27,000
16 July 2007	Exercise of share option	120,000	1,200	42,000
17 July 2007	Sharesave exercise of share options	164,259	1,643	90,342
17 July 2007	Exercise of share option	230,000	2,300	55,200
3 August 2007	Exercise of share option	10,000	100	5,400
22 August 2007	Acquisition of Sand Resources Ltd	200,961	2,010	216,436
28 August 2007	Exercise of share option	18,176	182	9,996
25 September 2007	Acquisition of e-CRM People Ltd	254,095	2,540	264,298
1 October 2007	Exercise of share option	5,000	50	2,700
15 November 2007	Exercise of share option	45,000	450	15,750
28 November 2007	Exercise of share option	15,000	150	8,100
		1,412,431	14,124	960,783

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.

Notes to the consolidated financial statements_continued_

16 Share capital_continued_

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 balance sheet less cash and cash equivalents.

	2007 £'000	2006 £'000
Total debt	9,398	5,037
Less: Cash and cash equivalents	(135)	–
Net debt	9,263	5,037
Total equity	15,838	12,385
Debt to capital ratio	0.58	0.41

17 Operating leases

	2007 £'000 Land and buildings	2006 £'000 Land and buildings
Within one year	20	43
Between one and five years	1,569	1,009
	1,589	1,052

18 Business combinations

Intelect Recruitment plc

On 5 July 2007 the Group acquired Intelect Recruitment plc for an initial consideration of £3.55m in cash and £0.17m in new InterQuest Group shares issued at 107.5 pence each being the average closing share price over the prior five business days. A maximum further cash consideration of £0.5m payable in respect of the year to 31 March 2008, together with further amounts of £0.2m and £0.2m payable in respect of the following two years thereafter, in each case provided that certain financial targets are met.

e-CRM People Limited

On 25 September 2007 the Group acquired e-CRM People Limited for an initial consideration of £2.4m in cash and £0.27m in new InterQuest Group shares issued at 105 pence each being the average closing share price over the prior five business days. A maximum of £2.28m is payable in September 2008 and September 2009 provided certain financial targets are met.

18 Business combinations_continued_

Analysis of the acquisitions of Intelect Recruitment plc and e-CRM People Limited

	Acquiree's carrying amount £'000	Fair value £'000
Intelect Recruitment plc		
Intangible assets	–	1,046
Property, plant and equipment	51	51
Trade and other receivables	887	887
Cash and cash equivalents	955	955
Trade and other payables	(577)	(577)
Deferred tax liabilities (note 14)	–	(314)
Net assets	1,316	2,048
Net assets acquired		2,048
e-CRM People Ltd		
Intangible assets	–	1,115
Property, plant and equipment	3	3
Trade and other receivables	2,535	2,535
Cash and cash equivalents	(577)	(577)
Trade and other payables	(1,325)	(1,322)
Deferred tax liabilities (note 14)	–	(334)
Net assets	636	1,420
Net assets acquired		1,420
Total net assets acquired		3,468
Goodwill arising on acquisition		4,795
		8,263
Discharge by:		
Initial consideration in cash		5,949
Initial consideration in shares		444
Deferred contingent consideration		1,668
Costs associated with the acquisition		202
		8,263
Effects on Group cash flow:		
Cash consideration and costs		(6,151)
Cash balances on acquisition		378
Net cash outflow		(5,773)

The Group has acquired 100% of both companies.

Separately identifiable intangible assets, primarily representing customer relationships, amounting to £2,161,000 (deferred taxation liability thereon totaling £648,000) were recognised as a fair value adjustment on acquisition.

Notes to the consolidated financial statements_continued_

18 Business combinations_continued_

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

The Directors have not identified further intangibles as part of the business combinations due to the fact that the remaining goodwill represents the key management and employees of the businesses. The acquired companies do not have sufficient control over their employees and therefore over the probable future economic benefits arising from the employees.

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

The financial performance of the two acquisitions from 1 January 2007 to date of acquisition and from date of acquisition to 31 December 2007 is summarised below:

	1 January 2007 to date of acquisition £'000	Post acquisition to 31 December 2007 £'000
Intelect Recruitment plc (acquired 4 July 2007)		
Revenue	3,527	3,558
Operating profit	401	392
Profit after tax	281	274
e-CRM People Limited (acquired 25 September 2007)		
Revenue	8,183	3,384
Operating profit	572	246
Profit after tax	435	230

The revenue and profit after tax for the combined Group as though all business combinations had been combined at the start of the year would have been £98,482,000 and £3,116,000 respectively.

19 Capital commitments

The Group had no capital commitments at 31 December 2007 or 31 December 2006.

20 Related party transactions

Related party	Nature of business	2007 £	2006 £	Directors involved
Vail Securities Limited	Consultancy services	15,043	74,500	G P Ashworth
Risk Capital Partners Limited	Directors fees	17,402	10,000	L O Johnson
Vail Securities Limited	Business expenses	5,207	–	G P Ashworth
Doble Consulting Limited	Consultancy services	–	30,000	G R S Sitwell
A F Consulting	Consultancy services	–	8,450	A W Found
New Generation Learning	Consultancy services	18,000	13,500	A W Found
New Generation Learning	Business expenses	4,581	–	A W Found

No amounts were outstanding at either year end.

20 Related party transactions_continued_

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

	2007 £'000	2006 £'000
Salaries and other short-term employee benefits	1,176	896
Share-based payments	64	49
	1,240	945

21 Events after the balance sheet date

There were no material events after the balance sheet date.

22 Financial risk management

Interest rate sensitivity

At 31 December 2007, 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 12 for further information.

The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates of +1% and -1% (2006: +/-1%), 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 balance sheet date. All other variables are held constant.

	2007 £'000	2007 £'000	2006 £'000	2006 £'000
	+1%	–1%	+1%	–1%
Net result for the year	(82)	82	(48)	48
Equity	(82)	82	(48)	48

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 9 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.

Notes to the consolidated financial statements_continued_

22 Financial risk management_continued_

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 notes 12 and 18.

23 Explanation of transition to IFRS

As stated in the Basis of Preparation, this is the Group's first financial statement report for the period covered by the first IFRS annual consolidated financial statements prepared in accordance with IFRS as adopted by the EU.

An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set out below.

IFRS 1 permits companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the transition period. These financial statements have been prepared on the basis of taking the following exemptions:

- Business combinations prior to 1 January 2006, the Group's date of transition to IFRS, have not been restated to comply with IFRS 3 "Business Combinations". Goodwill arising from these business combinations of £5,053,000 has not been restated other than as set out in the note below.

Reconciliation of equity

	Note	1 January 2006 £'000	31 December 2006 £'000	31 December 2007 £'000
Net assets and equity under UK GAAP		8,920	11,923	15,106
Adjustments (after taxation)				
IFRS 3 – "Business combinations"	a	–	–	–
Goodwill		–	(1,470)	(2,183)
Other intangible assets		–	2,472	3,892
Deferred tax liability		–	(741)	(1,168)
IAS 12 – "Income taxes"		–	–	–
Deferred tax assets	b	6	(297)	(208)
Deferred tax liabilities		–	498	399
Net assets and equity under IFRS		8,926	12,385	15,838

23 Explanation of transition to IFRS_continued_

Reconciliation of profit

	Note	Year ended 31 December 2006 £'000	Year ended 31 December 2007 £'000
Net income under UK GAAP		1,458	2,120
Adjustments (before taxation)			
IFRS 3 – "Business combinations"	a	134	58
IAS 12 – "Income taxes"	b	127	222
Net income under IFRS		1,719	2,400

Note a
The Group acquired Peopleco Worldwide Limited on 1 March 2006 and acquired Sand Resources Limited on 8 June 2006. Application of IFRS 3 to these business combinations resulted in identification of intangible assets, being customer relationships. Under IFRS this has been recognised separately in the balance sheet at their fair value at the date of acquisition. Under UK GAAP these intangible assets were subsumed within goodwill. The result of this adjustment is to decrease goodwill and increase intangible assets at the date of combination. At 31 December 2006 and 31 December 2007 the value of intangible assets was increased by £2,472,000 and £3,892,000 respectively. A corresponding decrease in goodwill was also taken at the same periods. This adjustment has also had an impact on the deferred tax liability recognised. Amortisation previously accounted for under UK GAAP has been reversed out and amortisation under IFRS has been applied. As at 31 December 2006 and 31 December 2007 administration expenses have been reduced by £134,000 and £58,000 respectively.

IAS 12 requires deferred tax to be provided on all taxable temporary differences. The income earned whilst the intangible asset is used will be taxable and there will be no tax deductions against that income from the use of the asset. This results in a temporary difference equal to the carrying value of the asset on initial recognition in the consolidated accounts. The result of this adjustment is to increase the deferred tax liability, increase retained earnings and increase goodwill. As at 31 December 2006 and 31 December 2007 the value of deferred tax liabilities was increased by £741,000 and £1,168,000 respectively. As the intangible asset is amortised, the temporary difference will decrease and there is a reduction in the deferred tax liability recognised in the consolidated income. The recognition of this deferred tax credit to the income statement reduces the impact of the amortisation of the intangible asset on the profits for the year.

Note b
IAS 12 requires a deferred tax asset to be recognised for deductible temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary difference can be utilised. For equity-settled share-based payments, a deductible temporary difference may arise where a Schedule 23 deduction is available in the future. The excess of the deferred tax is recognised in equity. The result of this adjustment is to increase deferred tax asset and increase equity. As at 31 December 2006 and 31 December 2007 deferred tax assets were increased by £201,000 and £191,000 with a corresponding entry against equity.

Significant changes to the cash flow statement for the year to 31 December 2006

None of the adjustments arising from IFRS relate to cash and therefore there is no impact on reported cash flows apart from presentation and cash and cash equivalents.

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 2007 which comprise the principal accounting policies, the Company balance sheet and notes to the Company financial statements on pages 53 to 56. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the consolidated financial statements of InterQuest Group plc for the year ended 31 December 2007.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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

The Directors' responsibilities for preparing the Annual Report and the parent company financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements. The information given in the Report of the Directors includes that specific information presented in the Chairman's and Chief Executive's Statement and Finance Director's Report that is cross referred from the Principal activities and business review section of the Report of the Directors.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only Report of the Directors, the Chairman's and Chief Executive's Statement, the Finance Director's Report and the Corporate Governance Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

Grant Thornton UK LLP
Registered Auditor
Chartered Accountants
London
6 March 2008

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.

Property, plant and equipment
Property, plant and equipment is 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:

Leasehold improvements	20% straight line
Office furniture and equipment	20% straight line
Motor vehicles	25% reducing balance

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.

Leased assets
Where the Company enters into a lease which entails substantially all of the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated in accordance with the above depreciation policies. Future instalments under such leases, net of finance charges, are included within creditors. Rental payable are apportioned between the finance element, which is charged to the profit and loss account at a constant rate of charge on the balance of capital repayments outstanding and the capital element which reduces the outstanding obligation for future instalments.

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Financial instruments
The Company's policy is to manage exposure to interest rate fluctuations on its borrowings by the use of floating and short-term 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.

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.

Company balance sheet

	Note	2007 £'000	2006 £'000
Fixed assets			
Tangible asset	1	53	54
Investments	2	24,371	15,914
		24,424	15,968
Current assets			
Debtors	3	3,999	3,704
Cash at bank and in hand		–	–
		3,999	3,704
Creditors: amounts falling due within one year	4	(11,506)	(6,424)
Net current liabilities		(7,507)	(2,720)
Total assets less current liabilities and net assets		16,917	13,248
Creditors: Amounts falling due after more than one year	5	(1,495)	(476)
		15,422	12,772
Capital reserves			
Called up share capital	7	301	287
Share premium account	8	8,344	7,383
Profit and loss account	8	6,500	4,913
Share-based payment reserve	8	277	189
		15,422	12,772

These parent company UK GAAP financial statements were approved by the Board on 6 March 2008 and were signed on its behalf by:

M R S Joyce
Finance Director

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

Notes to the Company financial statements

1 Tangible fixed assets

	Property, plant and equipment £'000	Total £'000
Cost		
As at 1 January 2007	81	81
Additions	23	23
As at 31 December 2007	104	104
Depreciation		
As at 1 January 2007	27	27
Provided in the year	24	24
As at 31 December 2007	51	51
Net book value at 31 December 2006	54	54
Net book value at 31 December 2007	53	53

2 Investments

	Total £'000
Cost	
As at 1 January 2007	15,914
Additions	8,457
At 31 December 2007	24,371

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
FJB (Contracts) Limited	UK	Ordinary shares	IT recruitment
e-CRM People Limited	UK	Ordinary shares	IT recruitment
Intelect Recruitment Plc	UK	Ordinary shares	IT recruitment
Peopleco Worldwide Limited	UK	Ordinary shares	IT recruitment
Sand Resources Limited	UK	Ordinary shares	IT recruitment
Maxridge Limited	UK	Ordinary shares	Non trading
Corporate Dynamics 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

* Indirect shareholding through InterQuest Group (UK) Limited.

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.

Notes to the Company financial statements_continued_

3 Debtors

	2007 £'000	2006 £'000
Amounts owed by Group undertakings	3,777	3,492
Prepayments and accrued income	91	107
Other debtors	51	48
Deferred tax asset	80	57
	3,999	3,704

4 Creditors: amounts falling due within one year

	2007 £'000	2006 £'000
Trade creditors	35	38
Amounts owed to Group undertakings	10,388	5,054
Corporation tax	68	–
Bank overdraft	161	549
Accruals and deferred income	190	121
Other creditors	–	1
Deferred consideration	664	661
	11,506	6,424

The trade debtor finance facilities are secured by fixed and floating charges over the Company's assets and had a maximum facility of £14,000,000 at the year end. Interest is charged at 1.0% over the prevailing bank base rate.

The bank overdraft is unsecured and interest is charged at 1.25% 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.

5 Creditors: amounts falling due after more than one year

	2007 £'000	2006 £'000
Deferred consideration	1,495	476
	1,495	476

6 Deferred taxation asset

	2006 £'000
Asset at 1 January 2007	57
Asset recognised in the year	23
Asset at 31 December 2007	80

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

	2007 £'000	2006 £'000
Other timing differences	23	57
	23	57

7 Share capital

	2007 £'000	2006 £'000
Authorised:		
80,000,000 ordinary shares of 1p each	800	800
Allotted, called up and fully paid:		
30,103,076 shares ordinary shares of 1p each	301	287

8 Share premium account and reserves

	Share premium account £'000	Profit and loss account £'000	Share-based payment reserve £'000
As at 1 January 2007	7,383	4,913	189
Issue of shares	961	–	–
Profit for the year	–	1,587	–
Movement in share-based payment reserve	–	–	88
As at 31 December 2007	8,344	6,500	277

9 Reconciliation of movements in shareholders' funds

	2007 £'000	2006 £'000
Profit for the year	1,587	846
Issue of shares		
Share proceeds from share options exercised in the year	310	45
Share proceeds from acquisitions made during the year	665	1,413
Share-based payment reserve	88	88
Net increase in shareholder's funds	2,650	2,392
Shareholders' funds at 1 January 2007	12,772	10,380
Shareholders' funds at 31 December 2007	15,422	12,772

10 Capital commitments

The Company had no capital commitments at 31 December 2007 or 31 December 2006.

11 Contingent liabilities

There were no contingent liabilities at 31 December 2007 or 31 December 2006.

12 Operating leases

	2007 £'000 Land and buildings	2006 £'000 Land and buildings
Within one year	–	18
Between one and five years	688	468
	688	486

Notes to the Company financial statements_continued_

13 Transactions with Directors and other related companies

Related party	Nature of business	2006 £	2007 £	Directors involved
Vail Securities Limited	Consultancy services	15,043	74,500	G P Ashworth
Risk Capital Partners Limited	Directors' fees	17,402	10,000	L O Johnson
Vail Securities Limited	Business expenses	5,207	–	G P Ashworth
Doble Consulting Limited	Consultancy services	–	30,000	G R S Sitwell
A F Consulting	Consultancy services	–	8,450	A W Found
New Generation Learning	Consultancy services	18,000	13,500	A W Found
New Generation Learning	Business expenses	4,581	–	A W Found

14 Post balance sheet events

The Company had no material post balance sheet events.

15 Profit attributable to the Company

The profit for the financial year of the Company was £1.59m (2006: £0.85m). As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account is presented in respect of the Company.

Company details

Company registration number
04298109

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R D Eades
A W Found
P M L Frew
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M R S Joyce

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