InterQuest Group plc
(“InterQuest” or “the Group”)
Interim Results

InterQuest Group plc (AIM: ITQ), the specialist IT Recruitment Group, is pleased to announce its unaudited interim results for the six months ended 30 June 2012.

Financial highlights

- Revenue down 6% to £55,809k (2011: £59,055k)
- Net Fee Income (“NFI”) up 6% to £8,289k (2011: £7,812k)
- Gross margin % improved from 13.2% to 14.9%
- Permanent recruitment fees 20% higher at £2,748k (2011: £2,283k)
- Improvement in contract recruitment margins from 10.5% in the first half of 2011 to 11.5% in the first half of 2012.
- Adjusted EBITA down 39% to £1,072k (2011: £1,760k)
- Adjusted PBT of £932k (2011: £1,665k)
- Diluted adjusted earnings per share 2.2 pence (2011: 3.8 pence)
- Basic earnings per share 1.2 pence (2011: Loss of (5.6) pence)
- Net cash used in operating activities £0.2m (2011: Net cash generated of £2.5m)
- Net debt £6.4m (2011: £5.4m)
- Interim dividend of 0.5 pence to be paid on 26 October 2012

Operational highlights

- First overseas office opened in Singapore in Q4, 2011 which now has 13 fee earners;
- In February, our Financial Services businesses moved onto a single operating platform under one business leader in a new office in Canary Wharf;
- In March, we established a new international business from scratch based in our London office;
- In March, we migrated all of our candidate-centric recruitment business into a single, separate practice aimed at placing niche candidates into niche roles rather than just filling vacancies;
- Gary Goldsmith joined us as Chief Operating Officer on 17 February; and
- We have increased the number of fee earners in the Group from 169 in December 2011 to 194 currently.

Gary Ashworth, Chairman of InterQuest, commented “The first half of 2012 has been a period of significant change for the Group, the fruits of which will begin to be borne out in the second half of this financial year and beyond. We have restructured and rebranded our niche focused core businesses and established a separate candidate–centric business plus an International desk in London, to complement our Singapore office that opened in late 2011. We have made these investments for the medium/long term at the expense of short term 2012 profitability and, while such investment is not made lightly, we are confident that InterQuest is building a platform for improved organic growth in the future.”

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About InterQuest

The InterQuest Group is a specialist technology recruitment Group providing contract and permanent recruitment services within niche disciplines in the UK, and Southeast Asia. The Group comprises specialist divisions covering a range of technology and analytical skill sets including Analytics, Digital, ERP (SAP, Oracle), Enterprise Systems Management (Infrastructure, ITSM, ITAM), Mobile, Quality Assurance & Testing and Telecommunications. The Group operates across multiple industries with a significant presence and expertise in Financial Markets (Banking & Insurance), Public Sector, Not-for-Profit and Retail.

Introduction

Despite challenging market conditions, particularly in the banking and finance sector, the business as a whole has performed robustly in H1 2012, growing both net fee income and gross margins versus H1 2011 and demonstrating the continual operational improvements being made in the business. Highlights:

- Net fee income growth of 6% over the same period last year;
- Net fee income growth of 17% in non-banking private sector;
- Permanent recruitment fees up 20%;
- Gross margin % improved 170-basis points, up from 13.2% to 14.9%;
- Contract recruitment margins improved 100-basis points, up from 10.5% to 11.5%;
- Incremental business with 155 new customers worth £1,134k of net fee income in H1 2012;
- Established operations in Singapore, billing 12 new customers in the region to generate £203k net fee income in H1 2012;

During the first half of 2012 we continued the restructuring of our business to align our strategy towards sectors of the market we believe provide us with increased opportunities for future growth. Specifically, we made deliberate and targeted investments in the following areas:

- We opened our first overseas office in Singapore in Q4, 2011;

- In February 2012 we moved all of our businesses servicing the Financial Services sector onto a single operating platform under one business leader in a new office in Canary Wharf;
- Gary Goldsmith joined us as Chief Operating Officer on 17 February 2012;
- In March, we migrated all of our candidate-centric recruitment businesses into a single, separate practice aimed at placing niche candidates into niche roles, rather than just filling vacancies;
- In March 2012 we established a new international business from scratch based in our London office; and
- We have increased the number of fee earners in the Group from 169 in December 2011 to 194 currently.

We have made these investments for the medium/long term at the expense of short term 2012 profitability and are confident that we are building a platform for increased organic growth in the future.

Overview and operational mix

H1 2012 saw an improved performance from the Group's permanent recruitment business with net fee income 20% ahead of the same period in 2011.

Contract recruitment was more or less flat year on year as we placed more focus on strengthening our niche businesses placing fewer, yet higher value contracts in contrast to higher volume, low margin sales. As a result our contract business margins continue to improve and are 100-basis points higher in H1 2012 than the same period last year.

Net fee income from permanent recruitment represents 33% of our total business whilst contract recruitment provides 67%; ensuring we maintain a healthy mix of recurring income in support our goals during a relatively volatile period.

International

In line with our strategy, the Group opened its first overseas operation in Singapore in Q4 2011. This business established itself quickly, generating net fee income from a standing start of £203k in H1 2012. This represents just 2.5% of Group net fee income however it is set to grow in proportion to the rest of the Group as we capitalise on our initial success overseas.

Industry sector

We have delivered strong performance in the non-financial service private sector, which represents 60% of our business mix. Net fee income increased by 17% compared to the same period last year. The strength of this result is masked by a 17% decline in net fee income from the banking and finance sector, which although disappointing still represents a solid performance in a market that has contracted sharply during the first two quarters of 2012.

Our performance in the public sector has also been reassuring; we are pleased with the way in which the Group has restructured its service offerings to respond to the changing demands of the sector. Although net fee income is 3% lower in H1 2012 versus H1 2011, the business has broadened its Client base within the public sector to grow both net fee income and margins on a run rate basis since its low point in Q3 2011.

Specialist niche recruitment

The Group's restructure into clearly defined specialist businesses has quickly delivered results; we have been able to quickly contain and re-engineer our approach in markets where demand has been in decline and invest to grow in markets where demand and the potential for higher margins is strong.

We are pleased with the performance of each of our specialist niche business, particularly those focused in Analytics, ERP, ESM (Enterprise Systems Management) and Telecommunications.

Cashflow and Funding

The Group had a net cash outflow from operations of £0.2m in the first half of the year and raised £0.5m from the issue of new shares to our Chief Operating Officer and other senior management. There were cash outflows during the period in respect of dividends of £0.7m, corporation tax of £0.1m, capital expenditure of £0.2m and finance costs of £0.1m. The Group's net debt has increased from £5.5m at the start of the year to £6.4m at 30 June 2012.

We are declaring an interim dividend of 0.5 pence in line with our progressive dividend policy and this will be paid on 26 October 2012 to shareholders on the register on 21 September 2012. The ex-dividend date is 19 September 2012.

Warranty Claim against vendors of CCL

We continue to pursue our warranty claim with vigour and will update shareholders in due course.

Outlook

Trading conditions have deteriorated since the start of the year, both in the UK and Far East, particularly in the second quarter and particularly in the banking and finance sectors from which we derive 25% of our net fee income. Consequently, we now expect that it will take a little longer than originally anticipated for all our new investments to reach profitability.

However, as a direct result of our expertise and concentrated effort in specialist markets, we have seen improvements in revenue growth and margin in key sectors such as ERP, ESM (Enterprise Systems Management), Analytics, Digital and Retail. Our balance sheet remains healthy and we have significant headroom within our banking facilities. The Company therefore retains the ability to buy back its own shares in the market should the Board consider this in the long term interest of shareholders and is committed to maintaining its dividend.

Despite current headwinds, the Board remains firmly committed to its strategy and to building a strong platform for long term organic growth. We have made significant investment into the business and remain confident that our strategy will see us emerge as a much stronger IT recruitment business that is better positioned with our clients and better able to capture opportunities for growth.

Unaudited condensed consolidated interim statement of comprehensive income

	Note	6 months to 30 June 2012 £'000	6 months to 30 June 2011 £'000	12 months to 31December 2011 £'000
Revenue		**55,809**	59,055	120,919
Cost of sales		**(47,520)**	(51,243)	(104,270)
Gross profit		**8,289**	7,812	16,649
Amortisation		**(348)**	(377)	(732)
Other administration costs		**(7,295)**	(6,117)	(12,953)
Total administrative expenses		**(7,643)**	(6,494)	(13,685)
Operating profit before exceptional items		**646**	1,318	2,964
Exceptional items		**-**	(2,892)	(2,898)
Operating profit/(loss)		**646**	(1,574)	66
Finance costs		**(140)**	(95)	(266)
Profit/(loss) before tax		**506**	(1,669)	(200)
Income tax expense	5	**(135)**	(82)	(899)
Profit/(loss) for the period/year		**371**	(1,751)	(1,099)
Total comprehensive income for the period/year		**371**	(1,751)	(1,099)
Attributable to:				
- Owners of the parent		**376**	(1,749)	(1,073)
- Minority interests		**(5)**	(2)	(26)
Total comprehensive income for the period/year		**371**	(1,751)	(1,099)
Earnings/(loss) per share from both total and continuing operations:				
		Pence	Pence	Pence
Basic earnings/(loss) per share	6	**1.2**	(5.6)	(3.4)
Diluted earnings/(loss)per share	6	**1.1**	(5.6)	(3.4)

All results for the Group are derived from continuing operations in the current period.

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

Unaudited condensed consolidated interim statement of financial position

	Note	**30 June 2012 £'000**	30 June 2011 £'000	31 December 2011 £'000
ASSETS				
Non-current assets				
Property, plant and equipment		**826**	666	807
Goodwill		**14,733**	14,635	14,683
Other intangible assets		**1,132**	1,834	1,480
Total non-current assets		**16,691**	17,135	16,970
Current assets				
Trade and other receivables		**22,962**	23,351	21,991
Cash and cash equivalents		**434**	270	257
Total current assets		**23,396**	23,621	22,248
Total assets		**40,087**	40,756	39,218
LIABILITIES				
Current liabilities				
Trade and other payables		**(12,130)**	(15,228)	(12,600)
Borrowings		**(6,817)**	(5,707)	(5,768)
Current tax payable		**(1,298)**	(681)	(1,197)
Total current liabilities		**(20,245)**	(21,616)	(19,565)
Non-current liabilities				
Deferred income tax liabilities		**(69)**	(135)	(153)
Total non-current liabilities		**(69)**	(135)	(153)
Total liabilities		**(20,314)**	(21,751)	(19,718)
Net assets		**19,773**	19,005	19,500
EQUITY				
Capital and reserves attributable to the Company's equity holders:				
Share capital		**331**	320	321
Share premium account		**9,836**	9,339	9,370
Capital redemption reserve		**12**	11	12
Retained earnings		**9,501**	9,262	9,777
Share based payment reserve		**811**	737	733
Share buy back		**(666)**	(641)	(666)
Minority interest		**(52)**	(23)	(47)
Total equity		**19,773**	19,005	19,500

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

Unaudited condensed interim statement of changes in equity

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Retained earnings £'000	Share based payment reserve £'000	Share buy back reserve £'000	Non controlling interest £'000	Total equity £'000
Balance at 1 January 2011	**313**	**8,919**	**11**	**11,636**	**672**	**(621)**	**(21)**	**20,909**
Comprehensive income								
Loss for the period	-	-	-	(1,749)	-	-	(2)	(1,751)
Total comprehensive income for the period	-	-	-	**(1,749)**	-	-	**(2)**	**(1,751)**
Transactions with owners								
Movement in share based payment reserve	-	-	-	-	65	-	-	65
Issue of share capital	7	420	-	-	-	-	-	427
Share buy back reserve	-	-	-	-	-	(20)	-	(20)
Dividends	-	-	-	(625)	-	-	-	(625)
Total contributions by and distributions to owners	**7**	**420**	**-**	**(625)**	**65**	**(20)**	**-**	**(153)**
Balance at 30 June 2011	**320**	**9,339**	**11**	**9,262**	**737**	**(641)**	**(23)**	**19,005**
Balance at 1 July 2011	**320**	**9,339**	**11**	**9,262**	**737**	**(641)**	**(23)**	**19,005**
Comprehensive income								
Profit/(loss) for the period	-	-	-	676	-	-	(24)	652
Total comprehensive income for the period	**-**	**-**	**-**	**676**	**-**	**-**	**(24)**	**652**
Transactions with owners								
Movement in share based payment reserve	-	-	-	-	(4)	-	-	(4)
Capital redemption reserve	(1)	-	1	-	-	-	-	-
Issue of share capital	2	31	-	-	-	-	-	33
Share buy back reserve	-	-	-	-	-	(25)	-	(25)
Dividends	-	-	-	(161)	-	-	-	(161)
Total contributions by and distributions to owners	**1**	**31**	**1**	**(161)**	**(4)**	**(25)**	**-**	**(157)**
Balance at 31 December 2011	**321**	**9,370**	**12**	**9,777**	**733**	**(666)**	**(47)**	**19,500**
Balance at 1 January 2011	**321**	**9,370**	**12**	**9,777**	**733**	**(666)**	**(47)**	**19,500**
Comprehensive income								
Profit/(loss) for the period	-	-	-	376	-	-	(5)	371
Total comprehensive income for the period	**-**	**-**	**-**	**376**	**-**	**-**	**(5)**	**371**
Transactions with owners								
Movement in share based payment reserve	-	-	-	-	78	-	-	78
Issue of share capital	10	466	-	-	-	-	-	476
Dividends	-	-	-	(652)	-	-	-	(652)
Total contributions by and distributions to owners	**10**	**466**	**-**	**(652)**	**78**	**-**	**-**	**(98)**
Balance at 30 June 2012	**331**	**9,836**	**12**	**9,501**	**811**	**(666)**	**(52)**	**19,773**

Unaudited condensed consolidated interim statement of cash flows

	Note	6 months to 30 June 2012 £'000	6 months to 30 June 2011 £'000	Year to 31 December 2011 £'000
Cash flows from operating activities				
Profit/(loss) after taxation		**371**	(1,751)	(1,099)
Adjustments for:				
Depreciation		**133**	101	330
Impairment of intangible asset		**-**	2,000	2,000
Loss on sale of assets		**-**	4	-
Share based payment charge		**78**	65	61
Finance costs		**140**	95	266
Amortisation		**348**	377	732
Income tax expense		**135**	82	899
Increase in trade and other receivables		**(971)**	(1,990)	(711)
(Decrease)/increase in trade and other payables		**(470)**	3,566	967
Cash (used in)/generated from operations		**(236)**	2,549	3,445
Income taxes paid		**(118)**	(584)	(828)
Net cash from operating activities		**(354)**	1,965	2,617
Cash flows from investing activities				
Purchase of property, plant and equipment		**(152)**	(259)	(641)
Acquisition of subsidiaries net of cash acquired		**(51)**	(3,863)	(3,744)
Net cash used in investing activities		**(203)**	(4,122)	(4,385)
Cash flows from financing activities				
Proceeds from issue of share capital		**476**	130	164
Cost to buy back shares		**-**	20	(45)
Net increase in trade receivables finance facility		**1,049**	2,502	2,463
Interest paid		**(140)**	(95)	(266)
Dividends paid		**(651)**	(625)	(786)
Net cash generated in financing activities		**734**	1,932	1,530
Net increase/(decrease) in cash and cash equivalents		**177**	(225)	(238)
Cash and cash equivalents at beginning of period/year		**257**	495	495
Cash and cash equivalents at end of period/year		**434**	270	257

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

Notes to the unaudited condensed consolidated interim report

1 Nature of operations and general information

InterQuest Group plc and its subsidiaries("the Group") is a specialist technology recruitment Group providing contract and permanent recruitment services within niche disciplines in the UK, and Southeast Asia. The Group comprises specialist divisions covering a range of technology and analytical skill sets including Analytics, Digital, ERP (SAP, Oracle) Enterprise Systems Management (Infrastructure, ITSM, ITAM), Mobile, Quality Assurance & Testing and Telecommunications. The Group operates across multiple industries with a significant presence and expertise in Financial Markets (Banking & Insurance), Public Sector, Not-for-Profit and Retail.

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

The unaudited condensed consolidated interim report has been approved for issue by the Board of Directors on 11 September 2012.

The financial information set out in this interim report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Group's statutory financial statements for the year ended 31 December 2011 have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

2 Basis of preparation

The unaudited condensed consolidated interim report is for the six months ended 30 June 2012 and has been prepared in accordance with the accounting policies as set out in the annual financial statements for the year ended 31 December 2011. The unaudited condensed consolidated interim report should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with IFRSs as adopted by the European Union (EU).

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

3 Summary of significant accounting policies

The same accounting policies, presentation and methods of computation are followed in this unaudited condensed consolidated interim report as were applied in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

4 Revenue and segmental reporting

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

The information provided below is consistent with the information provided to the Group's chief operating decision maker.

2012	**Private other £'000**	**Private financial services £'000**	**Public sector £'000**	**Interna tional £'000**	**PayQuest payroll services £'000**	**Intercompany trading £'000**	**Total £'000**
Revenue	26,337	19,392	8,929	275	3,509	(2,633)	55,809
Gross profit	4,984	2,071	943	207	84		8,289
EBITA per management accounts	660	538	278	(394)	(10)[1]		1,072
Reconciling items to amounts reported in the interim statement of comprehensive income:							
- share based payment charge							(78)
- amortisation							(348)
Operating profit							646
Finance costs							(140)
Profit before tax							**506**

[1] PayQuest Group Limited, our payroll services business, is shown separately because it does not provide recruitment services.

2011	Private other £'000	Private financial services £'000	Public sector £'000	Internat ional £'000	PayQuest payroll services £'000	Intercompany trading £'000	Total £'000
Revenue	26,128	21,974	9,661	-	3,952	(2,660)	59,055
Gross profit	4,250	2,506	975	-	81		7,812
EBITA per management accounts	589	826	320	-	25[1]		1,760
Reconciling items to amounts reported in the interim statement of comprehensive income:							
- share based payment charge							(65)
- non-recurring items							(2,892)
- amortisation							(377)
Operating loss							(1,574)
Finance costs							(95)
Loss before tax							(1,669)

[1] PayQuest Group Limited, our payroll services business, is shown separately because it does not provide recruitment services.

	Revenue		**Gross profit**	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Permanent	**2,748**	2,283	**2,748**	2,283
Contract	**53,061**	56,772	**5,541**	5,529
	55,809	59,055	**8,289**	7,812

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

5 Income tax expense

	6 months to 30 June 2012 £'000	6 months to 30 June 2011 £'000	Year to 31 December 2011 £'000
Current tax			
Corporation tax on profits for the period/year	**219**	433	989
Adjustment in respect of prior periods	**-**	-	14
Adjustment in respect of exceptional items	**-**	(206)	-
Total current tax	**219**	227	1,003
Deferred tax			
Other timing differences	**-**	-	(13)
Accelerated capital allowance	**-**	-	43
Charge on share based payments	**3**	(46)	111
Tax losses carried forward	**-**	-	(22)
Intangible asset temporary differences	**(87)**	(99)	(223)
Total deferred tax	**(84)**	(145)	(104)
Total tax charge	**135**	**82**	**899**

6 Earnings/(loss) per share

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

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

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

	6 months ended 30 June 2012 £'000	6 months ended 30 June 2011 £'000	Year ended 31 December 2011 £'000
Profit/(loss) for the period/year			
Basic earnings/(loss)	**376**	(1,749)	(1,073)
Adjustments to basic earnings/(loss)			
Intangible assets amortisation	**348**	377	732
Share based payment charge	**78**	65	61
Deferred tax credit on intangible asset amortisation	**(87)**	(99)	(183)
Deferred tax on share based payment	**3**	(46)	111
Exceptional items	**-**	2,892	2,898
Tax credit on exceptional items	**-**	(206)	-
Adjusted earnings	**718**	1,234	2,546
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings/(loss) per share	**32,570,042**	31,317,115	31,691,716
Weighted average number of ordinary shares for the purposes of diluted earnings/(loss) per share	**32,852,976**	32,473,550	32,498,223
Earnings/(loss) per share	**Pence**	Pence	Pence
Basic earnings per share	**1.2**	(5.6)	(3.4)
Diluted earnings/(loss) per share	**1.1**	(5.6)	(3.4)
Adjusted earnings per share			
Basic earnings per share	**2.2**	3.9	8.0
Diluted earnings per share	**2.2**	3.8	7.8