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INTELLECT RECRUITMENT Plc
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InterQuest Group plc

Annual report for the year ended 31 December 2012

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Company details

Company registration number	04298109
Registered office	16 - 18 Kirby Street London EC1N 8TS
Directors	G P Ashworth M A Braund P M L Frew M R S Joyce
Secretary	M R S Joyce
Bankers	The Royal Bank of Scotland Benwell House Green Street Sunbury-on-Thames Middlesex TW16 6QT
Solicitors	Starr & Partners 21 Garlick Hill London EC4V 2AU Speechly Bircham LLP 6 New Street Square London EC4A 3LX
Auditor	Deloitte LLP 2 New Street Square London EC4A 3BZ

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Highlights

Financial Highlights

- Revenue £112.7m (2011 £120.9m) down 7 %
- Net fee income* (NFI) £16.4m (2011 £16.7m) down 2 %
- Gross profit margin % up 70 basis points at 14.5% (2011 13.8%)
- Gross profit margin % on contractor recruitment business (excluding PayQuest and payroll deals) up 60 basis from 10.9% to 11.5%
- EBITA before non-recurring items and IFRS 2 charges** £1.8m (2011 £3.8m) down 53%
- Loss for the year £0.1m (2011 £1.1m loss)
- Basic adjusted earnings per share 3.5 pence (2011 8.0 pence) down 56%
- Basic loss per share 0.4 pence (2011 loss per share of 3.4 pence)
- Net cash from operating activities £0.9m (2011 £2.6m)
- Cash generated from operations pre-tax £1.9m (2011 £3.4m)
- Net debt decreased from £5.5m at start of 2012 to £4.4m at 31 December 2012
- Second interim dividend of 2 pence per share is proposed and will be paid on 12th April 2013 (2011 2 pence per share) bringing the total dividend for the year to 2.5 pence per share (2011 2.5 pence per share)

EBITA = Earnings before interest, tax and amortisation

* Net fee income represents gross profit

**a reconciliation of EBITA before non-recurring items and IFRS 2 charges to IFRS operating profit is provided in Note 1 to the Financial Statements

Operational Highlights

- Extensive restructure of all of our core businesses into specialist niche focused divisions by either technology or industry specialization
- Successful rebranding of these "IQ" niches rolled out across the Group
- Migration of all of these businesses onto a single best practice operating platform
- First international office opened in Singapore in late 2011 provides platform for expansion

Outlook

Gary Ashworth, Executive Chairman, commented "We transformed our business during 2012 and I am pleased to say that we are now organised into keenly focused niche businesses utilising a common methodology, a single operating platform and new IQ branding. We invested in a spot recruitment business in 2012 which did not deliver to our expectations and has now been decisively curtailed. As we enter 2013, we have a significantly reduced cost base compared to mid-2012 and our January and February NFI is circa 5% ahead of a year ago. I believe that this stands us in good stead for the year ahead."

Chairman's Statement

Our major achievement in 2012 is that we have successfully reorganised ourselves from a group of affiliated IT recruitment businesses into clearly defined specialist businesses utilising a common methodology, a single operating platform and new IQ branding. This has laid the foundations for scalability in our operations and should provide a platform for organic growth in the future.

We are now organised into keenly focused niche businesses which aim to supply our clients with specialist solutions for difficult to fill roles and consequently command higher margins.

We also opened our first overseas office in Singapore at the start of the year.

These investments have been made at the expense of short term profitability but should deliver long term shareholder value in the future.

In a difficult UK market the Group experienced a 7% decrease in revenue but only a 2% decrease in net fee income as our focus on specialization delivered increased margins.

EBITA before non-recurring items and IFRS 2 charges decreased by 53% to £1.8m (2011 £3.8m). The key components of this decrease were -

- Significant net expenditure of circa £0.9m to rapidly ramp up Mint Recruitment Solutions, a candidate centric spot recruitment business which did not deliver upon expectations,
- A downturn in our Financial Markets business which experienced a 22% decrease in net fee income compared to 2011 which we believe represents a better performance than the market generally in that sector,
- Net expenditure of £0.4m in our Singapore office which, although it cost a little more and took a little longer than we expected has given us a solid platform for future growth in that market, and
- Net expenditure of £0.3m in a London based International business which did not deliver upon expectations.

In the case of Mint Recruitment Solutions and our London International desk we have taken decisive action and significantly scaled back our investment in Mint and closed the London International desk. In Financial Markets we have fine-tuned our business to deliver efficiently on lower margin accounts and deployed new, skilled resource in compliance, analytics and risk.

Conversion of EBITA into cash was very good and the Group delivered pre-tax operating cash inflow of £1.9m (2011 £3.4m).

The Board is recommending a second interim dividend of 2 pence per share which maintains the total dividend for the year at 2.5 pence per share in line with our progressive dividend policy.

In December 2012, we successfully concluded our warranty claim against the vendors of Contract Connections Limited (which was acquired in 2011) and recovered £1.0m cash as a refund of purchase consideration. A further review of the remaining carrying value of the intangibles and goodwill associated with the business of Contract Connections was carried out by the Directors and as a result of that review the intangible assets and remaining goodwill have been written down to zero carrying value as at 31 December 2012.

Chairman's Statement (continued)

Market conditions remain uncertain as we start 2013 but I am confident that, as a result of the changes and investments we have made in 2012, we are in the best shape that we possibly can be to meet the challenges of the future

Any company is only as good as its people, particularly a recruitment company, and I believe that we have one of the most skilled and committed workforces in the industry. I would like to thank them for their passion, commitment and hard work over the last twelve months

A handwritten signature in black ink, appearing to read 'G. Ashworth', written in a cursive style.

Gary Ashworth
Chairman, 6th March 2013

Chief Executive's Report

InterQuest is a group of specialist recruitment businesses, placing both Contract and Permanent staff into niche disciplines within the analytics, financial and technology market sectors

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

Highlights

Growth in gross profit margins provides strong support for our strategy with the Group aiming at greater specialisation to deliver value and outperform competition in key niche disciplines

The gross profit margin percentage for the Group increased by 70 basis points to 14.5% (2011 13.8%), underpinned by strong Contractor recruitment margins up 60 basis points at 11.5%

InterQuest continues to pursue a strategy underpinned by strong recurring revenues from Contractor recruitment. Whilst delighted to deliver solid improvement in Permanent recruitment performance, the core contributor to our NFI remains Contract business, providing £11.2m (68%) of the total £16.4m NFI of the Group (2011 £11.6m comprising 70% of £16.7m). Permanent recruitment delivered £5.2m NFI in 2012 (2011 £5.0m), up 2.4%

Despite the challenges and volatility in the UK recruitment industry we have seen strong growth in some of the niche sectors of our business, rewarding our focus on key market areas of demand, difficult to fill roles and critical hires that provide specific value to our Customer's programmes and projects

Within our private sector 'other' segment notable highlights include the IQ Analytics recruitment business which generated +84% NFI growth YOY, Telecoms up +54% and IQ ESM (Enterprise Systems Management) up +16%. Our well established Public Sector business experienced a 3% decrease in NFI comprising a return to Contractor growth with Contractor NFI (which comprises 91% of the NFI) up +3% but a decline in Permanent recruitment fee's (less than 10% of the NFI) of -36%

Financial Markets experienced contraction in NFI of 22% from £5.5m in 2011 to £4.3m in 2012. However, this appears slightly better than, or at least in line with market data, which supports the technology recruitment sector in Financial Markets shrinking by greater than 30% during the same period

We have taken the opportunity to fine-tune our operation to provide a fit for purpose delivery model and cost base to better support our business in this market. As we have done so, we have shifted more resource and expertise into the key areas of demand emerging in the sector, specifically Compliance, Analytics and Risk. Whilst the traditional technology recruitment sector in Financial Markets has experienced a drop in demand, we have seen a surge in requirements for skilled resource in these specialist disciplines with NFI in 2012 near double the prior year

Whilst the focus on niche markets has provided evidence to support our strategy going forwards, the spot business model we had invested in at MINT along with the closely associated London based international

Chief Executive's Report (continued)

recruitment desk has fallen short of expectations. The resulting sales and infrastructure investment weighed heavily on profitability during the period masking the relative success of our businesses elsewhere in the Group. As a result, we have scaled back our investment in MINT, retaining the best talent including key middle managers who now report directly to the CEO.

Developing our International footprint

InterQuest has made its first material step into international markets with an office in Singapore, a recruitment market in which a number of our UK Customers are present. We have an experienced local team under the direction of an experienced local executive, with a solid track record of growing specialist recruitment businesses in the region. 2012 saw the business generate close to SGD \$1million NFI (GBP £0.5m) from a standing start, billing 23 Customers in a market that had its own share of economic challenges during the period. We view this as a solid performance, setting a platform for further growth in 2013.

New Customer Acquisition

Further improvement to our performance in winning new business helped InterQuest add a further 331 new Customer accounts in 2012, up +32% on prior year and from which we derived £3.1million of incremental NFI in 2012, 19% of the total. With a solid track record of Customer retention, these new Customers are set to add further income in the year to follow. Notwithstanding this incremental new business, total NFI decreased by 2% from £16.7m to £16.4m reflecting contraction in some key accounts, particularly in Financial Markets.

The Group's Solutions business, which provides customers with a single, easy-to-use process to source and pay for a selection of specialist recruitment services from niche businesses within InterQuest, also delivered growth, retaining and growing their key accounts and adding one further new mid-sized Managed Service contract to their Customer base.

Restructure

We completed the transition of our operational business into specialist niche and industry segmented businesses during the first half of 2012.

We have also updated and streamlined our support systems to provide greater efficiency and speed of execution. Whilst we have the final phase of back office consolidation to complete, we now have an infrastructure that is robust and easily scalable consequently we are able to remove complexity and cost from the operation of the business.

One off restructuring costs of £0.7m have been incurred in 2012, for further details of these costs please see note 3. We believe that the majority of restructuring costs have been incurred in 2012 and do not expect any material charges in 2013.

Chief Executive's Report (continued)

People

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

The focus of our efforts include,

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

These initiatives have helped us develop exceptional talent and underpin our success in providing a market winning value proposition in 2013.

Outlook

Following the end of the year under report, we have taken further steps to align our strategy towards sectors of the market we believe will provide InterQuest with increased opportunity for profitable growth.

The Permanent recruitment market is becoming more refined as employers seek to leverage low cost sourcing models, including further development of their own direct sourcing capability. As a result the recruitment industry's share of this market will continue to come under pressure, especially during a period of economic uncertainty.

The focus of InterQuest is to continue to specialise, developing unique networks and talent pools of passive Candidates. This moves us towards a position of strength in an uncertain economy, targeting critical roles that are difficult to fill and thereby strengthening our value proposition in this market.

Contract recruitment is divided into 'generic' and 'specialist' markets. InterQuest is increasingly focused on the 'specialist' market. The 'generic' market is maturing rapidly, resulting in margin erosion as large service providers compete more often than not on price. InterQuest's strategy of targeting in-demand, specialist markets has helped us change the mix of our Contract business in favour of 'specialist' rather than 'generic' Contract business and as such supported the improvement in our margins, even in challenging market conditions.

We are well positioned for the year ahead with NFI from Contract recruitment operations in January 2013 6% higher than January 2012.

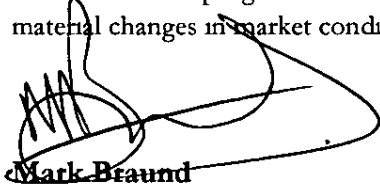
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Chief Executive's Report (continued)

The central elements of our strategy in 2013 are,

- Further fine tune our investment in key niche and specialist disciplines to improve service value and margins
- Leverage the opportunity to cross-sell into existing Customers delighted with our service, the capability of our other complimentary niche recruitment businesses, and
- Develop greater brand recognition and value through aligning each of our recruitment businesses under the banner of a single InterQuest brand

We will monitor progress in both real-time and on a periodic basis, remaining agile in our response to material changes in market conditions



Mark Braund
Chief Executive, 6th March 2013

Finance Director's Report

Revenue

Revenue (all from continuing operations) decreased by 7% during 2012 to £112.7m (2011 £120.9m)

Net fee income ("NFI")

Net fee income decreased by £0.3m or 2% to £16.4m (2011 £16.7m)

Our net fee income (gross margin) percentage increased from 13.8% to 14.5% reflecting the first gains in our contractor recruitment % margin from our strategy of focusing on specialist and difficult to fill roles which command higher margins

The split of NFI between contract and permanent recruitment activities remained fairly constant at 68:32 in favour of contract, from 70:30 in 2011

Our contract recruitment gross margin % improved 40 basis points to 10.4% from 10.0% in 2011. The margin % obtained on recruitment activities (stripping out PayQuest umbrella service transactions and 'payroll' deals that we process at low margin because we are providing no recruitment services) increased by 60 basis points from 10.9% to 11.5%

EBITA

EBITA before non-recurring items and IFRS 2 share charge (reconciliations provided in note 1 to the Financial Statements) decreased by 53% to £1.8m (2011 £3.8m)

The intangible asset amortisation decreased by 29% to £0.5m (2011 £0.7m)

Net finance costs were unchanged from 2011 at £0.3m

Loss before tax increased to £0.4m (2011 loss of £0.2m)

Tax on profits was £0.3m before non-recurring items (2011 £0.9m) a detailed analysis is included at note 6

Finance Director's Report (continued)

Non-recurring items

There are three non-recurring items in the 2012 financial statements

	31 December 2012 £'000	31 December 2011 £'000
Restructuring costs	(674)	-
Tax on restructuring costs	165	-
Impairments of goodwill, intangibles and other assets	(1,616)	(2,898)
Deferred tax credit on impairment of intangibles	229	-
Repayment of purchase consideration	1,000	-
Over provision of tax in prior year	139	-
	(757)	(2,898)

1 Restructuring costs

During the year the Group reorganised from a group of affiliated IT recruitment businesses into clearly defined specialist businesses utilising a common methodology, a single operating platform and new IQ branding. This has laid the foundations for scalability in our operations and should provide a platform for organic growth in the future. To enable this to happen we employed a Change Programme Director dedicated exclusively to this project. Her costs and some costs of other individuals periodically seconded to the project have been categorized as restructure costs. In addition, as part of this exercise, we exited a number of senior people from the Group and their exit costs have also been categorized as restructure costs. In total, £674k of such costs have been incurred and recognised as a non-recurring item in the 2012 financial statements, the tax credit in respect of these is £165k.

2 Impairment of goodwill and intangible assets related to Contract Connections Limited

In June 2011 the Group acquired the entire share capital of Contract Connections Limited for a total consideration of £3.7m in cash and £0.3m in shares issued at 63.5 pence per share. In 2011, following notification of an apparent impropriety and alleged fraud within a major client of Contract Connections Limited and the termination of the contract between Contract Connections Limited and the client, the Board conducted an impairment review on the carrying value of the goodwill arising on the acquisition of the company as at 31 December 2011. As a result of that review, an impairment charge of £2.0m was recognised in 2011 and treated as a non-recurring item.

A further review of the remaining carrying value of the intangibles and goodwill associated with the business of Contract Connections Limited was carried out by the Directors at 31 December 2012 and as a result of that review the intangible assets and remaining goodwill have been written down to zero carrying value as at 31 December 2012.

Finance Director's Report (continued)

An impairment charge of £1.6m has been recognised as a non-recurring item in the 2012 financial statements. This comprises impairment of goodwill of £0.7m and impairment of intangible assets of £0.9m. A deferred tax liability of £0.2m associated with the intangible assets has been written back to the consolidated statement of comprehensive income.

3 Successful conclusion of warranty claim against former shareholders of Contract Connections Limited

Following notification of apparent impropriety and alleged fraud in 2011 (as noted above), the Group commenced a warranty claim against the former shareholders of Contract Connections Limited in December 2011. This claim was successfully concluded in November 2012 when the Group reached an out of court settlement with the vendors for a repayment of consideration in the amount of £1.0m cash, which was received in early December 2012. There is no tax payable on this repayment of consideration.

This repayment of consideration has been recognised as a credit in the 2012 financial statements given that, on recognition, the twelve month window for subsequent purchase adjustments as permitted by IFRS 3 *Business Combinations* had lapsed.

Loss per share and dividend

Basic loss per share was 0.4 pence (2011: loss per share of 3.4 pence). When non-recurring items, amortization, the IFRS 2 share based payment charge and the tax in respect of the three items are removed, the basic adjusted earnings per share is 3.5 pence representing a decrease of 56% from 8.0 pence in 2011. See note 7 for details of the calculation.

An interim dividend of 0.5 pence per share (2011: 0.5 pence) was paid on 26 October 2012. A second interim dividend of 2 pence per share (2011: 2 pence per share) has been proposed. The dividend will be paid on 12th April 2013 to all eligible shareholders on the register as at 15th March 2013. The corresponding ex-dividend date will be 13th March 2013.

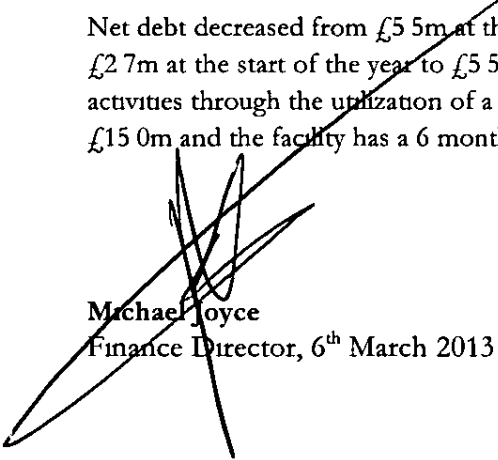
Balance sheet, cash flow and financing

The Group's net assets decreased by £0.35m to £19.15m at 31 December 2012 (2011: £19.50m).

Operating profit before non-recurring items and tight control of working capital delivered £1.9m of operating cash flow (before tax and interest payments) (2011: £3.4m). The Group paid £1.0m of corporation tax (2011: £0.8m) and £0.3m (2011: £0.3m) of interest during the year. Net capital expenditure was £0.2m (2011: £0.6m) and dividends of £0.8m (2011: £0.8m) were paid.

Finance Director's Report (continued)

Net debt decreased from £5.5m at the start of the year to £4.4m at the end of 2012 (2011 increased from £2.7m at the start of the year to £5.5m at the end of the year). The Group continues to finance its activities through the utilization of a confidential trade receivables finance facility. The facility limit is £15.0m and the facility has a 6 month rolling notice period.



Michael Joyce
Finance Director, 6th March 2013

Report of the directors

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the parent company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the group financial statements, IAS1 'Presentation of Financial Statements' requires that directors

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and 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.

Report of the directors (continued)

Responsibility statement

We confirm that to the best of our knowledge

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole, and
- the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

Principal activities and business review

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

A review of the Group's business activities and strategy and performance during the year are included in the Chairman's Statement, Chief Executive's Report and Finance Director's Report on pages 2 to 12.

Results and dividends

The Group's loss for the year amounted to £0.1m (2011 loss of £1.1m). The directors propose to pay a second interim dividend of 2 pence per share on 12th April 2013 (2011 2 pence per share).

Post balance sheet events

There are no material post balance sheet events to report.

Principal business risks

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

Parts of the Group's businesses depend on technology systems and services provided by third parties. Whilst the Group has comprehensive contingency planning, disaster recovery procedures and insurance in place, it cannot guarantee that if there is any interruption to the systems or services provided by those third parties or those systems or services are not as scalable as anticipated or at all, or there are problems.

Report of the directors (continued)

in upgrading such systems or services, the Group's business will not be adversely affected. In addition, the Group may be unable to find adequate replacement services on a timely basis or at all.

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

Going concern

The Board has reviewed and adopted the Group's 2013 financial budget and reviewed cash flow projections to the end of 2014 together with capital expenditure projections and has considered the availability of finance under its current banking arrangements which are expected to be maintained throughout the next 12 months. The confidential trade receivables finance facility is renewable on a rolling basis with six months' notice. The Group is in regular dialogue with its bankers and no matters have been drawn to its attention to suggest that renewal may not be forthcoming on acceptable terms. After considering reasonable sensitivities the Group has sufficient financial resources which, together with internally generated cash flow will continue to provide sufficient source of liquidity to fund its current operations including its contractual and commercial commitments and any proposed dividends. Therefore the Group is well placed to manage its business risks, despite the current uncertain economic outlook. In light of these deliberations and with due consideration of the current wider economic climate and the principal risks facing the business, the Board has concluded that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors consider it appropriate to prepare the accounts on a going concern basis.

Report of the directors (continued)

Key Performance Indicators

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

	31 December 2012	31 December 2011
	£'000	£'000
Financial KPI's:		
Revenue	112,653	120,919
Gross profit percentage	14.5%	13.8%
EBITA* before non-recurring items	1,698	3,696
EBITA* before non-recurring items and FRS 2 charges	1,804	3,711
Cash from operating activities pre-tax	1,902	3,445
Net cash from operating activities	928	2,617
Net debt	4,396	5,511
Non-financial KPI's:		
Recruitment staff (average number during the year)	183	158
Administration staff (average number during the year)	40	34

* EBITA = Earnings before interest, tax and amortisation

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 2012 and 31 December 2012 were as follows:

	Ordinary shares of 1p each	
	31 December 2012	1 January 2012
G P Ashworth	12,759,912	12,622,912
M A Braund	487,103	375,000
A W Found (resigned 17 January 2013)	226,000	226,000
M R S Joyce	185,830	285,830
P M L Frew	40,000	40,000
G C Goldsmith (resigned 22 January 2013)	668,896	-

A W Found resigned as Director of the company on 17 January 2013.

G C Goldsmith resigned as Director of the company on 22 January 2013 and has no interest in the shares of the company at the date of this report.

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.

Report of the directors (continued)

The Company's share price has ranged from a low of 34.0 pence to a high of 62.5 pence during the year with a closing price of 48.5 pence at 31 December 2012

Share capital

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

Substantial shareholdings

As at 1 February 2013, 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	12,759,912	38.5%
Helium Special Situations Fund	2,735,434	8.3%
ISIS Equity Partners	2,250,789	6.8%
Jim Mellon	1,818,181	5.5%
Investec Wealth & Management	1,573,718	4.8%
AXA Framlington Investment Managers	1,300,000	3.9%
Martyn Barrow	1,056,190	3.2%
Rathbone Private Clients	999,793	3.0%
Octopus Investments	812,500	2.5%

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 on-going basis.

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

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

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

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

Report of the directors (continued)

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 27 days (2011: 28 days) purchases outstanding in trade creditors.

Charitable donations

During the year the Group made a total of £7,861 (2011: £7,193) donations to charity.

Financial risk management and policies

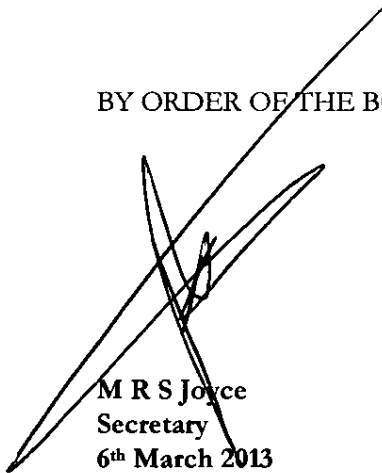
The Group finances its operations through a mixture of retained earnings and borrowings. The borrowings all carry variable rates of interest and no interest swaps or other hedging mechanisms have been utilised. All treasury activities are undertaken primarily to finance the business and the Group does not plan to profit from such activities and does not enter into speculative treasury arrangements. The Group maintains several bank accounts denominated in foreign currencies including Euro's, US Dollars and Singapore Dollars. Given the scale of the transactions denominated in the foreign currencies, the Group does not consider it necessary to enter into forward foreign exchange contracts or to enter into any form of hedging. For further information on the Group's financial risk management and policies refer to note 21.

Auditors

Grant Thornton LLP resigned as auditor in November 2012 under Section 516 of Company Act 2006. The directors have then appointed Deloitte LLP as the company's auditor.

Deloitte LLP have expressed their willingness to be reappointed for another term and a resolution to reappoint Deloitte LLP as auditors will be proposed at the next Board meeting.

BY ORDER OF THE BOARD



M R S Joyce
Secretary
6th March 2013

Corporate Governance Report

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

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

Operation of the Board

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

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

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

Composition of the Board

The Board now comprises three Executive and one Non-Executive Director with considerable business experience particularly within the IT sector.

The Board considers the Non-Executive Director to be independent. Paul Frew provides no services to the Group other than acting as Non-Executive Director and he receives a basic salary but no bonus. He holds 40,000 shares and was granted an option over 40,000 shares on 1 November 2011 but has no other interest in the share capital of the Group.

Executive Chairman and Chief Executive

Gary Ashworth holds the position of Executive Chairman. As Executive Chairman he is responsible for the operation of the Board, investor relations and leading the Group's acquisition strategy. Mark Braund was appointed as Chief Executive on 28 April 2011 and he is responsible for the day-to-day operations of the Group and building the Group's business for long-term growth.

Corporate Governance Report (continued)

Board committees

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

Audit Committee

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

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

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

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

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

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

Nomination Committee

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

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

Remuneration Committee

The Remuneration Committee comprises Paul Frew who considers twice a year the remuneration policy and the individual remuneration packages of the three Executive Directors.

Corporate Governance Report (continued)

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

Attendance at board and committee meetings

During 2012, the Board met formally ten times in addition to informal meetings and attendance at the AGM. All Directors attended all ten meetings except Gary Goldsmith who attended nine meetings which constituted all of the meetings during the period when he was a Director

The Audit Committee met twice, Remuneration matters were considered twice and the Nominations Committee met 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 on-going process by which critical risks to the business are identified, evaluated and managed. The Board and particularly the Audit Committee assesses the effectiveness of the Group's system of internal controls, including financial, organisational and compliance controls and risk management systems

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

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

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

Internal audit

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

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

We have audited the group financial statements of InterQuest Group plc for the year ended 31 December 2012 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Group Statement of Changes in Equity, the Consolidated Statement of Cash flows and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements [and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Report of the independent auditors to the members of InterQuest Group plc (continued)

Opinion on financial statements

In our opinion the group financial statements

- give a true and fair view of the state of the group's affairs as at 31 December 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

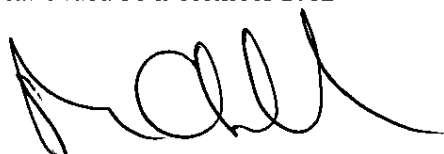
Matters on which we are required to report by exception

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

- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Other matter

We have reported separately on the parent company financial statements of InterQuest Group plc for the year ended 31 December 2012



John Charlton (Senior statutory auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

London, United Kingdom

6th March 2013

Principal accounting policies

Nature of operations and general information

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

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

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

Basis of preparation

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

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

The factors considered by the Directors in exercising their judgement of the Group's ability to continue to operate in the foreseeable future are set out on page 14. On these grounds the Board considers it reasonable to continue to adopt the going concern basis for the preparation of the Financial Statements.

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

Amendments to IFRS 7 Financial instruments: Disclosures

The Group has applied the amendments to IFRS 7 titled Disclosures – Transfers of Financial Assets in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

In the current year, the Group transferred some financial assets that are not derecognised. The application of the amendments has resulted in more disclosures regarding the transfer of financial assets (see note 10, 13). In accordance with the transitional provisions set out in the amendments to IFRS 7, the Group has not provided comparative information for the disclosures required by the amendments for the prior period.

Principal accounting policies (continued)

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU)

Annual Improvements to IFRSs	(2009 – 2011) Cycle
IFRS 1 (amended)	Government Loans
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 1 (amended)	Presentation of Financial Statements
IAS 12 (amended)	Income Taxes
IAS 19 (revised June 2011)	Employee Benefits
IAS 27 (revised)	Separate Financial Statements
IAS 28 (revised)	Investments in Associates and Joint Ventures
IAS 32 (amended)	Offsetting Financial Assets and Financial Liabilities

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, however, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed

Basis of consolidation

The Group's financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 31 December 2012. 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

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent

Principal accounting policies (continued)

consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the Group's previously-held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3(2008) are recognised at their fair value at the acquisition date, except that

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively,
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 Share-based Payment, and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

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.

Principal accounting policies (continued)

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

Goodwill

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

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

Impairment of assets

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

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

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

Revenue

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

Revenue for temporary contract assignments is recognised over the contract period for the services of the temporary contractor. Revenue recognised, but not yet invoiced, at the reporting date, is correspondingly accrued on the 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

Principal accounting policies (continued)

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)

Where management consider appropriate, provision is made for the expected cost of meeting contractual obligations where employees do not work for the specified contractual period. In the majority of situations the Group acts as principal in any transactions with its clients.

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

Property, plant and equipment

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

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

Leased assets

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

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

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.

Principal accounting policies (continued)

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. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the reporting date.

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

Financial instruments

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

Financial liability and equity instruments

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

Trade receivables and trade payables

Trade receivables and payables are initially recognised initially at fair value and thereafter at amortised cost using the effective interest rate method. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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.

Principal accounting policies (continued)

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.

Employee benefits

Defined contribution pension scheme

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

Equity settled share-based payment

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

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

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

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

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

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

Long Term Incentive Plan

In December 2008, shareholders approved a share-based Long Term Incentive Plan ('LTIP'). This Plan provides EMI share option awards to Executive Directors and Senior Management.

Principal accounting policies (continued)

Senior management incentive plans which include participants acquiring financial instruments whose value is linked to the achievement of certain performance measures and are payable in equity are treated as equity settled share based payments under IFRS 2

Acquisition and working capital finance facilities

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

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

Provisions, contingent liabilities and contingent assets

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

Foreign currency

For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in pounds sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Principal accounting policies (continued)

Exchange differences are recognised in profit or loss in the period in which they arise except for

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings,
- exchange differences on transactions entered into to hedge certain foreign currency risks (see below under financial instruments / hedge accounting), and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

Non-recurring items

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

Critical accounting judgements and key sources of estimation uncertainty

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

Trade receivable finance facility

Factored trade receivables have been separately presented within trade receivables at the year-end as management consider that the risks and rewards that are associated with those trade receivables remain with the Group. At the balance sheet date the collectability of trade receivables is evaluated and a provision is recorded to the extent the recoverability of cash flows is not anticipated.

Share based payments

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

Principal accounting policies (continued)

profit or loss with a corresponding credit to “share based payment reserve” Estimates and assumptions used are set out in note 15

During 2011 the Group implemented long term incentive plans for certain members of its senior management team for the period 2011 and 2012 The Directors previously assessed the fair value of this arrangement at grant date as £0.2m based on expectations regarding the achievement of predetermined performance measures but the final fair equity value of this arrangement is zero and a charge of £0.06m booked in 2011 has been written back in 2012

During 2012, the Group implemented long term incentive plans for certain Directors of the Company, details of which are included in note 4

Goodwill impairment

The Group is required to test, at least annually, whether goodwill has suffered any impairment The recoverable amount is determined based on value in use calculations The use of this method requires the estimation of future cash flows and the choice of a suitable discount rate in order to calculate the present value of these cash flows Actual outcomes could vary Estimates and assumptions used are set out in note 9

Intangible assets

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

Contingent assets and liabilities

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

Deferred Tax

Management judgement is used when assessing the extent to which deferred tax assets should be recognised with consideration given to the timing and level of future taxable income Deferred tax assets are only recognised to the extent they are considered recoverable based on forecasts of available taxable profits against which they can be utilised

Consolidated statement of comprehensive income

	Note	Before non-recurring items £'000	Non-recurring items £'000	2012 £'000	Before non-recurring items £'000	Non-recurring items £'000	2011 £'000
Revenue		112,653	-	112,653	116,851	-	116,851
Acquisitions		-	-	-	4,068	-	4,068
Group revenue	1	112,653	-	112,653	120,919	-	120,919
Cost of sales		(96,279)	-	(96,279)	(104,270)	-	(104,270)
Gross profit	1	16,374	-	16,374	16,649	-	16,649
Amortisation	2	(542)	-	(542)	(732)	-	(732)
Impairments	3	-	(1,616)	(1,616)	-	(2,000)	(2,000)
Other administrative expenses	2	(14,676)	(674)	(15,350)	(12,953)	(898)	(13,851)
Total administrative expenses	2	(15,218)	(2,290)	(17,508)	(13,685)	(2,898)	(16,583)
Operating Profit / (Loss):		1,156	(2,290)	(1,134)	2,701	(295)	2,406
Continuing operations		-	-	-	263	(2,603)	(2,340)
Acquisitions	2	1,156	(2,290)	(1,134)	2,964	(2,898)	66
Group operating Profit / (Loss)		1,156	(2,290)	(1,134)	2,964	(2,898)	66
Refund of purchase consideration		-	1,000	1,000	-	-	-
Finance costs	5	(262)	-	(262)	(266)	-	(266)
Profit / (Loss) before taxation		894	(1,290)	(396)	2,698	(2,898)	(200)
Income tax expense	6	(260)	533	273	(899)	-	(899)
Profit / (Loss) for the year		634	(757)	(123)	1,799	(2,898)	(1,099)

Consolidated statement of comprehensive income (continued)

	Note	Before non- recurring items £'000	Non- recurring items £'000	2012 £'000	Before non- recurring items £'000	Non- recurring items £'000	2011 £'000
Profit / (Loss) and total comprehensive income attributable to							
- Owners of the parent		616	(757)	(141)	1,825	(2,898)	(1,073)
- Non controlling interests	23	18	-	18	(26)	-	(26)
Total comprehensive income / (expense) for the year		634	(757)	(123)	1,799	(2,898)	(1,099)

Loss per share from both total and continuing operations

	Note	2012 Pence	2011 Pence
Loss per share	7	(0.4)	(3.4)
Diluted loss per share	7	(0.4)	(3.4)

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	2012 £'000	2011 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	8	760	807
Goodwill	9	14,005	14,683
Intangible assets	9	-	1,480
Deferred income tax assets	14	224	-
Total non-current assets		14,989	16,970
Current assets			
Trade and other receivables	10	20,687	21,991
Cash at bank and in hand	11	589	257
Total current assets		21,276	22,248
Total assets		36,265	39,218
LIABILITIES			
Current liabilities			
Trade and other payables	12	(11,807)	(12,600)
Borrowings	13	(4,985)	(5,768)
Current tax payable		(323)	(1,197)
Total current liabilities		(17,115)	(19,565)
Non-current liabilities			
Deferred income tax liabilities	14	-	(153)
Total non-current liabilities		-	(153)
Total liabilities		(17,115)	(19,718)
Net assets		19,150	19,500
EQUITY			
Share capital	16	332	321
Share premium account		9,844	9,370
Capital redemption reserve		12	12
Retained earnings		8,823	9,777
Share based payment reserve		839	733
Share buyback reserve		(666)	(666)
Total issued share capital and reserves attributable to the owners of the parent		19,184	19,547
Non-controlling interests	23	(34)	(47)
Total equity		19,150	19,500

The consolidated financial statements were approved by the board on 6th March 2013 and were signed on its behalf by

M R S Joyce
Finance Director

Company Registration No 04298109

Consolidated statement of changes in equity

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Retained earnings £'000	Share based payment reserve £'000	Share buy back reserve £'000	Non-controlling interest £'000	Total equity £'000
Balance at 1 January 2011	313	8,919	11	11,636	672	(621)	(21)	20,909
Comprehensive income								
Loss for the year	-	-	-	(1,073)	-	-	(26)	(1,099)
Total comprehensive expense for the year	-	-	-	(1,073)	-	-	(26)	(1,099)
Transactions with owners								
Movement in share based payment reserve	-	-	-	-	61	-	-	61
Capital redemption reserve	(1)	-	1	-	-	-	-	-
Issue of share capital	9	451	-	-	-	-	-	460
Dividends relating to 2011	-	-	-	(786)	-	-	-	(786)
Share buyback reserve	-	-	-	-	-	(45)	-	(45)
Total contributions by and distributions to owners	8	451	1	(786)	61	(45)	-	(310)
Balance at 31 December 2011	321	9,370	12	9,777	733	(666)	(47)	19,500
Comprehensive income								
Loss for the year	-	-	-	(141)	-	-	18	(123)
Total comprehensive expense for the year	-	-	-	(141)	-	-	18	(123)
Transactions with owners								
Movement in share based payment reserve	-	-	-	-	106	-	-	106
Capital redemption reserve	-	-	-	-	-	-	-	-
Issue of share capital	11	474	-	-	-	-	-	485
Dividends relating to 2012	-	-	-	(813)	-	-	(5)	(818)
Share buyback reserve	-	-	-	-	-	-	-	-
Total contributions by and distributions to owners	11	474	-	(813)	106	-	(5)	(227)
Balance at 31 December 2012	332	9,844	12	8,823	839	(666)	(34)	19,150

Consolidated statement of cash flows

	Note	2012 £'000	2011 £'000
Cash flows from operating activities			
(Loss) after taxation		(123)	(1,099)
Adjustments for			
Depreciation	2	265	330
Impairment on intangible assets	2	1,616	2,000
Refund of purchase consideration	3	(1,000)	-
Share based payment charge	2	106	61
Finance costs	5	262	266
Amortisation	2	542	732
Income tax (credit) / expense	6	(273)	899
Decrease / (increase) in trade and other receivables		1,304	(711)
(Decrease) / Increase in trade and other payables		(797)	967
Cash generated from operations		1,902	3,445
Income taxes paid		(974)	(828)
Net cash from operating activities		928	2,617
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(218)	(641)
Acquisition of subsidiaries, net of cash acquired		-	(3,744)
Refund of purchase consideration		1,000	-
Net cash received from / (used in) investing activities		782	(4,385)
Cash flows from financing activities			
Proceeds from issue of share capital		485	164
Cost to buy back shares		-	(45)
Net (decrease)/increase in discounting facility		(783)	2,463
Interest paid		(262)	(266)
Dividends paid	22	(818)	(786)
Net cash (generated from)/ used in financing activities		(1,378)	1,530
Net increase/(decrease) in cash, cash equivalents and overdrafts		332	(238)
Cash, cash equivalents and overdrafts at beginning of year	11	257	495
Cash, cash equivalents and overdrafts at end of year	11	589	257

Notes to the consolidated financial statements

1 Revenue and segmental reporting

For management reporting purposes the Group is organised by individual specialist business units. All business units, with the exception of PayQuest Group Limited, provide Contract and Permanent recruitment services. Our UK recruitment businesses have similar economic characteristics and are considered to meet the aggregation criteria of IFRS. They are analysed below with respect to the market segments where they focus their activities – Private Sector Financial Services, Private Sector Non-Financial Services (described as ‘Other’) and Public Sector focused. 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 Groups 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	50,326	42,274	17,772	998	7,369	(6,086)	112,653
Gross profit	9,471	4,289	1,901	724	181	(192)	16,374
EBITA per management accounts	748	1,208	580	(724) ¹	(8) ²		1,804
Reconciling items to amounts reported in the statement of comprehensive income							
- share based payment charge							(106)
- non-recurring items							(674)
- amortisation							(542)
- impairments							(1,616)
IFRS operating loss							(1,134)
Refund on purchase consideration							1,000
Finance costs							(262)
Loss before tax							<u>(396)</u>

¹ Our International segment comprises our Singapore office opened in late 2011 and an International desk based in London which was opened and closed in 2012.

² PayQuest Group Limited, our payroll services business, is shown separately because it does not provide recruitment services.

In 2011 our IQ Equity division, which was founded in 2009 to provide start-up capital and infrastructure to new specialist IT recruitment businesses, was a separate reportable segment. In 2012 those businesses have been classified within ‘Private Other’.

Information regarding segment assets is not provided to the Groups chief operating decision maker. This is because the Group considers net fee income (gross profit) for the purpose of making decisions about allocation of resources.

Notes to the consolidated financial statements (continued)

2011	Private Other £'000	Private Financial Services £'000	Public Sector £'000	Internal £'000	PayQuest Payroll Services £'000	Intercompany trading £'000	Total £'000
Revenue	48,419	50,642	18,909	18	8,240	(5,309)	120,919
Gross profit	9,028	5,472	1,954	18	177		16,649
EBITA per management accounts	1,242	1,956	647	(146)	58 ¹		3,757
Reconciling items to amounts reported in the statement of comprehensive income							
- share based payment charge							(61)
- non-recurring items							(898)
- amortisation							(732)
- impairments							(2,000)
IFRS operating profit							66
Finance costs							(266)
Loss before tax							(200)

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

	Revenue		Gross profit	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Permanent	5,169	5,046	5,169	5,046
Contract	107,484	115,873	11,205	11,603
	112,653	120,919	16,374	16,649

The Group does not report items below EBITA by segment in its internal management reporting

There are no external customers who individually represent more than 10% of the entity's external revenues during the year (2011 one client represented £15.8m)

Notes to the consolidated financial statements (continued)

2 Administrative expenses

Administrative expenses include the following	2012 £'000	2011 £'000
Auditors remuneration		
Fees payable to the company's auditor and their associates for the audit company's annual accounts	15	26
Audit of company's subsidiaries pursuant to legislation	70	77
Total audit fees	85	103
- other services pursuant to legislation	-	55
- taxation services	-	102
Total non-audit fees	-	157
Total auditors remuneration	85	260
Amortisation of intangible assets (see note 9)	542	732
Depreciation (see note 8)	265	330
Non-recurring items (see note 3)	674	898
Impairments (see note 3)	1,616	2,000
Operating lease rentals – land and buildings	532	544
Share based payment charge	106	61
Foreign currency loss / (gain)	11	(3)

3 Non-recurring items

There are three non-recurring items in the 2012 financial statements

	31 December 2012 £'000	31 December 2011 £'000
Restructuring costs	(674)	-
Tax on restructuring costs	165	-
Impairment of goodwill, intangible assets and other assets	(1,616)	(2,898)
Deferred tax credit on impairment of intangibles	229	-
Repayment of purchase consideration	1,000	-
Over-provision of tax in prior year	139	-
	(757)	(2,898)

Notes to the consolidated financial statements (continued)

Restructuring costs

During the year the Group reorganised from a group of affiliated IT recruitment businesses into clearly defined specialist businesses utilising a common methodology, a single operating platform and new IQ branding. This has laid the foundations for scalability in our operations and should provide a platform for organic growth in the future. To enable this to happen we employed a Change Programme Director dedicated exclusively to this project. Her costs and some costs of other individuals periodically seconded to the project have been categorized as restructure costs. In addition, as part of this exercise, we exited a number of senior people from the Group and their exit costs have also been categorized as restructure costs. In total, £674k of such costs have been incurred and recognised as a non-recurring item in the 2012 financial statements, the tax credit in respect of these items is £165k.

Impairment of goodwill and intangible assets related to Contract Connections Limited

In June 2011 the Group acquired the entire share capital of Contract Connections Limited for a total consideration of £3.7m in cash and £0.3m in shares issued at 63.5 pence per share. In 2011, following notification of an apparent impropriety and alleged fraud within a major client of Contract Connections Limited and the termination of the contract between Contract Connections Limited and the client, the Board conducted an impairment review on the carrying value of the goodwill arising on the acquisition of the company as at 31 December 2011. As a result of that review, an impairment charge of £2m was recognised in 2011 and treated as a non-recurring item.

A further review of the remaining carrying value of the intangibles and goodwill associated with the business of Contract Connections Limited was carried out by the Directors at 31 December 2012 and as a result of that review the intangible assets and remaining goodwill have been written down to zero carrying value as at 31 December 2012.

Accordingly, an impairment charge of £1.6m has been recognized as a non-recurring item in the 2012 financial statements. This comprises impairment of goodwill of £678k and impairment of intangible assets of £938k. A deferred tax liability of £229k has been written back to the consolidated statement of comprehensive income.

Successful conclusion of warranty claim against former shareholders of Contract Connections Limited

Following notification of apparent impropriety and alleged fraud in 2011 (as noted above), the Group commenced a warranty claim against the former shareholders of Contract Connections Limited in December 2011. This claim was successfully concluded in November 2012 when the Group reached an out of court settlement with the vendors for a repayment of consideration in the amount of £1 million cash, which was received in early December 2012. There is no tax payable on this repayment of consideration.

This repayment of consideration has been recognised as a non-recurring item in the 2012 financial statements.

Notes to the consolidated financial statements (continued)

4 Directors and employees

Staff costs including Directors during the year were as follows

	2012 £'000	2011 £'000
Wages and salaries	8,014	7,623
Social security costs	876	853
Other pension costs	79	22
Share based payment charge	106	61
	9,075	8,559

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

	2012 Number	2011 Number
Recruitment consultants	183	157
Administration	40	34
	223	191

Remuneration in respect of directors was as follows

2012	Salary and fees £'000	Benefits £'000	Bonuses £'000	Compensation for loss of office £'000	Total £'000	Pensions £'000	Total £'000
Executive Directors							
G P Ashworth	88	2	-	-	90	-	90
M A Braund	227	3	35	-	265	7	272
M R S Joyce	144	3	72	-	219	-	219
A W Found	70	-	-	40	110	-	110
G C Goldsmith	167	-	-	44	211	-	211
Non-Executive Director							
P M L Frew	20	-	-	-	20	-	20
	716	8	107	84	915	7	922

Notes to the consolidated financial statements (continued)

	Salary and fees £'000	Benefits £'000	Bonuses £'000	Compensation for loss of office £'000	Total £'000	Pensions £'000	Total £'000
2011							
Executive Directors							
G P Ashworth	136	2	26	-	164	-	164
M A Braund	156	1	29	-	186	5	191
M R S Joyce	144	2	27	-	173	-	173
A W Found	86	-	18	-	104	-	104
G C Goldsmith	-	-	-	-	-	-	-
Non-Executive Director							
P M L Frew	18	-	-	-	18	-	18
	540	5	100	-	645	5	650

All bonuses shown above are payable in cash

At 31 December 2012 the Directors who served during the year had interests in the following options

	Scheme	Date of grant	Number of options	Exercise price	Date from which exercisable	Expiry date
M R S Joyce	LMI scheme	21 November 2005	30,000	48p	21 November 2007	21 November 2015
M R S Joyce	EMI scheme	21 November 2005	58,000	55p	21 November 2007	21 November 2015
M R S Joyce	Unapproved scheme	21 November 2005	12,000	55p	21 November 2007	21 November 2015
M R S Joyce	Unapproved scheme	17 July 2007	50,000	116 5p	17 July 2009	17 July 2017
M R S Joyce	EMI scheme	23 December 2008	83,839	1p	1 January 2012	23 December 2018
M R S Joyce	EMI scheme	16 October 2009	26,000	1p	16 October 2012	16 October 2019
M R S Joyce	Unapproved scheme	16 October 2009	19,161	1p	16 October 2012	16 October 2019
P M L Frew	Unapproved scheme	1 November 2011	40,000	1p	1 November 2011	1 November 2021

No options held by Directors lapsed or were exercised during the year

On 14 March 2012, several of the Directors received awards under a long term incentive plan ("the Plan"), under the Plan the Directors received an award the value of which is linked to the Company's share price. The value of the awards are based on the share price of the Company over a period from 14 March 2012 to 1 January 2017, there is also an element of the Plan which is linked to the share price on a change of control.

Notes to the consolidated financial statements (continued)

Under the Plan, each Director is entitled a payment, which the Company intends to satisfy in newly issued shares, if the share price reaches and remains above certain hurdles for 40 consecutive days or longer

However, if the share price falls below a predetermined level for 40 consecutive days or longer under the terms of the Plan a cash payment will be due from the Director to the Company. As at 31 December 2012, Directors who served during the year had the following interests in long term incentive plans

Share price for 40 consecutive days	Mark Braund	Michael Joyce	Gary Goldsmith	Alan Found
Below 20 pence per share	Payment to Company £7,500	Payment to Company £4,000	Payment to Company £7,500	Payment to Company £3,500
Equal to or greater than 80 pence per share	Receives 120,000 shares	Receives 40,000 shares	Receives 120,000 shares	Receives 30,000 shares
Equal to or greater than 100 pence per share	Receives 240,000 shares	Receives 80,000 shares	Receives 240,000 shares	Receives 60,000 shares
Equal to or greater than 150 pence per share	Receives 280,000 shares	Receives 93,333 shares	Receives 280,000 shares	Receives 70,000 shares
Equal to or greater than 200 pence per share	Receives 280,000 shares	Receives 93,333 shares	Receives 280,000 shares	Receives 70,000 shares
Equal to or greater than 250 pence per share	Receives 280,000 shares	Receives 93,333 shares	Receives 280,000 shares	Receives 70,000 shares

On a change of control the Directors are entitled to receive shares on a ratcheted scale between the levels shown above

Gary Goldsmith resigned as a Director on 22 January 2013 and his interest in all long term incentive plans was forfeited on that date

The Company's share price has ranged from a low of 34.0 pence to a high of 62.5 pence during the year with a closing price of 48.5 pence at 31 December 2012

Notes to the consolidated financial statements (continued)

5 Finance costs

	2012 £'000	2011 £'000
Interest payable on borrowings	262	266
	<u>262</u>	<u>266</u>

6 Income tax expense

	Before non- recurring items £'000	Non- recurring items £'000	2012 £'000	2011 £'000
Current tax				
Corporation tax on profits for the year	512	(165)	347	989
Adjustments in respect of prior periods	(104)	(139)	(243)	14
Total current tax	<u>408</u>	<u>(304)</u>	<u>104</u>	<u>1,003</u>
Deferred tax				
Total deferred tax	<u>(148)</u>	<u>(229)</u>	<u>(377)</u>	<u>(104)</u>
Total income tax expense	<u>260</u>	<u>(533)</u>	<u>(273)</u>	<u>899</u>

Notes to the consolidated financial statements (continued)

	Before non- recurring items £'000	Non- recurring items £'000	2012 £'000	2011 £'000
Profit / (loss) before taxation	894	(1,290)	(396)	(200)
Profit / (loss) before taxation multiplied by standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)	219	(316)	(97)	(55)
Effects of				
Refund of purchase consideration	-	(245)	(245)	-
Net effect of tax losses in the year	136	-	136	38
Expenses not deductible for tax purposes	24	-	24	309
Schedule 23 deduction on exercise of share options	(31)	-	(31)	(29)
Temporary difference with respect to share based payment charge	(113)	-	(113)	111
Other tax adjustments	(5)	-	(5)	(2)
Under / (over) provisions in prior years	(103)	(139)	(242)	14
Impairment of intangible asset	133	167	300	548
Difference in tax rates	-	-	-	(35)
Total income tax expense	260	(533)	(273)	899

7 Loss per share

The calculation of the basic loss 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 loss per share is based on the basic 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.

Notes to the consolidated financial statements (continued)

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

	2012 £'000	2011 £'000
Loss for the year attributable to the owners of the company	(141)	(1,073)
Adjustments to basic earnings		
Intangible assets amortisation	542	732
Deferred tax credit on intangible asset amortisation	(133)	(183)
Share based payment charge	106	61
Deferred tax (credit) / charge on share based payment charge	(115)	111
Refund of purchase consideration	(1,000)	-
Restructuring items	674	-
Tax on restructuring items	(165)	-
Impairment of goodwill, intangible assets and other assets	1,616	2,898
Deferred tax credit on impairment of intangible assets	(229)	-
Adjusted earnings attributable to the owners of the company	1,155	2,546
	2012	2011
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	32,866,301	31,691,716
Weighted average number of share options in issue	963,253	806,507
Weighted average number of ordinary shares for the purposes of diluted earnings per share	33,829,554	32,498,223
Loss per share	Pence	Pence
Basic loss per share	(0.4)	(3.4)
Diluted loss per share	(0.4)	(3.4)
Adjusted earnings per share		
Basic earnings per share	3.5	8.0
Diluted earnings per share	3.4	7.8

Notes to the consolidated financial statements (continued)

8 Property, plant and equipment

	Leasehold improvements £'000	Office furniture and equipment £'000	Motor Vehicles £'000	Total £'000
Cost				
At 1 January 2011	46	1,621	-	1,667
Additions – continuing operations	395	246	-	641
Additions - acquisitions	-	12	-	12
At 31 December 2011	441	1,879	-	2,320
At 1 January 2012	441	1,879	-	2,320
Additions – continuing operations	10	181	27	218
At 31 December 2012	451	2,060	27	2,538
Depreciation				
At 1 January 2011	46	1,137	-	1,183
Provided in the year	46	284	-	330
At 31 December 2011	92	1,421	-	1,513
At 1 January 2012	92	1,421	-	1,513
Provided in the year	81	179	5	265
At 31 December 2012	173	1,600	5	1,778
NBV at 1 January 2011	-	484	-	484
NBV at 31 December 2011	349	458	-	807
NBV at 31 December 2012	278	460	22	760

Notes to the consolidated financial statements (continued)

9 Goodwill and intangible assets

	Goodwill £'000	Customer relationships £'000	Total £'000
Cost			
At 1 January 2011	14,005	5,055	19,060
Additions from business combinations	2,678	1,353	4,031
At 31 December 2011	16,683	6,408	23,091
At 1 January 2012 and 31 December 2012	16,683	6,408	23,091
Amortisation			
At 1 January 2011	-	4,196	4,196
Provided in the year	-	732	732
Impairment	2,000	-	2,000
At 31 December 2011	2,000	4,928	6,928
At 1 January 2012	2,000	4,928	6,928
Provided in the year	-	542	542
Impairment	678	938	1,616
At 31 December 2012	2,678	6,408	9,086
NBV at 1 January 2011	14,005	859	14,864
NBV at 31 December 2011	14,683	1,480	16,163
NBV at 31 December 2012	14,005	-	14,005

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

	2012 £'000	2011 £'000
InterQuest Group (UK) Limited	5,053	5,053
PeopleCo Worldwide Limited	3,093	3,093
Sand Resources Limited	2,239	2,239
Intelect Recruitment plc	1,894	1,894
e-CRM People Limited	1,611	1,611
Korus Recruitment Group Limited	115	115
Contract Connexions Limited	-	678
	14,005	14,683

Notes to the consolidated financial statements (continued)

The recoverable amount of goodwill and intangible assets associated with each CGU is determined based on value-in-use calculations. The key assumptions used for value-in-use calculations as at 31 December 2012 are that the CGU's will trade in accordance with the 2013 budget, which has a higher financial result than that reported for 2012, followed by 5% growth in sales and 5% growth in costs (from 2013 levels) in subsequent years until 31 December 2016 across all CGU's based on management's experience of the IT recruitment market place. The cash flows are based on a 5 year life plus a terminal value based on perpetual growth of 2.4% and a weighted average cost of capital ("WACC") of 10.9%.

The discount rate represents the Groups weighted average cost of capital. This is consistent across all CGU's as management do not consider the risk differential to be significant as all CGU's are principally involved in recruitment activities in the UK. The Board believes that the growth rates used in the value-in-use calculations are appropriate. Current trading activity in 2013 and performance against budget supports the growth rates used in our calculations.

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

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

The Group has conducted a sensitivity analysis on the impairment test of each CGU's carrying value. A decrease in growth rate by 3% and an increase in the discount rate by 1% would still result in the assessment of the recoverable amounts being greater than the carrying value of goodwill at 31 December 2012.

A review of the remaining carrying value of the goodwill and customer relationships associated with the business of Contract Connections Limited was carried out by the Directors at 31 December and as a result of that review the intangible assets and remaining goodwill have been written down to zero carrying value as at 31 December 2012.

10 Trade and other receivables

	2012 £'000	2011 £'000
Gross trade receivables	17,409	20,124
Provisions	(601)	(676)
Net trade receivables	16,808	19,448
Prepayments and accrued income	3,095	2,329
Other current assets	784	214
	<u>20,687</u>	<u>21,991</u>

Included within gross trade receivables is £5.0m (2011: £5.8m) in respect of invoice factored debts outstanding at the year end.

Notes to the consolidated financial statements (continued)

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

	2012 £'000	2011 £'000
Not more than 30 days	6,894	1,993
More than 30 days but less than 60 days	1,957	3,809
More than 60 days but less than 90 days	442	1,020
More than 90 days	3	1,348
	<u>9,296</u>	<u>8,170</u>

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

	2012 £'000	2011 £'000
Provision for receivables impairment at 1 January	676	30
Arising from acquisition	-	15
Fair value adjustments on acquisition	-	99
Exceptional items (see note 3)	-	524
Amounts released in the year	(105)	-
New provision in the year	30	8
Provision for receivables impairment at 31 December	<u>601</u>	<u>676</u>

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

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

Transfer of financial assets

During the year, the Group factored trade receivables with an aggregate carrying amount of £128 million to a bank for cash proceeds of the same amount. If the trade receivables are not paid at maturity, the bank has the right to request the Group to pay the unsettled balance. Accordingly, the Group continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing within bank loans (see note 13).

At the end of the reporting period, the carrying amount of the short-term receivables that have been transferred but have not been derecognised amounted to £5million, and the carrying amount of the associated liabilities is £5million.

Notes to the consolidated financial statements (continued)

As at the end of the reporting period, the fair values of the receivables and of the related liabilities are as follows

	2012 £m
Fair value of the transferred assets	5
Fair value of the associated liabilities	(5)
Net position	-

11 Cash and cash equivalents

	2012 £'000	2011 £'000
Cash and cash equivalents	589	257

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

12 Trade and other payables

	2012 £'000	2011 £'000
Trade payables	7,170	7,990
Other tax and social security	870	409
Other payables	1,308	1,301
Accruals and deferred income	2,459	2,900
	11,807	12,600

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

13 Financial liabilities – borrowings

	2012 £'000	2011 £'000
Less than one year		
Invoice discounting facility	4,985	5,768
	4,985	5,768

Notes to the consolidated financial statements (continued)

The Group has access to acquisition and working capital finance facilities provided by its bankers. These facilities comprise a confidential trade receivables finance facility and an overdraft which are secured by a fixed and floating charge over the Group's assets. The confidential trade receivables finance facility is secured specifically against the Group's trade receivables. Trade receivables which have been discounted are included with trade receivables within current assets in the Group's statement of financial position. A debenture dated 12 June 2006 was executed to secure all the Company's liabilities to National Westminster Bank plc. A cross corporate guarantee and indemnity is in place on the invoice discounting facility between the Company, InterQuest Group (UK) Ltd, FJB (Contracts) Limited, PeopleCo Worldwide Limited, Sand Resources Limited, Peregrine Recruitment Limited, Fulcrum Telecom Limited, Korus Recruitment Group Limited, Mint Recruitment Solutions Limited. The facility allows draw down to a maximum of £15m and is renewable on a six month rolling basis.

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
2012			
Depreciation charged in excess of capital allowances	28	-	28
Tax losses carried forward	21	-	21
Deferred tax on employee share options	162	-	162
Other timing differences	13	-	13
Asset at 31 December 2012	224	-	224
	Asset £'000	Liability £'000	Net £'000
2011			
Depreciation charged in excess of capital allowances	22	-	22
Tax losses carried forward	109	-	109
Deferred tax on employee share options	73	-	73
Other timing differences	13	-	13
Intangible asset temporary differences	-	(370)	(370)
Asset / (liability) at 31 December 2011	217	(370)	(153)

At the balance sheet date, the group has unused tax losses of £0.6m (2011: £0.6m) available for offset against future profits.

Notes to the consolidated financial statements (continued)

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

	2012 £'000	2011 £'000
(Liability) / Asset at 1 January	(153)	93
Profit or loss (note 6)	377	104
Deferred consideration on acquisition	-	(350)
Asset / (Liability) at 31 December	224	(153)

15 Employee benefits

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

	2012 £'000	2011 £'000
Defined contributions	79	22

Equity settled share based payments

	Options	2012 weighted average exercise price	Options	2011 weighted average exercise price
Outstanding at beginning of the year	1,794,572	£0 37	2,377,500	£0 39
Granted during the year	1,762,502	£0 01	105,000	£0 38
Forfeited during the year	(288,750)	£0 55	(442,000)	£0 62
Exercised during the year	(233,000)	£0 01	(245,928)	£0 14
Outstanding at end of year	<u>3,035,324</u>	£0 18	<u>1,794,572</u>	£0 37
Exercisable during the year	<u>1,449,326</u>	£0 61	<u>4,834,952</u>	£0 39
Exercisable at the year end	<u>1,312,733</u>	£0 51	<u>1,422,733</u>	£0 45
Weighted average remaining contractual life of options outstanding at the end of the year	<u>7 6 years</u>		<u>5 7 years</u>	

The options outstanding at 31 December 2012 had an exercise price ranging from £0 01 to £1 17 (2011 £0 01 to £1 17). The estimated fair value of the options granted in the year was £634,000 (2011 £23,000). Fair value is the value of the options at the date of grant based on their exercise price. Expected volatility was calculated by using a suitable competitor's previous share price for the two years prior to the grant of the options. The weighted average share price during the year was £0 49.

Notes to the consolidated financial statements (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	30,000	36p	22 January 2006	22 January 2014
5 January 2005	30,000	35p	5 January 2007	5 January 2015
14 June 2005	100,000	55p	14 June 2007	14 June 2015
1 July 2005	20,000	55p	1 July 2007	1 July 2015
21 November 2005	30,000	48p	21 November 2007	21 November 2015
21 November 2005	58,000	55p	21 November 2007	21 November 2015
1 March 2006	160,000	52p	1 March 2008	1 March 2016
15 June 2006	127,500	62p	15 June 2008	15 June 2016
20 December 2006	20,000	85p	20 December 2008	20 December 2016
24 May 2007	45,000	115p	24 May 2009	24 May 2017
12 July 2007	15,000	114p	12 July 2009	12 July 2017
22 October 2007	50,000	100p	22 October 2009	22 October 2017
23 December 2008	83,839	1p	1 January 2012	23 rd December 2018
16 October 2009	386,000	1p	16 October 2012	16 October 2019
24 March 2011	65,000	60p	24 March 2014	24 March 2021
24 April 2012	50,000	1p	24 April 2014	24 April 2022
2 October 2012	1,403,752	1p	5 January 2015	2 October 2022
	2,674,091			

Some share options have sales performance criteria attached to the options

The form of settlement for share options is at the discretion of the Company, however, the expectation is that they are settled with equity

Unapproved scheme

Date granted	Number of options granted and still outstanding	Exercise price	Date from which exercisable	Expiry date
21 November 2005	12,000	55p	21 November 2005	21 November 2015
19 July 2007	50,000	116 5p	19 July 2009	17 July 2017
16 October 2009	19,161	1p	16 October 2012	16 October 2019
1 November 2011	40,000	1p	1 November 2011	1 November 2021
2 October 2012	240,000	1p	7 September 2014	2 October 2022
	361,161			

Notes to the consolidated financial statements (continued)

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

	2012 £'000	2011 £'000
Weighted average share price	£0.37	£0.60
Weighted average exercise price	£0.01	£0.60
Expected volatility	38%	35%
Expected life	2 year	2 year
Risk free rate	0.5	0.5

Expected volatility was calculated by using suitable comparative historical share prices for the two years prior to the date of grant of the options. The share based payment charge expense in respect of the EMI scheme for 2012 is £62k (2011 £3k)

During 2011 the Group implemented long term incentive plans for certain members of its senior management team. Under the terms of the long term incentive plans a participant acquires a financial instrument, the value of which is linked to the achievement of certain performance measures, with settlement in equity at the end of the arrangement. Performance criteria relate to achievement of pre-determined EBITA targets by 31 December 2012 in conjunction with development of the businesses management team. The performance criteria for this incentive plan were not met by 31 December 2012 and thus no charge has been recognised in the year. Furthermore, the charge recognised in the previous period of £0.6m was reversed in accordance with IFRS 2.

During 2012, the Group implemented long term incentive plans for certain Directors of the Company, details of which are included in note 4. The fair value charge through the Income Statement was £100k.

Notes to the consolidated financial statements (continued)

16 Share capital

	2012 £'000	2011 £'000
Authorised:		
80,000,000 ordinary shares of 1p each	800	800
Allotted, called up and fully paid:	£'000	
As at 1 January 2012		
32,131,377 ordinary shares of 1p each	321	
Issue of share capital	11	
	332	
As at 31 December 2011		
32,131,377 ordinary shares of 1p each	321	
As at 31 December 2012		
33,156,273 ordinary shares of 1p each	332	

During the year total consideration of £475,884 was received in relation to the shares issued

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

	Gary Goldsmith	Employees	Total
Issues:			
Issued on 9 January 2012	-	213,000	213,000
Issued on 4 May 2012	668,896	143,000	811,896
	668,896	356,000	1,024,896

The Group's objectives when managing capital are

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

The Group monitors net debt which is calculated as total debt as shown in the statement of financial position less cash and cash equivalents

	2012 £'000	2011 £'000
Total debt	4,985	5,768
Less Cash and cash equivalents	(589)	(257)
Net debt	4,396	5,511

Notes to the consolidated financial statements (continued)

17 Operating leases

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

	2012 £'000	2011 £'000
	Land and buildings	Land and buildings
Between one and five years	1,622	424
Over five years	-	1,911
	<u>1,622</u>	<u>2,335</u>

18 Capital commitments

The Group had no capital commitments at 31 December 2012 or 31 December 2011

19 Related party transactions

The Group has taken advantage of the exemptions contained within IAS 24 - Related Party Disclosures from the requirement to disclose transactions between Group companies as those have been eliminated on consolidation. Transactions between the group and non-Group companies but considered related parties are disclosed below. Transactions between the company and its subsidiaries and associates are disclosed below. Provision of services between related parties were made at open market value.

Related party	Nature of business	2012 £	2011 £	Directors involved
Vail Securities Limited	Consultancy services	-	45,000	G P Ashworth
Vail Securities Limited	Business expenses	24,038	10,034	G P Ashworth
Lyn Braund	Photography	750	-	M A Braund

No amounts were outstanding at 31 December 2012 or 31 December 2011

During the year the company provided loans to the following directors, Mark Braund £3,500, Michael Joyce £4,425 which are outstanding at the year end. Details of dividends paid during the year to Directors are as follows

2012

Dividends declared	Date paid	Gary Ashworth £	Mark Braund £	Michael Joyce £	Alan Found £	Paul Frew £	Gary Goldsmith £
20 pence per share	12 April 2012	252,458	7,500	5,717	4,520	400	-
0.5 pence per share	26 October 2012	63,240	2,056	1,179	1,130	100	3,344
		<u>315,698</u>	<u>9,556</u>	<u>6,896</u>	<u>5,650</u>	<u>500</u>	<u>3,344</u>

Notes to the consolidated financial statements (continued)

2011

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

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

	Korus Recruitment Group £	Fulcrum Telecom Ltd £
Central recharges	<u>108,158</u>	<u>72,612</u>

Amounts due to the Parent at 31 December 2012 from subsidiaries not 100% owned were as follows

Korus Recruitment Group £	Fulcrum Telecom Ltd £
<u>238,274</u>	<u>-</u>

Amounts due from the Parent at 31 December 2012 to subsidiaries not 100% owned were as follows

Korus Recruitment Group £	Fulcrum Telecom Ltd £
<u>-</u>	<u>10,472</u>

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

Notes to the consolidated financial statements (continued)

Compensation paid to key management personnel of the Group being Directors and Senior Managers was as follows

	2012 £'000	2011 £'000
Salaries and other short-term employee benefits	2,029	1,770
Loss of office	84	-
Share-based payments	54	3
	<u>2,167</u>	<u>1,773</u>

Key management are considered to be those who have authority and responsibility, planning, directing and controlling the activities of the Group

20 Events after the balance sheet date

There were no material events after the reporting date

21 Financial risk management

Interest rate sensitivity

At 31 December 2012, the Group is exposed to changes in market interest rates through its invoice factoring facilities, which are subject to variable interest rates of 1.85% over Bank of England base rate. The Group does not hedge the exposure to variations in interest rates.

The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates of +3% and -0.5% (2011: +3% and -0.5%), with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's financial instruments held at each reporting date. All other variables are held constant.

	2012 £'000 +3%	2012 £'000 -0.5%	2011 £'000 +3%	2011 £'000 -0.5%
Net result for the year	<u>(334)</u>	<u>56</u>	<u>(399)</u>	<u>66</u>
Equity	<u>(334)</u>	<u>56</u>	<u>(399)</u>	<u>66</u>

Notes to the consolidated financial statements (continued)

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. The Group's policy is to deal only with creditworthy counterparties.

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

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

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

Liquidity risk analysis

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

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

Notes to the consolidated financial statements (continued)

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

	2012 £'000	2011 £'000
Loans and receivables	20,492	21,947
Total financial assets	20,492	21,947

	2012 £'000	2011 £'000
Current assets		
Trade receivables	16,808	19,361
Prepayments and accrued income	3,095	2,329
Cash and cash equivalents	589	257
	20,492	21,947

	2012 £'000	2011 £'000
Financial liabilities measured at amortised cost	15,922	17,918
	15,922	17,918

	2012 £'000	2011 £'000
Current liabilities		
Borrowings	4,985	5,768
Trade payables	7,170	7,990
Other payables	1,308	1,347
Accruals and deferred income	2,459	2,813
	15,922	17,918

22 Dividends paid

	2012 £'000	2011 £'000
Dividends paid during the year of 2.5 pence per share	818	786

The directors proposed a second interim dividend of 2 pence per share to be paid on 12th April 2013 (2011: 2 pence per share) and has not been included as a liability in these financial statements

Notes to the consolidated financial statements (continued)

23 Non-controlling interests

	£000
Balance at 1 January 2011	(21)
Share of loss for the year	(26)
	<hr/>
Balance at 1 January 2012	(47)
Share of profit for the year	18
Payment of dividends	(5)
	<hr/>
Balance at 31 December 2012	<u>(34)</u>

Independent Auditor's report 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 2012 which comprise the Parent Company Balance Sheet, and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Independent Auditor's report to the members of InterQuest Group Plc (continued)

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Other matter

We have reported separately on the group financial statements of InterQuest Group Plc for the year ended 31 December 2012

John Charlton (Senior statutory auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

London, United Kingdom

6th March 2013

Principal accounting policies

Basis of preparation

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

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

Fixed assets

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

Computer equipment	20% straight line
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Investments

Fixed asset investments are shown at cost less provisions for impairment

Deferred taxation

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

Financial instruments

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

Principal accounting policies (continued)

Employee benefits

Defined contribution pension scheme

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

Equity settled share-based payment

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

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

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

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

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

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

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

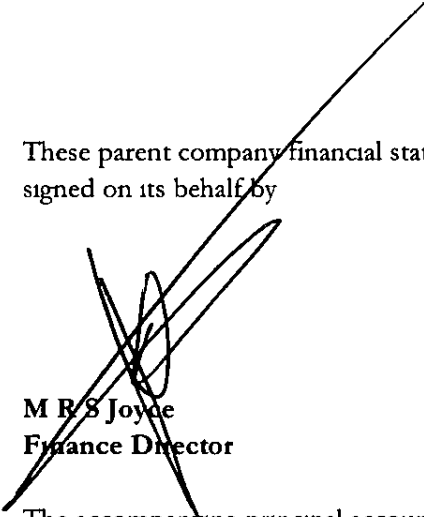
Deferred consideration

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

Parent Company balance sheet

	Note	2012 £'000	2011 £'000
FIXED ASSETS			
Tangible assets	1	117	54
Investments	2	23,291	25,241
		<u>23,408</u>	<u>25,295</u>
CURRENT ASSETS			
Debtors	3	8,236	6,681
Cash at bank and in hand	4	-	27
		<u>8,236</u>	<u>6,708</u>
Overdrafts		(56)	-
Creditors amounts falling due within one year	5	(19,491)	(18,302)
Net current liabilities		<u>(11,311)</u>	<u>(11,594)</u>
Total assets less current liabilities and net assets		<u>12,097</u>	<u>13,701</u>
		<u>12,097</u>	<u>13,701</u>
CAPITAL AND RESERVES			
Called up share capital	7	332	321
Share premium account	8	9,844	9,370
Capital redemption reserve	8	12	12
Profit and loss account	8	2,050	4,250
Share based payment reserve	8	525	414
Share buyback reserve	8	(666)	(666)
		<u>12,097</u>	<u>13,701</u>

These parent company financial statements were approved by the board on 6th March 2013 and were signed on its behalf by


M R S Joyce
Finance Director

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

Company registration number 04298109

Notes to the Parent Company financial statements

1 Tangible fixed assets

	Computer equipment £'000	Total £'000
Cost		
As at 1 January 2012	276	276
Additions	97	97
As at 31 December 2012	373	373
Depreciation		
As at 1 January 2012	222	222
Provided in the year	34	34
As at 31 December 2012	256	256
Net book value at 31 December 2012	117	117
Net book value at 31 December 2011	54	54

2 Investments

	Total £'000
Net Book Value	
As at 1 January 2012	25,241
Investment in ordinary share capital of IQ Asia Pte	50
Refund of consideration with respect to CCL	(1,000)
Impairment of remaining investment in CCL	(1,000)
Net Book Value as at 31 December 2012	23,291

Under FRS7 *Fair value in acquisitions accounting* the identification and valuation of assets and liabilities should be completed, if possible, by the date on which the first post-acquisition financial statements of the acquirer are approved by the directors. If it has not been possible to complete the investigation of fair values by that date, provisional valuations should be made, these should be amended in the next financial statements with a corresponding adjustment to goodwill. Management consider that as the warranty agreement was settled on 9 November 2012 the amount should be adjusted for to reduce the fair value of consideration paid.

Notes to the Parent Company financial statements (continued)

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

Name of subsidiary undertaking	Country of incorporation	Holding	Nature of Business
InterQuest Group (UK) Limited	UK	Ordinary shares	IT recruitment
Lighthouse Testing Limited	UK	Ordinary shares	Non trading
Contract Connection Ltd	UK	Ordinary shares	Non trading
InterQuest Asia Pte	Singapore	Ordinary shares	IT recruitment
Peregrine Recruitment Limited	UK	Ordinary shares	IT recruitment
PayQuest Group Limited	UK	Ordinary shares	Payroll services
Lighthouse Test Resources Ltd	UK	Ordinary shares	IT recruitment
Sapian Solutions Limited	UK	Ordinary shares	Non trading
e-CRM People Limited	UK	Ordinary shares	Non trading
Intelect Recruitment Plc	UK	Ordinary shares	Non trading
Peopleco Worldwide Limited	UK	Ordinary shares	Non trading
Sand Resources Limited	UK	Ordinary shares	Non trading
Mint Recruitment Solutions Limited (formerly Maxridge Limited)	UK	Ordinary shares	IT recruitment
Genesis Computer Resources Limited	UK	Ordinary shares	Non trading
InterQuest Financial Markets Limited (formerly SBS (UK) Limited)	UK	Ordinary shares	Non trading
Optimus Global Recruitment Solutions Limited (formerly Insight Computer Recruitment Limited)	UK	Ordinary shares	Non trading
InterQuest (UK) Limited	UK	Ordinary shares	Non trading
Sand Limited	UK	Ordinary shares	Non-trading
Global Genius Limited (formerly JCC UK Limited)	UK	Ordinary shares	Non-trading
Goldcrest Payroll Solutions Limited	UK	Ordinary shares	Non-trading

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

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

The following companies are taking an exemption from an audit of the financial statements as per S479A of the Companies Act, InterQuest Group (UK) Limited, Korus Recruitment Group Limited and Fulcrum Telecom Limited.

Notes to the Parent Company financial statements

(continued)

The following companies are taking an exemption from preparing and filing accounts as per S394 and 448A of the Companies Act, Sapien Solutions Limited, e-CRM People Limited, Intellect Recruitment Plc, Peopleco Worldwide Limited, Sand Resources Limited, Genesis Computer Resources Limited, Global Genius Limited, InterQuest (UK) Limited, InterQuest Financial Markets Limited, Optimus Global Recruitment Solutions Limited, Sand Limited

3 Debtors

	2012 £'000	2011 £'000
Trade debtors	-	2
Amounts owed by Group undertakings	7,721	6,026
Prepayments and accrued income	120	248
Other debtors	51	40
Taxation and social security	337	356
Deferred tax asset	7	9
	8,236	6,681

4 Cash and cash equivalents

	2012 £'000	2011 £'000
Cash at bank	-	27
	-	27

5 Creditors: amounts falling due within one year

	2012 £'000	2011 £'000
Trade creditors	178	138
Amounts owed to Group undertakings	19,008	17,835
Corporation tax	4	25
Other creditors	301	304
	19,491	18,302

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

Notes to the Parent Company financial statements (continued)

The Group has access to acquisition and working capital finance facilities provided by its bankers. These facilities comprise a confidential trade receivables finance facility and an overdraft which are secured by a fixed and floating charge over the Group's assets. The confidential trade receivables finance facility is secured specifically against the Group's trade receivables. Trade receivables which have been discounted are included with trade receivables within current assets in the Group's statement of financial position. A debenture dated 12 June 2006 was executed to secure all the Company's liabilities to National Westminster Bank plc. A cross corporate guarantee and indemnity is in place on the invoice discounting facility between the Company, InterQuest Group (UK) Ltd, FJB (Contracts) Limited, PeopleCo Worldwide Limited, Sand Resources Limited, Peregrine Recruitment Limited, Fulcrum Telecom Limited, Korus Recruitment Group Limited, Mint Recruitment Solutions Limited. The facility allows draw down to a maximum of £15m and is renewable on a six month rolling basis.

6 Deferred taxation asset

	£'000
Asset at 1 January 2012	9
Movement during the year	(2)
Asset at 31 December 2012	<u>7</u>

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

	2012 £'000	2011 £'000
Other timing differences	7	9
	<u>7</u>	<u>9</u>

7 Share capital

	2012 £'000	2011 £'000
Authorised:		
80,000,000 ordinary shares of 1p each	<u>800</u>	<u>800</u>
Allotted, called up and fully paid:	£'000	
As at 1 January 2011		
32,131,377 ordinary shares of 1p each	321	
Issue of share capital	<u>11</u>	
	<u>332</u>	
As at 31 December 2011		
32,131,377 ordinary shares of 1p each	<u>321</u>	
As at 31 December 2012		
33,156,273 ordinary shares of 1p each	<u>332</u>	

Notes to the Parent Company financial statements (continued)

During the year total consideration of £475,884 was received in relation to the shares issued

For details of share capital issued during the year please refer to note 16 of the Consolidated Financial Statements

8 Share premium account and reserves

	Share premium account £'000	Capital redemption reserve £'000	Profit and loss account £'000	Share based payment reserve £'000	Share buyback reserve £'000
As at 1 January 2012	9,370	12	4,250	414	(666)
Issue of share capital	474	-	-	-	-
Capital redemption reserve	-	-	-	-	-
Loss for the year pre- impairment	-	-	(387)	-	-
Impairment of investment	-	-	(1,000)	-	-
Dividends paid	-	-	(813)	-	-
Share based payment charge	-	-	-	111	-
As at 31 December 2012	9,844	12	2,050	525	(666)

The loss for the year is principally a result of the write off of the investment in Contract Connections Limited

9 Reconciliation of movements in shareholders' funds

	2012 £'000	2011 £'000
Loss for the year	(387)	(2,050)
Impairment of investment	(1,000)	-
Issue of shares	11	9
Cancellation of share capital	-	(1)
Share premium	474	451
Share based payment reserve	111	-
Dividends paid	(813)	(786)
Share buyback reserve	-	(45)
Capital redemption reserve	-	1
Net (decrease) in shareholder's funds	(1,604)	(2,421)
Shareholders' funds at 1 January	13,701	16,122
Shareholders' funds at 31 December	12,097	13,701

Notes to the Parent Company financial statements (continued)

10 Capital commitments

The company had no capital commitments at 31 December 2012 or 31 December 2011

11 Contingent liabilities

There were no contingent liabilities at 31 December 2012 or 31 December 2011

12 Operating leases

	2012 £'000 Land and buildings	2011 £'000 Land and buildings
Within one year	668	-
Between one and five years	-	837
	<u>668</u>	<u>837</u>

13 Transactions with directors and other related companies

Related party	Nature of business	2012 £	2011 £	Directors involved
Vail Securities Limited	Consultancy services	-	45,000	G P Ashworth
Vail Securities Limited	Business expenses	24,038	10,034	G P Ashworth
Lyn Braund	Photography	750	-	M A Braund

Notes to the Parent Company financial statements (continued)

As at 31 December 2012 the following loans were outstanding to Directors, Mark Braund £3,500, Michael Joyce £4,425

Details of dividends paid during the year to Directors are shown in Note 19 to the consolidated financial statements

Transactions between the Parent and subsidiaries not 100% owned during the year are set out in Note 19 to the consolidated financial statements

14 Post balance sheet events

The company had no material post balance sheet events

15 Loss attributable to the Company and cash flow statement

The loss for the financial year of the Company was £1,387,000 (2011 £2,050,000 loss) As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the Company

Since InterQuest Group plc prepares a consolidated Cash Flow Statement, the Company has taken advantage of the exemption available in FRS 1 to not produce a Company only Cash Flow Statement

16 Dividends paid

	2012 £'000	2011 £'000
Dividends paid during the year of 2 5 pence per share	813	786

The directors propose to pay a second interim dividend of 2 pence per share on 12th April 2013 (2011 2 pence per share)