IQuad Group Limited
(Incorporated in the Republic of South Africa)
Registration number 2004/025177/06
Share code: IQG
ISIN: ZAE000101622
("IQuad", "the Company" or "the Group")

REVIEWED PRELIMINARY CONDENSED FINANCIAL STATEMENTS FOR YEAR ENDED 28 FEBRUARY 2011

Highlights

Commentary on the full year results for the period ended 28 February 2011

General comments and prospects

IQuad experienced improved performance in the second half of the year under review; however, full-year results remain disappointing with headline earnings of R10.2m, a decline of 20.9% from the R12.9m achieved in 2010.

It is encouraging to note that the recent economic downturn is showing signs of recovery and while the turnaround has been slower than expected, we are seeing an increased appetite from clients to take on new investment projects.

Organic growth prospects

The key insights gained in reviewing our 2011 results are summarised below and are further explained in the segmental commentary that follows:

1. Our incentives business performed below 2010 levels, achieving full year profits of R7.2m (2010: R11.6m). This underperformance is largely attributed to a reduction in revenue in our incentive consulting services division as a result of the transition from the old Small Medium Enterprise Development Programme ("SMEDP")to the new Enterprise Investment Programme ("EIP").
2. Our verification business which is largely made up of Black Economic Empowerment ("BEE") consulting and verification services experienced a widening of losses from R1.2m in 2010 to R1.9m in 2011, despite a substantial increase in revenue. We have embarked on a restructuring of our business model to reduce operating costs.
3. Our global trade business reported excellent growth with full year profit of R9.1m achieved (2010: R6.1m). A major portion of this growth came from customs duty recovery services for clients combined with a consistent performance from our treasury operation.
4. Group costs for the period under review have been negatively affected by restructuring and relocation costs.

Acquisitive growth prospects

During the period under review we finalised the acquisition of 100% of the shareholding in Kagiso Treasury Solutions ("Kagiso"). This operation is in the process of being integrated into our existing treasury outsourcing operations.

Post the acquisition, IQuad's treasury division is one of the largest, independent treasury operations in the country both in terms of clients serviced and transactions processed.

The Group also acquired the remaining 26% in Export Credit Exchange (Pty) Ltd ("ECE"), taking its total shareholding to 100%.

Our objective is to be the preferred supplier of high impact strategic outsource and compliance services to businesses and we will continue to seek out growth opportunities through suitable acquisitions that have a good fit with our core strategy. The identification of suitable and sizeable acquisitions is one of our key objectives over the next 12 months.

The Group has accordingly decided not to pay a final dividend for 2011 and will instead invest surplus funds into current and future business opportunities that meet our investment criteria. The Group presently has a number of investment opportunities at various stages of consideration.

Goodwill impairment

Given the uncertainty surrounding the rate of recovery of the underlying economy, management deemed it appropriate to review the carrying value of our goodwill. This resulted in a goodwill impairment of R25.2m during the year under review. Our goodwill carrying value has been re-assessed at year end and no further adjustments were required.

Segment report

Investment incentives

As noted above, this business pillar achieved results lower than the prior year due to a decline in revenue from our incentive consulting services.

The reduction in revenue is largely attributable to the accelerated SMEDP payments by the Department of Trade and Industry ("DTI") in the second half of the previous financial year, which created a revenue gap between the old SMEDP and the new EIP programme.

Despite the below par financial results, there were some notable positive developments in the past 12 months:

1. The DTI launched the Automotive Incentive Scheme ("AIS"), an incentive that targets the automotive industry and which forms part of the new Automotive Production and Development Programme due to be implemented in 2013. We have submitted a total of 42 incentive applications under this scheme in the past year which await DTI approval.
2. The S12I tax incentive has been launched which targets large projects and provides additional tax allowances of up to R900m for investors.
3. A total of 288 EIP incentive applications were submitted in the past year compared with 253 in 2010.

Results from our Export Credit Exchange division, which is involved in the trading of Motor Industry Development Programme ("MIDP") Import Rebate Credit Certificates ("IRCC"), were in line with expectations. The automotive industry is showing signs of sustained recovery which should have a positive impact on the IRCC market.

Global trade services

This business pillar returned an exceptional performance due to record revenue levels and reduced overhead costs in their duty recovery activities.

Profitability from treasury outsourcing services was consistent with the previous year, despite reduced trade volumes as a result of continued rand strength. We are satisfied that we have maintained our existing client base and taken on new business despite the trying economic environment. Annuity income comprises 73% of total income in this business pillar and is made up of fixed and commission-based fees. Performance income is directly linked to the results that we achieve on behalf of our clients and we have shown 19% growth in revenue in this area of our business despite a reduction in currency under management.

Business development

Our business development activities are primarily centred on providing ISO management systems implementation and consulting, and specialised IT solutions for the financial and retail sectors.

Our focus over the last year has been to stabilise this business segment and to curtail historical loss trends. Good progress has been made in our technologies business mainly due to our involvement in a strategic payment solution for one of the major banks. This project is expected to provide good levels of annuity income for the next two to three years and serve as a platform to solidify and expand the business.

Audit and verification

Our BEE verification business unit has once again shown substantial growth, with full year revenue increasing by more than 100% on the previous year. Unfortunately, this revenue growth has come without a resulting improvement in the profitability of the business necessitating a re-evaluation of the business structure.

We have embarked on a restructuring process to improve efficiency and reduce fixed overheads. These restructuring plans are in the process of being implemented and we are positive that the decisive action taken will see a marked improvement in the profitability of this business segment.

We continue to see a steady demand for new verification work in spite of the difficult economic conditions.

Cash flow

The Group generated R5.6m cash from its operating activities after investing a further R1.95m in working capital. Cash raised from the sale of a portion of the Port Elizabeth property was mainly utilised for the Kagiso and ECE acquisitions and reduction in the mortgage bond.

Dividends of R8.5m were paid during the year compared with R6.7m in 2010.

Acknowledgement

Finally, we would like to express our appreciation to management and staff for their dedicated commitment and assistance over the last year.

Consolidated statement of financial position

	Reviewed 28-Feb-11 R000	Audited 28-Feb-10 R000
Assets		
Non-current assets	111 428	120 393
Investment property	14 434	13 091

Property, plant and equipment	14 163	12 694
Goodwill	65 524	87 006
Intangible assets	4 430	2 930
Deferred tax assets	9 599	3 672
Loan receivable	3 278	1 000
Current assets	33 660	35 523
Work in progress	1 927	1 997
Current tax assets	676	496
Trade and other receivables	26 408	25 150
Loan receivable	-	584
Amounts owing by associates and joint venture	787	117
Cash and cash equivalents	3 862	7 179
Non-current assets held for sale	-	16 328
Total assets	145 088	172 244
Equity and liabilities		
Equity and reserves	108 792	137 967
Share capital	101 200	103 867
Share reserve	(369)	(3 036)
Accumulated profits	9 776	35 123
Share capital and reserves	110 607	135 954
Non-controlling interest	(1 815)	2 013
Non-current liabilities	15 279	21 102
Operating lease liability	421	606
Deferred tax liabilities	560	406
Borrowings	14 298	20 090
Current liabilities	21 017	12 813
Current tax liabilities	304	129
Trade and other payables	12 064	11 053
Provisions	25	229
Dividend payable	750	-
Borrowings	7 874	1 402
Liabilities of disposal groups	-	362
Total liabilities	36 296	34 277
Total equity and liabilities	145 088	172 244

Consolidated statement of comprehensive income

	Reviewed 28-Feb-11 R000	Audited 28-Feb-10 R000
Revenue	85 628	79 970
Cost of services rendered	(38 625)	(36 010)
Gross profit	47 003	43 960
Other operating income	601	166
Operating expenses	(62 365)	(26 167)
Operating (loss)/profit	(14 761)	17 959

Investment income	3 553	4 231
Share of losses from associates and joint venture	-	(124)
Finance costs	(2 099)	(2 423)
(Loss)/profit before taxation	(13 307)	19 643
Taxation	(4 062)	(6 315)
(Loss)/profit for the year	(17 369)	13 328
Exchange differences on translating foreign operation	-	(30)
Total comprehensive (loss)/income for the year	(17 369)	13 298
(Loss)/profit for the year attributable to:	(17 369)	13 328
Non-controlling interests	(1 800)	(831)
Equity shareholders of the Company	(15 569)	14 159
Total comprehensive (loss)/income for the year attributable to:	(17 369)	13 298
Non-controlling interests	(1 800)	(831)
Equity shareholders of the Company	(15 569)	14 129
Basic and diluted (loss)/earnings per ordinary share (cents)	(56,9)	50,6
Weighted average number of shares in issue ('000)	27 382	27 979

Consolidated statement of changes in equity

	Attributable to equity shareholders of the Company			
	Share capital	Share premium	Treasury shares	Total share capital
	R000	R000	R000	R000
Balance at 1 March 2009 - audited	3	104 412	(548)	103 867
Total comprehensive income for the year	-	-	-	-
Adjustments to contingent considerations	-	-	-	-
Dividends	-	-	-	-
Disposal of shares in subsidiaries	-	-	-	-
Other movements in non-controlling interests	-	-	-	-
Balance at 1 March 2010 - audited	3	104 412	(548)	103 867
Total comprehensive loss for the year	-	-	-	-
Treasury shares	-	-	(2 667)	(2 667)

Non-controlling interest acquired in existing subsidiary	-	-	-	-
Dividends	-	-	-	-
Other movements in non-controlling interests	-	-	-	-
Balance at 28 February 2011 - reviewed	3	104 412	(3 215)	101 200

Consolidated statement of changes in equity (continued)

	Attributable to equity shareholders of the Company			
	Foreign currency trans-lation reserve	Share reserve	Total reserves	Accumu-lated profits
	R000	R000	R000	R000
Balance at 1 March 2009 - audited	30	-	30	27 087
Total comprehensive income for the year	(30)	-	(30)	14 159
Adjustments to contingent considerations	-	(3 036)	(3 036)	-
Dividends	-	-	-	(6 123)
Disposal of shares in subsidiaries	-	-	-	-
Other movements in non-controlling interests	-	-	-	-
Balance at 1 March 2010 - audited	-	(3 036)	(3 036)	35 123
Total comprehensive loss for the year	-	-	-	(15 569)
Treasury shares	-	2 667	2 667	-
Non-controlling interest acquired in existing subsidiary	-	-	-	(1 993)
Dividends	-	-	-	(7 785)
Other movements in non-controlling interests	-	-	-	-
Balance at 28 February 2011 - reviewed	-	(369)	(369)	9 776

Consolidated statement of changes in equity (continued)

	Attributable to equity shareholders of the Company		
	Total	Non-controlling interests	Total equity
	R000	R000	R000
Balance at 1 March 2009 - audited	130 984	5 124	136 108
Total comprehensive income for the year	14 129	(831)	13 298
Adjustments to contingent considerations	(3 036)	-	(3 036)
Dividends	(6 123)	(500)	(6 623)
Disposal of shares in subsidiaries	-	(1 777)	(1 777)
Other movements in non-controlling interests	-	(3)	(3)
Balance at 1 March 2010 - audited	135 954	2 013	137 967
Total comprehensive loss for the year	(15 569)	(1 800)	(17 369)
Treasury shares	-	-	-
Non-controlling interest acquired in existing subsidiary	(1 993)	(331)	(2 324)
Dividends	(7 785)	(1 456)	(9 241)
Other movements in non-controlling interests	-	(241)	(241)
Balance at 28 February 2011 - reviewed	110 607	(1 815)	108 792

Consolidated statement of cash flows

	Reviewed	Audited
	28-Feb-11	28-Feb-10
	R000	R000
Cash flows from operating activities	5 618	7 444
Cash generated from operations	12 525	18 610
Investment income	3 303	2 057
Finance costs	(2 066)	(2 632)
Taxation paid	(8 144)	(10 591)
Cash flows from investing activities	2 143	2 962
Additions to investment property	(1 343)	-
Acquisition of property, plant and equipment	(1 987)	(7 778)
Proceeds on disposal of property, plant and equipment	51	250
Proceeds on disposal of non-current asset		

held for sale	11 800	10 000
Additions to non-current asset held for sale	(1 100)	-
Acquisition of intangible assets	(1 334)	(1 429)
Contingent considerations (paid)/received	(265)	2 765
Cash (outflow)/inflow on disposal of subsidiaries	(194)	2 344
Investment in subsidiaries	(3 583)	(3 161)
Cash flow on consolidation of non-current asset held for sale	98	-
Investment in associates	-	(29)
Cash flows from financing activities	(11 078)	4 058
Amounts advanced to associate	(265)	(330)
Non-controlling interests' loans advanced	(238)	1 064
Acquisition of non-controlling interest in existing subsidiary	(2 324)	-
Loans receivable advanced	-	(406)
Non-current borrowings (repaid)/advanced	(6 231)	10 425
Current borrowings advanced	6 472	-
Dividends paid	(8 492)	(6 695)
(Decrease)/increase in cash and cash equivalents	(3 317)	14 464
Cash and cash equivalents at beginning of the year	7 179	(7 285)
Cash and cash equivalents at end of the year	3 862	7 179

Selected explanatory notes

Basis of preparation and accounting policies

The preliminary condensed financial statements have been compiled in accordance with IAS 34, Interim Financial Reporting and in compliance with the JSE Limited Listings Requirements.

The accounting policies and critical accounting estimates and judgements applied to these financial statements are consistent with those applied for the year ended 28 February 2010, except for the following revised standards which are effective for the financial year beginning 1 March 2010: IFRS 3 (Revised), Business Combinations, and IAS 27 (Revised), Consolidated and Separate Financial Statements. The adoption of IFRS 3 (Revised) and IAS 27 (Revised) had no material effect on the results, other than as disclosed in the notes below and neither standard required any restatement of previously reported results.

Review by auditor

The Company's auditors, PricewaterhouseCoopers Inc., have reviewed the preliminary condensed consolidated financial statements for the year ended 28 February 2011. Their unqualified report is available for inspection at the registered office of the Company.

Non-current assets held for sale and liabilities of disposal group

	Reviewed 28-Feb-11 R000	Audited 28-Feb-10 R000
Non-current assets held for sale		
Investment in subsidiary (NMT)	-	4 035
Investment property	-	12 293
	-	16 328
Liabilities of disposal group		
Available for sale liabilities (NMT)	-	(362)

During the previous financial year, the Group acquired National Money Transfer (Pty) Ltd ("NMT") with the intention to re-sell and as a result the investment and its related liabilities were disclosed as held for sale.

The proposed disposal of NMT did not materialise and the subsidiary has been consolidated on the full method as prescribed in IAS 27.

The note on acquisitions and disposals of subsidiaries below provides further information.

The Group disposed of a portion of the investment property for R14m at a profit of R268 563. The purchase consideration was settled by the transfer of R11.8m in cash and the balance remains as a loan of R2.2m owing to the Group. Transfer of the property took place on 27 September 2010.

Acquisition and disposals of subsidiaries

On 1 March 2010, the Group acquired the remaining 26% non-controlling interest in Export Credit Exchange (Pty) Ltd for R2 324 000 in cash. This transaction did not result in a change in control and must be accounted for as an equity transaction as per IAS 27 (Revised). Under the previous IAS 27 this would have resulted in additional goodwill being recognised.

On 1 December 2009 the Group increased its shareholding in NMT from 17% to 83%.

The book and fair values of the net assets acquired in the NMT business combination on the date control was obtained, 1 December 2009, were as follows:

	NMT Book value R000	Fair value R000
Property, plant and equipment	1	1
Intangible assets	-	2 733
Deferred tax	-	1 492
Trade and other receivables	60	60
Cash and cash equivalents	140	140
Non-current liabilities	(4 443)	(109)
Trade and other payables	(1 313)	(213)
	(5 555)	4 104

Non-controlling interest	(698)
Negative goodwill	(105)
Purchase price	3 301

The subsidiary was acquired with the intention to re-sell and accordingly met the criteria to be consolidated on the basis of recording the fair value of the assets and liabilities of the held for sale disposal group as a single investment during the previous year.

Accordingly the subsidiary was disclosed as a non-current asset held for sale as at 28 February 2010.

The proposed sale did not materialise and the subsidiary has subsequently been consolidated on the full method as prescribed in IAS 27 from 1 March 2010.

The resulting business combination gave rise to negative goodwill of R104 704 which has already been taken into account in the prior year financial results when the non-current asset held for sale was adjusted to its fair value.

The Group believes that NMT's information technology services offers significant opportunities for growth. NMT provides a suite of financial service and payment platforms for the retail, banking and third-party payment sectors.

The following net assets were fully consolidated into the Group on 1 March 2010:

	NMT Book value R000	Fair value R000
Property, plant and equipment	1	1
Intangible assets	-	2 350
Deferred tax	-	1 613
Trade and other receivables	23	23
Cash and cash equivalents	98	98
Non-current liabilities	(4 414)	(80)
Trade and other payables	(1 694)	(332)
	(5 986)	3 673

Non-current asset held for sale in 2010 financial year	(4 035)
Liabilities of disposal group	362
Cash and cash equivalents	(98)
Cash inflow on full consolidation of non-current asset held for sale	(98)

On 1 September 2010, the Group acquired a 100% interest in Kagiso Treasury Solutions (Pty) Ltd ("Kagiso") for R4 792 539. Kagiso offers treasury management and advisory services to corporate clients.

The purchase price was partly settled in cash of R3 582 987. The balance of the purchase price is payable when a critical contract has been secured by Kagiso. This contingent consideration has been valued by Group management using statistical probabilities and is included in the purchase price allocation below.

Goodwill of R3 471 557 arose on the transaction which relates to the future synergies that will result from the business combination.

The Group believes that the Kagiso business combination will enhance the growth of the global trade business pillar through cost synergies.

The book and fair values of the net assets acquired in the business combination are as follows:

	Kagiso Book value	Fair value
	R000	R000
Property, plant and equipment	589	391
Intangible assets	1 105	1 188
Deferred tax	163	163
Trade and other receivables	1 491	1 457
Non-current liabilities	(526)	(526)
Trade and other payables	(1 594)	(1 594)
	1 228	1 079
Goodwill		3 472
Purchase consideration		4 551
Contingent consideration		(968)
Cash outflow on business combination		3 583

Revenue of R4.989m and losses of R0.356m have been included in the Group's results. Total revenue of R10.137m and losses of R0.070m would have been included had the Group acquired the subsidiary on 1 March 2010.

On 1 September 2010 the Group disposed of 35% of its interest in IQuad Finance Solutions (Pty) Ltd at a profit of R250 343.

The book and fair value of the net assets disposed of are as follows:

	R000
Property, plant and equipment	8
Intangible assets	3
Loan from holding company	(467)
Shareholders loan	(200)
Trade and other receivables	167
Cash and cash equivalents	194
Trade and other payables	(50)
Deferred tax	95
Net assets disposed of	(250)
Group profit on disposal	250

Selling price	-
Cash and cash equivalents	194
Cash outflow on disposal of subsidiary	194

Goodwill

Given the uncertainty in the rate of recovery of the global economy, management deemed it appropriate, as at the interim reporting date, to re-assess the assumptions that were used in the impairment testing done of goodwill. The impairment losses that arose and were reported in the interim results were ascertained by value-in-use calculations and pertain to the following cash-generating units:

	Reviewed	Audited
	28-Feb-11	28-Feb-10
	R000	R000
IQuad Investment Incentives (Pty) Ltd	6 520	-
IQuad Treasury Solutions (Pty) Ltd	10 518	-
Other cash-generating units	8 175	233
	25 213	233

Further impairment tests were done at year end using pre-tax discount rates that generally range between 28% and 32%. No further impairments were considered necessary.

In performing these value-in-use calculations management estimated average long-term growth rates based on historical trends, taking into account inherent industry risk and specific management knowledge.

Adjustments were made for the current prolonged market conditions.

The period over which the projected cash flows were forecasted is five years.

A reconciliation of the Group's goodwill is provided below:

	Reviewed	Audited
	28-Feb-11	28-Feb-10
	R000	R000
Balance at beginning of year	87 006	95 746
Additions through business combinations	3 472	-
Impairments	(25 213)	(233)
Adjustments to purchase price considerations	259	(6 692)
Disposals of shares in subsidiaries	-	(1 815)
Closing balance at end of year	65 524	87 006
The net carrying amount is represented by:		
Goodwill cost	93 919	90 188
Accumulated impairments	(28 395)	(3 182)
Net carrying amount	65 524	87 006

Other significant matters
An amount of R2 666 667, previously included in the share reserve, has been included in share capital. This relates to treasury shares acquired in a specific buy-back as approved by shareholders on 10 May 2010.

Subsequent to the transfer of the property as described in the notes above, non-current borrowings reduced by R7.3m.

Contingent asset
Future revenue approximating R10m, relating to income to be earned from incentive applications submitted to regulatory authorities but still awaiting approval for payment as at the statement of financial position date, has not been recognised as income in these financial statements in accordance with the Group's accounting policy on revenue recognition (2010: R13m).

Subsequent events
No material events have been identified subsequent to the statement of financial position date of the Group up to the date of this report, other than as disclosed in these condensed financial statements.

Dividends
IQuad has not declared a final dividend for the year ended February 2011 and will utilise its cash resources for current and future growth opportunities.

Earnings, dividend and net asset value per share

	Reviewed 28-Feb-11 Cents	Audited 28-Feb-10 Cents
Headline earnings per share	37.3	46.2
Dividend per share		
Interim	8.0	8.0
Final	-	20.0
	8.0	28.0

Headline earnings are reconciled to earnings per the statement of comprehensive income as follows:

	Reviewed 28-Feb-11 R000	Audited 28-Feb-10 R000
(Loss)/profit attributable to equity shareholders of the Company	(15 569)	14 159
Goodwill impairments	25 213	233
Impairment of other intangible assets	977	-
(Profit)/loss on disposal of property, plant and equipment	(1)	27
Fair value adjustment on re-measurement of disposal group held for sale	-	(95)

Impairment of investment in associates	-	274
Profit on disposal of asset held for sale	(164)	-
Profit on disposal of investments	(232)	(1 670)
Headline earnings for the year	10 224	12 928

	Unaudited 28-Feb-11	Unaudited 28-Feb-10
Net asset value per ordinary share	Cents	Cents
Total assets	403.9	485.9
Tangible assets	148.5	164.5

Net tangible asset value per share is calculated after excluding non-controlling interest and including deferred tax assets.

Segment report

The Group has four reportable segments within which the Group's strategic business units ("SBU") / operating units fall.

The SBUs offer different services and are managed separately as they require different technology and marketing strategies, and are reported separately to the board of directors.

Investment incentives
Render consulting services aimed at enabling clients to obtain the maximum benefits and refunds from Government and DTI incentive programmes.

Global trade services
Offer import and export business solutions, including customs consulting, rebate administration, financial market analysis and interest rate and forex risk management.

Business development
Provide consulting services and management tools to optimise business systems and processes and technological solutions for third party payment transactions.

Verification services
Conduct quality assurance, VAT and customs audits and verify BEE compliance.

Operating segments	Investment incentives	Global trade services	Business development	Verification services	Total
2011 - reviewed	R000	R000	R000	R000	R000
Results					
Revenue - internal	192	-	1 113	-	1 305
Revenue - external	31 711	37 916	5 320	8 926	83 873
Segment profit/(loss)					

before tax	10 508	12 912	(3 620)	(2 604)	17 196

Operating segments 2010 - audited	Investment incentives R000	Global trade services R000	Business development R000	Verification services R000	Total R000
Results					
Revenue - internal	360	-	993	182	1 535
Revenue - external	39 892	26 695	8 580	4 234	79 401
Segment profit/(loss) before tax	16 077	8 722	(1 736)	(1 587)	21 476

Segmental reconciliations	Reviewed 28-Feb-11 R000	Audited 28-Feb-10 R000
Profit reconciliation		
Total profit before tax for reportable segments	17 196	21 476
Goodwill impairment losses	(25 213)	(233)
Unallocated profits	5 574	7 872
Elimination of intersegment profits	(10 864)	(9 472)
Group (loss)/profit before tax per statement of comprehensive income	(13 307)	19 643

Transactions with individual clients did not amount to 10% or more of the Group's total revenue.

For and behalf of the board:

Dave Edwards (Chief Executive Officer)

Frans Botha (Financial Director)

Port Elizabeth
4 May 2011

Designated Advisor: QuestCo Sponsors (Pty) Ltd

Corporate Advisor: PSG Capital (Pty) Ltd