

INTERIM RESULTS COMMENTARY

COMMENTARY ON INTERIM RESULTS FOR THE PERIOD ENDED 31 AUGUST 2011

General comments and prospects

Overall headline earnings for the six months ended 31 August 2011 declined by 11% from R3.93m to R3.49m. Whilst these results were below expectation, significant progress has been made in cementing our business strategy over the last six months and the Group is well positioned to focus on growth in the core revenue producing areas of the business.

Strategic update

We have maintained our mission to "be the preferred supplier of high impact strategic outsource and compliance services to business".

Whilst our broad strategy remained unaltered, we identified five medium term strategic priorities to position the business for improved performance. These initiatives have been the key focus over the last six months:

1. Ensure the right team is in place to achieve the growth plan

The management structure of the Group has been simplified, with a streamlined management team who meet regularly to review the performance of the Group. The six member management committee (MANCO) is made up of a dedicated and committed group of senior managers representing each of the business activities of the Group.

2. Win in the Gauteng market

Strengthening our presence in the Gauteng market continues to be our primary organic growth focus area and is yielding positive results across all business units. MANCO has been assigned targets specifically aligned to our Gauteng growth plan and has also made good headway in expanding our strategic alliance network in the Gauteng area. We have taken the decision to delay the appointment of a strategic sales resource in the Gauteng market and believe that recent developments in our business outlined below, may result in this position not being required.

3. Fix or exit underperforming businesses

This area has received the most attention over the last six months, with the decision taken to disinvest from non-core areas in order to focus on growing the traditionally strong business units. It was felt that the profit contribution, risk and future prospects in these business units did not correlate with the amount of management time that was being given to certain of these smaller investments. The following table summarises the restructuring activities taken by the Group:

Business unit	Rationale
IQuad Verification Services (Pty) Ltd ("IQuad Verification")	Disposed of our 90% share in IQuad Verification due to non-core fit and poor historical financial performance.
IQuad Finance Solutions (Pty) Ltd ("IQuad Finance")	Disposed of our 35% shareholding and loan accounts in IQuad Finance due to non-core fit and lack of future profit prospects.
IQuad Technologies(Pty) Ltd ("IQuad Technologies")	Post the interim period, effective 1 September 2011, we disposed of our 37.5% share in IQuad Technologies. Negotiations are also underway to dispose of our remaining 37.5% share in National Money Transfer (Pty) Ltd. Both of these businesses are involved in specialised IT development and services, an area where the Group has limited competencies.

4. Grow inorganically through significant acquisitions or new business opportunities

We merged our KwaZulu-Natal BEE operation with that of Integra Scores (Pty) Ltd ("Integra") effective 1 March 2011 and acquired further shares, with the result that our overall investment in the merged entity totalled 51%. The rationale behind this transaction was to extract value from the outstanding loan stemming from our disinvestment from Entrepreneurial Survival Solutions ("ESS") in 2010, with Integra being a wholly owned subsidiary of ESS. We were further attracted by the variable cost model employed by Integra and encouraging historical profit margins achieved by this business. As a result, IQuad has retained an interest in the BEE verification and consulting industry with a KZN-based focus.

We entered into negotiations with Sasfin Holdings Ltd ("Sasfin") during July 2011 regarding the acquisition of a possible stake in IQuad. The transaction was successfully concluded, with the announcement in mid-September that Paladin Capital Financial Services (Pty) Ltd has sold its 42.9% stake in IQuad to Sasfin with an option to also purchase the Thembeka Capital Ltd stake of 8%, at the same time triggering a mandatory offer to all minority shareholders.

Sasfin is focused on providing banking and related services to the SME market and there is a strong synergistic fit between the services offered by IQuad and Sasfin. This will enable both parties to offer a broader range of services to our respective clients and in so doing enhance value to clients and grow revenues.

There are also acquisition prospects within the current Sasfin business, specifically in the healthcare, short-term insurance and freight businesses, with plans to house investments within IQuad to further entrench a commercial service offering to both IQuad and Sasfin clients.

5. Identify cost savings

Our final strategic priority relates to the streamlining of operations in order to generate targeted cost savings of 5% in the current financial year as measured against budgeted expenditure. We have implemented a number of significant cost reduction measures which will benefit the second half of the year.

SEGMENT REPORT

Investment incentives

The transition to the Enterprise Investment Programme ("EIP") has had an impact on the performance of our Incentives business caused by delays on the part of the Department of Trade and Industry ("dti") in getting their online claims processing module up and running. Capacity within the dti has been further hampered by the fact that system testing and training has taken the focus off claims processing.

We do expect to see an improvement in processing turnaround time and payments over the second six months of this financial year once the dti's online claims system has been implemented. Historically, the performance by the dti has always been better in the second half of the year.

As at 31 August 2011, work in progress being the IQuad fee income on claims submitted to the dti, amounted to R7.7 million. The total value of claims submitted is expected to increase significantly during September/October as a result of the deadline for the submission of claims being extended by two months.

The number of new incentive applications submitted has exceeded our six month target and has increased overall by close on 15% compared to the previous year to date. It is gratifying to see that our focus on growing the Gauteng market is paying off with a 30% increase in the incentives applications submitted by our Gauteng region.

Global trade services

Our global trade business activities incorporating specialised support for importers and exporters, together with our foreign exchange risk management and treasury execution activities, have performed well.

From a trade support perspective, our marketing efforts are well co-ordinated and in the six months under review, we have signed up ten new clients, with a large pipeline which we are working through.

Within our treasury operation, the current economic downturn has had a direct impact on sectors of our client base, specifically those clients who are in the motor industry. Rand strength over the preceding six months has meant that our commission income stream has been under pressure. Fortunately around 40% of income consists of fixed fees which has cushioned the blow. The recent global uncertainty and resultant rand weakness have, however, been positive for the performance income stream of our business.

Since its acquisition late last year, Kagiso Treasury Solutions has been successfully integrated into the IQuad treasury operation. We anticipate that other players in the treasury outsourcing sphere of business are likely to go through a consolidation phase in the short to medium term, and we will be actively pursuing opportunities in this market to acquire competitors.

Our main objective for the year ahead is to continue to grow our client base within our existing infrastructure in order to maximise returns. We will also be focusing on increasing and improving our conversion rate in respect of our marketing efforts while being mindful that our existing clients continue to receive excellent service.

Business development

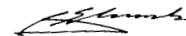
This segment remains a relatively small contributor to our overall business, particularly following our exit from IQuad Technologies and IQuad Finance. Our remaining activities are centred on the provision of ISO management systems implementation and consulting, which has experienced increased activity and profitability over the last six months.

Audit and verification

Our exit from IQuad Verification and investment in Integra has seen this segment return to profitability. We are pleased with the profitability and progress achieved by Integra over the last six months, and believe that there is scope for further improvement by leveraging off the IQuad client network.

Cash flow

The Group generated R5.53m cash from its operating activities during the period under review, including a R302k increase in working capital. Despite the positive cash flow and improvement in the Group's gearing levels, the board has taken the prudent decision not to pay an interim dividend.



Dave Edwards
Chief Executive Officer



Frans Botha
Financial Director

STATEMENTS OF FINANCIAL POSITION

	Unaudited 31 Aug 11 R000	Unaudited 31 Aug 10 R000	Audited 28 Feb 11 R000
ASSETS			
Non-current assets	108 264	98 930	111 428
Investment property	14 434	14 255	14 434
Property, plant and equipment	14 121	12 843	14 163
Goodwill	66 327	62 058	65 524
Intangible assets	4 959	3 238	4 430
Investment in associate	1 541	–	–
Loan receivable	2 373	–	3 278
Deferred tax assets	4 509	6 536	9 599
Current assets	38 055	36 058	33 660
Work in progress	1 830	2 002	1 927
Current tax assets	1 770	1 448	676
Trade and other receivables	27 159	28 657	26 408
Amounts owing by associates and joint ventures	1 516	317	787
Cash and cash equivalents	5 780	3 634	3 862
Non-current assets held for sale	–	14 268	–
Total assets	146 319	149 256	145 088
EQUITY AND LIABILITIES			
Equity and reserves	110 907	104 423	108 792
Share capital	101 200	101 200	101 200
Other reserves	–	(369)	(369)
Accumulated profits	8 899	2 942	9 776
Non-controlling interest	808	650	(1 815)
Non-current liabilities	14 805	22 000	15 279
Deferred tax liabilities	870	684	560
Operating lease liabilities	356	577	421
Borrowings	13 579	20 739	14 298
Current liabilities	20 607	22 833	21 017
Current tax liabilities	1 195	517	304
Trade and other payables	11 570	18 417	12 064
Provisions	–	–	25
Dividend payable	135	–	750
Current portion of borrowings	7 707	3 899	7 874
Total liabilities	35 412	44 833	36 296
Total equity and liabilities	146 319	149 256	145 088

STATEMENT OF COMPREHENSIVE INCOME

	Unaudited 31 Aug 11 R000	Unaudited 31 Aug 10 R000	Audited 28 Feb 11 R000
Revenue	40 833	38 692	85 628
Cost of services rendered	(18 375)	(19 899)	(38 625)
Gross profit	22 458	18 793	47 003
Other operating income	121	622	601
Operating expenses	(21 432)	(41 911)	(62 365)
Operating profit/(loss)	1 147	(22 496)	(14 761)
Investment income	2 223	1 590	3 553
Share of profits/(losses) of associate companies	70	(32)	–
Finance costs	(1 744)	(1 107)	(2 099)
Profit/(loss) before taxation	1 696	(22 045)	(13 307)
Taxation	(2 454)	(2 558)	(4 062)
Loss and total comprehensive loss for the period	(758)	(24 603)	(17 369)
Loss and total comprehensive loss for the period attributable to:	(758)	(24 603)	(17 369)
Non-controlling interest	119	156	(1 800)
Owners of the parent	(877)	(24 759)	(15 569)
Basic and diluted loss per share (cents)	(3.2)	(90.1)	(56.9)

CONDENSED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of Company R000	Non-controlling interest R000	Total equity R000
Balance at 1 March 2010 – audited	135 954	2 013	137 967
Total comprehensive (loss)/income for the period	(24 759)	156	(24 603)
Acquisition of non-controlling interest in existing subsidiary	(1 993)	(331)	(2 324)
Dividends	(5 429)	(706)	(6 135)
Other movements in non-controlling interests	–	(482)	(482)
Balance at 31 August 2010 – unaudited	103 773	650	104 423
Total comprehensive income/(loss) for the period	9 190	(1 956)	7 234
Dividends	(2 356)	(750)	(3 106)
Other movements in non-controlling interests	–	241	241
Balance at 28 February 2011 – audited	110 607	(1 815)	108 792
Total comprehensive (loss)/income for the period	(877)	119	(758)
Business combinations	–	1 244	1 244
Share reserve converted to loan receivable	369	–	369
Disposals of shares in subsidiaries	–	1 438	1 438
Dividends	–	(178)	(178)
Balance at 31 August 2011 – unaudited	110 099	808	110 907

CONDENSED STATEMENT OF CASH FLOWS

	Unaudited 31 Aug 11 R000	Unaudited 31 Aug 10 R000	Audited 28 Feb 11 R000
Cash generated from operations	7 122	6 659	12 525
Investment income	2 207	1 590	3 303
Finance costs	(1 744)	(1 107)	(2 066)
Tax paid	(2 053)	(4 511)	(8 144)
Cash flows from operating activities	5 532	2 631	5 618
Additions to investment property	–	–	(1 343)
Acquisition of property, plant and equipment	(738)	(1 575)	(1 987)
Proceeds on disposal of property, plant and equipment	–	–	51
Investment in subsidiaries	(562)	–	(3 583)
Deconsolidation of subsidiary	(63)	–	–
Disposals of investments in subsidiaries	(699)	–	(194)
Acquisition of intangible assets	(557)	(1 200)	(1 343)
Additions to non-current asset held for sale	–	–	(1 100)
Proceeds on disposal of non-current asset held for sale	–	–	11 800
Cash flow on consolidation of non-current asset held for sale	–	–	98
Contingent consideration paid	–	–	(265)
Cash flows from investing activities	(2 619)	(2 775)	2 143
Amounts advanced to associates and joint venture	(729)	(200)	(265)
Non-controlling interests' loans repaid	–	(103)	(238)
Loans receivable advanced	921	–	–
Borrowings (repaid)/advanced	(394)	(862)	241
Acquisition of additional shares in subsidiary from non-controlling interest	–	–	(2 324)
Dividends paid	(793)	(6 135)	(8 492)
Cash flows from financing activities	(995)	(7 300)	(11 078)
Net increase/(decrease) in cash and cash equivalents	1 918	(7 444)	(3 317)
Cash and cash equivalents at beginning of period	3 862	7 179	7 179
Cash and cash equivalents at end of period	5 780	(265)	3 862

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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")

SELECTED EXPLANATORY NOTES**Basis of preparation and accounting policies**

This condensed interim financial report has been compiled in accordance with IAS 34: Interim Financial Reporting, as well as AC 500 standards and the JSE Limited Listings Requirements. The accounting policies and critical accounting estimates and judgements applied to this financial report are consistent with those applied for the year ended 28 February 2011. This report was prepared under the supervision of the financial director, Frans Botha.

Financial results

This condensed interim report has not been reviewed or audited by the Group's auditors.

Business combination

51% of Integra was acquired on 1 March 2011 for a total consideration of R3 104 828. The purchase consideration was partially settled by converting an existing loan of R1 095 000 to shares and Integra issued ordinary shares to the value of R1 291 444 to the Company, which were paid for by transferring intangible assets to the same value to Integra. The balance of the purchase consideration of 718 384 was settled in cash.

Goodwill of R1 809 593 arose on the transaction and is attributable to Integra's business methodology and operating model.

The respective book and fair values acquired in the business combination are as follows:

	Book values R000	Fair values R000
Property, plant and equipment	24	24
Deferred tax asset	465	465
Trade and other receivables net of impairment	(331)	(331)
Cash and cash equivalents	159	159
Trade and other payables	(727)	(727)
Intangible assets	1 308	2 616
Net assets acquired	898	2 206
Non-controlling interest		(1 244)
Goodwill		2 143
Purchase price		3 105
Cash and cash equivalents		(159)
Part-payment in shares		(1 291)
Loan converted to equity in transaction		(1 095)
Cash outflow on business combination		560

A reconciliation of the Group's goodwill is as follows:

	Unaudited 31 Aug 11 R000	Unaudited 31 Aug 10 R000	Audited 28 Feb 11 R000
Opening balance	65 524	87 006	87 006
Additions through business combinations	2 143	-	3 472
Addition through consolidation of subsidiary previously held for sale	-	1 848	-
Adjustments to purchase price considerations	-	265	259
Impairment losses	(333)	(27 061)	(25 213)
Deconsolidation of subsidiaries	(1 003)	-	-
Disposal of shares in subsidiaries	(4)	-	-
Closing balance	66 327	62 058	65 524

Changes in investments

On 1 March the Group disposed of 12.6% of the interest in IQuad Technologies for a consideration of R1 cash. Consequently the Group lost control and the investment has been equity-accounted since disposal date. The investment and related loans were measured at fair value and a Group loss of R3 067 288 arose on the transaction.

On 1 August the Group disposed of its entire interest in IQuad Verification for a consideration of R1 500 000 at a Group loss of R778 942. The proceeds are still outstanding and are included in current assets in the statement of financial position.

On 1 March the Group ceased accounting for IDEC Consulting Service (Pty) Ltd ("IDEC") as a subsidiary and has equity-accounted the investment from that date. No profit or loss arose as a result of the deconsolidation. The deconsolidation arose as the Group no longer controlled the company.

The book values of the entities disposed of during the year are as follows:

	Unaudited 31 Aug 11 R000
Non-current loans payable	(492)
Goodwill	5
Property, plant and equipment	280
Intangible assets	497
Trade and other receivables	2 130
Cash and cash equivalents	699
Trade and other payables	(1 747)
Deferred tax	5 613
Net assets disposed of	6 985
Non-controlling interests	1 912
Investment in associate retained	(6)
Profit/loss on disposal	(3 846)
Proceeds on disposal	5 045
Amount included trade and other receivables	(5 045)
Cash and cash equivalents	(699)
Net cash outflow on disposals of subsidiaries	(699)

Earnings, dividend and net asset value per share

	Unaudited 31 Aug 11 Cents	Unaudited 31 Aug 10 Cents	Audited 28 Feb 11 Cents
Headline earnings per share	12.7	14.3	37.3
Proposed dividend per share			
- Interim	-	8.0	8.0
- Final	-	-	-
Weighted average number of ordinary shares in issue ('000s)	27 382	27 467	27 979

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

	Unaudited 31 Aug 11 R000	Unaudited 31 Aug 10 R000	Audited 28 Feb 11 R000
Earnings attributable to equity shareholders of the Company	(877)	(24 759)	(15 569)
Impairment of goodwill	333	27 061	25 213
Impairment of intangible assets	–	–	977
Other impairments	–	1 584	–
Loss/(profit) on disposal of property, plant and equipment	30	(1)	(1)
Fair value adjustment on re-measurement of disposal group held for sale	–	48	–
Fair value adjustment on loss of controlling interest in subsidiary	3 135	–	–
Loss/(profits) on disposal of investments	857	–	(232)
Profit on disposal of non-current asset held for sale	–	–	(164)
Headline earnings for the period	3 478	3 933	10 224

	Unaudited 31 Aug 11 Cents	Unaudited 31 Aug 10 Cents	Unaudited 28 Feb 11 Cents
Net asset value per ordinary share			
Net assets	402.1	377.8	403.9
Net tangible assets	141.8	140.1	148.5

Other significant matters

An amount of R369 231 previously included in other reserves has been converted to a loan and the outstanding amount is included in trade and other receivables. The loan bears interest at a market-related rate. The loan is carried at its fair value and is considered recoverable. The amount arose in 2011 as a result of a probable buyback of treasury shares utilised in a business combination in 2009.

Contingent asset

Future revenue approximating R9.8 million, to be earned from incentive applications submitted to regulatory authorities but still waiting 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 (31 August 2010: R13 million; 28 February 2011: R10 million).

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 those disclosed in these condensed financial statements and the commentary thereon.

SEGMENT REPORT

The Group has four reportable segments within which the Group's operating units ("SBUs") are categorised.

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.

Certain information within the Global trade services and Investment incentives segments has been reorganised in order to conform with the structure reported to the board of directors. All comparatives presented have been restated to incorporate these changes.

Investment incentives

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

Global trade services

Offer import and export business solutions, including customs consulting, rebate administration 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	Invest- ment incentives R000	Global trade services R000	Business develop- ment R000	Verifica- tion services R000	Total R000
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31 August 2011 – unaudited

Revenue – internal	172	–	86	–	258
Revenue – external	8 937	23 365	1 603	6 206	40 111
Profit before tax	1 216	6 638	491	899	9 244

31 August 2010 – unaudited

Revenue – internal	–	–	771	–	771
Revenue – external	14 032	15 471	3 504	4 683	37 690
Profit/(loss) before tax	4 151	6 447	696	(841)	10 453

28 February 2011 – audited

Revenue – internal	192	–	1 113	–	1 305
Revenue – external	28 357	41 270	5 320	8 926	83 873
Profit/(loss) before tax	8 851	14 569	(3 620)	(2 604)	17 196

	Unaudited 31 Aug 11 R000	Unaudited 31 Aug 10 R000	Audited 28 Feb 11 R000
Segmental profit reconciliation			
Profit before tax for reportable segments	9 244	10 453	17 196
Impairment losses	(333)	(28 645)	(28 030)
Profits from unallocated segments	1 780	2 865	5 574
Elimination of intersegment and corporate profits	(8 995)	(6 718)	(8 047)
Group profit/(loss) before tax as per statement of comprehensive income	1 696	(22 045)	(13 307)

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

14 October 2011
Port Elizabeth

Registered office: 56 Mangold Street, Newton Park, Port Elizabeth, 6045

Directors: N de Waal* (Chairman); A da Costa**; DM Edwards (CEO); S Totaram*; FJ Botha (FD); M Shaik Amod**; M Edas*; C Elfick**

*Non-executive * Independent

Transfer secretaries: Computershare Investor Services (Pty) Limited

Auditors: PricewaterhouseCoopers Inc.

Corporate advisor: PSG Capital (Pty) Limited

Designated Advisor: QuestCo Sponsors (Pty) Limited

PRELIMINARY CONDENSED
UNAUDITED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 AUGUST 2011

