

**Progility plc**  
**(formerly ILX Group plc)**  
**ANNUAL REPORT 2014**  
**Company No. 03525870**

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*Progility plc ("Progility") is the holding company of a project management services group which has been created to provide a range of project management services including innovative and market leading technology solutions.*

## **Chairman's Statement**

I am pleased to present Progility's results for the twelve months to 30 June 2014. These results show a business which has more than doubled in size as a result of the completion of the merger with Progility Pty Ltd and two other complementary acquisitions during the year.

The profile of the business has been completely transformed from the project management training and consulting business that started the financial year. On 1<sup>st</sup> July 2013 the Group completed the first of three transactions during the period, with the addition of recruitment services business TFPL Limited. Then on 7<sup>th</sup> October 2013 we completed the strategic merger of our Company with the technology solutions group Progility Pty Ltd ("Progility Technologies"). This was the largest and most significant transaction leading to the change of the Group's name to Progility plc. In addition, on 19<sup>th</sup> November 2013, the Group acquired a further recruitment services business, Sue Hill Recruitment and Services Limited.

This pattern of corporate activity is ongoing and on 14<sup>th</sup> July 2014, shortly after the period end, we acquired Starkstrom Group Limited, a project services company in the healthcare sector. In total, over the last thirteen months, the aggregate value of these transactions amounted to £26.23m (Progility Pty Ltd £15.97 million, Sue Hill £0.18 million and TFPL £0.40 million and Starkstrom £9.68 million).

Our strategic objective is to develop the Group's project management services, particularly in technology and consulting solutions, where the Board believes we can generate above average returns. The current Progility represents a platform upon which we intend to establish a portfolio of complementary project services businesses, with the ability to service our international client base and provide an increasingly integrated offering to address client's needs. We intend to continue acquiring appropriate new businesses which will complement our existing activities or provide an established presence in new industry verticals where the Group's skills and services can be profitably applied.

### **Financial Performance**

In common with many companies with substantial operations in Australia and New Zealand, our reported earnings experienced significant adverse translation impact during the second and third quarters due to a decline in the value of the Australian dollar versus Sterling. The Group now has revenues of £38.8 million in the period of reporting (versus pro-rata twelve months to 30 June 2013: £40.9 million). At constant currency, using 2013 exchange rates, current year revenue would have been reported as £42.3 million in the year to 30 June 2014. As our business reports its results under merger accounting it reflects current and historic revenue as if the merged companies had always been combined, meaning prior period revenues of the two companies are aggregated.

As part of the process of integrating our acquisitions and establishing a platform on which to build an enlarged business, the Group incurred costs during the period which we have highlighted as non-operating costs. These include transaction costs, and other strategic, non-cash items including amortization of intangibles, impairment, or non-recurring acquisition expenses and non-trading items. To provide clarity on the performance of our underlying business we have provided adjusted results which highlight these non-operational costs, which are set out in Note 10 within the Financial Statements.

Excluding the highlighted costs identified in note 10 our business generated an underlying profit before tax of £1.7 million (2013: Loss £0.2 million) and an underlying EBITDA of £2.6 million (2013: £0.9 million). (Note: underlying profit and EBITDA is stated before highlighted costs). The Group generated an unadjusted statutory loss before tax of £0.3 million which compares favourably with the prior period loss of £2.3 million.

The Board's objective remains to grow the Group's business. As a result it remains the Board's current intention that income generated by the Group will be re-invested to implement this growth strategy. The Board will not propose the payment of a dividend for the financial year under review.

# Chairman's Statement

## Business operations

A key operational focus over the period has been to develop a core platform from which the Group's businesses can provide support and benefit from exposure to the Group's wider client base. Specifically, we aim to assist our sales teams throughout our international network to facilitate greater integration and cross-referral from amongst the client base. To this end back office, new businesses administration, sales and marketing functions have been centralised where possible. Our business processes and related staffing levels are reviewed periodically and we have taken positive action to bring operating costs into line with the businesses objectives where possible.

## Acquisition post year end

On the 14<sup>th</sup> July 2014 Progility acquired the entire share capital of Starkstrom Group Limited ("Starkstrom") for £9.68 million. The acquisition of Starkstrom, a UK based project management services' company specialising in manufacturing and supplying medical infrastructure equipment for operating theatres and intensive care units, will provide a strong hub around which to focus the Group's work in the healthcare sector. We aim to increase the scope and scale of the Starkstrom business through capitalising on the contacts and experience available to the Group.

## Finance

On 30 June 2014 through a wholly owned special purpose vehicle, Progility Finco Limited, the Group created up to £50 million of redeemable loan stock ("Loan Stock") which the Group intends to list on the Channel Islands Stock Exchange. The Loan Stock provides the Group with a flexible mechanism to raise funds to support its growth strategy which we will employ as the occasion demands alongside equity and bank debt.

I am also pleased that on 7<sup>th</sup> July the Company's largest shareholder, Praxis Trustees Limited, as trustee of the DNY Trust, a family trust of which I am a discretionary beneficiary, announced its intention to support Progility by making up to £30m available on commercial terms to help fund the acquisition of appropriate new businesses.

## Management

The Board has been strengthened during the period by the addition of two new non-executive directors. I am pleased to have welcomed both John Caterer and Michael Higgins onto the Board. John joined the business as a non-executive Director on 17<sup>th</sup> October 2013 and was joined by Michael on 31<sup>st</sup> March 2014.

Alongside these new Directors the business has a team of highly capable change managers experienced in the integration of new businesses and sourcing business development opportunities.

## Prospects

We believe there is a significant opportunity to deliver value arising from leveraging our strong international customer base. The re-organisation of the marketing functions across the business are now very focussed on ensuring that our clients, in particularly the top 100, are aware of the full extent of the Group's capabilities in the field of project management services and the depth of experience contained across the Group. Our latest acquisition, Starkstrom, is a strong example with over forty years of experience in supplying medical infrastructure equipment.

We continue to work on operational improvements and the development of a broader consulting and technical solutions offering, building on the Group's presence in the area of project management and services.

Alongside this we will continue to seek to acquire further suitable businesses which we believe will deliver profitable growth to our existing project management services platform. We look forward to the current financial year being a further period of positive transformation.

Wayne Bos

30 September 2014

# Strategic Report

## Progility plc - Overview

This financial year to 30<sup>th</sup> June 2014 has seen the Group transform from an Anglo-Australian project management training business to a broad based project management services group. Our expertise includes technology solutions, consulting, training and recruitment services. Progility plc is becoming a leading provider of technology solutions and project management services. Our goal is to become a first choice global project management service group for our clients. To achieve this we plan to grow our international business in two ways. Firstly, by building on the operations of the existing Group to increase our corporate profile and our brand awareness, while developing the capabilities of our staff and our technology solutions. Secondly, through the acquisition of other established and complementary businesses. This approach will enable us to broaden our reach beyond the existing sectors within which we work.

### Key strategic objectives and measures of performance:

The Group's key performance indicator is EBITDA growth which is measured by operating segment. The Group's underlying EBITDA improved to £2.6 million (2013: £0.9 million). Identifiable key objectives include the following financial and non-financial indicators.

**Growth within the existing group:** Progress was noted in the revenue growth of 4%, arising from our broader product portfolio. To do this we need to further understand our client's product needs and ensure our product development is appropriately focused and balanced, so as not to dilute our offering. Where the market is very competitive for certain products we aim to add a number of new product lines to diversify our portfolio. To mitigate price risk we aim to differentiate ourselves from other project services providers to ensure we minimise potential margin erosion. However, our investment may not yield the anticipated returns, given the competitive price pressure we have experienced.

**Brand recognition and corporate profile:** Progress has been demonstrated with our investment in our online platform to integrate the Group's brands and reflect our broader service led portfolio. The Group aims to track its brand awareness and measure this going forward. Investing in online marketing is only one of a number of routes to market. We will look to continue to strengthen our approach and focus on key opportunities within our top client targets. Our specialist capability will help mitigate the possible risk of losing market share to competitors.

**Increased transaction activity:** Progress is evident through the number of transactions already undertaken. We aim to expand our presence in the markets we already service, but we will also look for value elsewhere, if there is a complementary client base. The current period of reporting has seen three corporate transactions, with a fourth occurring just after the period end. We continue to look for good value businesses to which we can apply our skills. As the economy improves we will see vendors price expectations increase, however, we will only pursue opportunities where we perceive the Group can achieve an acceptable return.

**Developing capability:** Further progress is required. We have created a structure which promotes talent, and allows rapid communication within our business. We aim to strengthen the capability further to ensure we have sufficient capacity to develop the business. The regional structure which we currently operate is a platform for our experienced executives to take the business forward. We aim to continue to provide a rewarding and stimulating environment to make Progility a truly competitive force in the market place. Obtaining the best talent to strengthen capability will form one of the future challenges as the wider economy improves intensifying competition for good people.

Our largest business service is the technology solutions expertise which sits within Progility Pty Ltd. This business delivers consulting led technology solutions across Australia and internationally. Our training expertise is primarily conducted under our historic ILX brand. ILX delivers technology-led learning solutions including best practice training for PRINCE2 project management. ILX has offices in the UK, Dubai, Australia and New Zealand. Recruitment services are delivered by TFPL Limited ("TFPL") and Sue Hill Recruitment and Services Limited ("Sue Hill") in the UK, which also promotes our Progility Recruitment brand. Our consulting expertise is primarily delivered by Obrar Limited ("Obrar") in the UK and Progility (formerly ILX) Consulting Pty Ltd ("Progility Consulting") in Australia, both of which are also able to service the needs of international clients.

Our teams are focused upon the delivery of profitable project-related services that can be applied across different sectors enabling the training, preparation and recruitment of project managers and the planning and implementation of projects

## Strategic Report

supported by technology solutions for clients. By strengthening our project management services capabilities and with a widened product technology portfolio, the Group will continue to:

- Aggressively expand our consultancy and technology solutions services in the UK and Europe, the Middle East and Africa, and Australasia applying our core skills to underpin this activity;
- Promote our skills in industries where we already provide products and services, particularly to the mining and communications sectors;
- Exploit our market leading position in the provision of project management training to build complementary offerings; and
- Provide recruitment services that complement our project management activities and help foster deeper relationships with our clients in other functions.

The Board believes that there is a significant opportunity to create value through building on its customer contacts, intellectual property and the further development of those assets. We believe that we have the capability to provide a wider range of project related services to our clients and that we can cross-sell opportunities in different areas to clients who have hitherto engaged with the Group in only a limited way. Additionally, as we have stated before, we will continue our search for new opportunities to develop the business and add companies which complement our skills and broaden our sector reach to our portfolio of brands, skills and geographies.

### Principal risks and uncertainties

The principal risks and uncertainties facing the group are as follows:

- Technological development – the risk of potential advances in technology making current products obsolete. This risk is mitigated by the Group's continued investment in new technologies and the development of existing product portfolio.
- Operational risk – the risk of recruiting an inappropriate individual for a role or providing inappropriate delivery of our products, services or consultancy to customers. This risk is mitigated by the Group's recruitment processes and annual performance reviews, its development reviews prior to delivery of products and services and the extensive experience of its consultants.
- Personnel risks – losing the services of key managers and employees or delays in finding suitable replacements. This risk is mitigated by the Group's bonus policies and other incentivisation initiatives.
- Additional funding – the existing resources of the Group may not be sufficient to allow it to expand or exploit new business development opportunities. This risk is mitigated by the expression of substantial financial support which the Group has received from its largest shareholder.
- Foreign exchange – the risk of adverse currency movements against the Group. This risk is mitigated by the Group's wide range of operations globally and the holding of appropriate funds in local currencies where the Group's operations are based.

The preparation of the Group accounts in conformity with IFRS requires management to make accounting estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. The key accounting estimates and assumptions are set out in the notes to the accounts. Such accounting estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances and constitute management's best judgment of conditions at the date of the financial statements.

In the future, actual experience may deviate from these estimates and assumptions, which could affect the financial statements, as the original estimates and assumptions are modified, as appropriate, in the year in which the circumstances change.

### Principal activity and business review

The principal activity of the Group during the period has been broadened, following the merger with Progility Pty Ltd in October 2013, to include the development of a professional services business enabling clients to integrate their communications and

## Strategic Report

information systems by supplying innovative technology solutions and consulting services. This activity complements the areas of expertise which the group has at its disposal: technology solutions, consulting, training and recruitment services.

Our business is managed through two geographical divisions to maximize our ability to communicate and deliver our full range of products and expertise to our client's budget decision makers across the diverse territories and time zones in which we operate.

### Corporate Management

During the period the Group moved its headquarters to 15 Fetter Lane, London. This central London location was chosen from a number of potential sites as it best suits the diverse needs of the various businesses within the Group. The Fetter Lane offices can accommodate sales presentations and client demonstrations for all of our businesses, as well as serving as a facility for training courses. The Group's lease over its office on the Strand ended during the period.

Our executive management team is made up of highly capable managers within sales, finance, legal and operations. The team has evolved out of the acquired/merged businesses, taking on additional responsibilities, within their sphere of expertise, to become an effective regional operation, able to deliver across their respective geographical client base. Their combined experience covers both large and medium sized entities and includes: systems integration, consulting, business development, sales, e-learning, digital transformation, cost control and operating in a public company environment. Our executive directors are experienced in mergers and acquisitions and business integration.

### Overview of our Brands

#### Northern hemisphere operation

The founding unit of the Group, the Training business, operates under the ILX brand. ILX delivers technology-led training in the UK Cabinet Office's best management practice products, primarily in PRINCE2, MSP and ITIL and is a leading provider of training in best practice for programme, project and IT service management, including strategic programme and project management consulting solutions. ILX also develops bespoke training courses for large-scale IT migration and transformation projects. We operate this service from offices in the UK and Dubai, with partnerships extending into Europe and the US.

Obrar is a consulting led project management services company. It has over 30 years' experience delivering technology and people solutions in the UK and internationally. Obrar, focuses on multimedia-driven contact centres, corporate technology infrastructure and associated operational change management. TFPL, Sue Hill and Progility Recruitment are our UK based recruitment services brands. TFPL became part of the Group in July 2013 with Sue Hill joining in November 2013. Together they form a recruitment division which boasts a pool of quality assured candidates trained in project management services, including digital information management candidates. Progility Recruitment was established in January 2014 to offer specific project management recruitment services.

#### Southern hemisphere operation:

Progility Technologies in Australia operates a communication systems integration business that designs, implements, trains and maintains technology solutions for medium and large enterprises. Its focus is on the transport, utilities and healthcare industries in Australia and on the mining industry globally. It also services the New Zealand market. Progility Consulting and ILX training provide their services through this region. The business is headquartered in Melbourne, Australia, with five regional sales offices.

The client facing brands include:

- ♦ *Communications Australia*, focused on communication systems integration;
- ♦ *CA Bearcom*, Australia's largest distributor of two-way radio communications products;
- ♦ *Minerals & Energy Technologies*, which designs, implements and manages an array of integrated communications solutions for specific mining, energy and transport projects.
- ♦ *Progility Consulting*, an organisational improvement and project management consulting company, specialising in information technology, service and supply chain improvement and overall project and programme management; and
- ♦ *ILX Training* which provides ILX branded training and consulting primarily in Australia and New Zealand.
- ♦ *TFPL, Sue Hill* and most recently *Progility Recruitment*, a newly created brand representing our resourcing service.

# Strategic Report

## Performance Management

### Highlights

- Revenue growth of 4% (after comparing on a constant currency basis, note 1)
- Underlying profit before tax of £1.7 million (2013: Loss £0.2 million) (after adjusting for highlighted costs, note 2)
- Underlying earnings before interest, tax, depreciation and amortisation of £2.6 million (2013: £0.9 million)
- Unadjusted loss before tax reduced to £0.3 million (2013: £3.0 million)

Note 1: Group Revenue reported as £38.8 million (which at constant currency is £42.6 million, 4% growth versus pro-rated twelve months 2013: £40.9 million)

Note 2: Loss before tax, £0.3 million plus highlighted costs of £2.0 million per Note 10 to the Financial Statements

Note 3: Constant currency is translated at the 2013 Australian dollar exchange rate \$1.657

### Revenue

The transaction with Proglity Pty Limited in October 2013, has been reflected under merger accounting, meaning the current and comparative figures reflect the Group position as if the two merged businesses had always been combined for the current and comparative period. The performance management of the Group has evolved as we have begun to understand how the business can best service our clients. Prior to the merger transaction in October 2013 the business operated largely from the UK, and was reported as such. Since the merger the diversity of the Group and the services and products has multiplied. This resulted in a refocus on how the business could most effectively sell its wider portfolio to its clients. The business now reports operationally via its two regional areas – each representing a significant regional customer facing segment. All the Australian related businesses, whether training, consulting or technology services now report and are managed under one unified team. Similarly the UK located operation reports its consulting, training and recruitment operation under one unified team. The accountability for cross selling our products and services is now region wide, which will enable faster response to client needs.

These two segments are reported because they reflect the management accounting key indicators which are used to manage the performance of the business. The Group's chief operating decision maker is the chief executive officer who reviews and considers these reports at the formal board meeting.

In common with many Anglo Australian businesses during the past year, the Group's results have been impacted after translating Australian Dollar earnings into Sterling on consolidation of the merged company results. The impact of the translated currency is compared with a constant currency translation shown below.

	<b>As reported Year ended 30.6.14 £000</b>	<b>Constant currency Year ended 30.6.14 £000</b>	<b>Pro-rata 12 months ended 30.6.13 £000</b>	<b>As reported 15months ended 30.6.13 £000</b>
Group Revenue	38,786	42,555	40,929	51,861
Underlying profit before tax	1,664	2,346	(965)	(225)
Underlying operating profit	2,648	2,743	120	853

Note 1: Loss before tax, £0.3 million plus highlighted costs of £2.0 million (per Note 10 to the Financial Statements)

Note 2: Constant currency is translated at the 2013 Australian Dollar rate \$1.657

At a constant currency level the restated revenue reflects the higher commercial activity in the business during the twelve months to 30 June 2014 compared with the pro-rata prior year. This demonstrates a real increase of activity during the period on a like for like basis.



## Strategic Report

### Segment performance

During the period the Group traded principally through its subsidiaries in Australia, New Zealand, the UK and in the United Arab Emirates.

*Northern Operation* – The Group's northern hemisphere operations comprise operations in the UK and Ireland, the United States, Europe and the Middle East, which are managed and directed from the London office.

The northern hemisphere located division includes the UK domiciled businesses, ILX Group (the UK and United Arab Emirates Training businesses), Obrar consulting, TFPL recruitment, Sue Hill Recruitment and Progility recruitment. Its segmental performance was as shown below:

		<b>As reported Year ended 30.6.14 £000</b>		<b>As reported 15 months ended 30.6.13 £000</b>
	<b>£000</b>		<b>£000</b>	
	Revenue	Segment Profit	Revenue	Segment Profit
Northern hemisphere revenue	13,400	2,732	12,784	2,285

As indicated in the half year results performance is second half weighted. Segment profit was driven by training and consulting services, with contribution from the recruitment service adding to the result towards the end of the period.

*Southern Operation* – The Group's southern hemisphere operations comprise operations in Australia and New Zealand and the far east, which are managed and directed by the Melbourne office. The divisions co-operate on large, sometimes global, accounts with key talent in the relevant field of expertise taking the lead role.

The southern hemisphere group includes Progility Pty Ltd, ILX Group Pty Ltd, Progility Consulting Pty Ltd, all Australia domiciled, as well as ILX Group Limited in New Zealand.

		<b>As reported Year ended 30.6.14 £000</b>		<b>As reported 15 months ended 30.6.13 £000</b>
	<b>£000</b>		<b>£000</b>	
	Revenue	Segment Profit	Revenue	Segment Profit
Southern hemisphere revenue	25,386	3,154	39,077	3,502

Performance in this division was also second half weighted. Period on period performance reflects an increase segment profit (at a like for like constant currency level) driven by the Progility Technology brands, with a slowdown occurring in the Training business brand due to a reorganisation.

Segment profit was driven by the Bearcom and Communications Australia brands, while set up costs within the Progility Consulting team and the Minerals & Energy business impacted the overall momentum of the division.

### Central corporate costs

	<b>As reported Year ended 30.6.14 £000</b>	<b>As reported 15 months ended 30.6.13 £000</b>
Central costs	(3,593)	(5,186)

Our central costs include back office operations including property, legal, finance, IT, communications, HR and board costs. During the year both north and south divisions moved their management offices from older premises to more efficient office

## Strategic Report

space which will better serve the needs of our staff and clients alike. Other costs which have changed in the year include governance costs relating to the board, with two new board members having been appointed.

### Financial Review

#### Result before tax

Underlying profit before tax for the period was £1.7 million (2013: loss £0.2 million). The reported loss before tax, after taking account of restructuring, amortization, share option and impairment charges was £0.3 million (2013: £3.0 million).

	<b>As reported Year ended 30.6.14 £000</b>	<b>Constant currency Year ended 30.6.14 £000</b>	<b>Unaudited 12 months ended 30.6.13 £000</b>	<b>As reported 15 months ended 30.6.13 £000</b>
Reported loss before tax	(325)	(357)	(2,954)	(3,037)
Highlighted costs (Note 10)	1,989	2,703	1,989	2,812
Underlying profit (loss) before tax	1,664	2,346	(965)	(225)

  

Reported operating profit	659	754	(2,109)	(1,959)
Interest	(984)	(1,111)	(845)	(1,078)
Loss before tax	(325)	(357)	(2,954)	(3,037)

The impact of the decline in the Australian Dollar and comparatively weaker Australian economy has been felt both in the Proglity Pty Ltd Australian business and our Training/Consulting businesses located in Australia/New Zealand. While revenue has been maintained in our consulting business within the UK, the challenge has been to ensure we continue to develop new business relationships in the training and technology solutions brands while ensuring margin is maintained.

The underlying operating profit before highlighted costs and interest (underlying EBITDA) was £2.6 million (2013: £0.9 million). The majority of the restructuring costs related to the northern hemisphere operation and were incurred in relation to the merged or acquired businesses and costs related to a reorganisation.

Highlighted items include acquisition and merger related costs of £1.08 million and an impairment charge of £0.56 million (2013: £2.62 million). Additionally, amortization charges in the period were £0.35 million (2013: £0.19 million). Apart from the recurring amortization costs these highlighted costs were largely non-recurring expenses in the holding company function, within the northern hemisphere operation.

#### Cost reductions

Steps have been taken to maintain control over our cost base to prevent gradual increases across the enlarged business. In the twelve months to 30 June 2014, after accounting for highlighted (cash) costs of £1.6 million, administration costs were £0.8 million lower than in the previous twelve months reporting period (on a like for like basis at constant currency).

Understanding the detailed drivers of the margins of the business is part of the ongoing review to strengthen the performance of the core business and further effort will be directed towards this objective during the coming year.

## Strategic Report

### Finance costs

The Group incurred finance costs of £1.0 million (2013: £1.1 million) during the reporting period. On a like for like basis in the twelve months to 30 June 2013 the Group incurred £0.8 million of interest. The year on year increase reflects the higher costs associated with our increased working capital facilities.

### Taxation

The tax benefit for the period was £11,000 (2013: benefit £0.7 million).

### Profit for the period and earnings per share

Loss for the period attributable to equity shareholders was £0.3 million (2013: £2.3 million loss). Loss per share was 0.16p basic and diluted (2013: 1.19p loss).

### Going Concern

The Group has prepared its accounts on a going concern basis based on current forecasts for the period through to November 2015. While the Group currently has negative net current assets the Board believes that it can meet its day-to-day working capital requirements from operating cash flows and its existing facilities. The Company's largest shareholder, Praxis Trustees Limited, as trustee of the DNY Trust, announced its intention, on 7<sup>th</sup> July 2014, to support Progility by making up to £30 million available on commercial terms.

### Cash flow, net debt and facilities

#### *Cash flow*

Cash generated from operating activities was £0.5 million (2013: £0.8 million). The Group generates operating cash flow from its product sales, maintenance contracts, e-commerce and cash sales and from advance payments from customers. During the period to 30 June 2014 restructuring costs have represented a significant proportion of the Group's operating cash outflow. is the Board believes that the investment in ongoing restructuring will have a positive effect on future cash flow. The effectiveness of this investment will be reflected in its impact on the Group's northern division.

The Group paid out £9,000 in corporation tax during the period of reporting (2013: £0.9 million received).

The Group continues to invest in its staff development, its product range and also incurred capital expenditure in the period relating to updates of intellectual property assets, product development and its internal systems and equipment to improve operating efficiency and remove labour intensive administration.

#### *Net debt and facilities*

At the balance sheet date the Group's debt comprised loans and overdrafts due within one year of £3.7 million (2013: £3.1 million) and £4.6 million (2013: £4.6 million) falling due in over one year. Of these amounts a total of £5.0 million represents shareholder loans made up of £0.4 million of convertible loan note and £4.6 million of other notes.

Of the bank facilities drawn at the balance sheet date, the fixed term loan of £1.3 million is expected to be repaid in full within the next eighteen months with £0.3 million having already been paid since the balance sheet date. At the balance sheet date £0.2 million of the overdraft facility remained undrawn.

Net debt at the period end, defined as all bank and third party debt, less cash at bank, excluding shareholder loans was £1.5 million (2013: £0.9 million). This comprised: £1.5 million in bank facilities drawn plus invoice discounting facilities of £1.8 million less £1.8 million in cash balances. The Group remains within the terms of all its loan covenants.

## Strategic Report

After the year end the Group's available financing was raised to £30.0 million following the statement on the 7<sup>th</sup> July 2014 from the Group's largest shareholder announcing its intention to support Progility's strategic objectives.

### Dividend

As noted above, in order to pursue the Board's objective to grow the Group's business the Board does not recommend the payment of a dividend for the period ended 30 June 2014. As the Board intends that income generated by the Group will be re-invested to implement the Group's growth strategy this is likely to remain the position for the foreseeable future.

### Post balance sheet events

#### Acquisition of Starkstrom Group Limited

Starkstrom is a UK based project management services company specialising in manufacturing and supplying medical infrastructure equipment for operating theatres and intensive care units. The entire share capital was acquired on the 14<sup>th</sup> July 2014 for an aggregate consideration, payable in cash and loan notes, of £9.68 million. For further details refer to Note 28 within the Financial Statements.

On behalf of the Board

Wayne Bos

John McIntosh

30 September 2014

# Governance

## Board of Directors

### 1. Wayne Bos

#### *Executive Chairman and Interim Chief Executive Officer*

Wayne joined the Board on 21 August 2012. Wayne has over 20 years' experience managing and investing in business over a wide range of sectors, with particular expertise in the software and technology sector. For three years Wayne was Chief Executive of Sausage Software, an Australian public company. Under his leadership, Sausage grew from a single product company with 35 people and revenues of \$5 million, to an eBusiness solutions house with over 1500 people and revenues of more than \$150 million. Sausage Software, with subsidiaries in the UK, USA and Asia, became Australia's fastest growing company as it grew to a market capitalization of more than \$2 billion during the late 1990s and early 2000s. In 2000 Wayne worked closely with the management team of Uniqema, a division of Imperial Chemical Industries, to complete the acquisition of one of its business units which was subsequently successfully listed on the Australian Stock Exchange. In early 2006 Wayne became President and CEO of Natrol, a Nasdaq listed Nutraceutical company, (then traded at around US\$2.28 per share) which was sold in late 2007 to Plethico, an Indian public company, for US\$4.40 per share. In the private company market, Wayne was appointed Chairman of Ansett Aviation Training in 2004 as part of its rescue from the bankrupt Ansett Australia. After growing the business into the largest independent aviation training facility in the southern hemisphere, Ansett Aviation Training was successfully sold to a consortium led by an Australian private equity house for an undisclosed amount in June 2012.

### 2. John McIntosh

#### *Chief Financial Officer*

John joined the board on 6 June 2013. John qualified as a Chartered Accountant with Deloitte & Touche in 1994. He held Controller roles within corporations including Sony and D'Arcy, Masius Benton & Bowles and the BBC's corporate finance team before joining an internet start-up team. He has significant experience of managing growth businesses particularly within the online, multi-media and the communications services sector. John has worked extensively with private equity owned and quoted businesses. He was instrumental in the development and growth of the multi-media group DCD Media plc holding the positions of Chief Financial and Chief Operating Officer. Mr McIntosh has held Main Board Director roles in AIM listed companies since 2003 and joined ILX Group (now Progility) in November 2012. John is also Company Secretary.

### 3. Donald Stewart

#### *General Counsel*

Donald joined the board as a non-executive director on 18 April 2013 and subsequently joined the Company full time as General Counsel on 3 June 2013. With over 25 years experience practising corporate and commercial law as a qualified solicitor in England and Wales and Scotland, Donald's expertise is focused on corporate finance, takeovers, mergers and acquisitions, and UK publicly listed companies. He has extensive experience working with companies in the technology and communications sectors. Donald is also a director (and past Chairman) of the Quoted Companies Alliance, is the UK's representative on the Policy Committee of European Issuers based in Brussels and sits on the Council of the City of London's International Regulatory Strategy Group.

### 4. Paul Lever

#### *Independent Non-executive*

Paul joined the board as non-executive Chairman on 6 January 2003 and remained an independent non-executive director following the appointment of Wayne Bos as Executive Chairman in August 2012. Paul is currently senior partner of Marylebone Associates LLP, and was Chairman of Datong Plc until June 2013. Paul was formerly the chairman of the National Criminal Intelligence Service (NCIS) and the National Crime Squad (NCS), non-executive chairman of BSM Group plc and Oxford Aviation Holdings Ltd and chief executive of Lionheart plc. Previously at Tube Investments he was chief executive of the Steel Stockholding Division and, subsequently, of the Small Appliance Division which included Russell Hobbs. Paul was appointed chief executive of Crown Paints by Reed International and, following the acquisition of Berger Paints for £135 million, he merged the

## Governance

two operations with considerable savings and combined annual sales of £400 million. Paul is a member of the Audit Committee and chairman of the Remuneration Committee.

### 5. John Caterer

#### *Independent Non-executive*

John was Managing Director, UK & Ireland, with Qualcomm, the Fortune 500 and Nasdaq listed wireless/mobile technology product developer, from 2005 until the summer of 2013. John joined Motorola's infrastructure division in 1990 when GSM was first being introduced in Europe. During 11 years at Motorola, John spent five years heading operations and new business activities in France/Benelux and then across Northern Europe latterly becoming business development director for Europe, Middle East and Africa. After leaving Motorola he held senior management roles with Juniper Networks and Kodiak Networks. Earlier in his career, John spent 15 years working in industrial plant engineering and contracting in Russia, Africa and the Far East. John is also a member, and immediate past Chairman, of the Prince's Trust Technology Leadership Group. John is a member of both the Audit Committee and the Remuneration Committee.

### 6. Michael Higgins

#### *Independent Non-executive*

Michael Higgins has over 25 years' experience of advising and working with public companies. Currently Michael is non-executive Chairman of Ebiquity plc, independent marketing performance specialists, senior independent director of Plant Health Care plc, a patented biological products provider and a non-executive director of Arria NLG plc, a software business. Michael is also Chairman of the Quoted Companies Alliance. After reading economics and politics at Cambridge, Michael qualified as an accountant at Price Waterhouse. Following international banking experience with Saudi International Bank he joined Charterhouse, the merchant bank, in 1984. Michael became a KPMG Partner from 1996 to 2006, remaining a senior adviser for a further five years. Michael is chairman of the Audit Committee and a member of the Remuneration Committee.

## Directors' Report for the year ended 30 June 2014

The Directors present their report and the financial statements for the year ended 30 June 2014. On 4 October 2013 the company changed its name from ILX Group Plc to Progility plc to better reflect the nature of the Group's business following its merger with Progility Pty Ltd.

As announced on 10<sup>th</sup> September 2013 a share for share exchange agreement was entered into between the Company and the shareholders of Progility Pty Ltd. The agreement was completed on 7 October 2013 and, following completion, the Company is the sole shareholder of Progility Pty Ltd.

In determining the appropriate accounting treatment for this transaction the directors considered IFRS 3 'Business Combinations' (revised 2008). However, they concluded that this transaction fell outside the scope of IFRS 3 since the transaction represents a combination of entities under common control.

Accordingly, following the guidance regarding the selection of an appropriate accounting policy provided in IFRS 10 Consolidated Financial Statements (in relation to the evidence regarding what constitutes control) and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', the transaction between the Company and Progility Pty Ltd has been accounted for in these accounts using the principles of merger accounting with reference to UK Generally Accepted Accounting Practice (UK GAAP) which does not conflict with IFRS and reflects the economic substance of the transaction.

Under UK GAAP, the assets and liabilities of both entities are combined at book value, not fair value (although adjustments are made to achieve uniform accounting policies) and the comparative amounts are restated as if the combination had taken place at the beginning of the earliest accounting period presented.

Therefore, although the combination did not become unconditional until 7 October 2013, the prior period has been restated as if the Group structure had always been in place.

### Post Balance Sheet Event

On the 14 July 2014 the Group acquired the entire share capital of Starkstrom Group Limited ("Starkstrom") for an aggregate consideration, payable in cash and loan notes, of £9.68 million from its owner managers. Further details are provided in note 25.

### Results and dividends

The results of the Group for the period are set out on page 26. The Directors do not propose payment of a dividend for the year.

### Principal shareholders

At the date of this report the Company has been notified of the following shareholdings in excess of 3% of the Company's issued share capital:

	Ordinary Shares of 10 pence each	Percentage
Praxis Trustees Limited*	129,294,195	64.75
Mmilt Pty Limited	35,863,179	17.96
Cameron Investment Trust	6,516,130	3.26

\*As trustee of the DNY Trust, a family trust of which Wayne Bos is a discretionary beneficiary, Praxis Trustees Limited holds 129,294,195 ordinary shares and, through DNY Investments Limited, a company which is an asset of the DNY Trust, has the right to subscribe for up to a further 8,000,000 ordinary shares by exercising the conversion rights attached to a convertible loan notes and warrants issued by the Company on 17 December 2012.

### Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review within the Strategic Report on pages 6 to 7. The financial position of the Group, its cash flows,

liquidity position and borrowing facilities are described in the Financial Review on pages 10 to 11. In addition, the notes to the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group's banking facilities, which include an overdraft facility and a loan, which replaced the previous revolving credit facility, are repayable on demand. The Group's forecasts and projections, taking account of reasonably foreseeable changes in trading performance, show that the Group should be able to operate within the level of its current facilities. Through discussions with its loan note holders and principal bankers and lenders, the Directors, after making enquiries, have concluded that they have a reasonable expectation that the Company and the Group will have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements. Further information on Going Concern is included in the Notes to the Financial Statements on page 35.

The financial statements do not include the adjustments that would result if the Group or Company was unable to continue as a going concern.

### **Employment policies**

It is the policy of the Group to consider all applicants for employment on the basis of qualification for the specific job without regard to race, colour, religion, age, sex, sexual orientation, disability or national origin. This policy extends to all aspects of employment including recruitment, training, compensation, career development and promotion.

### **Corporate social responsibility**

The Group is developing a corporate responsibility programme that focuses on adding value to the communities and countries in which we operate, looking after our environment, ensuring quality and excellence for our customers and investing in our people.

### **Directors and their interests**

The present Directors are listed on page 8. The interests of the Directors in the share capital of the Company are as follows.

#### **Ordinary shares of 10 pence each**

	<b>At 25.9.2014</b>	<b>At 30.6.2014</b>	<b>At 30.6.2013</b>
W M Bos*	129,294,195	129,294,195	11,940,000
P R S Lever	210,000	173,024	148,021
D J Stewart	430,547	-	-
J McIntosh	120,000	-	-
J Caterer	-	-	-
M Higgins	-	-	-

\*As trustee of the DNY Trust, a family trust of which Wayne Bos is a discretionary beneficiary, Praxis Trustees Limited holds 129,294,195 ordinary shares and, through DNY Investments Limited, a company which is an asset of the DNY Trust, has the right to subscribe for up to a further 8,000,000 ordinary shares by exercising the conversion rights attached to a convertible loan notes and warrants issued by the Company on 17 December 2012.

In accordance with the articles of association John Caterer and Michael Higgins, being eligible, offers themselves for re-election at the forthcoming Annual General Meeting.

### **Directors' and officers' liability insurance**

The Company has purchased insurance to cover its Directors and Officers against the costs of their defending themselves in any legal proceedings taken against them in that capacity and in respect of charges resulting from the unsuccessful defence of any proceedings.



## **Auditors**

Grant Thornton have expressed their willingness to remain in office as auditors of the Company. In accordance with S489 of the Companies Act 2006 a resolution proposing that Grant Thornton be reappointed as auditors to the Company will be put to the Annual General Meeting.

## **Annual general meeting**

The resolutions to be proposed at the Annual General Meeting will be communicated in due course.

This report was approved by the board on [ ] September 2014.

On behalf of the board

***John McIntosh***

Director

30 September 2014

## Remuneration Report for the period ended 30 June 2014

### Remuneration policy

The objective of the Group's remuneration policy is to attract, motivate and retain high quality individuals who will contribute significantly to shareholder value. The remuneration committee decides on the remuneration of the Directors and other senior executives, which comprises a basic salary, car allowance, healthcare, bonus scheme, share options, and medium term incentive plan. The Board as a whole decide the remuneration of the non-executives.

### Directors' remuneration

Details of the remuneration of the Directors for the year are set out below (The executive Directors are regarded as the Key Personnel for the purposes of the remuneration report):

	Salary & fees	Other benefits	Pension contributions	TOTAL for year ended 30.6.2014	TOTAL for period ended 30.6.2013
	£'000	£'000	£'000	£'000	£'000
<b>Executive Directors</b>					
W M Bos	160	6	-	166	122
D J Stewart	178	-	7	185	18
J McIntosh	126	1	8	135	11
K P Scott+	-	-	-	-	171
J A Pickles+	-	-	-	-	86
E J Kilkelly+	-	-	-	-	98
<b>Non-executive Directors</b>					
P R S Lever	25	-	-	25	39
J Caterer*	14	-	-	14	-
M Higgins*	6	-	-	6	-
P Virik+	-	-	-	-	15
DJP Lane+	-	-	-	-	-
	509	7	15	531	560

\* From date of appointment - J Caterer 17 October 2013, M Higgins 31 March 2014

+ Until date of resignation - K Scott 27 November 2012, J Pickles 24 October 2012, E Kilkelly 24 October 2012, P Virik 24 October 2012, DJP Lane 24 October 2012

### Share options

In November 2013 the Company adopted a bespoke Australian Share Option Scheme, specifically for employees of the Group resident in Australia, and the Progilty plc 2013 Unapproved Share Option Scheme for employees in the UK and elsewhere. The share options granted to the Directors during the year and in previous years are as follows:

	Number of shares under option at 30.6.2013	Granted during the year	Lapsed during the year	Number of shares under option at 30.6.2014	Exercise price	Date of grant
K P Scott	340,936	-	(340,936)	-	0p	20-Apr-11
E J Kilkelly	240,000	-	(240,000)	-	0p	31-Oct-09
E J Kilkelly	80,000	-	(80,000)	-	0p	01-Jun-10
J McIntosh	-	500,000	-	500,000	10p	06-Nov-13
D J Stewart	-	500,000	-	500,000	10p	06-Nov-13
	660,936	1,000,000	(660,936)	1,000,000		

#### Bonus scheme for executive Directors

The Company will consider creating a bonus scheme for executive Directors and management which is based on meeting market expectations and operating profit margin targets. No bonus was paid for the period under review while the business is undergoing integration and reorganisation.

#### Shareholder approval

In accordance with best practice in corporate governance, the Company will put a resolution to shareholders to approve the remuneration report at the forthcoming Annual General Meeting.

## Corporate Governance

### Statement of compliance

As a Company quoted on the Alternative Investment Market (AIM) of the London Stock Exchange, the Company is not required to comply with the UK Corporate Governance Code. However, the Directors have adopted the Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size Quoted Companies (the QCA Code). The QCA Code adopts key elements of the UK Corporate Governance Code, current policy initiatives and other relevant guidance and applies these to the needs and particular circumstances of small and mid-size quoted companies on a public market. The QCA Code meets the different needs of developing and growing companies.

The Directors are committed to ensuring appropriate standards of Corporate Governance are maintained by the Group and this statement sets out how the Board has applied the QCA Code in its management of the business during the year ended 30 June 2014.

The Board recognises its collective responsibility for the long term success of the Group. It assesses business opportunities and seeks to ensure that appropriate controls are in place to assess and manage risk. During a normal year there is a minimum of ten scheduled Board meetings with other meetings being arranged at shorter notice as necessary. During the period, there were eleven scheduled meetings. Meetings of the Board were attended by all Directors who were appointed at the time of the meeting. The Board agenda is set by the Chairman in consultation with the other Directors and the Company Secretary.

The Board has a formal schedule of matters reserved to it for decision which is reviewed on an annual basis. Under the provisions of the Company's Articles of Association all Directors are required to offer themselves for re-election at least once every three years. In addition, under the Articles, any Director appointed during the year will stand for election at the next following annual general meeting, ensuring that each Board member faces re-election at regular intervals. The Directors are entitled to take independent professional advice at the expense of the Company and have access to the advice and services of the Group's General Counsel and Company Secretary.

### The Board

The Board is ultimately responsible and accountable for the Group's operations. During the period the Board consisted of:

#### *Executive Directors*

Wayne Bos, Executive Chairman

John McIntosh, Chief Financial Officer

Donald Stewart, General Counsel

#### *Non-executive Directors*

Paul Lever

John Caterer (appointed 17 October 2013)

Michael Higgins (appointed 31 March 2014)

All of the Directors have access to the advice and services of the Company's legal counsel. The Board meets regularly and agrees and monitors the progress of a variety of Group activities. These include strategy, business plan and budgets, acquisitions, major capital expenditure and consideration of significant financial and operational matters. The Board also monitors the exposure to key business risks and considers legislative, environmental, employment, quality and health and safety issues. There is a written statement of matters reserved for consideration by the Board.

During the 12 months to 30 June 2014 the Board has been significantly strengthened by the addition of two independent non-executive directors who have widened the fields of expertise available to the Company and who bring extra dimensions of experience to facilitate strong governance within the management of the Group.

The Chairman, who is responsible for running the Board, continues to assume the role of acting Chief Executive. The Board continues to believe that the circumstances in which this situation has arisen are both exceptional and appropriate given the transformational growth of the business during the period and Board's need to strengthen the drivers of the core business and successfully integrate the additional businesses acquired during the period. The Chairman has continued to display a clear vision and focus for the Company's strategy and has drawn together the disparate characteristics, skills, qualities and experience of the other members of the Board and senior management. Highly visible in his role, he continues to foster a positive corporate governance culture, which has permeated through the Company. In his role as acting Chief Executive he has been instrumental in facilitating the executive management team in running the Group's expanded business and implementing the Group's growth strategy. In addition to John Caterer and Michael Higgins, throughout the period Paul Lever has been an independent non-executive Director and has brought his independent judgement to the governance of the Group. Although Mr Lever has now served on the board for more than ten years since his first appointment, in accordance with the QCA Code the Board remains satisfied that he is free from any business or other relationships which could interfere with the exercise of his judgment. Mr Lever has sufficient time to carry out his duties for the Group.

The Board considers its current structure is appropriate for the scale of the business and to enable the Group to be managed effectively.

The Group does not have an internal audit department, although the need for one is reviewed from time to time within the Audit Committee framework. Non-executive Directors are subject to reappointment by the shareholders at the Annual General Meeting at intervals of no more than three years.

## **Committees**

The Board is supported by an audit committee and a remuneration committee with formally delegated responsibilities ensuring that appropriate governance procedures are followed. The audit committee comprises Michael Higgins (chairman), Paul Lever and John Caterer and the remuneration committee comprises Paul Lever (chairman), Michael Higgins and John Caterer.

The Board has not established a nomination committee as it regards the approval and appointment of Directors (whether executive or non-executive) as a matter for consideration by the whole board.

### **Audit committee**

The audit committee meets at least twice a year. Typically the auditors and the Finance Director are also invited to attend meetings. It is responsible for ensuring that the financial performance of the Group is properly monitored and reported on. It also reviews the effectiveness of the Group's systems of internal control on an ongoing basis. No significant weaknesses have been identified. However, the committee recognises that as the Group continues to grow, particularly internationally, internal controls will have to be further reviewed and updated. It is also responsible for appointing the auditors, ensuring the auditors' independence is not compromised, and reviewing the reports on the Group from the auditors in relation to the accounts and internal control systems.

### **Remuneration committee**

The remuneration committee is responsible for reviewing the performance of the Executive Directors and other senior executives, and for determining the scale and structure of their remuneration packages and the basis of their service contracts bearing in mind the interests of shareholders. The committee also monitors performance and approves the payment of performance related bonuses and the granting of share options.

### **Internal control**

The QCA Code provides that the Board is responsible for putting in place and communicating a sound system to manage risk and implement internal control.

Although no system of internal control can provide absolute assurance against material misstatement or loss, the Group's system is designed to provide the Directors with reasonable assurance that problems are identified on a timely basis and dealt with appropriately. The key procedures that have been established and which are designed to provide effective internal control are as follows:

- ✦ A formal management structure with a schedule of matters specifically reserved for the Board's approval. The Executive Directors and other members of senior management meet regularly to control and monitor the Group's activities.
- ✦ A strategic planning and budget setting process with both annual and longer-term forecasts reviewed and approved by the Board.
- ✦ A comprehensive monthly financial reporting system which compares results with budgets, together with a written report detailing current trading conditions, variations from budget and updated forecasts.
- ✦ A report to the audit committee from the auditors stating any material findings arising from the audit. This report is also considered by the Board and action taken where appropriate.
- ✦ A framework for capital expenditure and controls including authorisation procedures and rules relating to the delegation of authority.
- ✦ Risk management policies to manage issues relating to health and safety, disaster recovery, legal compliance, insurance and security.

## **Relations with shareholders**

The Group places a high level of importance on communicating with its shareholders and welcomes and encourages such dialogue within the constraints of the AIM Rules and other regulations applicable to publicly quoted companies. The Group works closely with its Nominated Adviser, brokers and financial PR advisors to maintain an active dialogue with institutional and private shareholders and analysts through a programme of investor relations carried out during the year.

Information is made available on the Company's website in accordance with the requirements of Rule 26 of the AIM Rules for Companies. The Company has adopted electronic communication to the fullest extent permissible and shareholders are notified when new statutory information is available on the website. Hard copies of reports are only sent where shareholders have specifically requested their receipt.

## **Directors' Responsibilities**

The Directors are responsible for preparing the strategic report, 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. The Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Company and Group for that period. In preparing those 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 IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements; and
- ✦ prepare the financial statements on a going concern basis unless it is inappropriate to assume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance of the Group website, [www.progility.com](http://www.progility.com), together with the websites of all subsidiary companies. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In our opinion:

- ✦ The group financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group taken as a whole; and
- ✦ the annual report, including the strategic report, includes a fair review of the development and performance of the business and the position of the company and undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

#### **Disclosure of information to auditors**

The Directors confirm that:

- ✦ so far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- ✦ the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

#### **Resolutions at the Annual General Meeting**

The Company's AGM will be held on [29] October 2014. Accompanying this Report is the Notice of AGM which sets out the resolutions to be considered and approved, if thought fit, at the meeting together with some explanatory notes.

#### **Supplier payment policy**

The Company and Group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of the terms of payment and to abide by the terms of the payment.

#### **Share capital**

Details of the Company's share capital and changes to the share capital are shown in note 19 to the Consolidated Financial Statements.

#### **Website publication**

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website ([www.progility.com](http://www.progility.com)) in accordance with legislation and the AIM Rules. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the on-going integrity of the financial statements contained therein.

#### **Charitable and political donations**

Group donations to charities worldwide during the period under review were £nil (2013: £nil). No donations were made to any political party.

This report was approved by the board on 30 September 2014.

On behalf of the board

**John McIntosh**

Director

30 September 2014

## Independent auditor's report to the members of Progility plc

We have audited the financial statements of Progility plc for the year ended 30 June 2014 which comprise the consolidated statement of comprehensive income, the consolidated and parent company statements of financial position, the consolidated and parent company cash flow statements, the consolidated and parent company statements of changes in equity and the related notes. 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 set out on page 22, the directors are responsible for the preparation of the 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 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 (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2014 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the 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.

**Mark Henshaw**

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

**London**

**30 September 2014**

# Financial Statements

## Consolidated Statement of Comprehensive Income for the Year ended 30 June 2014

		Before highlighted items 30.6.2014 Total £'000	Highlighted costs Note 10 Total £'000	Year ended 30.6.2014 Total £'000	Before highlighted items 30.6.2013 Restated £'000	Highlighted cost Note 10 Total £'000	15 months ended 30.6.2013 Restated £'000
	Notes						
<b>Revenue</b>	4	38,786	-	38,786	51,861	-	51,861
Cost of sales		(27,354)	-	(27,354)	(36,989)	-	(36,989)
<b>Gross profit</b>		11,432	-	11,432	14,872	-	14,872
Administrative and distribution expenses		(8,784)	(1,427)	(10,211)	(14,019)	(1,515)	(15,534)
Impairment charge	13	-	(562)	(562)	-	(1,297)	(1,297)
<b>Operating profit/(loss)</b>	5	2,648	(1,989)	659	853	(2,812)	(1,959)
Finance costs	6	(984)		(984)	(1,078)	-	(1,078)
<b>Profit (loss) before tax</b>		1,664	(1,989)	(325)	(225)	(2,812)	(3,037)
Tax benefit	9	11	-	11	735	-	735
<b>Loss for the year attributable to equity shareholders</b>		1,675	(1,989)	(314)	510	(2,812)	(2,302)
<b>Other comprehensive income</b>							
<i>Items that may be subsequently reclassified to profit or loss</i>							
Currency translation differences on foreign operations				(44)			(92)
Other comprehensive income, net of tax				<b>(44)</b>			<b>(92)</b>
<b>Total comprehensive income</b>				<b>(358)</b>			<b>(2,394)</b>
<b>Earnings per share</b>	11						
Basic				(0.16)p			(1.19)p
Diluted				(0.16)p			(1.19)p

The notes on pages 26 to 71 form part of the financial statements.

## Consolidated statement of Financial Position for the Year ended 30 June 2014

		As at 30.6.2014	As at 30.6.2013 Restated
Assets	Notes	£'000	£'000
<b>Non-current assets</b>			
Property, plant and equipment	12	861	986
Intangible assets	13	11,503	12,210
Deferred tax asset	15	1,154	1,251
Total non-current assets		13,518	14,447
<b>Current assets</b>			
Inventories	16	3,251	2,068
Trade and other receivables	17	7,813	8,177
Other current assets		527	451
Tax receivable		82	82
Cash in hand and at bank		1,798	1,916
Total current assets		13,471	12,694
<b>Total assets</b>		26,989	27,141
<b>Current liabilities</b>			
Trade and other payables	18	(10,802)	(10,594)
Contingent consideration	19	(30)	(307)
Provisions		(1,028)	(969)
Tax liabilities	18	(55)	(69)
Bank and shareholder loans	18,20	(3,699)	(3,127)
Total current liabilities	18	(15,614)	(15,066)
<b>Non-current liabilities</b>			
Contingent consideration	19	-	(289)
Shareholder loans	20	(4,575)	(4,611)
Provisions		(128)	(148)
Total non-current liabilities		(4,703)	(5,048)
<b>Total liabilities</b>		(20,317)	(20,114)
<b>Net assets</b>		6,672	7,027
<b>Equity</b>			
Issued share capital	21	19,967	19,967
Share premium		114	114
Other reserve		75	75
Merger reserve		(14,854)	(14,854)
Own shares in trust	21	(50)	(50)
Share option reserve		16	152
Retained earnings		1,534	1,709
Exchange differences arising on consolidation		(130)	(86)
<b>Total equity</b>	21	6,672	7,027

The notes on pages 26 to 71 form part of the financial statements. The financial statements were approved by the Board of Directors and authorised for issue on 30 September 2014. They were signed on its behalf by:

**Wayne Bos**      **John McIntosh**

Director      Director

## Company Statement of Financial Position as at 30 June 2014

		As at 30.6.2014	As at 30.6.2013
Assets	Notes	£'000	£'000
<b>Non-current assets</b>			
Property, plant and equipment	12	155	154
Intangible assets	13	1,513	1,568
Investments	14	26,559	8,434
Deferred tax		182	209
Total non-current assets		<u>28,409</u>	<u>10,365</u>
<b>Current assets</b>			
Trade and other receivables	17	1,047	927
Tax receivable		82	79
Cash in hand and at bank		288	685
Total current assets		<u>1,417</u>	<u>1,691</u>
<b>Total assets</b>		<u>29,826</u>	<u>12,056</u>
<b>Current liabilities</b>			
Trade and other payables		(6,137)	(3,724)
Contingent consideration	19	(30)	(307)
Tax liabilities		-	-
Bank and shareholder loans	20	(1,925)	(1,536)
Total current liabilities	18	<u>(8,092)</u>	<u>(5,567)</u>
<b>Non-current liabilities</b>			
Contingent consideration	19	-	(289)
Total non-current liabilities		<u>-</u>	<u>(289)</u>
<b>Total liabilities</b>		<u>(8,092)</u>	<u>(5,856)</u>
<b>Net assets</b>		<u>21,734</u>	<u>6,200</u>
<b>Equity</b>			
Issued share capital	20	19,967	3,993
Share premium		114	114
Other reserve		75	75
Own shares in trust	20	(50)	(50)
Share option reserve		16	152
Retained earnings		1,612	1,916
<b>Total equity</b>	20	<u>21,734</u>	<u>6,200</u>

The notes on pages 26 to 71 form part of the financial statements. The financial statements were approved by the Board of Directors and authorised for issue on 30 September 2014. They were signed on its behalf by:

**Wayne Bos**      **John McIntosh**

Director      Director

## Consolidated Cash Flow Statement

	Year ended 30.6.2014	15 months ended 30.6.2013 Restated
Notes	£'000	£'000
<b>Operating profit/(loss)</b>	659	(1,959)
<b>Adjustments for:</b>		
Depreciation and amortisation	720	673
Loss on fixed asset disposal	52	392
Impairment	562	1,297
Share option charge	3	67
Movement in inventories	(1,359)	(1,502)
Movement in trade and other receivables	322	(1,605)
Movement in trade and other payables	(555)	3,551
Exchange difference on consolidation	46	(144)
<b>Cash generated from operations</b>	450	770
Income taxes recovered/(paid)	9	(855)
<b>Net cash generated from operating activities</b>	459	(85)
<b>Investing activities</b>		
Purchases of property and equipment	(331)	(894)
Capitalised expenditure on product development	(126)	(238)
Acquisition of subsidiaries, net of cash acquired	3 (160)	(687)
<b>Net cash used by investing activities</b>	(617)	(1,819)
<b>Financing activities</b>		
Proceeds from borrowings	3,739	4,839
Repayment of borrowings	(3,682)	(3,386)
Proceeds of share issue	-	1,234
Interest and refinancing costs paid	(216)	(285)
<b>Net cash from financing activities</b>	(159)	2,402
<b>Net change in cash and cash equivalents</b>	(317)	498
<i>Cash and cash equivalents at start of year</i>	1,916	1,524
<i>Effect of foreign exchange rate differences</i>	(66)	(106)
<i>Cash and cash equivalents at end of year</i>	1,533	1,916
<i>Cash and cash equivalents comprise</i>		
Cash in hand and at bank	1,798	1,916
Bank overdraft	(265)	-
	1,533	1,916

The notes on pages 26 to 71 form part of the financial statements.

## Company Cash Flow Statement

		Year ended 30.6.2014	15 months ended 30.6.2013
	Notes	£'000	£'000
<b>Operating loss</b>		(248)	(1,718)
<b>Adjustments for:</b>			
Depreciation and amortisation		332	303
Loss on fixed asset disposal		27	6
Impairment - product development		-	1,123
Investment impairment		562	26
Release of deferred consideration		(562)	-
Share option charge		3	67
Movement in trade and other receivables		(124)	1,807
Movement in trade and other payables		1,696	(213)
<b>Cash generated from operations</b>		<u>1,686</u>	<u>1,401</u>
Income taxes paid		-	(6)
<b>Net cash generated from operating activities</b>		<u>1,686</u>	<u>1,395</u>
<b>Investing activities</b>			
Purchases of property and equipment		(74)	(57)
Expenditure on product development		(126)	(241)
Acquisition of subsidiaries	3	(2,153)	(768)
<b>Net cash used by investing activities</b>		<u>(2,353)</u>	<u>(1,066)</u>
<b>Financing activities</b>			
Proceeds from borrowings		1,500	400
Repayment of borrowings		(1,393)	(1,677)
Proceeds of share issue		-	1,234
Interest and refinancing costs paid		(102)	(159)
<b>Net cash from financing activities</b>		<u>5</u>	<u>(202)</u>
<b>Net change in cash and cash equivalents</b>		<u>(662)</u>	<u>127</u>
<i>Cash and cash equivalents at start of year</i>		<u>685</u>	<u>558</u>
<i>Cash and cash equivalents at end of year</i>		<u>23</u>	<u>685</u>
<i>Cash and cash equivalents comprise</i>			
Cash in hand and at bank		288	685
Bank overdraft		(265)	-
		<u>23</u>	<u>685</u>

The notes on pages 26 to 71 form part of the financial statements.

## Statement of Changes in Equity for the year ended 30 June 2014

<b>Group</b>	<b>Called up share capital</b>	<b>Share premium account</b>	<b>Other reserve</b>	<b>Merger reserve</b>	<b>Own shares in trust</b>	<b>Share option reserve</b>	<b>Exchange differences arising on consolidation</b>	<b>Retained earnings</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<i>Balance at 31.3.2012 as previously reported</i>	2,759	114	-	-	(1,881)	427	6	5,254	6,679
Adjustment to reflect merger	15,974	-	-	(14,854)	-	-	-	247	1,367
Revised balance at 31.3.2012	18,733	114	-	(14,854)	(1,881)	427	6	5,501	8,046
Equity component of convertible debt	-	-	75	-	-	-	-	-	75
Options granted	-	-	-	-	-	67	-	-	67
Options exercised	-	-	-	-	1,831	(315)	-	(1,516)	-
Options lapsed and waived	-	-	-	-	-	(27)	-	27	-
Share issue	1,234	-	-	-	-	-	-	-	1,234
<b>Transactions with owners</b>	<b>1,234</b>	<b>-</b>	<b>75</b>	<b>-</b>	<b>1,831</b>	<b>(275)</b>	<b>-</b>	<b>(1,489)</b>	<b>1,376</b>
Loss for the year	-	-	-	-	-	-	-	(2,303)	(2,303)
Other comprehensive income:									
Foreign currency translation adjustment	-	-	-	-	-	-	(92)	-	(92)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(92)</b>	<b>(2,303)</b>	<b>(2,395)</b>
<b>Balance at 30.6.2013</b>	<b>19,967</b>	<b>114</b>	<b>75</b>	<b>(14,854)</b>	<b>(50)</b>	<b>152</b>	<b>(86)</b>	<b>1,709</b>	<b>7,027</b>
Options granted	-	-	-	-	-	3	-	-	3
Options lapsed and waived	-	-	-	-	-	(139)	-	139	-
<b>Transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(136)</b>	<b>-</b>	<b>139</b>	<b>3</b>
Loss for the year	-	-	-	-	-	-	-	(314)	(314)
Other comprehensive income:									
Foreign currency translation adjustment	-	-	-	-	-	-	(44)	-	(44)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(44)</b>	<b>(314)</b>	<b>(358)</b>
<b>Balance at 30.6.2014</b>	<b>19,967</b>	<b>114</b>	<b>75</b>	<b>(14,854)</b>	<b>(50)</b>	<b>16</b>	<b>(130)</b>	<b>1,534</b>	<b>6,672</b>

The notes on pages 26 to 71 form part of the financial statements.

## Statement of Changes in Equity for the year ended 30 June 2014

<i>Company</i>	Called up share capital	Share premium account	Other reserve	Own shares in trust	Share option reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<i>Balance at 31.3.2012</i>	2,759	114	-	(1,881)	427	4,930	6,349
Equity component of convertible debt	-	-	75	-	-	-	75
Options granted	-	-	-	-	67	-	67
Options exercised	-	-	-	1,831	(315)	(1,516)	-
Options lapsed and waived	-	-	-	-	(27)	27	-
Share issue	1,234	-	-	-	-	-	1,234
<b>Transactions with owners</b>	<b>1,234</b>	<b>-</b>	<b>75</b>	<b>1,831</b>	<b>(275)</b>	<b>(1,489)</b>	<b>1,376</b>
Loss for the period	-	-	-	-	-	(1,525)	(1,525)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,525)</b>	<b>(1,525)</b>
<i>Balance at 30.6.2013</i>	3,993	114	75	(50)	152	1,916	6,200
Options granted	-	-	-	-	3	-	3
Options lapsed and waived	-	-	-	-	(139)	139	-
Share issue	15,974	-	-	-	-	-	15,974
<b>Transactions with owners</b>	<b>15,974</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(136)</b>	<b>139</b>	<b>15,977</b>
Loss for the year	-	-	-	-	-	(443)	(443)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(443)</b>	<b>(443)</b>
<b><i>Balance at 30.6.2014</i></b>	<b>19,967</b>	<b>114</b>	<b>75</b>	<b>(50)</b>	<b>16</b>	<b>1,612</b>	<b>21,734</b>

The notes on pages 26 to 71 form part of the financial statements.



## Notes to the Financial Statements

Progility Plc (the “Company”) is a public limited company incorporated in England and Wales and, together with its subsidiaries listed in note 14, forms the Progility group (the “Group”). The financial statements are presented in pounds sterling and were authorised for issue by the Directors on 30 September 2014. On the 21 March 2013 the statutory year end was changed to 30 June to better reflect the cycle of revenue and reporting within the ILX training business. This has resulted in a fifteen month comparative set of results. As such the information in the financial statements is not entirely comparable.

Following the guidance regarding the selection of an appropriate accounting policy provided in IFRS 10 Consolidated Financial Statements (in relation to the evidence regarding what constitutes control) and IAS 8 ‘Accounting Policies, Changes in Accounting Estimates and Errors’, the transaction between the Company and Progility Pty Ltd in October 2013 has been accounted for in these accounts using the principles of merger accounting. Therefore, although the combination did not become unconditional until 7 October 2013, the prior period has been restated as if the Group structure had always been in place. It follows that the comparative period includes fifteen months results of Progility Pty Ltd.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the “Group”). The Company financial statements present information about the Company as a separate entity and not about its Group.

Both the Group financial statements and the Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“EU”). In publishing the Company financial statements here together with the Group financial statements, the Company has taken advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of these approved financial statements.

### 1 Basis of preparation and significant accounting policies

#### *Basis of preparation*

The preparation of the Group accounts in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements. The key accounting estimates and assumptions are set out below. Such estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances and constitute management’s best judgment of conditions at the date of the financial statements.

In the future, actual experience may deviate from these estimates and assumptions, which could affect the financial statements as the original estimates and assumptions are modified, as appropriate, in the year in which the circumstances change.

The financial statements have been prepared on the historical cost basis as modified by financial assets and financial liabilities (including derivative financial instruments) at fair value through the statement of comprehensive income.

#### **Critical accounting estimates and Judgements**

The preparation of the Group accounts in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below. Key estimates and judgements relate to:

#### **Accounting for acquisitions**

Business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

## 1 Basis of preparation and significant accounting policies (continued)

### Recognition of exam vouchers

Actual experience may deviate from the assumptions used which could be materially different from the actual usage rate. This could impact the financial statements in the year in which circumstances change.

### Provisions for impairment of receivables (see note 2 on Financial Instruments – credit risk)

The provision for impairment of receivables assessment requires a degree of estimation and management judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtors' financial position.

### Provisions for impairment of inventories (see note 1 on Inventories)

The provision for impairment of inventories assessment requires a degree of estimation and management judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

### Impairment of tangible/intangible and financial assets (see note 1 on Depreciation and Impairment)

The entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs to sell or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Long service provision (see note 1 on Provisions) the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

### Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

### Measurement of financial instruments (see note 2 on Financial Instruments)

The entity is required to classify financial instruments, measured at fair value, using a three level hierarchy, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs). An instrument is required to be classified in its entirety on the basis of the lowest level of valuation inputs that is significant to fair value. Considerable judgement is required to determine what is significant to fair value and therefore which category the financial instrument is placed in can be subjective.

Such estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances and constitute management's best judgment of conditions at the date of the financial statements.

In the future, actual experience may deviate from these estimates and assumptions, which could affect the financial statements, as the original estimates and assumptions are modified, as appropriate, in the year in which the circumstances change.

### Key judgement – Merger Accounting

Following the completion of an agreement on 7 October 2013 the Company became the sole shareholder of Progility Pty Ltd. The resulting combination of businesses was renamed Progility plc. The consideration for 100% of the equity of Progility Pty Ltd was satisfied by the issue of the fully paid shares in the Company, which based on the issue price, valued the Progility Pty Ltd's equity at £15.97 million. In forming its judgement as to the appropriateness of the use of merger accounting following the transaction with Progility Pty Ltd ("the Transaction") the Board considered whether common control was in place for each of the merging entities (ILX Group plc and Progility Pty Ltd) both prior to and after the completion of the transaction on 3 October 2013. Following the preparation of the Group's financial statements for the fifteen months to 30 June 2013 the Board adopted the wider definition of control under IFRS10 which takes into account other material influencing factors in addition to the consideration of an investor/shareholder's equity holding. Prior to the Transaction the significant shareholder in Progility Pty Ltd was Praxis Trustees with a holding of 73.47%, and therefore control existed. Prior to the Transaction Praxis Trustees also held 29.9% of ILX Group plc in addition to holding convertible debt of £0.4 million. The importance of Praxis Trustees investment into

## **1 Basis of preparation and significant accounting policies (*continued*)**

the Group in August 2012 and its subsequent issue of convertible debt provided material additional influence over ILX Group plc to ensure its management's objective of restructuring and repositioning the Group was given a strong platform for success.

In arriving at the appropriate accounting treatment for this Transaction the directors considered IFRS 3 'Business Combinations' (revised 2008). However, they concluded that this Transaction fell outside the scope of IFRS 3 since the Transaction represents a combination of entities under common control.

Accordingly, following the guidance regarding the selection of an appropriate accounting policy provided in IFRS 10 Consolidated Financial Statements (in relation to the evidence regarding what constitutes control) and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', the transaction has been accounted for in these accounts using the principles of merger accounting with reference to UK Generally Accepted Accounting Practice (UK GAAP).

### ***Restatement of prior period***

As announced on 10 September 2013 a share for share exchange agreement was entered into between the Company and the shareholders of Progility Pty Ltd. The agreement was completed on 7 October 2013 and, following completion, the Company is now the sole shareholder of Progility Pty Ltd.

In determining the appropriate accounting treatment for this transaction the directors considered IFRS 3 'Business Combinations' (revised 2008). However, they concluded that this transaction fell outside the scope of IFRS 3 since the transaction represents a combination of entities under common control.

Accordingly, following the guidance regarding the selection of an appropriate accounting policy provided in IFRS 10 Consolidated Financial Statements (in relation to the evidence regarding what constitutes control) and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', the transaction has been accounted for in these accounts using the principles of merger accounting with reference to UK Generally Accepted Accounting Practice (UK GAAP) which does not conflict with IFRS and reflects the economic substance of the transaction.

Under UK GAAP, the assets and liabilities of both entities are combined at book value, not fair value (although adjustments are made to achieve uniform accounting policies) and the comparative amounts are restated as if the combination had taken place at the beginning of the earliest accounting period presented.

Therefore, although the combination did not become unconditional until 7 October 2013, the prior period has been restated as if the Group structure had always been in place.

### ***Going concern***

The Group meets its day-to-day working capital requirements from its operating cash flows and from its banking facilities, of which £0.25 million was undrawn at the balance sheet date. The Group has an outstanding term loan which is repayable on demand from HSBC bank (£1.3 million at the balance sheet date), which is due to be repaid during the next fifteen months. The Group's banking facilities are repayable on demand.

The Directors, after making enquiries of its loan note holders, its principal bankers and other lenders, have a reasonable expectation that the Company and the Group will have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

It is the Board's view that, based on cash flow projections, the Group considers the existing financing facilities to be adequate to meet operating requirements through December 2015.

### ***Basis of consolidation***

The consolidated financial statements include the financial statements of Progility Plc and its subsidiaries. There are no associates or joint ventures to be considered.

## 1 Basis of preparation and significant accounting policies (*continued*)

Consolidated financial statements (in relation to the merger of ILX Group plc with Progility Technologies Pty Ltd) have been accounted for in these accounts using the principles of merger accounting with reference to UK Generally Accepted Accounting Practice (UK GAAP) which does not conflict with IFRS and reflects the economic substance of the transaction.

Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. The Group uses the acquisition method of accounting to account for the acquisition of subsidiaries with the exception of the merger with Progility Pty Limited as explained above.

### **Revenue**

Sales of Goods are recognised when the significant risks and rewards of ownership are transferred to the buyer. Revenue from the sales of goods with no significant service obligation is recognised on delivery. Where significant tailoring or integration is required revenue is recognised in the same way as construction contracts, in line with IAS 11 (noted below).

Revenue for licenses to generic software products is recognised at the start of the license term, provided that delivery has occurred.

Revenue from software that is sold together with a workshop or exam voucher is split into separate components based on the fair value of the individual deliverables. The software will be recognised upon delivery. The workshop or course deliverable will be recognised upon delivery of the service. The allocation of the fair value is based on stand-alone selling prices with the exception of the exam vouchers which are determined after taking into account the expected redemptions that have been reliably estimated based on significant historical experience. This amount is deferred until the exam has been taken or the voucher has expired.

Revenue from fixed price consultancy, training, customisation and software development projects or events is recognised in accordance with the delivery for each project or event. Revenue from such projects chargeable on a time and materials basis is recognised when the work is performed by reference to the percentage stage of completion.

Revenue is generated for after-sales service, maintenance and consulting and telecommunication solutions. Consideration received for those services is initially deferred and included in other liabilities and recognised as revenue in the period when the service is performed.

In recognising after sales service and maintenance revenues the Group considers the nature of the services and the customer's use of related products based on historical experience.

Revenue from rental and support services is recognised evenly over the period for which the service is to be provided.

Construction contracts for telecommunication systems specify a fixed price for the development and installation of IT and telecommunication systems. When the outcome can be assessed reliably, contract revenue and associated costs are recognised by reference to the stage of completion of the contract activity at the reporting date. Revenue is measured at the fair value of consideration received or receivable in relation to that activity. When the Group cannot measure the outcome of a contract reliably, revenue is recognised only to the extent of contract costs that have been incurred and are recoverable. Contract costs are recognised in the period in which they are incurred. In either situation, when it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately in profit or loss.

A construction contract's stage of completion is assessed by management based on milestones (usually defined in the contract) for the activities to be carried out under the contract and other available relevant information at the reporting date. The maximum amount of revenue to be recognised for each milestone is determined by estimating relative contract fair values of each project phase, i.e. by comparing the Group's overall contract revenue with the expected profit for each corresponding milestone. Progress and related contract revenue in-between milestones is determined by comparing costs incurred to date with the total estimated costs for that particular milestone (a procedure sometimes referred to as the cost-to-cost method).

The gross amount due from customers for contract work is presented within trade and other receivables for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. The gross amount due to customers for contract work is presented within other liabilities for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

## **1 Basis of preparation and significant accounting policies (continued)**

Deferred revenue represents amounts invoiced for revenue which is expected to be recognised in a future period. Accrued revenue represents amounts recognised as revenue which are to be invoiced in a future period.

### ***Foreign currency***

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are taken to the statement of profit or loss.

In the consolidated accounts, the assets and liabilities of foreign subsidiaries are translated at the rates of exchange ruling at the balance sheet date. The trading results of foreign subsidiaries are translated using the exchange rate ruling at the date of the transactions. Exchange differences arising are classified as other comprehensive income and accumulated in foreign exchange reserve in equity.

### ***Share based payments***

The Company operates a share option scheme. The fair value of the options granted under the scheme is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the vesting period, based on the number of options expected to vest.

The fair value of the options granted is measured using the Black-Scholes model.

### ***Business combinations***

When applying the acquisition method the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the fair value of the consideration transferred over the fair values of the identifiable net assets acquired is recognized as goodwill. Any deficiency of the fair value of the consideration transferred below fair values of the identified net asset acquired is credited to the income statements in the period of acquisition.

Contingent and deferred consideration arising as a result of acquisitions is stated at fair value. Contingent and deferred consideration is based on management's best estimate of the likely outcome and best estimate of fair value, which is usually a contracted formula based on multiples of revenue and / or EBITDA.

All transaction costs incurred in relation to the business combination are expensed to the statement of profit or loss

The Group has elected not to apply IFRS 3 Business Combinations retrospectively to combinations prior to the date of transition of 1 April 2004.

### ***Goodwill***

Goodwill is determined by comparing the amount paid, including the fair value of any deferred and contingent consideration, on the acquisition of a subsidiary or associated undertaking and the Group's share of the aggregate fair value of its separable net assets. It is considered to have an indefinite useful economic life as there are no legal, regulatory, contractual, or other limitations on its life. Goodwill is therefore capitalised and is subject to annual impairment reviews in accordance with applicable accounting standards. Contingent consideration classified as a financial liability is subject to annual fair value re-measurement and any movement recorded through the profit or loss.

### ***Impairment***

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment. The process of review starts with the intangible product and then acquired goodwill, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, for example if the product become obsolete, or a technology change occurs in the case of capitalized intangible product. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows using a discount rate that approximates the Group's cash generating units cost of capital to calculate the net present discounted cash flow. An impairment loss is

## **1 Basis of preparation and significant accounting policies (*continued*)**

recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the profit or loss.

### ***Intangible assets - Brands***

The value of acquired brands is determined by estimating the net present value of the future profits expected from the brands. Brands are considered to have an indefinite useful life and are subject to annual impairment reviews.

### ***Acquired customer relationships***

The value of acquired customer relationships is determined by estimating the net present value of the future profits expected from the customer relationships. Where customer relationships relate to contracts covering a pre-determined period, the value is amortised over that period.

### ***Research and development***

Research expenditure is written off to the statement of comprehensive income in the year in which it is incurred. Costs incurred on product development relating to the design and development of new or enhanced products are capitalised as intangible assets when it is probable that the development will provide economic benefits, considering its commercial and technological feasibility and the resources available for the completion and marketing of the development, and where the costs can be measured reliably. The expenditures capitalised are the direct labour costs, which are managed and controlled centrally. Other development costs are recognised as an expense as incurred. Product development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised costs are amortised on a straight line basis over their estimated useful lives of ten years.

### ***Depreciation***

Property, plant, and machinery are stated at cost less accumulated depreciation. Depreciation on these assets is provided at rates estimated to write off the cost, less estimated residual value, of each asset over its expected useful life as follows:

Fixtures, fittings and equipment	– 2 to 4 years
Computer, rental equipment and vehicles	– 3 years
Building & properties	– 10 years

### ***Investments***

The Company carries the value of investments in subsidiaries at cost, after adjusting for any impairment.

### ***Inventories***

Inventories are measured at the lower of cost and net realisable value. The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

### ***Deferred taxation***

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries and joint ventures is not provided if

## **1 Basis of preparation and significant accounting policies (*continued*)**

reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided those rates are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that the underlying tax loss or deductible temporary difference will be able to be utilised against future taxable income. This is assessed based on the Group's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

### ***Defined contribution pension scheme***

The pension costs charged in the financial statements represent the contributions payable by the Company during the year.

### ***Leases and hire purchase contracts***

The Company has no assets financed through finance leases.

Other leases are treated as operating leases. Annual rentals are charged to the statement of profit or loss on a straight line basis over the term of the lease.

### ***Convertible debt***

Convertible loan notes are regarded as compound instruments, consisting of a liability instrument and an equity instrument. At the date of issue the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan note and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in equity within the 'other' reserve. The interest expense of the liability component is calculated by applying the effective interest rate to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan note.

### ***Deferred and contingent consideration***

Deferred and contingent consideration payable is shown as a liability on the balance sheet to the extent that a contractual obligation exists, or may exist, to make payment in cash.

### ***Provisions***

Provisions are recognised where a legal or constructive obligation to employees has arisen in relation to long service benefits and accrued leave entitlements and is measured at the best estimate of the expenditure required to settle the obligations.

### ***Company profit***

The Company profit for the financial year includes a loss after tax of £443,000 relating to the Company after taking account of acquisition and merger costs of £876,000. No separate Company statement of comprehensive income has been presented, in accordance with Section 408 of the Companies Act 2006.

### ***Highlighted items***

Exceptional items represent material items of income and expenses relating primarily to restructuring of the group, costs associated with the merger with Progility and impairments of intangible assets.



## 1 Basis of preparation and significant accounting policies (*continued*)

### ***Interest***

Interest on loans is expensed as it is incurred. Transaction costs of borrowings are expensed as interest over the term of the loans. Interest income is reported on an accruals basis using the effective interest method.

### ***Financial instruments***

The Directors consider the Company to have financial instruments, as defined under IFRS 7, in the following categories:

#### ***Loans and receivables***

The Group's loans and receivables comprise cash and cash equivalents and trade receivables.

Cash and cash equivalents include cash in hand, deposits held at call with banks, bank overdrafts and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

Trade receivables are recognised and carried at original invoice amount less an adjustment for doubtful debts. Bad debts are written off to the statement of comprehensive income when identified. An estimate of the adjustment for doubtful debts is made when collection of the full amount is no longer probable.

#### ***Contingent consideration measured at fair value through profit or loss***

The Group measures its contingent liabilities arising upon acquisition on an annual basis. Changes in the fair value of any such contingent liabilities, such as earn out or other contingent consideration are recognised immediately through the profit and loss account.

#### ***Other financial liabilities measured at amortised cost***

These include accruals, trade payables, revolving credit facilities and term debt.

Trade payables are recognised and carried at original invoice amount. Accruals are recognised and carried at the amounts expected to be paid for the goods or services received but not invoiced at the balance sheet date.

Bank borrowings, overdrafts, and revolving credit facilities are classified as current liabilities to the extent that capital repayments are due within 12 months of the balance sheet date, and long term liabilities where they fall due more than 12 months after the balance sheet date.

### ***Future changes to accounting policies***

Certain new standards, amendments and interpretations to existing standards have been issued by the IASB or IFRSIC with an effective date after the date of these financial statements which include:

Standard	Description	Effective (periods beginning on or after)
IFRS 9	Financial Instruments	1 January 2018
IFRS 10	Consolidated Financial Statements	1 January 2014
IFRS 11	Joint Arrangements	1 January 2014
IFRS 12	Disclosure of Interests in Other Entities	1 January 2014
IFRS 15	Revenue from Contracts with Customers	1 January 2017

The impact on the Group's financial statements of the future adoption of these standards is still under review. Other than IFRS 9 and IFRS 15, where the Group is continuing to assess the materiality of the impact of these new standards, the Group does not expect any of the changes to have a material effect on the result or net assets of the Group.



## 2 Financial instruments – risk management

The Group is exposed through its operations to the following financial risks:

- ✦ Credit risk
- ✦ Liquidity risk
- ✦ Interest rate risk
- ✦ Exchange rate risk
- ✦ Capital risk

The Group's financial instruments comprise cash and short term deposits, and various items such as trade receivables and trade payables that arise directly from its operations. The main purpose of these instruments is to fund the Group's operations, manage working capital and invest surplus funds.

The principal financial instruments used by the Group from which financial instrument risk arises are as follows:

	At 30.6.2014	At 30.6.2013	At 30.6.2014	At 30.6.2013
<i>Financial Assets</i>				
	£'000	£'000	£'000	£'000
	Group		Company	
Loans and receivables	7,813	8,177	868	651
Cash on hand	1,798	1,916	288	685

	At 30.6.2014	At 30.6.2013	At 30.6.2014	At 30.6.2013
<i>Financial Liabilities</i>				
	£'000	£'000	£'000	£'000
	Group		Company	
Fair value through profit or loss:				
Contingent consideration	30	596	30	396
Other amortised cost:				
Bank loans and overdrafts	1,583	1,211	1,583	1,211
Shareholder loans	6,349	6,202	-	-
Convertible loan	342	325	342	325
Trade payables	5,310	5,226	731	699
Accruals	1,372	1,219	539	725

## 2 Financial instruments – risk management (continued)

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken. The Group does, however, manage interest rate risk as detailed below. For loans and receivables, and items carried at amortised cost, the carrying value approximates the fair value.

### Fair value hierarchy

The following table presents financial assets and liabilities measured at fair value in the balance sheet in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- ◆ Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- ◆ Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie. as prices) or indirectly (ie. derived from prices); and
- ◆ Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

## 2 Financial instruments – risk management (*continued*)

The following tables present the Group's assets and liabilities that are measured at fair value:

At 30 June 2014		Level 1	Level 2	Level 3	Total
Group and company	Note	£'000	£'000	£'000	£'000
<b>Liabilities</b>					
Contingent consideration		-	-	30	-
<b>Net fair value</b>		<u>-</u>	<u>-</u>	<u>30</u>	<u>-</u>
<hr/>					
At 30 June 2013		Level 1	Level 2	Level 3	Total
Group and company	Note	£'000	£'000	£'000	£'000
<b>Liabilities</b>					
Contingent consideration		-	-	596	-
<b>Net fair value</b>		<u>-</u>	<u>-</u>	<u>596</u>	<u>-</u>

### Fair value measurements in Level 3

The Group's and company's financial assets classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data.

The following table presents the changes in Level 3 instruments.

	£'000
At April 1, 2012	56
Contingent consideration from acquisition of Obrar	562
Payments made	(22)
At June 30, 2013	<u>596</u>
Contingent consideration from acquisition of Sue Hill	<u>30</u>
Payments made	(34)
Adjustment to fair value of contingent consideration	(562)
At June 30, 2014	<u><u>30</u></u>

### Credit risk

Credit risk is the risk of financial loss to the Group if a customer fails to meet its contractual obligations. The Group is exposed to credit risk from credit sales.

The amount of receivables past due but not impaired at the balance sheet date was £425,000 (2013: £378,000). The receivables are aged as follows: Debt Aged 60 days and over 25%, up to 59 days 24%, and current up to 29 days, 51%.

The total exposure to credit risk lies within trade receivables and accrued revenue and cash. The majority of these balances are with blue-chip companies. The risk is spread over a wide range of approximately 450 customers with an average balance of just under £6,500. The largest balance at year end comprised 3% of the total trade receivable balance.

At the reporting date the Directors do not expect any losses from bad debts other than where specific provision has been made.

## 2 Financial instruments – risk management (*continued*)

### *Liquidity risk*

Liquidity risk arises from the Group's management of its working capital facilities. It is the risk that the Group may encounter difficulty in meeting its financial obligations as they fall due.

The Group's banking facilities include an overdraft and a term loan facility which are repayable on demand and shareholder loans which are due to be repaid as disclosed below. The Group also utilises invoice finance facilities. The Directors, after making enquiries, of its loan note holders, its principal bankers and other lenders have a reasonable expectation that the Company and the Group will have adequate resources to continue in operational existence for the foreseeable future.

	At 30.6.2014	At 30.6.2013	At 30.6.2014	At 30.6.2013
	£'000	£'000	£'000	£'000
	Group		Company	
Cash on hand	1,798	1,916	288	685

As at 30 June 2014, the Group's non-derivative financial liabilities have contractual maturities as summarized below:

	Group			Company		
	Repayable <12 months	Repayable 12 Months	Repayable 12 Months to 5 years	Repayable on < 12 month	Repayable 12 Months	Repayable 12 Months to 5 years
	£' 000	£' 000	£' 000	£' 000	£' 000	£' 000
<b>As of 30 June 2013</b>						
Trade Payables	5,226	-	-	699	-	-
Borrowings	2,802	325	4,611	1,211	325	-
Contingent consideration	-	307	289	-	307	289
<b>As of 30 June 2014</b>						
Trade Payables	5,310	-	-	731	-	-
Borrowings	3,357	342	4,575	1,583	342	-
Contingent consideration	-	30	-	-	30	-

To ensure that this is achieved, rolling 12-month cash flow projections are reviewed on a monthly basis within a model that can be readily flexed to show the effect of changes to key variables on cash balances and cash flow. These projections are reviewed by the Board and made available to the Group's bankers.

At the balance sheet date these projections indicated that the Group expected to have sufficient cash and facilities to meet its obligations for the next 12 months.

### *Interest rate risk*

Interest risk arises from potential changes to interest rates. It is the risk that the Group's financial position may be adversely affected by future changes to interest rates.

## 2 Financial instruments – risk management (*continued*)

It is the Group's policy to reduce its exposure to movements in interest rates in instances where a significant change in rates could have a material adverse impact on the Group's position. This risk is minimised by regular review of the facilities available to the Group.

The Group's exposure to interest rate risk arises principally from its bank borrowing and other secured borrowing, which carry an interest rate margin over Base Rate. Future changes in these rates will affect the interest cost to the group. These rates would need to rise significantly to have a material effect on the interest cost. A one percentage point movement in the Bank of England Base Rate would have approximately £7,000 (2013: £6,000) impact on the monthly interest rate charge.

### *Exchange rate risk*

All assets and liabilities are presented in Sterling. Transactions in Euros, Danish Kroner, American Dollars, Australian Dollars, New Zealand Dollars, Omani Riyals, Emirati Dirhams and South African Rand are translated at the exchange rate ruling at the date of the transaction. The Group did not carry out a significant level of transactions in any other currency during the year, however, this may increase in the future in line with the Group's strategy. A five percentage point adverse movement in the Australian dollar exchange rate could potentially be reflected as a £1,082,000 (2013: £1,727,000) reduction on the monthly sales recorded in pound sterling in the Group's accounts, an increase of £7,000 (2013: £48,000) in profit after tax and a reduction of £108,000 (2013: increase of £27,000) in total comprehensive income.

Any gain or loss resulting from the final realisation of these transactions in sterling is taken to the statement of comprehensive income as an exchange gain or loss. Monetary assets and liabilities remaining in foreign currencies are re-translated at the rates of exchange ruling at the balance sheet date, with any gain or loss taken to the statement of profit or loss as an exchange gain or loss.

No hedging of this risk is undertaken as the non-sterling assets and liabilities are relatively liquid and the Group considers that its exposure is adequately managed, for the time being, through matching of currency income and expenditure.

### *Capital risk*

The Group's capital management objectives are:

- ◆ To ensure the Group's ability to continue as a going concern;
- ◆ To fund projects from raising capital from equity placements rather than long term borrowings;
- ◆ To increase the value of the assets of the business; and to provide an adequate return to shareholders in the future when new assets are taken on board.

These objectives will be achieved by maintaining and adding value to existing projects and ultimately taking them through to delivery and cash flow either with partners or by the Group's means.

The Group monitors capital on the basis of the carrying amount of share capital and other reserves as presented on the face of the financial position. Capital for the reporting periods under review is defined as total equity summarised in the consolidated statement of changes in equity and was £6,672,000 at the end of the year (2013: £7,027,000).

The Group obtains the amount of capital in proportion to its overall financing structure. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid in the future or issue new shares.

### 3 Acquisitions and Disposals

#### TFPL Ltd

On 1 July 2013 the company acquired 100% of the ordinary share capital of TFPL Ltd ("TFPL") to bring recruitment consulting skills in to the group product portfolio. This was acquired for a maximum £0.6 million in cash. TFPL provides executive search, managed services and the placement of permanent, interim and contract personnel into the public and private sectors. Since its establishment in 1985, the company has developed a strong brand and reputation in its marketplace.

The fair values of the identifiable assets and liabilities of the new subsidiary at the date of acquisition were calculated below as follows:

<b>Fair value of consideration</b>	<b>£'000</b>	
Cash paid	400	
Contingent consideration	-	
<b>Total</b>	<b>400</b>	
	<b>Book value</b>	<b>Fair value</b>
	<b>£'000</b>	<b>£'000</b>
<b>Recognised amounts of identifiable net</b>		
Intangible assets	-	137
Trade and other receivables	346	346
Cash at bank and in hand	204	204
Trade and other payables	(456)	(456)
Deferred Tax	6	6
<b>Identifiable Net Assets</b>	<b>100</b>	<b>237</b>
<b>Goodwill on acquisition</b>		<b>163</b>
Consideration paid in cash		400
Cash and cash equivalents acquired		(204)
<b>Net cash paid relating to the acquisition</b>		<b>196</b>

Note: The fair value was calculated in line with the Group's acquisition policy in note 1. Goodwill has arisen from the acquisition due to synergies of management and the opportunity for the Group to further expand the recruitment operations of the group. Goodwill arising from the acquisition is not tax deductible. The fair value of the trade receivables and payables is based on gross contractual amounts as these are expected to be settled in full within the year.

The summarised income statement of the acquired entity for the period from the beginning of its financial year on 1 November 2012 to the effective date of acquisition, and for its previous financial year, is set out below:

### 3 Acquisitions and Disposals (*continued*)

	Period ended 1.7.2013	Year ended 31.10.2012
TFPL Ltd	£'000	£'000
Revenue	1,317	2,521
Net profit	376	(35)

#### Sue Hill Recruitment & Services Limited

On 19 November 2013 the company acquired 100% of the ordinary share capital of Sue Hill Recruitment & Services Limited ("Sue Hill") to augment the recruitment consulting skills within the Group. This was acquired for a maximum £0.2 million in cash. Sue Hill, which was founded in 1997, is a specialist employment agency to the UK information, market research, insight and analysis sectors. Since the business was established within the Group in November 2013, demand for its recruitment services has been strong reflecting the economic upturn.

The fair values of the identifiable assets and liabilities of the new subsidiary at the date of acquisition were calculated below as follows:

Fair value of consideration	£'000
Cash paid	150
Fair value of contingent consideration	30
<b>Total</b>	<b>180</b>

	Book value	Fair value
Recognised amounts of identifiable net assets	£'000	£'000
Tangible assets	32	32
Trade and other receivables	240	240
Cash at bank and in hand	186	186
Trade and other payables	(269)	(269)
Tax liabilities	(9)	(9)
<b>Identifiable Net Assets</b>	<b>180</b>	<b>180</b>

<b>Goodwill on acquisition</b>	<b>-</b>
Consideration paid in cash	150
Cash and cash equivalents acquired	(186)
<b>Net cash paid relating to the acquisition</b>	<b>(36)</b>

Note: The fair value was calculated in line with the Group's acquisition policy in note 1. The fair value of the trade receivables and payables is based on gross contractual amounts as these are expected to be settled in full within the year.

The summarised income statement of the acquired entity for the period from the beginning of its financial year on 1 January 2013 to the effective date of acquisition, and for its previous financial year, is set out below:

### 3 Acquisitions and Disposals (*continued*)

	Period ended 15.11.2013	Year ended 31.12.2012
	£'000	£'000
<b>Sue Hill</b>		
<b>Revenue</b>	1,998	2,131
<b>Net profit</b>	30	39

Amounts paid for acquisition of subsidiaries in the Consolidated Cash Flow Statement is made up as follows:

	£'000
Cash consideration paid	550
less cash balances acquired	(390)
	<u>160</u>

The amount of net profit since the acquisition date of acquired companies included in the consolidated income statement for the year ended 30 June 2014, excluding apportioned central costs, is as follows:

	TFPL	Sue Hill
	£'000	£'000
Revenue	1,797	1,390
Net profit	<u>134</u>	<u>145</u>

The revenues and profits of the group for the year, had the acquisitions made during the year been made at the beginning of the year, would have been as follows:

	Consolidated Statement of Comprehensive Income for the year ended 30.6.2014	Pre-acquisition trading of Sue Hill for the period 1.7.2013 to 19.11.2013	Total for the year ended 30.6.2014 as though the acquisition date was 1.7.2013
	£'000	£'000	£'000
Revenue	38,786	868	39,654
Operating profit	<u>659</u>	<u>15</u>	<u>674</u>

### 4 Segment reporting

The Group focuses its internal management reporting on the following segments:

*Northern Operation* – The Group's northern hemisphere operations comprise operations in the UK and Ireland, the United States, Europe and the Middle East, which are managed and directed from the London office.



#### 4 Segment reporting (continued)

*Southern Operation* – The Group's southern hemisphere operations comprise operations in Australia and New Zealand, which are managed and directed by the Melbourne office.

The Group measures the operating performance of the business through monthly financial reports on the Northern and Southern hemisphere segments. These segments are reported because they reflect the management accounting key indicators which is used to manage the performance of the business. The Group's chief operating decision maker is the chief executive officer.

Following the merger with Progility Pty the group has restructured its internal reporting and now reports based on a northern hemisphere and southern hemisphere split of operations. Accordingly the segmental analysis presented for the prior year has been restated to align with the revised structure.

The Northern hemisphere provides training, recruitment and consulting services and the Southern hemisphere segment provides training, consulting services and technology solutions goods and services.

Segment profit or loss consists of earnings before interest, tax, and restructuring costs. This is the detail used by the chief operating decision maker in determining how to allocate resources.

	Year ended 30.6.2014		15 months ended 30.6.2013	
Revenue by segment	Revenue	Segment Profit	Revenue	Segment Profit / (Loss)
	£'000	£'000	£'000	£'000
Northern hemisphere operation	13,400	2,732	12,784	2,285
Southern hemisphere operation	25,386	3,154	39,077	3,502
Central costs		(3,593)		(5,186)
Total segment result	38,786	2,293	51,861	601
Highlighted items				(225)
Interest		(984)		(1,078)
Loss before tax		(325)		(3,037)
Adjusting for highlighted items (Note10)				
Non-cash Share option charges	Recurring	3		67
Restructuring items	Non recurring	1,072		1,263
Impairment charges	Recurring	562		1,297
Amortisation charges	Recurring	352		185
		1,989		2812
Underlying profit before tax		1,664		(225)
Underlying operating profit		2,648		853

#### 4 Segment reporting (continued)

	Year ended 30.6.2014		15 months ended 30.6.2013	
	Segment assets	Segment liabilities	Segment assets	Segment liabilities
	£'000	£'000	£'000	£'000
Northern Hemisphere	12,376	8,041	12,266	5,836
Southern Hemisphere	14,634	12,221	14,875	14,278
Total assets/(liabilities)	27,010	20,262	27,141	20,114

Revenues for the year and prior year split by geographical area were as follows:

	Year ended 30.6.2014		15 months ended 30.6.2013	
	£'000	%	£'000	%
UK & Ireland	12,627	32.6	9,073	17.5
Australasia	25,033	64.5	39,055	75.4
Europe, Middle East and Africa	772	2.0	3,233	6.2
Americas	-	-	400	0.7
Asia	354	0.9	100	0.2
	38,786	100.0	51,861	100.0

Note: No individual customer represents more than 10% of the revenue.

## 5 Operating (loss)/profit

Operating (loss)/profit is stated after charging:

	Year ended 30.6.2014	15 months ended 30.6.2013
	£'000	£'000
Raw materials and consumables	10,123	10,810
Depreciation	368	488
Amortisation	352	185
Exchange losses / (gains)	(163)	256
Operating lease rentals - land and buildings	619	656
Operating lease rentals - other	112	143
Research and development	85	115

Fees receivable by the Group's auditors were as follows:

	Year ended 30.6.2014	15 months ended 30.6.2013
	£'000	£'000
Audit of financial statements	80	64
Other services relating to taxation	4	37
Corporate finance and other advisory services	181	35
	260	136

## 6 Finance costs

	Year ended 30.6.2014	15 months ended 30.6.2013
	£'000	£'000
On bank loans and overdrafts	265	213
On shareholder loans	683	819
Amortisation of fair value of convertible loan	17	-
Arrangement fees and refinancing costs	19	46
	984	1,078

## 7 Employees' and Directors' remuneration

The average monthly number of employees (including the Directors) during the year were:

	Year ended	15 months ended
<i>Employed by the Group</i>	30.6.2014	30.6.2013
	Number	Number
Development and delivery	98	101
Administration and management	46	38
Sales and marketing	69	59
	213	198

Their total remuneration was as follows:

	Year ended	15 months ended
<i>Group</i>	30.6.2014	30.6.2013
	£'000	£'000
Wages and salaries	11,802	17,306
Social security costs	876	1,155
Pension costs	853	1,040
Share based payments	3	67
	13,534	19,568

The employees' and Directors' remuneration is reflected in the financial statements as follows:

	Year ended	15 months ended
<i>Group</i>	30.6.2014	30.6.2013
		Restated
	£'000	£'000
Cost of sales	6,560	8,583
Administrative expenses	6,515	9,438
Exceptional items	438	-
Product development capital expenditure	21	147
	13,534	18,168

## 7 Employees' and Directors' remuneration (continued)

### Directors' Remuneration

Company	Year ended 30.6.2014	15 months ended 30.6.2013
	£'000	£'000
Remuneration and other emoluments	516	508
Severance pay	-	239
Pension contributions	15	52
	<u>531</u>	<u>799</u>
	£'000	£'000
Highest paid Director	<u>185</u>	<u>171</u>

Two (2013: three) directors are accruing benefits under the pension scheme. A detailed analysis of Directors' remuneration is provided on page 13.

Key management personnel emoluments	Year ended 30.6.2014	15 months ended 30.6.2013
	£'000	£'000
Short term employment benefits	509	479
Other compensation including pension contributions	22	91
Post-employment benefits	3	67
	<u>534</u>	<u>637</u>

### 8 Pension costs

The Company operates a defined contribution pension scheme in respect of the Directors and employees. The scheme and its assets are held by independent managers. The pension charge represents contributions due from the Company which amounted to £838,000 (2013: £988,000) plus contributions payable directly to Directors' and employees' personal pension schemes which amounted to £15,000 (2013: £52,000).

### 9 Tax expense

	Year ended 30.6.2014	15 months ended 30.6.2013
	£'000	£'000
Current tax (benefit)/expense	27	(47)
Adjustment in respect of prior periods	(32)	(22)
Tax benefit for the period	(5)	(69)
Deferred tax credit	(6)	(666)
<b>Tax income</b>	<u>(11)</u>	<u>(735)</u>
<b>Factors affecting the tax charge for the year</b>		
Loss before tax	<u>(325)</u>	<u>(3,037)</u>
Loss before tax multiplied by standard rate of UK corporation tax of 22.5% (2013: 23.8%)	(73)	(723)

## 9 Tax expense (continued)

Effects of:

Non-deductible expenses	131	86
Share option adjustment	1	16
Provisions adjustment	11	(32)
Recognition of tax losses	(6)	0
Adjustment in respect of prior periods	(33)	(22)
Overseas tax differences	(44)	(60)
<b>Tax (income)/charge for period</b>	<b>(11)</b>	<b>(735)</b>

## 10 Highlighted costs

The Group incurred costs during the period which we have highlighted as non-operating costs. These costs include transaction costs, restructuring costs and other strategic, non-cash items including amortization of intangibles, impairment, or non-recurring acquisition expenses and non-trading items. Our ongoing review of the business has identified opportunities to reduce costs that we anticipate will translate into future profitability following the acquisitions during the year. The management team has also tightened up a number of business processes and eliminated certain operating expenses and capital expenditure that have demonstrated limited return. This has resulted in the following charges and intangibles impairment as follows:

	<b>Year ended 30.6.2014</b>	<b>15 months ended 30.6.2013</b>
	<b>£'000</b>	<b>£'000</b>
Non-cash share option charge	3	67
Restructuring costs incurred	-	1,263
Acquisition and merger costs	1,072	-
Impairment of intangibles	562	1,297
Amortisation charges	352	185
<b>Total highlighted costs</b>	<b>1,989</b>	<b>2,812</b>

## 11 Loss per share

Earnings per share is calculated by dividing loss attributable to shareholders by the weighted average number of shares in issue during the year.

	<b>Year ended 30.6.2014</b>	<b>15 months ended 30.6.2013</b>
	<b>£'000</b>	<b>£'000</b>
Loss for the period attributable to equity shareholders	(315)	(2,302)
Weighted average shares	199,666,880	193,544,625
Weighted average shares for diluted earnings per share	199,666,880	193,544,625
Basic loss per share	(0.16)p	(1.19)p
Diluted loss per share	(0.16)p	(1.19)p

Potential ordinary shares arising under potential conversion of the convertible loan and share options outstanding are considered anti-dilutive for the year ended 30 June 2014 and the period ended 30 June 2013.

## 12 Property, plant and equipment

<i>Group</i>	<b>Fixtures, fittings and equipment</b>	<b>Computer equipment &amp; software</b>	<b>Property</b>	<b>Total</b>
<b>Cost</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 31.3.2012	72	1,164	-	1,236
Additions	31	856	48	935
Disposals	(45)	(244)	-	(289)
Foreign exchange	-	(110)	-	(110)
At 30.6.2013	58	1,666	48	1,772
Additions	4	333	-	337
Acquired with subsidiary	11	22	-	33
Disposals	(45)	(193)	-	(238)
Foreign exchange	-	(127)	(2)	(129)
At 30.6.2014	28	1,701	46	1,775
<b>Depreciation</b>				
At 31.3.2012	39	550	-	589
Charge for the period	20	456	12	488
Disposals	(38)	(203)	-	(241)
Foreign exchange	-	(50)	-	(50)
At 30.6.2013	21	753	12	786
Charge for the year	15	344	9	368
Disposals	(26)	(128)	-	(154)
Foreign exchange	-	(86)	-	(86)
At 30.6.2014	10	883	21	914
<b>Net Book Value</b>				
At 30.6.2014	18	818	25	861
At 30.6.2013	37	913	36	986
At 31.3.2012	33	614	-	647

## 12 Property, plant and equipment (*continued*)

<i>Company</i>	Fixtures, fittings and equipment	Computer equipment & software	Total
<b>Cost</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 31.3.2012	71	222	293
Additions	29	29	58
Disposals	(45)	(59)	(104)
At 30.6.2013	55	192	247
Additions	4	97	101
Disposals	(44)	(65)	(109)
At 30.6.2014	15	224	239
<b>Depreciation</b>			
At 31.3.2012	38	73	111
Charge for the period	20	59	79
Disposals	(38)	(59)	(97)
At 30.6.2013	20	73	93
Charge for the year	13	61	74
Disposals	(26)	(57)	(83)
At 30.6.2014	7	77	84
<b>Net Book Value</b>			
At 30.6.2014	8	147	155
At 30.6.2013	35	119	154
At 31.3.2012	33	149	182



## 13 Intangible assets

<i>Group</i>	<b>Goodwill</b>	<b>Brand</b>	<b>Acquired customer relationships</b>	<b>Product development and intellectual property</b>	<b>Total</b>
<b>Cost</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 31.3.2012	11,526	1,330	-	4,594	17,450
Additions	559	-	381	241	1,181
Disposals	(26)	-	-	(362)	(388)
Foreign exchange	(76)	(92)	-	(31)	(199)
At 30.6.2013	11,983	1,238	381	4,442	18,044
Additions	163	-	137	127	427
Foreign exchange	(90)	(105)	-	(38)	(233)
At 30.6.2014	12,056	1,133	518	4,531	18,238
<b>Impairment and Amortisation</b>					
At 31.3.2012	3,278	-	-	1,084	4,362
Impairment charge for the period	-	-	-	1,297	1,297
Amortisation charge for the period	-	-	-	185	185
Foreign exchange	-	-	-	(10)	(10)
At 30.6.2013	3,278	-	-	2,556	5,834
Impairment charge for the year	562	-	-	-	562
Amortisation charge for the year	-	-	76	276	352
Foreign exchange	-	-	-	(13)	(13)
At 30.6.2014	3,840	-	76	2,819	6,735
<b>Net Book Value</b>					
At 30.6.2014	8,216	1,133	442	1,712	11,503
At 30.6.2013	8,705	1,238	381	1,886	12,210
At 31.3.2012	8,248	1,330	-	3,510	13,088

### Goodwill by Cash Generating Units

Goodwill is made up of the historic acquired training businesses of £7,097,000, goodwill within the Progility Pty Ltd business of £958,000 and goodwill within the recruitment division of £161,000.

### 13 Intangible assets (continued)

<i>Company</i>	<b>Goodwill</b>	<b>Product development and intellectual property</b>	<b>Total</b>
<b>Cost</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 31.3.2012	11	3,153	3,164
Additions	-	241	241
Disposals	-	-	-
At 30.6.2013	11	3,394	3,405
Additions	-	127	127
At 30.6.2014	11	3,521	3,532
<b>Impairment and Amortisation</b>			
At 31.3.2012	11	479	490
Impairment charge for the period		1,123	1,123
Amortisation charge for the period	-	224	224
At 30.6.2014	11	1,826	1,837
Impairment charge for the period	-	-	-
Amortisation charge for the period	-	182	182
At 30.6.2014	11	2,008	2,019
<b>Net Book Value</b>			
At 30.6.2014	-	1,513	1,513
At 30.6.2013	-	1,568	1,568
At 31.3.2012	-	2,674	2,674

#### Intangible capitalised product

The impairment charge of £nil (2013: £1.1 million) which was based on value in use at a discount rate of 10% (2013:10%), arose in the training division as a result of prior year under performance of the division. Factors contributing to the prior year's underperformance include: the macro environment, the further investment required to address the digital assets and cost

### 13 Intangible assets (continued)

reduction measures at all levels, including senior management. Forecasts and assumptions which incorporate these factors have been used in the calculation of this year's impairment review which resulted in no further impairment.

#### Additions

The additions in respect of product development and intellectual property relate to products and intellectual property developed internally.

#### Impairment

An analysis of Goodwill by cash generating unit is given above in note 13. Goodwill and brands are not amortised but tested annually for impairment with the recoverable amount being determined from value in use calculations of the relevant cash generating units. The key assumptions for the value in use calculations are those regarding the discount rate, growth rates (in line with underlying growth of the industry) and forecasts of income and costs.

Value in use is calculated on the basis of projected cash flows derived from forecasts for the ensuing year based on past experience, with subsequent years including nominal rates of sales and cost growth. Management used modest nominal rates of sales growth (between 2%-3%, appropriate to the market of the cash generating unit) and cost inflation (2%) for the future extrapolated period, as we believe the market is sufficiently competitive to adopt this approach. These forecast cash flows are adjusted to present day values at a discount rate based on a weighted average cost of capital. Management believes 10% is the appropriate discount rate. This rate is consistent for all cash generating units on the basis that they all operate in similar markets and are exposed to similar risks.

The Group assessed whether the carrying value of goodwill and brands was supported by the discounted cash flow forecasts of the cash generating unit based on financial forecasts approved by management, taking in to account both past performance and expectations for future market developments. In assessing the cash generating units the Group reviewed the management forecasts. Management believe the low growth rate used does not exceed the growth rate of the industry and in the primary markets served by the Group. The management forecasts include restructuring which has been completed prior to 30 June 2014.

In relation to the Obrar acquisition in 2013, following aslower than anticipated take up of new client contracts, management concluded that performance target would not be met, and consequently that the goodwill was impaired and recognised a charge of £562,000 which fully impaired the goodwill arising on the acquisition.

In evaluating the recoverable amount, using the discounted cash flow methodology, which is based on making assumptions and judgements on forecasts, margins, discount rates and working capital needs. Management notes that a reasonable potential change in any of these associated factors, say plus or minus 5%, would not lead to any recognition of an impairment charge given the amount of headroom available.

	£'000
<b>Goodwill arising on consolidation</b>	8,214
<b>Other intangibles</b>	
Brand	1,133
Acquired customer relationships	442
Product development and intellectual property	1,712
	<hr/> 3,287
	<hr/> 11,501

## 14 Investments

	Shares in group undertakings (at cost)
Cost	£'000
At 31.3.2012	7,131
Additions	1,330
(Disposals) / Adjustments	(27)
At 30.6.2013	<hr/> 8,434
Additions	18,687
(Disposals) / Adjustments	(562)
At 30.6.2014	<hr/> <hr/> 26,559

Additions: On 1<sup>st</sup> July 2013 the Group completed the first of three transactions during the period, with the addition of recruitment services business TFPL Limited for a consideration of £0.4 million. Then on 7<sup>th</sup> October 2013 we completed the strategic merger of our Company with the technology solutions group Progility Pty Ltd ("Progility Technologies") for a consideration of £15.97 million. Further shares acquired totalled £2.13 million. In addition, on 16<sup>th</sup> November 2013, the Group acquired a further recruitment services business, Sue Hill Recruitment and Services Limited for a total consideration of £0.18 million. The aggregated of these additions totalled £18.69 million.

## 14 Investments (*continued*)

The Company has the following subsidiary undertakings:

<i>Name</i>	<i>Principal Activity</i>	<i>Holding</i>	<i>Registered</i>
Progility Pty Ltd	Trading	100%	Australia
Comms Aust Pty Ltd	Trading	100%	Australia
Comms Aust No 1 Pty Ltd	Trading	100%	Australia
ILX Group Inc	Trading	100%	USA
ILX Group Pty Ltd	Trading	100%	Australia
ILX Consulting Pty Ltd	Trading	100%	Australia
ILX Group Ltd	Trading	100%	New Zealand
ILX Consulting JLT	Trading	100%	UAE (Free Zone)
Obrar Ltd	Trading	100%	England & Wales
TFPL Ltd	Trading	100%	England & Wales
Sue Hill Recruitment & Service Ltd	Trading	100%	England & Wales
Progility Finco Ltd	Trading	100%	England & Wales
ILX Group plc	Non-trading	100%	England & Wales
Progility Health Ltd	Non-trading	100%	England & Wales
Computa-Friendly Ltd	Non-trading	100%	England & Wales
Corporate Training Solutions Ltd	Non-trading	100%	England & Wales
CTG Exam Training Ltd	Non-trading	100%	England & Wales
Customer Projects Ltd	Non-trading	100%	England & Wales
Intellexis International Ltd	Non-trading	100%	England & Wales
Progility Consulting Ltd	Non-trading	100%	England & Wales
Progility Training Ltd	Non-trading	100%	England & Wales
Mindscope Ltd	Non-trading	100%	England & Wales
Mount Lane Training & Implementation Solutions Ltd	Non-trading	100%	England & Wales
The Corporate Training Group Ltd	Non-trading	100%	England & Wales

Note: Only the Trading entities above require to be audited. The other entities are non-trading or soon to be dormant with no activity in the period of the report.

## 15 Deferred Taxation

The following are the major deferred tax assets recognised by the Group.

	Trading Losses	Other timing differences	Total
	£'000	£'000	£'000
At 31.3.2012	9	620	629
Credit to income	481	185	666
Exchange difference	-	(43)	(43)
At 30.6.2013	490	762	1,252
Credit to income	6	-	6
Exchange difference	(24)	(80)	(104)
At 30.6.2014	472	682	1,154

## 16 Inventories

Group	At 30.6.2014	At 30.6.2013
	£'000	£'000
Raw materials	808	354
Work in progress	-	-
Finished goods	2,443	1,714
	3,251	2,068

A total of £10.1 million of inventories was included as an expense (2013: £10.8 million). All group inventories form part of the assets pledged as security in respect of bank loans.

## 17 Trade and other receivables

Group	At 30.6.2014	At 30.6.2013
	£'000	£'000
Trade receivables	6,608	7,354
Other receivables	102	180
Prepayments	1,012	567
Accrued revenue	91	76
	7,813	8,177

**17 Trade and other receivables (continued)**

	At 30.6.2014	At 30.6.2013
<i>Company</i>	£'000	£'000
Trade receivables	770	638
Other receivables	38	6
Prepayments	179	276
Accrued revenue	60	7
	<hr/> 1,047	<hr/> 927
	<hr/>	<hr/>

The amount of receivables past due but not impaired at the balance sheet date was £425,000 (2013: £378,000). The receivables are aged as follows: Debt Aged 60 days and over 25%, up to 59 days 24%, and current up to 29 days, 51%.

**18 Trade and other payables**

	At 30.6.2014	At 30.6.2013
<i>Group</i>	£'000	£'000
Trade payables	5,310	5,226
Other taxes and social security costs	920	696
Accruals	1,372	1,219
Deferred revenue	3,200	3,453
	<hr/> 10,802	<hr/> 10,594
	<hr/>	<hr/>
HSBC 3-year term loan (see note 20)	-	511
HSBC 2-year revolving credit facility (see note 20)	-	700
HSBC 2-year term loan (see note 20)	1,318	-
5-year convertible shareholder loan	342	325
Shareholder loans	1,774	1,591
Bank overdraft	265	-
	<hr/> 3,699	<hr/> 3,127
	<hr/>	<hr/>
Corporation tax	55	69
Contingent consideration (see note 19)	30	307
Provisions for employee benefits	1,028	969

**18 Trade and other payables (continued)**

<i>Company</i>	<b>At 30.6.2014</b>	<b>At 30.6.2013</b>
	<b>£'000</b>	<b>£'000</b>
HSBC 3-year term loan (see note 20)	-	511
HSBC 2-year revolving credit facility (see note 20)	-	700
HSBC 2-year term loan (see note 20)	1,318	-
Bank overdraft	265	-
5-year convertible shareholder loan	342	325
Trade payables	731	699
Amounts owed to group undertakings	3,389	642
Other taxes and social security costs	242	303
Contingent consideration (see note 19)	30	307
Accruals	539	725
Deferred revenue	1,236	1,355
	<hr/> 8,092	<hr/> 5,567
	<hr/>	<hr/>

	<b>At 30.6.2014</b>	<b>At 30.6.2013</b>
<i>Group</i>	<b>£'000</b>	<b>£'000</b>
18% Redeemable loan note 2016	2,133	-
Shareholder loans	2,442	4,611
	<hr/> 4,575	<hr/> 4,611
	<hr/>	<hr/>

Contingent consideration (see note 19)	-	289
Provisions for		
Employee benefits	37	57
Deferred tax	91	91
	<hr/> 128	<hr/> 148
	<hr/>	<hr/>



## 19 Contingent consideration

<i>Company and Group</i>	<b>At 30.6.2014</b>	<b>At 30.6.2013</b>
	<b>£'000</b>	<b>£'000</b>
<i>Current liabilities: Contingent consideration</i>		
Acquisition of Obrar Ltd	-	273
Acquisition of Sue Hill	30	-
Acquisition of rights to software products	-	34
	<u>30</u>	<u>307</u>
<i>Non-current liabilities: Contingent consideration</i>		
Acquisition of Obrar Ltd	-	289
Acquisition of rights to software products	-	-
	<u>-</u>	<u>289</u>

In January 2010 the Group purchased the full intellectual property rights to certain software products. Under the purchase agreement, a further payment equal to 20% of the gross profits on sales of these products over a 4-year period ended January 2014 is due. The payments are capped at £335,000, and no further payments are required after the expiry of the 4-year period.

## 20 Bank loans and facilities

	<b>At 30.6.2014</b>	<b>At 30.6.2013</b>
	<b>£'000</b>	<b>£'000</b>
<b>Total loans</b>		
Repayable in one year or less (note 16)	3,699	3,127
Repayable in more than one year	4,575	4,611
	<u>8,274</u>	<u>7,738</u>

Loans repayable within one year or less include HSBC £1.6 million and shareholder loans of £2.1 million. Loans repayable in more than one year relate to shareholder loans.

The HSBC loan and additional facilities of £1.6m, which are outstanding at the 30 June 2014 are secured by a Composite Guarantee granted by the Group in favour of HSBC Bank Plc dated 29 August 2014, which includes a Fixed Charge over all present freehold and leasehold property; a First Fixed Charge over book and other debts, chattels, goodwill and uncalled capital, both present and future; and a First Floating Charge over all assets and undertakings both present and future.

## 20 Bank loans and facilities (continued)

The HSBC 2-year amortising £1.5m term loan which was issued in January 2014, replaced the existing revolving facility. The Term Loan carries an interest rate of 4.15% above Base Rate and has eighteen months left to run as at the balance sheet date. Repayments are due quarterly in arrears. The facility is repayable on demand by its bankers.

On 17 December 2012 ILX Group plc entered into an agreement with Praxis Trustees Limited ("Praxis Trustees"), a subsidiary of the Praxis Group, to raise £0.4 million by way of a five year convertible loan. The loan note will be convertible into Ordinary Shares at a price of 10 pence per Ordinary Share and have a one for one warrant attached, exercisable at 10 pence per Ordinary Share, giving Praxis the potential to subscribe for a total of up to 8 million new Ordinary Shares.

The Loan Note conversion rights cannot be exercised until the Company has all necessary authorities to enable conversion free from pre-emption rights. Neither the Loan Note conversion rights nor the warrants can be exercised unless either the exercising party will not incur a City Code mandatory offer obligation or it obtains a dispensation from such obligation.

Of the total £1.6 million in bank facilities, drawn at the balance sheet date, including an overdraft of £0.25 million, £0.8 million is expected to be repaid during the current financial year, comprising quarterly term loan repayments.

## 21 Share capital and reserves

	As at 30.6.2014	As at 30.6.2013
	£'000	£'000
Allotted, called up and fully paid equity:		
Ordinary shares of 10p each	19,967	3,993

The movement on allotted called up and fully paid shares is reflected below:

Issued and fully paid ordinary shares of 10 pence each	Number of ordinary shares	£ Amount
At 31.3.2012	27,593,376	2,759,338
Issue by placing	12,340,000	1,234,000
At 30.6.2013	39,933,376	3,993,338
Issued on merger	159,733,500	15,973,350
At 30.6.2014	199,666,886	19,966,688

### Share premium account

This reserve records the consideration premium for shares issued at a value that exceeds their nominal value, less any costs incurred by the Company relating directly to the issue of these shares.

### Other reserve

This reserve records the difference between the proceeds of issue of the convertible loan note and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, as outlined in note 19.

### ***Merger reserve***

## **21 Share capital and reserves (continued)**

This reserve records the difference between the nominal value of the shares issued and fair value of other consideration given and the nominal value of the share capital and other reserves received in a business combination under common control.

### ***Own shares in trust***

This reserve records the purchase cost of shares by Investec Trust held in the Group's medium term incentive plan trust. Further details are contained in note 22.

### ***Share option reserve***

This reserve records the cumulative charges to profit with respect to unexercised share options.

## 22 Share options and own shares in trust

### Share options

As at 30 June 2014, 14 employees (including former Directors) held options over a total of 6,450,000 (2013: 790,936) ordinary shares at an average exercise price of 14.2p (2013: 9.5p), as follows:

Date of grant	Number of shares under option at 30.6.2013	Granted during the year	Forfeited during the year	Number of shares under option at 30.6.2014	Exercise Price	Expiry Date
01-Feb-04	20,000	-	(20,000)	-	70p	01-Feb-14
24-Dec-04	15,000	-	-	15,000	90p	24-Dec-14
15-Jul-05	5,000	-	-	5,000	90p	15-Jul-15
12-Jun-06	10,000	-	-	10,000	90p	12-Jun-16
22-May-07	50,000	-	(10,000)	40,000	53p	22-May-17
31-Oct-09	240,000	-	(240,000)	-	0p	31-Oct-19
01-Jun-10	80,000	-	(80,000)	-	0p	01-Jun-20
24-Feb-11	30,000	-	-	30,000	25p	24-Feb-21
20-Apr-11	340,936	-	(340,936)	-	0p	20-Apr-21
06-Nov-13	-	6,350,000	(1,050,000)	5,300,000	10p	05-Nov-18
	790,936	6,350,000	(1,740,936)	5,400,000		

The weighted average exercise price of these options, and the number exercisable at the end of the year, were as follows:

	Options outstanding at 30.6.2013	Options granted during the year	Options exercised during the year	Options forfeited during the year	Options exercisable at 30.6.2014	Options outstanding (including those exercisable) at 30.6.2014
Number of shares under option	790,936	6,350,000	-	(1,740,936)	100,000	5,300,000
Weighted average exercise price	9.5p	10p	-	2.8p	55.7p	10.7p
	at 31.3.2012				at 30.6.2013	at 30.6.2013
Number of shares under option	3,267,760	-	(1,863,824)	(613,000)	790,936	790,936
Weighted average exercise price	7.4p	-	0.0p	27.4p	9.5p	9.5p

## 21 Share options and own shares in trust (continued)

The weighted average time to expiry of the share options outstanding at 30 June 2014 was 3.8 years (2013: 4.3 years). Details of individual expiry dates are shown above.

All options granted prior to 2013 are exercisable between 2 and 10 years from the date of grant. Options granted in 2013 are exercisable in tranches beginning between 1 and 3 years from the date of grant and expire after 5 years. Details of Directors' share options can be found on page 13. No further options have been granted during 2014. The Company's share price on 30 June 2014 was 5.63p (on 30 June 2013: 11.25p).

The fair value of all options granted is recognised as an employee expense with a corresponding increase in equity. The employee expense is recognised equally over time from grant until vesting of the option. The employee expense for the year was £3,000 (2013: £67,000). The fair value has been measured using the Black-Scholes model. The expected volatility is based in the historic volatility adjusted for any expected changes to future volatility. The material inputs into the model have been:

	Granted in year ended 31.3.2009	Granted in year ended 31.3.2010	Granted in year ended 31.3.2011	Granted in year ended 31.3.2012	Granted in year ended 30.6.2014
Average share price at grant	22.5p	35.0p	20.1p	25.5p	8.4p
Average exercise price	2.9p	1.4p	2.0p	10.2p	10.0p
Expected volatility	48%	62%	68%	55%	47%
Expected life	3.5 years	3.5 years	3.5 years	3.5 years	6 years
Expected dividend yield	5.2%	5.4%	0.0%	6.0%	0.0%
Risk-free rate of return	5.0%	1.0%	1.0%	1.0%	1.2%

### *Own shares in trust*

At 30 June 2014, the Company held 49,231 (2013: 49,231) of its own ordinary shares in a trust, administered by Investec Trust Guernsey Ltd. The shares are held in trust and represented 0.001% of the total called up share capital. These shares will be utilised as required to satisfy share options granted to Directors and other senior management on vesting and exercise.

## 23 Related party transactions

The Company has a related party relationship with its subsidiaries, its Directors, and other employees of the Company with management responsibility. There are no transactions with related parties, that have not already been disclosed, which are not members of the Group.

The Company made payments to Octopus Investments Ltd of £nil (2013: £12,500) in respect of fees charged for the services of Damien Lane as Non-Executive Director.

The parent company charged for sales of e-learning licences and management charges to its subsidiaries in the amounts of £480,320 and £595,938, respectively. These amounts, along with any intercompany payable and receivable balances, are eliminated upon consolidation.

The issue of loans and warrants to Praxis Trustees and MMILT (together the "Transactions") are classified as related party transactions. The Group made repayments in the year to Praxis of £2,133,000 (2013: £1,201,000) and issued new loans of £2,133,000 (2013: £1,032,000). The Group made repayments in the year to MMILT of £18,000 (2013: £244,000) and issued new loans of £nil (2013: £521,000).

## 24 Ultimate parent undertaking and controlling interest

Praxis Trustees Limited, as trustee of the DNY Trust, which holds the majority of shares of the company, is considered to be the ultimate controlling party of the company.

## 25 Operating leases

At 30 June 2014 the Group had minimum commitments under non-cancellable operating leases as set out below:

	<b>Land and buildings 30.6.2014</b>	<b>Land and buildings 30.6.2013</b>
<b>Group</b>	<b>£'000</b>	<b>£'000</b>
Due within one year	570	400
Due in second to fifth year	898	230
Total minimum lease payments	1,468	630

  

	<b>Land and buildings 30.6.2014</b>	<b>Land and buildings 30.6.2013</b>
<b>Company</b>	<b>£'000</b>	<b>£'000</b>
Due within one year	231	160
Due in second to fifth year	179	94
Total minimum lease payments	410	254

The Group leases office spaces under operating leases. The lease terms typically range from one year to ten years. There are no leases with more than five years to run from the balance sheet date.

The amounts shown above assume all leases are broken at the earliest opportunity and include any penalty payments that would result from exercising the early break clauses.

## 26 Capital commitments

There were no material capital commitments at the end of the year (2013: £0).

## 27 Contingent Liability

The Company has received a letter before action in respect of a contractual dispute. The Company's exposure is not expected to be material and steps are being taken to mitigate any potential loss. Management believes the claim has no merit whatsoever and has indicated their intention to vigorously defend any such a claim.

### Acquisition of Starkstrom Group Limited ("Starkstrom")

Starkstrom operates a UK based project management services' company specialising in manufacturing and supplying medical infrastructure equipment for operating theatres and intensive care units. The entire share capital was acquired on the 14 July 2014 for an aggregate consideration, payable in cash and loan notes, of £9.68 million from its owner managers. This acquisition will provide a strong hub around which to focus the Group's work in the healthcare sector as a provider of project management services and solutions to hospitals. Currently, Progility Technologies Pty Ltd. is providing communications and systems integration products and services to hospitals in Australia and the Directors believe that there are opportunities to complement the technology being employed by Starkstrom's complete solutions for operating theatres and intensive care units. The transaction creates scope for collaboration on product development and the opportunity to use Progility's international reach to extend Starkstrom's business beyond the UK into the Middle East and Australasia.

The consideration paid was £6.96m in cash on completion and the issue of £2.72m of zero coupon loan notes repayable in four half-yearly tranches over the two years following Completion. The loan notes will be convertible into new ordinary Progility shares, at the prevailing market price, in the event of non-payment.

The preliminary accounting for the Starkstrom acquisition is still in progress and valuations of the assets acquired are being prepared.