# Progility plc

# ANNUAL REPORT 2016

# Company No. 03525870

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*Progility plc ("Progility") is the holding company of a systems integration and 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 2016. Early in the period we reconsidered the basis upon which we reported our results as we evolved into a more stable set of businesses. Although our focus remains to apply our expertise as a broadly based project management services group we are now very focused on achieving efficient and effective operations within three distinct areas – Professional Services, (comprising our training and recruitment businesses), Healthcare (comprising Starkstrom) and Communications (comprising our technology businesses in India and Australia). Wherever possible we will seek to exploit opportunities to combine activities across these segments and across geographies, but during the period under review the focus has been on improving the cost effectiveness and overall efficiency of the separate segments and to instil a much more rigorous approach to all aspects of our business.

During the year we have therefore incurred some additional cost in implementing change, both in reducing Corporate headcount and also in closing certain activities which were not and are no longer expected to generate an acceptable return.

**Financial Performance**

Overall revenue was £61.6 million from continuing operations, which represented growth of 3%, from continuing operations, over the prior year. Within this we saw a reduction in sales in both Professional Services and Healthcare but strong revenue growth in Communications operations, primarily as a result of consolidating a full year of results from India. An operating loss of £0.1 million from continuing operations, before highlighted items, was clearly disappointing but in arriving at this we have absorbed a significant level of cost in implementing changes to our operational cost base and in headcount reduction.

The overall reported post tax loss for the year was £2.7 million which is after interest charges of £3.0 million, a write down of goodwill in Australia of £0.6 million and a credit of £2.0 million arising from the release of provisions on our Indian acquisition.

Our strategic report on page 4 contains more detailed commentary on our three business areas.

**Management and the Board**

During the year we have seen a number of changes to the Board. At the end of July 2015, Donald Stewart left the company, some three years after joining Progility, to pursue his own professional practice and become more involved as a non-executive with a range of companies. Hugh Cawley, our CFO, left the Company at the end of March 2016 after a year with the Group. We have strengthened the finance function within our operating segments and have not therefore considered it necessary to have a CFO on the Board at this time. We continue to keep this situation under review. We are grateful to both Donald and Hugh for their efforts on behalf of the Group. Outside the Board we have made additions to senior management, in particular in Australia where Campbell Johnson joined in September 2015, and is already making great strides in changing the performance of our Australian activities. He is also providing his expertise elsewhere in the Group, particularly at Starkstrom, to drive efficiencies in the business.

**Prospects**

The focus will remain, in the year ahead, on embedding greater efficiency into our operating units. We have made the changes to enable this to happen and expect our future performance to improve. We will ensure that future growth is both sustainable and profitable. We believe that there are significant opportunities for our businesses to develop and expect a more positive outcome this year.

Wayne Bos

Executive Chairman

7 October 2016

## Strategic Report

**Progility plc - Overview**

The Progility Group now comprises three business segments Professional Services, (comprising the training and recruitment businesses), Healthcare (comprising Starkstrom) and Communications (comprising our technology businesses in India and Australia). This move from a historically geographic segment approach reflects our more stable set of businesses. Using this spread of skills and the geographic reach of our businesses it is still the intention, where opportunities arise, to create solutions for both using the skills and resources of our three segments to deliver project management solutions. However, the focus in the period under review has been to implement the necessary changes to our cost base and to our operational practices to achieve more acceptable returns in the future.

The group will continue to be run as a portfolio, making additions and disposals when the opportunity to generate above average returns arises. The current period saw no acquisitions or disposals.

**Principal activity and business review**

The principal activities of the Group during the period, as outlined above, are Professional Services, Healthcare and Communications.

**Corporate Management and segmental reporting**

The Group's global headquarters remain in central London to suit the diverse needs of the various businesses within the Group.

Our executive management team comprises highly capable managers within sales, finance and operations. The team has evolved to become an effective 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, classroom and e-learning, digital transformation, financial control and operating in a public company environment. Our executive team are experienced in mergers and acquisitions, business integration and business improvement.

Our business is managed through three business segments to maximize our ability to communicate and to deliver our full range of products and expertise to our key clients' decision makers across the diverse territories and time zones in which we operate. These three segments reflect the management responsibility and accounting arrangements used to manage and report upon the performance of the business.

Key performance indicators (KPI's) for each business are revenue, gross profit margin and earnings before interest, taxation, depreciation and amortisation (EBITDA).

The Group's chief operating decision maker remains the Executive Chairman who reviews and considers these reports at the formal board meetings.

**Professional Services**

| | **As reported Year ended** | | **As reported Year ended** | |
|---|---|---|---|---|
| | **30.6.16** | **30.6.16** | **30.6.15** | **30.6.15** |
| | **£000** | **£000** | **£000** | **£000** |
| | Revenue | Segment Profit | Revenue | Segment Profit |
| Professional Services continuing operations | 15,924 | 1,087 | 16,882 | 1,084 |
| Professional Services discontinued operations | 824 | (268) | 344 | (239) |
| Professional Services total | 16,748 | 819 | 17,226 | 845 |

The founding unit of the Group, the Training business, operates under the ILX brand. ILX 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 deliver ILX services from offices in the UK and Dubai and Australia, with partnerships extending into Europe and the US.

TFPL, Sue Hill and Progility Recruitment are our UK-based recruitment services brands. TFPL became part of the Group in July 2014 with Sue Hill joining in November 2014. 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

### Professional Services *(continued)*

2014 to offer specific project management recruitment services. Obrar is a consulting-led project management services company, with over 30 years' experience of 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. Woodspeen Training works with individuals and companies across a range of occupational areas, led by an experienced team of advisors and trainers, operating from seven locations across the UK, enhancing young people's skills and helping them into work.

Overall revenue of this segment fell by just under 3%, though we were able to maintain profit margins in line with the previous year, such that the decline in segment profit was also 3%. However, taking into account the closure of the southern operations of Woodspeen, which is treated as a discontinued activity, underlying operating margins have materially improved.

During the year the ILX training business achieved revenue almost in line with the prior year with slightly improved operating margins. This year has been a transitory one for the business with its new Managing Director, who was appointed just before this period, transforming the management team and implementing steps to improve operational efficiency and marketing effectiveness.

The recruitment business, which specialises in both temporary and permanent resources in information management, has had a challenging year with differing performance across the various industry categories of our clients.

Woodspeen, for which this is the first full year under our ownership, has contributed strongly to revenue, but also made only a modest contribution to profit, as a result of the cost of reorganising the business to deliver our learning courses efficiently and effectively. This involved ceasing providing training in the south of the UK, disclosed as discontinued operations above, and in note 11 to the accounts. We see significant opportunities to grow this business which addresses an important area for both government and the wider community in getting people equipped to work.

### Healthcare

| | As reported Year ended | | As reported Year ended | |
|---|---|---|---|---|
| | **30.6.16** | **30.6.16** | **30.6.15** | **30.6.15** |
| | **£000** | **£000** | **£000** | **£000** |
| | Revenue | Segment Profit | Revenue | Segment Profit |
| Healthcare | 11,148 | 62 | 13,688 | 984 |

Healthcare comprises the activities of the Starkstrom Group, the operating theatre and critical care business, which delivers and installs advanced medical equipment and is a leading provider of fully integrated solutions, with over 40 years' experience in the UK sector. Starkstrom also exports medical equipment overseas, with a particular focus on the Middle East region.

Although the headline performance was disappointing, with revenue down by 19% and segment profit down by 94%, there are specific factors which underpin this.

The business invested in the establishment of a marketing operation in Dubai to try and enhance the presence of Starkstrom in the Middle Eastern market. The expectations of this new office were not met and it has now been closed. In total this cost the business around £0.7 million during the year. There was also a much greater focus during the year on the gross margin that had to be achieved on contracts that we were bidding for. This resulted in us being unsuccessful on some contracts where the return was unacceptably low.

We have also taken steps to minimise the impact of the decline in the value of sterling following the referendum. We source a number of component items from within the Eurozone countries and are seeking to ensure that the cost of sterling's post referendum valuation is shared by both the supplier and our customers. We have also expanded the range of products that we can supply alongside our core contracts in operating theatres.

We entered the current financial year with our highest recorded order book of almost £6.0 million which, taken together with our recurring maintenance income, gives us greater visibility for the current year.

**Communications**

| | **As reported Year ended** | | **As reported Year ended** | |
|---|---|---|---|---|
| | **30.6.16** | **30.6.16** | **30.6.15** | **30.6.15** |
| | **£000** | **£000** | **£000** | **£000** |
| | Revenue | Segment Profit | Revenue | Segment Profit |
| Communications | 34,559 | 515 | 29,142 | 194 |

Communications comprises the technology businesses in Australia and India.

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, retail and healthcare industries in Australasia and on the mining industry globally. 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 Technologies Pvt. Ltd, formerly known as Unify Enterprise Communications Pvt provides unified communications and systems integration solutions across India and surrounding countries. The business has significant overlap of product offerings with Communications Australia whilst adding extensive service and maintenance capabilities, providing level 1, 2 and 3 support to its clients, which include over 200 hospitals under contract in the Indian market.

The Communications segment overall has shown strong sales growth of 19% and improvement in profit. Our Indian business, acquired in December 2014, has had a very good year. Revenue contribution from our business in India grew by 105% to £19.0 million, a result of both organic growth and consolidating a full year of results and, with tight control over pricing and costs, produced a strong performance. During the year the business has been stabilised across all our target business segments (voice, video, data, surveillance and services) and we have strengthened the Progility brand across the enterprise market.

Following the acquisition by Progility it has won back the confidence of the OEM's and our partner network and has successfully entered the high end Video Surveillance market.

The year ahead in India will require us to continue to be alert to new opportunities as the Indian government increases its expenditure on infrastructure but we will need to ensure that we do not succumb to pressure on margins.

In Australia the year under review was one of consolidation and the beginnings of recovery. The core business has been rationalised and we have refocussed our core business relationships. This focus has resulted in us winning the Unify Partner of the Year 2015, and two awards from Motorola. A number of partner relationships were terminated during the year.

Whilst we remain in a challenging market, the rigorous focus on our business and its key efficiencies introduced in the last year will enable us to drive the business forward.

**Developing our businesses' talent**

In order to develop the inherent capability of the businesses, we have created a structure which promotes talent, and allows rapid communication within our business. We look constantly for opportunities to strengthen the capability further, thus ensuring we have sufficient capacity to develop the business, and over the past year have enjoyed some success in securing appropriately qualified senior talent. The regional structure which we operate is a platform for our experienced executives to take the business forward. We shall

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 remain a challenge, particularly as the wider economy improves and intensifies competition for good people.

By strengthening our project management services capabilities and with a widened product technology portfolio, the Group will continue to:

- Expand our consultancy and technology solutions services actively in the UK and Europe, the Middle East, 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 healthcare 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.

**Performance Management**

**Highlights**

- 3.0% growth in revenue from continuing operations, year on year.
- Loss before tax £1.4 million from continuing operations (2015: £0.7 million profit from continuing operations) after highlighted items of £1.4 million profit (2015: £2.6 million profit)

**Highlighted items**

| | As reported Year ended 30.6.16 £000 | As reported Year ended 30.6.15 £000 |
|---|---|---|
| Highlighted items | 1,412 | 2,551 |

In the period under review the Group was able to release £2.0 million of its provision made for potential tax liabilities, when Progility Technologies Pvt Limited was acquired at the end of 2014. The provision has been reduced by £2.0 million, as no tax liabilities have arisen relating to the prior years up to and including 2011, and the balance of £1.0 million is estimated to be sufficient to provide for any liabilities which arise relating to the outstanding years to 2013.

A decision was also taken to impair £0.6 million of goodwill in Progility Pty Limited in the period, a reflection of the challenging market in which our Australian businesses currently operate. However, the aforementioned focus on our business and its key efficiencies will enable us to drive the business forward in the coming year.

**Central corporate costs**

| | As reported Year ended 30.6.16 £000 | As reported Year ended 30.6.15 £000 |
|---|---|---|
| Central corporate costs | (1,770) | (1,838) |

Central costs comprise back office operations including property, legal, finance, IT, communications, HR and board costs in London. There have been a number of non-recurring items incurred in the year as part of a rationalisation exercise to reduce central costs, and which will provide benefits in the coming year. Additional costs, around staff engaged on acquisitions or disposals, may also be incurred when such activity takes place.

**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 its existing product portfolio.

- Operational risk – the risks of failing to deliver, or providing inappropriate delivery of, our products, services or consultancy to customers or possibly recruiting inappropriately. These risks are mitigated by development reviews prior to delivery of products and services, the extensive experience of its consultants, the Group's recruitment processes and its annual performance reviews.

- Information Security – Serious data breaches, external attacks and employee violation of company security policy. This risk is mitigated by the continuous independent review of our information security and the exercise of appropriate recruitment policies.

- Market Risk – geographic instability affecting business confidence which causes uncertainty for investment decisions and product delivery. This risk is mitigated by the Group's continuous review of the markets in which it operates and by robust, advance investment appraisal..

- Personnel risks – losing the services of key managers and employees or delays in finding suitable replacements. This risk is mitigated by the Group's recruitment policies and incentive programmes.

- Additional funding – the existing resources of the Group may prove insufficient to allow it to expand or exploit new business development opportunities. This risk is mitigated by the continued expression of financial support which the Group has 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.

- Reliance on Government contracts – the risk that changes in the political environment in any of the geographies in which we operate, when such changes are clearly beyond our control, could lead, for instance, to loss of business or reduction of the associated margin. We seek to mitigate this risk through ensuring our product offerings are compelling and competitive.

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.

## Strategic Report *(continued)*

### Financial Review

### Operating performance

The Group delivered revenues of £62.5 million (2015: £60.1 million), growth of 4.0%. Gross margins decreased slightly to 37.3% (2015: 38.3%). Operating loss after excluding highlighted items (see note 10) fell to £0.4 million (2015: £0.2 million profit).

Highlighted items include the release of £2.0 million from a £3.0 million provision made in the prior year, which arose from the acquisition of Progility Technologies Pvt in India, as detailed in note 2 to the accounts, and an impairment charge of £0.6 million relating to goodwill in the Australian operations.

| | Result for the period ended 30.6.2016 | Highlighted items 30.6.2016 | Underlying result for the period ended 30.6.2016 |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Revenue – continuing operations | 61,631 | - | 61,631 |
| Revenue – discontinued operations | 824 | - | 824 |
| Revenue – total | 62,455 | - | 62,455 |
| | | | |
| Operating profit/(loss) – continuing operations | 1,306 | - | (106) |
| Operating profit/(loss) – discontinued operations | (268) | - | (268) |
| Operating profit/(loss) - total | 1,038 | 1,412 | (374) |

### Finance costs

The Group incurred net finance costs of £2.7 million (2015: £2.2 million) during the reporting period. The year on year increase reflects the higher levels of debt in the Group, primarily relating to £3.6 million of new shareholder loans raised during the year.

### Taxation

The tax expense for the year was £1.0 million (2015: £0.02 million), higher than the prior year as a result of taxes incurred in India and the de-recognition of deferred tax assets relating to Progility plc.

### Profit for the period and earnings per share

The loss attributable to equity shareholders was £2.7 million (2015: £0.5 million profit) from continuing and discontinued operations. Losses per share were 1.35 pence basic and diluted (2015: 0.24 pence earnings per share basic and diluted) from continuing and discontinued operations.

### Hive Down

Progility plc is the AIM listed holding company of the Progility Group. Until 30 June 2015 the United Kingdom operations of the ILX Group training division of the business traded as part of the Progility plc legal entity. A decision was made to hive down the assets, liabilities and trade of the ILX training division to a 100% owned subsidiary company, ILX Group plc, with effect from 1 July 2015. Details of the assets and liabilities transferred to ILX Group plc are included in the note 2 to the accounts. It should be noted that this transaction has no impact on the consolidated financial statements as it is intra-group.

### Going Concern

The Group has prepared its accounts on a going concern basis based on current forecasts for the period through to December 2017. While the Group had net current liabilities at the year-end, 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 July 2014, to support Progility by making up to £30 million available on commercial terms. This facility is currently £17 million undrawn.

**Financial Review *(continued)***

**Cash flow, net debt and facilities**

***Cash flow***

Cash generated from operating activities was £1.8 million (2015: £1.3 million). The Group generates operating cash flow from its product sales, maintenance contracts and from advance payments from customers.

The Group paid £0.6 million in income tax during the period of reporting (2015: £0.4 million paid).

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.

***Net debt and facilities***

At the balance sheet date the Group's debt comprised loans and overdrafts due within one year of £1.2 million (2015: £3.3 million) and £18.5 million (2015: £14.8 million) falling due in over one year. Of these amounts a total of £18.8 million represents shareholder loans made up of £0.4 million of convertible loan notes and £18.4 million of other notes.

Net debt at the year end, defined as all bank and third party debt, less cash at bank, excluding shareholder loans was an asset of £2.8m million (2015: asset of £0.6 million). This comprised: £3.6 million in cash balances, less £0.8 million in invoice discounting facilities.

**Dividend**

As noted above, it is the Board's objective to invest to grow the Group's business. That ambition, together with a lack of distributable reserves militates against the payment of a dividend for the period ended 30 June 2016. As the Board intends that income generated by the Group will generally 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**

There have been no post balance sheet events which would affect the overview of the Group provided by these statements.

On behalf of the Board

Wayne Bos

Executive Chairman

7 October 2016

# Governance

## Board of Directors

**1. Wayne Bos**

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

Wayne joined the Board on 21 August 2012 and has over 20 years' experience managing and investing in businesses 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 in June 2012.

**2. 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 2014. 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 the Audit Committee and Chairman of the Remuneration Committee.

**3. 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 a director and former 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.

The following Directors held office during the year:

W M Bos

J Caterer

M Higgins

D J Stewart - resigned 31 July 2015

H C L Cawley - resigned 15 April 2016

# Directors' Report for the year ended 30 June 2016

The Directors present their report and the financial statements for the year ended 30 June 2016.

**Principal activities and business review**

A review of the principal activities and of trading and future developments is presented in the Chairman's Statement on page 3 and the Strategic Report on pages 4 to 10.

**Results and dividends**

The results of the Group for the year are set out on page 21. As the group continues to invest in its growth, the existing negative reserves mean that no dividend can be declared.

**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 | 32,845,465 | 16.45 |
| 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 4 to 10. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 9 to 10. 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.

Details of the Group's funding facilities, which include invoice financing and shareholder loans, are set out in the notes to the accounts. 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 29.

The financial statements do not include the adjustments that would result if the Group or Company were 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 11. The interests of the Directors in the share capital of the Company are as follows.

| | Ordinary shares of 10 pence each | | |
|---|---|---|---|
| | At 25.9.2016 | At 30.6.2016 | At 30.6.2015 |
| W M Bos* | 129,294,195 | 129,294,195 | 129,294,195 |
| J Caterer | 12,500 | 12,500 | 12,500 |
| 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, being eligible, offers himself 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.

**Directors' Responsibilities**

The directors are responsible for preparing the Annual Report, Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

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 parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Disclosure of information to auditor

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is 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 auditor is aware of that information

### Auditor

KPMG LLP have been appointed as auditor of the Company. In accordance with S489 of the Companies Act 2006 a resolution proposing that KPMG LLP be reappointed as auditor 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 7 October 2016.

On behalf of the board

Wayne Bos

Executive Chairman

# Remuneration Report for the period ended 30 June 2016

## 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, plus any or all of a car allowance, healthcare, bonus scheme, share options, and medium term incentive plan. The Board as a whole decides 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 | Compensation for loss of office | Other benefits | Bonus | Pension contributions | TOTAL for year ended 30.6.2016 | TOTAL for year ended 30.6.2015 |
|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Executive directors** | | | | | | | |
| W M Bos | 160 | - | 8 | - | - | 168 | 167 |
| D J Stewart+ | 15 | 130 | 1 | - | 4 | 150 | 193 |
| H C L Cawley+ | 150 | 98 | 1 | - | 28 | 277 | 47 |
| J McIntosh+ | - | 30 | - | - | 1 | 31 | 186 |
| **Non-executive directors** | | | | | | | |
| J Caterer | 13 | - | - | - | - | 13 | 20 |
| M Higgins | 30 | - | - | - | - | 30 | 25 |
| P R S Lever | - | - | - | - | - | - | 17 |
| | 368 | 258 | 10 | | 33 | 669 | 655 |

+ Until date of resignation – J McIntosh 1 April 2015, D J Stewart 31 July 2015, H C L Cawley 15 April 2016

## Share options

In November 2014 the Company adopted a bespoke Australian Share Option Scheme, specifically for employees of the Group resident in Australia, and the Progility plc 2014 Unapproved Share Option Scheme for employees in the UK and elsewhere. The share options granted to the Directors in previous years are as follows:

| | Number of shares under option at 30.6.2015 | Granted during the year | Lapsed during the year | Number of shares under option at 30.6.2016 | Exercise price | Date of grant |
|---|---|---|---|---|---|---|
| D J Stewart | 500,000 | - | (500,000) | - | 10p | 06-Nov-13 |
| D J Stewart | 200,000 | - | (200,000) | - | 10p | 23-Oct-14 |
| H C L Cawley | 1,000,000 | - | (1,000,000) | - | 10p | 09-Jun-15 |
| | 1,700,000 | - | (1,700,000) | - | | |

**Bonus scheme for executive Directors**

The Company is considering creating a bonus scheme for the executive Directors and management, based on meeting market expectations and operating profit margin targets. No bonuses were paid for the period under review.

**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.

This report was approved by the board on 7 October 2016.

On behalf of the board

J Caterer

Director

## 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 2016.

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 are up to ten scheduled Board meetings with other meetings being arranged at shorter notice as necessary. During the period, there were eight 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

***Non-executive Directors***

John Caterer

Michael Higgins

All of the Directors have access to the advice and services of 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 year to 30 June 2016 the Board has been fortunate to benefit fully from the expertise of two independent non-executive directors who broaden the experience available to the Company and who aid 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 this is appropriate, given the circumstances in which this situation arose, the current structure of the business, and Board's need to strengthen the drivers of the core business and successfully integrate the additional businesses that have been acquired. 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.

The Board considers its current structure is appropriate for the scale of the business and enables the Group to be managed effectively. It is keeping the need to appoint a CFO to the Board under review.

## Corporate Governance *(continued)*

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 was supported throughout the year 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) and John Caterer and the remuneration committee comprises John Caterer (chairman), Michael Higgins. John Caterer also chairs the Company risk committee. The risk committee was formed to review controls over risk, which are in place to mitigate the Group's exposure to, and the management of risk.

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, and typically the auditors, Chairman and CFO are also invited to attend for part of these meetings. The committee is responsible for ensuring that the financial performance of the Group is properly monitored and reported. It also reviews the effectiveness of the Group's systems of internal control on a continuing 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 continually reviewed and updated. The audit committee 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 Director 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 periodically 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 recover`y, legal compliance, insurance and security.

## Corporate Governance *(continued)*

### 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.

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.

### Annual General Meeting

The date of the Company's AGM will be communicated in due course.

### Supplier payment policy

The Company and Group 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 23 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) 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 integrity of the financial statements contained therein.

### Charitable and political donations

Group donations to charities worldwide during the period under review were £nil (2015: £nil). No donations were made to any political party.

This report was approved by the board on 7 October 2016.

On behalf of the board

Wayne Bos

Executive Chairman

# 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 2016 set out on pages 22 to 67. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU 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 13, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

**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 2016 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 EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU 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[s] 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 Prince (Senior Statutory Auditor)**

**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

15 Canada Square

Canary Wharf

London

E14 5GL

7 October 2016

## Financial Statements

### Consolidated Statement of Comprehensive Income for the Year ended 30 June 2016

| | | Before Highlighted items 30.6.2016 | Highlighted items Note 10 | Year ended 30.6.2016 | Before Highlighted items 30.6.2015 | Highlighted items Note 10 | Year ended 30.6.2015 |
|---|---|---|---|---|---|---|---|
| **Continuing operations** | **Notes** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| **Revenue** | 3,4 | 61,631 | - | 61,631 | 59,712 | 0 | 59,712 |
| Cost of sales | | (39,015) | - | (39,015) | (36,638) | 0 | (36,638) |
| **Gross profit** | | 22,616 | - | 22,616 | 23,074 | - | 23,074 |
| Administrative and distribution expenses | 10 | (22,722) | (588) | (23,310) | (22,650) | (676) | (23,326) |
| Other income | 10 | - | 2,000 | 2,000 | - | 3,227 | 3,227 |
| **Operating (loss)/profit** | 5 | (106) | 1,412 | 1,306 | 424 | 2,551 | 2,975 |
| Finance income | 6 | 263 | - | 263 | 65 | - | 65 |
| Finance costs | 7 | (2,962) | - | (2,962) | (2,296) | - | (2,296) |
| **Loss/(profit) before tax** | | (2,805) | 1,412 | (1,393) | (1,807) | 2,551 | 744 |
| Tax expense | 12 | (1,038) | - | (1,038) | (64) | 46 | (18) |
| **Loss/(profit) after tax** | | (3,843) | 1,412 | (2,431) | (1,871) | 2,597 | 726 |
| **Discontinued operation** | | | | | | | |
| Loss after tax from discontinued operations | 11 | (268) | - | (268) | (239) | - | (239) |
| **Loss/(profit) for the year attributable to equity shareholders** | | (4,111) | 1,412 | (2,699) | (2,110) | 2,597 | 487 |
| **Items that may be reclassified to profit or loss** | | | | | | | |
| Currency translation differences on foreign operations | | | | 662 | | | (287) |
| Other comprehensive income, net of tax | | | | 662 | | | (287) |
| **Total comprehensive (loss)/income** | | | | (2,037) | | | 200 |
| **(Loss)/earnings per share from continuing operations** | 13 | | | | | | |
| Basic | | | | (1.22)p | | | 0.36p |
| Diluted | | | | (1.22)p | | | 0.36p |

The notes on pages 29 to 67 form part of the financial statements.

## Financial Statements *(continued)*

### Consolidated statement of Financial Position for the Year ended 30 June 2016

| | Notes | As at 30.6.2016 | As at 30.6.2015 |
|---|---|---|---|
| **Assets** | | **£'000** | **£'000** |
| **Non-current assets** | | | |
| Plant and equipment | 14 | 1,029 | 1,449 |
| Intangible assets | 15 | 19,501 | 20,135 |
| Deferred tax asset | 17 | 709 | 888 |
| **Total non-current assets** | | 21,239 | 22,472 |
| **Current assets** | | | |
| Inventories | 18 | 3,260 | 4,001 |
| Trade and other receivables | 19 | 14,931 | 16,554 |
| Other current assets | | 2,827 | 2,107 |
| Tax receivable | | - | 41 |
| Cash and cash equivalents | | 3,564 | 3,538 |
| **Total current assets** | | 24,582 | 26,241 |
| **Total assets** | | 45,821 | 48,713 |
| **Current liabilities** | | | |
| Trade and other payables | 20 | (20,309) | (19,889) |
| Deferred/contingent consideration | 2 | (681) | (2,041) |
| Provisions | 21 | (2,650) | (4,282) |
| Tax liabilities | | (174) | (28) |
| Bank and shareholder loans | 20 | (1,174) | (3,288) |
| **Total current liabilities** | | (24,988) | (29,528) |
| **Non-current liabilities** | | | |
| Shareholder loans | 22 | (18,463) | (14,837) |
| Deferred tax liability | 17 | (186) | (199) |
| Provisions | 21 | (131) | (90) |
| **Total non-current liabilities** | | (18,780) | (15,126) |
| **Total liabilities** | | (43,768) | (44,654) |
| **Net assets** | | 2,053 | 4,059 |
| **Equity** | | | |
| Issued share capital | 23 | 19,967 | 19,967 |
| Share premium | | 114 | 114 |
| Other reserve | | 75 | 75 |
| Merger reserve | | (14,854) | (14,854) |
| Own shares in trust | 24 | (2) | (2) |
| Share option reserve | | 42 | 43 |
| Retained earnings | | (3,620) | (953) |
| Foreign currency translation reserve | | 331 | (331) |
| **Total equity** | | 2,053 | 4,059 |

The notes on pages 29 to 67 form part of the financial statements. The financial statements were approved by the Board of Directors and authorised for issue on 7 October 2016. They were signed on its behalf by:

***Wayne Bos*** ***Michael Higgins***
Director Director

## Company Statement of Financial Position as at 30 June 2016

| | | As at 30.6.2016 | As at 30.6.2015 |
|---|---|---|---|
| **Assets** | **Notes** | **£'000** | **£'000** |
| **Non-current assets** | | | |
| Plant and equipment | 14 | - | 179 |
| Intangible assets | 15 | - | 1,276 |
| Investments | 16 | 8,893 | 14,493 |
| Deferred tax asset | 17 | - | 197 |
| **Total non-current assets** | | 8,893 | 16,145 |
| **Current assets** | | | |
| Trade and other receivables | 19 | 23 | 1,119 |
| Cash and cash equivalents | | 286 | 111 |
| **Total current assets** | | 309 | 1,230 |
| **Total assets** | | 9,202 | 17,375 |
| **Current liabilities** | | | |
| Trade and other payables | 20 | (10,741) | (9,918) |
| Bank and shareholder loans | 20 | (371) | (1,123) |
| **Total current liabilities** | | (11,112) | (11,041) |
| **Total liabilities** | | (11,112) | (11,041) |
| **Net liabilities** | | **(1,910)** | **6,334** |
| **Equity** | | | |
| Issued share capital | 23 | 19,967 | 19,967 |
| Share premium | | 114 | 114 |
| Other reserve | | 75 | 75 |
| Own shares in trust | 24 | (2) | (2) |
| Share option reserve | | 42 | 43 |
| Retained earnings | | (22,106) | (13,863) |
| **Total equity** | | **(1,910)** | **6,334** |

The notes on pages 29 to 67 form part of the financial statements. The financial statements were approved by the Board of Directors and authorised for issue on 7 October 2016. They were signed on its behalf by:

| | |
|---|---|
| ***Wayne Bos*** | ***Michael Higgins*** |
| Director | Director |

## Consolidated Cash Flow Statement for the Year ended 30 June 2016

| | Notes | Year ended 30.6.2016 £'000 | Year ended 30.6.2015 £'000 |
|---|---|---|---|
| **Operating profit** | | 1,038 | 2,736 |
| **Adjustments for:** | | | |
| Depreciation and amortisation | 14,15 | 1,135 | 1,154 |
| Loss on fixed asset disposal | 14 | 96 | 86 |
| Impairment of intangibles | 15 | 588 | 229 |
| Gain on bargain purchase | 2 | | (3,227) |
| Share option charge | 24 | 31 | 40 |
| Revaluation of own shares held in trust | 24 | - | 48 |
| Movement in inventories | | 1,113 | 1,101 |
| Movement in trade and other receivables | | 2,400 | 146 |
| Movement in trade and other payables | | (4,446) | (942) |
| Exchange difference on consolidation | | (170) | (59) |
| **Cash generated from operations** | | 1,785 | 1,312 |
| | | | |
| Income taxes (paid)/recovered | | (590) | (439) |
| **Net cash generated from operating activities** | | 1,195 | 873 |
| | | | |
| **Investing activities** | | | |
| Interest received | | 263 | 65 |
| Purchases of property and equipment | 14 | (388) | (555) |
| Capitalised expenditure on product development | 15 | (64) | (52) |
| Acquisition of subsidiaries, net of cash acquired | 2 | (1,361) | (8,032) |
| **Net cash used by investing activities** | | (1,550) | (8,574) |
| | | | |
| **Financing activities** | | | |
| Proceeds from borrowings | | 2,775 | 11,286 |
| Repayment of borrowings | | (2,402) | (1,235) |
| Interest costs paid | | (75) | (408) |
| **Net cash from financing activities** | | 298 | 9,643 |
| | | | |
| **Net change in cash and cash equivalents** | | (57) | 1,942 |
| | | | |
| *Cash and cash equivalents at start of year* | | 3,350 | 1,533 |
| Effect of foreign exchange rate differences | | 271 | (125) |
| *Cash and cash equivalents at end of year* | | 3,564 | 3,350 |
| | | | |
| Cash and cash equivalents comprise | | | |
| Cash in hand and at bank | | 3,564 | 3,538 |
| Bank overdraft | 20 | - | (188) |
| | | 3,564 | 3,350 |

The notes on pages 29 to 67 form part of the financial statements.

### Company Cash Flow Statement for the Year ended 30 June 2016

| | Notes | Year ended 30.6.2016 £'000 | Year ended 30.6.2015 Restated £'000 |
|---|---|---|---|
| **Operating (loss)** | | (6,928) | (13,695) |
| **Adjustments for:** | | | |
| Depreciation and amortisation | 14,15 | - | 377 |
| Investment impairment | 16 | 5,600 | 12,129 |
| Share option charge | 24 | 31 | 40 |
| Revaluation of own shares held in trust | 24 | - | 48 |
| Movement in trade and other receivables | | 2,549 | (72) |
| Movement in trade and other payables | | (291) | 2,054 |
| **Cash generated from operations** | | 961 | 881 |
| | | | |
| Income taxes recovered | | - | 86 |
| **Net cash generated from operating activities** | | 961 | 967 |
| | | | |
| **Investing activities** | | | |
| Purchases of property and equipment | 14 | - | (112) |
| Expenditure on product development | 15 | - | (52) |
| Acquisition of subsidiaries | | - | (93) |
| **Net cash used in investing activities** | | - | (257) |
| | | | |
| **Financing activities** | | | |
| Proceeds from borrowings | | | - |
| Repayment of borrowings | | (579) | (738) |
| Interest costs paid | | (19) | (72) |
| **Net cash used in financing activities** | | (598) | (810) |
| | | | |
| **Net change in cash and cash equivalents** | | 363 | (100) |
| | | | |
| *Cash and cash equivalents at start of year* | | (77) | 23 |
| *Cash and cash equivalents at end of year* | | 286 | (77) |
| | | | |
| *Cash and cash equivalents comprise* | | | |
| Cash in hand and at bank | | 286 | 111 |
| Bank overdraft | 20 | - | (188) |
| | | 286 | (77) |

The notes on pages 29 to 67 form part of the financial statements.

# Financial Statements *(continued)*

## Statement of Changes in Equity for the year ended 30 June 2016

| | Called up share capital | Share premium account | Other reserve | Merger reserve | Own shares in trust | Share option reserve | Foreign currency translation reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|---|
| ***Group*** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| ***Balance at 30.6.2014*** | **19,967** | **114** | **75** | **(14,854)** | **(50)** | **16** | **(44)** | **(1,453)** | **3,771** |
| Options granted | - | - | - | - | - | 40 | - | - | 40 |
| Revaluation of own shares | - | - | - | - | 48 | - | - | - | 48 |
| Options lapsed and waived | - | - | - | - | - | (13) | - | 13 | - |
| Transactions with owners | **-** | **-** | **-** | **-** | **48** | **27** | **-** | **13** | **88** |
| Profit for the year | - | - | - | - | - | - | - | 487 | 487 |
| Other comprehensive income: | | | | | | | | | |
| Foreign currency translation adjustment | - | - | - | - | - | - | (287) | - | (287) |
| **Total comprehensive income for the year** | **-** | **-** | **-** | **-** | **-** | **-** | **(287)** | **487** | **200** |
| ***Balance at 30.6.2015*** | **19,967** | **114** | **75** | **(14,854)** | **(2)** | **43** | **(331)** | **(953)** | **4,059** |
| ***Balance at 30.6.2015*** | **19,967** | **114** | **75** | **(14,854)** | **(2)** | **43** | **(331)** | **(953)** | **4,059** |
| Options granted | - | - | - | - | - | 31 | - | - | 31 |
| Revaluation of own shares | - | - | - | - | - | - | - | - | - |
| Options lapsed and waived | - | - | - | - | - | (32) | - | 32 | - |
| Transactions with owners | - | - | - | - | - | (1) | - | 32 | 31 |
| Loss for the year | - | - | - | - | - | - | - | (2,699) | (2,699) |
| Other comprehensive income: | | | | | | | | | |
| Foreign currency translation adjustment | - | - | - | - | - | - | 662 | - | 662 |
| **Total comprehensive income for the year** | - | - | - | - | - | - | 662 | (2,699) | (2,037) |
| ***Balance at 30.6.2016*** | **19,967** | **114** | **75** | **(14,854)** | **(2)** | **42** | **331** | **(3,620)** | **2,053** |

The notes on pages 29 to 67 form part of the financial statements.

# Financial Statements *(continued)*

## Statement of Changes in Equity for the year ended 30 June 2016

| | Called up share capital | Share premium account | Other reserve | Own shares in trust | Share option reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| ***Company*** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| ***Balance at 30.6.2014*** | **19,967** | **114** | **75** | **(50)** | **16** | **9** | **20,131** |
| Options granted | - | - | - | - | 40 | - | 40 |
| Revaluation of own shares | - | - | - | 48 | - | - | 48 |
| Options lapsed and waived | - | - | - | - | (13) | 13 | - |
| **Transactions with owners** | **-** | **-** | **-** | **48** | **27** | **13** | **88** |
| Loss for the year | - | - | - | - | - | (13,885) | (13,885) |
| **Total comprehensive income for the year** | **-** | **-** | **-** | **-** | **-** | **(13,885)** | **(13,885)** |
| ***Balance at 30.6.2015*** | **19,967** | **114** | **75** | **(2)** | **43** | **(13,863)** | **6,334** |
| ***Balance at 30.6.2015*** | **19,967** | **114** | **75** | **(2)** | **43** | **(13,863)** | **6,334** |
| Options granted | - | - | - | - | 31 | - | 31 |
| Revaluation of own shares | - | - | - | - | - | - | - |
| Options lapsed and waived | - | - | - | - | (32) | 32 | - |
| **Transactions with owners** | - | **-** | **-** | **-** | **(1)** | **32** | **31** |
| Loss for the year | - | - | - | - | - | (8,275) | (8,275) |
| **Total comprehensive income for the year** | - | - | - | - | - | **(8,275)** | **(8,275)** |
| ***Balance at 30.6.2016*** | **19,967** | **114** | **75** | **(2)** | **42** | **(22,106)** | **(1,910)** |

The notes on pages 29 to 67 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 16, forms the Progility group (the “Group”). These financial statements are presented in pounds sterling which is the Company’s functional currency. All amounts have been rounded to the nearest thousand unless otherwise indicated. The Group financial statements were authorised for issue by the Directors on 7 October 2016.

The Group financial statements consolidate those of the Company and its subsidiaries. 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

#### *1.1 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.

#### *1.2 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.

*Merger accounting for acquisition*
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 2014. Following the preparation of the Group’s financial statements for the fifteen months to 30 June 2014 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 ILX in August 2012 and subsequent loan note funding provided; together with the special

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

### *1.2 Critical accounting estimates and Judgements (continued)*

relationships as defined by IFRS10 that existed between Praxis and ILX through the involvement of the CEO Wayne Bos (who is a related party to Praxis) provided the basis for the conclusion that ILX and Progility were under common control.

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.

*Provisions for impairment of receivables (see note 26 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 26 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.

*Going concern*

The Group meets its day-to-day working capital requirements from its operating cash flows. The Company's largest shareholder, Praxis Trustees Limited, as trustee of the DNY Trust, announced its intention, on 7 July 2014, to support Progility by making up to £30 million available on commercial terms. This facility is currently £17 million undrawn.

## Notes to the Financial Statements *(continued)*

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

***1.2 Critical accounting estimates and Judgements (continued)***

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 2016.

***1.3 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.

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. The acquisition of Progility Pty Limited was accounted for as a merger in 2013.

***1.4 Revenue***

*Sales of Goods*
Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Revenue is measured net of returns, trade discounts and rebates.

*Software licences*
Revenue for licenses to use generic software products is recognised over the period of the license term, provided that delivery has occurred. Previously financial statements were prepared recognising revenue from software at the commencement of the licence period.

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 based on the licence granted. 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.

*Recognition of exam vouchers*
Provision is made for unredeemed exam vouchers based on actual take up rates. Actual experience may deviate from the assumptions used, which could impact the financial statements in the year in which circumstances change.

*Projects*
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.

*Services*
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.

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

### *1.4 Revenue (continued)*

*Contracts*
Revenue on fixed price contracts is recognised when the outcome of the contract can be estimated reliably and the stage of completion of the contract can be measured reliably.

Contract revenue and expenses are recognised in accordance with the stage of completion of the contract. Under the stage of completion method, contracts costs, revenue and the resulting profit are recognised in the period in which the work is performed. Contract costs incurred that relate to future activities are deferred and recognised as inventory. Stage of completion is based on costs incurred as a percentage of total budgeted costs.

When the outcome of a contract cannot be estimated reliably, revenue is recognised to the extent of costs incurred that are probable of recovery.

Revenue relating to retention payments is recognised at the fair value of the amount receivable.

When a contract includes a service element then the contract is split into a servicing component that is recognised separately as services revenue. Where contracts have a fixed fee split, revenue is recognised in line with the contract. In cases where contracts do not clearly separate revenue streams a fair value estimate is performed to allocate an appropriate portion of the revenue to the service element.

### *1.5 Basis of consolidation*

*Subsidiaries*
Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

*Transactions eliminated on consolidation*
Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

*Separate parent company financial statements*
In the parent company financial statements, all investments in subsidiaries are carried at cost less impairment.

### *1.6 Foreign currency*

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Sterling, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve or non-controlling interest, as the case may be.

## Notes to the Financial Statements *(continued)*

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

***1.7 Classification of financial instruments issued by the Group***

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the company (or group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company (or group); and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

***1.8 Convertible loans***

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.

***1.9 Non-derivative financial instruments***

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

*Trade and other receivables*

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

*Trade and other payables*

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

*Investments in debt and equity securities*

Investments in subsidiaries in standalone accounts are stated at amortised cost less impairment.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand, bank balances, demand deposits and other short term, highly liquid investments with original maturities of three months or less.

*Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

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

### *1.10 Plant and equipment*

Plant and equipment are stated at cost/deemed cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of plant and equipment have different useful lives, they are accounted for as separate items of plant and equipment.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment. The estimated useful lives are as follows:

| | |
|---|---|
| Fixtures, fittings and equipment | 2 to 4 years |
| Computer equipment and vehicles | 3 to 5 years |
| Leasehold improvements | Over the period of the lease or useful life (whichever is shorter) |

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

### *1.11 Business combinations*

All business combinations are accounted for by applying the acquisition method except for businesses under common control which are accounted for using merger accounting. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

The merger accounting principles used for the acquisition of Progility Pty Ltd in 2013 which was, prior to the acquisition, under common control gave rise to a merger reserve in the consolidated statement of financial position, being the difference between the nominal value of new shares issued by the Company for the acquisition of the shares of Progility Pty Ltd and that company's own share capital and share premium account.

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

#### *1.12 Intangible assets and goodwill*

*Goodwill*
Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

*Research and development*
Expenditure on research activities is recognised in profit or loss as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group intends, has the technical ability and has sufficient resources to complete development, future economic benefits are probable and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in profit or loss as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

*Other intangible assets*
Expenditure on internally generated goodwill and brands is recognised in profit or loss as an expense as incurred. Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and less accumulated impairment losses.

*Amortisation*
Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

| | |
|---|---|
| Brand | indefinite life |
| Capitalised development costs | 10 years |
| Acquired customer relationships | amortised over the period to which the contract with the customer relates. |

#### *1.13 Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

#### *1.14 Impairment excluding inventories and deferred tax assets*

*Financial assets (including receivables)*
A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

*Non-financial assets*
The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

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

### *1.14 Impairment excluding inventories and deferred tax assets (continued)*

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### *1.15 Employee benefits*

*Defined contribution plans*
A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss in the periods during which services are rendered by employees.

*Short-term benefits*
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

*Share-based payment transactions*
Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment transactions in which the Group receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Group's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

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

#### *1.16 Provisions*

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability..

#### *1.17 Expenses*

*Operating lease payments*
Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense.

*Financing income and expenses*
Financing expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in profit or loss (see foreign currency accounting policy). Financing income comprise interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

#### *1.18 Taxation*

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised

#### *1.19 Highlighted items*

Highlighted 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.

#### *1.19 Adopted IFRS not yet applied*

The following Adopted IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- IFRS 9 Financial Instruments (effective date to be confirmed).
- IFRS 15 Revenue from Contract with Customers (effective date to be confirmed).
- Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (1 January 2016).

## Notes to the Financial Statements *(continued)*

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

***1.19 Adopted IFRS not yet applied (continued)***

- Equity Method in Separate Financial Statements – Amendments to IAS 27 (effective 1 January 2016).
- Annual Improvements to IFRSs – 2012-2014 Cycle (effective 1 January 2016).
- Disclosure Initiative – Amendments to IAS 1 – (EU effective date 1 January 2016)

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 Acquisitions and Disposals

**Hive Down**

On 1 July 2015 the Company transferred the assets and liabilities of the ILX training business from Progility plc to ILX Group plc, a wholly owned subsidiary of Progility plc. Details of the net identifiable assets and liabilities transferred are set out below. The consideration for the transfer was satisfied by the setting up of an intercompany receivable.

| | £000's |
|---|---|
| Property, plant and equipment | (179) |
| Intangible assets | (1,276) |
| Trade receivables | (574) |
| Other receivables | (311) |
| Cash and cash equivalents | (2) |
| Deferred income | 2,669 |
| Trade payables | 731 |
| Consideration paid , satisfied through intercompany payable | (1,058) |
| Net cash flow | - |

**Deferred Consideration**

Deferred consideration of £1.4m was paid during the period under review towards the acquisition of Starkstrom Group Ltd, completed in July 2014.

| | **Year ended 30.6.2016** | **Year ended 30.6.2015** |
|---|---|---|
| Deferred consideration from acquisition of Starkstrom | 681 | 2,041 |

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

**Acquisitions in prior year**

During the previous reporting period, to 30 June 2015, acquisitions were completed as detailed below.

Starkstrom Group Ltd

On 14 July 2014 the company acquired 100% of the ordinary share capital of Starkstrom Group Ltd. 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 for an aggregate consideration, payable in cash and loan notes, of £10.68 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.

The consideration paid was £7.96m 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 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 | 8,636 |
| Fair value of deferred consideration | 2,041 |
| **Total** | **10,677** |

| | **Book value** | **Fair value** |
|---|---|---|
| **Recognised amounts of identifiable net assets** | **£'000** | **£'000** |
| Intangible assets | 2,102 | 928 |
| Tangible assets | 536 | 536 |
| Inventories | 1,040 | 1,040 |
| Trade and other receivables | 3,209 | 3,209 |
| Cash at bank and in hand | 537 | 537 |
| Trade and other payables | (3,237) | (3,237) |
| Tax liabilities | (287) | (287) |
| Deferred Tax | - | (185) |
| **Identifiable Net Assets** | **3,900** | **2,541** |
| | | |
| **Goodwill on acquisition** | | **8,136** |

| | |
|---|---|
| Consideration paid in cash | 8,636 |
| Cash and cash equivalents acquired | (537) |
| **Net cash paid relating to the acquisition** | **8,099** |

The nature of the Starkstrom business is that sales are made to a wide variety of customers who behave as operating units in a large enterprise or government department. It is not the relationship with existing customers that helps Starkstrom to win new business, rather it is its reputation within that market sector. Consequently, the goodwill inherent in the business on acquisition lay in its brands rather than its customer relationships. The group also has the opportunity to exploit Starkstrom's brands in overseas markets. The Group has attributed a fair value of £928,000 to brands, which was determined by discounting the future cash flows to be generated from specific Starkstrom product lines. An assessment of other assets at the time of acquisition was also made, no other fair value adjustment was deemed necessary.

## 2 Acquisitions and Disposals *(continued)*

The summarised income statement for the acquired entity for the period from the beginning of its financial year on 1 June 2014 to the effective date of acquisition, and for its previous financial year, is set out below:

| | Period ended 14.07.2014 | Year ended 31.05.2014 |
|---|---|---|
| | £'000 | £'000 |
| **Revenue** | 1,509 | 16,892 |
| Cost of sales | (875) | (10,345) |
| **Gross profit** | 634 | 6,547 |
| Administrative and distribution expenses | (849) | (4,973) |
| **Operating (loss)/profit** | (215) | 1,574 |

**Progility India**

On 29 December 2014, the company acquired from the Unify Group, 100% of the share capital of Progility Technology Private Ltd (formerly Unify Enterprise Communications Private Ltd), a systems integrator and independent solution provider specialising in communications infrastructure, applications and services based in Mumbai, India. Consideration was €1.0 m paid in cash, giving rise to a bargain gain of £3.2m as detailed below.

| | | |
|---|---|---|
| **Fair value of consideration** | | **£'000** |
| Cash paid | | 787 |
| **Total** | | **787** |
| | **Book value** | **Fair value** |
| **Recognised amounts of identifiable net assets** | **£'000** | **£'000** |
| Deferred Tax | 573 | 573 |
| Tangible assets | 99 | 99 |
| Inventories | 1,272 | 1,197 |
| Trade and other receivables | 8,472 | 7,746 |
| Cash at bank and in hand | 1,273 | 1,273 |
| Trade and other payables | (3,504) | (3,504) |
| Transfer pricing provision | - | (3,000) |
| Provisions | (370) | (370) |
| **Identifiable Net Assets** | **7,815** | **4,014** |
| **Bargain gain on acquisition** | | **(3,227)** |
| Consideration paid in cash | | 787 |
| Cash and cash equivalents acquired | | (1,273) |
| **Net cash received relating to the acquisition** | | **(486)** |

It was apparent that the Unify Group's strategy had changed to a partner-based, rather than direct model and that its Indian business was therefore at risk. Whilst the business was not without its challenges, it seemed that it would be in both groups' interest for us to acquire the well-run entity now known as Progility Technologies Pvt. Ltd. It provides Progility with a valuable presence across the sub-continent in a sector we well understand with customers in sectors familiar to us, at the same time as having relieved Unify of potentially significant closure costs. The consideration agreed was very much influenced by this position.

After an assessment of each inventory category at acquisition, Group determined that the fair value was £75,000 below the book value, and a fair value reduction of £726,000 was made to trade receivables following a review and assessment of the age profile.

## 2 Acquisitions and Disposals *(continued)*

In addition, we have established a provision against possible liabilities associated with acquired, pre-existing transfer pricing discussions.

The summarised income statement for the acquired entity for the period from the beginning of its financial year on 1 October 2014 to the effective date of acquisition, and for its previous financial year, is set out below:

| | Period ended 29.12.2014 | Year ended 30.09.2014 |
|---|---|---|
| | £'000 | £'000 |
| **Revenue** | 4,798 | 19,740 |
| Cost of sales | (3,338) | (13,436) |
| **Gross profit** | 1,460 | 6,304 |
| Administrative and distribution expenses | (1,189) | (5,146) |
| **Operating profit** | 271 | 1,158 |

**Woodspeen Training**

On 5 January 2015, the company acquired 100% of the share capital of Woodspeen Training Ltd, a UK provider of training and skills development for a cash consideration of £0.4m.

| **Fair value of consideration** | **£'000** |
|---|---|
| Cash paid | 400 |
| **Total** | **400** |

| | Book value | Fair value |
|---|---|---|
| **Recognised amounts of identifiable net assets** | **£'000** | **£'000** |
| Tangible assets | 185 | 185 |
| Trade and other receivables | 418 | 418 |
| Cash at bank and in hand | 11 | 11 |
| Trade and other payables | (721) | (721) |
| **Identifiable Net Assets** | **(107)** | **(107)** |
| | | |
| **Goodwill on acquisition** | | **507** |
| | | |
| Consideration paid in cash | | 400 |
| Cash and cash equivalents acquired | | (11) |
| **Net cash paid relating to the acquisition** | | **389** |

## Notes to the Financial Statements *(continued)*

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

The summarised income statement for the acquired entity for the period from the beginning of its financial year on 1 August 2014 to the effective date of acquisition, and for its previous financial year, is set out below:

| | Period ended 05.01.2015 | Year ended 31.07.2014 |
|---|---|---|
| | £'000 | £'000 |
| **Revenue** | 1,358 | 3,851 |
| Cost of sales | (227) | (2,957) |
| **Gross profit** | 1,131 | 894 |
| Administrative and distribution expenses | (1,412) | (956) |
| **Operating loss** | (281) | (62) |

We have reviewed the net assets acquired and concluded that the book value equates to the fair value.

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 30.6.2015 | Pre-acquisition trading of Starkstrom, Woodspeen, Progility India | Total for the year ended 30.6.2015 as though the acquisition date was 1.7.2014 |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Revenue | 60,056 | 12,001 | 72,057 |
| Operating profit | 2,736 | 68 | 2,804 |

### 3 Segment reporting

Following an internal reorganisation and changes to the composition of its reportable segments the Group has restated the operating segment information for the year ended 30 June 2015. The Group focuses its internal management reporting on the following segments:

***Professional Services*** - The Group's Professional operations comprise the training, recruitment and consultancy activities operating in the UK, Dubai, Australia and New Zealand. Woodspeen Ltd, part of the Professional Services segment, discontinued operations in the southern part of the UK during the year. Details of the revenue, costs and cash flows of the discontinued operations are included in note 11 to the accounts.

***Healthcare*** – The Group's Health operations comprise the activities of Starkstrom Limited and Progility DMCC, operating in the UK and Dubai.

***Communications*** – The Group's Technology operations comprise the technology solutions goods and services businesses which operate in Australia and India

The Group measures the operating performance of the business through monthly financial reports on the Professional Services, Healthcare and Communications 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.

### 3 Segment reporting *(continued)*

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 30.6.2016 | | Year ended 30.6.2015 | |
|---|---|---|---|---|
| Revenue by segment | Revenue | Segment Profit / (Loss) | Revenue | Segment Profit / (Loss) |
| | £'000 | £'000 | £'000 | £'000 |
| Professional Services | 16,748 | 819 | 17,226 | 845 |
| Healthcare | 11,148 | 62 | 13,688 | 984 |
| Communications | 34,559 | 515 | 29,142 | 194 |
| Elimination of Professional Services discontinued operations | (824) | 268 | (344) | 239 |
| Central corporate costs | | (1,770) | | (1,838) |
| Total segment result from continuing operations | 61,631 | (106) | 59,712 | 424 |
| Highlighted items | | 1,412 | | 2,551 |
| Operating profit from continuing operations | | 1,306 | | 2,975 |
| Net finance costs | | (2,699) | | (2,231) |
| Profit before tax from continuing operations | | (1,393) | | 744 |

| Adjusting for highlighted items (note 10) | | £'000 | £'000 |
|---|---|---|---|
| Acquisition and merger costs | Recurring | - | 447 |
| Bargain gain on acquisition | Non recurring | - | (3,227) |
| Reversal of provisions | Non recurring | (2,000) | |
| Impairment charges | Non recurring | 588 | 229 |
| | | (1,412) | (2,551) |

| | Year ended 30.6.2016 | | Year ended 30.6.2015 | |
|---|---|---|---|---|
| | Segment assets | Segment liabilities | Segment assets | Segment liabilities |
| | £'000 | £'000 | £'000 | £'000 |
| Professional Services | 21,384 | 24,123 | 22,392 | 21,481 |
| Healthcare | 3,543 | 3,601 | 5,860 | 6,067 |
| Communications | 20,894 | 16,044 | 20,461 | 17,106 |
| Total | 45,821 | 43,768 | 48,713 | 44,654 |

## 3 Segment reporting *(continued)*

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

| | Year ended 30.6.2016 | | Year ended 30.6.2015 | |
|---|---|---|---|---|
| | £'000 | % | £'000 | % |
| UK, Ireland & Europe | 25,659 | 41.6% | 28,366 | 47.5% |
| Australasia | 17,316 | 28.1% | 21,847 | 36.6% |
| Middle East and Africa | 454 | 0.7% | 607 | 1.0% |
| Asia | 19,026 | 30.9% | 9,236 | 15.5% |
| UK discontinued operations | (824) | (1.3%) | (344) | (0.6%) |
| | 61,631 | 100.0% | 59,712 | 100.0% |

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

## 4 Revenue

Revenue comprises:

| | Year ended 30.6.2016 £'000 Continuing | Year ended 30.6.2016 £'000 Discontinued | Year ended 30.6.2016 £'000 Total | Year ended 30.6.2015 £'000 Continuing | Year ended 30.6.2015 £'000 Discontinued | Year ended 30.6.2015 £'000 Total |
|---|---|---|---|---|---|---|
| Rendered Services | 23,946 | 824 | 24,770 | 29,491 | 344 | 29,835 |
| Goods Sold | 37,685 | - | 37,685 | 30,221 | - | 30,221 |
| | 61,631 | 824 | 62,455 | 59,712 | 344 | 60,056 |

## 5 Operating profit

Operating profit is stated after charging:

| | Year ended 30.6.2016 £'000 | Year ended 30.6.2015 £'000 |
|---|---|---|
| Raw materials and consumables | 24,141 | 21,754 |
| Depreciation | 776 | 626 |
| Amortisation | 359 | 528 |
| Impairment | 588 | 229 |
| Loss on disposal | 96 | 86 |
| Bargain gain on acquisition | - | (3,227) |
| Release of provision/provision for tax liabilities in India | (2,000) | 3,000 |
| Exchange losses / (gains) | (93) | (524) |
| Operating lease rentals - land and buildings | 1,064 | 1,132 |
| Operating lease rentals – other | 758 | 9 |
| Research and development | 110 | 64 |

## 5 Operating profit *(continued)*

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

| | Year ended 30.6.2016 £'000 | Year ended 30.6.2015 £'000 |
|---|---|---|
| Audit of financial statements | 196 | 158 |
| Other services relating to taxation | 41 | 18 |
| Corporate finance and other advisory services | 48 | 119 |
| | 285 | 295 |

## 6 Finance income

| | Year ended 30.6.2016 £'000 | Year ended 30.6.2015 £'000 |
|---|---|---|
| Interest received | 263 | 65 |

## 7 Finance costs

| | Year ended 30.6.2016 £'000 | Year ended 30.6.2015 £'000 |
|---|---|---|
| On bank loans and overdrafts | 322 | 354 |
| On shareholder loans | 2,616 | 1,910 |
| Other interest | 4 | 11 |
| Amortisation of fair value of convertible loan | 16 | 13 |
| Arrangement fees | 4 | 8 |
| | 2,962 | 2,296 |

## 8 Employees' and Directors' remuneration

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

| *Employed by the Group* | Year ended 30.6.2016 Number | Year ended 30.6.2015 Number |
|---|---|---|
| Development and delivery | 363 | 339 |
| Administration and management | 151 | 127 |
| Sales and marketing | 222 | 223 |
| | 736 | 689 |

Their total remuneration was as follows:

| *Group* | Year ended 30.6.2016 £'000 | Year ended 30.6.2015 £'000 |
|---|---|---|
| Wages and salaries | 19,663 | 17,868 |
| Social security costs | 853 | 999 |
| Pension costs | 886 | 919 |
| Share based payments | 31 | 40 |
| | 21,433 | 19,826 |

### 8 Employees' and Directors' remuneration *(continued)*

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

| *Group* | Year ended 30.6.2016 | Year ended 30.6.2015 |
|---|---|---|
| | £'000 | £'000 |
| Cost of sales | 7,344 | 6,877 |
| Administrative expenses | 14,062 | 12,927 |
| Product development capital expenditure | - | 22 |
| | 21,406 | 19,826 |

**Directors' Remuneration**

| *Company* | Year ended 30.6.2016 | Year ended 30.6.2015 |
|---|---|---|
| | £'000 | £'000 |
| Remuneration and other emoluments | 378 | 553 |
| Severance pay | 258 | 80 |
| Pension contributions | 33 | 22 |
| | 669 | 655 |

| | £'000 | £'000 |
|---|---|---|
| Highest paid Director | 277 | 193 |

One director was (in 2015, two directors were) accruing benefits under the group pension scheme. A detailed analysis of Directors' remuneration is provided on page 14.

| **Key management personnel emoluments** | Year ended 30.6.2016 | Year ended 30.6.2015 |
|---|---|---|
| | £'000 | £'000 |
| Short term employment benefits | 1,085 | 891 |
| Other compensation including pension contributions | 151 | 22 |
| Post-employment benefits | 9 | - |
| | 1,245 | 913 |

### 9 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 £886,000 (2015: £919,000) plus contributions payable directly to Directors' and employees' personal pension schemes which amounted to £33,000 (2015: £22,000).

## Notes to the Financial Statements *(continued)*

### 10 Highlighted items

The Group incurred costs during the year which we have highlighted. These costs, set out below, include transaction costs, restructuring costs and other strategic, non-cash items and released provisions, including impairment, bargain gain on acquisition and non-recurring acquisition expenses. This has resulted in the following charges, gains and intangibles impairment as follows:

| | Year ended 30.6.2016 | Year ended 30.6.2015 |
|---|---|---|
| | **£'000** | **£'000** |
| **Recurring** | | |
| Acquisition and merger costs * | - | 447 |
| **Non-recurring** | | |
| Bargain gain on acquisition ** | - | (3,227) |
| Impairment of intangibles *** | - | 229 |
| Impairment of goodwill **** | 588 | - |
| Release of transfer pricing provision***** | (2,000) | - |
| Total highlighted items | (1,412) | (2,551) |

* Relates to the acquisitions of Starkstrom group, Progility India and Woodspeen in the period ended 30.6.2016 (2015: acquisition of Sue Hill and Progility Pty Ltd)

** Relates to gain on the acquisition of Progility India – see note 2.

*** Relates to the impairment of Obrar intangible assets – see note 15.

**** Relates to the impairment of Goodwill in Progilty Pty Ltd – see note 15.

***** Relates to the transfer pricing provision made on the acquisition of Progilty India – see note 2.

### 11 Discontinued Operations

In February 2016, Woodspeen Limited, part of the Group's Professional Services sector, decided to discontinue operations in the south of England and provide all training services in the north of the country. The revenues, expenses and pre-tax profit of the discontinued operations for the current period and the prior period are detailed below. Prior period figure are from the date of acquisition, 5 January 2015, to 30 June 2015.

| | Year ended 30.6.2016 | Year ended 30.6.2015 |
|---|---|---|
| | **£'000** | **£'000** |
| Revenue | 824 | 344 |
| Expenses | (1,092) | (583) |
| Pre-tax loss | (268) | (239) |
| Taxation | - | - |
| Post-tax loss | (268) | (239) |
| | | |
| Basic and diluted loss per share from discontinued operations | 0.13p | 0.12p |

The net cash flows attributable to the operating, investing and financing activities of the discontinued operations are detailed below. There were no investing or financing cash flows associated with the discontinued operations in either the current or prior period.

## 11 Discontinued Operations *(continued)*

| | Year ended 30.6.2016 £'000 | Year ended 30.6.2015 £'000 |
|---|---|---|
| Operating activities | (268) | (239) |
| Investing activities | - | - |
| Financing activities | - | - |
| Net cash flow | (268) | (239) |

## 12 Tax expense

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 30 June 2016 has been calculated based on these rates.

| | Year ended 30.6.2016 £'000 | Year ended 30.6.2015 £'000 |
|---|---|---|
| Current tax charge | 798 | 232 |
| Adjustment in respect of prior years | - | (13) |
| Tax charge for the year | 798 | 219 |
| Deferred (charge)/credit | 240 | (201) |
| Tax charge | 1,038 | 18 |
| Factors affecting the tax charge for the year | | |
| Loss/(profit) before tax from continuing and discontinued operations | (1,661) | 505 |
| Loss/(profit) before tax multiplied by standard rate of UK corporation tax of 20.00% (2015: 20.75%) | (332) | 105 |
| Effects of: | | |
| Non-deductible expenses | 67 | 167 |
| Tax exempt revenue | (400) | (670) |
| Overseas tax on dividends | 164 | - |
| Recognition of previously unrecognised tax losses | 197 | (50) |
| Current year losses for which no deferred tax asset was recognised | 1,106 | 379 |
| Under/(over) provided in prior years | 6 | 53 |
| Effect of tax rates in foreign jurisdictions | 230 | 34 |
| Tax charge for period | 1,038 | 18 |

## 13 Earnings per share from continuing operations

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

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 2016 and the period ended 30 June 2015. At 30 June 2016, the 4.45 million outstanding share options were excluded from the dilution calculation as the exercise price of 10 pence was greater than the average price for the period in issue.

| | Year ended 30.6.2016 | Year ended 30.6.2015 |
|---|---|---|
| | £'000 | £'000 |
| (Loss)/Profit for the year from continuing operations attributable to equity shareholders | (2,431) | 726 |
| Weighted average shares | 199,666,880 | 199,666,880 |
| Weighted average shares for diluted earnings per share | 199,666,880 | 199,666,880 |
| Basic (loss)/earnings per share from continuing operations | (1.22)p | 0.36p |
| Diluted (loss)/earnings per share from continuing operations | (1.22)p | 0.36p |

## 14 Plant and equipment

| *Group* | Fixtures, fittings and equipment | Computer equipment and software | Motor Vehicles | Leasehold improvements | Total |
|---|---|---|---|---|---|
| **Cost** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| At 30.6.2014 | 801 | 774 | 154 | 46 | 1,775 |
| Additions | 205 | 313 | 37 | - | 555 |
| Acquired with subsidiary | 602 | 62 | 156 | - | 820 |
| Disposals | (69) | (3) | (58) | - | (130) |
| Foreign exchange | (103) | (72) | (15) | (6) | (196) |
| At 30.6.2015 | 1,436 | 1,074 | 274 | 40 | 2,824 |
| Reclassifications | (183) | 29 | | 154 | - |
| Additions | 79 | 258 | 51 | - | 388 |
| Disposals | (50) | (27) | (72) | - | (149) |
| Foreign exchange | 131 | 145 | 13 | 5 | 294 |
| At 30.6.2016 | 1,413 | 1,479 | 266 | 199 | 3,357 |
| **Depreciation** | | | | | |
| At 30.6.2014 | 331 | 474 | 88 | 21 | 914 |
| Charge for the year | 320 | 209 | 88 | 9 | 626 |
| Disposals | (1) | (2) | (41) | - | (44) |
| Foreign exchange | (52) | (55) | (10) | (4) | (121) |
| At 30.6.2015 | 598 | 626 | 125 | 26 | 1,375 |
| Reclassification | (113) | 17 | - | 96 | - |
| Charge for the year | 385 | 296 | 65 | 30 | 776 |
| Disposals | (34) | (9) | (10) | - | (53) |
| Foreign exchange | 114 | 100 | 12 | 4 | 230 |
| At 30.6.2016 | 950 | 1,030 | 192 | 156 | 2,328 |
| **Net Book Value** | | | | | |
| At 30.6.2016 | 463 | 449 | 74 | 43 | 1,029 |
| At 30.6.2015 | 838 | 448 | 149 | 14 | 1,449 |
| At 30.6.2014 | 470 | 300 | 66 | 25 | 861 |

## Notes to the Financial Statements *(continued)*

### 14 Plant and equipment *(continued)*

| *Company* | Fixtures, fittings and equipment | Computer equipment and software | Total |
|---|---|---|---|
| **Cost** | **£'000** | **£'000** | **£'000** |
| At 30.6.2014 | 15 | 224 | 239 |
| Additions | 10 | 102 | 112 |
| Disposals | - | - | - |
| At 30.6.2015 | 25 | 326 | 351 |
| | | | |
| Additions | | | |
| Disposals | (25) | (326) | (351) |
| At 30.6.2016 | - | - | - |
| | | | |
| **Depreciation** | | | |
| At 30.6.2014 | 7 | 77 | 84 |
| Charge for the year | 5 | 83 | 88 |
| Disposals | - | - | - |
| At 30.6.2015 | 12 | 160 | 172 |
| | | | |
| Charge for the year | | | |
| Disposals | (12) | (160) | (172) |
| At 30.6.2016 | - | - | - |
| | | | |
| **Net Book Value** | | | |
| At 30.6.2016 | - | - | - |
| At 30.6.2015 | 13 | 166 | 179 |
| At 30.6.2014 | 8 | 147 | 155 |

Plant and equipment with a net book value of £0.2 million (2015: £0.2 million) was transferred to ILX Group plc during the year as part of the Hive Down exercise disclosed in note 2.

## 15 Intangible assets

| *Group* | Goodwill | Brand | Acquired customer relationships | Capitalised development costs | Total |
|---|---|---|---|---|---|
| **Cost** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| At 30.6.2014 | 12,056 | 1,133 | 518 | 4,531 | 18,238 |
| Additions | 8,643 | 928 | - | 52 | 9,623 |
| Foreign exchange | (90) | (127) | - | (35) | (252) |
| At 30.6.2015 | 20,609 | 1,934 | 518 | 4,548 | 27,609 |
| Additions | - | - | - | 64 | 64 |
| Disposals | | | | (1,602) | (1,602) |
| Foreign exchange | 226 | 21 | - | 35 | 282 |
| At 30.6.2016 | 20,835 | 1,955 | 518 | 3,045 | 26,353 |
| **Impairment and Amortisation** | | | | | |
| At 30.6.2014 | 3,840 | - | 76 | 2,819 | 6,735 |
| Impairment charge for the year | - | - | 229 | - | 229 |
| Amortisation charge for the year | 7 | - | 145 | 376 | 528 |
| Foreign exchange | - | - | 1 | (19) | (18) |
| At 30.6.2015 | 3,847 | - | 451 | 3,176 | 7,474 |
| Disposals | | | | (1,602) | (1,602) |
| Impairment charge for the year | 588 | - | - | - | 588 |
| Amortisation charge for the year | - | - | 67 | 292 | 359 |
| Foreign exchange | - | - | - | 33 | 33 |
| At 30.6.2016 | 4,435 | - | 518 | 1,899 | 6,852 |
| **Net Book Value** | | | | | |
| At 30.6.2016 | 16,400 | 1,955 | - | 1,146 | 19,501 |
| At 30.6.2015 | 16,762 | 1,934 | 67 | 1,372 | 20,135 |
| At 30.6.2014 | 8,216 | 1,133 | 442 | 1,712 | 11,503 |

**Impairment testing for cash generating units (CGU) containing goodwill**

For the purpose of impairment testing, goodwill is allocated to the Group’s operating divisions. The aggregate carrying amounts of goodwill allocated to each cash generating unit are as follows:

| | Year ended 30.6.2016 | Year ended 30.6.2015 |
|---|---|---|
| **CGU** | **£'000** | **£'000** |
| ILX Training | 7,097 | 7,097 |
| Woodspeen Training | 507 | 507 |
| Technology | 497 | 859 |
| Recruitment | 163 | 163 |
| Medical | 8,136 | 8,136 |
| | 16,400 | 16,762 |

The recoverable amount of each CGU was based on its value in use and was determined by discounting the future cash flows to be generated from the continuing use of the CGU.

### 15 Intangible assets *(continued)*

#### Key Assumptions used in discount cash flow projection calculations

The key assumptions used in the calculation of the recoverable amounts are discount rates, terminal value growth rates, sales growth and cost inflation. These assumptions are as follows.

**Discount Rate**

Different discount rate have been used by each division as management's estimate of the average weighted cost of capital, taking into account past experience and a market interest rate.

**Terminal value growth rate**

Each division has five years of cash flows included in their discounted cash flow models. A long term growth rate into perpetuity of 1% has been determined as the long term compound annual growth rate estimated by management.

**Budgeted growth**

Value in use is calculated on the basis of projected cash flows derived from budgets for the ensuing year, shown as Budget 2016/17 (2015: Budget 2015/16) below, with four subsequent years including nominal rates of sales and cost growth. Management used modest nominal rates of sales growth (between 1.5%-2.5%, appropriate to the market of the cash generating unit) and cost inflation (2.5%) 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.

| | Budget 2016/17 Revenue growth | | Budget 2016/17 Cost Inflation | |
|---|---|---|---|---|
| **CGU** | **2016** | **2015** | **2016** | **2015** |
| ILX Training | 9.6% | 3.9% | 11.0% | -4.7% |
| Woodspeen Training | 64.0% | -17.5% | 45.5% | 13.7% |
| Technology | 5.5% | 3.0% | 0.6% | 2.0% |
| Recruitment | 12.1% | -2.1% | 1.6% | -0.1% |
| Medical | 21.0% | 9.1% | 13.6% | 6.3% |

| | Discount Rate | | Terminal value growth rate | | Revenue growth | | Cost Inflation | |
|---|---|---|---|---|---|---|---|---|
| **CGU** | **2016** | **2015** | **2016** | **2015** | **2016** | **2015** | **2016** | **2015** |
| ILX Training | 15.1% | 14.3% | 1.0% | 1.0% | 2.5% | 3.0% | 2.5% | 2.0% |
| Woodspeen Training | 15.1% | 14.3% | 1.0% | 1.0% | 2.5% | 3.0% | 2.5% | 2.0% |
| Technology | 15.3% | 14.5% | 1.0% | 1.0% | 2.5% | 3.0% | 2.5% | 2.0% |
| Recruitment | 12.8% | 12.0% | 1.0% | 1.0% | 1.5% | 2.0% | 2.5% | 2.0% |
| Medical | 14.3% | 13.5% | 1.0% | 1.0% | 2.5% | 3.0% | 2.5% | 2.0% |

In the ILX Training CGU the value in use exceeded the carrying amount by £0.7 million in the above scenario, and in the Woodspeen Training CGU the value in use exceeded the carrying amount by £4.6 million. In the Recruitment CGU the value in use exceeded the carrying value by £0.4m, and in the Medical CGU the value in use exceeded the carrying value by £2.9m. In the Technology CGU the value in use was below the carrying amount, resulting in an impairment of £0.6m in the period.

## Notes to the Financial Statements *(continued)*

### 15 Intangible assets *(continued)*

**Sensitivity to change in assumptions**

Management has identified three key assumptions for which there could be a reasonably possible change that could cause the carrying amount to exceed the recoverable amount. The following table shows the amount that these three assumptions are required to change individually in order for the estimated recoverable amount to be equal to the carrying amount.

| | 2016 | 2016 | 2016 | 2015 | 2015 | 2015 |
|---|---|---|---|---|---|---|
| | **Revenue Growth** | **Cost Inflation** | **Discount rate** | **Revenue Growth** | **Cost Inflation** | **Discount rate** |
| ILX Training | -0.77% | 1.01% | 1.47% | -2.30% | 3.10% | 4.55% |
| Woodspeen Training | -9.46% | 10.25% | 135.11% | -0.6% | 0.6% | 9.00% |
| Recruitment | -2.00% | 3.09% | 43.88% | -3.40% | 3.50% | 48.00% |
| Medical | -3.49% | 5.20% | 4.87% | -1.70% | 1.80% | 2.80% |
| Technology | -7.66% | 8.21% | 120.65% | -0.75% | 0.80% | 13.52% |

**Customer relationships**

The acquired customer relationships in Obrar were impaired by £0.2 million during the year ended 30 June 2015, reducing the carrying value to £nil. Amortisation was recognised in the year ended 30 June 2016, of £0.1 million, which resulted in the acquired customer relationships recognised in respect of TFPL being fully amortised

| *Company* | **Goodwill** | **Capitalised development costs** | **Total** |
|---|---|---|---|
| **Cost** | **£'000** | **£'000** | **£'000** |
| At 30.6.2014 | 11 | 3,521 | 3,532 |
| Additions | - | 52 | 52 |
| At 30.6.2015 | 11 | 3,573 | 3,584 |
| Disposals | - | (3,573) | (3,573) |
| At 30.6.2016 | 11 | - | 11 |
| **Impairment** | | | |
| At 30.6.2014 | 11 | 2,008 | 2,019 |
| Amortisation charge for the year | - | 289 | 289 |
| At 30.6.2015 | 11 | 2,297 | 2,308 |
| Disposals | - | (2,297) | (2,297) |
| At 30.6.2016 | 11 | - | 11 |
| **Net Book Value** | | | |
| At 30.6.2016 | - | - | - |
| At 30.6.2015 | - | 1,276 | 1,276 |
| At 30.6.2014 | - | 1,513 | 1,513 |

Capitalised development costs with a net book value of £1.3 million (2015: £1.5 million) were transferred to ILX Group plc during the year as part of the Hive Down exercise disclosed in note 2.

## Notes to the Financial Statements *(continued)*

### 16 Investments

| Cost | Shares in group undertakings (at cost) £'000 |
|---|---|
| At 30.6.2014 | 26,559 |
| Additions | 63 |
| Impairment | (12,129) |
| At 30.6.2015 | 14,493 |
| | |
| Additions | - |
| Impairment | (5,600) |
| At 30.6.2016 | 8,893 |

The value of investments in Group undertakings 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. As a result of the valuations the investment in Progility Pty Ltd has been impaired by £5.6 million in the year. (2015: Progility Pty Ltd £11.9 million, Obrar £0.2 million).

The Company has the following subsidiary undertakings:

| Name | Principal Activity | Holding | Registered |
|---|---|---|---|
| Progility Pty Ltd | Trading | 100% | Australia |
| Comms Aust Pty Ltd | Trading | 100% | Australia |
| Comms Aust No 1 Pty Ltd | Trading | 100% | Australia |
| ILX Group plc | Trading | 100% | England & Wales |
| 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) |
| Progility DMCC* | 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 |
| Progility Health Ltd | Trading | 100% | England & Wales |
| Progility Overseas Ltd | Trading | 100% | England & Wales |
| Starkstrom Group Ltd | Trading | 100% | England & Wales |
| Starkstrom Ltd | Trading | 100% | England & Wales |
| Woodspeen Training Ltd | Trading | 100% | England & Wales |
| Progility Technology Pvt Ltd | Trading | 100% | India |
| Progility Mauritius Ltd | Trading | 100% | Mauritius |
| Progility Training Ltd* | Non-trading | 100% | England & Wales |
| Progility Consulting Ltd* | Non-trading | 100% | England & Wales |

Note: entities marked with an asterix (*) are not required to be audited due to their size, or being dormant with no activity in the period under review.

The Company holds ordinary shares in each of the above entities.

## 17 Deferred Taxation

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

| Group | Assets | | Liabilities | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Intangible assets | - | - | 186 | 199 |
| Provisions | 622 | 614 | - | - |
| Tax value of loss carry-forwards | 87 | 274 | - | - |
| **Tax assets/liabilities** | 709 | 888 | 186 | 199 |

Group *(continued)*

**Movement in deferred tax**

| | As at 30.6.2015 | Recognised in income | Exchange difference | Acquired in business combination | As at 30.6.2016 |
|---|---|---|---|---|---|
| Intangible assets | (199) | 13 | - | - | (186) |
| Provisions | 614 | (51) | 59 | 0 | 622 |
| Tax value of loss carry-forwards | 274 | (202) | 15 | 0 | 87 |
| | 689 | (240) | 74 | - | 523 |

| | As at 30.6.2014 | Recognised in income | Exchange difference | Acquired in business combination | As at 30.6.2015 |
|---|---|---|---|---|---|
| Intangible assets | (91) | 77 | - | (185) | (199) |
| Provisions | 3 | 59 | (21) | 573 | 614 |
| Tax value of loss carry-forwards | 274 | 65 | (65) | 0 | 274 |
| | 186 | 201 | (86) | 388 | 689 |

Deferred tax assets at 30 June 2016 of £1.5 million (2015: £1.7 million) have not been recognised in respect of tax losses, because it is not probable that future taxable profit will be available against which the Group can use the benefits.

| Company | Assets | | Liabilities | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Provisions | - | (5) | - | - |
| Tax value of loss carry-forwards | - | 202 | - | - |
| **Tax assets/liabilities** | - | 197 | - | - |

As a result of the Hive Down of the Professional Services UK business to ILXGroup plc, on 1 July 2015, the tax value of loss carry forwards has been derecognised in the Company as it no longer carries on a trade against which the tax value of loss carry forwards can be recovered.

### 17 Deferred Taxation *(continued)*

**Movement in deferred tax in year**

| | As at 30.6.2015 | Recognised in income | Exchange difference | Acquired in business combination | As at 30.6.2016 |
|---|---|---|---|---|---|
| Provisions | (5) | 5 | - | - | - |
| Tax value of loss carry-forwards | 202 | (202) | - | - | - |
| | 197 | (197) | - | - | - |

| | Restated As at 30.6.2014 | Recognised in income | Exchange difference | Acquired in business combination | As at 30.6.2015 |
|---|---|---|---|---|---|
| Provisions | 3 | (8) | - | - | (5) |
| Tax value of loss carry-forwards | 74 | 128 | - | - | 202 |
| | 77 | 120 | - | - | 197 |

A deferred tax asset previously recognised at 30 June 2013 in Progility Pty Ltd did not meet the Group accounting policy for recoverability. Accordingly the deferred tax assets, at 30 June 2013, were restated by £988,000. The tax charge for the year ended 30 June 2014 was also restated by £81,000 so as not to recognise the tax loss in the year for the company.

### 18 Inventories

| *Group* | At 30.6.2016 | At 30.6.2015 |
|---|---|---|
| | £'000 | £'000 |
| Raw materials | 774 | 1,779 |
| Work in progress | 287 | 300 |
| Finished goods | 2,199 | 1,922 |
| | 3,260 | 4,001 |

A total of £21.9 million of inventories was included as an expense (2015: £10.1 million).

### 19 Trade and other receivables

| *Group* | At 30.6.2016 | At 30.6.2015 |
|---|---|---|
| | £'000 | £'000 |
| Trade receivables | 13,578 | 15,391 |
| Other receivables | 182 | 136 |
| Prepayments | 888 | 978 |
| Accrued revenue | 283 | 49 |
| | 14,931 | 16,554 |
| | | |
| Trade receivables over 60 days past due, unimpaired at the balance sheet date was | 3,350 | 2,930 |

## Notes to the Financial Statements *(continued)*

### 19 Trade and other receivables *(continued)*

| *Company* | At 30.6.2016 | At 30.6.2015 |
|---|---|---|
| | £'000 | £'000 |
| Trade receivables | - | 770 |
| Other receivables | - | 97 |
| Prepayments | 23 | 244 |
| Accrued revenue | | 8 |
| | 23 | 1,119 |

| | | |
|---|---|---|
| Trade receivables over 60 days past due, unimpaired at the balance sheet date was | - | 105 |

### 20 Trade and other payables and Bank and shareholder loans

| *Group* | At 30.6.2016 | At 30.6.2015 |
|---|---|---|
| | £'000 | £'000 |
| Trade payables | 8,500 | 8,217 |
| Other taxes and social security costs | 1,184 | 1,758 |
| Accruals | 5,885 | 4,042 |
| Deferred revenue | 4,740 | 5,872 |
| | 20,309 | 19,889 |

| *Group* | At 30.6.2016 | At 30.6.2015 |
|---|---|---|
| | £'000 | £'000 |
| *Bank and shareholder loans* | | |
| HSBC 2-year term loan | - | 580 |
| 5-year convertible shareholder loan (see note 22) | 371 | 355 |
| Moneytech loan | - | 992 |
| Moneytech invoice finance | 803 | 1,173 |
| Bank overdraft | - | 188 |
| | 1,174 | 3,288 |
| *Company* | | |
| Trade payables | 104 | 769 |
| Amounts owed to group undertakings | 10,227 | 5,544 |
| Other taxes and social security costs | 85 | 267 |
| Accruals | 325 | 668 |
| Deferred revenue | - | 2,670 |
| | 10,741 | 9,918 |
| *Bank and shareholder loans* | | |
| HSBC 2-year term loan | - | 580 |
| 5-year convertible shareholder loan (see note 22) | 371 | 355 |
| Bank overdraft | - | 188 |
| | 371 | 1,123 |

Loans repayable within one year or less include shareholder loans of £0.4 million.

### 21. Provisions

| | Property | Employee benefits & restructuring | Warranty and performance | Corporate social responsibility | Indian transfer pricing | Total |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Balance at 30.6.2015 | | | | | | |
| Non-current | 20 | 70 | - | - | - | 90 |
| Current | - | 902 | 360 | 20 | 3,000 | 4,282 |
| **Total at 30.6.2015** | **20** | **972** | **360** | **20** | **3,000** | **4,372** |
| Reclassification | 73 | | | | | 73 |
| Provisions made/(released) | 3 | 350 | 109 | 41 | (2,000) | (1,497) |
| Provisions used | (32) | (186) | (98) | (19) | | (335) |
| Exchange movement | - | 130 | 32 | 4 | | 168 |
| **Balace at 30.6.2016** | **64** | **1,268** | **403** | **46** | **1,000** | **2,781** |
| Non-current | 44 | 87 | | | | 131 |
| Current | 20 | 1,181 | 403 | 46 | 1,000 | 2,650 |
| **Total** | **64** | **1,268** | **403** | **46** | **1,000** | **2,781** |

Provisions for property relate to obligations incurred, or expected to be incurred, for dilapidations liabilities upon termination of leases in the United Kingdom. Within the provisions for employee benefits and restructuring, £70,000 relates to the cost of discontinuing business in the south of England by Woodspeen Ltd and is expected to be incurred within the next year. The balance represents a provision for Annual Leave, Long Service Leave and Sick Leave in the Australian businesses which will result in an outflow of economic benefits from 2017 onwards. Warranty and corporate and social responsibility provisions are product warranty and environmental provisions, incurred

in India, which are short term and relate to the volume of product sales in the year. The £1.0 million provision for transfer pricing represents the balance of a £3.0 million provision made when Progility Technologies Pvt. Ltd was acquired in 2014. The provision was made for litigation against Progility Technologies Pvt Ltd relating to direct and indirect tax liabilities in previous years. During the period under review a number of rulings have been made in favour of Progility Technologies Pvt. Ltd and it has been possible to release £2.0 million of the provision. The £1.0 million balance remains to cover the outstanding years, and it is probable that further rulings will be made in the current reporting period to 30 June 2017.

### 22 Shareholder loans

| | At 30.6.2016 | At 30.6.2015 |
|---|---|---|
| ***Non current liabilities – Group only*** | **£'000** | **£'000** |
| 18% Redeemable loan note 2019 | 2,133 | 2,133 |
| 12% Redeemable loan notes repayable 2021 | 12,111 | 10,131 |
| Shareholder loans | 4,219 | 2,573 |
| | 18,463 | 14,837 |
| ***Current liabilities – Group and Company*** | | |
| 5-year convertible shareholder loan | 371 | 355 |

#### Convertible shareholder loan

On 17 December 2012 Progility 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 notes 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 at par.

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

## 22 Shareholder loans *(continued)*

incur a City Code mandatory offer obligation or it obtains a dispensation from such obligation. Subject to these conditions being fulfilled, the loan notes can be converted by Praxis Trustees giving the Company 14 days notice.

**18% Redeemable loan note 2019**

During the period under review the repayment date for the £2.1 million (2015 £2.1 million) redeemable loan note was extended from 2 April 2016 to 1 April 2019.

**12% Redeemable loan notes**

The £12.1 million (2015: £10.1 million) of loan notes are issued, by Progility Finco Ltd, under a £50.0 million facility and become repayable in July 2021 or before.

## 23 Share capital and reserves

| | As at 30.6.2016<br>£'000 | As at 30.6.2015<br>£'000 |
|---|---|---|
| *Allotted, called up and fully paid equity:* | | |
| Ordinary shares of 10p each | 19,967 | 19,967 |

| *Issued and fully paid ordinary shares of 10 pence each* | Number of ordinary shares | £'000 |
|---|---|---|
| At 30.6.2015 and 30.6.2016 | 199,666,880 | 19,967 |

***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 22.

***Merger reserve***
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 24.

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

***Foreign currency translation reserve***
The translation reserve comprise all foreign currency differences arising from the translation of the financial statements of foreign operations.

## 24 Share options and own shares in trust

***Share options***

| Date of grant | Number of shares under option at 30.6.2015 | Granted during the year | Exercised during the year | Forfeited during the year | Number of shares under option at 30.6.2016 | Exercise Price | Expiry Date |
|---|---|---|---|---|---|---|---|
| 06-Nov-13 | 3,500,000 | - | - | (2,000,000) | 1,500,000 | 10p | 05-Nov-2018 |
| 23-Oct-14 | 1,150,000 | - | - | (200,000) | 950,000 | 10p | 22-Oct-2019 |
| 31-Dec-14 | 500,000 | - | - | - | 500,000 | 10p | 30-Dec-2019 |
| 09-Jun-15 | 2,750,000 | - | - | (2,000,000) | 750,000 | 10p | 08-Jun-2020 |
| 1-Sep-15 | - | 750,000 | - | - | 750,000 | 10p | 31-Aug-2020 |
| | 7,900,000 | 750,000 | - | (4,200,000) | 4,450,000 | | |

As at 30 June 16, 15 employees held options over total of 4,450,000 (2015: 7,900,000) at an average exercise price of 10.0p (2015: 10.0p).

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

| | Options outstanding at 30.6.2015 | Options granted during the year | Options exercised during the year | Options forfeited during the year | Options exercisable at 30.6.2016 | Options outstanding (including those exercisable) at 30.6.2016 |
|---|---|---|---|---|---|---|
| Number of shares under option | 7,900,000 | 750,000 | - | (4,200,000) | 1,733,333 | 4,450,000 |
| Weighted average exercise price | 10.0p | 10.0p | - | 10.0p | 10.0p | 10.0p |

| | Options outstanding at 30.6.2014 | Options granted during the year | Options exercised during the year | Options forfeited during the year | Options exercisable at 30.6.2015 | Options outstanding (including those exercisable) at 30.6.2015 |
|---|---|---|---|---|---|---|
| Number of shares under option | 5,400,000 | 5,100,000 | - | (2,600,000) | 1,166,667 | 7,900,000 |
| Weighted average exercise price | 10.7p | 10.0p | - | 11.8p | 10.0p | 10.0p |

The weighted average time to expiry of the share options outstanding at 30 June 2016 was 3.3 years (2015: 3.8 years). Details of individual expiry dates are shown above.

Options granted since 2014 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 14. The Company's share price on 30 June 2016 was 0.63p (on 30 June 2015: 4.38p).

## 24 Share options and own shares in trust *(continued)*

The fair value cost of providing options granted is recognised equally over the lifetime of the option. The charge for the year was £31,000 (2015: £40,000). The material inputs into the Black-Scholes model used to calculate the fair value cost of options were:

| | Granted in year ended 31.3.2012 | Granted in year ended 31.3.2013 | Granted in year ended 31.3.2014 | Granted in year ended 30.6.2015 | Granted in year ended 30.6.2016 |
|---|---|---|---|---|---|
| Average share price at grant | 20.1p | 25.5p | 8.4p | 6.5p | 3.1p |
| Average exercise price | 2.0p | 10.2p | 10.0p | 10.0p | 10.0p |
| Expected volatility | 68% | 55% | 47% | 54% | 56% |
| Expected life | 3.5 years | 3.5 years | 6 years | 4 years | 4 years |
| Expected dividend yield | 0.0% | 6.0% | 0.0% | 0.0% | 0.0% |
| Risk-free rate of return | 1.0% | 1.0% | 1.2% | 1.7% | 0.4% |

***Own shares in trust***

At 30 June 2016 the Company held 49,231 of it own 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. Share price at 30 June 2016 0.63p (30 June 2015 4.38p)

## 25 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 parent company charged for sales of e-learning licences and management charges to its subsidiaries in the amounts of £Nil (2015: £143,504) and £659,220 (2015:£620,683) respectively. The company was charged interest from its subsidiaries in the amount of £778,187. (2015: £463,402). These amounts, along with any intercompany payable and receivable balances, are eliminated upon consolidation.

The issue of loans and warrants to Praxis Trustees (including subsidiaries) and MMILT (together the "Transactions") are classified as related party transactions. The Group made repayments in the year to Praxis of £nil (2015: £nil) and issued new loans of £2,871,033 (2015: £10,131,000). The Group made repayments in the year to MMILT of £nil (2015: £nil).

## 26 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.

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

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

| *Financial Assets* | **At 30.6.2016** | **At 30.6.2015** | **At 30.6.2016** | **At 30.6.2015** |
|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** |
| | Group | | Company | |
| Trade and other receivables | 14,931 | 16,554 | 23 | 1,119 |
| Cash on hand | 3,564 | 3,538 | 286 | 111 |

| | **At 30.6.2016** | **At 30.6.2015** | **At 30.6.2016** | **At 30.6.2015** |
|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** |
| | Group | | Company | |
| Fair value through profit or loss: | | | | |
| Deferred consideration | 681 | 2,041 | - | - |
| Other amortised cost: | | | | |
| Bank loans and overdrafts | 803 | 2,933 | - | 768 |
| Shareholder loans | 18,463 | 14,837 | - | - |
| Convertible loan | 371 | 355 | 371 | 355 |
| Trade payables | 8,500 | 8,217 | 104 | 769 |
| Accruals | 5,885 | 4,042 | 325 | 668 |

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;

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

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (eg. as prices) or indirectly (eg. 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.

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

| *At 30 June 2016* | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Group** | **£'000** | **£'000** | **£'000** | **£'000** |
| Deferred consideration | - | - | 681 | 681 |
| Net fair value | - | - | 681 | 681 |

| *At 30 June 2015* | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Group** | **£'000** | **£'000** | **£'000** | **£'000** |
| Deferred consideration | - | - | 2,041 | 2,041 |
| Net fair value | - | - | 2,041 | 2,041 |

| *At 30 June 2016* | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Company** | **£'000** | **£'000** | **£'000** | **£'000** |
| Deferred consideration | - | - | - | - |
| Net fair value | - | - | - | - |

| *At 30 June 2015* | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Company** | **£'000** | **£'000** | **£'000** | **£'000** |
| Deferred consideration | - | - | - | - |
| Net fair value | - | - | - | - |

**Fair value measurements in Level 3**

The Group'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. | **Group** | **Company** |
|---|---|---|
| | **£'000** | **£'000** |
| At 30 June 2014 | 30 | 30 |
| Deferred consideration from acquisition of Starkstrom | | |
| Payment made | 2,722 | (30) |
| Adjustment to fair value of contingent consideration | (711) | |
| At 30 June 2015 | 2,041 | - |
| Payment made | (1,360) | - |
| At 30 June 2016 | 681 | - |

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

*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 over 60 days past due but not impaired at the balance sheet date was £3,350,000 (2015: £2,930,000). The receivables are aged as follows: Debt Aged 60 days and over 25%, up to 59 days 18%, and current up to 29 days, 57%.

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 2,246 customers with an average balance of just over £6,000. The largest balance at year end comprised 4% 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.

*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 30.6.2016** | **At 30.6.2015** | **At 30.6.2016** | **At 30.6.2015** |
|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** |
| | Group | | Company | |
| Cash on hand | 3,564 | 3,538 | 286 | 111 |

As at 30 June 2016, the Group's non-derivative financial liabilities have contractual maturities as summarized below:

| | **Group** | | | **Company** | | |
|---|---|---|---|---|---|---|
| | **Repayable on demand <12 months** | **Repayable over 6 to 12 Months** | **Repayable over 1 to 5 years** | **Repayable on demand < 12 month** | **Repayable over 6 to 12 Months** | **Repayable over 1 to 5 years** |
| **As of 30 June 2016** | **£' 000** | **£' 000** | **£' 000** | **£' 000** | **£' 000** | **£' 000** |
| Trade Payables | 8,500 | - | - | 104 | - | - |
| Borrowings | 803 | 371 | 18,463 | - | 371 | - |
| Deferred consideration | 681 | - | - | - | - | - |
| **As of 30 June 2015** | **£' 000** | **£' 000** | **£' 000** | **£' 000** | **£' 000** | **£' 000** |
| Trade Payables | 8,217 | - | - | 769 | - | - |
| Other taxation | 1,786 | - | - | 267 | - | - |
| Borrowings | 2,933 | 355 | 14,837 | 768 | 355 | - |
| Deferred consideration | 2,041 | - | - | - | - | - |

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.

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

*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.

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.

During the period under review all bank borrowings and other secured facilities, which carry an interest rate margin over Base Rate, were repaid. As such the Group has no current exposure to changes in the Bank of England base rate, and a one percentage point movement in the Bank of England Base Rate would have approximately £nil (2015: £34,000) impact on the monthly interest rate charge.

*Exchange rate risk*

All assets and liabilities are presented in Sterling. Transactions in Euros, American Dollars, Australian Dollars, Indian Rupee, 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 £798,000 (2015: £1,058,000) reduction on the annual sales recorded in pound sterling in the Group's accounts, an increase of £72,000 (2015: £34,000) in profit after tax and an increase of £76,000 (2015: increase of £77,000) in total comprehensive income. Similarly, a five percentage point adverse movement in the Indian rupee exchange rate could potentially be reflected as a £906,000 (2015: £462,000) reduction on the annual sales recorded in pound sterling in the Group's accounts, a reduction of £38,000 in profit after tax (2015: £22,000) and a reduction of £118,000 (2015: £37,000) 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.

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 £2,053,000 at the end of the year (2015: £4,059,000).

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.

## 27 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.

## 28 Operating leases

At 30 June 2016 the Group had minimum commitments under non-cancellable operating leases as set out below:

| | Land and buildings 30.6.2016 | Land and buildings 30.6.2015 |
|---|---|---|
| **Group** | **£'000** | **£'000** |
| Due within one year | 956 | 1,186 |
| Due in second to fifth year | 1,946 | 1,528 |
| Due over five years | 34 | - |
| Total minimum lease payments | 2,936 | 2,714 |

| | Land and buildings 30.6.2016 | Land and buildings 30.6.2015 |
|---|---|---|
| **Company** | **£'000** | **£'000** |
| Due within one year | 75 | 225 |
| Due in second to fifth year | - | 100 |
| Total minimum lease payments | 75 | 325 |

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.

| | Other 30.6.2016 | Other 30.6.2015 |
|---|---|---|
| **Group** | **£'000** | **£'000** |
| Due within one year | 210 | 269 |
| Due in second to fifth year | 188 | 358 |
| Total minimum lease payments | 398 | 627 |

## 29 Capital commitments

There were no material capital commitments at the end of the year (2015: £Nil).

## 30 Subsequent event review

There have been no significant events subsequent to the balance sheet date.