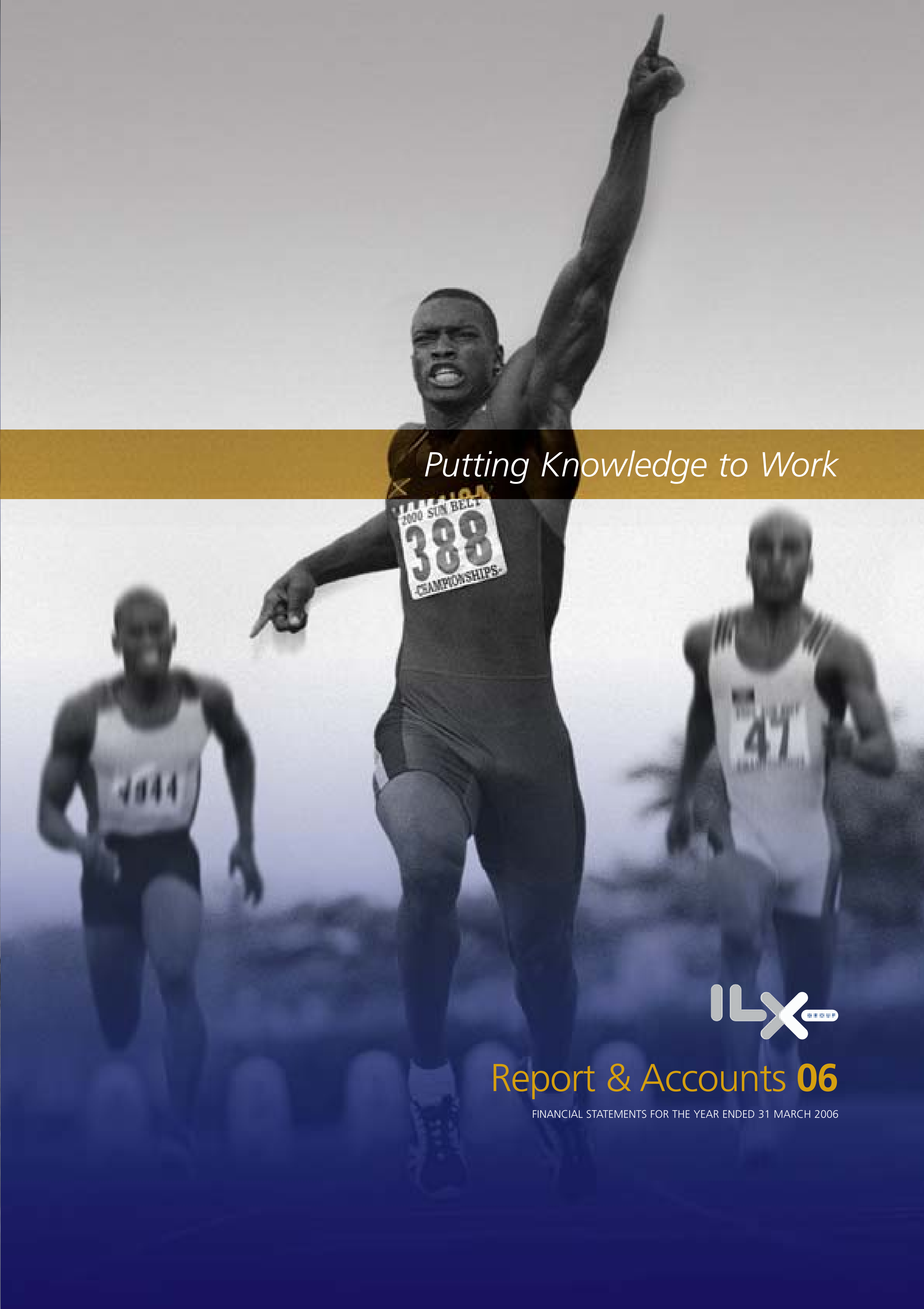

Putting Knowledge to Work

Report & Accounts **06**

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

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> Directors	P R S Lever* (Chairman) K P Scott (Chief Executive) J A Pickles (Finance Director) J H Davies* *non-executive director
> Secretary	Secretarial Solutions Limited
> Company Number	3525870
> Registered Office	1 London Wall London EC2Y 5AB
> Bankers	HSBC Bank plc 69 Pall Mall St James's London SW1Y 5EY
> Auditors	Saffery Champness Beaufort House 2 Beaufort Road Clifton Bristol BS8 2AE
> Nominated Adviser and Broker	Charles Stanley Securities 25 Luke Street London EC2A 4AR
> Registrars	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

I am pleased to present the results for the year ended 31 March 2006.

ILX Group plc has experienced another year of significant change as the company continues to expand by way of organic growth and through acquisitions. The wide offering of high quality classroom training, e-learning, and consultancy has allowed the group to make available a flexible delivery option to customers. This has helped provide competitive advantage and has led to market share gains for the company in the past 12 months. Two further businesses have also been acquired during the last six months of the year which have helped deliver the overall surge in growth.

> International financial reporting standards (IFRS)

These are the first results that we have reported under IFRS and all numbers presented for comparative periods have been restated under IFRS. The changes resulting from the adoption of IFRS do not affect revenue recognition or the cash flows of the business. The primary areas of change are the change in treatment of goodwill, which is now subject to annual impairment reviews rather than amortisation; the requirement to capitalise product development expenditure where certain criteria are met; and the requirement to show a charge to profit for the share options granted to employees. Full explanation of the transition to IFRS is presented in the notes to the financial statements.

> Financial results

Turnover for the year was £6,913,255 (2005: £3,924,465) delivering an operating profit of £1,000,725 (2005: £774,360). Net profit for the year was £1,699,430 (2005: £782,180) representing basic earnings per share of 16.39p (2005: 10.02p). The results this year have benefited from the recognition of a deferred tax asset; stripping out this benefit the revised earnings per share figure is 9.08p (2005 after stripping out the exceptional gain of £100,000: 8.74p).

I am delighted to announce that your board has approved the issue of the company's first dividend which will be at 0.75p per share, and will be paid subject to shareholder approval at the company's forthcoming AGM.

> Acquisitions

The company is building a market leading presence in the vocational education and training sectors within which it trades through a combination of organic growth and earnings enhancing acquisitions. To date, ILX Group has concentrated principally on the Best Practice market as its training needs are well defined and high end. This market provides the company with growth opportunities for the foreseeable future. The acquisitions of Mount Lane and of Customer Projects have added considerable strength to the company's Best Practice offering and are expected also to provide new sources of revenue and profit in coming years.

Mount Lane was purchased on 23 November 2005 for £4.0 million, in cash and shares, of which £1.8 million is contingent subject to meeting certain performance criteria for the period ending March 2007. Assuming full earn-out the payment represents a post-tax multiple of 6.0. Mount Lane provides customised training and software based orientation principally for new and existing desktop applications. Its clients tend to be large organisations with 3,000 or more staff where there is typically either a wholesale migration requirement from one Microsoft Windows software system to another or where the organisation is seeking to reduce significantly the cost of helpdesk support. The Mount Lane proposition is to simplify the user orientation headache and thereby to smooth the challenges faced by organisations when their desktop software is upgraded. The Mount Lane software takes an organisation's users from point A to point B without the business experiencing a dip in productivity and without a short term increase in support calls. In addition, the Mount Lane software is also used by some organisations to reduce the cost of helpdesk support by empowering the user to resolve the more basic problems normally requiring hands-on support. These activities fall within the ITIL sphere as they deal primarily with improving the user experience. The business is based just outside Reading.

The company's project management capability was significantly enhanced with the acquisition of Customer Projects in February this year. Customer Projects is an implementation consultancy business specialising in the Best Practice project and programme management sector. Organisations such as Vodafone, United Nations and Pension Protection Fund are using the Customer Projects consultancy service to ensure the transformational changes required to embed PRINCE2 and related project management processes are truly taking place. This significantly complements the company's project management proposition and makes ILX Group unique amongst its competitive peer group in being able to deliver training and change management in a flexible and effective way. Customer Projects was purchased for a total of £1.0 million, of which £0.5 million is subject to an earn-out period ending March 2007. Again, assuming full earn-out the payment represents a post-tax multiple of 5.5.

> Investor newsletters

The company continues to have in excess of 4,000 shareholders in the register and the board reiterates its hope that this will become a considerable advantage to the company, helping improve liquidity in the shares and a potential source of financing for future acquisitions. With this in mind, the company embarked last summer on providing regular updates to shareholders by way of periodic newsletters. Their purpose is to give additional information on the group, its people and its challenges as it grows and matures.

I would strongly encourage shareholders to attend the AGM, to be held on Friday 11 August 2006, if at all possible. This provides an excellent opportunity not only for you to meet and quiz the directors, and some of the management team, but also for us to receive feedback from you as investors.

> Shareholder discount scheme

The company now caters for the training requirements not only of corporate bodies but also a very large number of individuals. The idea of a shareholder discount scheme has been raised a number of times and I am pleased to announce that we continue to offer a 10% discount on all training courses, and a 20% discount on software products, to all shareholders holding at least 1,000 shares at the time of purchase. The discount is applicable to private individuals only for open course enrolments and single user licences.

> Prospects

In the opinion of the directors, the company has maintained the considerable momentum it has gained in expanding its presence in the PRINCE2 and ITIL markets and through the successful integration of previous acquisitions. At the end of the last financial year and after two further acquisitions completed, the Best Practice activities had grown into six separate operating divisions. On 1 April 2006 these were reorganised into one single entity. The reorganisation is expected to provide a sharper focus on the Best Practice market, to optimise the opportunities in project management and IT service management and to ensure further market share gains and future quality earnings.

As the company continues to build a leading presence in this Best Practice market, it is also constantly seeking opportunities to replicate this approach in other vocational training sectors with the aim of eventually having a basket of high value business models. The directors expect that this will be achieved as suitable acquisitions are identified which provide appropriate entry points.

This year more than any other, I believe the prospects for the company are very exciting.

Finally, I formally welcome the staff and management of Mount Lane and Customer Projects, and again to thank all ILX Group employees for their dedicated efforts over a year in which their hard work has borne fruit.
We look forward to another successful year in 2006/7.

Paul Lever
Chairman

21 June 2006

> Introduction

Since I joined ILX Group in 2002, our strategy has been to build a significant vocational training business both through organic growth and by making earnings enhancing acquisitions. Within a few years, we aim to have a number of high value operating businesses, each of which will aim to dominate specific areas of the training markets which they serve. The year to 31 March 2006 has again delivered strong organic growth with two further successfully integrated acquisitions. For the second successive year we have increased profit and generated a considerable amount of cash which together continue to underpin our overall strategic goals.

> Financial Results

Profit for the year

The company delivered turnover of £6,913,255 for the year (2005: £3,924,465) and an operating profit of £1,000,725 (2005: £774,360 as restated under IFRS). This growth resulted primarily from a full year's trading of the Mindscope division (four months in 2005) and from the continued growth of both Mindscope and Key Skills revenues in the Best Practice market. The acquisitions of Mount Lane and Customer Projects also contributed four and two months trading respectively to the overall result. Particular trends in the company's trading are identified later in this review.

Net profit for the year was £1,699,430 (2005: £782,180), giving basic earnings per share of 16.39p (2005: 10.02p). The company expects to pay a dividend of 0.75p per share. This dividend will be paid to shareholders on the register at 30 June 2006, subject to shareholder approval at the company's AGM.

The 2006 earnings figure benefits from the one-off recognition of a tax asset relating to tax losses that are available to offset against future profits. Additionally, the 2005 earnings per share figure benefited from the £100,000 one-off gain on the early repayment of part of its debt in that year. Stripping out both items from the earnings per share gives figures of 9.08p for 2006 and 8.74p for 2005, and on that basis the 2006 performance represents a 4% increase on an enlarged base of 10.36 million weighted average shares (2005: 7.80 million).

The company has utilised £1.04 million of tax losses to eliminate any tax charge for the year. Unrelieved tax losses of £2.62 million remain available to be offset against future profits.

Acquisitions

Two further acquisitions were completed, both in the second half of the year.

Mount Lane Training and Implementation Solutions Ltd ("Mount Lane") was purchased on 23 November 2005 for £4.0 million, in cash and shares, of which £1.8 million is deferred and contingent. The contingent consideration, of which 15% is payable in cash and the remainder in cash or shares at the option of the company, is calculated as 4 times the amount by which Mount Lane's contribution to operating profit, for the year ended 31 March 2007, exceeds £500,000. The full earn-out will therefore be payable in the event that this contribution reaches £950,000 for that year which, assuming a tax rate of 30%, results in a post-tax multiple of 6.0 assuming the full earn-out is achieved. The initial consideration represents a post-tax multiple of 5.9 on Mount Lane's last full financial year prior to acquisition.

Customer Projects was purchased on 1 February 2006 for a total of £1.0 million in cash and shares, of which £0.5 million is deferred and contingent. The contingent consideration, which is payable in cash or shares at the option of the company, is calculated as 3.5 times the amount by which Customer Projects' contribution to operating profit, for the year ended 31 March 2007, exceeds £120,000. The full earn-out will therefore be payable in the event that this contribution reaches £262,857 for that year which, assuming a tax rate of 30%, results in a post-tax multiple of 5.5 assuming the full earn-out is achieved. The initial consideration represents a post-tax multiple of 4.5 on Customer Projects' last full financial year prior to acquisition.

Both earn-out payments, which we expect to be fully met, are payable on 31 July 2007.

Cash generation and net debt

Cash generated from operating activities during the year was £953,192 (2005: £645,967), a conversion rate of 95% (2005: 89%) of profit from operations.

Net cash from operating activities, which under IFRS is stated after interest paid and corporation tax, was £694,855 (2005: £477,833). The tax payments totalling £187,307 (2005: £125,396) relate entirely to pre-acquisition tax balances on acquired companies. Corporation tax balances payable in the coming year, relating to the pre-acquisition profits of Mount Lane and Customer Projects, are £20,177.

Net cash used in investing activities was £1,186,117 (2005: £170,481). The company spent £839,914 (2005: an inflow of £46,495) on the cash elements of acquisitions (net of cash balances received) in relation to Customer Projects, Mount Lane, and to deferred cash payable for the acquisition of Mindscope. The company also spent £474,305 on product development (2005: £198,024) on new products launched during the year or expected to be launched in the first half of the new financial year, and £90,402 (2005: £27,626) on capital expenditure, particularly in relation to investment in new computer hardware and systems. The company also sold and leased back its freehold premises in Cheshire, principally to provide greater flexibility as the team at that location expands. This transaction, along with the sale of a company car, raised £206,431 for the company.

Net cash from financing activities was an inflow of £465,549 (2005: outflow of £179,269), and comprised an inflow of £720,796 representing net proceeds from an issue of new ordinary shares, at a price of 100p, to help finance the Mount Lane acquisition, less repayment of £255,247 of borrowings.

At the end of the period the company had cash balances of £646,126 (2005: £671,839) and total bank and hire purchase debt of £820,721 (2005: £1,076,009). The company's net debt position at the end of the year was therefore £174,595 (2005: £404,170).

> Markets, Operations, and Strategy

Best Practice market

The Project Management, IT Service Management and other related areas which are collectively known as Best Practice continue to expand and increase their reach. The company's revenues from Best Practice activities represented 80% of total company revenues in the period, up from 67% in 2005. In order to capitalise on the opportunities in this market, the company has reorganised its divisional structure, effective from 1 April 2006, into a more coherent operating unit, consisting of one Best Practice division which services the market of the same name. The company's revenues, analysed by subject, were as follows:

Turnover by subject		Year end 31/3/**06**		Year end 31/3/**05**	
	Growth%	£	%	£	%
PRINCE2 and project management	95%	3,973,555	57%	2,033,592	52%
ITIL, IT & service management	157%	1,553,613	22%	604,583	15%
Total Best Practice activities	**110%**	**5,527,168**	**80%**	**2,638,175**	**67%**
Finance	-7%	1,045,898	15%	1,120,980	29%
Recharged expenses and other revenues	106%	340,189	5%	165,310	4%
Total revenue	**76%**	**6,913,255**	**100%**	**3,924,465**	**100%**

Projects in Controlled Environments (PRINCE2) is a process driven project management methodology that has become the standard in many parts of the world. PRINCE2 and related Best Practice activities expanded and consolidated further during the period. Demand for PRINCE2 training products continues to expand at a rate estimated at 20-30% per annum. Against this, the company's sales of PRINCE2 and other Project Management e-learning, classroom training, and consultancy grew by 95% in the past year. Full year contributions from Mindscope's classroom training and the acquisition in February of Customer Projects helped drive these gains.

Customer Projects is one of just six Accredited Consulting Organisations for Best Practice project management. It specialises in providing management consultancy to organisations that wish to embed the internal changes necessary to enable Best Practice project management to flourish. Customers include Vodafone, Ericsson, Cable and Wireless, Pension Protection Fund and a major global non-profit making organisation. It is led by Eddie Borup, ex-Head of Projects at Cable & Wireless who has many years of experience in consulting. I am very pleased that Eddie has remained with the company as Managing Director of the Customer Projects business. This acquisition, combined with our multimedia training software and our classroom training offering has put ILX in a pre-eminent position. ILX Group is the only company in the Best Practice space to provide a full service offering of e-learning, classroom based training, and project management implementation consultancy services. This is increasingly helping to drive market share gains as we consolidate and refine our overall proposition.

During the year, the company also continued building its position in the Service Management market with the launch of classroom training products for the Information Technology Infrastructure Library (ITIL) qualification, following on from the successful launch of e-learning products in this area in 2005. ITIL covers an integrated, process based, best practice framework for managing IT services and is recognised worldwide. The company's sales of ITIL, IT, and other Service Management e-learning, classroom training, and consultancy grew by 157% in the past year, helped by strong sales of ITIL training products and by the acquisition of Mount Lane.

Mount Lane is a specialist provider of customised training and implementation solutions/services. It provides an economic solution to organisations undertaking major desktop migrations where the need to minimise productivity slippage is critical. Mount Lane has also been increasingly successful in helping organisations to substantially reduce the cost of help desk support through the use of its orientation software. The overall proposition is closely allied to ITIL as the focus is primarily on the user experience and ensuring either smooth transition in the case of migration and/or effective user support. Its target market is listed companies and large organisations, typically with an IT infrastructure in excess of 3,000 desktops. It has a blue chip customer base that includes Norwich Union, most of the major UK banks, Network Rail and BskyB. Andrew White is Managing Director and has many years experience of the Mount Lane business and has remained with the enterprise he founded.

Sales of Financial Training products and services were down slightly during the period as the offer was refined and the products refreshed. This is an increasingly marginal portion of the overall business of ILX Group and we therefore do not view this as significant.

Delivery methods

In the full year, revenue was well spread between e-learning and classroom-based training, contributing 47% and 34% respectively. Classroom-based training in particular experienced significant growth, due partly to the full year's contribution from Mindscope but also to significant organic growth in this area. The acquisition of Customer Projects helped drive the Consultancy revenues and the bespoke software development revenues were boosted by the acquisition of Mount Lane.

Turnover by subject/service type		Year end 31/3/**06**		Year end 31/3/**05**	
	Growth%	£	%	£	%
e-Learning	26%	3,265,753	47%	2,585,597	66%
Classroom based training	165%	2,306,841	34%	871,702	22%
Consultancy services	262%	284,586	4%	78,685	2%
Bespoke software development	116%	567,913	8%	262,819	7%
Other	288%	488,162	7%	125,662	3%
Total revenue	76%	6,913,255	100%	3,924,465	100%

The company has unique expertise in software development and the use of software for training purposes married with its classroom training capabilities and development experience. During the period the company undertook a number of bespoke or build-to-order contracts, which came from the following areas:

- Development of bespoke e-learning solutions
- Implementation products and services allowing companies to distribute training over a wide and dispersed audience whilst maintaining a full audit trail
- Customisation of products to meet customer-specific requirements

We envisage this area growing significantly as we leverage our competitive advantages of strong e-learning development capability as well as classroom delivery and consultancy.

Geographic split and sector analysis

All the company's operations are based within the UK but products and services are exported to a number of overseas locations. The majority of the business continues to come from UK customers (88%) with small amounts from Europe (8%) and North America (2%).

Turnover by geographical sector		Year end 31/3/**06**		Year end 31/3/**05**	
	Growth%	£	%	£	%
UK	105%	6,092,440	88%	2,965,920	75%
Mainland Europe	-4%	578,724	8%	601,701	15%
North America	-61%	116,179	2%	296,998	8%
Other	110%	125,912	2%	59,846	2%
Total revenue	76%	6,913,255	100%	3,924,465	100%

The company continues to serve a wide range of customers across public and private sector as well as a significant proportion of business direct with individuals, as illustrated by the table below. All areas showed strong growth in the year.

Turnover by sector		Year end 31/3/**06**		Year end 31/3/**05**	
	Growth%	£	%	£	%
Private sector	61%	4,255,643	61%	2,638,672	67%
Public sector / Not for profit	126%	2,041,667	30%	903,794	23%
Individuals	61%	615,945	9%	381,999	10%
Total revenue	76%	6,913,255	100%	3,924,465	100%

Management changes

As we grow as a company, the importance of developing and maintaining a strong management team grows ever more relevant. As mentioned earlier, I undertook a wide ranging reorganisation at the end of the period. Its purpose was to improve our focus and thereby our capabilities to win business in the Best Practice market. Martyn Kinch, Commercial Director (non-statutory) of the company since April, 2005 has been appointed Managing Director (non-statutory) of the company's new Best Practice Group. Martyn ran Key Skills since its inception and joined the group in February 2004. His remit is to drive the Best Practice Group into a market dominant position over the next few years.

Working with Martyn are Denise Maxfield - Sales Director (non-statutory), Eddie Kilkelly - Operations Director (non-statutory) and David Willis - Technical Director (non-statutory). Denise Maxfield has run the sales team at Key Skills for a number of years. David Willis has managed the Intellexis division since April 2004. Eddie Kilkelly joined the company in March this year from Parity where he was responsible for all operational delivery over a number of years. I am very pleased to welcome Denise, Eddie and David to the Best Practice management team.

I am also delighted to welcome Andrew White (Managing Director (non-statutory), Mount Lane) and Eddie Borup (Managing Director (non-statutory), Customer Projects) to the team. Andrew White and Eddie Borup will continue to manage Mount Lane and Customer Projects respectively as distinct units within the Best Practice group.

Future opportunities

There are a great deal of opportunities open to us as a company and many challenges ahead. The focus for the first half of the next year continues to be to exploit the opportunities for organic growth.

We have stated before the importance we place on establishing and maintaining a firm dialogue with all shareholders and ensuring that regular news of the company's progress is available. To this end we redesigned the annual report last year and launched the shareholder discount programme. In the summer of 2005 we also launched the shareholder newsletter. Now called ILXtra, its purpose is to improve news flow and the communications between the company and you its shareholders. I would again encourage as many shareholders as possible to attend the AGM.

It is hoped that continued strong trading, organic growth, further choice acquisitions and improved investor relations, will bring about higher profile for the company amongst the investment community.

Our strategy continues to be to build a sizeable training and software business in the vocational training market. We will look to create high value business models in each of the markets we serve. This will continue to be achieved through organic growth and by earnings enhancing acquisitions. This year again has allowed us to demonstrate our ability to deliver profits, strong growth, and well judged acquisitions successfully integrated within the framework of ILX Group plc.

Lots still to achieve but we look forward to a bright future.

Ken Scott
Chief Executive

21 June 2006

The directors present their report and the financial statements for the year ended 31 March 2006.

> Principal activity and business review

The principal activity of the group during the year was as providers of education and training services and related software development. A full review of trading and future developments is presented in the chief executive's review.

During the year, the group acquired Mount Lane Training & Implementation Solutions Ltd, a specialist provider of training and implementation solutions, and Customer Projects Limited, a company specialising in the provision of project management training and consultancy services.

> Results and dividends

The results of the group for the year are set out on page 16. The directors recommend payment of a dividend of 0.75 pence per share, subject to shareholder approval at the annual general meeting on 11 August 2006. This dividend will be paid on 15 August 2006 to shareholders on the register at 30 June 2006. The ordinary shares will become ex-dividend on 28 June 2006. These financial statements do not reflect this dividend payable, which will be accounted for in the statement of changes in equity as an appropriation of retained earnings, in the year ended 31 March 2007.

> Principal shareholders

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

	Ordinary Shares of 10 pence each	Percentage
Kate Blackall	1,377,538	10.7
Investec Trust Guernsey Ltd	1,100,000	8.5
Barnard Nominees Ltd	1,041,430	8.1
Park Row Group Plc	1,030,652	8.0
Marlborough Fund Managers Ltd	760,000	5.9
Andrew & Anne White	711,000	5.5
David Coleman	584,000	4.6
Singer & Friedlander AIM 3 VCT	541,600	4.2
Giltspur Nominees Ltd	487,495	3.8
Francesco Scolaro	405,000	3.2

The investment by Investec Trust Guernsey Limited represents 8.5% of the total called up share capital. This investment is a Medium Term Incentive Plan and the shares held by the trust will vest with various directors and senior management (see page 13 for details) only on achievement of certain performance criteria.

> Authority to purchase own shares

At the annual general meeting of the company held on 22 July 2005 shareholders approved a general authority for the company to re-purchase up to 14.99% of the company's issued ordinary share capital. No purchase of shares has been made pursuant to this authority, and there is no present intention to use such authority, but the directors consider it desirable that the possibility of making such purchases under appropriate circumstances remains available. It is anticipated that a similar authority will be requested at the forthcoming annual general meeting.

> Policy on payments to creditors

The group agrees payment terms with individual suppliers which vary according to the commercial relationship and the terms of agreement reached. Payments are made to suppliers in accordance with the terms agreed. The number of supplier days represented by trade creditors at 31 March 2006 was 58 (at 31 March 2005: 60).

> Directors and their interests

The present directors are listed on page 1. The directors served throughout the year. The interests of the directors (including family interests) in the share capital of the company are listed on page 13 .

J A Pickles retires by rotation and, being eligible, offers himself for re-election at the forthcoming annual general meeting.

> Auditors

In accordance with S385 of the Companies Act 1985 a resolution proposing that Saffery Champness be reappointed as auditors to the company will be put to the annual general meeting.

In the case of each of the persons who were directors at the time when the report was approved under section 234A, each director has confirmed that:-

(a) so far as he is aware, there is no relevant audit information of which the company's auditors are unaware, and
(b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This report was approved by the board on 21 June 2006.

On behalf of the board

J A Pickles
Director

> Corporate governance

The directors intend, so far as possible and to the extent appropriate given the company's size and the constitution of the board, to comply with the combined code prepared by the committee on corporate governance chaired by Sir Ronald Hampel and which is appended to the listing rules of the Financial Services Authority. The board has separate roles for chairman and chief executive.

The board has established an audit committee, which comprises P R S Lever, and J H Davies (chairman), and a remuneration committee which also comprises P R S Lever (chairman), and J H Davies, with formally delegated responsibilities.

The audit committee meets at least twice a year and is responsible for ensuring that the financial performance of the company is properly monitored and reported. It is also responsible for appointing the auditors, ensuring the auditors' independence is not compromised, and reviewing the reports on the company from the auditors in relation to the accounts and internal control systems.

The remuneration committee is responsible for reviewing the performance of the executive directors, 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.

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.

> Internal control

The combined code introduced a requirement that the directors' review should be extended to cover not just internal financial controls but all controls including operations, compliance and risk management. It reports as follows:

The directors are responsible for the group's system of internal control. Although no system of internal control can provide absolute assurance against material misstatement or loss, the company'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:

Management structure: the board of directors meets regularly and minutes of its meetings are maintained.

Financial reporting: budgets are prepared and reviewed by executive management. Any material variances to actual results are investigated.

Investment appraisal: the company has a clearly defined framework for capital expenditure requiring approval by key personnel and the board where appropriate.

The board has reviewed the effectiveness of the system of internal controls and it has considered the major business risks and the control environment. No significant control deficiencies were reported during the period.

No weaknesses in internal control have resulted in any material losses, contingencies or uncertainty which would require disclosure, as recommended by the guidance for directors on reporting on internal control.

> REPORT TO THE SHAREHOLDERS ON DIRECTORS' REMUNERATION

> Remuneration policy

The objective of the company'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 management, which comprises a basic salary, car allowance, healthcare, bonus scheme, share options, and medium term incentive plan. The board as a whole decide the remuneration of the non-executives.

> Directors' remuneration

Details of the remuneration of the directors for the financial year are set out below:

	Salary & fees £	Car allowance £	Other benefits £	Bonus £	Pension contributions £	TOTAL £
Executive directors						
K P Scott	140,000	13,000	7,480	33,230	14,000	207,710
J A Pickles	90,000	-	512	19,940	2,700	113,152
Non-executive directors						
P R S Lever	26,250	-	-	-	-	26,250
J H Davies	12,600	-	-	-	-	12,600
	268,850	13,000	7,992	53,170	16,700	359,712

> Share options

It is the policy of the company that all employees are granted options over the shares of the company. The company grants options under an Inland Revenue approved scheme and also under an unapproved scheme. The share options granted to the directors are as follows:

	Number of shares under option at 31 March 2005	Granted during the year	Number of shares under option at 31 March 2006	Exercise price	Date
K P Scott	140,500		140,500	110p	30 September 2002
K P Scott	16,875		16,875	70p	31 March 2004
K P Scott	225,000		225,000	96p	1 December 2004
K P Scott		49,893	49,893	100p	13 April 2005
K P Scott		144,901	144,901	100p	24 November 2005
J A Pickles	25,000		25,000	110p	9 December 2002
J A Pickles	7,125		7,125	70p	31 March 2004
J A Pickles	122,875		122,875	96p	1 December 2004
J A Pickles		17,907	17,907	100p	13 April 2005
J A Pickles		57,960	57,960	100p	24 November 2005
P R S Lever	10,000		10,000	140p	7 January 2003
J H Davies	10,000		10,000	110p	9 December 2002
	557,375	270,661	828,036		

As at 31 March 2006, 53 employees (including directors) held options (granted between 19 April 2002 and 1 December 2005) over a total of 1,383,035 ordinary shares at an average option price of 95.9p. All options are exercisable between 2 and 10 years from date of grant.

The company's share price on 31 March 2006 was 96.0p (on 31 March 2005: 85.0p).

> Medium Term Incentive Plan

The company also has in place a Medium Term Incentive Plan designed to award shares in the company to directors and senior management on the achievement of performance criteria laid down from time to time by the remuneration committee. Ownership of the shares remains with Investec Trust Guernsey Limited and vest only on achievement of those criteria. The shares allotted to directors and senior management are as follows:

	Number of shares allotted at 31 March 2005	Allotted during the year	Vested during the year	Number of shares allotted at 31 March 2006
K P Scott	157,360	419,808	-	577,168
J A Pickles	53,970	176,897	-	230,867
Other management	107,250	184,715	-	291,965
	318,580	781,420	-	1,100,000

> Directors' interests

The interests of the directors (including family interests) in the share capital of the company at the year end are set out below.

	Ordinary shares of 10 pence each At 31 March 2006	Ordinary shares of 10 pence each At 31 March 2005
P R S Lever	46,600	36,600
K P Scott	110,085	95,570
J A Pickles	82,812	82,812
J H Davies	36,600	36,600

There were no changes between 31 March 2006 and 21 June 2006.

> DIRECTORS' RESPONSIBILITIES AND REPORT OF THE AUDITORS

> Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period.

In preparing those 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 applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and prepare the financial statements on a going concern basis unless it is inappropriate to assume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

> Independent auditors' report to the members

We have audited the group and company financial statements (the "financial statements") of ILX Group plc for the year ended 31 March 2006 on pages 16 to 36. These financial statements have been prepared in accordance with the accounting policies set out therein. We have also audited the information in the directors' remuneration report.

> Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, above, the company's directors are responsible for the preparation of the annual report and the financial statements in accordance with applicable law and International Financial Reporting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the directors' report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we required for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the chairman's statement, the chief executive's review, and the corporate governance statement and the directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

> Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

> Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of affairs of the company and the group as at 31 March 2006 and of the profit for the group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Saffery Champness
Chartered Accountants and Registered Auditors
Beaufort House
2 Beaufort Road
Clifton
Bristol BS8 2AE

Date: 21 June 2006

> CONSOLIDATED AND COMPANY INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2006

	Notes	Year ended 31.3.2006 Continuing activities £	Year ended 31.3.2006 Acquisitions £	Year ended 31.3.2006 Total £	Year ended 31.3.2005 As restated £
Revenue	2	6,380,582	532,673	6,913,255	3,924,465
Cost of sales		(2,238,972)	(96,602)	(2,335,574)	(957,557)
Gross profit		4,141,610	436,071	4,577,681	2,966,908
Distribution costs		(224,593)	(2,955)	(227,548)	(144,907)
Administrative expenses excluding depreciation and amortisation		(3,019,818)	(282,274)	(3,302,092)	(1,977,810)
Earnings before interest, tax and depreciation and amortisation		897,199	150,842	1,048,041	844,191
Depreciation		(46,010)	(1,306)	(47,316)	(35,628)
Amortisation		-	-	-	(34,203)
Operating profit	3	851,189	149,536	1,000,725	774,360
Reorganisation costs	4			-	(49,116)
Profit from operations				1,000,725	725,244
Interest receivable and similar income	5			12,073	42,674
Gain on early repayment of debt	5			-	100,000
Interest payable and similar charges	6			(71,123)	(85,738)
Profit before tax				941,675	782,180
Tax	9			757,755	-
Profit for the period attributable to equity holders				1,699,430	782,180
Earnings per share – from continuing operations and acquisitions					
Basic	10			16.39p	10.02p
Diluted	10			15.08p	9.83p

> Consolidated and company statement of changes in equity Year ended 31 March 2006

	Year ended 31.03.2006 £	Year ended 31.03.2005 £
Balance at 1 April	6,460,731	3,592,132
Profit for the year	1,699,430	782,180
Capital reorganisation (note 18)	(18,267)	-
Issue of shares to trust	(781,420)	-
Issue of shares	385,937	210,173
Options granted	108,750	46,222
Contingent consideration	1,655,000	375,000
Premium on issue of shares	3,495,483	1,482,225
Costs relating to share issue	(85,936)	(27,201)
Balance at 31 March	12,919,708	6,460,731

> CONSOLIDATED BALANCE SHEET

AS AT 31 MARCH 2006

	Notes	31.3.2006	31.3.2005 As restated
Assets		£	£
Non-current assets			
Property, plant and equipment	11	132,872	262,354
Intangible assets	12	12,386,146	6,816,684
Total non-current assets		12,519,018	7,079,038
Current assets			
Deferred tax asset	9	789,000	-
Trade and other receivables	14	2,031,070	1,059,166
Cash and cash equivalents		646,126	671,839
Total current assets		3,466,196	1,731,005
Total assets		15,985,214	8,810,043
Current liabilities			
Trade and other payables		(1,317,742)	(674,214)
Deferred consideration		(236,869)	(305,377)
Tax liabilities		(417,086)	(293,712)
Bank loans		(146,429)	(154,762)
	15	(2,118,126)	(1,428,065)
Net current assets		1,348,070	302,940
Non-current liabilities			
Provision for contingent consideration	16	(270,000)	-
Hire purchase creditor	17	(3,048)	-
Bank loans	17	(674,332)	(921,247)
Total non-current liabilities		(947,380)	(921,247)
Total liabilities		(3,065,506)	(2,349,312)
Net assets		12,919,708	6,460,731
Equity			
Issued share capital	18	1,283,329	3,734,318
Share premium	18	7,248,037	7,338,490
Shares to be issued – contingent consideration	16	2,030,000	375,000
Own shares in trust	19	(1,082,192)	(300,772)
Share option reserve	18	199,616	90,866
Buyback reserve	18	1,177,819	-
Retained earnings	18	2,063,099	(4,777,171)
Total equity		12,919,708	6,460,731

The financial statements were approved by the board of directors and authorised for issue on 21 June 2006. They were signed on its behalf by:

J A Pickles ______________________ Director

K P Scott ______________________ Director

> COMPANY BALANCE SHEET

AS AT 31 MARCH 2006

	Notes	31.3.2006	31.3.2005 As restated
Assets		£	£
Non-current assets			
Property, plant and equipment	11	132,872	262,354
Intangible assets	12	638,126	163,821
Investments	13	11,748,020	6,652,863
Total non-current assets		12,519,018	7,079,038
Current assets			
Deferred tax asset	9	789,000	-
Trade and other receivables	14	2,031,070	1,059,166
Cash and cash equivalents		646,126	671,839
Total current assets		3,466,196	1,731,005
Total assets		15,985,214	8,810,043
Current liabilities			
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Retained earnings	18	2,063,099	(4,777,171)
Total equity		12,919,708	6,460,731

The financial statements were approved by the board of directors and authorised for issue on 21 June 2006. They were signed on its behalf by:

J A Pickles ______________________ Director

K P Scott ______________________ Director

> CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2006

	Year ended 31.3.2006 £	Year ended 31.3.2006 As restated £
Profit from operations	1,000,725	725,244
Adjustments for:		
Depreciation, amortisation and profit on disposal of non-current assets	37,455	69,831
Share option charge	108,750	46,222
Movement in trade and other receivables	(821,795)	(239,605)
Movement in trade and other payables	628,057	44,275
Cash generated from operating activities	953,192	645,967
Interest paid	(71,030)	(42,738)
Tax paid	(187,307)	(125,396)
Net cash from operating activities	694,855	477,833
Investing activities		
Interest received	12,073	8,674
Proceeds on disposal of property, plant and equipment	206,431	-
Purchases of property, plant and equipment	(90,402)	(27,626)
Expenditure on product development	(474,305)	(198,024)
Acquisition of subsidiary (net of cash acquired)	(839,914)	46,495
Net cash used in investing activities	(1,186,117)	(170,481)
Financing activities		
Post-completion dividends paid	-	(49,791)
Repayment of borrowings	(255,247)	(588,575)
Repayment of finance lease obligations	-	(6,100)
Net proceeds of share issue	720,796	465,197
Net cash from / (used in) financing activities	465,549	(179,269)
Net change in cash and cash equivalents	(25,713)	128,083
Cash and cash equivalents at 1 April 2005	671,839	543,756
Cash and cash equivalents at 31 March 2006	646,126	671,839

1 Purchase of subsidiary undertaking – Mount Lane Training & Implementation Solutions Ltd

On 23 November 2005 the company acquired 100% of the ordinary share capital of Mount Lane Training & Implementation Solutions Limited ("Mount Lane"). This was acquired for a maximum £4,018,267 in cash and shares. The trade, assets and liabilities of Mount Lane were immediately hived up to the parent company.

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

Net assets acquired	Book value	Revaluation	Fair value
	£	£	£
Tangible fixed assets	8,237	(1,237)	7,000
Trade and other receivables	106,708	-	106,708
Cash at bank and in hand	111,608	-	111,608
Trade payables	(34,685)	-	(34,685)
Corporation tax	(120,883)	-	(120,883)
Deferred income	(58,912)	-	(58,912)
Net assets	12,073	(1,237)	10,836
Acquisition costs			(145,740)
Goodwill			4,153,171
			4,018,267
Satisfied by			
Shares allotted			1,700,000
Cash paid			500,000
Cash payable			18,267
Contingent consideration			1,800,000
			4,018,267

The cash payable element of the consideration is payable on 31 July 2006.

The contingent consideration, which is capped at £1,800,000, is calculated as 4 times the extent to which Mount Lane profit for the year to 31 March 2007 exceeds £500,000. It is payable 15% in cash, and 85% in cash or shares at the company's option, on 31 July 2007.

The summarised profit and loss account of the acquired entity for the period from the beginning of its financial year on 1 April 2005 to the effective date of acquisition, and for its previous financial year, is set out below:

	34 weeks to 23.11.2005	Year ended 31.03.2005
	£	£
Turnover	548,708	1,539,208
Cost of sales	(292,009)	(843,172)
Gross profit	256,699	696,036
Administrative expenses	(254,750)	(201,543)
Operating profit	1,949	494,493
Interest (payable) / receivable	(190)	57
Profit on ordinary activities before taxation	1,759	494,550
Taxation	1,797	(121,454)
Profit on ordinary activities after taxation	3,556	373,096
Dividends paid	(179,600)	(357,000)
Profit for the period transferred to reserves	(176,044)	16,096

2 Purchase of subsidiary undertaking – Customer Projects Limited

On 1 February 2006 the company acquired 100% of the ordinary share capital of Customer Projects Limited ("Customer Projects"). This was acquired for a maximum £1,018,601 in cash and shares. The trade, assets and liabilities of Customer Projects were immediately hived up to the parent company.

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

Net assets acquired	Book value	Revaluation	Fair value
	£	£	£
Tangible fixed assets	25,465	(8,465)	17,000
Trade and other receivables	56,303	(611)	55,692
Cash at bank and in hand	105,094	-	105,094
Trade payables	(17,858)	-	(17,858)
Corporation tax	(20,077)	-	(20,077)
Hire purchase creditor	(10,361)	-	(10,361)
Deferred income	(19,965)	-	(19,965)
Net assets	118,601	(9,076)	109,525
Acquisition costs			(32,910)
Goodwill			941,986
			1,018,601
Satisfied by			
Shares allotted			200,000
Cash paid			100,000
Cash payable			218,601
Contingent consideration			500,000
			1,018,601

The cash payable element of the consideration was paid on 10 April 2006.

The contingent consideration, which is capped at £500,000, is calculated as 3.5 times the extent to which Customer Projects profit for the year to 31 March 2007 exceeds £120,000. It is payable in cash or shares at the company's option, on 31 July 2007.

The summarised profit and loss account of the acquired entity for the period from the beginning of its financial year on 1 April 2005 and its previous financial year to the effective date of acquisition is set out below:

	10 months to 01.02.2006	Year ended 31.3.2005
	£	£
Turnover	452,058	574,581
Cost of sales	(239,462)	(285,188)
Gross profit	212,596	289,393
Administrative expenses	(111,635)	(147,673)
Operating profit	100,961	141,720
Interest receivable	1,420	1,090
Interest payable	(110)	-
Profit on ordinary activities before taxation	102,271	142,810
Taxation	(20,077)	(27,561)
Profit on ordinary activities after taxation	82,194	115,249
Dividends paid	(62,500)	(52,000)
Profit for the period transferred to reserves	19,694	63,249

ILX Group plc (the "company") is a company incorporated in England and Wales. The financial statements are presented in pounds sterling, and were authorised for issue by the directors on 21 June 2006.

The group financial statements consolidate those of the company and its subsidiaries (together referred to as the "group"). The parent 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") except for the departure from IAS 27 in the company's accounts explained in note 26. In publishing the company financial statements here together with the group financial statements, the company has taken advantage of the exemption in s230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved financial statements.

Both the group and the company are preparing their financial statements in accordance with IFRS as adopted by the EU for the first time and consequently both have applied IFRS1 First-Time Adoption of International Financial Reporting Standards. An explanation of how the transition to adopted IFRS has affected the reported financial position, financial performance, and cash flows of the group and the company is provided in note 26.

IFRS1 First-Time Adoption of International Financial Reporting Standards sets out the transition rules which must be applied when IFRS are adopted for the first time.

1 Basis of preparation and significant accounting policies

Basis of accounting
The financial statements have been prepared on the historical cost basis.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results for which form the basis of making the judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

The accounting policies set out below have, unless otherwise stated, been applied consistently by the group to all periods presented in these financial statements and in preparing an opening IFRS balance sheet at 1 April 2004 for the purposes of the transition to adopted IFRS.

Basis of consolidation
The consolidated financial statements include the financial statements of ILX Group 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 purchase method of accounting to account for the acquisition of subsidiaries.

Revenue
Revenue represents the amount chargeable, excluding sales related taxes, for goods or services supplied. Revenue is only recognised when there is persuasive evidence that a contract exists, the fee is fixed or determinable and collection of the resulting receivable is considered probable. Full provision is made for all known or expected losses.

Revenue for sales of generic software products and delivery of standard services is recognised where an order has been placed and delivery has occurred.

Revenue from fixed price consultancy, customisation, and software development contracts is recognised in accordance with the percentage completed for each contract. Revenue from such contracts chargeable on a time and materials basis is recognised when the work is performed.

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

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

Share based payments
The company operates two share option schemes. The fair value of the options granted under these schemes is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period at the end of which the option holder may exercise the option.

The fair value of the options granted is measured using the Black-Scholes model, adjusted to take into account sub-optimal exercise factor and other flaws in Black Scholes, and taking into account the terms and conditions upon which the incentives were granted.

Goodwill
Goodwill is determined by comparing the amount paid, including the full undiscounted value of any deferred and contingent consideration, on the acquisition of a subsidiary or associated undertaking and the group's share of the aggregate fair value of its separable net assets. Goodwill is capitalised and is subject to annual impairment reviews in accordance with applicable accounting standards.

Deferred and contingent consideration
Deferred and contingent consideration payable is shown as a creditor on the balance sheet to the extent that a contractual obligation exists, or may exist, to make payment in cash. Where the consideration may be paid by way of shares the deferred and contingent consideration is shown under equity.

Segment reporting
A business segment is a distinguishable component of a group engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographic segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

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

Capitalised product development expenditure is subject to regular impairment reviews and is stated at cost less any accumulated impairment losses. Any impairment taken during the year is shown under amortisation on the income statement.

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

Freehold buildings – 50 years
Fixtures, fittings and equipment – 4 years
Motor vehicles – 4 years
Computer equipment – 3 years

Fixed asset investments
Investments in subsidiary companies are included at cost in the accounts of the company less any amount written off in respect of any permanent diminution in value.

Investments
Investments held by the company are held at cost. The company carries the value of investments in subsidiaries at cost. These investments have not been impaired by virtue of the fair presentation override of the EU regulations. In adopting the fair presentation override, the directors have concluded that the financial statements present fairly the company's and the group's financial position, financial performance, and cash flows and they acknowledge that they have complied with applicable standards and interpretations, except with regard to IAS 27. The company has departed from this standard by showing the cost of investments in acquired companies under investments on the balance sheet, rather than purchased goodwill, despite the fact that the trade in the acquired companies has been hived up to the parent company. Showing these balances on the company balance sheet as purchased goodwill would be misleading as the goodwill arises on consolidation due to the use of the purchase method of accounting and is not purchased goodwill. The departure from the standard only impacts the company balance sheet and has no impact on the consolidated balance sheet or any of the other financial statements.

Deferred taxation
Deferred tax is provided in full in respect of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax liabilities are not material against the available losses brought forward and are therefore not reported.

Deferred tax assets are recognised where unused tax losses are available to offset against future profits and where there is convincing evidence that sufficient taxable profits will be available against which the unused tax losses can be offset.

Leasing and hire purchase commitments
Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the income statement so as to produce constant periodic rates of charge on the net obligations outstanding in each period. All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight line basis over the lease term.

Foreign currencies
Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date.

Defined contribution pension scheme
The pension costs charged in the financial statements represent the contributions payable by the company during the year.

Trade and other receivables
Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents
Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Trade payables
Trade payables are stated at their nominal value.

2 Segment reporting

The group operates in one business segment; that of supply of training and consultancy solutions. For further details see the Chief Executive's Review. The operations are monitored by the geographic regions of UK, Mainland Europe, North America, and Other (Asia, Middle and Far East, Africa, and South America). Tax assets and liabilities and the intangible asset for product development capitalised are excluded from segment assets and liabilities. All other assets and liabilities are maintained and managed centrally and are apportioned between the regions on a pro-rata basis below.

For the year ended 31 March 2006	UK £	Mainland Europe £	North America £	Other £	Total £
Segment revenue	6,092,440	578,724	116,179	125,912	6,913,255
Segment result	3,833,639	364,159	73,105	79,230	4,350,133
Product development amortised					-
Central costs					(3,349,408)
Operating profit					1,000,725
Capital additions	79,668	7,568	1,519	1,647	90,402
Depreciation and amortisation	41,698	3,961	795	862	47,316
Segment assets	12,829,598	1,218,690	244,652	265,148	14,558,088
Segment liabilities	2,333,972	221,705	44,507	48,236	2,648,420

For the year ended 31 March 2005	UK £	Mainland Europe £	North America £	Other £	Total £
Segment revenue	2,965,920	601,701	296,998	59,846	3,924,465
Segment result	2,486,944	236,236	47,424	51,397	2,822,001
Product development amortised					(34,203)
Central costs					(2,013,438)
Operating profit					774,360
Capital additions	24,346	2,313	464	503	27,626
Depreciation and amortisation	61,539	5,846	1,174	1,272	69,831
Segment assets	7,619,650	723,795	145,302	157,475	8,646,222
Segment liabilities	1,811,537	172,079	34,545	37,439	2,055,600

3 Operating profit

Operating profit is stated after charging:

	Year ended 31.3.2006 £	Year ended 31.3.2005 £
Depreciation on assets held under finance leases and hire purchase agreements	2,125	1,875
Depreciation	47,317	35,628
Auditors' remuneration	20,000	17,500
Auditors' remuneration for non-audit work	10,650	7,405
Operating lease rentals - land and buildings	75,850	81,285

4 Reorganisation costs

Reorganisation costs relate to costs incurred in a fundamental reorganisation of the group's continuing operations.

5 Interest receivable and similar income

	Year ended 31.3.2006 £	Year ended 31.3.2005 £
Bank interest	12,073	8,674
Interest waived (note 20)	-	34,000
	12,073	42,674
Gain on early repayment of debt (note 20)	-	100,000

6 Interest payable and similar charges

	Year ended 31.3.2006 £	Year ended 31.3.2005 £
On bank loans and overdrafts	70,221	80,543
Other interest	902	5,195
	71,123	85,738

7 Employees' and directors' remuneration

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

Group and company	Year ended 31.3.2006 Number	Year ended 31.3.2005 Number
Development and delivery	17	11
Office and management	20	12
Sales and marketing	19	15
	56	38

Their total remuneration was:

Group and company	Year ended 31.3.2006 £	Year ended 31.3.2005 £
Wages and salaries	2,667,965	1,732,244
Social security costs	297,478	183,159
Pension costs	67,545	35,761
Share based payments	108,750	46,222
	3,141,738	1,997,386

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

Group and company	Year ended 31.3.2006 £	Year ended 31.3.2005 £
Cost of sales	476,159	319,821
Administrative expenses	2,278,563	1,488,757
Product development capital expenditure	387,016	188,808
	3,141,738	1,997,386

Directors' emoluments can be analysed as follows:

Group and company	Year ended 31.3.2006 £	Year ended 31.3.2005 £
Remuneration and other emoluments	343,012	248,390
Pension contributions	16,700	14,495
	359,712	262,885
	£	£
Highest paid director	186,230	152,500

There is one director to whom retirement benefits are accruing under a money purchase scheme (2005: 1).

A detailed analysis of directors' remuneration is provided on pages 12 and 13.

8 Pension costs

The company operates a defined contribution pension scheme in respect of the directors and employees. The scheme and its assets are held by independent managers. The pension charge represents contributions due from the company which amounted to £38,881 (2005 - £15,929) plus contributions made directly to directors' and employees' personal pension schemes which amounted to £28,664 (2005 - £19,832).

9 Taxation

	Year ended 31.3.2006 £	Year ended 31.3.2005 £
Current tax charge	31,245	-
Deferred tax credit	(789,000)	-
Current tax	(757,755)	-

	Year ended 31.3.2006 £	Year ended 31.3.2005 £
Factors affecting the tax charge for the year		
Profit on ordinary activities before taxation	941,675	782,180
Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30% (2005: 30%)	282,503	234,654
Effects of:		
Non-deductible expenses	35,441	3,981
Capital allowances in excess of depreciation	(9,494)	87,030
Chargeable gain	5,607	-
Schedule DIII income	3,622	-
Other tax adjustments	(3,385)	(2,602)
Movement in provisions	3,237	(2,428)
Tax losses utilised	(311,686)	(198,139)
Overprovision in prior year	(2,100)	-
Provision for withholding taxes	27,500	-
Deferred tax asset recognised	(789,000)	-
Prior year adjustment for IFRS	-	(122,496)
Current tax	(757,755)	-

Unrelieved tax losses of £2,621,000 remain available to offset against future taxable profits.

A deferred tax asset of £789,000 has been recognised in the year on the grounds that it is probable that the company will have taxable profits against which the unused tax losses can be offset.

10 Earnings per share

The calculation of earnings per share is calculated by dividing profit attributable to shareholders of £1,699,430 (2005: £782,180) by the weighted average number of shares in issue during the year.

Diluted earnings per share is adjusted for outstanding options and the average option price (note 19), using an average interest saving of 5.6%.

	Year ended 31.3.2006	Year ended 31.3.2005
Weighted average shares for basic earnings per share	10,363,803	7,803,413
Outstanding options	1,383,035	921,250
Shares for diluted earnings per share	11,746,838	8,724,663

11 Property, plant and equipment

Group and company	Freehold property £	Motor vehicles £	Fixtures, fitting and equipment £	Computer equipment £	Total £
Cost					
At 31 March 2005	180,000	15,000	71,389	149,450	415,839
Additions	10,094	12,000	23,816	68,494	114,404
Disposals	(190,094)	(15,000)	(38,332)	(75,460)	(318,886)
At 31 March 2006	-	12,000	56,873	142,484	211,357
Depreciation					
At 31 March 2005	3,600	1,875	43,715	104,295	153,485
Charge for the year	1,820	2,125	14,557	28,815	47,317
Disposals	(5,420)	(3,750)	(37,687)	(75,460)	(122,317)
At 31 March 2006	-	250	20,585	57,650	78,485
Net book value					
At 31 March 2006	-	11,750	36,288	84,834	132,872
At 31 March 2005	176,400	13,125	27,674	45,155	262,354

Included above are assets held under finance leases or hire purchase contracts as follows:

Asset description	2006 Net book value £	2006 Depreciation charge £	2005 Net book value £	2005 Depreciation charge £
Motor vehicle	11,750	250	13,125	1,875

12 Intangible fixed assets

Group	Goodwill	Development	Total
Cost	£	£	£
At 31 March 2005	7,560,174	198,024	7,758,198
Additions	5,106,269	463,193	5,569,462
At 31 March 2006	12,666,443	661,217	13,327,660
Amortisation			
At 31 March 2005	907,311	34,203	941,514
Charge for the year	-	-	-
At 31 March 2006	907,311	34,203	941,514
Net book value			
At 31 March 2006	11,759,132	627,014	12,386,146
At 31 March 2005	6,652,863	163,821	6,816,684

Company	Goodwill	Development	Total
Cost	£	£	£
At 31 March 2005	-	198,024	198,024
Additions	11,112	463,193	474,305
At 31 March 2006	11,112	661,217	672,329
Amortisation			
At 31 March 2005	-	34,203	34,203
Charge for the year	-	-	-
At 31 March 2006	-	34,203	34,203
Net book value			
At 31 March 2006	11,112	627,014	638,126
At 31 March 2005	-	163,821	163,821

The aggregate amount of research and development recognised as an expense during the period was £39,859 (2005: £199,491).

For impairment purposes the carrying value of goodwill was reviewed against the following cash generating units:

Goodwill arising on acquisition of:	Financial training products and services £	Best Practice training products and services (excluding IT) £	Best Practice consultancy products and services £	Training and consultancy products and services £	Total £
Intellexis International Ltd	2,590,039				2,590,039
Key Skills Ltd		2,199,917			2,199,917
Computa-Friendly Ltd		368,187			368,187
Mindscope Ltd		1,494,720			1,494,720
Mount Lane Training & Implementation Solutions Ltd				4,153,171	4,153,171
Techpractice Ltd (purchase of elements of the trade)		11,112			11,112
Customer Projects Ltd			941,986		941,986
	2,590,039	4,073,936	941,986	4,153,171	11,759,132

The goodwill has been tested for impairment in accordance with IAS 36 by reference to the market values of the underlying cash generating units.

13 Investments

Company	Shares in group undertakings (at cost)
Cost	£
At 31 March 2005	6,652,863
Acquired during the year	5,095,157
At 31 March 2006	11,748,020

The company is carrying the value of investments in subsidiaries at cost. These investments have not been impaired by virtue of the fair presentation override of the EU regulations. In adopting the fair presentation override, the directors have concluded that the financial statements present fairly the company's and the group's financial position, financial performance, and cash flows and they acknowledge that they have complied with applicable standards and interpretations, except with regard to IAS 27. The company has departed from this standard by showing the cost of investments in acquired companies under investments on the balance sheet, rather than purchased goodwill, despite the fact that the trade in the acquired companies has been hived up to the parent company. Showing these balances on the company balance sheet as purchased goodwill would be misleading as the goodwill arises on consolidation due to the use of the purchase method of accounting and is not purchased goodwill. The financial impact of the departure is to show £11,748,020 under investments (2005: £6,652,863) rather than under goodwill on the face of the company balance sheet. The departure from the standard only impacts the company balance sheet and has no impact on the consolidated balance sheet or any of the other financial statements.

The company has the following subsidiary undertakings:

Name	*Principal Activity*	*Holding*	*Registered*
Mindscope Limited	Non-trading	100%	England & Wales
Computa-Friendly Limited	Non-trading	100%	England & Wales
Intellexis Limited	Non-trading	100%	England & Wales
Key Skills Limited	Non-trading	100%	England & Wales
Intellexis International Limited	Non-trading	100%	England & Wales
Mount Lane Training & Implementation Solutions Limited	Non-trading	100%	England & Wales
Customer Projects Limited	Non-trading	100%	England & Wales

These companies have all prepared accounts to 31 March 2006.

14 Trade and other receivables

	At 31.3.2006	At 31.3.2005
	£	£
Trade receivables	1,633,859	974,999
Other receivables	5,097	97
Prepayments	100,194	71,808
Accrued income	291,920	12,262
	2,031,070	1,059,166

15 Trade and other payables

	At 31.3.2006	At 31.3.2005
	£	£
HSBC 10-year term loan (see note 17)	25,000	25,000
HSBC 7-year term loan (see note 17)	121,429	121,429
HSBC 15-year mortgage (see note 17)	-	8,333
Hire purchase (see note 17)	7,314	-
Trade payables	625,087	261,285
Corporation tax	25,922	68,525
Withholding tax	27,500	-
Other taxes and social security costs	363,664	225,187
Other creditors	-	1,654
Deferred and contingent consideration (see note 16)	236,869	305,377
Accruals	321,571	183,528
Deferred income	363,770	227,747
	2,118,126	1,428,065

16 Deferred and contingent consideration

Current liabilities: Deferred consideration	At 31.3.2006	At 31.3.2005
	£	£
Acquisition of Mindscope Ltd	-	305,377
Acquisition of Mount Lane Training and Implementation Solutions Ltd	18,268	-
Acquisition of Customer Projects Ltd	218,601	-
	236,869	305,377
Non-current liabilities: Contingent consideration		
Acquisition of Mount Lane Training and Implementation Solutions Ltd	270,000	-
	270,000	-
Equity: Contingent consideration		
Acquisition of Mindscope Ltd	-	375,000
Acquisition of Mount Lane Training and Implementation Solutions Ltd	1,530,000	-
Acquisition of Customer Projects Ltd	500,000	-
	2,030,000	375,000

The deferred consideration is payable in full in cash on or before 31 July 2006 (2005: on or before 31 December 2005).

The contingent consideration relating to Mount Lane, which is capped at £1,800,000, is calculated as 4 times the extent to which Mount Lane profit for the year to 31 March 2007 exceeds £500,000. It is payable 15% in cash, and 85% in cash or shares at the company's option, on 31 July 2007. The element payable in cash is shown as a provision in non-current liabilities, with the element payable in cash or shares shown under equity.

The contingent consideration relating to Customer Projects, which is capped at £500,000, is calculated as 3.5 times the extent to which Customer Projects profit for the year to 31 March 2007 exceeds £500,000. It is payable in cash or shares at the company's option, on 31 July 2007.

17 Bank loans and hire purchase creditor

Bank loan amounts included in non-current liabilities	At 31.3.2006	At 31.3.2005
	£	£
HSBC 10-year term loan	147,917	172,917
HSBC 7-year term loan	526,415	636,352
HSBC 15-year mortgage	-	111,978
	674,332	921,247
Total bank loans		
Repayable in one year or less, or on demand (note 15)	146,429	154,762
Repayable between one and two years	146,429	154,762
Repayable between two and five years	439,287	464,286
Repayable in five years or more	88,616	302,199
	820,761	1,076,009
Net obligations under hire purchase contracts		
Repayable within one year	7,314	-
Repayable between one and five years	3,048	-
	10,362	-

The HSBC loans, and an overdraft facility currently undrawn, are secured by a Debenture granted by ILX Group Plc in favour of HSBC Bank Plc dated 23 February 2004, which includes a Fixed Equitable Charge over all present and future freehold and leasehold property; First Fixed Charge over among other things, book and other debts, chattels and goodwill, both present and future; and First Floating Charge over all assets and undertaking both present and future to be given by ILX Group Plc.

18 Share capital and reserves

Bank loan amounts included in non-current liabilities	At 31.3.2006	At 31.3.2005
	£	£
Ordinary shares of 10p each	1,663,074	4,500,000
Allotted, called up and fully paid equity:		
Ordinary shares of 10p each	1,283,329	897,392
Special non-voting deferred shares	-	2,836,926
	1,283,329	3,734,318

By a special resolution passed at an AGM held on 22 July 2005, and by Order of the High Court of Justice on 24 August 2005, the company's 28,369,260 special non-voting 10p deferred shares were cancelled and the share capital account accordingly reduced by £2,836,926. In addition, the share premium account was reduced by £3.5 million, an aggregate reduction in capital of £6,336,926. The effect of this reduction was to eliminate the debit balance on the profit and loss account of £5,140,480 and to create a special distributable reserve of £1,196,087 for the purpose of the company purchasing its own shares. Legal fees totalling £18,268 relating to the capital restructuring have been put to the special reserve.

Details of movement on reserves are as follows:

	Called up share capital	Share premium account	Contingent consideration	Own shares in trust	Share option reserve	Buyback reserve	Retained earnings	Total
	£	£	£	£	£	£	£	
Balance at 31 March 2004	3,524,145	5,883,466	-	(300,772)	44,644	-	(5,559,351)	3,592,132
Profit for the year							782,180	782,180
Issue of shares	210,173							210,173
Premium on issue of shares		1,482,225						1,482,225
Costs relating to share issue		(27,201)						(27,201)
Options granted					46,222			46,222
Contingent consideration			375,000					375,000
Balance at 31 March 2005	3,734,318	7,338,490	375,000	(300,772)	90,866	-	(4,777,171)	6,460,731
Profit for the year							1,699,430	1,699,430
Capital reorganisation	(2,836,926)	(3,500,000)				1,177,819	5,140,840	(18,267)
Issue of shares to trust				(781,420)				(781,420)
Issue of shares	385,937							385,937
Options granted					108,750			108,750
Contingent consideration			1,655,000					1,655,000
Premium on issue of shares		3,495,483						3,495,483
Costs relating to share issue		(85,936)						(85,936)
Balance at 31 March 2006	1,283,329	7,248,0˚37	2,030,000	(1,082,192)	199,616	1,177,819	2,063,099	12,919,708

19 Share options and own shares in trust

Share options
As at 31 March 2006, 53 employees (including directors) held options (granted between 19 April 2002 and 1 December 2005) over a total of 1,383,035 ordinary shares at an average exercise price of 95.9p, as follows:

Date of grant	Number of shares under option at 31 March 2005	Granted during the year	Forfeited during the year	Number of shares under option at 31 March 2005	Exercise Price	Expiry Date
30 September 2002	140,500			140,500	110p	30 September 2012
9 December 2002	60,000			60,00	110p	9 December 2012
7 January 2003	10,000			10,000	140p	7 January 2013
1 February 2004	74,500		(5,000)	69,500	70p	1 February 2014
31 March 2004	16,875			16,875	70p	31 March 2014
1 December 2004	347,875			347,875	96p	1 December 2014
24 December 2004	271,500		(52,000)	219,500	90p	24 December 2014
13 April 2005	-	67,800		67,800	100p	13 April 2015
15 July 2005	-	71,250		71,250	90p	15 July 2015
1 October 2005	-	111,875		111,875	90p	1 October 2015
23 November 2005	-	202,860		202,860	100p	23 November 2015
1 December 2005	-	65,000		65,000	100p	1 December 2015
	921,250	518,785	(57,000)	1,383,035		

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

	Options outstanding at 31 March 2005	Options granted during the year	Options forfeited during the year	Options exercisable at 31 March 2006	Options outstanding (including those exercisable) at 31 March 2006
Number of shares under option	921,250	518,785	(57,000)	296,875	1,383,035
Weighted average exercise price	95.2p	96.5p	88.2p	99.4p	95.9p

The weighted average time to expiry of the share options outstanding at 31 March 2006 was 8.65 years. Details of individual expiry dates are shown above. For those share options outstanding but not exercisable at 31 March 2006, the weighted average time prior to the options becoming exercisable was 1.07 years.

No share options were exercised, or expired, during the period.

All options are exercisable between 2 and 10 years from date of grant. Details of directors' share options can be found on page 12. The company's share price on 31 March 2006 was 96.0p (on 31 March 2005: 85.0p).

The fair value of all options granted is recognised as an employee expense with a corresponding increase in equity. The employee expense is recognised equally over the time from grant until vesting of the option. The employee expense for the year was £108,750 (2005: £46,222). The fair value has been measured using the Black Scholes model. The expected volatility is based on the historic volatility adjusted for any expected changes to future volatility. The material inputs into the model have been:

	Granted in year ended 31 March 2003	Granted in year ended 31 March 2004	Granted in year ended 31 March 2005	Granted in year ended 31 March 2006
Average share price at grant	111p	70p	94p	96p
Average exercise price	111p	70p	94p	96p
Expected volatility	35%	35%	35%	35%
Expected life	3.5 years	3.5 years	3.5 years	3.5 years
Expected dividend yield	0%	0%	0%	0%
Risk-free rate of return	4.5%	4.5%	4.5%	4.5%

Own shares in trust

The company holds 1,100,000 of its own ordinary shares in trust in a Medium Term Incentive Plan, administered by Investec Trust Guernsey Ltd, as set out on the Report on Directors Remuneration on pages 12 to 13 of these accounts. These shares become payable to directors and senior management, on the achievement of certain performance criteria. The shares are shown at cost as a debit against reserves and relate to the investment. The shares are held in trust under the Plan and represent 8.5% of the total called up share capital.

20 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 which are not members of the group.

During the year the company's freehold premises at George House, Nantwich were sold to the wife of Mr Martyn Kinch, an employee of the company with management responsibility, for £200,000 and leased back at a rate of £18,000 per annum.

During the previous year agreement was reached with Park Row Group plc for early repayment of the convertible loan at a discount. Payments of £466,667 were made to Park Row Group plc in full and final settlement of the loan and any accrued interest. This resulted in a gain on early repayment of £100,000 and a write-back of £34,000 interest accrued, as shown in the accounts. The deal was financed by a new issue of shares in which Park Row Group plc subscribed £100,000, taking their holding to 11.5%. Park Row Group plc are related by way of their significant shareholding in the company.

21 Ultimate parent undertaking and controlling interest

There is no ultimate controlling party.

22 Financial instruments

All assets and liabilities are denominated in Sterling.

The group's financial instruments comprise cash and short term deposits, and various items such as trade debtors and trade creditors 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.

It is, and has been throughout the period under review, the group's policy that no trading in financial instruments shall be undertaken. The group does, however, hedge against interest rate risk as detailed below.

The main risks arising from the group's financial instruments are interest rate risk and liquidity risk. The board reviews and agrees positions for the management of these risks and they are summarised below.

Interest rate risk

The following analysis excludes debtors and creditors falling due within one year, other than cash at bank, short term deposits or borrowings.

At 31 March 2006 the interest rate profile of the group's financial assets and liabilities was as follows:

	Floating interest rates	Fixed interest rates	Total
	£	£	£
Financial assets			
Cash at bank deposits denominated in sterling	-	438,098	438,098
Financial liabilities			
Bank loans denominated in sterling	820,761	-	820,761

All assets and liabilities are denominated in Sterling.

Surplus cash and bank deposits are held on overnight or short term (up to 90 days) deposit at fixed interest rates of 4.0%. Operating cash balances are maintained at a minimum and attract no interest. The HSBC 10-year term loan has an interest rate of 2% above HSBC Bank Plc base rate. The HSBC 7-year term loan has an interest rate margin above HSBC Bank base rate of 2.5%.

The company has taken out a 5-year Base Rate Collar Agreement with HSBC, from 23 February 2004 to 6 March 2009, over a notional principal of £1,000,000. The floor rate is 3.75% and the cap rate is 6.00%. The premium of £13,800 is spread over the life of the agreement.

The group finances its operations primarily through a mixture of cash raised through issues of shares and borrowings.

Liquidity risk

The group's policy is to ensure that sufficient long term cash resources are available to finance the group's requirements for the foreseeable future. It is the directors' opinion that sufficient long-term cash is held by the group at the year end.

Fair value of assets and liabilities

There is no material difference between the fair value of the group's assets and liabilities and their book value as shown in the financial statements.

Borrowing facilities

The company has an overdraft facility with HSBC Bank Plc for a limit of £150,000. The amount utilised at 31 March 2006 was £nil (31 March 2005 £nil).

23 Operating leases

At 31 March 2006 the group had minimum commitments under non-cancellable operating leases as set out below:

	Land and Buildings 31.3.2006	Land and Buildings 31.3.2005
	£	£
Due within one year	61,729	66,667
Due in second to fifth year	-	49,452
Total minimum lease payments	61,729	116,119

The group leases three office spaces under operating leases. The lease terms typically range from three years to ten years. Lease terms of greater than five years are often subject to a rent review under the lease term.

The amounts shown above relate to leases expiring in August 2006, March 2007, and September 2015. The lease expiring in September 2015 is subject to a rent review in September 2010. The leases allow the company to break in September 2006, September 2008, September 2010, September 2011, and September 2013, subject to three months' notice.

24 Dividend

As stated in the directors' report, the directors recommend payment of a dividend of 0.75 pence per share, subject to shareholder approval at the annual general meeting on 11 August 2006. This dividend will be paid on 15 August 2006 to shareholders on the register at 30 June 2006. The ordinary shares will become ex-dividend on 28 June 2006. These financial statements do not reflect this dividend payable, which will be accounted for in the statement of changes in equity as an appropriation of retained earnings, in the year ended 31 March 2007.

25 Business combination

The amount of operating profit or loss since the acquisition date of acquired companies included in the company's profit and loss account, excluding apportioned central costs, is as follows:

	Year ended 31.3.2006 £	Year ended 31.3.2005 £
Computa-Friendly Ltd	-	166,833
Mindscope Ltd	-	67,352
Mount Lane Training & Implementation Solutions Ltd	292,096	-
Customer Projects Ltd	(10,485)	-

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 Income Statement for the Year ended 31.3.2006 £	Pre-acquisition trading of Mount Lane for the period 1.4.2005 to 23.11.2005* £	Pre-acquisition trading of Customer Projects for the period 1.4.2005 to 31.1.2006* £	Total for the year ended 31.3.2006 as though the acquisition dates were 1.4.2005 £
Turnover	6,913,255	548,708	452,058	7,914,021
Operating profit	1,000,725	1,949	100,961	1,103,635

*see notes to the consolidated cash flow statement

26 Explanation of transition to IFRS

These are the group's and the company's first annual financial statements prepared in accordance with IFRS. The accounting policies referred to in note 1 have been applied in preparing the financial statements for the year ended 31 March 2006, the comparative information for the year ended 31 March 2005, and the preparation of an opening IFRS balance sheet at 1 April 2004, the group's and the company's date of transition to IFRS.

In preparing its opening IFRS balance sheet and comparative information for the year ended 31 March 2005, the group and the company have adjusted amounts reported previously in financial statements prepared in accordance with UK GAAP.

An explanation of how the transition from UK GAAP to IFRS has affected the group's and the company's financial position and financial performance is set out in the following tables and notes accompanying them. There have been no changes to the group's or company's cash flows as a result of the transition.

Shareholders' equity	UK GAAP		Effect of transition		IFRS
		Development expenditure capitalised	Share options expensed	Goodwill amortisation eliminated	
	Year ended 31.3.2005				Year ended 31.3.2005
	£	£	£	£	£
Called up share capital	3,734,318				3,734,318
Share premium account	7,338,490				7,338,490
Contingent consideration	375,000				375,000
Own shares in trust	(300,772)				(300,772)
Share option reserve	-		90,866		90,866
Retained earnings	(5,140,840)	163,821	(90,866)	290,714	(4,777,171)
Total stockholders' equity	6,006,19ˆ6	163,821	-	290,714	6,460,731

Consolidated Income Statement For the year ended 31 March 2005	UK GAAP Year ended 31.3.2005	Effect of transition	IFRS Year ended 31.3.2005
	£	£	£
Revenue	3,924,465	-	3,924,465
Cost of sales	(957,557)	-	(957,557)
Gross profit	2,966,908	-	2,966,908
Distribution costs	(144,907)	-	(144,907)
Administrative expenses excluding depreciation and amortisation	(2,129,613)	151,803	(1,977,810)
Earnings before interest, tax, depreciation and amortisation	692,388	151,803	844,191
Depreciation	(35,628)	-	(35,628)
Amortisation	(290,714)	256,511	(34,203)
Operating profit	366,046	408,314	774,360
Reorganisation costs	(49,116)	-	(49,116)
Profit from operations	316,930	408,314	725,244
Interest receivable and similar income	42,674	-	42,674
Gain on early repayment of debt	100,000	-	100,000
Interest payable and similar charges	(85,738)	-	(85,738)
Profit before tax	373,866	408,314	782,180
Tax	-	-	-
Profit for the period attributable to equity holders	373,866	408,314	782,180

Consolidated Balance Sheet as at 31 March 2005	UK GAAP 31.3.2005	Effect of transition	IFRS 31.3.2005
Assets	£	£	£
Non-current assets			
Property, plant and equipment	262,354	-	262,354
Intangible assets	6,362,149	454,535	6,816,684
Total non-current assets	6,624,503	454,535	7,079,038
Current assets			
Trade and other receivables	1,059,166	-	1,059,166
Cash and cash equivalents	671,839	-	671,839
Total current assets	1,731,005	-	1,731,005
Total assets	8,355,508	454,535	8,810,043

Current liabilities			
Trade and other payables	(674,214)	-	(674,214)
Deferred and contingent consideration	(305,377)	-	(305,377)
Tax liabilities	(293,712)	-	(293,712)
Bank loans	(154,762)	-	(154,762)
	(1,428,065)	-	(1,428,065)
Net current assets	302,940	-	302,940
Non-current liabilities			
Bank loans	(921,247)	-	(921,247)
Total non-current liabilities	(921,247)	-	(921,247)
Total liabilities	(2,349,312)	-	(2,349,312)
Net assets	6,006,196	454,535	6,460,731
Equity			
Issued capital	3,734,318	-	3,734,318
Share premium	7,338,490	-	7,338,490
Shares to be issued – contingent consideration	375,000	-	375,000
Own shares in trust	(300,772)	-	(300,772)
Share option reserve	-	90,866	90,866
Retained earnings	(5,140,840)	363,669	(4,777,171)
Total equity	6,006,196	454,535	6,460,731

Company Balance Sheet as at 31 March 2005	UK GAAP 31.3.2005 £	Effect of transition £	IFRS 31.3.2005 £
Assets			
Non-current assets			
Property, plant and equipment	262,354	-	262,354
Intangible assets	6,362,149	(6,198,328)	163,821
Investments	-	6,652,863	6,652,863
Total non-current assets	6,624,503	454,535	7,079,038
Current assets			
Trade and other receivables	1,059,166	-	1,059,166
Cash and cash equivalents	671,839	-	671,839
Total current assets	1,731,005	-	1,731,005
Total assets	8,355,508	454,535	8,810,043
Current liabilities			
Trade and other payables	(674,214)	-	(674,214)
Deferred and contingent consideration	(305,377)	-	(305,377)
Tax liabilities	(293,712)	-	(293,712)
Bank loans	(154,762)	-	(154,762)
	(1,428,065)	-	(1,428,065)
Net current assets	302,940	-	302,940
Non-current liabilities			
Bank loans	(921,247)	-	(921,247)
Total non-current liabilities	(921,247)	-	(921,247)
Total liabilities	(2,349,312)	-	(2,349,312)
Net assets	6,006,196	454,535	6,460,731
Equity			
Issued capital	3,734,318	-	3,734,318
Share premium	7,338,490	-	7,338,490
Shares to be issued – contingent consideration	375,000	-	375,000
Own shares in trust	(300,772)	-	(300,772)
Share option reserve	-	90,866	90,866
Retained earnings	(5,140,840)	363,669	(4,777,171)
Total equity	6,006,196	454,535	6,460,731

Consolidated Cash Flow Statement for the year ended 31 March 2005	UK GAAP Year ended 31.3.2005 £	Effect of transition £	IFRS Year ended 31.3.2005 £
Profit from operations	316,931	408,313	725,244
Adjustments for:			
Depreciation, amortisation and profit on disposal of non-current assets	326,342	(256,511)	69,831
Share option charge	-	46,222	46,222
Movement in trade and other receivables	(239,605)	-	(239,605)
Movement in trade and other payables	44,275	-	44,275
Cash generated from operating activities	447,943	198,024	645,967
Interest paid	(42,738)	-	(42,738)
Tax paid	(125,396)	-	(125,396)
Net cash from operating activities	279,809	198,024	477,833
Investing activities			
Interest received	8,674	-	8,674
Purchases of property, plant and equipment	(27,626)	-	(27,626)
Expenditure on product development	-	(198,024)	(198,024)
Acquisition of subsidiary (net of cash acquired)	46,495	-	46,495
Net cash from / (used in) investing activities	27,543	(198,024)	(170,481)
Financing activities			
Post-completion dividends paid	(49,791)	-	(49,791)
Repayment of borrowings	(588,575)	-	(588,575)
Repayment of finance lease obligations	(6,100)	-	(6,100)
Net proceeds of share issue	465,197	-	465,197
Net cash used in financing activities	(179,269)	-	(179,269)
Net change in cash and cash equivalents	128,083	-	128,083
Cash and cash equivalents at 1 April 2005	543,756	-	543,756
Cash and cash equivalents at 31 March 2006	671,839	-	671,839

Summary of changes resulting from the adoption of IFRS:

a) Under UK GAAP all expenditure on research and development was expensed as incurred. Under IFRS, research expenditure is recognised as an expense as incurred but costs incurred on product development are capitalised as intangible assets when it is probable that the development will provide economic benefit, considering its commercial and technical feasibility, where resources are available for the completion of the development, and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred. Capitalised product development expenditure is reviewed regularly for impairment.

b) IFRS requires that the fair value of share options provided to employees be estimated and charged to the income statement over the vesting period of the options. This has resulted in an adjustment occurring at the transition date of 1 April 2004 of £44,645. This is the only adjustment at the transition date.

c) Under UK GAAP goodwill was amortised over 20 years. Under IFRS goodwill is now subject to annual impairment reviews. Goodwill balances have been written back to their net book value, under UK GAAP, at 31 March 2004.

d) Under IFRS dividends are charged to the income statement when paid or approved and not in the period to which they relate as required previously by UK GAAP.

e) In restating the accounts under IFRS, the company is now carrying the value of investments in subsidiaries at cost as shown under investments. These investments have not been impaired by virtue of the fair presentation override of the EU regulations. In adopting the fair presentation override, the directors have concluded that the financial statements present fairly the company's and the group's financial position, financial performance, and cash flows and they acknowledge that they have complied with applicable standards and interpretations, except with regard to IAS 27. The company has departed from this standard by showing the cost of investments in acquired companies under investments on the balance sheet, rather than purchased goodwill, despite the fact that the trade in the acquired companies has been hived up to the parent company. Showing these balances on the company balance sheet as purchased goodwill would be misleading as the goodwill arises on consolidation due to the use of the purchase method of accounting and is not purchased goodwill. The financial impact of the departure is to show £11,748,020 under investments (2005: £6,652,863) rather than under goodwill on the face of the company balance sheet. The departure from the standard only impacts the company balance sheet and has no impact on the consolidated balance sheet or any of the other financial statements.

> NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of ILX Group plc will be held at One London Wall, London EC2Y 5AB on 11 August 2006 at 10 am for the following purposes:

> ORDINARY BUSINESS

1. To receive and adopt the report of the directors and the accounts for the financial year ended 31 March 2006 together with the independent auditors' report thereon.

2. To receive the report to the shareholders on directors' remuneration for the year ended 31 March 2006.

3. To re-elect J A Pickles, who retires by rotation, as a director of the company.

4. To re-appoint Saffery Champness as auditors of the company and to authorise the directors to fix their remuneration.

5. To declare a final dividend of 0.75 pence per ordinary share for the financial year ended 31 March 2006 (See note 4).

Registered office

One London Wall
London EC2Y 5AB

On behalf of the board
Jon Pickles
Director

21 June 2006

> NOTES

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the company.

2. A form of proxy is provided with this notice and instructions for its use shown on the form. To be valid, completed forms must be received at the office of the company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not less than 48 hours before the time fixed for the meeting. Deposit of the form of proxy will not prevent a member from attending the meeting and voting in person.

3. The following documents will be available for inspection during normal business hours on any weekday (public holidays excepted) at the registered office of the company from the date of this notice until the date of the meeting, and at the meeting from 15 minutes prior to its commencement and until it ends:
   (a) copies of director's service contracts with the company
   (b) the register of directors' interests in the share capital of the company

4. The final dividend is proposed to be paid out to all ordinary shareholders listed on the company's register of members on 30 June 2006.

Please complete in BLOCK CAPITALS

I/We (FULL NAME(S))

of

(FULL ADDRESS)

being (a) member(s) of the above named company, hereby appoint the chairman of the meeting (see Note 1) or in place of him

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the company to be held at One London Wall, London EC2Y 5AB at 10 a.m. on 11 August 2006 and at any adjournment thereof.

Please indicate, by inserting a cross in the appropriate box, how you wish your vote to be cast on the resolution mentioned. If you sign this form and return it without any specific directions your proxy will vote or abstain at his discretion on the resolution to be proposed as he will upon any other motion arising at the meeting. This proxy will be used only in the event of a poll being directed or demanded.

I/We instruct the proxy to vote on the following resolutions as follows:

	For	**Against**
1. To receive and adopt the report of the directors and the audited accounts for the financial year ended 31st March 2006.		
2. To receive the report to the shareholders on directors' remuneration for the year ended 31st March 2006.		
3. To re-elect J A Pickles as a director of the company.		
4. To re-appoint Saffery Champness as auditors of the company and to authorise the directors to fix their remuneration.		
5. To declare a dividend of 0.75 pence per ordinary share.		

Dated: Signature:

> Notes:

A member is entitled to appoint one or more proxies to attend and, on a poll, vote in his place. If you wish to appoint a proxy other than the chairman of the meeting delete the words "the chairman of the meeting" and insert the name and address of the person you wish to appoint as your proxy in the space provided. A proxy, who need not be a member of the company, must attend the meeting in person to represent you. Any alteration to the form should be initialled.

To be effective, this form must be completed and deposited at the office of the company's registrars, Capital Registrars plc, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, with the power of attorney or other authority (if any) under which it is signed, or a copy of such authority certified notarially, not less than 48 hours before the appointed time of the meeting or any adjournment thereof.

In the case of a corporation, this form should be executed under the hand of an officer or attorney or other person so authorised. In all other cases, this form must be executed by the appointor or his duly authorised attorney in writing.

In the case of joint holders any one may sign this proxy, but the vote of the senior who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders. Seniority is determined by the order in which the names stand in the register. The names of all joint holders should be shown.

Use of this form of proxy does not preclude a member from attending the meeting and voting in person.

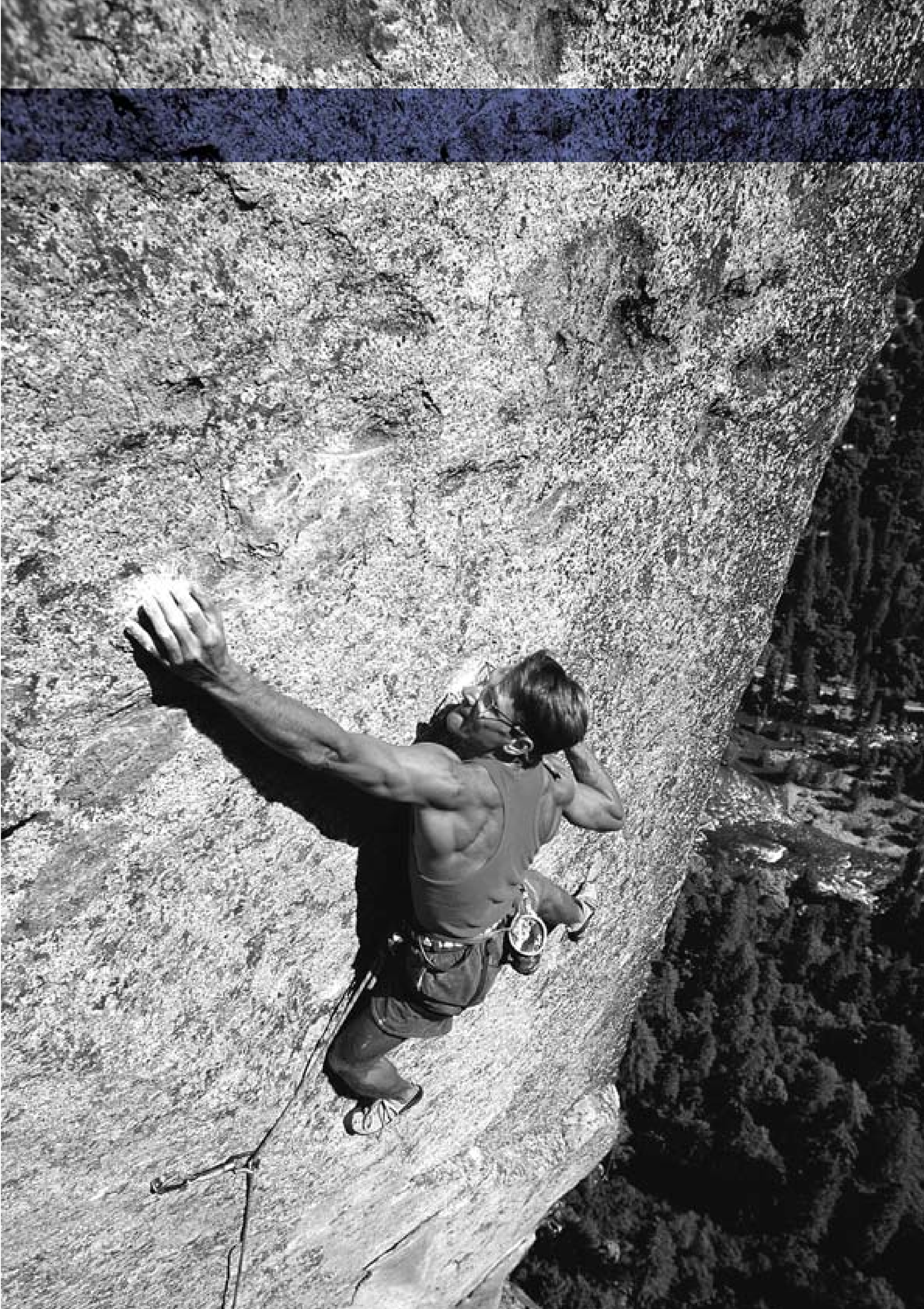
Third fold and tuck in

BUSINESS REPLY SERVICE
Licence No. MB122

First fold

Capita Registrars
The Registry
34 Beckenham Road
BECKENHAM
Kent BR3 4BR

Second fold




www.ilxgroup.com