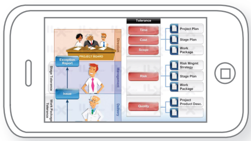
Half Yearly Report 2011

Transforming the way people learn

CLASSROOM | E-LEARNING | MOBILE | CONSULTING | GLOBAL

Our vision is to transform the way the world learns



ILX Group creates engaging learning experiences, which are delivered to consumers and corporate clients across the world.

We create both formal and informal learning products, including interactive multimedia e-learning, games, simulations and mobile apps, as well as employ innovative software applications and other technology in the classroom.

Contents

Our Performance

The results are excellent given the prevailing economic climate worldwide. We have continued to grow internationally with 44% of Group revenue now generated outside the UK. The domestic market is challenging but the business remains strong and profitable.

The changes made over the past year have produced a more focused, scalable business that has the potential to show accelerated growth in the coming period.

Ken Scott, Chief Executive

+69%

Profit before tax
£0.115 million

Corporate Highlights

- International revenues more than doubled
- Particularly strong growth in Australasia
- UK marketplace challenging but pipeline remains solid
- Continued trend towards rising software sales
- Reclassification under 'Software' by London Stock Exchange

Financial Highlights

- Revenue up 7% to £5.906 million (6 months to 30 September 2010: £5.532 million)
- Gross margins increased to 56% (6 months to 30 September 2010: 52%)
- Gross profit increased 16% to £3.324 million (6 months to 30 September 2010: £2.871 million)
- Profit before tax £0.115 million (6 months to 30 September 2010: £0.068 million)
- Diluted earnings per share 0.41p (6 months to 30 September 2010: 0.29p)
- Improved and extended bank facilities agreed post period end

All comparative figures are from continuing operations.

Chairman's Statement

for the six months ended 30 September 2011

I am pleased to present the unaudited interim results for the six months ended 30 September 2011.

The period has been one of contrasting opportunities and challenges for the domestic and international marketplace. Within the UK, business conditions remain uncertain; whilst software sales have remained steady, classroom sales have slowed significantly. On the other hand, outside the UK, we are seeing some exciting growth, particularly within Australasia where revenues have increased more than threefold.

Together the business has shown steady growth and we are confident in delivering a strong result for the full year.

International Division

Turnover rose 105% to £2.429 million (six months to 30 September 2010: £1.183 million), with divisional contribution to profits increasing to £0.771 million (2010: £0.232 million).

The growth in business came mainly from Australasia where revenues have increased more than three times over the comparative period. Growth was also strong in Europe at 30%, with a Danish subsidiary starting trading at the beginning of the year. The third most significant area for the division, the Middle East, saw 8% growth with a number of significant contracts won in Oman.

The largest contract won by the International Division in the period was for NZ$0.5 million (£0.25 million) for the delivery of PRINCE2 Project Management and related e-learning, together with in-house and public classroom courses to the New Zealand Defence Force (NZDF). Less than 20% of this contract was included in the interim results with the remainder expected to be delivered in future months. The principles of this contract have been extended by the New Zealand government to support an "All of Government" approach for contract management. NZDF plans to syndicate the ILX contract to other government agencies which are adopting PRINCE2.

Although the type of business varies substantially from region to region – for example sales in Australia are almost entirely software, whereas Middle East revenues are largely classroom and consultancy – the International division as a whole is more software focused than the UK, with software making up 67% of International revenues. This software element has increased over the figure for the comparative period (2010: 59%) and the resultant trend is increasing gross margins within the International division.

There remain substantial opportunities for this division in the second half of the year and beyond, both by investing in these existing established geographic territories and in opening up new markets. The addition to the management team of Neil Sentance, as Head of International, will enable us to take our international presence to the next level. Neil was previously Director of Business Development for Nokia and subsequently VP, Wireless Business Development for Monitise plc.

UK Division

Despite the prevailing economic conditions, this division has won some significant contracts. The Board is confident that the division will meet its revenue targets for the full year.

During the period, the division won the largest contract in its history; a cross-

UK Government framework contract to provide a mentoring service to 'Senior Responsible Owners' who have the role of leading major change initiatives across the Public Sector. The programme will mean that specific training is given to ensure efficient implementation of multi-million pound expenditure programmes across the various departments. The major portion of this contract is expected to be delivered in the second half of this financial year.

Turnover fell by 20% to £3.376 million (six months to 30 September 2010: £4.246 million), with divisional contribution to profits falling to £0.632 million (2010: £0.941 million).

Software sales, which make up 48% of turnover (2010: 40%) for the UK division, remained steady, with the fall in revenue coming from the lower margin classroom revenues. As a result, gross margins within the UK division have also increased slightly.

The Finance e-learning division, which is managed within the UK division, saw steady revenues of £0.101 million (six months to 30 September 2010: £0.103 million), with divisional contribution to profits increasing to £0.054 million (2010: £0.014 million).

Although the market remains difficult, the UK division secured both new and repeat business from Government and Blue Chip companies which augers well for the future.

Consolidated Financial Results

The Group has delivered a 7% increase in revenue to £5.906 million (six months to 30 September 2010: £5.532 million, from continuing operations). Within this our software sales have increased by 34%, and these now make up 56% of revenue (2010: 45%). This change has driven an increase in gross margins from 52% to 56%, resulting in growth at the gross profit level of 16%.

The Group has invested in additional marketing in the period, with the addition of Mel Scott-Taylor, who joined the executive team in April as Chief Marketing Officer. Mel was previously at the Disney Channel where she was responsible for marketing across Central and Eastern Europe. Following Mel's appointment, a central marketing team has been established to co-ordinate efforts across the business. Principally as a result of this investment in marketing, unallocated central costs increased by 22%.

Operating profit for the period increased to £0.262 million (2010: £0.211 million, from continuing operations). Our interest cost for the period was to £0.147 million (2010: £0.141 million), and profit before tax was £0.115 million (2010: £0.068 million, from continuing operations).

The comparative figures for the period have been restated to reflect the loss from discontinued items in the previous period (£10.461 million). There were no further items relating to discontinued items in the period ended 30 September 2011.

Basic earnings per share were 0.43p (2010: 0.30p, from continuing operations) and diluted earnings per share 0.41p (2010: 0.29p, from continuing operations).

The Board expects the group to remain strongly second half weighted, with software sales in particular having shown a long-term consistent bias towards the second half driven by year end customer purchasing.

The Group delivered positive cash flow from operating activities of £0.603 million (2010: £0.622 million, from continuing operations). Net debt continues to reduce, down to £1.722 million at 30 September 2011 (at 30 September 2010: £3.688 million and at 31 March 2011: £1.886 million). The debt repayment of £1.05 million during the period comprises payments of £0.50 million reducing term debt and the repayment of £0.55 million drawn down on our revolving credit facility with Barclays which expired at the end of September.

Post period, the Group refinanced its debt at far more advantageous rates with HSBC and I will cover this and the implications in the section below.

Refinancing

At the balance sheet date, the Group's outstanding loans with Barclays Bank were as follows: a £1.8 million term loan, amortising over a further 2 year period, at an interest rate of 6% over LIBOR, and a £0.3 million bullet term loan, repayable September 2013, at an interest rate of 12% over LIBOR.

These loans were refinanced during October with HSBC and were replaced by a £2.0 million term loan, amortising over a 3 year period, at an interest rate of 3.3% over base rate. In addition, a 2-year revolving credit facility of £2.0 million has been made available to finance working capital and expansion.

The refinance will result in a one-off non-cash charge to profits in relation to previously paid arrangement fees for the Barclays loans, which were being spread over the period of those loans. However the Group will see the benefit of substantially reduced finance costs in the next financial year.

Although the facilities have been extended, the Group remains committed in the short term to reducing its net debt position.

Dividend

The Group's dividend payment for the year ended 31 March 2011, restored at 1.5p per share, was paid to shareholders post period during October following shareholder approval at the AGM in September. As in previous years the Group does not intend to declare an interim dividend but remains committed to maintaining an annual dividend.

Summary

Given the economic challenges worldwide, I believe these results remain highly creditable. Our strategies of focusing on software sales, and international expansion, are bearing fruit.

At the same time as growing the business we have in the last 6 months started to put in place building blocks, including investment in marketing, new technology and senior management, to provide a strong platform for sustained growth.

Whilst there remains much to do in the second half we remain confident in meeting our full year expectations and in continuing to deliver strong growth.

Paul Lever
Chairman
21 November 2011

Independent Review Report

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2011 which comprises specifically the primary financial statements and the related explanatory notes that have been reviewed. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the AIM (the market of that name operated by the London Stock Exchange) Rules for Companies. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rulebook for Companies.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM Rulebook for Companies.

Saffery Champness
Chartered Accountants

Beaufort House
2 Beaufort Road
Clifton
Bristol
BS8 2AE

21 November 2011

Consolidated Statement of Comprehensive Income

for the six months ended 30 September 2011

	Notes	Six months ended 30.9.2011 Unaudited £'000	Six months ended 30.9.2010 Restated and Unaudited £'000	Year ended 31.3.2011 Audited £'000
Revenue		5,906	5,532	12,886
Cost of sales		(2,582)	(2,661)	(5,768)
Gross profit		3,324	2,871	7,118
Administrative and distribution expenses		(3,025)	(2,618)	(5,303)
Earnings before interest, tax and depreciation		299	253	1,815
Depreciation		(37)	(42)	(82)
Operating profit		262	211	1,733
Finance costs		(147)	(143)	(311)
Profit before tax		115	68	1,422
Tax expense		–	–	(396)
Profit for the year from continuing operations		115	68	1,026
Loss from discontinued operations	4	–	(10,459)	(10,478)
Profit/(loss) for the year attributable to equity shareholders		115	(10,391)	(9,452)
Other comprehensive income		–	–	–
Total comprehensive income		115	(10,391)	(9,452)
Earnings/(loss) per share	5			
From continuing operations:				
Basic		0.43p	0.29p	4.14p
Diluted		0.41p	0.29p	4.06p
From discontinued operations:				
Basic		–	(44.38p)	(42.30p)
Diluted		–	(43.98p)	(41.48p)

Consolidated Statement of Financial Position

as at 30 September 2011

	Notes	As at 30.9.2011 Unaudited £'000	As at 30.9.2010 Unaudited £'000	As at 31.3.2011 Audited £'000
Assets				
Non-current assets				
Property, plant and equipment		163	122	95
Intangible assets		9,799	9,385	9,618
Total non-current assets		9,962	9,507	9,713
Current assets				
Trade and other receivables		2,176	2,804	3,009
Cash and cash equivalents		379	466	1,265
Total current assets		2,555	3,270	4,274
Total assets		12,517	12,777	13,987
Current liabilities				
Trade and other payables		(2,880)	(2,754)	(3,234)
Contingent consideration		(35)	(35)	(35)
Tax liabilities		(773)	(988)	(995)
Bank loans and overdrafts		(800)	(1,750)	(1,350)
Total current liabilities		(4,488)	(5,527)	(5,614)
Non-current liabilities				
Derivative financial instruments		(10)	(77)	(35)
Contingent consideration		(280)	(289)	(287)
Bank loans		(1,301)	(2,404)	(1,801)
Total non-current liabilities		(1,591)	(2,770)	(2,123)
Total liabilities		(6,079)	(8,297)	(7,737)
Net assets		6,438	4,480	6,250
Equity				
Issued share capital		2,697	2,357	2,697
Share premium		–	12,341	–
Own shares in trust	7	(1,852)	(1,852)	(1,852)
Share option reserve		375	260	317
Retained earnings		5,231	(8,626)	5,116
Exchange differences arising on consolidation		(13)	–	(28)
Total equity		6,438	4,480	6,250

The financial statements were approved by the board of directors and authorised for issue on 21 November 2011.

Consolidated Cash Flow Statement

for the six months ended 30 September 2011

	Six months ended 30.9.2011 Unaudited £'000	Six months ended 30.9.2010 Restated and Unaudited £'000	Year ended 31.3.2011 Audited £'000
Profit from continuing operations	262	211	1,733
Adjustments for:			
Depreciation	37	42	82
Share option charge	57	56	118
Movement in trade and other receivables	749	808	(188)
Movement in trade and other payables	(502)	(495)	71
Cash generated from continuing operating activities	603	622	1,816
Tax paid	(3)	–	(183)
Net cash generated from continuing operating activities	600	622	1,633
Net cash used by discontinued operating activities	(24)	(565)	(146)
Net cash generated from operating activities	576	57	1,487
Investing activities			
Proceeds on disposal of property and equipment	–	–	1
Purchases of property and equipment	(106)	(48)	(53)
Expenditure on product development	(189)	(240)	(477)
Acquisition of subsidiaries (net of cash acquired)	–	–	(9)
Net cash used by investing activities	(295)	(288)	(538)
Financing activities			
(Decrease)/increase in borrowings	(1,050)	629	(373)
Net proceeds of share issue	–	–	842
Outflow relating to capital restructure	–	–	(34)
Interest and refinancing costs paid	(132)	(306)	(454)
Net cash from financing activities	(1,182)	323	(19)
Net change in cash and cash equivalents	(901)	92	930
Exchange differences on consolidation	15	11	(28)
Cash and cash equivalents at start of period	1,265	363	363
Cash and cash equivalents at end of period	379	466	1,265

Consolidated Statement of Changes in Equity

for the six months ended 30 September 2011

	Six months ended 30.9.2011 Unaudited £'000	Six months ended 30.9.2010 Unaudited £'000	Year ended 31.3.2011 Audited £'000
Balance at start of period	6,250	14,804	14,804
Comprehensive income	115	(10,391)	(9,452)
Transactions with owners			
Exchange differences on consolidation	15	11	(28)
Options granted	58	56	118
Share Issue	–	–	900
Costs relating to share issue	–	–	(58)
Costs relating to capital restructure	–	–	(34)
Balance at end of period	6,438	4,480	6,250

Notes to the Interim Report

for the six months ended 30 September 2011

1. The financial information contained in the Interim Report does not constitute statutory accounts as defined by the Companies Act 2006. The Interim Report is in compliance with International Accounting Standard 34 (Interim Financial Reporting). The comparative figures for the year ended 31 March 2011 were derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. Those accounts received an unqualified audit report which did not contain statements under sections 498(2) or (3) (accounting record or returns inadequate, accounts not agreeing with records and returns or failure to obtain necessary information and explanations) of the Companies Act 2006.

   It should be noted that accounting estimates and assumptions are used in preparation of the interim financial information. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the interim financial information, are set out in note 2 to the interim financial information.

2. The key estimates and judgements made by management are detailed below:

   ### 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. It is considered to have an indefinite useful economic life as there are no legal, regulatory, contractual, or other limitations on its life. Goodwill is therefore capitalised and is subject to annual impairment reviews in accordance with applicable accounting standards.

   ### Research and development

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

Capitalised product development expenditure is considered to have an indefinite economic life and is subject to regular impairment reviews, based on the continued sales and profitability of the products developed. It is stated at cost less any accumulated impairment losses. Any permanent impairment taken during the year is shown under amortisation on the statement of comprehensive income. These assets have been reviewed for indications of impairment at the balance sheet date.

3. The interim financial statements have been prepared on the basis of the accounting policies set out in the March 2011 financial statements of ILX Group Plc.

4. The results of the Corporate Training Group (CTG), which was closed during the last financial year, were included in the consolidated statement of comprehensive income for that year as loss from discontinued items in accordance with IFRS 5. A breakdown of these results is as follows:

	Six months ended 30.9.2011 Unaudited £'000	Six months ended 30.9.2010 Unaudited £'000	Year ended 31.3.2011 Audited £'000
Revenue	–	1,103	1,431
Cost of sales and administrative expenses	–	(1,206)	(1,653)
Loss before interest, tax and depreciation	–	(103)	(222)
Depreciation	–	(5)	(11)
Impairment	–	(10,351)	(10,351)
Loss before tax	–	(10,459)	(10,584)
Tax	–	–	106
Loss for the year from discontinued operations	–	(10,459)	(10,478)

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

Diluted earnings per share is adjusted for outstanding share options and the average option price, using an average interest saving of 4.0% (6 months ended 30 September 2010: 8.0%).

	Six months ended 30.9.2011 Unaudited £'000	Six months ended 30.9.2010 Unaudited £'000	Year ended 31.3.2011 Audited £'000
Profit/(loss) for the year attributable to equity shareholders	115	(10,391)	(9,452)
Weighted average shares	26,972,580	23,567,352	24,768,797
Outstanding share options	884,049	211,500	492,250
Weighted average shares for diluted earnings per share	28,231,129	23,778,852	25,261,047
Basic earnings/(loss) per share	0.43p	(44.09p)	(38.16p)
Diluted earnings/(loss) per share	0.41p	(43.69p)	(37.42p)

From continuing operations	Six months ended 30.9.2011 £'000	Six months ended 30.9.2010 £'000	Year ended 31.3.2011 £'000
Profit for the year from continuing operations	115	68	1,026
Basic earnings per share	0.43p	0.29p	4.14p
Diluted earnings per share	0.41p	0.29p	4.06p

From discontinued operations	Six months ended 30.9.2011 £'000	Six months ended 30.9.2010 £'000	Year ended 31.3.2011 £'000
Loss from discontinued operations	–	(10,459)	(10,478)
Basic loss per share	–	(44.38p)	(42.30p)
Diluted loss per share	–	(43.98p)	(41.48p)

6. In accordance with IFRS 8, the Group presents its segmental analysis in terms of its three operating divisions, UK Best Practice, International Best Practice and Finance e-Learning. The analysis of revenue and profit by division for the period, and restated for prior periods, is as follows:

	Six months ended 30.9.2011		Six months ended 30.9.2010		Year ended 31.3.2010	
	Revenue £'000	Profit £'000	Revenue £'000	Profit £'000	Revenue £'000	Profit £'000
UK Best Practice division	3,376	632	4,246	941	9,309	2,634
International division	2,429	771	1,183	232	3,235	876
Finance e-Learning division	101	54	103	14	342	113
Unallocated central costs	–	(1,195)	–	(976)	–	(1,890)
Continuing operations	5,906	262	5,532	211	12,886	1,733
Interest		(147)		(143)		(311)
Profit before tax from continuing operations		115		68		1,422

Unallocated central costs include the costs of central functions where these are not allocated or apportioned directly to the divisions, together with Board and AIM related costs.

In addition, revenues by geographic region were as follows:

Continuing	Six months ended 30.9.2011 £'000	Six months ended 30.9.2011 %	Six months ended 30.9.2010 £'000	Six months ended 30.9.2010 %	Year ended 31.3.2011 £'000	Year ended 31.3.2011 %
UK & Ireland	3,281	55.6	3,996	72.2	9,005	69.9
Australasia	1,213	20.5	369	6.7	1,191	9.2
Europe & Scandinavia	593	10.0	455	8.2	1,144	8.9
Middle East	411	7.0	379	6.9	808	6.3
Americas	142	2.4	159	2.9	352	2.7
Africa	230	3.9	122	2.2	309	2.4
Asia	36	0.6	52	0.9	77	0.6
	5,906	100.0	5,532	100.0	12,886	100.0

Discontinued	Six months ended 30.9.2011 £'000	Six months ended 30.9.2011 %	Six months ended 30.9.2010 £'000	Six months ended 30.9.2010 %	Year ended 31.3.2011 £'000	Year ended 31.3.2011 %
UK & Ireland	–	–	659	59.7	816	57.0
Australasia	–	–	–	–	–	–
Europe & Scandinavia	–	–	315	28.6	376	26.3
Middle East	–	–	41	3.7	96	6.7
Americas	–	–	88	8.0	143	10.0
Africa	–	–	–	–	–	–
Asia	–	–	–	–	–	–
	–	–	1,103	100.0	1,431	100.0

UK Best Practice Division revenues are slightly higher than UK & Ireland revenues as they contain some revenues relating to multinational customers with bases both in and outside of the UK and Ireland.

7. At the balance sheet date the company held 1,930,891 of its own ordinary shares in a trust, administered by Investec Trust Jersey Ltd. The shares are held in trust and represented 7.2% of the total called up share capital. They will be utilised as required to satisfy share options granted to directors and other senior management on vesting and exercise.

8. The group has a related party relationship with its subsidiaries, its directors, and other employees of the group with management responsibility. There were no transactions with these parties during the period outside the usual course of business. There were no transactions with any other related parties.

Statutory and Other Information

Directors
P R S Lever (Non-executive Chairman)
K P Scott (Chief Executive Officer)
J A Pickles (Chief Financial Officer)
E J Kilkelly (Chief Operating Officer)
P Virik (Non-executive Director)
C Allner (Non-executive Director)

Secretary
Maclay Murray and Spens LLP

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