ILX GROUP

Leading the Way in Learning

Interim Results for the six months ended 30 September 2010

Our vision is to transform the way the world learns

Our aim is to make learning fun and effective.

We do this through the development of a range of software products which include interactive multimedia e-learning, games, and simulations. These are delivered as distance learning, as on-line learning, on hand-held devices such as the iPhone, and as a complement to more traditional tutor-led events.

Contents

Highlights

Corporate highlights

- Financial classroom training to cease from 31 December 2010 with the closure of CTG
- UK revenues remain robust
- Strong growth in International revenues, particularly Australia and Middle East
- Best Practice revenues continue to grow
- ILX remains global market leader in PRINCE2® training

Post Period

- Further investment post results from Octopus
- New Director to be appointed

Financial highlights

- Results affected by decline and closure of CTG
- Revenue of £6.635 million (6 months to 30 September 2009: £7.397 million)
- Loss before tax and exceptional items £0.087 million
(6 months to 30 September 2009: profit of £0.491 million)
- Write-down of £10.35 million in goodwill and intangible assets relating to CTG
- Adjusted fully diluted loss per share 0.26p (6 months to 30 September 2009: earnings of 1.76p)
- £900,000 new investment secured from Octopus Capital For Enterprise Fund at 26.5p per share

"The results are overshadowed by the effects of the closure of CTG, but the performance of the remainder of the business remains encouraging. Business is holding up domestically and combined with further strong growth internationally we are confident of meeting market expectation and restoring the dividend payment.

We are delighted with the new investment from the Octopus Capital for Enterprise fund secured at 26.5 pence per share, and look forward to welcoming Chris Allner to the Board as Non-Executive Director.

The changes have left a truly focused, scalable business that has delivered strong results over the years and offers huge potential going forward, particularly overseas."

Ken Scott, Chief Executive, ILX Group Plc

I am pleased to present the unaudited interim results for the six months ended 30 September 2010.

The period showed steady growth in the Best Practice Division which was offset by the continued decline in CTG, of which we have announced the closure. Despite this we expect a positive outcome for the year, in line with expectations.

The financial results for the period are significantly affected by the decline and the planned closure of CTG, the larger part of the Group's Financial Training Division, and to aid a full understanding of the figures I will address this division first.

Finance Training Division

The Finance Division delivered revenues in the period of £1.206 million (2009: £2.424 million), and a loss, before exceptional impairment charges, of £0.132 million (2009: profit of £0.657 million). This was due to the further decline in CTG revenues which led ultimately to the decision to close this business with effect from 31 December 2010, following an agreement reached with another training provider to deliver any remaining programmes after that date and to work with clients going forward, for a largely contingent fee. The decision to close the business has also given rise to an exceptional write-down of goodwill and other intangible assets totalling £10.35 million.

CTG contributed a loss of £0.286 million in the second half of the last financial year and its closure, which will be achieved at or close to break-even, will therefore deliver a boost to our second half results. More importantly, it will allow the business to focus on its core strength of scalable e-learning software.

The remaining part of the Finance Division, the e-learning software covering principally Finance for Non-Financial Managers, continues to deliver steady revenues and profits and has a strong pipeline over the coming months. However, we do expect to integrate it within the remainder of the business with effect from the next financial year.

Best Practice Division (Global)

The Best Practice Division, on which we will now focus, continues to grow and to offer significant opportunities for sustained growth. It delivered revenues of £5.429 million (2009: £4.973 million) and an operating profit of £0.671 million (2009: £0.608 million). We are pleased to have delivered 9% top line growth and a small increase in operating margins despite an increasingly competitive environment and tough trading conditions in the UK.

The growth has been delivered primarily by our International division, which has seen revenues increase 55% to £1.180 million (2009: £0.760 million), now representing 22% of Best Practice revenues (2009: 15%). This has been driven in particular by the establishment of an Australian subsidiary and some major contract wins in the Middle East. Further growth in the second half of the year is expected following the establishment of an office in Copenhagen to accelerate our growth into the Nordic regions. We will continue to expand internationally where the evidence, in the form of both market intelligence and export sales, suggests that demand is strong. We fully expect that international sales will start to exceed UK sales within the next five years.

Revenues within the UK have remained largely flat at £4.249 million (2009: £4.212 million). Trading conditions have been tough but our strong sales team, our unrivalled e-learning products, and market-leading position in PRINCE2® have all helped to maintain sales. The roll out of newer product lines in ISO20000 and Software Testing qualifications provides additional opportunities for the second half, and whilst we are prepared for a decline in public sector spending (although broadly spread, approximately 20% of Group revenues are derived from UK Public Sector), our e-learning offer, which continues to deliver exceptional examination pass-rates, provides an opportunity for customers to increase value for money.

Consolidated Financial Results

For the full year, the results of CTG will be shown separately on the face of the Consolidated Statement of Comprehensive Income as a discontinued business stream; however as the business will not formally close until 31 December, these results are included within Underlying Results, with the impairment charge shown under Exceptional Items.

In addition to the results achieved and described above, the Group achieved a 28% cut in central costs, which fell to £0.436 million (2009: £0.605 million).

The consolidation of this and the divisional results gave revenue for the period of £6.635 million (2009: £7.397 million), and an operating profit before interest, tax and exceptional items of £0.103 million (2009: £0.660 million).

Our interest cost for the period rose to £0.190 million (2009: £0.169 million) principally as a result of the change in interest rates imposed by the Bank when the Group took advantage of a payment holiday last financial year.

After interest, the Group delivered a loss before tax and exceptional items of £0.087 million (2009: profit of £0.491 million). Adjusted fully diluted loss per share was 0.26p (2009: earnings of 1.76p). Prior to the acquisition of CTG in 2006, the Group's results were always strongly weighted towards the second half of the year and given the decline in this part of the Group we expect the business to return to this seasonal profile for the next two years at least.

After the exceptional impairment charge in the period totalling £10.35 million, and a £0.047 million credit as a result of the six-monthly revaluation of our interest rate SWAP (covered in Note 4 to this Interim Statement), the Group delivered a Retained Loss of £10.391 million (2009: profit of £0.186 million).

The Group delivered a small positive cash flow from operating activities in the period of £0.068 million (2009: £0.751 million). Net debt increased during the period to £3.688 million (at 31 March 2010, £3.163 million; at 30 September 2009, £4.334 million). The Group refinanced its debt with effect from 30 September 2010 in order to provide facilities more suitable to fund the International growth and to provide additional headroom.

Further to this refinance, after the balance sheet date, the Group has secured an investment of £900,000 from Octopus Capital for Enterprise Fund at 26.5p per share, which further strengthens the balance sheet. After this investment the Octopus Capital for Enterprise Fund now holds 20% of our issued share capital and I would like to welcome Chris Allner of Octopus who will join the Board as a Non-Executive Director.

Dividend

As previously announced, the payment of a dividend for the year ended 31 March 2010 was, regrettably, cancelled as part of the bank refinancing. As in previous years the Group does not intend to declare an interim dividend but remains committed to re-establishing an annual dividend.

Summary

The decline and closure of CTG has been difficult for the business and it is a decision that was taken with regret. Nevertheless, it leaves a leaner and more focused business, based around e-learning software, which has delivered strong results over a long period. The Group has applied for Stock Exchange reclassification from professional services to software to better reflect what we do and to better highlight the scalability we have as a software business. This is expected to take effect from December.

The business today is based primarily around the technical capability of the original Intellexis business and the revenue streams from the two acquisitions, Key Skills and Mindscope, which were made during 2004 and which launched ILX Group into the Best Practice marketplace. The latter two businesses delivered a combined revenue stream of just £2.0 million on acquisition but this has grown in excess of five times in the intervening years.

Despite challenging conditions in the UK, we remain confident in meeting full year market expectations and in delivering strong growth, particularly internationally, over the coming years.

Paul Lever
Chairman

24 November 2010

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 2010 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 London Stock Exchange Alternative Investment Market's (AIM) Rulebook 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 2010 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
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Bristol
BS8 2AE

24 November 2010

Consolidated Statement of Comprehensive Income for the six months ended 30 September 2010

	Notes			Six months ended 30 September 2010
		Underlying £'000	Exceptional £'000	Unaudited Total £'000
Revenue		6,635	–	6,635
Cost of sales		(3,627)	–	(3,627)
Gross profit		3,008	–	3,008
Administrative and distribution expenses		(2,858)	–	(2,858)
Earnings before interest, tax and depreciation		150	–	150
Depreciation		(47)	–	(47)
Impairment	4	–	(10,351)	(10,351)
Operating profit/(loss)		103	(10,351)	(10,248)
Finance income		–	–	–
Finance costs		(190)	47	(143)
Profit/(loss) before tax		(87)	(10,304)	(10,391)
Tax expense				–
Loss for the period attributable to equity shareholders				(10,391)
Other comprehensive income				–
Total comprehensive income				(10,391)
Earnings/(loss) per share:				
Basic	5			(44.09p)
Diluted	5			(43.69p)

Six months ended 30 September 2009 Underlying £'000	Six months ended 30 September 2009 Exceptional £'000	Six months ended 30 September 2009 Unaudited Total £'000	Year ended 31 March 2010 Underlying £'000	Year ended 31 March 2010 Exceptional £'000	Year ended 31 March 2010 Audited Total £'000
7,397	–	7,397	14,703	–	14,703
(3,889)	–	(3,889)	(7,827)	–	(7,827)
3,508	–	3,508	6,876	–	6,876
(2,788)	(271)	(3,059)	(5,310)	(359)	(5,669)
720	(271)	449	1,566	(359)	1,207
(60)	–	(60)	(114)	–	(114)
–	–	–	–	(2,290)	(2,290)
660	(271)	389	1,452	(2,649)	(1,197)
–	–	–	1	–	1
(169)	38	(131)	(385)	85	(300)
491	(233)	258	1,068	(2,564)	(1,496)
		(72)			(224)
		186			(1,720)
		–			–
		186			(1,720)
		0.96p			(8.45p)
		0.94p			(8.35p)

Consolidated Statement of Financial Position as at 30 September 2010

	Notes	As at 30 September 2010 Unaudited £'000	As at 30 September 2009 Unaudited £'000	As at 31 March 2010 Audited £'000
Assets				
Non-current assets				
Property, plant and equipment		122	159	135
Intangible assets		9,385	21,167	19,496
Total non-current assets		9,507	21,326	19,631
Current assets				
Trade and other receivables		2,804	3,241	2,916
Cash and cash equivalents		466	145	838
Total current assets		3,270	3,386	3,754
Total assets		12,777	24,712	23,385
Current liabilities				
Trade and other payables		(2,754)	(2,886)	(3,044)
Contingent consideration		(35)	–	(35)
Tax liabilities		(988)	(1,152)	(1,077)
Bank loans and overdrafts		(1,750)	(1,596)	(1,757)
Total current liabilities		(5,527)	(5,634)	(5,913)
Non-current liabilities				
Derivative financial instruments		(77)	(172)	(125)
Contingent consideration		(289)	–	(300)
Bank loans		(2,404)	(2,883)	(2,243)
Total non-current liabilities		(2,770)	(3,055)	(2,668)
Total liabilities		(8,297)	(8,689)	(8,581)
Net assets		4,480	16,023	14,804
Equity				
Issued share capital		2,357	1,939	2,357
Share premium		12,341	11,802	12,341
Own shares in trust	7	(1,852)	(1,825)	(1,852)
Share option reserve		260	189	204
Buyback reserve		–	1,178	–
Retained earnings		(8,626)	2,740	1,754
Total equity		4,480	16,023	14,804

The financial statements were approved by the Board of Directors and authorised for issue on 24 November 2010.

Consolidated Cash Flow Statement for the six months ended 30 September 2010

	Six months ended 30 September 2010 Unaudited £'000	Six months ended 30 September 2009 Unaudited £'000	Year ended 31 March 2010 Audited £'000
(Loss)/profit from operations	(10,248)	389	(1,197)
Adjustments for:			
Depreciation	47	60	114
Impairment	10,351	–	2,290
Share option charge	56	76	101
Movement in trade and other receivables	213	(10)	291
Movement in trade and other payables	(362)	231	429
Exchange differences on consolidation	11	5	–
Cash generated from operating activities	68	751	2,028
Tax paid	–	(13)	(274)
Net cash generated from operating activities	68	738	1,754
Investing activities			
Interest received	–	–	1
Proceeds on disposal of property and equipment	–	–	1
Purchases of property and equipment	(48)	(35)	(66)
Expenditure on product development	(240)	(161)	(441)
Acquisition of subsidiaries (net of cash acquired)	–	–	(4)
Net cash used by investing activities	(288)	(196)	(509)
Financing activities			
Increase/(decrease) in borrowings	629	(27)	(667)
Net proceeds of share issue	–	–	930
Interest and refinancing costs paid	(306)	(186)	(383)
Dividend paid	–	–	(263)
Net cash from financing activities	323	(213)	(383)
Net change in cash and cash equivalents	103	329	862
Cash and cash equivalents at start of period	363	(499)	(499)
Cash and cash equivalents at end of period	466	(170)	363
Cash and cash equivalents represented by:			
Bank overdraft	–	(315)	(475)
Cash at bank	466	145	838
	466	(170)	363

Consolidated Statement of Changes in Equity for the six months ended 30 September 2010

	Six months ended 30 September 2010 Unaudited £'000	Six months ended 30 September 2009 Unaudited £'000	Year ended 31 March 2010 Audited £'000
Balance at start of period	14,804	15,756	15,756
Comprehensive income	(10,391)	186	(1,720)
Transactions with owners			
Dividends paid	–	–	(263)
Options granted	56	76	101
Share issue	–	–	1,018
Scrip issue	–	–	10
Costs relating to share issue	–	–	(98)
Exchange differences arising on consolidation	11	5	–
Balance at end of period	4,480	16,023	14,804

Notes to the Interim Report for the six months ended 30 September 2010

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 2010 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.

   Acquired customer relationships
   The value of acquired customer relationships is determined by estimating the net present value of the future profits expected from the customer relationships. Where customer relationships relate to contracts covering a pre-determined period, the value is amortised over that period. Where the relationships have an indefinite life, the value is subject to annual impairment reviews in accordance with applicable accounting standards.

3. The interim financial statements have been prepared on the basis of the accounting policies set out in the March 2010 financial statements of ILX Group Plc.

4. The Group presents as exceptional items those material items of income, expenses, and other charges which, because of the nature or the expected infrequency of the events giving rise to them, merit separate presentation. This allows a better understanding of trading performance for the period.

During the period the Group incurred exceptional costs and charges totalling £10.35 million (2009: £0.271 million), as detailed below. These costs are shown separately on the face of the consolidated statement of comprehensive income, in line with the presentation adopted in the Group's most recent annual accounts.

In addition, included within finance costs for the period is a credit of £47,000 resulting from the revaluation of the Group's interest rate swap agreement (2009: credit of £38,000).

	Six months ended 30 September 2010 £'000	Six months ended 30 September 2009 £'000	Year ended 31 March 2010 £'000
Included within administrative expenses			
Restructuring costs	–	269	356
Loss on disposal of fixed assets	–	2	3
	–	271	359
Included within operating profit			
Impairment of intangibles	10,351	–	2,290
Included within finance costs			
Revaluation of interest rate derivative	(47)	(38)	(85)

5. The basic loss per share calculation is based on a weighted average number of ordinary shares of 10 pence each in issue during the period of 23,567,352 (2009: 19,390,762).

   To allow shareholders to gain a better understanding of the underlying trading performance of the Group, an adjusted earnings per share and adjusted diluted earnings per share has been calculated using an adjusted profit after taxation before post-taxation exceptional items.

	Six months ended 30 September 2010 £'000	**Six months ended 30 September 2009 £'000**	**Year ended 31 March 2010 £'000**
Post tax (loss)/profit for the period	(10,391)	186	(1,720)
After tax interest on outstanding options multiplied by exercise price	2	4	2
(Loss)/profit for diluted earnings per share	(10,389)	190	(1,718)

	£'000	**£'000**	**£'000**
Post tax (loss)/profit for the period	(10,391)	186	(1,720)
Add back actual tax charge	–	72	224
Strip out exceptional items	10,304	233	2,564
Normalised tax charge	24	(138)	(299)
(Loss) /profit for adjusted earnings per share	(63)	353	769

	£'000	**£'000**	**£'000**
(Loss)/profit for adjusted earnings per share	(63)	353	769
After tax interest on outstanding options multiplied by exercise price	2	4	2
(Loss)/profit for adjusted diluted earnings per share	(61)	357	771

	Number	**Number**	**Number**
Weighted average shares	23,567,352	19,390,762	20,360,949
Outstanding share options	211,500	902,250	211,500
Weighted average shares for diluted earnings per share	23,778,852	20,293,012	20,572,449

Basic (loss)/earnings per share	(44.09p)	0.96p	(8.45p)
Diluted (loss)/earnings per share	(43.69p)	0.94p	(8.35p)
Adjusted (loss)/earnings per share	(0.27p)	1.82p	3.78p
Adjusted diluted (loss)/earnings per share	(0.26p)	1.76p	3.75p

6. In accordance with IFRS8, the Group now presents its segmental analysis in terms of its two operating divisions, Best Practice and Finance, as opposed to one segment of supply of training and consultancy solutions. The analysis of revenue and profit by division for the period, and restated for prior periods, is as follows:

	Six months ended 30 September 2010		Six months ended 30 September 2009		Year ended 31 March 2010	
	Revenue £'000	Profit £'000	Revenue £'000	Profit £'000	Revenue £'000	Profit £'000
Best Practice Division	5,429	671	4,973	608	11,375	2,020
Finance Division	1,206	(132)	2,424	657	3,328	442
Unrecharged central costs	–	(436)	–	(605)	–	(1,010)
Continuing operations	6,635	103	7,397	660	14,703	1,452
Interest		(190)		(169)		(384)
Underlying (loss)/profit before tax		(87)		491		1,068
Exceptional items		(10,304)		(233)		(2,564)
Taxation		–		(72)		(224)
Retained (loss)/profit		(10,391)		186		(1,720)

In addition, revenues by geographic region were as follows:

	Six months ended 30 September 2010		Six months ended 30 September 2009		Year ended 31 March 2010	
	£'000	%	£'000	%	£'000	%
UK & Ireland	4,655	70.1	6,113	82.8	11,944	81.2
Europe & Scandinavia	775	11.7	587	7.9	1,205	8.2
Middle East	419	6.3	106	1.4	341	2.3
Australasia	371	5.6	142	1.9	362	2.5
Americas	251	3.8	224	3.0	435	3.0
Africa	103	1.6	157	2.1	310	2.1
Asia	61	0.9	68	0.9	106	0.7
	6,635	100.0	7,397	100.0	14,703	100.0

7. The Company holds 1,930,891 of its own ordinary shares in a trust, administered by Investec Trust Jersey Ltd. The shares are held in trust and represent 8.2% 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.

   Copies of these interim results will be sent to shareholders shortly and will also be available at the Company's registered office at 1 London Wall, London EC2Y 5AB and from the Group's website, www.ilxgroup.com, where this announcement is also reproduced.

Company Information

Directors
P R S Lever
(Chairman and Non-Executive Director)

K P Scott
(Chief Executive)

J A Pickles
(Finance Director)

P Virik
(Non-Executive Director)

Secretary
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