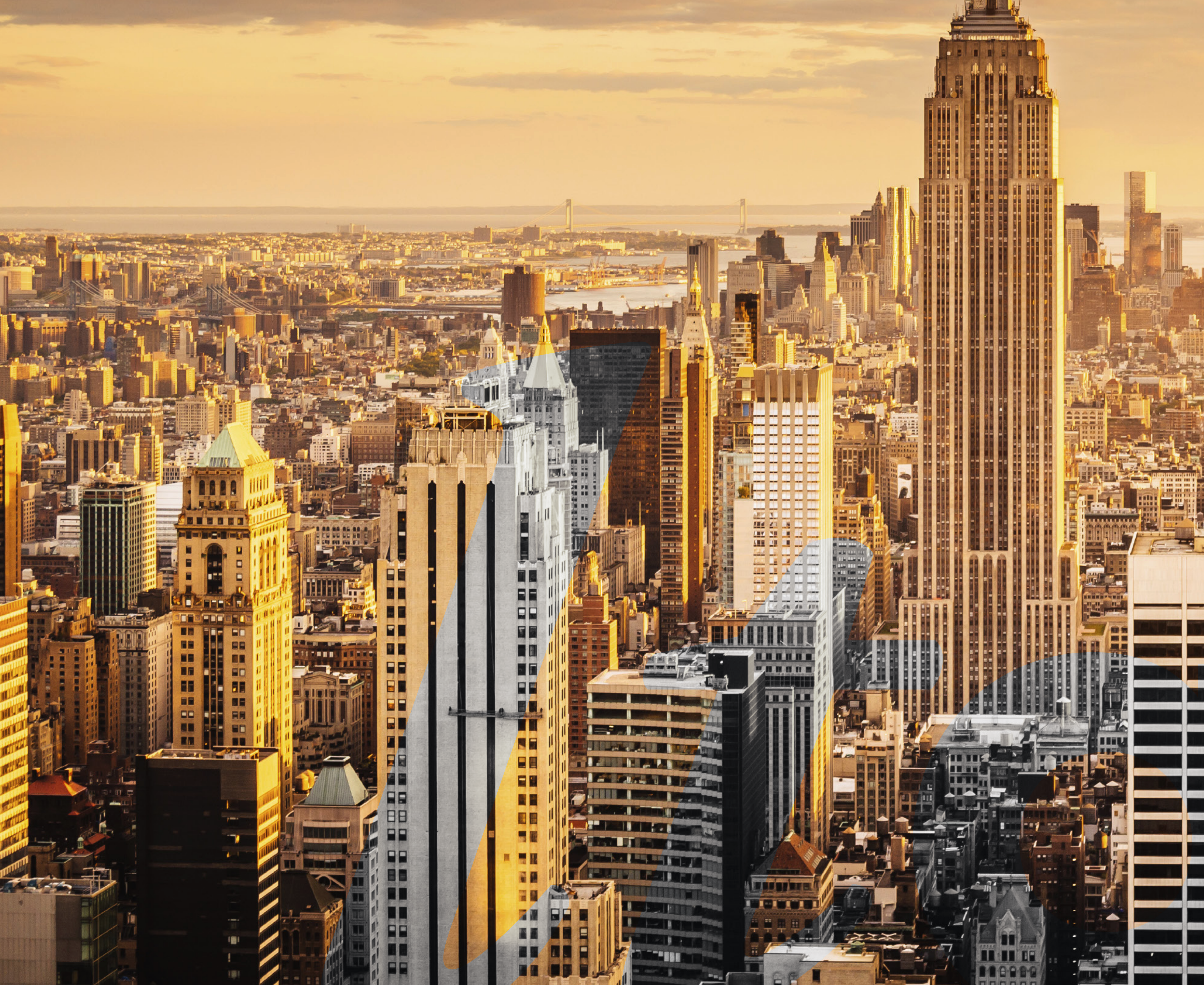
learning technologies group

Learning Technologies Group plc

Interim Report

for the six month period
to 30 June 2016



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Chairman's Statement

Introduction

LTG performed well in the first half, delivering substantial growth in revenue and profit and making excellent progress in its strategic ambition to build a diversified international business of scale, with revenues in excess of £50 million, through organic growth and acquisition. Margins continued to strengthen across our businesses and I am pleased to report that the Group's profit and earnings for H1 were in line with the Board's expectations.

In December 2015, we announced that LTG had won a landmark contract, alongside our strategic partner KPMG UK LLP, to design and deliver blended courses that incorporate a combination of digital, informal and classroom components for the UK Civil Service ('CSL'). A substantial number of learning components were created by LTG in H1 and the entire library will be delivered by the year-end. Revenues from this material contract will begin to accrue in Q4 2016 with the majority of returns expected in 2017 and 2018.

In January 2016, we announced the acquisition of Rustici Software LLC ('Rustici') in the US, the acknowledged global leader in digital learning interoperability, which enables online learning content and management systems to communicate and work together. The initial upfront acquisition cost of USD23.6 million was part funded by a USD20 million loan. Rustici has substantial recurring revenues and has performed ahead of the Board's expectations in the period under review.

At the same time, the Group acquired 27% of Watershed Systems Inc ('Watershed') for USD3 million. Watershed is developing a SaaS-based learning analytics capability, which evaluates the impact and effectiveness of learning programmes. Although this is in the early stages of development, Watershed is making tangible progress, signing up a number of global customers and generating compelling and objective insights into the effectiveness of e-learning interventions.

Results

In the six months ended 30 June 2016, revenues increased by 52% to £12.8 million (H1 2015: £8.4 million) and adjusted EBITDA grew by 145% to £3.2 million (H1 2015: £1.3 million), reflecting a 10 percentage point increase in adjusted EBITDA margins from 15.8% to 25.4%.

The increase in the adjusted EBITDA margin is a result of increased economies of scale, improved working practices, a favourable movement in currency exchange rates in H1 2016, equivalent to £96,000, and a change in the revenue mix of the Group towards higher margin licence revenues following the acquisition of Rustici. This margin improvement demonstrates LTG's ability to drive operational synergies in acquired businesses and we believe that these margin improvements are sustainable. Recurring licence fee and support contract revenues increased from 8% in H1 2015 to 25% in H1 2016.

Operating profit of £0.6 million (H1 2015: £0.3 million) is stated after amortisation of acquired intangibles, depreciation, various acquisition earnout charges, unrealised foreign exchange differences on borrowings, share based payments, share of losses on investments and integration costs. Following the acquisitions of Eukleia Training Limited ('Eukleia') and Rustici, amortisation of acquired intangibles increased to £1.5 million (H1 2015: £0.4 million). The net charge for the unrealised foreign exchange loss on the USD20 million loan taken out in January 2016 was £0.1 million (H1 2015: £nil).

A net tax credit of £0.5 million (H1 2015: £0.1 million) includes a release of deferred tax liabilities, created from acquired intangibles.

The Group reported a net profit of £0.4 million for the six months ended 30 June 2016 (H1 2015: £0.4 million).

The basic earnings per share in H1 2016 were 0.094 pence (H1 2015: 0.099 pence). Adjusted diluted earnings per share as set out in Note 5 increased by 108% to 0.483 pence (H1 2015: 0.232 pence).

Chairman's Statement (continued)

LTG maintained strong operating cash flows in the period. Operating cash outflows of £0.7 million (H1 2015: inflows of £0.5 million) are stated after the payment of the transaction bonus to Rustici employees of USD2.0 million (see Note 12) and upfront costs related to the CSL project.

As part of the financing of the Rustici acquisition the Group entered into a USD20 million term loan. The loan is amortised over five years and repayable in quarterly instalments with a final bullet payment in January 2019. Interest is payable based on USD LIBOR, plus a 2.0% margin and the loan is subject to various financial covenants.

Approximately 32% of LTG's business is undertaken for customers outside of the UK and a growing percentage of the Group's revenues are denominated in USD and Euros. Net USD cash inflows are used as an approximate internal hedge against the USD loan capital and interest repayments; therefore the business' overall exposure to exchange rate volatility is limited. At 30 June 2016 gross cash was £4.3 million and net debt was £9.9 million (31 December 2015: gross and net cash of £7.3 million).

Overall net assets increased to £31.1 million at 30 June 2016 (31 December 2015: £25.5 million) and shareholders' funds increased from 6.3 pence per share to 7.4 pence per share.

Operational Review

LTG has built on the operational successes of 2015 in the first half of the year by extending and deepening best working practices across the Group. Our aim is to deliver a first class experience to our customers every time, ensuring that our staff are optimally trained and work effectively. This focus on best practice has also improved margins across our businesses because we deliver the majority of our projects 'right first time', avoiding costly rework.

In LEO Learning ('LEO'), we have developed a greater focus on account management and market sector expertise; we are beginning to see the benefits of this approach, as we extend and strengthen our relationships with customers and move towards the delivery of a complete end-to-end solution. At Jaguar Land Rover, for example, LEO is working across multiple departments, including global dealer training, marketing, manufacturing, brand experience, and HR. Calling on the expertise of other LTG businesses when required, LEO is delivering a wide range of products and services, including electronic pocket guides, systems analysis, consulting, project leadership, video production, blended learning, virtual reality and even augmented reality. We are finding that this single account management strategy works especially well with a number of our key customers, who are aiming to reduce the number of their suppliers whilst retaining a broad range of capability and innovation.

LEO has invested substantially in developing the blended learning modules for the CSL project in the first half of the year. The size of the LEO contractor workforce has been increased rapidly and the management's initial focus on this landmark project has impacted moderately on the new business win rate elsewhere in LEO in H1 2016. As the project moved out of the initiation phase into production during Q2, we were able to apply more management resource to developing the sales pipeline and are already seeing renewed sales momentum in H2 2016. We anticipate that the production phase, and associated upfront investment, will be completed by the end of 2016. Revenues from the CSL project will begin to accrue in Q4 2016 before escalating from 2017 onwards.

In the US, we opened a production office in Bloomington, Indiana. The LEO US business had a slow start to the year but, alongside the appointment of a new Senior VP, LEO US has won some significant contracts and the prospects for H2 2016 are significantly improved.

Our joint venture, LEO Brazil, has made steady progress in H1 2016, despite the turbulence in the Brazilian economy. Other LTG companies are working alongside LEO Brazil to deliver high volume, high quality content for our international customers.

Chairman's Statement (continued)

Preloaded, LTG's 'games with purpose' developer, has had a strong first half in 2016. This talented team has been greatly enhanced by the recruitment of a new MD and Technical Director. Their high quality work has been well received, which is affirmed by the further contracts we have already won in H2 2016. Later this month Penguin Random House will launch an interactive app, developed by Preloaded, that re-imagines Stephen Hawking's book A Brief History of Time, bringing its complex ideas and concepts to life for a new generation. This prestigious project demonstrates LTG's ability to take complex subject matters and convert them into compelling learning interactions for a wide range of users.

Eukleia, the Group's specialist governance, risk and compliance ('GRC') business, was fully integrated into the Group in 2015. Whilst EBITDA increased during the first half of 2016, revenues were down on the comparative prior period, as regulatory initiatives in the City of London abated in the run up to the EU Referendum. While we continue to assess the impact of the Brexit vote on the GRC environment, we are encouraged by the take-up of training initiatives since the vote. Developments such as the implementation of the Market Abuse Regulations are good examples of the constant regulatory changes affecting the financial sector and the imperative of delivering up to date training. Eukleia continues to extend its success to contiguous corporate market sectors and we are also launching a New York office for this business before the end of the year.

gomo Learning, which delivers a SaaS based tool for creating, hosting and tracking multi-device learning content for mobile workforces, had an excellent start to the year. Having won the prestigious 2015 Gold Award for the Brandon Hall Best Advance in Content Authoring Technology, the business proceeded to add to its already enviable roster of blue-chip customers, achieving particular success in the US market. It is our continued investment in the gomo platform which ensures that gomo remains the leading SaaS authoring tool on the market. A number of gomo customers have gone on to buy services from other LTG business units.

The acquisition of Rustici and its subsequent integration has been achieved successfully. We relocated the team to new offices in Nashville in May and the business has performed ahead of our expectations in H1 2016. Rustici gives LTG a unique software product offering that underpins the global e-learning market, as well as recurring revenues with high retention rates. Further details of this acquisition are included in Note 12.

Alongside the acquisition of Rustici, the Group invested USD3 million in a 27% share of the tech start-up Watershed. It has made good progress in its development of analytic tools that enable customers to track and assess the effectiveness of their learning programmes through the interrogation of 'big data'. These insights will help LTG in its ambition to 'move learning to the heart of business strategy' by enabling business managers to objectively understand the return on their investment in learning programmes within the corporate and government workplace. Our share of losses in Watershed in H1 2016 was £0.1 million.

Dividend

On 4 July 2016, the Company paid a final dividend of 0.10 pence per share, giving a total dividend for 2015 of 0.15 pence per share. This represented a 50% increase on the dividend paid compared to 2014. Given its confidence in the continuing success of the Group, the Board is pleased to announce that it has approved an interim dividend of 0.07 pence per share (2015: 0.05 pence per share). This will be paid on 28 October 2016 to shareholders on the register at 7 October 2016.

Current Trading and outlook

The Board is pleased with the progress that the Group has made in the first half of 2016, in particular the strengthening of margins through best working practices and increased scale, as well as the successful of integration of Rustici.

Chairman's Statement (continued)

While it is too early to identify any potential implications from the UK's likely exit from the European Union, we are confident that our strategic ambitions and proven track record in acquiring, integrating and growing businesses, both in the UK and abroad, will ensure the Group's continued progress.

LTG continues to pursue acquisition opportunities particularly in the US and UK and the Directors look forward to delivering significant profitable growth in the underlying operating businesses during the remainder of 2016.

Andrew Brode, Chairman
6 September 2016

Consolidated statement of comprehensive income

	Note	Six months to 30 June 2016 (unaudited) £'000	Year to 31 Dec 2015 (audited) £'000	Six months to 30 June 2015 (unaudited) £'000
Revenue	3	12,785	19,905	8,390
Operating expense		(12,199)	(18,137)	(8,073)
Operating profit*		586	1,768	317
Adjusted EBITDA		3,247	4,338	1,328
Amortisation of intangibles		(1,700)	(1,419)	(480)
Depreciation		(146)	(214)	(90)
Acquisition earnout		(215)	-	-
Net foreign exchange differences on borrowings		(134)	-	-
Share of losses on associates/joint ventures	7,8	(102)	(62)	(41)
Share based payment costs		(300)	(776)	(400)
Integration costs		(64)	(99)	-
Operating profit*		586	1,768	317
Fair value movement on contingent consideration		-	198	-
Costs of acquisition		(104)	(234)	-
Finance expenses:				
Charge on contingent consideration		(392)	(195)	(115)
Interest on borrowings		(155)	-	-
Interest receivable		-	12	7
(Loss)/profit before taxation		(65)	1,549	209
Income tax credit/(expense)	4	453	(120)	144
Profit for the period/year attributable to the owners of the parent		388	1,429	353
Earnings per share attributable to owners of the parent:				
Basic, (pence)	5	0.094	0.382	0.099
Diluted, (pence)	5	0.087	0.357	0.093
Other comprehensive income:				
Exchange differences on translating foreign operations		491	33	8
Total comprehensive income for the period		**879**	**1,462**	**361**

Consolidated statement of financial position

	Note	30 June 2016 (unaudited) £'000	31 Dec 2015 (audited) £'000	30 June 2015 (unaudited) £'000
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment		796	543	331
Intangible assets	6	46,496	19,803	11,025
Deferred tax assets		1,094	1,029	825
Investments	7,8	1,993	-	-
		50,379	21,375	12,181
CURRENT ASSETS				
Trade receivables		4,177	4,201	3,201
Other receivables, deposits and prepayments	9	2,194	554	470
Amounts recoverable on contracts		2,914	1,853	2,469
Amounts due from related parties		45	-	-
Cash and bank balances	10	4,257	7,305	2,958
		13,587	13,913	9,098
TOTAL ASSETS		**63,966**	**35,288**	**21,279**
CURRENT LIABILITIES				
Trade and other payables	11	9,323	5,835	5,560
Borrowings		2,907	-	-
Corporation tax		162	309	226
Amounts owing to related parties		-	2	-
		12,392	6,146	5,786
NON CURRENT LIABILITIES				
Deferred tax liabilities		4,046	1,182	360
Other long term liabilities		5,151	2,382	-
Borrowings		11,145	-	-
Provisions		99	99	30
		20,441	3,663	390
TOTAL LIABILITIES		**32,833**	**9,809**	**6,176**
NET ASSETS		**31,133**	**25,479**	**15,103**
EQUITY				
Share capital		1,570	1,506	1,334
Share premium account		26,635	21,839	13,125
Merger relief reserve		22,269	22,269	22,269
Reverse acquisition reserve		(22,933)	(22,933)	(22,933)
Share-based payment reserve		2,483	2,273	1,742
Foreign exchange translation reserve		541	50	25
Accumulated retained earnings/(losses)		568	475	(459)
TOTAL EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT		**31,133**	**25,479**	**15,103**

Consolidated statement of changes in equity (£'000)

	Share capital	Share Premium	Merger relief reserve	Reverse acquisition reserve	Share based payments reserve	Foreign exchange reserve	Retained profits/(losses)	Total equity
Balance at 1 January 2015	**1,329**	**13,098**	**22,269**	**(22,933)**	**1,203**	**17**	**(574)**	**14,409**
Profit for period	-	-	-	-	-	-	353	353
Exchange differences on translating foreign operations	-	-	-	-	-	8	-	8
Total comprehensive income for the period	-	-	-	-	-	8	353	361
Issue of shares	5	27	-	-	-	-	-	32
Share based payment charge / credited to equity	-	-	-	-	400	-	-	400
Deferred tax credit on share options	-	-	-	-	149	-	-	149
Transfer on exercise and lapse of options	-	-	-	-	(10)	-	10	-
Dividends paid	-	-	-	-	-	-	(248)	(248)
Balance at 30 June 2015	**1,334**	**13,125**	**22,269**	**(22,933)**	**1,742**	**25**	**(459)**	**15,103**
Profit for period	-	-	-	-	-	-	1,076	1,076
Exchange differences on translating foreign operations	-	-	-	-	-	25	-	25
Total comprehensive income for the period	-	-	-	-	-	25	1,076	1,101
Issue of shares	172	8,931	-	-	-	-	-	9,103
Cost of issuing shares	-	(257)	-	-	-	-	-	(257)
Sale of treasury shares	-	40	-	-	-	-	-	40
Share based payment charge / credited to equity	-	-	-	-	376	-	-	376
Deferred tax credit on share options	-	-	-	-	213	-	-	213
Transfer on exercise and lapse of options	-	-	-	-	(58)	-	58	-
Dividends paid	-	-	-	-	-	-	(200)	(200)
Balance at 31 December 2015	**1,506**	**21,839**	**22,269**	**(22,933)**	**2,273**	**50**	**475**	**25,479**
Profit for period	-	-	-	-	-	-	388	388
Exchange differences on translating foreign operations	-	-	-	-	-	491	-	491
Total comprehensive income for the period	-	-	-	-	-	491	388	879
Issue of shares	64	4,796	-	-	-	-	-	4,860
Share based payment charge / credited to equity	-	-	-	-	300	-	-	300
Deferred tax credit on share options	-	-	-	-	33	-	-	33
Transfer on exercise and lapse of options	-	-	-	-	(123)	-	123	-
Dividends payable	-	-	-	-	-	-	(418)	(418)
Balance at 30 June 2016	**1,570**	**26,635**	**22,269**	**(22,933)**	**2,483**	**541**	**568**	**31,133**

Consolidated statement of cash flows

	Note	Six months to 30 June 2016 (unaudited) £'000	Year to 31 Dec 2015 (audited) £'000	Six months to 30 June 2015 (unaudited) £'000
Cash flow from operating activities				
(Loss)/profit before taxation		(65)	1,549	209
Adjustments for:-				
Share option charge		300	776	400
Cash costs of acquisition		104	234	-
Amortisation of intangible assets		1,700	1,419	480
Depreciation of plant and equipment		146	214	90
Share of losses of investments		102	62	41
Finance expense		392	195	115
Finance interest on borrowings		155	-	-
Fair value movement on contingent consideration		-	(198)	-
Interest received		-	(12)	(7)
Operating cash flow before working capital changes		**2,834**	**4,239**	**1,328**
(Increase)/decrease in trade and other receivables		(883)	(49)	(572)
(Increase) in amount recoverable on contracts		(1,061)	(62)	(663)
(Decrease)/increase in payables		(1,602)	607	417
		(712)	4,735	510
Interest paid		(157)	-	-
Interest received		-	12	7
Income tax paid		(151)	(483)	(127)
Net cash flow from operating activities		**(1,020)**	**4,264**	**390**
Cash flow used in investing activities				
Purchase of property, plant and equipment		(382)	(232)	(79)
Development of intangible assets		(378)	(310)	(141)
Acquisition of subsidiaries, net of cash acquired		(12,389)	(5,617)	-
Cash costs of acquisition		(104)	(234)	-
Investment in associates	7,8	(2,095)	(46)	(25)
Net cash flow used in investing activities		**(15,348)**	**(6,439)**	**(245)**
Cash flow used in financing activities				
Dividends paid		-	(448)	(248)
Cash generated from issue of shares, net of share issue costs		72	7,379	32
Proceed from borrowings		13,909	-	-
Repayment of bank loans		(683)	-	-
Sale of treasury shares		-	40	
Contingent consideration payments in the period		-	(1,882)	(1,337)
Net cash flow from/(used in) in financing activities		**13,298**	**5,089**	**(1,553)**
Net (decrease)/increase in cash and cash equivalents		(3,070)	2,914	(1,408)
Cash and cash equivalents at beginning of the year		7,305	4,358	4,358
Effects of foreign exchange rate changes		22	33	8
Cash and cash equivalents at end of the year	**10**	**4,257**	**7,305**	**2,958**

Notes to the consolidated financial statements for the six months to 30 June 2016

1. General information

Learning Technologies Group plc (“the Company’’) and its subsidiaries (together, “the Group’’) provide a range of e-learning services and technologies to corporate customers. The principal activity of the Company is that of a holding company for the Group, as well as performing all administrative, corporate finance, strategic and governance functions of the Group.

The Company is a public limited company, which is listed on the AIM Market of the London Stock Exchange and domiciled in England and incorporated and registered in England and Wales. The address of its registered office is Sherborne House, 119-121 Cannon Street, London, EC4N 5AT. The registered number of the Company is 07176993.

2. Basis of preparation

The unaudited consolidated interim financial information has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU).

The interim results for the six months to 30 June 2016 are neither audited nor reviewed by our auditors and the accounts in this interim report do not therefore constitute statutory accounts in accordance with Section 434 of the Companies Act 2006.

Statutory accounts for the year ended 31 December 2015 have been filed with the Registrar of Companies and the auditor’s report was unqualified, did not contain any statement under Section 498(2) or 498(3) of the Companies Act 2006 and did not contain any matters to which the auditors drew attention without qualifying their report.

The accounting policies used in preparing the interim results are the same as those applied to the latest audited annual financial statements.

3. Segment analysis

Geographical information

All revenues of the Group are derived from its principal activity, the production of interactive multimedia programmes. The Group's revenue from external customers and non-current assets by geographical location are detailed below.

	UK £'000	Europe £'000	America £'000	Other £'000	Total £'000
30 June 2016 (unaudited)					
Revenue	8,669	492	3,077	547	12,785
Non-current assets	24,389	-	25,990	-	50,379
31 December 2015 (audited)					
Revenue	17,528	559	1,638	180	19,905
Non-current assets	21,354	-	21	-	21,375
30 June 2015 (unaudited)					
Revenue	7,184	618	570	18	8,390
Non-current assets	12,174	-	7	-	12,181

Information about major customers

In the six months to 30 June 2016, the year ended 31 December 2015 and the six months to 30 June 2015, no customer accounted for more than 10 percent of reported revenues.

4. Taxation

Taxation for the six months to 30 June 2016 has been calculated by applying the estimated tax rate for the current financial year ending 31 December 2016 to an estimated tax adjusted profit figure.

5. Earnings per share

	30 June 2016 (unaudited) £'000	31 Dec 2015 (audited) £'000	30 June 2015 (unaudited) £'000
Profit after tax attributable to owners of the Group :	388	1,429	353
Weighted average number of shares:			
Basic	413,821,957	373,505,000	355,129,516
Diluted	444,317,045	399,911,000	381,350,644
Basic earnings per share (pence)	0.094	0.382	0.099
Diluted earnings per share (pence)	0.087	0.357	0.093
Adjusted diluted earnings per share (pence)	0.483	0.756	0.232

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has share options that are dilutive potential ordinary shares.

In order to give a better understanding of the underlying operating performance of the Group, an adjusted earnings per share comparative has been included. Adjusted earnings per share is stated after adjusting the profit after tax attributable to equity holders of the Group for certain charges as set out in the table below:

	30 June 2016			31 Dec 2015			30 June 2015		
	Profit after tax	**Weighted average number of shares**	**Pence per share**	**Profit after tax**	**Weighted average number of shares**	**Pence per share**	**Profit after tax**	**Weighted average number of shares**	**Pence per share**
	£'000	**'000**		**£'000**	**'000**		**£'000**	**'000**	
Basic earnings per ordinary share	**388**	**413,822**	**0.094**	**1,429**	**373,505**	**0.382**	**353**	**355,130**	**0.099**
Effect of adjustments:									
Amortisation of acquired intangibles	1,536	-	-	1,203	-	-	407	-	-
Share based payment costs	300	-	-	776	-	-	400	-	-
Integration costs	64	-	-	99	-	-	-	-	-
Cost of acquisitions	104	-	-	234	-	-	-	-	-
Acquisition earnout	215	-	-	-	-	-	-	-	-
Net foreign exchange differences on borrowings	134	-	-	-	-	-	-	-	-
Fair value movement on contingent consideration	-	-	-	(198)	-	-	-	-	-
Interest receivable	-	-	-	(12)	-	-	(7)	-	-
Finance expense	392	-	-	195	-	-	115	-	-
Income tax (credit)/expense	(453)	-	-	120	-	-	(144)	-	-
Effect of adjustments	2,292	-	0.554	2,417	-	0.647	771	-	0.217
Adjusted profit before tax	**2,680**	-	-	**3,846**	-	-	**1,124**	-	-
Adjusted weighted tax charge 20% (21.43%)	(536)	-	(0.130)	(824)	-	(0.220)	(241)	-	(0.067)
Adjusted basic earnings per ordinary share	**2,144**	**413,822**	**0.518**	**3,022**	**373,505**	**0.809**	**883**	**355,130**	**0.249**
Effect of dilutive potential ordinary shares:									
Share options	-	30,495	(0.035)	-	26,406	(0.053)	-	26,221	(0.017)
Adjusted diluted earnings per ordinary share	**2,144**	**444,317**	**0.483**	**3,022**	**399,911**	**0.756**	**883**	**381,351**	**0.232**

6. Intangible assets

	Goodwill	Customer contracts and relationships	Branding	IP and Software development	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2015	9,615	1,880	180	565	12,240
Additions	-	-	-	141	141
At 30 June 2015 (unaudited)	9,615	1,880	180	706	12,381
Additions on acquisition	4,637	4,411	248	252	9,548
Additions	-	-	-	169	169
At 31 December 2015 (audited)	14,252	6,291	428	1,127	22,098
Additions on acquisition	17,288	8,584	256	249	26,377
Additions	-	-	-	378	378
Foreign exchange differences	1,085	455	98	-	1,638
At 30 June 2016 (unaudited)	32,625	15,330	782	1,754	50,491
Accumulated amortisation					
At 1 January 2015	-	546	24	306	876
Amortisation charged in period	-	389	18	73	480
At 30 June 2015 (unaudited)	-	935	42	379	1,356
Amortisation charged in period	-	674	122	143	939
At 31 December 2015 (audited)	-	1,609	164	522	2,295
Amortisation charged in period	-	1,471	65	164	1,700
At 30 June 2016 (unaudited)	-	3,080	229	686	3,995
Carrying amount					
At 30 June 2015 (unaudited)	**9,615**	**945**	**138**	**327**	**11,025**
At 31 December 2015	**14,252**	**4,682**	**264**	**605**	**19,803**
At 30 June 2016 (unaudited)	**32,625**	**12,250**	**553**	**1,068**	**46,496**

7. Investments accounted for using the equity method – Joint ventures

	30 June 2016 (unaudited) £'000	31 Dec 2015 (audited) £'000	30 June 2015 (unaudited) £'000
Cost of investments	274	274	253
Share of accumulated losses	(271)	(271)	(250)
Foreign exchange differences	(3)	(3)	(3)
	-	-	-

The movements in investments are as follows:

	Six months to 30 June 2016 (unaudited) £'000	Year to 31 Dec 2015 (audited) £'000	Six months to 30 June 2015 (unaudited) £'000
Balance at beginning of period	-	16	16
Investment during the period	-	46	25
Share of losses for the period	-	(62)	(41)
	-	-	-

The Group holds a 50% interest in LEO Brasil Tecnologia Educaional Ltda ('LEO Brazil'); a joint venture. Where the Group's share of losses in a joint venture exceeds its interest in the joint venture the Group does not recognize further losses where it has no further obligations to make further payments. Such losses not recognized in the six months ended 30 June 2016 totaled £89,000.

8. Investments accounted for using the equity method – Associates

	30 June 2016 (unaudited) £'000	31 Dec 2015 (audited) £'000	30 June 2015 (unaudited) £'000
Cost of investments	2,095	-	-
Share of accumulated losses	(102)	-	-
Foreign exchange differences	-	-	-
	1,993	-	-

The movements in investments are as follows:

	Six months to 30 June 2016 (unaudited) £'000	Year to 31 Dec 2015 (audited) £'000	Six months to 30 June 2015 (unaudited) £'000
Balance at beginning of period	-	-	-
Investment during the period	2,095	-	-
Share of losses for the period	(102)	-	-
	1,993	-	-

The Group acquired a 27% interest in Watershed Inc ('Watershed') on 29 January 2016 for a total consideration of $3.0 million (£2.1 million). The Group's share of losses of Watershed in the period ending 30 June 2016 was £0.1 million.

9. Other receivables, deposits and prepayments

	30 June 2016 (unaudited) £'000	31 Dec 2015 (audited) £'000	30 June 2015 (unaudited) £'000
Sundry receivables	-	38	-
Prepayments	825	516	470
Deferred costs	1,369	-	-
	2,194	554	470

10. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following:-

	30 June 2016 (unaudited) £'000	31 Dec 2015 (audited) £'000	30 June 2015 (unaudited) £'000
Cash and bank balances	4,257	7,305	2,958

11. Trade and other payables

	30 June 2016 (unaudited) £'000	31 Dec 2015 (audited) £'000	30 June 2015 (unaudited) £'000
Trade payables	628	814	459
Payments received on account	2,921	1,858	1,793
Tax and social security	767	1,140	725
Contingent consideration	2,958	405	1,567
Accruals and others	2,049	1,618	1,016
	9,323	5,835	5,560

12. Acquisitions

On 29 January 2016 LTG acquired the entire issued share capital of Rustici Software LLC ("Rustici"), the global market leader in digital learning interoperability. Rustici was established in Nashville, USA in 2002 and has been instrumental in the support and development of the universal technical standards for the e-learning software industry. It is the acknowledged global leader in SCORM (Sharable Content Object Reference Model) conformance. SCORM is the de facto industry standard for e-learning interoperability, allowing online learning content and learning management systems to communicate and work together.

Rustici is also the co-creator of the next generation of learning interoperability standards, Tin Can API, or xAPI. This global standard was created to capture rich data on every aspect of learning experiences.

The consideration for Rustici comprised an initial payment of USD23.6 million of which USD18 million was paid in cash and USD5.6 million in new LTG shares to the vendors (issued at a price of 30.25 pence per share). Cash consideration was adjusted to take account of surplus cash in Rustici at completion.

Further performance based payments, capped at USD11 million, are payable to the Rustici vendors and key employees based on ambitious revenue growth targets in each of the years ending 31 December 2016, 2017 and 2018, payable with up to 25% in new LTG shares at the option of the Company, and the remainder in cash. This capped contingent deferred consideration has been discounted using a discount factor of 10% and is held as a liability on the balance sheet. Of this contingent deferred consideration up to USD2 million may be payable to Rustici staff and will be recognised directly in the income statement as it does not meet the conditions to be recognised in the balance sheet under IFRS 3.

None of the goodwill recognised is expected to be deductible for income tax purposes.

The following table summarises the consideration paid for Rustici, the fair value of assets acquired and liabilities assumed at the acquisition date.

12. Acquisition (continued)

Consideration at 29 January 2016	**Fair Value £'000**
Cash	12,999
Equity instruments (12,930,374 ordinary shares)	3,911
Contingent consideration due in 2017	1,860
Contingent consideration due in 2018	1,684
Contingent consideration due in 2019	1,525
Total consideration	**21,979**

Recognised amounts of identifiable assets acquired and liabilities assumed	**Book value £'000**	**Fair value £'000**
Cash and cash equivalents	610	610
Property, plant and equipment	17	17
Internally generated intangible assets	249	249
Trade and other receivables	732	732
Trade and other payables	(2,663)	(2,663)
Deferred tax liabilities on acquisition	-	(3,094)
Intangible assets identified on acquisition	-	8,840
Total identifiable net (liabilities)/assets	**(1,055)**	**4,691**
Goodwill		**17,288**
Total		**21,979**

The fair value of the acquired intangible assets and deferred tax liabilities of £8,840,000 and £3,094,000 respectively, is provisional pending receipt of the final valuations for those assets and liabilities.

Trade and other payables acquired on acquisition included a £1,826,000 (USD2.6 million) transaction bonus liability due to employees of Rustici, payable on completion. Of this amount USD2.0 million was paid in cash and USD0.6 million in new LTG shares.

Rustici contributed £2.6 million of revenue for the period between the date of acquisition and the balance sheet date and £1.4 million of profit before tax. Had the acquisition of Rustici had been completed on the first day of the financial year Group revenues would have been £0.5 million higher and group profit attributable to equity holders of the parent would have been £0.2 million higher.

Company information

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Harry Hill, Non-Executive Deputy Chairman
Jonathan Satchell, Chief Executive Officer
Neil Elton, Group Finance Director and Company Secretary
Piers Lea, Chief Strategy Officer
Dale Solomon, Chief Operating Officer
Leslie-Ann Reed, Non-Executive Director
Peter Gordon, Non-Executive Director

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