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ILH Group Limited
2012/13 Full Year Report and Dividend Announcement

FY13 net profit after tax $1.021m following solid 2H13 performance
Profit from ordinary activities after tax* $0.79m – up 42%
Net contribution from member firms - up 9% to $3.48m
Final dividend - 0.4 cents fully franked (interim dividend 0.2 cents)

***Before fair value adjustments**

FY13 - KEY DEVELOPMENTS

- **Expansion into Corporate Advisory and Wealth Management (refer Annexure A)**
  - **Announced on 31 July 2013**
  - **Acquisition of Capricorn Investment Partners and Pentad**
  - **Complementary and synergistic with existing legal businesses**
  - **Supports scale and diversifies earnings base**
- **Addition of a Melbourne member firm to the legal services network**
- **Adoption of a national legal services brand**
- **Continued expansion of legal services expertise**
  - **Melbourne – Mergers and Acquisitions; Gaming and Wagering**
  - **Perth – Workplace Relations; Taxation**
  - **Sydney – Litigation and Dispute Resolution; PNG specialist; Fiji and other Pacific specialists**
  - **New affiliate relationships in the Solomon Islands and East Timor**
- **Law Central**
  - **New branding, website and product enhancements**
  - **New client engagements (cornerstone national groups)**

The Directors of ILH Group Limited ("**ILH**" or the "**Company**") report that profit from ordinary activities after tax for FY13 (before fair value adjustments) was up 42% over the previous year to $790,253. The fair value adjustments in both FY12 and FY13 represent non-cash accounting adjustments arising from previous acquisition transactions, being deferred consideration liabilities which ultimately were not payable. Including these fair value adjustments, reported net profit after tax for FY13 was $1,021,088, down 9% over the corresponding prior period.

The Company's net contribution from member firms increased by 9% to $3,475,498 for the year ended 30 June 2013.

The Directors have declared a fully franked final dividend of 0.4 cents per share, following the 0.2 cent per share fully franked interim dividend which was paid in May 2013.

1. ANALYSIS OF FINANCIAL RESULTS

	FY13 $000's	FY12 $000's	% Change	2H13 $000's	2H12 $000's	% Change	1H13 $000's	1H12 $000's	% Change
Net contribution from member firms									
Operating revenue from member firms	31,719	31,690	0%	15,453	15,414	0%	16,266	16,276	0%
Share of profit of an associate	301	0		207	0		94	0	
Net contribution from member firms	**3,475**	**3,198**	**9%**	**1,544**	**1,464**	**5%**	**1,931**	**1,734**	**11%**
Corporate/head office	(1,853)	(1,989)	(7%)	(793)	(1,073)	(26%)	(1,060)	(916)	16%
Interest expenses	(523)	(350)	49%	(279)	(183)	52%	(244)	(167)	46%
Income tax expense	(309)	(303)	2%	(96)	(72)	33%	(213)	(231)	(8%)
Profit from ordinary activities after tax (before fair value adjustments)	**790**	**556**	**42%**	**376**	**136**	**176%**	**414**	**420**	**(1%)**
Movement in fair value of financial liabilities	231	560		231	10		0	550	
Net profit after tax	**1,021**	**1,116**	**(9%)**	**607**	**146**	**316%**	**414**	**970**	**(57%)**
Earnings per share (EPS)	0.94	1.10		0.56	0.13		0.38	0.97	
Dividends per share	0.60	0.80		0.40	0.80		0.20	0.00	
Expenses									
Occupancy	2,812	2,815	0%	1,420	1,401	1%	1,392	1,414	(2%)
Salaries and employee benefits	21,641	22,325	(3%)	10,535	10,826	(3%)	11,106	11,499	(3%)
Depreciation and amortisation	610	530	15%	326	290	12%	284	240	18%
Advertising and marketing	577	460	25%	241	223	8%	336	237	42%
Other expenses	4,816	4,508	7%	2,372	2,341	1%	2,444	2,167	13%
Interest expenses	523	350	49%	280	183	53%	243	167	46%
Total Expenses	**30,979**	**30,988**	**0%**	**15,174**	**15,264**	**(1%)**	**15,805**	**15,724**	**1%**

1. ANALYSIS OF FINANCIAL RESULTS (continued)

Operating revenue from member firms

Despite difficult trading conditions in the Australian legal services market, operating revenue from member firms of $31,719,416 was on par with the previous year.

Share of profit from an associate

The investment in Rockwell Bates increased from 25% on 2 July 2012 to 49% on 1 November 2012.

The ILH investment in Rockwell Bates has been equity accounted and included as share of profit from an associate.

As the Melbourne member firm of ILH's Legal Services division, the earnings from Rockwell Bates have been included in contribution from member firms.

Net contribution from member firms

The net contribution from member firms increased by 9% compared with the prior year.

Corporate/head office

Corporate costs decreased by 7% against the previous year and by 26% in 2H13 against the previous corresponding period.

Interest expense

Interest expense increased for the period primarily as a result of increased bank debt used in funding the cash component of investments in associate firms.

Profit from ordinary activities after tax (before fair value adjustments)

The profit from ordinary activities after tax (before fair value adjustments) increased by 42% over the prior year, with 2H13 increasing by 176% over the corresponding prior period.

Movement in fair value of liabilities

The movement in fair value of financial liabilities represents non-cash accounting adjustments arising from acquisition transactions in 2011 and 2012, being deferred consideration liabilities which ultimately were not payable.

Net Profit after Tax

Net profit after tax (including the fair value adjustments) increased by 316% for 2H13 to $606,726, and was down 9% for the full year to $1,021,088.

1. ANALYSIS OF FINANCIAL RESULTS (continued)

Expenses

Total expenses were well contained against the prior period, with employment costs down by 3%.

Expenses for 2H13 were down 1% against the prior corresponding period.

Increases in depreciation and amortisation, advertising and marketing, and other expenses relate to continued investment in ILH growth strategies (refer below).

2. GROWTH STRATEGIES

a) Law Central

- IT Development

  IT development includes website, new product functionality, document development, and a new IT platform.

  The new IT platform will significantly improve "time to market" for new documents, document changes and product features generally, as well as enable enhanced online marketing.

- Business Development

  In 1H13, Law Central appointed a business development professional, specifically experienced in the accountant and financial planner segment.

  A program has been implemented to target and develop relationships with key current and potential clients.

- Brand Ambassador

  Law Central has engaged former Australian cricket captain, Steve Waugh, as brand ambassador for the Law Central product in Australia and potentially as part of further international expansion.

- Law Central expansion

  Law Central will launch in New Zealand in 2013 and the Company is reviewing the opportunity for additional revenues streams including new target markets in Australia.

b) Branding and Marketing

- Effective May 2013, the ILH legal services businesses of Argyle Lawyers (Sydney), Rockwell Bates (Melbourne) and Talbot Olivier (Perth) combined under the national trading name Rockwell Olivier.

- The costs of re-branding were significant and included brand concept advice, new brand collateral (stationery and marketing materials) and new website design, all of which have been expensed.

2. GROWTH STRATEGIES (continued)

- ILH anticipates revenue growth opportunities under this branding strategy, resulting from a national approach and a consistent client marketing strategy.

c) Training

- An inaugural ILH Leadership Academy was held in November 2012, aimed at the development of the leadership and management skills of senior lawyers and senior administrators. The program includes ongoing coaching and mentoring and is seen as a critical element to achieving the ILH strategic growth priorities.

d) CIPL

- ILH announced the acquisition of Capricorn Investment Partners ("CIPL"), including Pentad, on 31 July 2013. This is a major development for the Company and represents an exciting growth initiative in the Corporate Advisory and Wealth Management sectors. Further details are provided in Annexures A and B.

3. DECLARATION OF FINAL DIVIDEND

The Directors have declared a fully franked final dividend of 0.4 cents per share. The dividend will have a record date of 1 November 2013 and a payment date of 22 November 2013.

	FY13	FY12
Interim dividend - fully franked	0.20	-
Final dividend – fully franked	0.40	0.80
Total	0.60	0.80

4. OUTLOOK

The Board believes that the acquisition of CIPL and Pentad will accelerate its future growth targets and should deliver revenue synergies over the medium term. A key objective of the acquisition is to build future revenue streams which are outside the traditional legal services offering but within the broader professional services market. The Board considers this an important shift in strategy which should deliver greater earnings consistency throughout the year as well as provide new opportunities for growth across the Company.

ILH remains focused on acquiring good businesses with like-minded people, and working with them to achieve growth, business improvement and revenue synergies through collaboration across the Group.

ILH continues to assess further opportunities in the professional services market for firms to join its network. In this regard, IHL is actively evaluating a pipeline of potential acquisition opportunities and will advise shareholders of developments as appropriate.

The Directors anticipate earnings momentum into FY14 as a result of:

- Revenue opportunities arising from the national Rockwell Olivier branding for Legal Services

- The continued development of the Pacific/South East Asia legal services strategy

- The growth initiatives in Law Central

- The acquisition of CIPL and Pentad and expansion into Corporate Advisory and Wealth Management sectors.

The Board remains confident in the outlook for the Company given the strength and underlying quality of its member firms and network, the opportunity for organic growth and improved performance, particularly from cross Group collaboration, and the significant potential to grow by selective acquisition, affiliation and strategic relationships.

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Annexure A – Acquisition of Capricorn Investment Partners and Pentad

On 31 July 2013, ILH announced an agreement to acquire Capricorn Investment Partners Limited **("CIPL"),** and the business and assets of The Pentad Group (**"Pentad"**), subject to approval of the issue of shares at an Extraordinary General Meeting of shareholders to be held on 2 September 2013.

Provided the issue of shares is approved by shareholders, completion of the transaction is planned to be effective 1 September 2013.

CIPL is an unlisted public company with operations in Queensland, NSW and Victoria. The business consists of two divisions: Corporate Advisory in Professional Services; and Wealth Management.

In acquiring CIPL, ILH will also acquire the business of large Melbourne based boutique Financial Planning firm Pentad.

Pentad will be integrated with CIPL and provide scale to CIPL's Wealth Management operations.

Refer to 'Annexure B: About CIPL and Pentad' for background.

The Directors believe that CIPL and Pentad (hereafter collectively referred to as CIPL unless specified otherwise) are high quality businesses with strong growth prospects. CIPL will have annual revenues of more than $5.8m and provide ILH with an additional platform for further growth and development, and access to new industries and clients in the Australasian market.

The Directors consider the acquisition offers significant opportunities for client cross pollination and synergies generally with ILH member firms (refer to 'Annexure C: Corporate Strategy and Structure').

The transaction supports ILH's strategy to grow a limited number of high quality member firms, with strong, focused market positions and long term client relationships, into significant and highly profitable businesses.

The proposed acquisition is consistent with the Board's objectives of: increasing revenues, profitability and market capitalisation; diversifying earnings; and achieving more consistent earnings growth and cash flows.

In addition to the continued expansion of the legal business, ILH will develop a 'complementary business' strategy through the acquisition of complementary non-legal businesses with the following characteristics:

- Strong businesses with significant growth potential
- Recurring revenues
- Non-personal exertion revenues
- Scalable
- Synergistic with the legal businesses – opportunities to cross pollinate.

ILH considers the CIPL transaction will significantly progress its enhanced strategic objectives.

Transaction Details

ILH proposes to acquire 100% of the shares in CIPL, and the business and assets of Pentad, for an initial consideration of $9.25m. The initial consideration will be satisfied by the proposed issue of 52.7m ILH shares at 9.0 cents per share and the payment of $4.51m cash. In addition, deferred consideration of up to $5.0m is payable over a two year period in scrip and cash if certain performance conditions are satisfied.

The initial cash component will be sourced from ILH's existing cash reserves and borrowing capacity.

The initial shares component will be fully paid ordinary shares in the Company and will rank equally with the Company's current issued shares, except for any final dividend payable in respect of the 2012/13 financial year, where the shares will not participate.

Deferred Consideration – CIPL Shareholders

The maximum acquisition consideration for the CIPL business is $6,021,057 based on a three times multiple of recurring revenue from acquired clients of the Wealth Management business, and a one times multiple of revenue for the Corporate Advisory business.

Consideration of $4,816,846 is payable at completion, with $1,204,211 withheld as deferred consideration over the next two years subject to achieving agreed financial targets for the combined CIPL and Pentad businesses.

Deferred Consideration A - $602,106 is payable in cash in October 2014, subject to CIPL (including Pentad) achieving earnings before interest, tax and amortisation ("**EBITA**") of at least $1.728 million for the 12 months ending 31 August 2014. If this target is achieved, the deferred consideration will be paid in full. Should this minimum target not be achieved, no Deferred Consideration A will be payable.

Deferred Consideration B - $602,105 is payable in cash in October 2015, subject to CIPL (including Pentad) achieving an EBITA of at least $1.909 million for the 12 months ending 31 August 2015. If this target is achieved, the deferred consideration will be paid in full. Should this minimum target not be achieved, no Deferred Consideration B will be payable.

Deferred Consideration – Pentad Shareholders

The maximum acquisition consideration for the Pentad business is $8,229,000, comprising $6,330,000 which is based on a three times multiple of recurring revenue from acquired clients of $2,110,000, and up to $1,899,000 in respect of growth in recurring revenue from acquired clients.

Of the $6,330,000, consideration of $4,431,000 (70%) is payable at completion, with 30% withheld as deferred consideration over the next two years subject to both achieving agreed financial synergies with CIPL and the retention of recurring revenue from acquired clients.

Deferred Consideration C - payable in cash in October 2014, subject to Pentad first achieving agreed target synergies (with CIPL) of at least $181,036 for the 12 months ending 31 August 2014. If this minimum target is not achieved, then no Deferred Consideration C will be payable.

If the agreed target synergies (above) are achieved, the October 2014 deferred consideration will be determined on the basis of recurring revenue from acquired Pentad clients, subject to a maximum consideration of $949,500 and a minimum of zero (pro rata basis).

The full amount would be payable where there was no change in recurring revenue from acquired clients in the 12 months ending 31 August 2014 ($2,110,000). The amount payable would reduce pro rata for any reduction in recurring revenue from acquired clients.

Deferred Consideration D - payable in cash in October 2015, subject to Pentad first achieving agreed target synergies (with CIPL) of at least $362,072 for the 12 months ending 31 August 2015. If this minimum target is not achieved, then no Deferred Consideration D will be payable.

If the agreed target synergies (above) are achieved, the October 2015 deferred consideration will be determined on the basis of recurring revenue from acquired Pentad clients, subject to a maximum deferred consideration of $1,899,000 less the amount of any Pentad payment in October 2014 (above).

The full amount would be payable where there was no change in recurring revenue from acquired clients ($2,110,000). The amount payable would reduce pro rata for any reduction in recurring revenue from acquired clients.

Clawback of Deferred Consideration C - should an amount be paid under Deferred Consideration C in October 2014, and subsequently in the 12 months ending 31 August 2015 the recurring revenue from acquired clients falls below that level, then the corresponding amount of Deferred Consideration C would be repaid by Pentad shareholders to ILH to a maximum of the amount previously paid.

Deferred Consideration E – payable in ILH shares cash in October 2015, subject to Pentad first achieving agreed target synergies (with CIPL) of at least $362,072 for the 12 months ending 31 August 2015. If this minimum target is not achieved, then no Deferred Consideration E is payable.

If the agreed target synergies (above) are achieved, then up to $1,899,000 is payable on a pro rata basis in October 2015 where Pentad achieves growth in recurring revenue from acquired clients for the 12 months ending 31 August 2015. This would be payable based on a three times multiple of the growth in recurring revenue from acquired clients.

The full amount would be payable where acquired recurring revenue is $633,000 higher than at acquisition. No Deferred Consideration E will be payable if there is no change in the recurring revenue from specific clients acquired at acquisition.

ILH believes that any increase in recurring revenue from acquired clients would be with minimal additional costs for the Company.

The value ascribed to the issue of any ILH shares under Deferred Consideration E will be the volume weighted average ILH share price calculated over the 10 trading days immediately preceding the issue of these shares.

These shares would rank equally with the ILH shares already on issue, save for the final dividend payable in respect of the 2014/2015 financial year, where the new shares would not participate. These shares would be subject to two years voluntary escrow.

Annexure B – About CIPL and Pentad

CIPL is an unlisted public company with operations in Queensland, NSW and Victoria. It consists of two divisions:

- Corporate Advisory in Professional Services
- Wealth Management (including Pentad).

Annual revenue is expected to be over $5.8m.

Corporate Advisory

The Corporate Advisory business has offices in Sydney, London and Singapore and is headed by Dr Stephen Moss, a former partner of PWC with a background in law and psychology. Stephen Moss joined CIPL in 2012, when CIPL acquired his Eaton Capital Partners consulting and advisory practice.

Corporate Advisory clients include large and medium size Australian and international professional services businesses including legal, engineering, accounting and financial services firms, environmental services businesses and the overseas development assistance sector.

This division provides advice in mergers and acquisitions, governance, business strategy and capital raisings.

The Corporate Advisory business is positioned to take advantage of the fast growing international professional services sector, which is largely fragmented and offers consulting opportunities in strategic development and consolidation.

Wealth Management

CIPL has an Australian Financial Services Licence (AFSL) which enables the provision of a range of Wealth Management and ancillary services.

The Wealth Management division was founded in 2001 by David French, a former UBS industry analyst, economist and financial services specialist, and is based in Rockhampton, Queensland.

Pentad

In acquiring CIPL, ILH will also acquire the financial planning business of Pentad. This business was developed by Lance Livermore, Russell Warmington and Chris Heyworth, each of whom possesses extensive experience in financial planning and the wealth management industry.

Pentad and CIPL Wealth Management clients include senior executives and professionals, business owners and high net worth individuals in the fast growing retirees sector.

Pentad has a shared commitment to the ILH and CIPL vision.

Both CIPL and Pentad are “FoFA ready” (Future of Financial Advice Reforms) financial planning businesses. The combined Wealth Management division will provide an extensive range of financial services including the following:

Financial Planning

The business provides fee for service advice in relation to retirement and pre-retirement planning, superannuation, investments, self-managed superannuation, wealth protection and personal risk advice, share trading services and estate planning.

The business will have 11 in-house financial advisers in Rockhampton and Melbourne.

Additionally, in 2012 CIPL commenced a dealer group service providing proper authorities to external Authorised Representatives operating under the CIPL licence. There are currently six external representatives in Brisbane, Sydney and Melbourne.

The following table shows consistent growth in funds under advice.

	30 June 2013 $m	2012 $m	2011 $m	2010 $m
CIPL	117	99	90	78
Pentad	330	320	320	295
Total	447	419	410	373

Proprietary Administration Platform

The business operates a proprietary administration platform providing the opportunity for enhanced business margin, and enabling efficient management of client portfolios under managed discretionary account arrangements.

Funds Management

CIPL operates the Capricorn Diversified Investment Fund, which provides financial planning clients exposure to a range of assets.

Dealer Group Services

In addition to providing services to external Authorised Representatives, CIPL acts as a responsible entity for other external managed funds.

<u>Key Metrics of CIPL</u>

Measure	FY13
Revenue (forecast) *Includes - Corporate Advisory - Wealth Management (recurring revenue)	$5.8m* $2.0m $3.4m
EBITA (forecast)	$1.2m
Funds Under Advice	$447m
In-house Financial Advisers	11
External Authorised Representatives	6
Total Employees	28
Managed Fund - Assets under Management	$7.1m

CIPL will operate as a stand-alone business within ILH and will maintain separate branding.

Annexure C – Corporate Strategy and Structure

ILH Strategy

- Acquire legal and other professional services businesses
  - Growth (organic and acquisition)
  - Improved business performance
  - Group revenue and cost synergies through collaboration (working together for cross pollination)
- Develop a network of member firms, affiliates and strategic relationships in Australia, the Pacific region, South East Asia and internationally
- Multiple Divisions
  - Legal Services
  - Law Central
  - Corporate Advisory
  - Wealth Management