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# INTEGRATED LEGAL HOLDINGS

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LIMITED

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**INTEGRATED LEGAL HOLDINGS LIMITED**  
**ACN 120 394 194**  
**(ASX: IAW)**

**Annual Report**  
**For the year ended 30 June 2011**

## Corporate Information

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ABN 20 120 394 194

### Directors

The Hon John Dawkins, *Non-executive Chairman*  
Anne Tregonning, *Non-executive Director*  
Graeme Fowler, *Managing Director and Chief Executive*

### Company Secretary

Jean-Marie Rudd

### Registered office

Level 8, Wesfarmers House  
40 The Esplanade  
Perth WA 6000

### Principal place of business

#### Head Office

Level 22  
1 Market Street  
Sydney NSW 2000  
Tel: (02) 8263 6600

### Share Register

Computershare Investor Services Pty Limited  
Level 2  
45 St Georges Terrace  
Perth WA 6000  
Tel: (08) 9323 2000

Integrated Legal Holdings Limited shares are listed on the Australian Stock Exchange.

### Solicitors

Talbot Olivier Level 8, Wesfarmers House 40 The Esplanade Perth WA 6000	Argyle Lawyers Level 22 1 Market Street Sydney NSW 2000
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### Bankers

National Australia Bank Limited  
100 St Georges Terrace  
Perth WA 6000

### Auditor

Ernst & Young  
11 Mounts Bay Road  
Perth WA 6000

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## Report by Chairman and Managing Director

### 2010/11 Full Year Results



- Continuing strong financial performance
- 51% growth in net profit after tax
- 19% earnings per share growth
- 20% growth in fully franked final dividend for shareholders
- Positioned for continued organic and acquisition growth

### Highlights

- Net profit after tax increased by 51% to \$1.29m.
- Earnings per share increased by 19% to 1.41 cents per share.
- Operating revenue increased by 19% to \$28.5m.
- Operating cash inflows of \$1.23m.
- Strong balance sheet, cash reserves and conservative borrowings.
- 20% growth in final dividend of 0.60 cents per share fully franked.
  - Record Date 14 October 2011; Payable 4 November 2011.
  - The dividend re-investment plan will operate.
  - Full year 0.90 cents fully franked – 20% growth
- Continued acquisition growth.
  - Wojtowicz Kelly Legal effective 1 February 2011 - \$5.3m annual revenue.
  - PLN Lawyers effective 1 August 2011 - \$2m annual revenue
- Expect growth in earnings per share in 2011/12.

### 1. Executive Summary

Integrated Legal Holdings Limited (“the Company” or “Integrated”) announced on 18 August 2011 the 2010/11 Full Year Results, a net profit after tax of \$1,286,670 for the 2010/11 financial year. This compared to a full year 2009/10 net profit after tax of \$853,494, an increase of 51%.

Earnings per share for the year were 1.41 cents per share, compared to the year ended 30 June 2010 of 1.18 cents, an increase of 19%.

The Directors advise that they are pleased with the full year results and consider that the Company is developing a strong and consistent track record of growth in revenue, earnings, earnings per share and dividends.

### Full Year Results Summary

	2010/11 \$m	2009/10 \$m	Growth %	2008/09 \$m
Operating Revenue	<b>28.48</b>	23.87	19%	16.95
Net Profit after Tax	<b>1.29</b>	0.85	51%	0.59
Earnings per Share	<b>1.41 cents</b>	1.18 cents	19%	0.89 cents
Dividend per Share	<b>Final - 0.60 cents Interim - 0.30 cents Full Year - 0.90 cents</b>	Final - 0.50 cents Interim - 0.25 cents Full Year - 0.75 cents	20%	

## Report by Chairman and Managing Director (continued)

### Half Year Results Analysis

The Company achieved a net profit after tax for the 2nd half of 2011 of \$0.53m, compared with a 2nd half 2010 profit of \$0.47m, and a 1st half 2011 profit of \$0.76m.

	2nd Half 2010/11 \$m	1st Half 2010/11 \$m	2nd Half 2009/10 \$m	1st Half 2009/10 \$m
Operating Revenue	14.86	13.62	12.28	11.59
Net Profit after Tax	0.53	0.76	0.47	0.38
Earnings per Share	0.55 cents	0.86 cents	0.62 cents	0.56 cents

### New Business Acquisitions

The Company has continued to grow by acquisition with the following announcements.

Acquired Firm	Acquired Firm	Location	Annualised Revenue \$m	Effective Date
Wojtowicz Kelly Legal	Merger with existing Member Firm Brett Davies Lawyers	Perth	5.3	1 February 2011
PLN Lawyers	Tuck-in for existing Member Firm Argyle Lawyers	Sydney	2.0	1 August 2011
<b>Total</b>			<b>7.3</b>	

#### ***Wojtowicz Kelly Legal***

In December 2010 the Company announced the acquisition of Wojtowicz Kelly Legal (“WK”) under merger arrangements with the existing member firm Brett Davies Lawyers (incorporating Law Central) (“BDL”).

WK is an established and well regarded Perth CBD based commercial law firm delivering services to commercial enterprises and private individuals predominantly in Western Australia, but also to enterprises based in Southeast Asia with Australian interests.

WK was established in 1994 and has developed a range of legal services including corporate and commercial, property, litigation, family, migration advice, local government law and settlements (conveyancing).

WK also has an office in Rockingham south of Perth, and a representative office in Singapore.

The firm consisted of three Partners, Gavan Kelly, Anthony Quahe and John Wojtowicz, with 40 staff and annual fee income of approximately \$5.3m.

WK has merged with existing member firm BDL, with the merged firm having four Principals, approximately 54 staff and annual fee income of more than \$7.5m.

BDL has operated in the Perth CBD for over 15 years and is a specialist in tax, succession planning, estate planning and superannuation. BDL has a national client base and focuses on accountants, financial planners and lawyers.

## Report by Chairman and Managing Director (continued)

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### *Wojtowicz Kelly Legal (continued)*

BDL incorporates the Company's Law Central division, an internet based business providing on line purchase of legal documents since 2000. Law Central provides preparation and publishing of documents as well as an information service, predominantly for do it yourself users.

The merged business is now trading as Civic Legal while Law Central has retained its brand. As Principals, Brett Davies, Gavan Kelly, Anthony Quahe, and John Wojtowicz are the management team of the business.

Under the merger plans, the Company's existing BDL business relocated and integrated into the nearby offices of WK.

WK is a quality business with strong growth prospects and the Directors consider that the merger will provide a platform for further growth. In particular, the Company expects to generate earnings improvements through cross referral of client matter opportunities.

**As expected, the acquisition did not add materially to earnings per share in the second half 2010/11. Generally, the initial trading period of an acquisition will not provide a material profit contribution. Specifically, this initial trading period will involve an element of acquisition cost including stamp duty, audit and legal costs, integration expenses and include accounting adjustments on acquisition.**

### *PLN Lawyers*

Effective 1 August 2011 the Company acquired the legal business of PLN Lawyers Pty Ltd ("PLN") under tuck-in arrangements with the existing member firm Argyle Lawyers Pty Ltd ("Argyle").

PLN is an established and highly regarded Sydney based commercial law firm. PLN's mission is to be the leading provider of legal and business advisory services to corporations and international institutions operating in the Pacific region. PLN's clients include Australian, Asian, American and European based companies and financial institutions with business interests in the Asia-Pacific region.

PLN provides a range of legal services in various industries including Corporate and Financial Services, Travel and Tourism, Aviation Industry services, Infrastructure and Development, Insurance, Insolvency, Mergers, Acquisitions and IPO's, Mining and Petroleum, Telecommunications and Information Technology.

PLN is the centre of management for the Pacific Legal Network which was established in 2002 and has developed key affiliate relationships in Vanuatu, Fiji, Papua New Guinea, Samoa, New Zealand, American Samoa, Tonga, Cook Islands, New Caledonia, French Polynesia, Solomon Islands, Hawaii, the Marshall Islands, Northern Mariana Islands, Palau, mainland USA, and across Asia. Pacific Legal Network remains the only co-ordinated legal and business advisory service in the region.

The firm consists of founder and Principal John Ridgway, Senior Associate Nitij Pal, and 4 lawyers, with a total of 8 staff, and annual fee income of approximately \$2m.

## Report by Chairman and Managing Director (continued)

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### *PLN Lawyers (continued)*

PLN is an award winning law firm having won the 2009 New South Wales Exporter of the Year Award in a recognised services industry, and in August 2010 was named joint winner of the e.law Asia-Pacific Box Breaker of the Year Award, which recognises those thinking outside the square to meet legal business challenges.

PLN will tuck-in with existing member firm Argyle, with the combined firm having 6 Principals, approximately 40 staff and annual fee income of more than \$10m.

John Ridgway will join Managing Principal Peter Bobbin, Principals Andrew Ireland, Mark Petrucco, Glenda Laurence and Fiona Sonntag, and Practice Director Janice Duncan as the senior management of the business, all of whom are committed to growing Argyle within the ILH Group.

PLN will retain its brand, but operate going forward under the Argyle business umbrella. The tuck-in arrangements promise a sound base for the growth and expansion of the PLN brand across Asia-Pacific and via the ILH member firms in Australia.

Under the tuck-in arrangements, PLN will be relocated and integrated into the nearby offices of Argyle.

The transaction was funded through surplus cash reserves.

The Directors believe that PLN is a high quality business with strong growth prospects and will provide both Argyle and ILH with a platform for further growth, in particular strengthening the organisation's commercial law service offerings, and providing new access to the Pacific and Asian markets.

The Company expects to generate earnings improvements through cross referrals of client matter opportunities as well as cost synergies such as premises.

**The WK and PLN transactions are consistent with ILH's strategy of supporting the growth and expansion of a limited number of core member firms into major businesses with competitive advantage through the scope and scale of their operations, as part of a publicly listed group.**

**Both acquisitions are structured with significant employment constraints and conditions, consistent with the Company's disciplined acquisition model and strict criteria.**

**The full revenue and profit impact of the WK and PLN acquisitions will be achieved from the 2011/12 financial year. The Directors believe that the effect of both acquisition transactions will be materially positive in terms of earnings per share in the 2011/12 financial year and will enhance the Company's growth prospects.**

## Report by Chairman and Managing Director (continued)

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### Balance Sheet

The Company has maintained a strong balance sheet and is well placed to continue organic and acquisition growth. The following points are highlighted:

- Cash position (including overdrafts) at 30 June 2011 of \$2.44m.
- Bank loans of \$1.95m at 30 June 2011 (debt to equity ratio 15%).
- The Company had a bank facility as at 30 June 2010 of \$3.05m (drawn down to \$1.95m).
- At 31 July 2011 the Company's bank facility increased to \$3.50m.
- The Company achieved operating cash inflows for the year of \$1.23m.
- The Company's 2010/11 interim dividend was fully underwritten by Taylor Collison (Sharebrokers and Investment Advisers) with the support of an institutional investor. The Company issued 2.1m new shares at 12.5 cents per share in lieu of a cash dividend payment of \$267,833. The Company's dividend re-investment plan for the interim dividend attracted 22% re-investment from shareholders before the underwriting.

### Operating Cash Flow

Cash flows from operations were \$1.23m during the period, compared with \$1.45m for the period ended 30 June 2010.

It should be noted that under the Integrated model the Company does not acquire debtors and work in progress as part of an acquisition. Consequently, the Company will invest funds from operations in the build-up of working capital (including debtors and work in progress) to normal levels post acquisition. As a result, net operating cash flows of the Company will generally be lower in the period following an acquisition.

During the period, the WK acquisition required the build-up of working capital to generally acceptable levels in the normal course of trading. Similarly, the acquisition of PLN will have an effect in the first half of 2011/12.

### Dividend Announcement

The Directors have declared a fully franked final dividend of 0.60 cents.

The dividend will have a record date of 14 October 2011 and a payment date of 4 November 2011. The dividend reinvestment plan will operate.

In total, the Company has declared fully franked dividends of 0.90 cents per share for the 2010/11 financial year, having paid an interim dividend of 0.30 cents fully franked in May 2011.

### Outlook

Overall, the Directors remain confident in the outlook for the Company given the strength and underlying quality of its member firms, the significant opportunity for organic growth and improved performance in these firms, and the significant potential to grow by selective acquisition as part of the strategy of developing a national network of legal services businesses.

## Report by Chairman and Managing Director (continued)

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### Outlook (continued)

The Directors are of the view that the Company is well placed to capitalise on the significant opportunity afforded by prevailing industry issues. Long-term competitive advantage can be achieved by the Company in supporting member firms in developing scale to underpin future growth and profitability.

Consistent with this position, the outlook for the Group is positive and the Directors expect the Company to achieve earnings per share growth for 2011/12, providing reasonable business conditions continue for the year.

## 2. Business Performance

### *Legal Services Division*

The Legal Services division incorporates the businesses of Talbot Olivier (Perth), Argyle Lawyers (Sydney/Melbourne) and Civic Legal (Perth, with national and international coverage).

Each of these businesses has highly competitive positions in their respective markets, and target commercial clients in the publicly listed, mid-market, government and SME segments, as well as high net worth individual clients.

Talbot Olivier has a history of over 80 years and operates in commercial law, litigation, insurance, property, estate planning and family law predominantly in the Perth area.

Argyle Lawyers commenced in 1982 and combines corporate, business, family, litigation, and property law, with particular specialisation in key long term growth industries of financial services and wealth management, superannuation and taxation and high net wealth estate planning.

Civic Legal provides a range of legal services including corporate and commercial, property, litigation, family, migration advice, local government law, settlements and superannuation, taxation and estate planning firm.

## **Report by Chairman and Managing Director (continued)**

### ***Legal Services Division (continued)***

The Legal Services division employs over 90 lawyers across 4 offices in Sydney, Perth and Melbourne, and has developed a broad and diversified range of legal services shown in the following table.

<b>Business Advisory Services</b>	<b>Private Client Services</b>
Corporate & Commercial	Wealth Management
Property & Construction	Wealth Protection
Commercial Litigation	Superannuation
Insurance Services	Taxation Litigation
Media & Defamation	Taxation Advice
Licensing, Gaming and Hospitality	Taxation Audits
Government Services	Estate Planning & Wills
Insolvency & Corporate Recovery	Succession Planning
Workplace Relations	Family
Taxation Litigation & Advice	Property/Settlements
Compliance & Regulatory	Immigration
Dispute Resolution & Mediation	Employment/Workplace Relations
Mergers & Acquisitions	Criminal
Mining, Energy & Resources	On-line Legal Document Publishing

The Directors consider that the broad diversification of services offered by the Company provides strong support to the ongoing revenue profile of the Company and assists in insulating against market downturns.

The Company's strategy for the Legal Services division is to develop a national network of leading law firms in the capital cities and other key centres across Australia, with a view to the growth and improvement of these businesses, as well as the development of cross referral processes, national tenders, strategic relationships and scale advantage opportunities.

### ***Information Technology Services Division***

The Information Technology Services division (IT Services) incorporates the Law Central business, which is an internet based customised legal document publishing and information service. The service is targeted towards accountants and financial planners and earns revenue based on the selling of documents and subscriptions to the service.

The Company strategy for IT Services is to grow and develop the business organically through the expansion of on-line services, and the building of deeper relationships with the existing Law Central client base.

## Report by Chairman and Managing Director (continued)

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### 3. Industry Overview

The Directors believe that the legal services industry is currently influenced by a number of issues which provide an opportunity for the Company to develop and grow a network of leading law firms.

There is significant fragmentation in the industry with over 11,000 legal firms in Australia according to the 2008 IBIS Industry Report.

The Directors consider that there are in the range of 150 medium sized firms in Australia, these being the Company's target group for member firms.

For medium sized legal firms, it is difficult to attract and retain good senior lawyers and it is hard to provide broad services to meet client needs.

Growth is difficult for these businesses due to availability of capital.

Further, succession planning is difficult with young lawyers increasingly reluctant to buy into partnerships given the cost of living in Australian cities.

For small law firms, of which there are thousands, it is just difficult to survive with challenges in attracting and retaining staff, providing training, providing an appropriate service to clients, finding capital and resources for growth and business succession generally.

Additionally, the Australian legal industry is currently undergoing an "internationalisation" with the entry of a number of foreign law firms into key Australian markets.

Whilst the Directors are watchful of these developments, these changes are generally seen as positive for the Company with the associated fragmentation, consolidation and evolution in Australian law firms providing further opportunities for Integrated for expansion through acquisition and new hiring of lawyers.

Against this background, the Directors consider that ILH provides an attractive value proposition for firms to join the Company.

The Company's business model and strategy provides the basis for assisting member firms in addressing these industry issues.

Specifically, ILH looks to improve the financial and risk position of vendors, as well as un-lock the growth potential of a law firm.

#### ***Business Philosophies and Strategy***

The key business philosophies of the Company include a selective approach to acquisitions.

This means selectively acquiring quality firms with strong growth prospects, and who are compatible with existing member firm aspirations, culture and values, including a commitment to growth, improvement and working together.

## Report by Chairman and Managing Director (continued)

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### *Business Philosophies and Strategy (continued)*

Over the next 5 to 10 years, we intend to develop a national network of legal services businesses (member firms) by acquiring 15 to 20 high quality medium sized law firms in the Australian capital cities and key regional centres.

The businesses we target are both medium sized commercial law firms and specialist law firms in key growth segments.

Integrated supports these member firms towards above market revenue and profit growth through the development of a broad range of legal services, organic growth, tuck-in acquisitions, cross selling and succession planning,

Integrated also supports these member firms towards improved and sustainable business performance through improved business management, personnel management, best practice business processes, training and development, share plans and performance based rewards.

In this regard there are a number of potential acquisitions we are currently speaking with which may or may not turn out to be the right fit for the Group.

Growth will be incremental. The Company does not intend to make a large number of acquisitions quickly, but rather ensure that the Company's businesses are managed to the maximum potential for shareholders.

The model is one of freedom within boundaries, where member firms retain their branding and continue to develop the strategy and manage the business as they have previously done, but with strategic, financial and risk management boundaries.

Over time, scale advantage is expected to support improved margins and we expect best practices to help drive cost efficiencies.

Remuneration is performance based and aligned with shareholder interests, with profit share and share schemes to incentivise growth and improvement in business revenue and earnings.

The Corporate team will be kept to a minimum and provides Group management, strategic direction, boundaries and support, as well as providing accountability for member firms.

#### **4. Positioned for Growth**

The Directors note their expectation of continued acquisition growth, organic growth and operational improvement from member firms in the periods ahead, in particular noting:

- The Company has good businesses with strong market positions and growth prospects.
- The Company is successfully building a strong culture of like-minded people, with common aspirations for above market growth and business improvement.
- The Company's member firms have high quality and long term client relationships with publicly listed companies, mid-market businesses, government entities, SME's and high net worth individuals, which provides a significant element of "recurring" fee income for the Group.

## Report by Chairman and Managing Director (continued)

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### 4. Positioned for Growth (continued)

- The Company has demonstrated an ability to achieve strong, consistent and above market revenue growth.

Integrated is now a top 40 Australian law firm by fee income.

The Company was nominated the fastest growing legal firm by fee income in Australia in 2009 and second fastest growing in 2010 (Source: Australasian Legal Business), and ranked 4<sup>th</sup> in the 2011 BRW Magazine Fast Starters, and 5<sup>th</sup> in 2010.

- Significant organic and acquisition growth opportunities exist for the Group and for member firms.
- The Company is aiming to acquire one new member firm and a number of smaller tuck-in acquisitions in each 12 month period, which would contribute approximately \$10m in annualised revenue.
- The Company has a strong balance sheet and conservative borrowing.
- There is significant scope for business operational performance improvement in all member firms, providing an opportunity for increased profitability over time.

Furthermore, an opportunity exists for increased profitability by achieving increased scale at both a Group and member firm level.

At a Group level this means securing more member firms to share the fixed overhead burden of the Corporate office.

And at a member firm level, this means achieving organic and acquisition growth to optimise the use of existing premises, and to share the professional management and infrastructure costs that these firms now have in place.

The Directors believe that long-term competitive advantage can be achieved by the Company in supporting member firms in developing scale to underpin future growth and profitability.

- **Significantly, the future profitability of the Company is underpinned by long term employment contracts, restraints and non-competition arrangements with vendor Principals of member firms.**

## Report by Chairman and Managing Director (continued)

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### 5. Outlook

The Company's priorities for the period ahead remain unchanged:

- Working with existing member firms for continued growth and development.

This includes organic revenue growth and continued business operational improvement, with a focus on business leadership and management, working capital management and best practice development.

- Extending the Group's geographic coverage and services to build scale.

The Directors remain confident in the outlook for the Company given the strength and underlying quality of its member firms, the significant opportunity for organic growth and improved performance in these firms, and the significant potential to grow by selective acquisition as part of the strategy of developing a national network of legal services businesses.

The effective delivery of the Company's stated strategy of developing a national network of leading medium sized law firms will take time. The Company remains focused on incrementally and selectively acquiring good businesses with like-minded people and working with them towards quality and sustainable growth and improvement.

Consistent with this position, the outlook for the Group is positive and the Directors expect the Company to achieve earnings per share growth for 2011/12, providing that reasonable business conditions continue for the year.



**The Hon J Dawkins**  
**Chairman**



**G Fowler**  
**Managing Director**

## **Directors' Report**

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Your directors submit their report for the year ended 30 June 2011.

### **DIRECTORS**

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

#### **Names, qualifications, experience and special responsibilities**

##### **The Hon John Dawkins, AO, B.Ec (Non-executive Chairman)**

Mr Dawkins was Chairman of Law Central from its early beginnings in March 2000 until March 2006. His other board appointments include Chairman of the Archer Exploration Ltd, TVET Australia Ltd and Sovereign Gold Ltd and Director of M&C Saatchi Direct Pty Ltd. For over 10 years, until 2005, he served on the board of Seacorp Holdings, now Asgard Wealth Solutions, and he is a former chairman of Elders Rural Bank and Retail Energy Market Company Ltd.

Mr Dawkins has consulted to several large Australian and overseas companies, the World Bank and the OECD. Until his retirement from politics in 1994 he served as a Minister in the Federal Government for 10 years and in the House of Representatives for 18 years.

He is a graduate in Economics from the University of Western Australia, and he has been awarded honorary doctorates from The University of South Australia and the Queensland University of Technology.

During the past three years, Mr Dawkins served as a director of the following listed companies:

- MGM Wireless Ltd – appointed 17 August 2010\*
- Archer Exploration Ltd – appointed 30 April 2010\*
- Sovereign Gold Company Limited – appointed 16 September 2010\*
- Genetic Technologies Ltd – appointed 24 November 2004; resigned 19 November 2010

\* denotes current directorship

##### **Anne Tregonning, B.Com, FCA, GAICD (Non-executive Director)**

Ms Tregonning has extensive experience in finance and risk management in both public practice and commerce. Senior positions previously held include General Manager Finance and Risk, Wealth Management Division, St George Bank, Director – Group Finance, Seacorp Holdings (now ASGARD Wealth Solutions), and Senior Manager Corporate Banking, BankWest.

Ms Tregonning is a non-executive director of Retail Energy Market Company Ltd and the Breast Cancer Research Centre – Western Australia. She is a past executive director of ASGARD Capital Management Limited, a past State Chairman of the Institute of Chartered Accountants and member of its National Council, and a past director of other public company and not-for-profit/professional organisations.

## **Directors' Report (continued)**

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Ms Tregonning is a graduate of The University of Western Australia, a Fellow of The Institute of Chartered Accountants and graduate of the Australian Institute of Company Directors.

Ms Tregonning did not have any directorships in other listed companies during the past three years.

**Graeme Fowler, B.Bus, CPA, MAICD** (Managing Director and Chief Executive)

Mr Fowler was previously Chief Executive Officer of listed accounting and financial services consolidator WHK Group Limited. He brings specific experience in the successful consolidation of professional services firms. He spent over 15 years in senior management roles with the BT Financial Group including Group Chief Financial Officer, Chief Executive Officer of BT Funds Management NZ, and Chief Executive Officer of BT Portfolio Services (including BT Wrap). Mr Fowler is also non-executive director of Countplus Limited.

Mr Fowler is a business studies graduate of The University of Technology, Sydney and a Certified Practising Accountant.

During the past three years, Mr Fowler served as a director of the following listed company:

- Countplus Limited – appointed 19 August 2010\*

\* denotes current directorship

### **Beneficial interests in the shares of the company and related bodies corporate**

As at the date of this report, the beneficial interests of the directors in the shares of Integrated Legal Holdings Limited were:

	Number of Ordinary Shares
J Dawkins	2,950,129
A Tregonning	416,001
G Fowler	4,860,613

### **COMPANY SECRETARY**

**Jean-Marie Rudd, B.Com, CA, GAICD**

Mrs Rudd is also the Chief Financial Officer (CFO) of the Integrated Legal Holdings Limited group of companies.

Mrs Rudd was previously the Western Australian Finance Director of national law firm, Minter Ellison, bringing industry-specific experience to her roles with Integrated Legal Holdings Limited. Mrs Rudd has over 20 years experience in CFO/Company Secretary roles including senior management roles with the Heytesbury Group and ThinkSmart Limited.

Mrs Rudd is a graduate of Curtin University, Perth, a Chartered Accountant and a graduate of the Australian Institute of Company Directors.

## Directors' Report (continued)

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### PRINCIPAL ACTIVITIES

The principal activity of the entities of the consolidated Group is the provision of legal services and online legal document services in Australia.

### OPERATING AND FINANCIAL REVIEW

#### *Group Overview*

A detailed review of the operations of the Group during the financial year, its financial position and business strategies and prospects for future financial years is set out below.

#### **Operating Results for the Year**

Consolidated operating revenues of \$28,475,476 were 19% higher than the previous year which reported \$23,874,988 operating revenues. Revenue from ordinary activities increased due to a combination of organic growth and the acquisition of Wojtowicz Kelly Legal in February 2011.

For the year ended 30 June 2011, the consolidated entity generated a net profit after tax of \$1,286,670 compared to the year ended 30 June 2010 of \$853,494, an increase of 51%.

Earnings per share for the year were 1.41 cents per share, compared to 1.18 cents per share for the year ended 30 June 2010, an increase of 19%.

The Directors consider that the Company is well placed for the future, in particular noting:

- The Company has good businesses with strong market positions and growth prospects.
- The Company is successfully building a strong culture of like-minded people, with common aspirations for above market growth and business improvement.
- The Company has demonstrated an ability to achieve strong and consistent revenue growth.
- Organic and acquisition growth opportunities for the Group and for member firms.
- The Company has a strong balance sheet and available funding for further growth.
- Scope for business performance improvement in all member firms, providing an opportunity for increased profitability over time.

In particular, an opportunity exists to increase profitability by achieving increased scale at both a Group and member firm level.

At a Group level this means securing more member firms to share the fixed overhead burden of the Corporate office.

And at a member firm level, this means achieving organic and acquisition growth to optimise the use of existing premises, and to share the professional management and infrastructure costs that these firms now have in place.

The Directors believe that long-term competitive advantage can be achieved by the Company supporting member firms in developing scale to underpin future growth and profitability.

## Directors' Report (continued)

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A fuller commentary on the results for the reporting period is contained in the ASX release dated 18 August 2011.

### Shareholder Returns

The Company's return to shareholders is as follows:

	<i>Growth</i>	<b>2011</b>	2010
Basic and diluted profit per share (cents)	<i>19%</i>	<b>1.41</b>	1.18

### Performance Indicators

Management and the Board monitor the Group's overall performance, from the execution of its strategic plan through to the performance of the Group against operating plans and financial budgets.

The Board, together with management have identified key performance indicators (KPIs) that are used to monitor performance. Directors receive the KPIs for review prior to each monthly Board meeting allowing all directors to actively monitor the Group's performance.

### Review of Financial Condition

#### *Liquidity and Capital Resources*

The statement of cash flows illustrates that there was a net cash inflow of \$1,231,739 from operating activities during the year (2010: \$1,448,161).

Cash flows used for investing activities amounted to \$1,188,744 (2010: \$802,129) of which \$209,596 related to the acquisition of plant and equipment (2010: \$802,129) and \$979,148 related to the acquisition of businesses during the year (2010: nil).

Total cash inflows were supplemented by \$546,545 (2010: \$766,027) received to finance equipment acquisitions and annual professional indemnity insurance premiums and \$1,000,000 (2010: \$227,000) additional draw down of bank floating bill facilities early in the financial year.

Finally, there was a cash outflow of \$441,556 (2010: \$131,122) for the payment of dividends and payments for share issue expenses of \$17,389 (2010: \$115,058).

The net tangible asset backing of the Group was 5.23 cents per share (2010: 6.54 cents) a reduction of 20% over the prior year. This reduction is primarily due to the acquisition of Wojtowicz Kelly Legal (refer note 29) in February 2011 which is not expected to add materially to profitability until the 2012 financial year.

## Directors' Report (continued)

### *Asset and capital structure*

	CONSOLIDATED	
	2011 \$	2010 \$
Net assets	<b>18,012,663</b>	16,197,914
Less: Cash and cash equivalents net of overdrafts	<b>(2,435,615)</b>	(1,948,949)
<b>Total capital employed</b>	<b>15,577,048</b>	14,248,965

The level of gearing in the Company is within acceptable limits set by the directors given the implications of the business acquisitions and payment of tax liabilities during the year.

### *Share issues during the year*

The Company has issued 10,679,662 shares (2010: 17,138,488 shares) during the year:

- 884,550 shares to employees under the Deferred Employee Share Plan;
- 2,143,112 shares to shareholders under the dividend reinvestment plan for the 2011 interim dividend (May 2011);
- 1,800,000 shares to the vendors of The Argyle Partnership in final satisfaction of deferred consideration payable (September 2010);
- 125,000 shares in part satisfaction of 2010 profit share entitlements (December 2010); and
- 5,727,000 shares to vendors of the legal practice of Wojtowicz Kelly Legal (February 2011).

### **Risk Management**

The Group takes a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the Board.

The Board has established a separate Audit and Risk Management Committee. With respect to recognising and managing risk, the Committee is responsible for ensuring the Company has a sound system of risk oversight, management and internal control. This system is designed to identify, analyse, action, monitor and report risks; including governance, strategic, operational and compliance risk; and inform the Board of material changes to the Group's risk profile.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- Board approval of a strategic plan, which encompasses the Group's vision, mission, strategies, goals and priorities, designed to meet stakeholders' needs and manage business risk;
- Implementation of Board approved budget and Board monitoring of progress against budget, including the establishment and monitoring of financial KPIs; and
- The establishment of committees to report on specific business risks.

## **Directors' Report (continued)**

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### **SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

The acquisition of Wojtowicz Kelly Legal on 1 February 2011 has further strengthened the legal services division of the Group. Wojtowicz Kelly Legal (incorporating Civic Legal, the Simpson Kelly Group, Gibson Tovey & Associates, All Property Conveyancing and Jan Simpson Settlements) merged with existing member firm Tax Lawyers Australia Pty Ltd trading as Brett Davies Lawyers and the merged business now trades as Civic Legal.

Wojtowicz Kelly Legal is an established and well regarded Perth CBD based commercial law firm delivering services to commercial enterprises and private individuals predominantly in Western Australia, but also to enterprises based in Southeast Asia with Australian interests. The business was established in 1994 and has developed a range of legal services including corporate and commercial, property, litigation, family, migration advice, local government law and settlements (conveyancing).

The Civic Legal business also has an office in Rockingham, south of Perth, and a representative office in Singapore.

There have been no other significant changes in the state of affairs during the year ended 30 June 2011.

### **SIGNIFICANT EVENTS AFTER THE REPORTING DATE**

#### **Acquisition of legal practice of PLN Lawyers**

On 1 August 2011 the Company acquired the legal practice of PLN Lawyers (PLN) under tuck-in arrangements with the existing member firm Argyle Lawyers.

PLN is an established and highly regarded Sydney based commercial law firm. PLN's mission is to be the leading provider of legal and business advisory services to corporations and international institutions operating in the Pacific region. PLN's clients include Australian, Asian, American and European based companies and financial institutions with business interests in the Asia-Pacific region.

PLN provides a range of legal services including Corporate and Financial Services, Travel and Tourism, Aviation Industry services, Infrastructure and Development, Insurance, Insolvency, Mergers, Acquisitions and IPO's, Mining and Petroleum, Telecommunications and Information Technology.

PLN will tuck-in with existing member firm Argyle, with the combined firm having 6 Principals, approximately 40 staff and annual fee income of more than \$10m.

Further details of the acquisition are provided in note 33 and in the ASX release on 1 August 2011.

#### **Declaration of Final Dividend**

The Directors have declared a fully franked final dividend of 0.6 cents. The dividend will have a record date of 14 October 2011 and a payment date of 4 November 2011. There will be a dividend reinvestment plan available.

## **Directors' Report (continued)**

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### **Renewal of Bank Funding Facilities**

After balance date the Company renegotiated bank funding facilities which were due to expire in September 2011.

As at 30 June 2011, the Company had \$3.05m in bank funding facilities available of which \$1.95m was drawn down. After balance date, the facilities were renegotiated with an increased limit of \$3.50m, with renewal dates of September 2012 and September 2013.

Further details are provided in note 33.

### **LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

Integrated Legal Holdings Limited will continue to seek growth in earnings per share through the development and growth of existing member firms and the acquisition of additional member firms throughout Australia.

### **ENVIRONMENTAL REGULATION**

The Group's operations are not subject to any significant environmental, Commonwealth or State, regulations or laws.

### **INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS**

Each of the directors and secretary of the Company has entered into a deed with the Company whereby the Company has provided certain contractual rights of access to books and records of the Company to those directors and secretary and to effect and maintain insurance in respect of the directors and officers liability and provide certain indemnities to each of the directors, to the extent permitted by section 199B of the *Corporations Act 2001*.

The Company has put in place Prospectus Insurance and Directors and Officers Liability Insurance. The contract prohibits the disclosure of the nature of the liability and/or the amount of the premium.

### **DIRECTORS' MEETINGS**

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director was as follows:

	Directors' Meetings		Audit and Risk Management Committee Meetings	
	Eligible to attend	Attended	Eligible to attend	Attended
J Dawkins	11	10	8	7
A Tregonning	11	11	8	8
G Fowler	11	11	8	8

## **Directors' Report (continued)**

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### **Committee membership**

As at the date of this report, the Company had an Audit and Risk Management Committee of the Board of Directors.

The Audit and Risk Management Committee comprises all members of the Board of directors and is chaired by Ms Tregonning.

### **AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES**

A copy of the auditor's independence declaration received by the directors in relation to the audit for the year is provided with this report on page 39.

### **NON-AUDIT SERVICES**

Non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	<b>CONSOLIDATED</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Tax compliance	<b>17,500</b>	31,453
Taxation services	-	5,500
	<b>17,500</b>	<b>36,953</b>

## Directors' Report (continued)

### REMUNERATION REPORT (audited)

This remuneration report for the year ended 30 June 2011 outlines the remuneration arrangements of the Company and the Group in accordance with the requirements of the *Corporations Act 2001* and its Regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report details the remuneration arrangements for key management personnel (KMP) of the Group who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the Parent and the Group receiving the highest remuneration.

For the purposes of this report, the term "executive" encompasses the Chief Executive and senior executives of the Parent and the Group.

The remuneration report is presented under the following sections:

1. Individual key management personnel disclosures
2. Remuneration at a glance
3. Board oversight of remuneration
4. Non-executive director remuneration arrangements
5. Executive remuneration arrangements
6. Company performance and the link to remuneration
7. Executive contractual arrangements
8. Equity instruments disclosures

#### 1. Individual key management personnel disclosures

Details of KMP including the top five remunerated executives of the Parent and the Group are set out below:

<i>i) Directors</i>	
J Dawkins	Non-Executive Chairman (non-executive)
A Tregonning	Non-Executive Director
G Fowler	Managing Director and Chief Executive
<i>ii) Executives</i>	
B Taylor	Managing Principal, Talbot Olivier
P Bobbin	Managing Principal, Argyle Lawyers
M Douglass <sup>(1)</sup>	Principal, Argyle Lawyers (to 31 August 2011) Managing Principal, Signet Lawyers (from 1 September 2011)
A Ireland	Principal, Argyle Lawyers
B Davies	Managing Principal, Brett Davies Lawyers (to 31 January 2011)
A Quahe	Managing Principal, Civic Legal (from 1 February 2011)
JM Rudd	Chief Financial Officer and Company Secretary

<sup>(1)</sup> Mark Douglass, Principal of Argyle Lawyers to 31 August 2011, became the Managing Principal of specialist taxation litigation and advice legal firm known as Signet Lawyers which commenced trading on 1 September 2011.

## Directors' Report (continued)

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### REMUNERATION REPORT (audited) (continued)

There were no other changes to KMP after the reporting date and before the date the financial report was authorised for issue.

#### 2. Remuneration at a glance

Integrated Legal Holdings Limited's remuneration strategy is designed to attract, motivate and retain employees and non-executive directors (NEDs) by identifying and rewarding high performers and recognising the contribution of each employee to the continued growth and success of the Group.

The remuneration policy is to position total employment cost close to the median of its defined talent market to ensure a competitive offering.

For the 2011 performance period, 100% of the short-term incentive payment is based on attainment of a financial measure (net profit before tax or earnings per share). In recognition of the performance of the Group and the executives during the year, a total of \$704,234 in cash bonuses was paid to Group KMPs during the 2011 financial year.

Long term incentive awards consisting of shares that vest on attainment of a pre-determined performance goal are awarded to selected executives. The Company uses earnings per share as the performance measure for the share awards. No shares vested nor were awarded or issued during the 2011 financial year.

The remuneration of NEDs of the Company consists only of directors' fees and committee fees. Director and committee fees were indexed for inflation over the prior year fees.

#### 3. Board oversight of remuneration

##### *Remuneration assessment and approval process*

The Board of Directors of the Company is responsible for determining and reviewing remuneration arrangements for the Board and executives.

The Board will assess the appropriateness of the nature and amount of remuneration of NEDs and executives on a periodic basis by reference to relevant employment market conditions, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high performing director and executive team.

## Directors' Report (continued)

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### REMUNERATION REPORT (audited) (continued)

#### *Remuneration strategy*

Integrated Legal Holdings Limited's remuneration strategy is designed to attract, motivate and retain employees and NEDs by identifying and rewarding high performers and recognising the contribution of each employee to the continued growth and success of the Group.

To this end, key objectives of the Company's reward framework are to ensure that remuneration practices:

- are aligned to the group's business strategy;
- offer competitive remuneration benchmarked against the external market;
- provide a strong linkage between individual and group performance and rewards;
- align the interests of executives with shareholders through measurement of shareholder return;
- have a portion of executive remuneration "at risk"; and
- establish appropriate, demanding performance hurdles for variable executive remuneration.

#### *Remuneration structure*

In accordance with best practice corporate governance, the structure of NED and executive remuneration is separate and distinct.

#### **4. Non-executive director remuneration arrangements**

##### *Remuneration policy*

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed annually against inflation and fees paid to NEDs of comparable companies. The Board may also consider advice from external consultants when undertaking the annual review process.

The Company's Constitution and the ASX Listing Rules specify that the aggregate remuneration of NEDs shall be determined from time to time by a general meeting. The current aggregate remuneration level for non-executive directors, as approved by shareholders, is \$250,000 (2010: \$250,000) per annum.

The Board will not seek any increase for the NEDs pool at the 2011 AGM.

## Directors' Report (continued)

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### REMUNERATION REPORT (audited) (continued)

#### *Structure*

The remuneration of NEDs consists of directors' fees and committee fees. NEDs do not receive retirement benefits, nor do they participate in any incentive programs.

Each NED receives a base fee of \$46,597 (2010: \$45,000) for being both a director of the Company and member of the Audit and Risk Management Committee. An additional fee of \$46,597 (2010: \$45,000) is also paid if the Director is the Chairman of the Board and \$18,639 (2010: \$18,000) if the director is a Chairman of the Audit and Risk Management Committee.

The remuneration of NEDs for the financial year is detailed in table 1 on page 36 of this report.

### 5. Executive remuneration arrangements

#### *Remuneration levels and mix*

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group so as to:

- Reward executives for Group, subsidiary and individual performance against targets set by reference to appropriate benchmarks;
- Align the interests of executives with those of shareholders; and
- Ensure total remuneration is competitive by market standards.

#### *Structure*

In the 2011 financial year, the executive remuneration framework consisted of the following components:

- Fixed remuneration
- Variable remuneration:
  - Short term incentive (STI)
  - Long term incentive (LTI)

## Directors' Report (continued)

### REMUNERATION REPORT (audited) (continued)

The table below illustrates the structure of Integrated Legal Holdings Limited's executive remuneration arrangements:

Remuneration Component	Vehicle	Purpose	Link to Performance
Fixed remuneration	<ul style="list-style-type: none"> <li>Comprises base salary, superannuation contributions and other benefits</li> </ul>	<ul style="list-style-type: none"> <li>Set with reference to role, market and experience.</li> <li>Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits such as parking. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group.</li> </ul>	<ul style="list-style-type: none"> <li>Remuneration level is determined annually and is based on a financial scale linked to individual performance in the previous financial year.</li> </ul>
STI component	<ul style="list-style-type: none"> <li>Awards are made in the form of cash payments or share based payments (equity settled).</li> </ul>	<ul style="list-style-type: none"> <li>Rewards executives for their contribution to achievement of Group and business unit outcomes, as well as individual KPIs.</li> </ul>	<ul style="list-style-type: none"> <li>Linked to financial measures including earnings per share and achievement of profitability targets.</li> </ul>
LTI component	<ul style="list-style-type: none"> <li>Awards are made in the form of cash payments or share based payments (equity settled).</li> </ul>	<ul style="list-style-type: none"> <li>Rewards executives for their contribution to the creation of shareholder value over the longer term.</li> </ul>	<ul style="list-style-type: none"> <li>Earnings per share is the key financial metric.</li> </ul>

#### **Fixed remuneration**

Fixed remuneration is reviewed annually by the Board. The process consists of a review of Company, subsidiary and individual performance, relevant comparative remuneration externally and internally and, where appropriate, external advice on policies and practices. The Board has access to external advice independent of management, where appropriate.

The fixed remuneration component of executives is detailed in table 1 on page 36.

#### **Variable remuneration - short term incentive (STI)**

The objective of the STI program is to link the achievement of the Group's operational targets with the remuneration received by the executives charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the executive to achieve the operational targets and such that the cost to the Group is reasonable in the circumstances.

## Directors' Report (continued)

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### REMUNERATION REPORT (audited) (continued)

STI awards vest at the end of the period over which the performance targets are measured, and are forfeited if employment is terminated before the vesting date. However, the Board has discretion to approve pro-rata payments up to the termination date, taking into account the circumstances.

#### Managing Director and Chief Executive

The Managing Director and Chief Executive is entitled to a maximum performance bonus of \$130,000 (2010: \$160,000) payable in cash or shares at the discretion of the Board, subject to the achievement of specific earnings per share (EPS) performance targets, calculated based on earnings before performance bonus expense recognised for the 2011 financial year. The targets for the 2011 financial year were:

- The maximum performance bonus is payable where the Group achieves 25% EPS growth.
- Where the Group achieves between 15% and 25% EPS growth, the amount payable is 40% of the maximum bonus, plus an additional 6% (of maximum bonus) for every 1% in excess of 15% EPS growth, to a maximum of 100% bonus at 25% EPS growth.
- Where the group achieves between 10% and 15% EPS growth, the amount payable is 20% of the maximum bonus, plus an additional 4% (of maximum bonus) for every 1% in excess of 10% EPS growth, to a maximum of 40% bonus at 15% EPS growth.
- Where the Group achieves less than 10% EPS growth for the 2011 financial year, any bonus payable is at the discretion of the Board.

These targets are measured using financial reporting information and reviewed by the Board. If performance targets are not achieved, the performance bonus may still be paid at the discretion of the Board, taking into account the circumstances.

#### Member Firm Principals

Actual STI payments are granted to subsidiary member firms dependent on the extent to which specific performance hurdles are met. The STI payments are calculated as a percentage of an amount by which profitability of a subsidiary exceeds a pre-determined profit hurdle for that subsidiary.

Profit hurdles are approved by the Board at the time of acquisition of a member firm.

The STI payment for a subsidiary is then allocated between Principals of that subsidiary based on pre-determined KPIs, including fee income attributable to each Principal.

STI payments may be paid as a cash bonus, up to a maximum of 40% of the accrued bonus, at quarterly intervals during the financial year subject to satisfaction of member firm KPI targets. Accrued bonuses that remain unpaid at year end are delivered as a cash bonus or shares within 10 days after the release of the audited financial statements each financial year.

## Directors' Report (continued)

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### REMUNERATION REPORT (audited) (continued)

#### Chief Financial Officer and Company Secretary

For the six month period ended 31 August 2010, the Chief Financial Officer and Company Secretary was entitled to a maximum performance bonus of \$7,000. If achievement of performance targets is not successful, a lesser amount may be payable at the discretion of the Managing Director, taking into account the individual circumstances contributing to non-achievement of those targets.

Performance targets are achieved upon satisfaction of key deliverables involving the realisation of budgeted net profit before tax and operating cash flows.

From 1 September 2010, the Chief Financial Officer and Company Secretary is entitled to a maximum performance bonus of \$17,600, payable in cash or shares at the discretion of the Board, subject to the achievement of specific earnings per share (EPS) performance targets, calculated based on earnings before performance bonus expense recognised for the 2011 financial year. The targets for the 2011 financial year were:

- The maximum performance bonus is payable where the Group achieves 25% EPS growth.
- Where the Group achieves between 15% and 25% EPS growth, the amount payable is 40% of the maximum bonus, plus an additional 6% (of maximum bonus) for every 1% in excess of 15% EPS growth, to a maximum of 100% bonus at 25% EPS growth.
- Where the group achieves between 10% and 15% EPS growth, the amount payable is 20% of the maximum bonus, plus an additional 4% (of maximum bonus) for every 1% in excess of 10% EPS growth, to a maximum of 40% bonus at 15% EPS growth.
- Where the Group achieves less than 10% EPS growth for the 2011 financial year, any bonus payable is at the discretion of the Board.

These targets are measured using financial reporting information and reviewed by the Board. If performance targets are not achieved, the performance bonus may still be paid at the discretion of the Board, taking into account the circumstances.

#### ***STI awards for 2011***

#### Managing Director and Chief Executive

After consideration of performance against KPIs, the Board determined that the amount to be paid to the Managing Director and Chief Executive would be \$130,000 (2010: \$64,000). Payment was accrued at 30 June 2011 and paid in cash in September 2011. The maximum STI bonus achievable was \$130,000 and the minimum was nil.

There were no alterations to the Managing Director's STI bonus plan during the year.

## Directors' Report (continued)

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### REMUNERATION REPORT (audited) (continued)

#### Member Firm Principals

The Managing Director reviews the STI bonus payments for a subsidiary for subsequent allocation between Principals of that subsidiary based on pre-determined key performance indicators, which may include fee income attributable to each Principal, which is measured using financial reporting information.

The maximum STI cash bonus is calculated as a percentage of an amount by which profitability of a subsidiary exceeds a pre-determined profit hurdle for that subsidiary. The minimum STI cash bonus payable is nil.

During the 2011 financial year, the bonus achieved and vested for Mr Taylor, Managing Principal of Talbot Olivier, was \$74,846 (2010: \$44,103), for Mr Bobbin, Managing Principal of Argyle Lawyers, was \$238,394 (2010: \$300,000), for Mr Douglass, Principal of Argyle Lawyers, was \$238,394 (2010: \$400,000), for Mr Ireland, Principal of Argyle Lawyers, was nil (2010: \$50,000), for Mr Davies, Managing Principal of Brett Davies Lawyers (to 31 January 2011), was nil (2010: nil) and for Mr Quahe, Managing Principal of Civic Legal (from 1 February 2011), was nil (2010: n/a).

The bonuses achieved and vested during 2011 will be paid within 10 days after the release of the 2011 Annual Report, subject to achievement of KPI targets in relation to firm debtor management.

There have been no alterations to the STI bonus plan during the year.

#### Chief Financial Officer and Company Secretary

The Managing Director approved the STI bonus payment for the six months ended 31 August 2010. The maximum cash bonus is \$7,000 and the minimum is nil.

\$5,000 (2010: \$5,400) of STI awards in respect of the six month period ended 31 August 2010 vested during the 2011 financial year with 29% (2010: 10%) forfeited. Board discretion was given to the payment of a cash bonus given that performance conditions were not fully met. This was paid in cash in October 2010.

Under the new STI bonus arrangements, commencing from 1 September 2010 and after consideration of performance against KPIs, the Board determined that the amount to be paid to the Chief Financial Officer and Company Secretary would be \$17,600 (2010: \$10,400). Payment was accrued at 30 June 2011 and paid in cash in September 2011. The maximum STI bonus achievable was \$17,600 and the minimum was nil.

Other than the new arrangements from 1 September 2010 noted above, there were no other alterations to the Chief Financial Officer and Company Secretary's STI bonus plan during the year.

## Directors' Report (continued)

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### REMUNERATION REPORT (audited) (continued)

#### *Variable remuneration - long term incentives (LTI)*

##### Chief Financial Officer and Company Secretary

The LTI benefits are delivered on a discretionary basis by the Board in the form of ordinary shares in the Company under the Deferred Employees Share Plan. Such grants are only made to executives who are able to influence the generation of shareholder wealth and thus have an impact on the Group's performance against the relevant long term performance hurdle.

No shares were granted to the Chief Financial Officer and Company Secretary during the year (2010: 40,000 shares).

Shares issued in prior years will vest in stages during the three year period from issue date following the successful achievement of the performance criteria specified below, and provided that the Chief Financial Officer and Company Secretary remains in the employment of the Company for each vesting period. Should the Chief Financial Officer and Company Secretary cease employment prior to this date, unvested shares will be forfeited.

Performance criteria attached to the shares are as follows:

- 100% of shares will vest if cumulative growth in the Company's earnings per share over the three year term is 45% or more.
- Shares will commence vesting after achieving 30% growth in the Company's earnings per share. 50% of shares will vest at 30% growth in earnings per share, with an additional 5% of shares vesting for every 1.5% of earnings per share growth above 30%.
- If performance targets are not achieved, the shares may still vest at the discretion of the Board, taking into account the circumstances.

Performance criteria will be measured using financial reporting information. At 30 June 2011, no shares under the LTI plan have vested (2010: nil) and none were forfeited (2010: nil).

#### ***Executive share trading policy***

The Company has in place a share trading policy which imposes trading restrictions on officers and employees of the Company and its related entities that are considered to be in possession of inside information.

Executives and directors are prohibited from using derivatives or hedge instruments or otherwise entering into transactions (including margin loans) that operate or are intended to operate to limit the economic risk of security holdings over vested or unvested shares in the Company without the written permission of the Board.

This is monitored by the Company Secretary on a monthly basis through review of statements from the share registry service provider, Computershare Investor Services Pty Limited.

Furthermore, executives and directors are required to declare their intention to trade in shares to the Company Secretary, which is then presented to the Board.

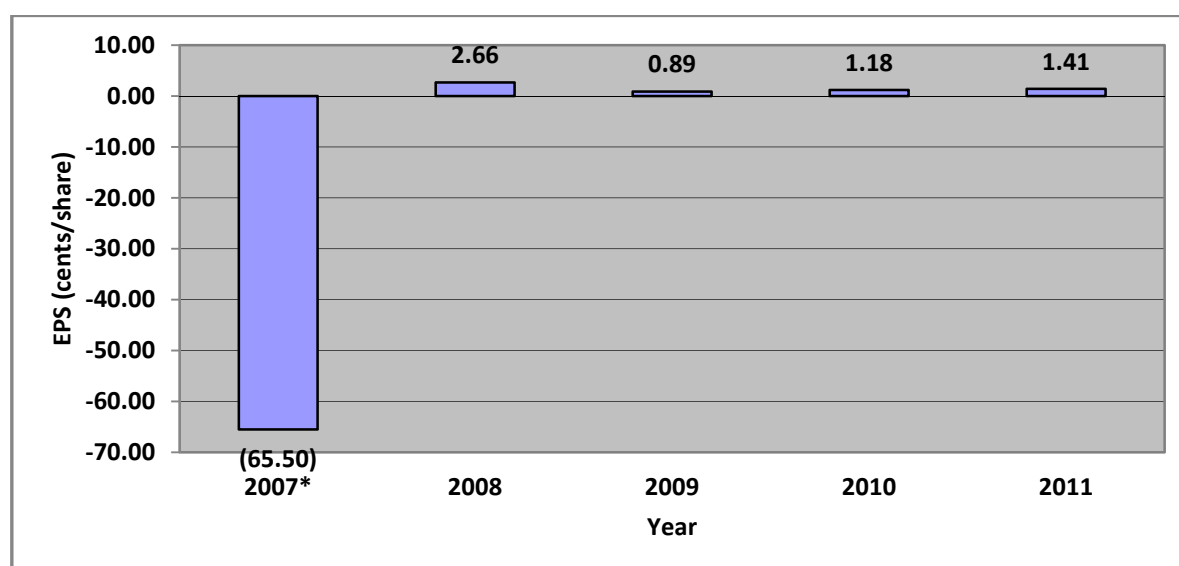
## Directors' Report (continued)

### REMUNERATION REPORT (audited) (continued)

#### 6. Company performance and the link to remuneration

Integrated Legal Holdings Limited's remuneration policy aims to connect the remuneration received by executives with earnings and the creation of shareholder wealth.

Group performance is reflected in the movement of the Group's EPS over time. The graph below shows Integrated Legal Holdings Limited's EPS history since incorporation in June 2006:



\*For the period from incorporation on 26 June 2006 to 30 June 2007

The 2007 EPS result of -65.50 was affected by the valuation of shares issued to foundation partners and supporters at a deemed value of 50 cents per share prior to listing of the Company and acquisition of legal practices.

In the 2008 financial year, the EPS was positively impacted through the acquisition of four legal practices and an information technology business.

In the 2009 financial year a number of factors influenced the reduction of EPS. Corporate expenses increased with the full year effect of the costs of a Managing Director and Chief Executive and Chief Financial Officer and Company Secretary, the foundation member firms required additional investment to take advantage of the growth opportunities available to them, the prevailing economic conditions negatively affected revenues, and the decision to write-off a number of aged debtor balances which had become unrecoverable as a result of the economic environment.

The increase in EPS during the 2010 financial year represented the full year effect of business acquisitions in the prior year and normalised trading activities across the Group and in the Corporate office.

In the 2011 financial year, EPS continued to be strong with a 19% increase over the prior year. The increase was driven by growth in business performance (51% increase in net profit after tax) and improvement in best practices to support improved margins and cost efficiencies.

## **Directors' Report (continued)**

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### **REMUNERATION REPORT (audited) (continued)**

The Company has good businesses with strong market positions and growth prospects.

The directors believe that the business model remains strong and the company is on target to achieve its objectives.

The table below summarises the consequence of the Groups' performance on shareholder value for the financial year and the previous four financial years in the form of changes in share price and return on equity (in accordance with the requirements of the Corporations Act 2001):

<b>Financial year ended 30 June</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Closing share price cents per share as at 30 June	50.0*	11.0	14.5	10.0	12.0
Dividends per share (cents)	0.0	2.2	0.00	0.75	0.90
Return on equity	0%	20%	0%	8%	8%

\* The 2007 share price had a deemed value of 50 cents per share prior to listing of the Company and acquisition of legal practices.

### **7. Executive contractual arrangements**

#### Managing Director and Chief Executive

There is an employment contract in place between Mr Fowler and Integrated Legal Holdings Limited for Mr Fowler's appointment as Managing Director and Chief Executive of the Company. The contract commenced on 28 April 2008 and continues indefinitely unless terminated according to the provisions of the contract.

Mr Fowler receives fixed remuneration of \$325,000 (2010: \$272,500) per annum (inclusive of superannuation).

Under the terms of the contract, Mr Fowler's duties include, but are not limited to:

- Implementing the business plan as determined by the Company;
- Carrying out such lawful directions as given by the Company; and
- Expanding and developing the business.

The agreement may be terminated without notice by Integrated Legal Holdings Limited if:

- Mr Fowler commits a serious breach of the agreement;
- Mr Fowler commits any act that amounts to a repudiation of the agreement;
- Mr Fowler engages in serious or wilful misconduct; or
- It is permitted for any reason under relevant legislation.

The agreement may also be terminated by either party with six month's notice in writing of termination. In lieu of notice, Mr Fowler would be entitled to payment equivalent to six months of his salary at the time notice is given.

## Directors' Report (continued)

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### REMUNERATION REPORT (audited) (continued)

#### Member Firm Principals

##### **B Davies – Managing Principal, Brett Davies Lawyers (to 31 January 2011)**

Mr Davies is employed under an initial three year term contract and continues indefinitely unless terminated by either party with six months' notice in writing of termination.

Mr Davies was paid a salary of \$200,000 per annum (inclusive of superannuation) (2010: \$200,000) up to 31 January 2011, and potentially a bonus paid as an additional salary (the bonus payment is calculated at a percentage of the amount by which the audited net profit before tax of the Principal's law firm exceeds a pre-determined profit hurdle).

The employment contract may be terminated without notice if the employee commits a serious breach of any provision of their contract, is unable to or is prohibited from holding a license to practice law, commits any act that amounts to repudiation of the contract or engages in serious and wilful misconduct.

Mr Davies is subject to strict solicitation and competition restraints for a period of 12 months following termination.

In lieu of notice, Mr Davies would be entitled to payment equivalent to six months of his salary at the time notice is given.

Mr Davies ceased to be the Managing Principal of Brett Davies Lawyers and a KMP on 31 January 2011, when the business merged with newly acquired member firm, Wojtowicz Kelly Legal. The new business trades under the name Civic Legal with Anthony Quahe as Managing Principal and Mr Davies as Principal.

##### **B Taylor – Managing Principal, Talbot Olivier**

Mr Taylor is employed under an initial four year term contract and continues indefinitely unless terminated by either party with six months' notice in writing of termination.

Mr Taylor is paid a salary of \$412,000 per annum (inclusive of superannuation) (2010: \$400,000) and potentially a bonus paid as an additional salary (the bonus payment is calculated as a share of the Talbot Olivier bonus pool, being a percentage of the amount by which the audited net profit before tax of the Principal's law firm exceeds a pre-determined profit hurdle).

The employment contract may be terminated without notice if the employee commits a serious breach of any provision of their contract, is unable to or is prohibited from holding a license to practice law, commits any act that amounts to repudiation of the contract or engages in serious and wilful misconduct.

## Directors' Report (continued)

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### REMUNERATION REPORT (audited) (continued)

Mr Taylor is also subject to strict solicitation and competition restraints for a period of 12 months following termination.

In lieu of notice, Mr Taylor would be entitled to payment equivalent to six months of his salary at the time notice is given.

#### **P Bobbin – Managing Principal, Argyle Lawyers A Ireland and M Douglass – Principals, Argyle Lawyers**

Messrs Bobbin, Ireland and Douglass are employed under an initial four year term contract and continue indefinitely unless terminated by either party with six months' notice in writing of termination.

Messrs Bobbin, Ireland and Douglass are paid a salary of \$422,300 per annum (inclusive of superannuation) (2010: \$410,000) and potentially a bonus paid as an additional salary (the bonus payment is calculated at a share of the Argyle Lawyers bonus pool, being a percentage of the amount by which the audited net profit before tax of the Principals' law firm exceeds a pre-determined profit hurdle).

The employment contracts may be terminated without notice if the employees commit a serious breach of any provision of their contract, are unable to or are prohibited from holding a license to practice law, commits any act that amounts to repudiation of the contract or engages in serious and wilful misconduct.

Messrs Bobbin, Ireland and Douglass are also subject to strict solicitation and competition restraints for a period of 12 months following termination.

In lieu of notice, Messrs Bobbin, Ireland and Douglass would be entitled to payment equivalent to six months of their salary at the time notice is given.

#### **A Quahe – Managing Principal, Civic Legal**

Mr Quahe is employed under an initial four year term contract and continues indefinitely unless terminated by either party with six months' notice in writing of termination.

Mr Quahe is paid a salary of \$225,000 per annum (inclusive of superannuation) (2010: nil) and potentially a bonus paid as an additional salary (the bonus payment is calculated as a share of the Civic Legal bonus pool, being a percentage of the amount by which the audited net profit before tax of the Principal's law firm exceeds a pre-determined profit hurdle).

The employment contract may be terminated without notice if the employee commits a serious breach of any provision of their contract, is unable to or is prohibited from holding a license to practice law, commits any act that amounts to repudiation of the contract or engages in serious and wilful misconduct.

## Directors' Report (continued)

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### REMUNERATION REPORT (audited) (continued)

Mr Quahe is also subject to strict solicitation and competition restraints for a period of 12 months following termination.

In lieu of notice, Mr Quahe would be entitled to payment equivalent to six months of his salary at the time notice is given.

#### Chief Financial Officer and Company Secretary

The Chief Financial Officer and Company Secretary has a standard contract. Mrs Rudd receives fixed remuneration of \$176,000 per annum (inclusive of superannuation) (2010: \$160,000).

The Company may terminate the employment agreement by providing one month written notice or providing payment in lieu of the notice period (based on the fixed component of remuneration). The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs, the executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination.

Mrs Rudd's contract contains standard obligations to perform the duties of an employee.

In lieu of notice, Mrs Rudd would be entitled to payment equivalent to one month of her salary at the time notice is given.

## 8. Equity instruments disclosures

### *Unissued shares*

The Company has not issued any options during the year.

## Directors' Report (continued)

### REMUNERATION REPORT (audited) (continued)

#### Remuneration of key management personnel (KMP) and the five highest paid executives of the Company and the Group

Table 1: Remuneration for the year ended 30 June 2011

	Short-term			Post Employment	Long-term		Share-based Payment	Total \$	Performance related %
	Salary & Fees \$	Cash Bonus \$	Non monetary benefits \$	Superannuation \$	Long Service benefits <sup>1</sup> \$	Other Benefits \$	Shares \$		
<b>Non-executive directors</b>									
J Dawkins	62,662	-	-	30,000	-	-	-	92,662	0.0%
A Tregonning	42,168	-	-	22,696	-	-	-	64,864	0.0%
<b>Sub-total non-executive directors</b>	<b>104,830</b>	<b>-</b>	<b>-</b>	<b>52,696</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>157,526</b>	
<b>Executive directors</b>									
G Fowler <sup>1</sup>	305,850	130,000	-	19,150	3,218	31,506	-	489,724	26.5%
<b>Sub-total executive directors</b>	<b>305,850</b>	<b>130,000</b>	<b>-</b>	<b>19,150</b>	<b>3,218</b>	<b>31,506</b>	<b>-</b>	<b>489,724</b>	
<b>Other key management personnel</b>									
B Taylor <sup>2</sup>	424,447	74,846	-	15,199	5,849	-	-	520,341	14.4%
P Bobbin <sup>2</sup>	372,299	238,394	-	50,000	2,493	-	-	663,186	35.9%
M Douglass <sup>2</sup>	373,118	238,394	-	50,000	2,244	-	-	663,756	35.9%
A Ireland	372,299	-	-	50,000	2,493	-	-	424,792	0.0%
A Quahe <sup>3</sup>	49,326	-	-	45,000	-	-	-	94,326	0.0%
B Davies <sup>4</sup>	122,324	-	-	11,009	2,146	-	-	135,479	0.0%
JM Rudd <sup>2</sup>	159,021	22,600	-	14,312	1,990	-	4,679	202,602	11.2%
<b>Sub-total other KMP</b>	<b>1,872,834</b>	<b>574,234</b>	<b>-</b>	<b>235,520</b>	<b>17,215</b>	<b>-</b>	<b>4,679</b>	<b>2,704,482</b>	
<b>Total</b>	<b>2,283,514</b>	<b>704,234</b>	<b>-</b>	<b>307,366</b>	<b>20,433</b>	<b>31,506</b>	<b>4,679</b>	<b>3,351,732</b>	

<sup>1</sup> Relates to the interest free component of loans to KMP (note 27c)).

<sup>2</sup> Cash bonuses of \$699,234 accrued as at 30 June 2011 were paid in the 2012 financial year. A further \$5,000 in cash bonuses relating to the year ended 30 June 2011 was paid in the 2011 financial year.

<sup>3</sup> Mr Quahe became a Group executive from 1 February 2011.

<sup>4</sup> Mr Davies ceased to be a Group executive on 31 January 2011.

INTEGRATED LEGAL HOLDINGS LIMITED  
ACN 120 394 194

## Directors' Report (continued)

### REMUNERATION REPORT (audited) (continued)

Remuneration of key management personnel (KMP) and the five highest paid executives of the Company and the Group  
Table 2: Remuneration for the period ended 30 June 2010

	Short-term			Post Employment	Long-term		Share-based Payment	Total	Performance related
	Salary & Fees	Cash Bonus	Non monetary benefits	Superannuation	Long Service benefits	Other Benefits <sup>1</sup>	Shares		
	\$	\$	\$	\$	\$	\$	\$		
<b>Non-executive directors</b>									
J Dawkins	67,000	-	-	30,000	-	-	-	97,000	0.0%
A Tregonning	42,376	-	-	24,999	-	-	-	67,375	0.0%
<b>Sub-total non-executive directors</b>	<b>109,376</b>	<b>-</b>	<b>-</b>	<b>54,999</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>164,375</b>	
<b>Executive directors</b>									
G Fowler <sup>1</sup>	270,833	64,000	-	24,375	1,372	107,122	-	467,702	13.7%
<b>Sub-total executive directors</b>	<b>270,833</b>	<b>64,000</b>	<b>-</b>	<b>24,375</b>	<b>1,372</b>	<b>107,122</b>	<b>-</b>	<b>467,702</b>	
<b>Other key management personnel</b>									
B Taylor <sup>2</sup>	385,539	44,103	-	14,461	5,353	-	-	449,456	9.8%
P Bobbin <sup>2</sup>	360,000	300,000	-	49,999	665	-	-	710,664	42.2%
M Douglass <sup>2,3</sup>	370,000	400,000	-	49,999	640	-	-	825,127	48.5%
A Ireland <sup>2,3</sup>	360,000	50,000	-	49,999	665	-	-	460,664	10.9%
B Davies	129,969	-	-	11,697	-	-	-	141,686	0.0%
JM Rudd <sup>2</sup>	157,030	5,400	-	14,312	858	-	4,685	182,285	3.0%
<b>Sub-total other KMP</b>	<b>1,767,026</b>	<b>799,503</b>	<b>-</b>	<b>190,467</b>	<b>8,181</b>	<b>-</b>	<b>4,685</b>	<b>2,769,862</b>	
<b>Total</b>	<b>2,147,235</b>	<b>863,503</b>	<b>-</b>	<b>269,841</b>	<b>9,553</b>	<b>107,122</b>	<b>4,685</b>	<b>3,401,939</b>	

<sup>1</sup> Relates to the interest free component of loans to KMP (note 27(c)).

<sup>2</sup> Cash bonuses of \$841,440 accrued as at 30 June 2010 were paid in the 2011 financial year. A further \$12,063 in cash bonuses relating to the year ended 30 June 2010 was paid in the 2010 financial year.

<sup>3</sup> Mr Douglass and Mr Ireland became Group executives from 1 July 2009.

## Directors' Report (continued)

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Signed in accordance with a resolution of the directors.




G Fowler  
Managing Director

Sydney, 28 September 2011

## Auditor's Independence Declaration to the Directors of Integrated Legal Holdings Limited

In relation to our audit of the financial report of Integrated Legal Holdings Limited for the financial year ended 30 June 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'G H Meyerowitz'.

G H Meyerowitz  
Partner  
28 September 2011

## Corporate Governance Statement

The Board of directors of Integrated Legal Holdings Limited is responsible for the corporate governance of the Group having regard to the ASX Corporate Governance Council (CGC) published guidelines as well as its corporate governance principals and recommendations. The Board guides and monitors the business and affairs of Integrated Legal Holdings Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Corporate Governance policies disclosed in this report represents the latest guidance released by the Australian Stock Exchange (ASX) for which, application is not mandatory for the 2011 financial year but is required for the 2012 financial year.

The table below summarises the Company's compliance with the CGC's recommendations:

	Recommendation	Comply Yes/No	Reference/ explanation	ASX Listing Rule/CGC recommendations
<b>Principal 1 – Lay solid foundations for management and oversight</b>				
1.1	Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.	Yes		ASX CGC 1.1
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes		ASX CGC 1.2
1.3	Companies should provide the information indicated in the guide to reporting on Principal 1.	Yes		ASX CGC 1.3
<b>Principal 2 – Structure the Board to add value</b>				
2.1	A majority of the Board should be independent directors.	Yes	(a)	ASX CGC 2.1
2.2	The chair should be an independent director.	Yes	(a)	ASX CGC 2.2
2.3	The roles of chair and chief executive officer (CEO) should not be exercised by the same individual.	Yes		ASX CGC 2.3
2.4	The Board should establish a nomination committee.	No	(b)	ASX CGC 2.4
2.5	Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors.	Yes		ASX CGC 2.5
2.6	Companies should provide the information indicated in the guide to reporting on Principal 2.	Yes		ASX CGC 2.6
<b>Principal 3 – Promote ethical and responsible decision-making</b>				
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> <li>• the practices necessary to maintain confidence in the Company's integrity</li> <li>• the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders</li> <li>• the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul>	Yes		ASX CGC 3.1
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.	Yes		ASX CGC 3.2

## Corporate Governance Statement (continued)

	Recommendation	Comply Yes/No	Reference/explanation	ASX Listing Rule/CGC recommendations
<b>Principal 3 – Promote ethical and responsible decision-making (continued)</b>				
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.	Yes		ASX CGC 3.3
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.	Yes		ASX CGC 3.4
3.5	Companies should provide the information indicated in the guide to reporting on Principal 3.	Yes		ASX CGC 3.5
<b>Principal 4 – Safeguard integrity in financial reporting</b>				
4.1	The Board should establish an audit committee.	Yes		ASX CGC 4.1
4.2	The audit committee should be structured so that it: <ul style="list-style-type: none"> <li>• consists only of non-executive directors</li> <li>• consists of a majority of independent directors</li> <li>• is chaired by an independent chair, who is not chair of the Board</li> <li>• has at least three members.</li> </ul>	No	(c)	ASX CGC 4.2 ASX LR 12.7
4.3	The audit committee should have a formal charter.	Yes		ASX CGC 4.3
4.4	Companies should provide the information indicated in the guide to reporting on Principal 4.	Yes		ASX CGC 4.4
<b>Principal 5 – Make timely and balanced disclosure</b>				
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes		ASX CGC 5.1
5.2	Companies should provide the information indicated in the guide to reporting on Principal 5.	Yes		ASX CGC 5.2
<b>Principal 6 – Respect the rights of shareholders</b>				
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes		ASX CGC 6.1
6.2	Companies should provide the information indicated in the guide to reporting on Principal 6.	Yes		ASX CGC 6.2

## Corporate Governance Statement (continued)

	Recommendation	Comply Yes/No	Reference/explanation	ASX Listing Rule/CGC recommendations
<b>Principal 7 – Recognise and manage risk</b>				
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes		ASX CGC 7.1
7.2	The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of this material business risks.	Yes		ASX CGC 7.2
7.3	The Board should disclose whether it has received assurance from the CEO (or equivalent) and the chief financial officer (CFO) [or equivalent] that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes		ASX CGC 7.3
7.4	Companies should provide the information indicated in the guide to reporting on Principal 7.	Yes		ASX CGC 7.4
<b>Principal 8 – Remunerate fairly and responsibly</b>				
8.1	The Board should establish a remuneration committee.	No	(d)	ASX CGC 8.1
8.2	The remuneration committee should be structure so that it: <ul style="list-style-type: none"> <li>• consists of a majority of independent directors</li> <li>• is chaired by an independent chair</li> <li>• has at least three members.</li> </ul>	No	(d)	ASX CGC 8.2
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Yes		ASX CGC 8.3
8.4	Companies should provide the information indicated in the guide to reporting on Principal 8.	Yes		ASX CGC 8.4

Integrated Legal Holdings Limited's corporate governance practices were in place throughout the year ended 30 June 2011.

The following are reference notes to the Principal Recommendation table:

- a) Whilst both non-executive directors of Integrated Legal Holdings Limited own shares in the Company, they are considered to be independent as they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement. The number of shares held by both non-executive directors are not considered material by management or by the Chair of the Audit and Risk Management Committee.

## Corporate Governance Statement (continued)

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- b) No formal nomination committee or procedures have been adopted for the identification, appointment and review of the Board membership, but the Board is committed to an informal assessment process, facilitated by the Chair in consultation with the Company's professional advisors.
- c) The Audit and Risk Management Committee membership includes an executive director, being the Managing Director and Chief Executive. Inclusion of the Managing Director and Chief Executive is required to satisfy the recommendation that the committee must consist of at least three members.
- d) No formal remuneration committee has been appointed. The remuneration of an executive director will be decided by the Board, without the affected executive director participating in that decision-making process. The determination of an executive director's remuneration will be made by the Board having regard to the inputs and value to the Group of the contributions by the executive director in consultant with the Company's professional advisors.

The total maximum remuneration of non-executive directors is the subject of a shareholder resolution in accordance with the Company's constitution, the Corporations Act and the ASX listing rules, as applicable. The determination of non-executive directors' remuneration within that maximum will be made by the Board having regard to the inputs and value to the Group of the respective contributions by each non-executive director.

Various corporate governance practices are discussed within this statement.

### Board functions

The Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

To ensure that the Board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of directors and for the operation of the Board.

The responsibility for the operation and administration of the Group is delegated by the Board to the Managing Director and Chief Executive and the executive management team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the Managing Director and Chief Executive and the executive management team.

Whilst at all times the Board retains full responsibility for guiding and monitoring the Group, in discharging its stewardship it makes use of sub-committees. Specialist committees are able to focus on a particular responsibility and provide informed feedback to the Board.

To this end the Board has established an Audit and Risk Management Committee. The roles and responsibilities of this committee are discussed throughout this Corporate Governance Statement.

## Corporate Governance Statement (continued)

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The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risk identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved including:

- Board approval of a strategic plan designed to meet stakeholders' needs and manage business risk;
- Ongoing development of the strategic plan and approving initiatives and strategies designed to ensure the continued growth and success of the entity; and
- Implementation of budgets by management and monitoring progress against budget – via the establishment and reporting of both financial and non-financial key performance indicators.

Other functions reserved to the Board include:

- Approval of the annual and half-yearly financial reports;
- Approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- Ensuring that any significant risks that arise are identified, assessed, appropriately managed and monitored; and
- Reporting to shareholders.

### Structure of the Board

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Directors' Report. Directors of Integrated Legal Holdings Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

In the context of director independence, 'materiality' is considered from both the Group and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount.

Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors that point to the actual ability of the director in question to shape the direction of the Group's loyalty.

## **Corporate Governance Statement (continued)**

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In accordance with the definition of independence above, and the materiality thresholds set, the following directors of Integrated Legal Holdings Limited are considered to be independent:

<b>Name</b>	<b>Position</b>
J Dawkins	Chairman, Non-executive Director
A Tregonning	Non-executive Director

The Board recognises the Corporate Governance Council's recommendations that the Chair should be an independent director.

There are procedures in place, agreed by the Board, to enable directors in furtherance of their duties to seek independent professional advice at the Company's expense.

The term in office held by each director in office at the date of this report is as follows:

<b>Name</b>	<b>Term in Office</b>
J Dawkins	4 years, 11 months
A Tregonning	4 years, 11 months
G Fowler	3 years, 4 months

For additional details regarding Board appointments, please refer to our website.

### **Performance**

The performance of the Board and key executives is reviewed regularly against both measurable and qualitative indicators.

The performance criteria against which directors and executives are assessed are aligned with the financial and non-financial objectives of Integrated Legal Holdings Limited.

Directors whose performance is consistently unsatisfactory may be asked to retire.

### **Trading policy**

Under the Company's Share Trading Policy an executive or director must not trade in any securities of the Company at any time when they are in possession of unpublished, price-sensitive information in relation to those securities.

Before commencing to trade, an executive must first obtain the approval of the Company Secretary to do so and a director must first obtain the approval of the Chairman.

Additional restrictions on trading in the Company's securities apply to directors of the Company, all executives reporting directly to the Managing Director and any other employees of the Company considered appropriate by the Managing Director and Company Secretary from time to time (Restricted Persons).

## Corporate Governance Statement (continued)

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Restricted Persons are prohibited from trading in the Company's securities during the following closed periods:

- between 1 July and one trading day following the announcement of the Company's full year results (preliminary final report); and
- between 1 January and one trading day following the announcement of the Company's half-year results.

Restricted Persons are permitted to buy or sell Company shares during the closed periods in the following circumstances:

- Trading in a rights issue during a rights trading period;
- Shares are offered pursuant to an approved executive or employee share or option plan;
- Shares are offered pursuant to a dividend reinvestment plan;
- Shares are transferred between related entities pursuant to an internal reorganisation of a director, officer or designated employee; or
- With the prior written clearance of the Chairman.

As required by the ASX listing rules, the Company notifies the ASX of any transaction conducted by directors in the securities of the Company.

### Diversity policy

The Company values diversity and recognises the benefits it can bring to the organisations ability to achieve its goals. Accordingly the Company has developed a diversity policy. This policy outlines the Company's diversity objectives in relation to gender, age, cultural background and ethnicity. It includes requirements for the Board to establish measurable objectives for achieving diversity, and for the Board to assess annually both the objectives, and the company's progress in achieving them.

In accordance with this policy and ASX Corporate Governance Principles, the Board has established the following objectives in relation to gender diversity. The aim is to achieve these objectives over the coming five years as director and senior executive positions become vacant and appropriately skilled candidates are available:

	Actual as at 30 June 2011		Objective
	Number	%	%
Number of women employees in the whole organisation	127	71%	40%-60%
Number of women Principals and in senior executive positions	7	28%	40%-60%
Number of women on member firms' Boards	1	7%	40%-60%
Number of women on ILH Board	1	33%	40%-60%

## Corporate Governance Statement (continued)

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### Audit and Risk Management Committee

The Board has established an Audit and Risk Management Committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated responsibility for establishing and maintaining a framework of internal control and ethical standards to the Audit and Risk Management Committee.

The committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports.

The members of the Audit and Risk Management Committee during the year were:

- A Tregonning - *Chairman*
- J Dawkins
- G Fowler

### ***Qualifications of Audit and Risk Management Committee members***

The qualifications and experience of the Audit and Risk Management Committee members are noted in the Directors' Report.

### Risk

The Board has continued its proactive approach to risk management. The identification and effective management of risk, including calculated risk-taking is viewed as an essential part of the Company's approach to creating long-term shareholder value.

In recognition of this, the Board determines the Company's risk profile and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. In doing so the Board has taken the view that it is crucial for all Board members to be a part of this process and as such, all Board members are part of the Audit and Risk Management Committee.

The Board oversees an annual assessment of the effectiveness of risk management and internal compliance and control. The tasks of undertaking and assessing risk management and internal control effectiveness are delegated to management through the Managing Director and Chief Executive, including responsibility for the day to day design and implementation of the Company's risk management and internal control system. Management reports to the Board on the Company's key risks and the extent to which it believes these risks are being adequately managed.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets, including the establishment and monitoring of KPIs of both a financial and non-financial nature.

## Corporate Governance Statement (continued)

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As part of its duties, the Company's management conducts routine reviews with the objective of providing assurance on the adequacy of the Company's risk framework and the completeness and accuracy of risk reporting by management.

To this end, comprehensive practices are in place that are directed towards achieving the following objectives in relation to the requirements of Principal 7:

- Effective and efficient use of the Company's resources
- Compliance with applicable laws and regulations
- Preparation of reliable published financial information

### Chief Executive and CFO certification

In accordance with section 295A of the *Corporations Act*, the Chief Executive and CFO have provided a written statement to the Board that:

- Their view provided on the Company's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the Board; and
- The Company's risk management and internal compliance and control system is operating effectively in all material respects.

The Board agrees with the views of the ASX on this matter and notes that due to its nature, internal control assurance from the Chief Executive and CFO can only be reasonable rather than absolute. This is due to such factors as the need for judgement, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence available is persuasive rather than conclusive and therefore is not and cannot be designed to detect all weaknesses in control procedures.

### Remuneration

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Board links the nature and amount of executive directors' and officers' remuneration to the Company's financial and operational performance.

The expected outcomes of the remuneration structure are:

- Retention and motivation of key executives.
- Attraction of high quality management to the Company.
- Performance incentives that allow executives to share in the success of Integrated Legal Holdings Limited.

For a full discussion of the Company's remuneration philosophy and framework and the remuneration received by directors and executives in the current period, please refer to the Remuneration Report, which is contained within the Directors' Report.

## **Corporate Governance Statement (continued)**

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There is no scheme to provide retirement benefits to non-executive directors.

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves and the executive team.

### **Shareholder communication policy**

Pursuant to Principal 6, Integrated Legal Holdings Limited's objective is to promote effective communication with its shareholders at all times.

Integrated Legal Holdings Limited is committed to:

- Ensuring that shareholders and the financial markets are provided with full and timely information about Integrated Legal Holdings Limited's activities in a balanced and understandable way.
- Complying with continuous disclosure obligations contained in applicable ASX listing rules and the *Corporations Act 2001* in Australia.
- Communicating effectively with its shareholders and making it easier for shareholders to communicate with Integrated Legal Holdings Limited.

To promote effective communication with shareholders and encourage effective participation at general meetings, information is communicated to shareholders:

- Through the release of information to the market via the ASX.
- Through the distribution of the annual report and Notices of Annual General Meeting.
- Through shareholder meetings and investor relations presentations.
- Through letters and other forms of communications directly to shareholders.
- By posting relevant information on Integrated Legal Holdings Limited's website.

The Company's website has a dedicated section for the purposes of publishing all important Company information and relevant announcements made to the market.

The external auditors are required to attend the Annual General Meeting and are available to answer any shareholder questions about the conduct of the audit and preparation of the audit report.

**Consolidated Statement of Financial Position**  
**AS AT 30 JUNE 2011**

	Note	CONSOLIDATED	
		2011 \$	2010 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	11	2,460,760	2,151,449
Trade and other receivables	12	7,826,873	7,538,870
Work in progress	13	2,499,220	1,353,354
Income tax receivable	8(d)	12,782	-
<b>Total Current Assets</b>		<b>12,799,635</b>	11,043,673
<b>Non-Current Assets</b>			
Plant and equipment	14	1,170,294	1,181,314
Prepayments		14,614	29,230
Goodwill	15	12,900,557	10,470,600
Intangible assets	16	29,700	65,340
Deferred tax assets	8(d)	-	101,089
Financial assets	17	3,435	2,642
<b>Total Non-Current Assets</b>		<b>14,118,600</b>	11,850,215
<b>TOTAL ASSETS</b>		<b>26,918,235</b>	22,893,888
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	18	3,813,598	3,317,157
Interest-bearing loans and borrowings	19 & 33	2,536,259	1,573,325
Income tax payable	8(d)	-	177,524
Provisions	20	986,593	687,057
Other liabilities	21	255,769	279,933
<b>Total Current Liabilities</b>		<b>7,592,219</b>	6,034,996
<b>Non-Current Liabilities</b>			
Trade and other payables	18	37,554	75,107
Interest-bearing loans and borrowings	19 & 33	143,325	260,913
Provisions	20	306,092	197,350
Deferred tax liabilities	8(d)	137,038	-
Other liabilities	21	689,344	127,608
<b>Total Non-Current Liabilities</b>		<b>1,313,353</b>	660,978
<b>TOTAL LIABILITIES</b>		<b>8,905,572</b>	6,695,974
<b>NET ASSETS</b>		<b>18,012,663</b>	16,197,914
<b>EQUITY</b>			
Issued capital	22	33,397,152	32,160,426
Accumulated losses	23	(16,926,589)	(16,688,184)
Reserves	24	1,542,100	725,672
<b>TOTAL EQUITY</b>		<b>18,012,663</b>	16,197,914

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

**INTEGRATED LEGAL HOLDINGS LIMITED**  
ACN 120 394 194

**Consolidated Statement of Comprehensive Income**  
**FOR THE YEAR ENDED 30 JUNE 2011**

	Note	CONSOLIDATED	
		2011 \$	2010 \$
Professional fees		<b>28,313,125</b>	23,822,676
Interest revenue		<b>153,015</b>	39,175
Dividends received		<b>126</b>	91
Other revenue	7(a)	<b>9,210</b>	13,046
<b>Total revenue</b>		<b>28,475,476</b>	23,874,988
Occupancy expenses		<b>(2,338,627)</b>	(2,114,280)
Salaries and employee benefits expenses	7(b)	<b>(18,579,646)</b>	(16,149,830)
Depreciation and amortisation expenses	7(c)	<b>(412,841)</b>	(343,759)
Advertising and marketing expenses		<b>(359,123)</b>	(222,928)
Administrative expenses		<b>(3,335,793)</b>	(2,889,908)
Other expenses	7(d)	<b>(1,351,267)</b>	(742,175)
Finance costs	7(e)	<b>(143,193)</b>	(160,597)
Share based payments expense		<b>(41,415)</b>	(19,243)
<b>Total expenses</b>		<b>(26,561,905)</b>	(22,642,720)
<b>Profit before income tax</b>		<b>1,913,571</b>	1,232,268
Income tax expense	8(a)	<b>(626,901)</b>	(378,774)
<b>Profit after income tax</b>		<b>1,286,670</b>	853,494
<b>Net profit for the year</b>		<b>1,286,670</b>	853,494
<b>Other comprehensive income</b>			
Net gains/(losses) on available-for-sale financial assets		<b>792</b>	(68)
<b>Other comprehensive income/(losses) for the year, net of tax</b>		<b>792</b>	(68)
<b>Total comprehensive income for the year</b>		<b>1,287,462</b>	853,426
Basic earnings per share (cents)	10	<b>1.41</b>	1.18
Diluted earnings per share (cents)	10	<b>1.41</b>	1.18

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

**Consolidated Statement of Cash Flows**  
**FOR THE YEAR ENDED 30 JUNE 2011**

	Note	CONSOLIDATED	
		2011 \$	2010 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		30,069,018	24,249,661
Interest received		153,015	39,175
Dividends received		126	57
Other revenue		9,210	13,046
Payments to suppliers and employees		(28,365,293)	(22,800,109)
Interest and other costs of finance paid		(81,891)	(92,984)
Income tax received/(paid)		(552,446)	39,315
<b>Net cash flows from operating activities</b>	25(a)	<b>1,231,739</b>	<b>1,448,161</b>
<b>Cash flows from investing activities</b>			
Purchase of plant and equipment		(209,596)	(807,265)
Proceeds from the disposal of plant and equipment		-	5,136
Payment for the acquisition of businesses	29	(979,148)	-
<b>Net cash flows used in investing activities</b>		<b>(1,188,744)</b>	<b>(802,129)</b>
<b>Cash flows from financing activities</b>			
Proceeds from loans received		1,546,545	993,027
Repayment of borrowings		(643,929)	(1,584,315)
Dividends paid		(441,556)	(131,122)
Proceeds from issue of shares		-	1,674,510
Payments for share issue expenses		(17,389)	(115,058)
<b>Net cash flows from financing activities</b>		<b>443,671</b>	<b>837,042</b>
Net increase in cash held		486,666	1,483,074
Cash and cash equivalents at the beginning of the financial year		1,948,949	465,875
<b>Cash and cash equivalents at the end of the financial year</b>	11	<b>2,435,615</b>	<b>1,948,949</b>

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

**Consolidated Statement of Changes in Equity**  
**FOR THE YEAR ENDED 30 JUNE 2011**

CONSOLIDATED	Issued Capital \$	Accumulated Losses \$	Net Unrealised Gains/(Losses) Reserve \$	General Reserve \$	Total Equity \$
<b>Balance as at 1 July 2009</b>	30,504,813	(16,641,034)	(1,373)	-	13,862,406
Profit for the year	-	853,494	-	-	853,494
Other comprehensive loss	-	-	(68)	-	(68)
<b>Total comprehensive income for the year</b>	-	<b>853,494</b>	<b>(68)</b>	-	<b>853,426</b>
<b>Transactions with owners in their capacity as owners</b>					
Transfer to general reserve	-	(900,644)	-	900,644	-
Dividends paid	-	-	-	(173,531)	(173,531)
Share based payments	19,243	-	-	-	19,243
Issue of shares	1,716,910	-	-	-	1,716,910
Transaction costs on issue of shares	(115,058)	-	-	-	(115,058)
Income tax on items taken directly to or transferred from equity	34,518	-	-	-	34,518
<b>Balance as at 30 June 2010</b>	<b>32,160,426</b>	<b>(16,688,184)</b>	<b>(1,441)</b>	<b>727,113</b>	<b>16,197,914</b>

CONSOLIDATED	Issued Capital \$	Accumulated Losses \$	Net Unrealised Gains/(Losses) Reserve \$	General Reserve \$	Total Equity \$
<b>Balance as at 1 July 2010</b>	<b>32,160,426</b>	<b>(16,688,184)</b>	<b>(1,441)</b>	<b>727,113</b>	<b>16,197,914</b>
Profit for the year	-	-	-	1,286,670	1,286,670
Other comprehensive income	-	-	792	-	792
<b>Total comprehensive income for the year</b>	-	-	<b>792</b>	<b>1,286,670</b>	<b>1,287,462</b>
<b>Transactions with owners in their capacity as owners</b>					
Transfer to general reserve	-	(238,405)	-	238,405	-
Dividends paid	-	-	-	(709,439)	(709,439)
Share based payments	41,415	-	-	-	41,415
Issue of shares	1,207,483	-	-	-	1,207,483
Transaction costs on issue of shares	(17,389)	-	-	-	(17,389)
Income tax on items taken directly to or transferred from equity	5,217	-	-	-	5,217
<b>Balance as at 30 June 2011</b>	<b>33,397,152</b>	<b>(16,926,589)</b>	<b>(649)</b>	<b>1,542,749</b>	<b>18,012,663</b>

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

## Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

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### 1) CORPORATE INFORMATION

The consolidated financial report of Integrated Legal Holdings Limited for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of directors on 28 September 2011.

Integrated Legal Holdings Limited (the parent) is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange. The company is domiciled in Australia.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

### 2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for available-for-sale investments, which have been measured at fair value.

The financial report is presented in Australian dollars.

#### a) Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

#### b) New accounting standards and interpretations

From 1 July 2010, the Group has adopted all Australian Accounting Standards and Interpretations mandatory for annual periods beginning on or after 1 July 2010. When the adoption of the Standard or Interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

Annual Improvements Project: AASB 2009-5 and AASB 2010-3

In May 2009 and June 2010 the AASB issued an omnibus of amendments to its Standards as part of the Annual Improvements Project, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions and application dates for each amendment. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group:

## Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

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### 2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- *AASB 8 Operating Segments*: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. The Group's chief operating decision maker reviews segment assets and liabilities, and as such the Group has disclosed this information in note 5.
- *AASB 107 Statement of Cash Flows*: states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will impact the presentation in the Statement of Cash Flows as cash flows relating to costs incurred on acquisition of a business combination will be disclosed as cash flows from operating activities rather than investing activities.
- *AASB 136 Impairment of Assets*: the amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in AASB 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation of operating segments.

#### *AASB 2009-8 Amendments to Australian Accounting Standards — Group Cash — Settled Share-based Payment Transactions*

The amendments clarify the scope of AASB 2 Share-based Payment by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. The amendments incorporate the requirements previously included in Interpretation 8 Scope of AASB 2 and Interpretation 11 AASB 2 — Group and Treasury Share Transactions. This amendment did not have an impact on the financial position or performance of the Group.

#### *Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments*

This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are “consideration paid” in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability.

The interpretation states that equity instruments issued as payment of a debt should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment. This amendment did not have an impact on the financial position or performance of the Group.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2011. These are outlined in the following table.

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

### 2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### b) New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 9	Financial Instruments	<p>AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement).</p> <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below.</p> <p>(a) Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria.</p> <p>(b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p>	1 January 2013	The Group has not yet determined the impact of the amendments, if any.	1 July 2013

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**b) New accounting standards and interpretations (continued)**

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9  [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	<ul style="list-style-type: none"> <li>- These amendments arise from the issuance of AASB 9 <i>Financial Instruments</i> that sets out requirements for the classification and measurement of financial assets. The requirements in AASB 9 form part of the first phase of the International Accounting Standards Board's project to replace IAS 39 <i>Financial Instruments: Recognition and Measurement</i>.</li> <li>- <u>This Standard shall be applied when AASB 9 is applied.</u></li> </ul>	1 January 2013	The Group has not yet determined the impact of the amendments, if any.	1 July 2013

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**b) New accounting standards and interpretations (continued)**

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 124 (Revised)	Related Party Disclosures (December 2009)	<p>The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including:</p> <p>(a) The definition now identifies a subsidiary and an associate with the same investor as related parties of each other</p> <p>(b) Entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other</p> <p>(c) The definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other.</p> <p>A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.</p>	1 January 2011	The Group has not yet determined the impact of the amendments, if any.	1 July 2011

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

### 2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### b) New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2009-12	Amendments to Australian Accounting Standards [AASB 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations.  In particular, it amends AASB 8 <i>Operating Segments</i> to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. It also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendment to reflect changes made to the text of IFRS by the IASB.	1 January 2011	The Group has not yet determined the impact of the amendments, if any.	1 July 2011
AASB 1054	Australian Additional Disclosures	This standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB.  This standard relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas:  (a) Compliance with Australian Accounting Standards (b) The statutory basis or reporting framework for financial statements (c) Whether the financial statements are general purpose or special purpose (d) Audit fees (e) Imputation credits.	1 July 2011	The Group has not yet determined the impact of the amendments, if any.	1 July 2011

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

### 2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### b) New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project  [AASB 1, AASB 7, AASB 101, AASB 134 and interpretation 13]	Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments.  Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.  Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions.  Clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.	1 January 2011	The Group has not yet determined the impact of the amendments, if any.	1 July 2011
AASB 2010-5	Amendments to Australian Accounting Standards  [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 and 1038 and interpretations 112, 115, 127, 132 & 1042]	This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB.  These amendments have no major impact on the requirements of the amended pronouncements.	1 January 2011	The Group has not yet determined the impact of the amendments, if any.	1 July 2011
AASB 2010-6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets  [AASB 1 & AASB 7]	The amendments increase the disclosure requirements for transactions involving transfers of financial assets. <i>Disclosures</i> require enhancements to the existing disclosures in IFRS 7 where an asset is transferred but is not derecognised and introduce new disclosures for assets that are derecognised but the entity continues to have a continuing exposure to the asset after the sale.	1 July 2011	The Group has not yet determined the impact of the amendments, if any.	1 July 2011

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**b) New accounting standards and interpretations (continued)**

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2010-7	Amendments to Australian Accounting arising from AASB 9 (December 2010)  [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and interpretations 2, 5, 10, 12, 19 & 127]	The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows: <ul style="list-style-type: none"> <li>• The change attributable to changes in credit risk are presented in other comprehensive income (OCI)</li> <li>• The remaining change is presented in profit or loss.</li> </ul> If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.	1 January 2013	The Group has not yet determined the impact of the amendments, if any.	1 July 2013
AASB 2011-1	Amendments to Australian Accounting arising from the Trans-Tasman Convergence project  [AASB 1, AASB 5, 7, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132, AASB 134, Interpretation 2, Interpretation 112, Interpretation 113]	This Standard makes amendments to many Australian Accounting Standards, removing the disclosures which have been relocated to AASB 1054.	1 July 2011	The Group has not yet determined the impact of the amendments, if any.	1 July 2011

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

### 2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### b) New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 10	Consolidated Financial Statements	<p>AASB 10 establishes a new control model that applies to all entities. It replaces parts of IAS 27 <i>Consolidated and Separate Financial Statements</i> dealing with the accounting for consolidated financial statements and SIC-12 <i>Consolidation – Special Purpose Entities</i>.</p> <p>The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. This is likely to lead to more entities being consolidated into the group.</p>	1 January 2013	The Group has not yet determined the impact of the amendments, if any.	1 July 2013
AASB 12	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	The Group has not yet determined the impact of the amendments, if any.	1 July 2013
AASB 2011-7	Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangement Standards	Consequential amendments to AASB 127 Separate Financial Statements and AASB 128 Investments in Associates as a result of the adoption of AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements and AASB 12 Disclosure of Interests in Other Entities.	1 January 2013	The Group has not yet determined the impact of the amendments, if any.	1 July 2013

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

### 2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### b) New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 13	Fair Value Measurement	<p>AASB 13 establishes a single source of guidance under Australian Accounting Standards for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under Australian Accounting Standards when fair value is required or permitted by Australian Accounting Standards. Application of this definition may result in different fair values being determined for the relevant assets.</p> <p>AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.</p>	1 January 2013	The Group has not yet determined the impact of the amendments, if any.	1 July 2013
AASB 2011-8	Amendments to Australian Accounting Standards arising from the Fair Value Measurement Standard	Consequential amendments to existing Australian Accounting Standards as a result of the adoption of AASB 13 Fair Value Measurement.	1 January 2013	The Group has not yet determined the impact of the amendments, if any.	1 July 2013

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

### 2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### b) New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2011-9	<p>Amendments to Australian Accounting Standards -Presentation of Items of Other Comprehensive Income</p> <p>[AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 &amp; 1049]</p>	<p>The main change resulting from the amendments relates to the 'Statement of Profit or Loss and Other Comprehensive Income' and the requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not remove the option to present profit or loss and other comprehensive income in two statements.</p> <p>The amendments do not change the option to present items of OCI either before tax or net of tax. However, if the items are presented before tax then the tax related to each of the two groups of OCI items (those that might be reclassified to profit or loss and those that will not be reclassified) must be shown separately.</p>	1 July 2012	The Group has not yet determined the impact of the amendments, if any.	1 July 2012

## Notes to the Consolidated Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

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### 2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Integrated Legal Holdings Limited and its subsidiaries (as outlined in note 26(a)) as at 30 June each year (the Group).

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The acquisition of subsidiaries prior to 1 July 2009 is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

#### d) Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred, and included as administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

## Notes to the Consolidated Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

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### 2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### d) Business combinations (continued)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

#### e) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the Board of Directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

The Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services;
- Nature of the production processes;
- Type or class of customer for the products and services;
- Methods used to distribute the products or provide the services; and, if applicable
- Nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

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**2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**f) Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within current interest-bearing loans and borrowings in current liabilities on the statement of financial position.

**g) Trade and other receivables**

Trade receivables are initially recognised at the original fee amount. An estimate is made for doubtful debts when collection of the full amount is no longer probable. Bad debts are included in the statement of comprehensive income when identified. The Group's standard terms for settlement for trade receivables are 30 to 60 days.

Collectability of trade receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An impairment allowance is recognised when there is objective evidence that the Group will not be able to collect the debt.

Financial difficulties of the debtor, default payments or debts more than 90 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the value of estimated future cash flows.

The above policy applies to intercompany receivables. Intercompany receivables are repayable on demand.

**h) Work in progress**

Work in progress represents costs incurred and includes profit recognised to date on the value of work completed on matters that are in progress at reporting date. Costs include both variable and fixed costs directly related to matters.

Work in progress is valued at net realisable value after providing for any foreseeable losses.

## Notes to the Consolidated Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

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### 2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### i) Investments and other financial assets

Investments and financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The Group determines the classification of its financial assets upon initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year end.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

#### ***Recognition and Derecognition***

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets has expired or when the entity transfers substantially all of the risks and rewards, it derecognises the asset if it has transferred control of the assets.

#### ***Available-for-sale securities***

Available-for-sale investments are those non-derivative financial assets, principally equity securities that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, loans and receivables, or held to maturity investments. After initial recognition available-for sale securities are measured at fair value with gains or losses being recognised as other comprehensive income/loss until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported as other comprehensive income is recognised in profit or loss.

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the reporting date.

#### ***Loans and Receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

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**2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**j) Plant and equipment**

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the acquisition cost or cost of replacing parts that are eligible for capitalisation when the cost of replacing the part is incurred. All other repairs and maintenance are recognised in profit or loss as incurred.

Depreciation rates used for each class of assets are as follows:

Class of fixed asset	Useful life	Depreciation rates	Depreciation method
Plant and equipment	3 – 10 years	10.00 – 33.33%	Straight line
Leased equipment	Term of lease		Straight line

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each reporting date.

***Derecognition***

An item of plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

**k) Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

***Group as a lessee***

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

## Notes to the Consolidated Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

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### 2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### k) Leases (continued)

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

#### l) Impairment of non-financial assets other than goodwill

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from the other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

#### m) Goodwill and intangibles

##### i) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment determined in accordance with AASB 8 *Operating Segments*.

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

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**2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**m) Goodwill and intangibles (continued)**

Impairment is determined by assessing the recoverable amount of the cash *generating unit* (group of cash generating units), to which the goodwill relates. When the recoverable amount of the cash generating unit (group of cash generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash generating unit (group of cash generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

**ii) Intangibles**

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

**n) Trade and other payables**

Trade payables and other payables are carried at amortised cost. However, due to their short term nature, they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

## Notes to the Consolidated Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

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### 2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### o) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

#### p) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur.

#### q) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

#### r) Employee benefits

##### *i) Wages, salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

## Notes to the Consolidated Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

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### 2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### r) Employee benefits (continued)

##### ii) *Long service leave*

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

#### s) Share-based payment transactions

##### i) *Equity settled transactions*

The Group provides benefits to its employees (including key management personnel) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

There are currently two plans in place to provide these benefits:

- Tax Exempt Employee Share Plan (TEESP), which provides benefits to all eligible employees; and
- Deferred Employee Share Plan (DESP), which provides benefits to key employees and directors of the Group.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by reference to the market price of the shares on the date of grant.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of Integrated Legal Holdings Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ended on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the statement of comprehensive income is the product of:

- The grant date fair value of the award;
- The current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and
- The expired portion of the vesting period.

## Notes to the Consolidated Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

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### 2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### s) Share-based payment transactions (continued)

The charge to the statement of comprehensive income for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

Equity-settled awards granted by Integrated Legal Holdings Limited to employees of subsidiaries are recognised in the parent's separate financial statements as an additional investment in the subsidiary with a corresponding credit to equity. As a result, the expense recognised by Integrated Legal Holdings Limited in relation to equity-settled awards only represents the expense associated with grants to employees of the parent. The expense recognised by the Group is the total expense associated with all such awards.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

#### t) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### u) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

##### i) *Rendering of services*

Revenue from the provision of legal services is recognised on an accrual basis in the period in which the legal service is provided and is calculated with reference to the professional staff hours incurred on each matter.

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

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**2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**u) Revenue recognition (continued)**

**ii) *On-line legal and non-legal documents and publications***

Revenue from the provision of on-line legal and non-legal documents and publications is recognised on an accruals basis at the time of delivery of the documents to customers.

**iii) *Subscription income***

Revenue from memberships granting the subscriber access to the knowledge base of weekly legal bulletins, on-line tools, calculators and services is recognised on a straight line basis which reflects the timing, nature and benefit provided. All memberships have a subscription period of either three or twelve months.

**iv) *Interest revenue***

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest revenue over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

**v) *Dividends***

Revenue is recognised when the Group's right to receive the payment is established.

**vi) *Rental revenue***

Rental revenue from investment properties is accounted for on a straight-line basis over the lease term. Contingent rental income is recognised as income in the periods in which it is earned. Lease incentives granted are recognised as an integral part of the total rental income.

**v) *Income and other taxes***

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

## **Notes to the Consolidated Financial Statements (continued)**

### **FOR THE YEAR ENDED 30 JUNE 2011**

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#### **2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **v) Income and other taxes (continued)**

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

## Notes to the Consolidated Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

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### 2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### v) Income and other taxes (continued)

##### i) *Tax consolidation legislation*

Integrated Legal Holdings Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Integrated Legal Holdings Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, Integrated Legal Holdings Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details of the tax funding agreement are disclosed in note 6).

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

##### ii) *Other taxes*

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

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**2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**w) Earnings per share**

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the company, adjusted for costs of servicing equity (other than dividends) divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**3) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's principal financial instruments comprise receivables, payables, bank loans and overdrafts, finance leases and cash.

The Group manages its exposure to key financial risks, including interest rate risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate risk and assessments of market forecasts for interest rates. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk, and liquidity risk is monitored through the development of future rolling cash flow forecasts.

The Board reviews and agrees policies for managing each of these risks as summarised below.

**Risk Exposures and Responses**

***Interest rate risk***

The Group's exposure to market interest rates relates primarily to the Group's cash and short and long term debt obligations, with a floating interest rate. The level of debt is disclosed in note 19).

*At reporting date, the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk:*

	CONSOLIDATED	
	2011 \$	2010 \$
<b>Financial assets</b>		
Cash and cash equivalents	2,460,760	2,151,449
<b>Financial liabilities</b>		
Bank overdrafts	(25,145)	(202,500)
Bank loans (note 33)	(1,950,000)	(950,000)
	(1,975,145)	(1,152,500)
<b>NET EXPOSURE</b>	<b>485,615</b>	998,949

The Group regularly analyses its interest rate exposure to ensure that the best returns are achieved while balancing the long term and short term cash flow requirements for the Group's business strategies. Within this analysis, consideration is given to the Group's future cash requirements, alternative cash depositing and debt funding facilities and the mix of fixed and variable interest rates on bank balances. The Board of Directors oversee the management of cash funds by management and investment opportunities through the acquisition of law firms.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date.

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**3) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

*At 30 June 2011 and 30 June 2010, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:*

Judgements of reasonably possible movements:	Post Tax Profit Higher/(Lower)		Other Comprehensive Income Higher/(Lower)	
	2011 \$	2010 \$	2011 \$	2010 \$
<b>Consolidated</b>				
+0.5% (2010: +0.5%)	4,281	645	-	-
-0.25% (2010: -0.25%)	<b>(2,140)</b>	(323)	-	-

The movements in profit are due to higher/lower interest costs from variable rate debt and cash balances. The sensitivity is higher in 2011 due to a higher exposure to interest rate risk from increased borrowings.

Management considers +50 basis points and -25 basis points as reasonably possible movement for the next twelve months based on management's expectations of future interest rate movements.

***Credit risk***

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables and work in progress. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at reporting date is addressed in each applicable note.

The Group does not hold any credit derivatives to offset its credit exposure.

The Group manages its credit risk by trading with recognised, trustworthy third parties. In some instances security over trade receivables has been requested from specific clients (eg. monies held in trust, security over property or bank guarantee), usually dependent on the type of legal work being undertaken, as an added measure to guarantee payment in the event of an unsuccessful legal outcome or a protracted matter.

It is the Group's policy that all clients who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position and past experience on a case by case basis.

In addition, receivable balances are monitored on an on-going basis with the result that the Group's exposure to bad debts is not significant.

There are no significant concentrations of credit risk within the Group and financial instruments including cash and cash equivalents are spread between reputable financial institutions to minimise the risk of default of counterparties.

An analysis of the Group's trade receivables is included in note 12.

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**3) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**Liquidity risk**

The Group's objective is to maintain adequate liquidity to meet the operating requirements of the business and to facilitate the Group's ongoing acquisition plans.

The table below reflects all contractually fixed amounts for settlement, repayments and interest resulting from recognised financial liabilities. Undiscounted cash flows for the respective upcoming fiscal years are presented. Cash flows for financial liabilities without fixed amount or timing are based on the conditions existing at 30 June 2011.

*The remaining contractual maturities of the Group's financial liabilities are:*

	At Call \$	≤6 months \$	6-12 months \$	1-5 years \$	Total \$
<b>CONSOLIDATED</b>					
<b>30 June 2011</b>					
Trade and other payables	-	3,813,598	-	37,554	3,851,152
Finance leases/HP agreements (gross)	-	106,590	92,034	146,887	345,511
Insurance premium funding facilities	-	260,382	125,862	-	386,244
Bank loans (secured) – refer note 33	-	1,950,000	-	-	1,950,000
Interest expense – bank loans	-	33,962	-	-	33,962
Rent guarantees	-	-	-	592,721	592,721
<b>Total</b>	-	<b>6,164,532</b>	<b>217,896</b>	<b>777,162</b>	<b>7,159,590</b>
<b>30 June 2010</b>					
Trade and other payables	-	3,317,157	-	75,107	3,392,264
Finance leases/HP agreements (gross)	-	106,331	105,807	268,186	480,324
Insurance premium funding facilities	-	236,113	7,901	-	244,014
Bank loans (secured) – refer note 33	-	950,000	-	-	950,000
Interest expense – bank loans	-	14,433	-	-	14,433
Rent guarantees	-	-	-	592,721	592,721
<b>Total</b>	-	<b>4,624,035</b>	<b>113,707</b>	<b>936,014</b>	<b>5,673,756</b>

Liquidity risk is managed on the basis of the businesses' needs and is overseen by senior management. The Group makes use of daily and monthly cash flow analysis to consider the Group's overall liquidity risk and to monitor existing financial liabilities as well as effective controlling of future risks.

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

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**4) SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which forms the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

**i) Significant accounting estimates and assumptions**

***Impairment of goodwill***

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units, using a "value in use" or "fair value less costs to sell" discounted cash flow methodology, to which the goodwill is allocated. No impairment loss (2010: nil) was recognised in the current year. The assumptions used in the estimation of recoverable amount and the carrying amount of goodwill including a sensitivity analysis are discussed in note 15.

***Share based payment transactions***

The Group measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined based on the market price of an Integrated Legal Holdings Limited share at the grant date.

## Notes to the Consolidated Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

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### 5) SEGMENT INFORMATION

The Group has identified its operating segments based on the internal management reporting that is used by the executive management team (the chief operating decision maker) in assessing performance and allocating resources. Integrated Legal Holdings Limited's operating segments have been identified based on how the financial and operating results of the Group are monitored and presented internally to the executive management team.

The Group's reportable segments are identified by management based on the nature of the business and the similarities of services provided, method of delivery and type of clients as the Group's risks and returns are affected predominantly by differences in legal products and services performed.

The operating businesses are organised and managed separately according to the nature of the legal products and services provided, with each segment representing a strategic business unit that offers different legal products and serves different markets.

The following reportable segments have been identified by management:

- **Legal Services Division**  
Operator of legal practices throughout Australia.
- **Information Technology Division**  
Provides an internet portal designed to provide easy access to a range of legal and other documents to the legal profession and public alike and information about various areas of law.

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 2 to the accounts, except for the following:

#### ***Inter-segment sales***

Inter-segment sales are recognised at cost with no margin built into the inter-segment transactions, and aims to encourage inter-segment work referrals.

#### ***Unallocated revenue and assets***

Corporate items are not allocated to operating segments as they are not considered part of the core operations of any segments.

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**5) SEGMENT INFORMATION (continued)**

The following tables present revenue and profit information for operating segments for the years ended 30 June 2011 and 30 June 2010.

Year ended 30 June 2011	Legal Services \$	Information Technology \$	Total \$
<b>Revenue</b>			
Professional fees	27,448,512	864,613	28,313,125
Interest revenue	79,112	2	79,114
Other revenue:			
Advertising revenue		1,250	1,250
Sundry revenue	7,960	-	7,960
<b>Total segment revenue</b>	<b>27,535,584</b>	<b>865,865</b>	<b>28,401,449</b>
Unallocated revenue:			
Interest received			73,901
Dividends received			126
<b>Total unallocated revenue</b>			<b>74,027</b>
Inter-segment elimination			-
<b>Total revenue per statement of comprehensive income</b>			<b>28,475,476</b>
<b>Result</b>			
Segment profit	3,471,878	345,444	3,817,322
Unallocated items:			
Interest revenue			73,901
Salaries and employee benefits expenses			(1,044,323)
Administrative expenses			(662,617)
Other unallocated items			(127,519)
<b>Total unallocated items</b>			<b>(1,760,558)</b>
Profit before tax and finance costs			2,056,764
Finance costs			(143,193)
Profit before income tax			1,913,571
Income tax expense			(626,901)
<b>Net profit after income tax</b>			<b>1,286,670</b>

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**5) SEGMENT INFORMATION (continued)**

Year ended 30 June 2010	Legal Services \$	Information Technology \$	Total \$
<b>Revenue</b>			
Professional fees	22,980,838	841,838	23,822,676
Interest revenue	11,890	-	11,890
Other revenue:			
Advertising revenue	-	7,372	7,372
Sundry revenue	3,699	1,975	5,674
Total segment revenue	22,996,427	851,185	23,847,612
Unallocated revenue:			
Interest received			27,285
Dividends received			91
Total unallocated revenue			27,376
Inter-segment elimination			-
<b>Total revenue per statement of comprehensive income</b>			<b>23,874,988</b>
<b>Result</b>			
Segment profit	2,427,771	290,200	2,717,971
Unallocated items:			
Interest revenue			27,285
Salaries and employee benefits expenses			(860,664)
Administrative expenses			(407,209)
Other unallocated items			(84,518)
Total unallocated items			(1,325,106)
Profit before tax and finance costs			1,392,865
Finance costs			(160,597)
Profit before income tax			1,232,268
Income tax expense			(378,774)
<b>Net profit after income tax</b>			<b>853,494</b>

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**5) SEGMENT INFORMATION (continued)**

Total assets have increased by 18% (2010: 19%) since the last annual report. Segment assets for the years ended 30 June 2011 and 30 June 2010 are as follows:

As at 30 June 2011	Legal Services \$	Information Technology \$	Total \$
<b>Segment assets</b>			
Segment operating assets	23,247,332	2,149,281	25,396,613
Unallocated assets:			
Cash and cash equivalents			2,218,461
Deferred tax assets			118,855
Prepayments			11,173
Available-for-sale financial assets			3,435
Plant and equipment			4,003
Income tax receivable			12,782
Total unallocated assets			2,368,709
Inter-segment eliminations			(847,087)
<b>Total assets per statement of financial position</b>			<b>26,918,235</b>

As at 30 June 2010	Legal Services \$	Information Technology \$	Total \$
<b>Segment assets</b>			
Segment operating assets	18,476,679	2,157,378	20,634,057
Unallocated assets:			
Cash and cash equivalents			2,134,217
Deferred tax assets			214,582
Prepayments			42,523
Available-for-sale financial assets			2,642
Plant and equipment			3,735
Total unallocated assets			2,397,699
Inter-segment eliminations			(137,868)
<b>Total assets per statement of financial position</b>			<b>22,893,888</b>

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**5) SEGMENT INFORMATION (continued)**

Segment liabilities for the years ended 30 June 2011 and 30 June 2010 are as follows:

As at 30 June 2011	Legal Services \$	Information Technology \$	Total \$
<b>Segment liabilities</b>			
Segment operating liabilities	20,947,948	154,868	21,102,816
Unallocated liabilities:			
Trade and other payables			451,929
Interest bearing loans and borrowings			2,030,031
Provisions			23,302
Total unallocated liabilities			2,505,262
Inter-segment eliminations			(14,702,506)
<b>Total liabilities per statement of financial position</b>			<b>8,905,572</b>

As at 30 June 2010	Legal Services \$	Information Technology \$	Total \$
<b>Segment liabilities</b>			
Segment operating liabilities	16,806,395	137,679	16,944,074
Unallocated liabilities:			
Trade and other payables			131,386
Interest bearing loans and borrowings			1,921,081
Income tax payable			177,524
Provisions			10,964
Total unallocated liabilities			2,240,955
Inter-segment eliminations			(12,489,055)
<b>Total liabilities per statement of financial position</b>			<b>6,695,974</b>

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**6) PARENT ENTITY INFORMATION**

**a) Information relating to Integrated Legal Holdings Limited:**

	2011 \$	2010 \$
Current assets	2,242,416	2,187,052
Total assets	19,674,783	16,575,762
Current liabilities	2,496,662	1,281,884
Total liabilities	3,535,540	2,251,267
Issued capital	33,397,152	32,160,426
Accumulated losses	(18,800,008)	(18,561,603)
General reserve	1,542,748	727,113
Accumulated losses on available-for-sale assets	(649)	(1,441)
Total shareholders' equity	16,139,243	14,324,495
Profit of the parent entity	1,286,670	832,598
Total comprehensive income of the parent entity	1,287,462	832,710

**b) Guarantees entered into by the parent entity in relation to the debts of its subsidiaries**

The parent entity has issued guarantees in relation to the debts of its subsidiaries. Refer to note 31 for further details of the guarantees.

***i) Members of the tax consolidated group and the tax sharing arrangement***

Integrated Legal Holdings Limited and its subsidiaries have formed a tax consolidated Group. Integrated Legal Holdings Limited is the head entity of the tax consolidated Group. Members of the Group have entered into a tax funding agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

***ii) Tax effect accounting by members of the tax consolidated group***

**Measurement method adopted under UIG 1052 Tax Consolidation Accounting**

The head entity and the controlled entities in the tax consolidated Group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated Group. The current and deferred tax amounts of the members of the consolidated Group are recognised by the Company (as head entity in the tax consolidated Group).

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

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**6) PARENT ENTITY INFORMATION (continued)**

**Nature of the tax funding agreement**

Members of the tax consolidated Group have entered into a tax funding agreement. Amounts are recognised as payable to or receivable by the Company and each member of the tax consolidated Group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax consolidated Group in accordance with this agreement. Where the tax contribution amount recognised by each member of the tax consolidated Group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the distribution is recognised as a contribution from (or distributed to) equity participants.

**Tax consolidation contributions/(distributions)**

Integrated Legal Holdings Limited has recognised the following amounts as tax-consolidation contribution adjustments.

	PARENT	
	2011	2010
	\$	\$
Total increase to tax payable of Integrated Legal Holdings Limited	<b>1,153,115</b>	902,133
Total increase to inter-company assets of Integrated Legal Holdings Limited	<b>1,153,115</b>	902,133

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**7) REVENUE AND EXPENSES**

	CONSOLIDATED	
	2011	2010
	\$	\$
<b>a) Other revenue</b>		
Sundry income	9,210	13,046
	<b>9,210</b>	<b>13,046</b>
<b>b) Salaries and employee benefits expense</b>		
Salaries and wages expense	17,119,151	14,848,185
Superannuation expense	1,460,495	1,301,645
	<b>18,579,646</b>	<b>16,149,830</b>
<b>c) Depreciation and amortisation expenses</b>		
Depreciation of plant and equipment	371,633	305,209
Amortisation of:		
- Equipment under finance lease	5,568	2,910
- Intangible assets	35,640	35,640
	<b>412,841</b>	<b>343,759</b>
<b>d) Other expenses</b>		
Author royalty fees	84,032	81,773
Consulting fees	119,503	242,591
Bad and doubtful debts	930,772	274,365
Bank fees	202,143	137,687
Other expenses	14,817	5,759
	<b>1,351,267</b>	<b>742,175</b>
<b>e) Finance costs</b>		
Interest – external entities	128,718	146,458
Interest accretion	14,475	14,139
	<b>143,193</b>	<b>160,597</b>

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**8) INCOME TAX**

	CONSOLIDATED	
	2011	2010
	\$	\$

The major components of income tax expense are:

**Statement of comprehensive income**

*Current income tax*

Current income tax charge	403,836	364,220
Adjustment in respect of current income tax of previous years	(41,696)	(383,022)

*Deferred income tax*

Relating to origination and reversal of temporary differences	246,903	(9,237)
Adjustment in respect of deferred income tax of previous years	17,858	406,813

<b>Income tax expense reported in the statement of comprehensive income</b>	<b>626,901</b>	<b>378,774</b>
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**b) Amounts charged or credited directly to equity**

*Deferred income tax related to items charged/(credited) directly to equity*

Capital raising costs	(5,217)	(34,518)
	<b>(5,217)</b>	<b>(34,518)</b>

**c) Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income and tax expense calculated per the statutory income tax rate**

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting profit before income tax	1,913,571	1,232,448
<b>Total accounting profit before income tax</b>	<b>1,913,571</b>	<b>1,232,268</b>

At the Parent Entity's statutory income tax rate of 30% (2010: 30%)	574,071	369,680
Adjustments in respect of income tax of previous years	(23,838)	23,791
Entertainment	35,893	21,251
Interest accretion	767	4,242
Share based payments expense	12,425	5,773
Investment allowance	-	(43,656)
Borrowing costs	16	(2,307)
Other	27,567	-
<b>Aggregate income tax expense</b>	<b>626,901</b>	<b>378,774</b>

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**8) INCOME TAX (continued)**

	CONSOLIDATED			
	2011 \$ Current Income Tax	2011 \$ Deferred Income Tax	2010 \$ Current Income Tax	2010 \$ Deferred Income Tax
<b>d) Recognised deferred tax assets and liabilities</b>				
Opening balance	(177,524)	101,089	(157,011)	464,147
Acquisitions	-	21,417	-	-
(Charged)/credited to income	(362,140)	(264,761)	18,802	(397,576)
Charged to equity	-	5,217	-	34,518
Other payments/(receipts)	552,446	-	(39,315)	-
Closing balance	<u>12,782</u>	<u>(137,038)</u>	<u>(177,524)</u>	<u>101,089</u>
Tax expense/(benefit) in statement of comprehensive income		<u>626,901</u>		<u>378,774</u>
Amounts recognised in the statement of financial position:				
Deferred tax assets		817,092		628,799
Deferred tax liabilities		<u>(954,130)</u>		<u>(527,710)</u>
<b>Deferred tax liabilities (net)</b>		<u>(137,038)</u>		<u>101,089</u>

Deferred income tax as at 30 June 2011 relates to the following:

	STATEMENT OF FINANCIAL POSITION	
	2011 \$	2010 \$
<b>CONSOLIDATED</b>		
<b>i) Deferred tax assets</b>		
Employee provisions:		
Annual leave	242,582	162,451
Long service leave	145,224	102,871
Doubtful debts	125,909	39,902
Prepayments	-	3,783
Amortisation - intangible assets	40,066	-
Lease liabilities	-	1,218
Accrued audit fees	27,030	70,737
Unpaid superannuation	76,347	5,857
Lease incentive	74,873	63,029
Capital raising costs	85,061	178,951
Gross deferred tax assets	<u>817,092</u>	<u>628,799</u>
Set-off of deferred tax liabilities	<u>(817,092)</u>	<u>(527,710)</u>
<b>Deferred tax assets (net)</b>	<u>-</u>	<u>101,089</u>
<b>ii) Deferred tax liabilities</b>		
Work in progress	(749,766)	(406,006)
Plant and equipment	(1,088)	(1,088)
Deferred consideration provisions	(23,324)	-
Identified intangible at acquisition	(48,976)	(19,604)
Leased assets	-	(1,670)
Prepayments	<u>(130,976)</u>	<u>(99,342)</u>
Gross deferred tax liabilities	<u>(954,130)</u>	<u>(527,710)</u>
Set-off of deferred tax assets	<u>817,092</u>	<u>527,710</u>
<b>Deferred tax liabilities (net)</b>	<u>(137,038)</u>	<u>-</u>

At 30 June 2011, there are no unrecognised temporary differences and tax losses from prior years.

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**9) DIVIDENDS DECLARED**

	<b>CONSOLIDATED</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>a) Unrecognised amounts</b>		
Dividends on ordinary shares - final franked dividend for 2011: 0.6 cents per share (2010: 0.5 cents per share)	<b>582,986</b>	432,423
	<b>PARENT</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>b) Franking credit balance</b>		
The amount of franking credits available for the subsequent financial year are:		
Franking account balance as at the end of the financial year at 30% (2010: 30%)	<b>835,889</b>	590,224
Net franking credits that will arise from the payment/(receipt) of income tax payable/(receivable) as at the end of the financial year	<b>(12,782)</b>	177,524
<b>The amount of franking credits available for future reporting periods</b>	<b>823,107</b>	767,748
Impact on the franking account of dividends proposed or declared before the financial report was authorised for issued but not recognised as a distribution to equity holders during the period	<b>(249,851)</b>	(185,324)
	<b>573,256</b>	582,424

**c) Tax rates**

The tax rate at which paid dividends have been franked is 30% (2010: 30%).

Dividends proposed will be franked at the rate of 30% (2010: 30%).

## Notes to the Consolidated Financial Statements (continued)

### FOR THE YEAR ENDED 30 JUNE 2011

#### 10) EARNINGS PER SHARE

The following reflects the income used in the basic and diluted earnings per share computations:

		CONSOLIDATED	
		2011	2010
		\$	\$
<b>a) Earnings used in calculating earnings per share</b>			
<i>For basic and diluted earnings per share:</i>			
Net profit attributable to ordinary equity holders of the parent		<b>1,286,670</b>	853,494
		<b>2011</b>	2010
		<b>No.</b>	No.
<b>b) Weighted average number of shares</b>			
Weighted average number of ordinary shares for basic and diluted earnings per share		<b>91,303,476</b>	72,253,529

No instruments (eg. share options) existed at reporting date which could potentially dilute basic earnings per share in either of the periods presented.

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

#### 11) CASH AND CASH EQUIVALENTS

		CONSOLIDATED	
		2011	2010
		\$	\$
Cash at bank and in hand		<b>2,460,760</b>	2,151,449

Cash at bank earns interest at floating rates based on daily bank deposit rates. The carrying amounts of cash and cash equivalents approximates fair value.

		CONSOLIDATED	
		2011	2010
		\$	\$
<b>Reconciliation to statement of cash flows</b>			
For the purposes of the statement of cash flows, cash and cash equivalents comprise the following at 30 June:			
Cash at bank and in hand		<b>1,532,538</b>	2,151,449
Short-term deposits		<b>928,222</b>	-
Bank overdrafts (note 19)		<b>(25,145)</b>	(202,500)
		<b>2,435,615</b>	1,948,949

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**12) TRADE AND OTHER RECEIVABLES**

	<b>CONSOLIDATED</b>	
	<b>2011</b>	2010
	<b>\$</b>	\$
Trade receivables	<b>7,042,390</b>	6,854,442
Allowance for doubtful debts (a)	<b>(419,696)</b>	(133,006)
	<b>6,622,694</b>	6,721,436
Unbilled client disbursements	<b>235,537</b>	190,847
Prepayments	<b>942,059</b>	589,361
Other receivables	<b>26,583</b>	37,226
<b>Carrying amount of trade and other receivables</b>	<b>7,826,873</b>	7,538,870

**a) Allowance for doubtful debts**

Trade receivables are non-interest bearing and are generally on 30-60 day terms. An allowance for doubtful debts is recognised when there is objective evidence that an individual trade receivable is impaired. Bad and doubtful debts of \$930,772 (2010: \$274,365) has been recognised by the Group in the current year which includes bad debts expense recognised of \$644,082 (2010: \$246,197). These amounts have been included in other expenses.

Movements in the allowance for impairment loss were as follows:

	<b>CONSOLIDATED</b>	
	<b>2011</b>	2010
	<b>\$</b>	\$
Opening balance at the beginning of the year	<b>133,006</b>	104,839
Charge for the year	<b>286,690</b>	28,167
Closing balance at the end of the year	<b>419,696</b>	133,006

As at 30 June 2011, the aging analysis of trade receivables is as follows:

		<b>Total</b>	<b>0-30 days</b>	<b>31-60 days</b>	<b>61-90</b>	<b>61-90</b>	<b>+91</b>	<b>+91</b>
					<b>Days PDNI*</b>	<b>Days CI*</b>	<b>Days PDNI*</b>	<b>Days CI*</b>
<b>2011</b>	<b>Consolidated</b>	<b>7,042,390</b>	<b>2,555,282</b>	<b>1,215,725</b>	<b>653,561</b>	-	<b>2,198,126</b>	<b>419,696</b>
2010	Consolidated	6,854,442	3,424,020	932,785	399,106	-	1,965,525	133,006

\*PDNI - past due not impaired      CI – considered impaired

Receivables past due but not considered impaired are \$2,851,687 (2010: \$2,364,361). Each operating unit has been in direct contact with the relevant debtor and is satisfied that payment will be received in full.

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

Unbilled client disbursements are incurred only where sufficient assets are in trust or subject to recovery. As such, no impairment issues are noted.

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**12) TRADE AND OTHER RECEIVABLES (continued)**

**b) Fair value and credit risk**

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

The maximum exposure to credit risk is the carrying value of receivables.

**13) WORK IN PROGRESS**

	CONSOLIDATED	
	2011	2010
	\$	\$
Work in progress	<b>2,499,220</b>	<b>1,353,354</b>

**Allowance for recoverable amount**

Work in progress is valued at its net realisable value after providing for any foreseeable losses that have been calculated using historical data.

**14) PLANT AND EQUIPMENT**

**Reconciliation of carrying amounts at the beginning and end of the period**

	CONSOLIDATED		
	Plant and equipment	Leased equipment	Total
	\$	\$	\$
<b>Year ended 30 June 2011</b>			
Balance as at 1 July 2010 net of accumulated depreciation	1,175,746	5,568	1,181,314
Additions	209,596	-	209,596
Acquisition of subsidiary	156,585	-	156,585
Depreciation charge for the year	(371,633)	(5,568)	(377,201)
<b>Balance as at 30 June 2011 net of accumulated depreciation</b>	<b>1,170,294</b>	<b>-</b>	<b>1,170,294</b>
<b>As at 30 June 2011</b>			
Cost	2,075,802	10,907	2,086,709
Accumulated depreciation	(905,508)	(10,907)	(916,415)
<b>Net carrying amount</b>	<b>1,170,294</b>	<b>-</b>	<b>1,170,294</b>

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**14) PLANT AND EQUIPMENT (continued)**

	CONSOLIDATED		
	Plant and equipment	Leased equipment	Total
	\$	\$	\$
<b>Year ended 30 June 2010</b>			
Balance as at 1 July 2009 net of accumulated depreciation	682,882	8,478	691,360
Additions	807,265	-	807,265
Disposals	(9,192)	-	(9,192)
Depreciation charge for the year	(305,209)	(2,910)	(308,119)
<b>Balance as at 30 June 2010 net of accumulated depreciation</b>	<b>1,175,746</b>	<b>5,568</b>	<b>1,181,314</b>
<b>As at 30 June 2010</b>			
Cost	1,709,621	10,907	1,720,528
Accumulated depreciation	(533,875)	(5,339)	(539,214)
<b>Net carrying amount</b>	<b>1,175,746</b>	<b>5,568</b>	<b>1,181,314</b>

**15) GOODWILL**

**a) Reconciliation of carrying amounts at the beginning and end of the period**

	CONSOLIDATED	
	2011	2010
	\$	\$
<b>Year ended 30 June</b>		
Balance as at 1 July net of accumulated impairment	10,470,600	10,372,263
Acquisition of subsidiary (note 29)	2,417,757	-
Other <sup>(1)</sup>	12,200	-
Deferred consideration achieved	-	98,337
<b>Balance as at 30 June net of accumulated impairment</b>	<b>12,900,557</b>	<b>10,470,600</b>
<b>As at 30 June</b>		
Cost (gross carrying amount)	13,566,383	11,136,426
Accumulated impairment	(665,826)	(665,826)
<b>Net carrying amount</b>	<b>12,900,557</b>	<b>10,470,600</b>

(1) Relates to the acquisition of The Argyle Partnership.

**b) Description of the Group's goodwill**

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment (refer to section (c) of this note).

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

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**15) GOODWILL (continued)**

**c) Impairment tests for goodwill with indefinite useful lives**

***(i) Description of the cash generating units and other relevant information***

Goodwill acquired through business combinations has been allocated to four individual cash generating units for impairment testing as follows:

- Talbot Olivier cash generating unit (legal services reportable segment – refer note 5);
- Civic Legal cash generating unit (legal services reportable segment – refer note 5);
- Law Central cash generating unit (information technology reportable segment – refer note 5); and
- Argyle Lawyers cash generating unit (legal services reportable segment – refer note 5).

The recoverable amounts of the cash generating units, excluding Law Central, have been determined based on a value in use calculation using cash flow projections as at 30 June that is based on a discounted cash flow methodology approved by the Board covering a five year period.

The recoverable amount of the Law Central cash generating unit has been determined based on the fair value less costs to sell calculation using cash flow projections as at 30 June 2011 that is based on financial budgets approved by the Board covering a five-year period. This method calculates the best estimate that an independent third party would pay to purchase the cash generating unit less applicable selling costs at the reporting date. The valuation is based on cash flow projections using assumptions that represent management's best estimate of the range of business and economic conditions at this time.

The valuations have been reviewed and approved by the Board.

The value in use and fair value less costs to sell valuations are compared to the net carrying amount of goodwill recognised in the accounts. If the calculated recoverable amount exceeds the net carrying amount, no impairment loss is recorded.

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**15) GOODWILL (continued)**

**(ii) Key assumptions used in recoverable value calculations**

The key assumptions made by management in determining the recoverable value include:

	Argyle Lawyers	Civic Legal <sup>(1)</sup>	Talbot Oliver	Law Central
<b>Year ended 30 June 2011</b>				
Goodwill recognised	<b>\$4,602,567</b>	<b>\$3,121,757</b>	<b>\$3,106,233</b>	<b>\$2,070,000</b>
Pre-tax nominal discount rate	<b>17.0%</b>	<b>17.0%</b>	<b>17.0%</b>	<b>17.0%</b>
Growth in fees – 2012	<b>3.0%</b>	<b>16.0%</b>	<b>10.0%</b>	<b>16.0%</b>
Growth in fees – 2013	<b>18.0%</b>	<b>18.0%</b>	<b>6.0%</b>	<b>5.0%</b>
Growth in fees – 2014-2016	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>
<b>Year ended 30 June 2010</b>				
Goodwill recognised	<b>\$4,590,367</b>	<b>\$704,000</b>	<b>\$3,106,233</b>	<b>\$2,070,000</b>
Pre-tax nominal discount rate	<b>17.0%</b>	<b>17.0%</b>	<b>17.0%</b>	<b>17.0%</b>
Growth in fees – 2011	<b>18.0%</b>	<b>16.0%</b>	<b>21.0%</b>	<b>16.0%</b>
Growth in fees – 2012-2015	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>

(1) Comparative information relates to Brett Davies Lawyers cash generating unit only, the operations of which were merged with the newly acquired legal practice of Wojtowicz Kelly Legal (note 29) to form Civic Legal during the year.

**Discount rate**

The discount rate applied of 17.0% (2010: 17.0%) is calculated using the weighted average cost of capital method and reflects management's estimate of the time value of money and risks specific to the cash generating units. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.

**Growth in fees**

The forecast growth in fees is calculated on historical fees adjusted for budgeted fee increases, anticipated inflation and fee growth to be generated from the client base in line with market trends.

**(iii) Sensitivity to changes in assumptions**

With regards to the assessment of the value in use of the Argyle Lawyers, Civic Legal and Talbot Olivier and the fair value less costs to sell of the Law Central cash generating units, management consider that no reasonably possible change in any of the key assumptions in (ii) above would significantly erode the headroom calculated and cause the carrying value of the cash generating units to exceed its recoverable amount. This assurance has been obtained by the analysis performed in the recoverable value calculations whereby management assessed the results of the Group not meeting fee revenue growth targets and applying the highest reasonably possible discount rates.

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**16) INTANGIBLE ASSETS**

**a) Reconciliation of carrying amounts at the beginning and end of the period**

	CONSOLIDATED	
	2011	2010
	\$	\$
Opening balance net of accumulated amortisation	65,340	100,980
Amortisation	(35,640)	(35,640)
<b>Closing balance net of accumulated amortisation</b>	<b>29,700</b>	65,340
Cost (gross carrying amount)	163,254	163,254
Accumulated amortisation	(133,554)	(97,914)
<b>Net carrying amount at the end of the financial year</b>	<b>29,700</b>	65,340

**b) Description of the Group's identified intangible assets**

Intangible assets represent the value of leased premises acquired upon the acquisition of the legal practice of Peter Marks in the 30 June 2008 financial year and is carried at cost less accumulated amortisation. This intangible asset has been assessed as having a finite life and is amortised using the straight line method over the remaining term of the lease. The amortisation has been recognised in the statement of comprehensive income in the line item "depreciation and amortisation expense".

**17) FINANCIAL ASSETS**

	CONSOLIDATED	
	2011	2010
	\$	\$
Available-for-sale financial assets		
Shares in listed securities – at fair value	3,435	2,642
	<b>3,435</b>	2,642

Available-for-sale investments consist of investments in ordinary shares. The fair value of listed available-for-sale investments has been determined based on quoted market prices (Level 1).

Quoted market price represents the fair value based on quoted prices on active markets as at the reporting date without any deduction for transaction costs.

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**18) TRADE AND OTHER PAYABLES**

	CONSOLIDATED	
	2011	2010
	\$	\$
<b>Current</b>		
Trade payables	1,342,028	719,856
Other payables and accruals	2,471,570	2,597,301
	<b>3,813,598</b>	<b>3,317,157</b>
<b>Non-Current</b>		
Trade payables	37,554	75,107
	<b>37,554</b>	<b>75,107</b>

**a) Fair value**

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

**b) Interest rate and liquidity risk**

Information regarding interest rate and liquidity risk exposure is set out in note 3.

**19) INTEREST-BEARING LOANS AND BORROWINGS**

	CONSOLIDATED	
	2011	2010
	\$	\$
<b>Current</b>		
Bank overdraft	25,145	202,500
Obligations under finance leases and hire purchase contracts (note 30(i))	174,869	176,811
Insurance premium funding (unsecured)	386,245	244,014
Bank loan (secured) (note 33)	1,950,000	950,000
	<b>2,536,259</b>	<b>1,573,325</b>
<b>Non-Current</b>		
Obligations under finance leases and hire purchase contracts (note 30(i))	143,325	260,913
	<b>143,325</b>	<b>260,913</b>

The carrying amount of the Group's current and non-current borrowings approximate their fair value. Details regarding liquidity risk are disclosed in note 3.

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**19) INTEREST-BEARING LOANS AND BORROWINGS (continued)**

**a) Assets pledged as security**

The carrying amounts of assets pledged as security for current and non-current interest bearing liabilities are:

	<b>CONSOLIDATED</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<i>Finance lease</i>		
Leased office equipment (note 30(i))	-	5,568
<b>Total assets pledged as security</b>	<b>-</b>	<b>5,568</b>

In addition, the \$1,950,000 bank loan is secured by a fixed and floating charge over the total assets of the group.

**b) Defaults and breaches**

During the year there were no defaults or breaches on any of the loans.

**20) PROVISIONS**

	<b>CONSOLIDATED</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Long service leave	<b>177,986</b>	145,554
Annual leave	<b>808,607</b>	541,503
	<b>986,593</b>	<b>687,057</b>
<b>Non-Current</b>		
Long service leave	<b>306,092</b>	197,350
	<b>306,092</b>	<b>197,350</b>

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**21) OTHER LIABILITIES**

	<b>CONSOLIDATED</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Deferred consideration payable <sup>(1)</sup>	<b>125,000</b>	197,444
Contingent consideration obligation <sup>(1)</sup>	<b>48,280</b>	-
Lease incentive obligation <sup>(2)</sup>	<b>82,489</b>	82,489
	<b>255,769</b>	279,933
<b>Non-Current</b>		
Contingent consideration payable <sup>(1)</sup>	<b>522,255</b>	-
Lease incentive obligation <sup>(2)</sup>	<b>167,089</b>	127,608
	<b>689,344</b>	127,608

- (1) Deferred and contingent consideration payable on the acquisition of Wojtowicz Kelly Legal (see note 29) (2010: contingent consideration payable on the acquisition of The Argyle Partnership).  
(2) Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability to ensure rental expense is recognised on a straight line basis over the lease term.

**22) ISSUED CAPITAL**

	<b>Consolidated</b>	<b>Consolidated</b>	<b>Consolidated</b>	<b>Consolidated</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>Shares</b>	<b>Shares</b>	<b>\$</b>	<b>\$</b>
Fully paid shares	<b>95,908,111</b>	86,139,666	<b>33,321,656</b>	32,126,345
Partly paid shares <sup>(1)</sup>	<b>1,256,217</b>	371,667	<b>75,496</b>	34,081
Forfeited shares held in trust <sup>(2)</sup>	-	(26,667)	-	-
	<b>97,164,328</b>	86,484,666	<b>33,397,152</b>	32,160,426

- (1) Shares issued under the Deferred Employee Share Plan that vest over three years (note 28).  
(2) Shares issued but forfeited under the Deferred Employee Share Plan, held in trust (note 28).

Fully paid ordinary shares carry one vote per share and carry the right to dividends. The shares have no par value.

**Movement in ordinary shares on issue:**

	<b>Shares</b>	<b>\$</b>
Opening balance as at 1 July 2010	86,484,666	32,160,426
Issue of shares to The Argyle Partnership in final satisfaction of deferred consideration payable on 22 September 2010	1,800,000	180,000
Issue of shares in part satisfaction of 2010 Principal profit share entitlement on 16 December 2010	125,000	15,000
Issue of shares to vendors of Wojtowicz Kelly Legal on 1 February 2011	5,727,000	744,600
Issue of shares under Dividend Reinvestment Plan on 2 May 2011	2,143,112	267,883
Costs associated with shares issued on the acquisition of Wojtowicz Kelly Legal, net of tax	-	(12,172)
Issue of shares under the Deferred Employee Share Plan during the year (484,550 shares on 1 July 2010 and 400,000 shares on 1 February 2011)	884,550	41,415
<b>Balance as at 30 June 2011</b>	<b>97,164,328</b>	<b>33,397,152</b>

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**22) ISSUED CAPITAL (continued)**

	Shares	\$
Opening balance as at 1 July 2009	69,346,178	30,504,813
Issue of shares under Share Placement (Tranche 1) on 8 April 2010	7,000,000	700,000
Issues of shares under Dividend Reinvestment Plan on 9 April 2010	353,488	42,410
Issues of shares under Share Placement (Tranche 2) on 12 May 2010	4,100,000	410,000
Issues of shares under Share Purchase Plan on 26 May 2010	5,645,000	564,500
Costs associated with the capital raising, net of tax	-	(80,540)
Issue of shares under the Deferred Employee Share Plan on 1 July 2009	40,000	19,243
<b>Balance as at 30 June 2010</b>	<b>86,484,666</b>	<b>32,160,426</b>

**a) Capital management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, in order to provide returns to shareholders, and to maintain an optimal capital structure to allow the Group to pursue its future acquisition activities. Capital is comprised of shareholders' equity as disclosed in the statement of financial position.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders and increase or decrease the Group's debt, subject to the capital requirements of the Group's operations at the time.

During the year, the Directors paid a dividend of \$709,439 (2010: \$173,532) of which \$441,556 (2010: \$131,113) was paid in cash and the balance of \$267,883 (2010: \$42,419) was issued as ordinary shares under the Company's dividend reinvestment plan.

The Directors have declared a final dividend of 0.60 cents per share (\$582,986) for the 2011 financial year (2010: \$432,423). The dividend reinvestment plan will be offered for this dividend.

The Group monitors capital on the basis of the gearing ratio. The level of gearing in the Company is within the acceptable limits set by the Directors given the implications of the business acquisitions and payment of tax liabilities during the year.

**23) ACCUMULATED LOSSES**

	CONSOLIDATED	
	2011	2010
	\$	\$
Accumulated losses	<b>(16,349,358)</b>	(16,688,184)
<b>Balance at beginning of year</b>	<b>(16,688,184)</b>	(16,641,034)
Net profit for the year	-	853,494
Dividends paid	-	(173,531)
Transfer to general reserve (note 24)	<b>(238,405)</b>	(727,113)
<b>Balance at end of the year</b>	<b>(16,926,589)</b>	(16,688,184)

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**24) RESERVES**

	CONSOLIDATED	
	2011	2010
	\$	\$
Accumulated losses on available-for-sale financial assets	(649)	(1,441)
General reserve	1,542,749	727,113
<b>Balance at end of the year</b>	<b>1,542,100</b>	<b>725,672</b>

**General reserve**

Due to accumulated losses incurred prior to the listing of the company on 17 August 2007, the Directors resolved to isolate profits derived from trading activities since listing through the establishment of a General Reserve.

During the period, \$238,405, representing trading profits to 30 June 2010 less dividends paid, was transferred to the General Reserve from Accumulated Losses.

**25) CASH FLOW RECONCILIATION**

	CONSOLIDATED	
	2011	2010
	\$	\$
<b>a) Reconciliation of net profit after tax to net cash flows from operations</b>		
Net profit	1,286,670	853,494
<i>Adjustments for:</i>		
Dividends received as shares (DRP)	-	(34)
Depreciation and amortisation expenses	412,841	343,759
Share based payments expense	41,415	19,243
<i>Changes in assets and liabilities:</i>		
Increase in trade and other receivables	(273,387)	(1,765,021)
(Increase)/decrease in work in progress	(1,145,866)	16,858
(Increase)/decrease in available-for-sale assets	(793)	35
Increase in trade and other payables	458,889	1,348,935
Increase/(decrease) in income tax payable	(190,306)	20,513
Increase in net deferred tax liabilities	137,038	363,058
Increase in provisions	408,278	247,321
Increase in other liabilities	96,960	-
<b>Net cash from operating activities</b>	<b>1,231,739</b>	<b>1,448,161</b>
<b>b) Non-cash financing and investing activities</b>		
Settlement of subsidiary purchase with shares	744,600	-

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**26) RELATED PARTIES**

**a) Subsidiaries**

The consolidated financial statements include the financial statements of Integrated Legal Holdings Limited and the subsidiaries listed in the following table:

Name	Country of Incorporation	% EQUITY INTEREST		INVESTMENT	
		2011	2010	2011	2010
Argyle Lawyers Pty Ltd	Australia	100%	100%	2	2
Civic Legal Pty Ltd (formerly Tax Lawyers Australia Pty Ltd)	Australia	100%	100%	1	1
Talbot Olivier Pty Ltd	Australia	100%	100%	1	1
Law Central Co Pty Ltd	Australia	100%	100%	712,884	712,884
				<b>712,888</b>	<b>712,888</b>

All subsidiaries are domiciled in Australia.

**b) Ultimate parent**

Integrated Legal Holdings Limited is the ultimate Australian parent entity and the ultimate parent of the Group.

**c) Key management personnel**

Details relating to KMP, including remuneration paid, are included in note 27.

**d) Transactions with related parties**

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year:

Related Party		Sales to Related Parties \$	Purchases from Related Parties \$	Other Transactions with Related Parties \$
<b>CONSOLIDATED</b>				
<i>Associates:</i>				
Davies Service Trust – operating lease relating to premises occupied by Brett Davies Lawyers and Law Central	2011	-	-	93,650
	2010	-	-	170,635
Peter Bobbin and Andrew Ireland - Deferred consideration payable on acquisition of The Argyle Partnership – Lawyers <sup>(1)</sup>	2011	-	-	-
	2010	-	-	111,607

(1) Deferred consideration was accrued at each reporting date and was paid in the 2011 financial year.

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**26) RELATED PARTIES (continued)**

*Terms and conditions of transactions with related parties*

Sales to and purchases from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms.

Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash.

**27) KEY MANAGEMENT PERSONNEL**

**a) Compensation of Key Management Personnel**

	2011 \$	2010 \$
Short-term employee benefits	2,987,748	3,010,738
Post-employment benefits	307,366	269,841
Other long-term benefits	51,939	116,675
Share-based payment	4,679	4,685
	<b>3,351,732</b>	<b>3,401,939</b>

**b) Shareholdings of Key Management Personnel**

Ordinary shares held in Integrated Legal Holdings Limited:

	Balance 1 July 2010	Deferred Consideration on Acquisition of Business	Dividend Reinvestment Plan	Net Change -Other	Balance 30 June 2011
<b>Directors</b>					
J Dawkins	2,910,282	-	39,847	-	2,950,129
A Tregonning	406,251	-	9,750	-	416,001
G Fowler	4,810,559	-	50,054	-	4,860,613
<b>Executives</b>					
B Taylor <sup>(1)</sup>	3,074,681	-	-	-	3,074,681
P Bobbin <sup>(2)</sup>	3,544,768	1,000,000	108,924	-	4,653,692
M Douglass <sup>(3)</sup>	1,333,334	-	-	-	1,333,334
A Ireland <sup>(4)</sup>	1,736,428	800,000	-	-	2,536,428
B Davies <sup>(5)(6)</sup>	7,820,478	-	-	(7,820,478)	-
A Quahe <sup>(7)</sup>	-	-	-	1,909,000	1,909,000
JM Rudd	293,073	-	4,274	-	297,347
<b>Total</b>	<b>25,929,854</b>	<b>1,800,000</b>	<b>212,849</b>	<b>(5,911,478)</b>	<b>22,031,225</b>

(1) 1,022,780 shares are subject to voluntary escrow restriction until 16 August 2011.

(2) 565,476 shares are subject to voluntary escrow restriction until 4 November 2011.

(3) 444,445 shares are subject to voluntary escrow restriction until 13 March 2012.

(4) 565,476 shares are subject to voluntary escrow restriction until 4 November 2011.

(5) 2,518,472 shares are subject to voluntary escrow restriction until 16 August 2011.

(6) B Davies ceased to be a KMP from 31 January 2011.

(7) A Quahe became a KMP from 1 February 2011.

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**27) KEY MANAGEMENT PERSONNEL (continued)**

	Balance 1 July 2009	Granted as Remuneration <sup>(6)</sup>	Dividend Reinvestment Plan	Share Placement & Share Purchase Plan	Net Change -Other	Balance 30 June 2010
<b>Directors</b>						
J Dawkins	1,626,398	-	33,884	1,000,000	250,000	2,910,282
A Tregonning	300,000	-	6,251	100,000	-	406,251
G Fowler	2,710,200	-	57,359	2,000,000	43,000	4,810,559
<b>Executives</b>						
B Taylor <sup>(1)</sup>	3,068,340	-	-	-	6,341	3,074,681
P Bobbin <sup>(2)</sup>	1,807,727	-	45,684	1,300,000	391,357	3,544,768
M Douglass <sup>(3)(7)</sup>	-	-	-	-	1,333,334	1,333,334
A Ireland <sup>(4)(7)</sup>	-	-	-	40,000	1,696,428	1,736,428
B Davies <sup>(5)</sup>	7,562,916	-	157,562	100,000	-	7,820,478
JM Rudd	102,500	40,000	573	150,000	-	293,073
<b>Total</b>	<b>17,178,081</b>	<b>40,000</b>	<b>301,313</b>	<b>4,690,000</b>	<b>3,720,460</b>	<b>25,929,854</b>

(1) 1,022,780 shares are subject to voluntary escrow restriction until 16 August 2011.

(2) 565,477 shares are subject to voluntary escrow restriction until 4 November 2010 and 565,476 shares are subject to voluntary escrow restriction until 4 November 2011.

(3) 444,444 shares are subject to voluntary escrow restriction until 13 March 2011 and 444,445 shares are subject to voluntary escrow restriction until 13 March 2012.

(4) 565,476 shares are subject to voluntary escrow restriction until 4 November 2010 and 565,476 shares are subject to voluntary escrow restriction until 4 November 2011.

(5) 2,518,472 shares are subject to voluntary escrow restriction until 16 August 2011.

(6) Acquired under the Deferred Employee Share Plan (note 28).

(7) M Douglass and A Ireland become KMPs from 1 July 2009.

**c) Other transactions with Key Management Personnel and their related parties**

***Lease of Business Premises***

Brett Davies Lawyers and Law Central Co Pty Ltd shared business premises at 201 Adelaide Terrace, Perth until 31 January 2011. These premises were leased from The Davies Service Trust, an entity that is controlled by Mr Davies, who was Managing Principal of Brett Davies Lawyers at that time. Monthly lease rentals for each of these entities have been calculated at commercial market rates.

*Amounts recognised at the reporting date in relation to other transactions with KMP:*

	2011 \$	2010 \$
Revenue and expenses		
Rent paid	93,650	170,635
	<b>93,650</b>	<b>170,635</b>

## Notes to the Consolidated Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

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### 27) KEY MANAGEMENT PERSONNEL (continued)

#### *Loans to Key Management Personnel*

Under the terms of his employment contract, Mr Fowler (Managing Director) was provided with an interest-free loan of \$189,036 pertaining to the tax liability of shares in the Company issued on his appointment in April 2008. The terms of the loan are as follows:

- the loan will be forgiven if Mr Fowler remains employed by the Company for at least 3 years from the date of commencement of employment;
- 50% of the loan will be waived if Mr Fowler terminates his employment within 2-3 years; and
- 0% of the loan will be waived if Mr Fowler terminates his employment within 2 years.

The Company will meet any FBT obligations arising from this transaction.

This loan has been assessed as prepaid employee benefits in accordance with AASB 119 *Employee Benefits*. Amortisation expense of \$31,506 (2010: \$107,122) has been recognised in the statement of comprehensive income in the line item 'salaries and employee benefits expenses'.

### 28) SHARE-BASED PAYMENT PLANS

#### a) Recognised share-based payment expenses

The expense recognised for employee services received during the year is shown in the table below:

	CONSOLIDATED	
	2011	2010
	\$	\$
Expense arising from equity-settled share-based payment transactions	<b>41,415</b>	19,243

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during the year.

#### b) Types of share-based payment plans

##### *Tax exempt employee share plan (TEESP)*

All employees are eligible to participate in the TEESP if they meet the following criteria:

- They have an adjusted taxable income of less than \$180,000 per annum;
- They are a permanent full-time or permanent part-time employee of the Group;
- They have met the probation period under the terms of their employment contract;
- They are at least 18 years of age; and
- They are an Australian resident for tax purposes.

Employees who participate in the TEESP can nominate to contribute up to \$1,000 per annum from their pre-tax wages or salary by way of an effective salary sacrifice towards acquiring fully paid ordinary shares in the Company.

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

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**28) SHARE-BASED PAYMENT PLANS (continued)**

In accordance with the rules of the TEESP, shares acquired under the plan must not be withdrawn or otherwise dealt with, commencing from the date the employee acquires a beneficial interest in those shares until the earliest of the date that:

- Is three years after the acquisition date; or
- The employee ceases to be an employee of the Group.

The rules of the TEESP do not contain any provisions that could result in an employee forfeiting ownership of shares under the plan.

***Deferred employee share plan (DESP)***

Shares are granted to key employees and directors of the Group. The DESP is designed to align participants' interests with those of shareholders by increasing the value of the Company's shares.

Employees are eligible to participate in the DESP if they meet the following criteria:

- They are a permanent full-time or permanent part-time employee of the Group;
- They have met the probation period under the terms of their employment contract;
- They are at least 18 years of age; and
- They are an Australian resident for tax purposes.

Under the DESP, the fair value of the shares is set at the market price of the shares on the date of grant.

When a participant ceases employment prior to the vesting of their shares, the shares are forfeited in full or in part, depended on the terms of award of those shares.

In the event of a change of control, the performance period end date will be brought forward to the date of the change of control and awards will vest subject to performance over this shortened period.

The vesting period of each share is three years. There are no cash settlement alternatives.

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**28) SHARE-BASED PAYMENT PLANS (continued)**

**c) Summary of shares granted under TEESP and DESP arrangements**

The following table illustrates the number of and movements in shares granted during the period under the TEESP and the DESP:

	CONSOLIDATED	
	2011 No	2010 No
<b>TEESP:</b>		
Opening balance as at 1 July 2010	252,672	255,842
Transferred to departed employees during the year <sup>(1)</sup>	-	(3,170)
Closing balance as at 30 June 2011	252,672	252,672
<b>DESP:</b>		
Opening balance as at 1 July 2010	371,667	331,667
Granted during the year	884,550	40,000
Closing balance as at 30 June 2011	1,256,217	371,667

(1) Shares are transferred out of an employee trust into the employee's name on termination of employment.

**d) Weighted average remaining contractual life**

The weighted average remaining contractual life as at 30 June 2011 for the shares issued under the DESP is 1.66 years (2010: 1.23 years).

**e) Weighted average fair value**

As at 30 June 2011, the weighted average fair value of shares granted under the DESP was 11.7 cents (2010: 15.5 cents).

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

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**29) BUSINESS COMBINATIONS**

***Acquired legal practice – Wojtowicz Kelly Legal***

On 1 February 2011 the Company acquired the legal practice of Wojtowicz Kelly Legal (incorporating Civic Legal, the Simpson Kelly Group, Gibson Tovey & Associates, All Property Conveyancing and Jan Simpson Settlements) under merger arrangements with the existing member firm Civic Legal Pty Ltd (formerly Tax Lawyers Australia Pty Ltd) trading as Brett Davies Lawyers.

The merged business will trade as Civic Legal.

The consideration for the transaction is a combination of the issue of 5.727m shares and an upfront cash payment of \$924,000 (funded from surplus cash reserves). A deferred cash consideration of \$125,000 was paid in July 2011.

Additionally, under the merger agreement, a maximum of \$600,000 and minimum of nil in contingent cash consideration may be payable in September 2013 subject to the merged business achieving agreed profitability (net profit before tax) targets in the financial years ended 30 June 2012 and 30 June 2013. The contingent consideration will be settled in cash or shares at the discretion of the Board. The Group has forecast several scenarios, and probability weighted each to determine a fair value for this contingent payment arrangement, which has been included in the determination of the consideration transferred. Future changes in estimates of this amount will be recorded directly in the statement of comprehensive income in the period in which they occur.

The Directors consider that the contingent consideration will support and foster a “united principal group” environment for the merged firm, by incentivising teamwork in the realisation of merger revenue and cost synergies.

The contingent consideration has been formulated using Integrated Legal Holdings Limited’s minimum expectations as a base (i.e. the contingent consideration is only payable on outperformance above these minimum expectations).

Furthermore, any contingent consideration will only be payable following the achievement of minimum expected lock-up (Work-in-progress and debtors) performance by the firm.

The acquisition is structured with significant employment constraints and conditions, consistent with the Company’s disciplined acquisition model and strict criteria.

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**29) BUSINESS COMBINATIONS (continued)**

The following constitutes the provisional calculation of the consideration given and the fair value of net assets acquired:

	Provisional Fair Value	Carrying Amount
	\$	\$
<b>Consideration</b>		\$
Cash	924,000	
Deferred cash consideration	125,000	
Total cash consideration	1,049,000	
Contingent consideration	601,564	
Shares issued as consideration	744,600	
<b>Total acquisition cost</b>	<b>2,395,164</b>	
	<b>Provisional Fair Value</b>	<b>Carrying Amount</b>
	<b>\$</b>	<b>\$</b>
<b>Net assets acquired</b>		
Assets		
Plant and equipment	156,585	156,585
Prepayments	33,720	33,720
Deferred tax asset	48,316	-
<b>Total assets acquired</b>	<b>238,621</b>	<b>190,305</b>
Liabilities		
Deferred tax liability	26,899	-
Interest bearing loans and borrowings	73,261	73,261
Provisions	161,054	161,054
Total liabilities acquired	<b>261,214</b>	<b>234,315</b>
<b>Net liabilities acquired</b>	<b>(22,593)</b>	<b>(44,010)</b>
<b>Goodwill on acquisition</b>	<b>2,417,757</b>	

As the integration of the business is still occurring the fair value of net assets acquired remains provisionally determined.

The acquiree's contribution to the net profit of the Group cannot be determined as this business has been incorporated into Brett Davies Lawyer's business, and it is impracticable to disclose the total revenue and profit for the combined entity as though the acquisition had taken place at the beginning of the period.

Key factors contributing to the \$2,417,757 of goodwill are the synergies existing within the acquired business, and synergies expected to be achieved as a result of combining Wojtowicz Kelly Legal with the rest of the Group.

***Cash outflows - acquired legal practices***

Cash outflows during the year ended 30 June 2011 related to acquisitions were as follows:

	\$
Wojtowicz Kelly Legal (1 February 2011)	
Cash consideration	924,000
Contingent consideration	42,948
The Argyle Partnership (1 November 2008)	
Stamp duty paid	11,000
mda lawyers (13 March 2009)	
Stamp duty paid	1,200
<b>TOTAL</b>	<b>979,148</b>

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**30) EXPENDITURE COMMITMENTS**

*i) Leasing commitments*

**Operating lease commitments – Group as lessee**

The Group has entered into operating leases for the rental of office space at its various commercial premises. These non-cancellable leases have remaining terms of between 2 to 8 years. The leases have renewal options. Renewals are at the option of the specific entity that holds the lease.

Future minimum rentals payable under non-cancellable operating leases as at 30 June 2011 are as follows:

	CONSOLIDATED	
	2011	2010
	\$	\$
Within one year	<b>2,381,760</b>	1,973,067
After one year but not more than five years	<b>6,924,450</b>	5,791,879
After more than five years	<b>2,726,571</b>	3,133,815
<b>Total minimum lease payments</b>	<b>12,032,780</b>	10,898,761

**Finance lease and hire purchase commitments – Group as lessee**

The Group has finance leases and hire purchase contracts for various items of plant and equipment with a carrying amount of \$345,511 (2010: \$458,625). These contracts expire within 1 to 4 years. The leases have terms of renewal and purchase options. Renewals are at the option of the specific entity that holds the lease.

	CONSOLIDATED	
	2011	2010
	\$	\$
Within one year	<b>198,624</b>	215,919
After one year but not more than five years	<b>146,887</b>	268,187
<b>Total minimum lease payments</b>	<b>345,511</b>	484,106
Less amounts representing finance charges	<b>(27,317)</b>	(46,382)
<b>Present value of minimum lease payments</b>	<b>318,194</b>	437,724

	CONSOLIDATED	
	2011	2010
	\$	\$
Included in the financial statements as:		
Current interest-bearing loans and borrowings (note 19)	<b>174,869</b>	176,811
Non-current interest-bearing loans and borrowings (note 1919))	<b>143,325</b>	260,913
<b>Total interest-bearing loans and borrowings</b>	<b>318,194</b>	437,724

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

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**30) EXPENDITURE COMMITMENTS (continued)**

*ii) Plant and equipment rental commitments*

The Group has contractual obligations for the rental of plant and equipment. The rental agreements expire within 1 and 3 years and have purchase options on expiry. Rental commitments contracted for at reporting date but not recognised as liabilities are as follows:

	CONSOLIDATED	
	2011	2010
	\$	\$
Within one year	11,138	63,142
After one year but not more than five years	-	11,138
After more than five years	-	-
<b>Total minimum rental payments</b>	<b>11,138</b>	<b>74,280</b>

*iii) Remuneration commitments*

	CONSOLIDATED	
	2011	2010
	\$	\$
Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities, payable:		
Within one year	4,534,380	4,315,079
After one year but not more than five years	5,109,956	6,694,457
After more than five years	-	-
	<b>9,644,336</b>	<b>11,009,536</b>

Amounts disclosed as remuneration commitments include commitments arising from the service contracts of directors and executives referred to in the Remuneration Report of the Directors Report that are not recognised as liabilities and are not included in the compensation of KMP for the current period.

**Notes to the Consolidated Financial Statements (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**31) CONTINGENCIES**

*Cross guarantees*

Pursuant to Class Order 98/1418, relief has been granted to Talbot Olivier Pty Ltd, Civic Legal Pty Ltd, Argyle Lawyers Pty Ltd and Law Central Co Pty Ltd from the *Corporations Act 2001* requirements for preparation, audit and lodgement of their financial reports.

As a condition of the Class Order, Integrated Legal Holdings Limited, Talbot Olivier Pty Ltd, Civic Legal Pty Ltd, Argyle Lawyers Pty Ltd and Law Central Co Pty Ltd entered into a Deed of Cross Guarantee. The effect of the deed is that Integrated Legal Holdings Limited has guaranteed to pay any deficiency in the event of winding up of either controlled entity or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that Integrated Legal Holdings Limited is wound up or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee.

The consolidated statement of comprehensive income and consolidated statement of financial position of the Group represent the financial performance and position of the entities that are members of the Closed Group.

**32) AUDITOR'S REMUNERATION**

The auditor of Integrated Legal Holdings Limited is Ernst & Young.

	<b>CONSOLIDATED</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<i>Amounts received or due and receivable by Ernst &amp; Young (Australia) for:</i>		
• an audit or review of the financial report of the company	<b>187,624</b>	136,397
• other services in relation to the company		
○ Tax compliance	<b>17,500</b>	31,453
○ Taxation services	-	5,500
	<b>205,124</b>	173,350
<i>Amounts received or due and receivable by non Ernst &amp; Young (Australia) firms for:</i>		
• other services in relation to the company		
○ Special audits required by regulators	<b>19,597</b>	22,727
○ Taxation services	-	
	<b>19,597</b>	22,727
	<b>224,721</b>	196,077

## Notes to the Consolidated Financial Statements (continued)

### FOR THE YEAR ENDED 30 JUNE 2011

#### 33) EVENTS AFTER REPORTING DATE

##### Acquisition of legal practice of PLN Lawyers

On 1 August 2011 the Company acquired the legal practice of PLN Lawyers (PLN) under tuck-in arrangements with the existing member firm Argyle Lawyers.

The consideration for the transaction is a combination of the issue of 3.04m shares and \$1.1m in cash (funded through surplus cash reserves), and a \$0.25m contingent cash component payable in September 2012 subject to the PLN business achieving revenue and profitability targets for the period to 30 June 2012.

The acquisition is structured with significant employment constraints and conditions, consistent with the Company's disciplined acquisition model and strict criteria.

At the date of this report, initial accounting for the business acquisition has not yet been determined with the fair value assessment of the identified assets and liabilities acquired at acquisition and the estimate of the fair value of the contingent consideration to be finalised. As a result, it is not possible to disclose the fair value of the identified assets and liabilities that will be recognised at 1 August 2011, the acquisition date, fair value of consideration transferred or to calculate the value of goodwill.

##### Declaration of Final Dividend

The Directors have declared a fully franked final dividend of 0.6 cents. The dividend will have a record date of 14 October 2011 and a payment date of 4 November 2011. There will be a dividend reinvestment plan available.

##### Renewal of Bank Funding Facilities

On 31 July 2011, the bank funding facilities were renegotiated. As at 30 June 2011, the following bank funding facilities were in place:

Facility	Facility Limit	Drawn-down as at 30/06/2011	Undrawn Facility Available	Expiry
	\$m	\$m	\$m	
1	2.50	1.95	0.55	September 2011
2	0.55	-	0.55	September 2011
<b>TOTAL</b>	<b>3.05</b>	<b>1.95</b>	<b>1.10</b>	

After the 31 July 2011 renegotiation, the facilities were renewed as follows:

Facility	Facility Limit	Drawn-down	Undrawn Facility Available	Expiry
	\$m	\$m	\$m	
1	2.50	1.95	0.55	September 2013
2	1.00	-	1.00	September 2012
<b>TOTAL</b>	<b>3.50</b>	<b>1.95</b>	<b>1.55</b>	

## Directors' Declaration

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In accordance with a resolution of the directors of Integrated Legal Holdings Limited, I state that:

1. In the opinion of the directors:
  - a. The financial statements, notes and the additional disclosures included in the directors' report designated as audited, of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
    - giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
    - complying with Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001; and
  - b. the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(a).
  - c. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2011.
3. In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 31 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board.



G Fowler  
Managing Director

Sydney, 28 September 2011

## Independent auditor's report to the members of Integrated Legal Holdings Limited

### Report on the financial report

We have audited the accompanying financial report of Integrated Legal Holdings Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Independence*

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

## Opinion

In our opinion:

- a. the financial report of Integrated Legal Holdings Limited is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

## Report on the Remuneration Report

We have audited the Remuneration Report included in pages 22 to 37 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion, the Remuneration Report of Integrated Legal Holdings Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



G H Meyerowitz

Partner

Perth

28 September 2011

## ASX Additional Information

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows. The information is current as at 25 August 2011.

### a) Distribution of equity securities

#### *Ordinary share capital*

- 100,642,589 fully paid ordinary shares are held by 851 individual shareholders.

All issued ordinary shares carry one vote per share and carry the rights to dividends.

The numbers of shareholders by size of holding are:

1 – 1,000	14
1,001 – 5000	117
5,001 – 10,000	197
10,001 – 100,000	428
100,001 and over	95
	851
Holding less than a marketable parcel	99

### b) Substantial shareholders

#### Ordinary shareholders

	Fully Paid Number	Percentage
BK Davies	7,420,478	7.37%
BK Maguire	6,360,247	6.32%
	13,780,725	13.69%

### c) 20 largest holders of quoted equity securities

#### Ordinary shareholders

	Fully Paid Number	Percentage
Legal Australia Pty Ltd <Davies Super Fund A/c>	7,412,821	7.37%
Australian Share Finance Pty Ltd <Bradley Maguire Super Fund A/c>	6,360,245	6.32%
RBC Dexia Investor Services Australia Nominees Pty Limited <BKCUST A/c>	4,432,893	4.40%
Bobbin Ed Pty Ltd	3,974,935	3.95%
JP Olivier	3,068,340	3.05%
Pango Road Pty Limited <Ridgway Superannuation A/c>	3,043,478	3.02%
GHG Fowler	2,724,996	2.71%
Years Pty Ltd <Kordic Family No 1 A/c>	2,610,617	2.59%
Aloa Pty Limited	2,536,428	2.52%
DR & G Sands <Sands Family A/c No 2>	2,268,340	2.25%
A Catelli & G Porter <Catelli/Porter Superfund A/c>	2,191,672	2.18%
GH & LP Fowler <Fowler Super Fund A/c>	2,119,936	2.11%
SP & EM Skinner <Skinner Super Fund A/c>	2,055,000	2.04%
Anglerfish Pty Ltd <The Hemery Family A/c>	2,000,349	1.99%
Brendalis Pty Ltd <Taylor Family A/c>	2,000,349	1.99%
UOB Kay Hian Private Limited <Clients A/c>	1,947,302	1.93%
Chichester Nominees Pty Ltd <Wojtowicz Family No.2 A/c>	1,909,000	1.90%
AC Quahe	1,909,000	1.90%
Silverfox Investments Pty Ltd <Lou Kelly Testamentary Fund A/c>	1,909,000	1.90%
JS Dawkins	1,700,129	1.69%
	<b>58,174,830</b>	<b>57.81%</b>