K3 Business Technology Group plc

Annual report and financial statements for the year ended 30 June 2012

World Class Software. World Class Service.

K3 Business Technology Group plc

K3 is the UK's leading supplier of integrated business systems encompassing Enterprise Resource Planning (ERP) software, Customer Relationship Management (CRM) software, Business Intelligence and e-commerce, hosting and managed services to the supply chain industry. Focussed on the Retail, Manufacturing and Distribution markets, we support more than 3,000 customers in over 20 countries.

AIM: KBT
k3btg.com

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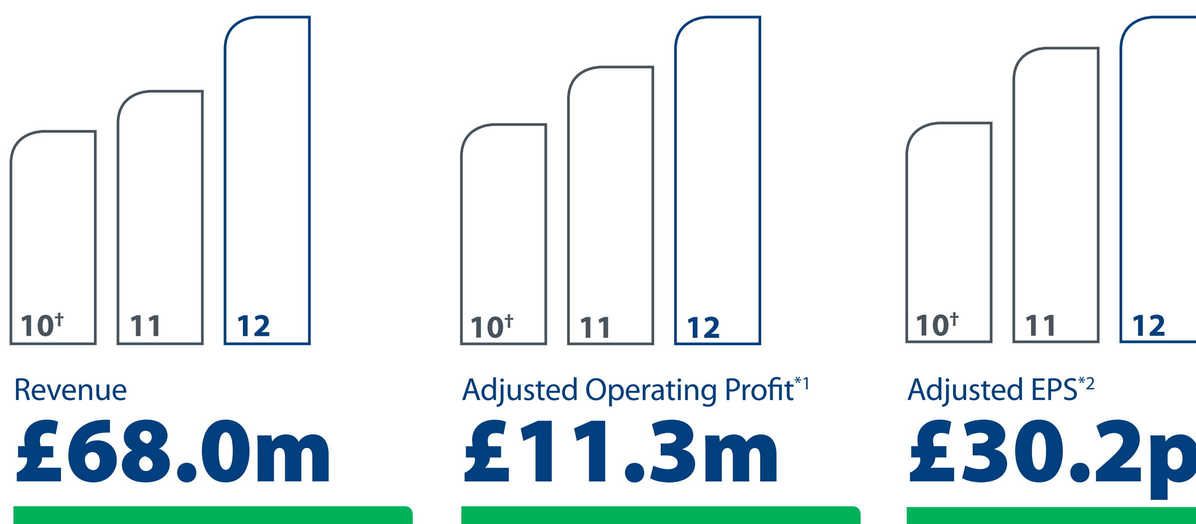
Financial Key Points



Good performance in challenging market conditions.

Revenues of £67.96m (2011: £52.80m) including £11.82m from acquisitions.

Recurring revenue up by 40% to £33.74m (2011: £24.18m), accounting for c.50% of the total.

Major new contract wins totalled £13.3m (2011: £11.1m).

Operational Key Points

Five significant acquisitions completed which are now integrated and performing in line with expectations.

Revenues up in all four Divisions (SYSPRO and Sage, International, Microsoft UK & Managed Services) but difficult conditions in the UK.

Significant investment made in Managed Services which is showing encouraging progress.

Board sees new financial year as one of investment – in Microsoft Dynamics AX and Managed Services – with the financial benefits to come through in 2013 and beyond.

†2010 is for the 12 month period ended 30 June 2010

*1 Calculated before amortisation of acquired intangibles of £3.59m (2011: £2.83m), acquisition costs of £0.59m (2011: £0.49m), exceptional reorganisation costs of £0.56m (2011: £0.45m) and exceptional income of £0.76m (2011: £nil).

*2 Calculated before amortisation of acquired intangibles (net of tax) of £2.35m (2011: £1.76m), acquisition and reorganisation costs (net of tax) of £1.01m (2011: £0.82m) and exceptional income (net of tax) of £0.56m (2011: £nil).

At a Glance

What does K3 do?

K3 is one of the UK's leading providers of integrated business solutions to the supply chain sector. Our customers are Retailers, Manufacturers and Distributors who are looking for global, brand leading business solutions from a specialist provider who is dedicated to their market sector.

We support 3,128 customers from five regional centres in the UK, with our international operations headquartered in Holland.

Increasingly our customers are considering Cloud Computing, to defray IT costs and to provide a more flexible and secure IT infrastructure that will deliver them a competitive edge.

We take market leading solutions from Microsoft, Sage and SYSPRO and add our own Intellectual Property ("IP") to create industry specific solutions.

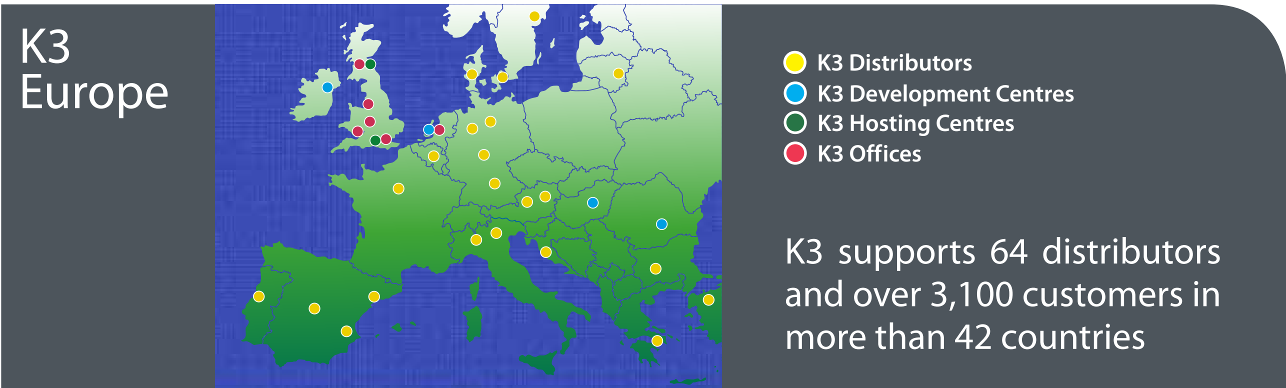
By having our own IP, we can tailor these solutions to our core markets and our solutions are thus more competitive, creating more loyal customers, whilst at the same time driving up margins.

We have loyal customers and once installed, our software systems can remain in place for 15 years or longer. This ensures that K3 generates very high levels of recurring income.

K3 has a strong and successful track record of growth. We have steadily grown organically and through acquisition over the last 10 years and will continue with this dual growth strategy.

Andy Makeham
Chief Executive Officer

- **3,128** customers
- **10 support** centres across the **UK and Europe**
- **600** staff
- Microsoft **Inner Circle**
- Microsoft **President's Club**
- **Investors** in People
- ISO 27001



Our markets

Dedicated teams for dedicated markets

Retail

K3 entered the retail market in 2004 with a key acquisition. This business unit has grown significantly since then and now has over £20m of sales annually. Our customers tend to be well known 'high street' retailers which select K3 because of our sector knowledge, track record and innovative solutions. In recent times, high street retailers have been under pressure but K3 has continued to grow thanks to a strategic investment in multi-channel retail (including internet, store and mail order) in 2008/9 and, despite the economic downturn, K3 continues to win major new contracts year on year.

Manufacturing

With over 1,000 manufacturing customers, K3 is the largest provider of integrated business solutions to the manufacturing sector. We offer solutions for both 'discrete' and 'process' manufacturers, and our customers range from global multi-nationals running K3 solutions worldwide to small engineering companies.

Distribution

Distribution is the most recent area of K3's expansion, with several acquisitions creating a dedicated business unit of size and scale. Whilst there is considerable overlap with our retail and manufacturing customers, we now have some 700 dedicated distribution customers relying on K3 for their IT services and support.

International

One of the fastest growing parts of K3 is our International Operations Division based in The Hague. From here we support our international retail and distribution customers, with some major global corporate customers such as Inter IKEA Systems BV, the owner and franchisor of the IKEA concept. Our Pebblestone fashion distribution solution is managed from here, supporting a network of 30 distributors in 20 countries.

Hosting and Managed Services

From data centres in Edinburgh, London and New York we support a global hosting and managed service business that looks after the IT infrastructures for K3 customers around the globe, both on-premise and hosted. Cloud Computing is a fast growing sector for industry as a whole and this is also one of K3's fastest growing business units.

Chairman's Statement

"The Group increased revenues to £67.96m (2011: £52.80m) and adjusted profit before tax*1 rose to £10.02m (2011: £8.68m). Existing customers delivered contracted recurring revenue of £33.74m (2011: £24.18m), accounting for 50% of total income and up 40% on last year."

Overview

In tough market conditions, the business delivered a good performance. For the year to 30 June 2012, the Group increased revenues to £67.96m (2011: £52.80m) and adjusted profit before tax*1 rose to £10.02m (2011: £8.68m). Existing customers delivered contracted recurring revenue of £33.74m (2011: £24.18m), accounting for 50% of total income and up 40% on last year. This revenue continues to provide a good underpinning to K3's earnings. A further 39% of income came from existing customers through the sale of additional services or products, demonstrating the value of the customer base we have built over the past several years. The five significant acquisitions we made in the year also appreciably benefited K3's results, contributing a combined £11.82m to revenues and £2.18m to adjusted operating profit*2. Our acquisitions have now all been integrated into our operations and are performing in line with our expectations. They broaden our technical skills and add new Intellectual Property ("IP") as well as increase our base of long term contracted customers.

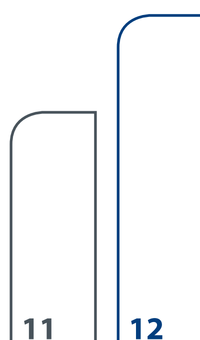
Given market conditions, the level of major contract wins which the Group secured over the year was encouraging although deal slippage continued to be a feature of the trading environment. We closed a total of £13.3m of major contracts during the year (2011: £11.10m), the full benefits of which are still to come. Notable new customer deals included Easons, Oxfam, Phoenix, Grafton, Scotiabank (Canada) and Wynsors.

Across the Group, the performance of our four trading Divisions, Microsoft UK, SYSPRO and Sage, International and Managed Services, has been varied. Revenue contribution from all four Divisions is up but difficult conditions in the UK combined with our investment programme in our Microsoft AX product suite impacted the adjusted profit contribution from our Microsoft UK Division. Against this, the performance of the International Division was especially strong, helped by increased activity with Inter IKEA Systems BV (the owner and franchisor of the IKEA concept and the largest customer in the Group). The SYSPRO and Sage Division performed robustly and continued to generate high levels of recurring income. Managed Services' performance has continued to improve with encouraging new business wins in the final quarter. Managed Services Division is still at an early stage of development but has significant growth potential. In the first half of the year, we invested in enhancing the Division's platform and delivery capability and consequently slowed our intake of hosting business. However, with this phase of the investment now completed, the level of new deployments in the final quarter has been encouraging, including Scotiabank, a major new SYSPRO contract in Canada and the first agreement to result from our global collaboration with SYSPRO.

The Group's profitability continues to benefit from our strategy of developing our own library of IP and this year we invested £1.91m in IP development. By enhancing the core business software products (Microsoft, SYSPRO and Sage) we offer with our own IP, we enrich and tailor these solutions to the specific markets we serve. This improves both our competitive positioning and our operating profit.

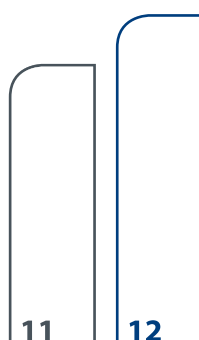
On 1 March 2012, following the approach from K3's largest shareholder, Mr PJ Claesson, regarding a possible offer for the Company, we announced that the Company had received a number of indicative proposals and had commenced a formal sale process. On 31 July, we confirmed that discussions with interested parties were ongoing, however, in a separate statement issued today, we have announced that the formal sale process has now come to an end. This is because the Board does not believe the proposals received are at a level that would be acceptable to shareholders and the proposals are therefore not recommendable by the Board.

*See note 32 on page 87 for further details



Recurring Revenue

£33.7m



Adjusted Operating Profit*3

£11.3m

Financial Results

Revenues over the year ended 30 June 2012 rose by 29% to £67.96m (2011: £52.80m), with the five significant acquisitions completed in the year contributing combined sales of £11.82m. (The acquisitions were Azurri Retail (July 2011), Fifth Dimension Systems (July 2011), Unisoft (December 2011), Retail Systems Group (December 2011) and IBS (December 2011)). Adjusted profit from operations*3 over the year rose by 18% to £11.33m (2011: £9.58m) with acquisitions contributing £2.18m*2. After taking into account amortisation of intangibles, acquisition costs and exceptional reorganisation costs and exceptional income, the profit from operations for the year increased by 26% to £7.35m (2011: £5.81m). Amortisation of acquired intangible assets was £3.59m (2011: £2.83m). Acquisition costs were £0.59m (2011: £0.49m), exceptional reorganisation costs were £0.56m (2011: £0.45m) and exceptional income, relating to the sale of IP, was £0.76m (2011: £nil). The final six months of the financial year saw revenues up 23% to £34.61m (2011 H2: £28.13m) and adjusted operating profit*4 up 32% to £4.42m (2011 H2: £3.34m).

Adjusted profit before tax*1 for the year ended 30 June 2012 increased by 15% to £10.02m (2011: £8.68m). After taking into account amortisation of acquired intangibles, acquisition costs and exceptional items listed above, profit before taxation rose by 23% over the year to £6.04m (2011: £4.91m). This is after the finance expense of £1.32m (2011: £0.94m) which included exchange differences of £0.26m (2011: £nil) and discount interest on deferred consideration for acquisitions of £0.09m (2011: £0.03m).

- **Revenues** over the year **rose by 29%** to **£67.96m**
- **Five significant acquisitions** completed in the year contributed combined sales of **£11.82m**
- Adjusted profit from operations **increased by 18%**

*See note 32 on page 87 for further details

The tax charge for the year ended 30 June 2012 was £0.32m (2011: £0.43m). The lower charge for 2012 against 2011 reflected the credits arising from finalisation of tax returns in respect of prior years and the impact of the reduction of the underlying UK tax rate on deferred tax.

Adjusted earnings per share*5 increased by 10% over the year to 30.2p (2011: 27.5p) and basic earnings per share increased by 16% to 20.3p over the year (2011: 17.5p).

Cash flows and banking

K3 generates good cash flows, with a seasonal weighting in October-December. Cash generated from operations was £7.28m (2011: £5.64m). Operating cash flows in the year included £1.24m in respect of regularising liabilities that were significantly outside normal statutory due dates and commercial terms at the date of acquiring companies and trades, £0.59m of acquisition costs, £0.32m of exceptional reorganisation costs and £0.76m of exceptional income relating to the sale of IP. The underlying adjusted cash flow from operations*6 therefore was £8.77m (2011: £8.28m), representing 77% of adjusted profit from operations*3 (2011: 86%). The reduction in adjusted operating cash*6 reflects tough trading conditions and major investment in our managed services hosting capabilities and our AX product offering.

During the year the Group made debt repayments of £3.64m, paid £0.85m of interest, paid tax of £1.31m and received proceeds from a placing of 2,564,408 new ordinary shares of £5.01m (net) and additional loans of £4.05m. Approximately £7.82m was paid to the vendors of the acquisitions we made in the year, together with outstanding earn out payments of £0.77m from earlier acquisitions. Net bank debt at 30 June 2012 was in line with the prior year at £15.68m (30 June 2011: £15.49m).

In September 2012 we agreed the extension of existing facilities through to December 2013 on the same terms with further facilities of up to £2.0m committed and a further £3.0m over the course of the facility period available to fund acquisitions.

Dividend

The Board is pleased to propose a final (and total) dividend for the financial year of 1.0p per share (2011: 0.75p). Subject to shareholder approval at K3's General Meeting, this dividend will be become payable on 18 January 2013 to shareholders on the register at 14 December 2012.

K3's Annual General Meeting will be held on 5 December 2012 at 10.30am, at the Group's head office at Baltimore House, 50 Kansas Avenue, Manchester M50 2GL.

Outlook

K3's underlying robustness is encouraging and the acquisitions we have made have strengthened the Group. With the end of the formal sale process, we are now re-focusing on our strategy for growth. We have a number of medium term growth opportunities to leverage our large customer base and build on our key customer and supplier relationships, especially in Managed Services and our International operations.

We see the new financial year as a year of investment and will continue to invest in new product offerings across the Group, with two areas of specific focus being our Microsoft Dynamics AX product and Managed Services. We anticipate that the benefits of our investment programme should come through during the course of 2013.

Financially, the Group remains robust, with good cash generation and banking facilities extended for a further year.

Tom Milne
Chairman

- **Underlying adjusted cash flow** from operations was **£8.77m** (2011: £8.28m)
- Increase in **dividend** to **1p** per share (2011: 0.75p)

*See note 32 on page 87 for further details

Chief Executive's Review

Key Performance Indicators

The Board considers the key performance indicators by which it measures the performance of the Group to be revenue, recurring revenue (both the level and the percentage of total revenue), gross margin, profit from operations and earnings per share, both adjusted for amortisation of acquired intangibles, acquisition costs, exceptional reorganisation costs and exceptional income. The performance indicators used by the Group are summarised below and the table sets out K3's performance for the year under review.

	2012	2011
Revenue (£000)	**67,961**	52,800
Recurring revenue (£000)	**33,740**	24,180
Percentage of recurring revenue	**50%**	46%
Gross margin percentage	**58%**	56%
Adjusted profit from operations[*7] (£000)	**11,333**	9,581
Adjusted operating cash percentage[*8]	**77%**	86%
Adjusted EPS (pence)[*9]	**30.2p**	27.5p

Revenue is the gross revenue as reported in the financial statements, comprising software, hardware, consultancy, and support and managed services. This is a key measure of activity within each business segment and for the Group as a whole.

Gross margin percentage is calculated as gross profit as a percentage of revenue. This measure identifies the level of contribution derived from each sale or component thereof.

Adjusted profit from operations is calculated as profit from operations per the financial statements, adjusted for the impact of amortisation of acquired intangibles, acquisition costs, exceptional reorganisation costs and exceptional income. This is a key performance indicator for quoted companies.

Adjusted operating cash percentage is the operating cash generated after adding back cash flows in respect of regularising liabilities that were significantly outside normal statutory due dates and commercial terms at the date of acquiring companies and trades, acquisition costs, exceptional reorganisation costs and exceptional income, divided by the adjusted operating profit. This is a key indicator in measuring the Group's ability to convert operating profit into cash.

Adjusted EPS is calculated as profit for the period, adjusted for the tax affected impact of acquired intangibles amortisation, exceptional reorganisation costs, acquisition costs and exceptional income, divided by the weighted average number of shares during the period. This is a key performance indicator for quoted companies.

Recurring revenue is the income provided for annual licence renewals and support for software used by our customers. This is a key indicator in measuring the underlying resilience and growth of the business.

Percentage of recurring revenue measures the growth of income providing core stability to the business.

"Gross margin percentage **increased** to **58%** from 56%"

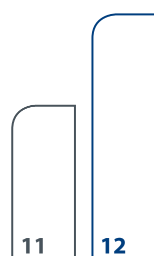
*See note 32 on page 87 for further details

Operational Review

K3 comprises four trading divisions, Microsoft UK, International, SYSPRO and Sage, and Managed Services, and the financial results by operating division together with central costs are summarised in the table below. A fuller review of each division is also provided below.

	Revenue to 30 June 2012 £000	Revenue to 30 June 2011 £000	Adjusted profit[*7] to 30 June 2012 £000	Adjusted profit[*7] to 30 June 2011 £000
SYSPRO and Sage	**24,963**	16,166	**5,856**	4,171
International	**12,647**	9,054	**3,668**	2,338
Microsoft UK	**24,919**	22,880	**2,217**	2,781
Managed Services	**5,432**	4,700	**–**	540
Central costs	**–**	–	**(408)**	(249)
	67,961	52,800	**11,333**	9,581

SYSPRO and Sage



Revenue

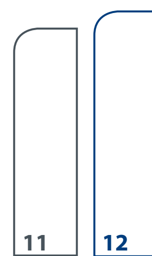
£25.0m

International

Revenue

£12.6m

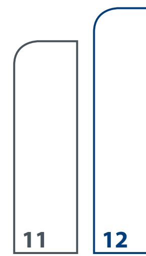
Microsoft UK



Revenue

25.0m

Managed Services



Revenue

£5.4m

*See note 32 on page 87 for further details

SYSPRO and Sage Division

	2012	2011
Revenue (£000)	**24,963**	16,166
Recurring revenue (£000)	**14,765**	10,120
Percentage of recurring revenue	**59%**	63%
Gross margin percentage	**61%**	63%
Adjusted profit from operations*10 (£000)	**5,856**	4,171

Revenues at the SYSPRO and Sage Division (which comprises four business units) increased by 54% to £24.96m (2011: £16.17m), with the majority of the increase reflecting our acquisitions. These contributed £7.55m of revenue. Adjusted profit from operations*10 rose by 40% to £5.86m (2011: £4.17m), with acquisitions contributing £1.15m of adjusted operating profit*11. It should be noted that our Sage activity typically delivers lower operating margins compared to our SYSPRO activities.

Our SYSPRO business secured nine order wins in total worth £0.9m compared with nine worth £0.5m last year, a marked improvement. Lead intake is holding up well (235 leads compared with 201 last year) and the pipeline value is currently 76% higher than last year, at £4.4m. Of this, approximately £1.8m is new customer business and £2.6m is potential new orders from the existing user base. This compares to a pipeline worth £2.5m last year, where potential new customers represented £1.6m of the value.

Our SYSPRO customers continue to generate high levels of recurring revenues through annual software licence renewals. These are collected between October and December, and licence renewals in the year were in excess of 98%, in line with historic levels. The SYSPRO maintenance licence and support income is worth approximately £6.48m per annum (2011: £6.25m per annum) and 85% of the income is recognised in the first half of our financial year, giving the first half a significant weighting against the second half.

We entered the Sage marketplace in November 2010, with the acquisition of Panacea and through a number of subsequent acquisitions have now established a leading position as a Sage supplier, providing the full range of Sage products, from Sage 50 to enterprise level Sage X3. Our Sage customer base now stands at 922 customers and generates recurring annual income of around £6.20m (2011: £2.19m). In July 2011, we acquired Fifth Dimension Systems Ltd and, in October 2011, the business secured the Sage Enterprise Partner of the Year award, which entitles it to higher margins in the next year. We are in the process of merging our Sage operations under one Managing Director.

Our Sage operations secured 58 deals worth £2.20m (2011: 16 deals worth £0.30m). While the Sage support market is highly price competitive, we continue to attract customers from other Sage partners. Mirroring the model we are deploying for our Microsoft and SYSPRO customers, we will be cross-selling our Cloud Computing solutions to our new Sage customer base and have a deployment model already operational for the Sage 200 product.

Our other two business units in the Division have customers who can be offered upgrade opportunities to our SYSPRO or AX solutions and hosting. These businesses contributed £2.71m (2011: £2.20m) of sales in the year, of which £2.08m is recurring (2011: £1.68m).

" **Revenues** at the SYSPRO and Sage Division **increased** by **54%** to £24.96m"

*See note 32 on page 87 for further details

2012
PRESIDENT'S CLUB
for Microsoft Dynamics

International Division

	2012	2011
Revenue (£000)	**12,647**	9,054
Recurring revenue (£000)	**5,210**	4,060
Percentage of recurring revenue	**41%**	45%
Gross margin percentage	**63%**	41%
Adjusted profit from operations[*12] (£000)	**3,668**	2,338

Results from the International Division, based in The Netherlands, were exceptionally good this year. Revenues increased by 40% year-on-year to £12.65m (2011: £9.05m) and adjusted profit from operations[*12] rose by 57% to £3.67m (2011: £2.34m) excluding exceptional income from the sale of IP of £0.76 (2011: £nil), with our acquisition contributing £2.40m to revenues and £0.66m to adjusted profit from operations[*13]. These results are in part due to the strengthening of our relationship with Inter IKEA Systems BV (the owner and franchisor of The IKEA Concept and worldwide IKEA franchisor), the largest customer in the Division. At the end of the financial year, we signed an exclusive minimum five year agreement with the company to support and develop the IKEA Master Version software ("IMV") used by franchisees outside the IKEA group. The growth with this customer has offset some weakening in the Dutch fashion market in the second half.

Also contributing to the Division's excellent results was the performance of our international partner channel for K3's IP. Sales into this reseller channel have increased by 56% to £1.19m as a result of investment in the Pebblestone solution that was made over the last 18 months and a rationalisation of the reseller base.

In December 2011, we acquired certain assets of Unisoft BV, a leading provider of retail point of sale solutions in Holland and Scandinavia. The solutions complement our existing offering and create cross-selling opportunities. The maintenance base for this business is weighted toward the second half of the K3 financial year producing post acquisition revenue of £2.40m and adjusted profit from operations[*13] of £0.66m.

The Division also generated excellent levels of services income and we recruited additional resource in the second half year in Holland and in our Far East office in Singapore which services our customers in that region.

We signed 61 new contracts in the period, worth a total of £3.3m (2011: 14 contracts, £2.7m). The increase in deal numbers reflects the smaller deals prevalent in Unisoft and the reseller channel. Looking ahead, the prospects pipeline currently amounts to approximately £3.7m. This excludes potential business anticipated in the long term plan with Inter IKEA Systems BV.

"Results from the International Division, based in The Netherlands, were exceptionally good this year"

*See note 32 on page 87 for further details

Microsoft UK Division

	2012	2011
Revenue (£000)	**24,919**	22,880
Recurring revenue (£000)	**10,186**	7,360
Percentage of recurring revenue	**41%**	32%
Gross margin percentage	**53%**	53%
Adjusted profit from operations*14 (£000)	**2,217**	2,781

Our Microsoft UK Division experienced a challenging year. Revenues increased to £24.92m, up 9% over the year (2011: £22.88m), including a combined contribution of £1.87m from the Azurri and Retail Systems Group Limited ("RSG") acquisitions made in the first half of the financial year. However adjusted profit from operations*14 was down 20% year-on-year to £2.22m (2011: £2.78m), notwithstanding the inclusion of an adjusted £0.38m contribution*15 from the acquisitions.

The decrease in operating profit (pre acquisitions) reflected both the tough trading conditions and major investment we are making in our retail software offering, in particular bringing the Microsoft AX product in line with our Microsoft Dynamics NAV portfolio. We also invested in our sales and delivery resource in advance of sales of this product offering. The cost of our investment was £0.70m with a further £0.22m capitalised as development costs.

Our acquisitions of Azurri and RSG have brought some notable benefits to the Division. RSG, one of the leading providers of Microsoft Dynamics 'RMS' to retailers in the UK and Ireland, brings us a software suite suitable for smaller retailers and therefore widens our marketplace. It also has a managed service offering

which further expands K3's own growing Managed Services Division. RSG has closed 21 new business deals since acquisition, worth a total of £0.76m. Azurri, which supports the retail solutions used by several major high street retailers, brings us additional recurring income and potential customers for our Microsoft Dynamics products.

The Microsoft UK retail business secured £5.9m of new business wins compared to £5.6m last year after a slow start, closing seven major new deals, including our first major order for Microsoft's new AX for Retail solution in a contract we won with Eason. The agreement has been structured so that Microsoft is the prime delivery contractor, with K3 providing the specialist retail modules required.

Other significant AX deals include Grafton, Wynsors and Weird Fish, with the remaining deals being NAV multi-channel offerings. The deals were closed late in each half year and therefore have resulted in low services income to date with the focus to date being on scoping and system discovery rather than on high levels of implementation. Our multi-channel offering, incorporating our own IP, continues to support our performance on NAV. The prospects pipeline for the UK retail business stands at approximately £21.0m (2011: £19.0m), with over 50% focused on our Microsoft AX Multi Channel retail solution. We are hopeful that a number of these deals will close in the first half of the new financial year.

In the course of our Group reorganisation to create the Microsoft UK Division, we integrated our other smaller Microsoft-based software units under a single management team to achieve cost savings and efficiencies. This business unit closed 12 deals worth £0.9m in the year, including wins with Prices Candles, Refrigeration Vehicles, Sportsman Guns and High Mark. During the year we also established a lower-cost implementation process, adapting our model for current conditions.

In the light of the weak trading performance of our process manufacturing AX business, we took the decision to restructure it, reducing the cost base by £0.75m per annum. The cost of this restructuring is included in exceptional costs.

*See note 32 on page 87 for further details

Managed Services Division

	2012	2011
Revenue (£000)	**5,432**	4,700
Recurring revenue (£000)	**3,582**	2,638
Percentage of recurring revenue	**66%**	56%
Gross margin percentage	**55%**	42%
Adjusted profit from operations*16 (£000)	**–**	540

The Managed Services Division offers a range of application solutions both on-premises, hosted and via Software as a Service using hosting centres in New York, London, Edinburgh and Toronto.

Revenue rose by 16% to £5.43m (2011: £4.70m) but more noteworthy is the 36% increase in the year end run rate of recurring income to £3.58m (2011: £2.64m) of which around £195,000 per month (2011: £115,000 per month) or £2.34m annualised is hosting revenue. As expected, profits lagged revenue growth as we added £1.16m of additional resource. Divisional overheads have increased to £2.99m (2011: £1.41m), capitalised development was £0.38m and capital expenditure was £0.84m. Adjusted result from operations*16 was £nil (2011: profit of £0.54m). We now have platforms in place for the hosting of SYSPRO, Microsoft Dynamics NAV and Sage 200 software and are seeing a good demand for these and the other complementary services we can offer from "the Cloud".

Our deployment now ranges from on-site managed services to fully hosted services provided on a multi-tenanted solution in the Cloud. The final quarter of the year saw an acceleration of new deployments and included a substantial new SYSPRO order in Canada. We are also launching hosting with SYSPRO Australia and have launched 'mini-SYSPRO' hosting with a low cost option for up to 10 users.

Currently, the prospects pipeline stands at £2.65m of potential income (2011: £1.30m).

"36% increase in the year end run rate of recurring income to £3.58m"

*See note 32 on page 87 for further details

"We now have platforms in place for hosting SYSPRO, Microsoft Dynamics NAV and Sage 200"

Central Division

Central costs for the year amounted to £0.41m (2011: £0.25m). These costs included Directors' costs, group human resources, accounting and legal personnel, and costs associated with the Plc including financing. The costs are stated net of recovery of elements recharged to the operating units and are higher year on year due to additional costs arising from the acquired companies and foreign exchange costs.

Exceptional costs and Income

We made a total of five significant acquisitions in the year and these have been reorganised to fit into our divisional structure at a cost of £0.56m (2011: £0.45m invested to create our new Group structure, following four significant acquisitions). In addition we rationalised the structure of our Sage and non-retail AX operations at a cost of £0.26m and incurred costs of £0.14m in relation to the strategic review and sale process.

Strategy and Objectives

The Board believes that K3 has the potential to build on its current position as a leading supplier of SME and mid-tier supply chain management solutions, with a particular emphasis on "hosted applications" and "cloud computing". Acquisitions also form a key part of the growth strategy. Nearer term, the Board's main objectives are to:

- achieve growth in our target markets;
- create shareholder value through increases in adjusted earnings per share;
- grow recurring income levels and
- achieve progressive increases in the dividend.

Outlook

While the economic climate remains challenging, and we have to remain responsive to market changes, we view K3's growth prospects positively. The acquisitions we have made in the financial year under review, as well as in the prior year, have strengthened the Group and added to our stream of annually recurring income. We also see substantial growth opportunities, especially in Managed Services and our International operations, which will drive recurring income, profit and cash generation in the medium term. We are continuing with our investment programme to develop our product offerings, especially Microsoft Dynamics AX and Managed Services, and see the new financial year as one of investment, with the benefits to come over the course of 2013 and beyond.

Andy Makeham
Chief Executive

"We see substantial growth opportunities, especially in Managed Services and our International operations"

*See note 32 on page 87 for further details

Financial Review

"Revenue for the year was £67.96m compared to £52.8m for the year to 30 June 2011. The 29% increase included revenues from businesses acquired during the year of £11.82m"

Trading results

Revenue for the year was £67.96m compared to £52.8m for the year to 30 June 2011. The 29% increase included revenues from businesses acquired during the year of £11.82m. The Group registered an adjusted profit from operations*17 of £11.33m for the year ended 30 June 2012 (2011: £9.58m). Profit from operations for the year was £7.35m (2011: £5.81m).

Acquisition and reorganisation costs were £1.15m (2011: £0.94m) and exceptional income was £0.76m (2011: £nil).

The amortisation of intangible assets of £3.59m (2011: £2.83m) includes amortisation on new acquisitions of £0.55m and full year charges for acquisitions made during the previous period. Finance costs were £1.31m (2011: £0.91m). The resulting profit for the year was £5.72m (2011: £4.48m).

Earnings per share and dividends

Adjusted earnings per share*18 was 30.2p (2011: 27.5p). Earnings per share was 19.8p (2011: 17.5p).

The directors propose to pay a dividend of 1.0p per share (2011: 0.75p).

Cash flow and net debt

The net cash position at 30 June 2012 was £0.02m (2011: cash of £0.11m). There were bank and other loans of £17.78m (2011: £16.30m). Repayments against bank and other loans during the year were £3.69m (2011: £2.87m). New loans of £4.05m were obtained to fund the acquisitions during the year. £6.36m was paid to vendors of these acquisitions with £0.77m of earn out and retention payments in relation to acquisitions made in the prior period. There was an increase in the sterling value of the Euro denominated loan of £0.38m (2011: decrease of £0.47m).

The Group's net cash inflow in the year was £0.01m (2011: £0.60m). The Group's inflow from operations in the period was £7.24m (2011: £5.64m). However, this is after making payments in relation to acquisitions of £1.23m to regularise liabilities that were significantly outside normal statutory due dates and commercial terms at the date of acquisition, £0.59m of acquisition costs and £0.32m of reorganisation costs. £0.76 was received in respect of transfer of IP to a customer.

The Group adopts cash flow hedge accounting in respect of its interest collar. The effect is that £0.09m has been credited to the cash flow hedging reserve. A financial liability of £0.01m (2011: £0.07m) is included as derivative financial instruments within current trade and other payables.

*See note 32 on page 87 for further details

40% increase in recurring revenue year on year

Newly acquired businesses contributed **revenues of £11.82m**

Taxation

The tax charge for the year was £0.32m (2011: £0.43m) comprising a charge of £1.40m (2011: £1.42m) of current taxation and a credit of £1.08m (2011: £0.99m) of deferred taxation, of which £1.24m (2011: £1.07m) related to the amortisation of intangible assets. This credit for deferred tax in the prior year included £0.31m following the reduction of the tax rate in the UK from 26% to 24%. The effective tax rate was 19.4% (2011: 21.8%) due to the inclusion of profits from overseas subsidiaries which are taxed at lower rates. The effective tax rate is determined by applying the tax rate in each tax jurisdiction to the profits arising there.

Cautionary statement

This business review has been prepared for shareholders to provide them with additional information to assess the company's strategies and the potential for those strategies to succeed. It should be noted that the business review contains certain forward looking statements. These statements are made by the directors in good faith, based on the information available to them up to the time of the approval of this report. Accordingly, all these statements should be treated with caution, due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward looking information.

Principal risks and uncertainties

There are a number of potential risks and uncertainties, which could have a material impact on the Group's performance and could cause actual results to differ materially from expected and historical results. The Group's risk management policies and procedures to deal with operational risk are included in the Corporate Governance Statement on pages19 and 20. The principal business risks which the Group faces can be categorised as follows:

Strategic

Changes in the business environment influence the Group's development in terms of the strategies which it pursues and the products and services it offers. These changes may stem from market competition or economic and technological advancement. The executive directors regularly review the Group's strategic progress and obtain market information to assist in strategic decisions around products, competitors and potential acquisitions. We recognise that selected acquisitions will play a key role in future growth of the business as illustrated by the major acquisitions made since 2003. We are expanding into the emerging technologies of "hosted applications" and "cloud computing". We also recognise that the ability to integrate acquisitions and derive synergies is key and, to this end, we have a strong central management team to ensure that strategic objectives and targets are reached.

On 1 March 2012, following the approach from K3's largest shareholder, Mr PJ Claesson, regarding a possible offer for the Company, we announced that the Company had received a number of indicative proposals and had commenced a formal sale process. On 31 July, we confirmed that discussions with interested parties were ongoing, however, in a separate statement issued today, we have announced that the formal sale process has now come to an end. This is because the Board does not believe the proposals received are at a level that would be acceptable to shareholders and the proposals are therefore not recommendable by the Board.

Business environment

The Group's customer base is mainly in the retail, distribution and manufacturing sectors, primarily in the United Kingdom and Europe. The environment in which the Group offers its products and services is, therefore, dependent on the economic and other circumstances affecting these business sectors including competitor behaviour. Over the years we have developed a creative, innovative, competitive culture and a reputation for advanced functionality and product quality. The Group has made significant investment in its library of IP which protects the business from competition and increases the barrier to entry in our specialists markets. Whilst there is still a difficult economic backdrop in our core markets, the Group is well placed as one of Microsoft's larger business partners in the UK and has high levels of predictable income from its existing customer base, both in the UK and in its overseas markets.

Relationships

The Group benefits from a number of close commercial relationships with key suppliers and customers. Damage to or loss of these relationships could have a direct and detrimental effect on the Group's results. The key Group supplier relationships are secured by commercial agreements lasting for up to 5 years and management participate in regular product and strategy reviews with the supplier. On an annual basis our customers commit to maintenance and support agreements that facilitate availability of product upgrades and business support.

Delivery

Our products and services operate in business critical areas for our customers and any failure to meet contractual commitments and client expectations could damage our reputation and impact upon our financial position.

To mitigate this risk we monitor our performance continuously against contractual commitments and expectations and deploy a wide range of experienced technical specialists and project managers to evaluate performance. High risk projects are monitored at Divisional board level, meetings of which are attended by main Board executive directors.

Financial

Whilst all risks may be considered to have a financial impact, the management of the Group's financial resources represents a key area of focus. Financial risks are faced in ensuring sufficient funds are available to meet financial commitments as and when they fall due and protecting the Group's financial strength against adverse movements in financial markets. Further details are provided in note 19.

- **Credit risk** – The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position are net of allowances for doubtful debts, estimated by the Group's management based on prior experience and their assessment of the current economic environment. The Group operates in three key markets and hence the credit risk is concentrated on retail, manufacturing and distribution customers. The Group manages credit risk by ensuring that outlays by the Group are matched with receipts from customers where possible and by tight control over contractual terms.
- **Currency risk** – The Group's currency risk is primarily attributable to its trade receivables where certain customers are billed in US Dollars or Euros where these are not the functional currency of the Group company. Where possible the risk is hedged by amounts payable in those currencies. The acquisition of Landsteinar Netherlands in September 2007 was part funded by a Euro loan which acts as a hedge against the net assets of the business.
- **Price risk** – The Group does not have any financial instruments which are exposed to price risk.
- **Liquidity and cash flow** – The Group has deferred contingent consideration and a bank loan with set payment dates. The Group ensures that it has sufficient funds to meet its obligations or commitments associated with its financial instruments by monitoring cash flow as part of its day-to-day control procedures and also, more strategically, to ensure that financing is in place with manageable repayment periods and that appropriate facilities are available to be drawn upon when the need arises. The facilities from the Group's bankers require the Group to meet certain covenants throughout the term of the loans and the Group's forecasts indicate that the Group will remain within the set parameters.
- **Interest rate** – Interest rate risk arises from the extent to which the Group holds interest rate sensitive assets or is exposed to interest rate sensitive liabilities. The Group maintains a balance of fixed and floating interest rates on its financing to manage this exposure and also has an interest rate hedge strategy set up with its UK bankers. The Group has a collar hedging arrangement to mitigate the risk of interest rates falling outside specified ranges on approximately 2% of sterling denominated long term loans. Foreign currency loans that were taken out at the time of the Landsteinar Netherlands and Pebblestone acquisitions are not currently hedged for interest rates.

David Bolton
Chief Finance Officer

Acquisition History

In pursuing our strategy, we have completed a number of acquisitions to create what is today a major ERP system and service provider to the retail, manufacturing and distribution sectors.

2001:

- Business reversed onto AIM.

2001 to 2007:

- Acquired five businesses providing maintenance bases and key software distribution agreements with Microsoft and SYSPRO in the UK retail and manufacturing markets.

2007 included three major acquisitions:

- Acquired McGuffie Brunton Ltd ("MBL") to make K3 the exclusive distributor of SYSPRO in UK;
- Acquired Landsteinar Nederland BV ("Landsteinar") – essentially the sister company to our UK Microsoft Dynamics NAV software business. The acquisition expanded the K3 presence into Europe, the Middle East, the Far East and Australasia;
- Acquired Index Computer Systems Limited and with it the distribution rights to Microsoft Dynamics AX and complementary modules to support food and process manufacturing.

2010:

- Acquired DigiMIS Limited and with it cloud computing services. It provides us with hosting capabilities which significantly enhances our managed services offering and enables K3 to move into other product areas;
- Acquired the trade and certain assets of Pebblestone Netherlands which is a leading European provider of Microsoft Dynamics ERP solutions for the fashion industry. The business has been integrated with our existing Dutch retail solutions business.
- Acquired the IP and international sales channel and customers from the Pebblestone Group, thereby strengthening our presence in Europe and adding to our growing library of IP.

2011:

- Panacea – a major Sage supplier with a significant Managed Services base and a small number of Dynamics NAV contracts;
- FDS Sage 200 – purchased from Fifth Dimension Systems Limited, focused primarily on the Sage 200 product;
- Sense Enterprise Solutions – a provider of Microsoft Dynamics AX into similar markets to K3, with a significant maintenance base; and
- Clarita Solutions Limited – a competitor in the Retail and Distribution markets selling Microsoft Dynamics NAV solutions.

2012:

Acquisitions made a contribution of £11.82m to revenue and £2.18m to adjusted operating profit. The five significant acquisitions were:

- Azurri Retail – providing additional maintenance income in the Retail sector; and
- FD Systems Limited – Sage Enterprise and E Commerce system provider with a significant maintenance base.
- Unisoft – a leading provider of retail point of sale solutions in Holland and Scandinavia.
- RSG – one of the leading providers of Microsoft Dynamics 'RMS' to retailers in the UK and Ireland, brings us a software suite more suitable for smaller retailers
- IBS – A business with a substantial maintenance base

The acquisitions are in line with K3's strategy to build recurring revenues and acquire profitable user bases with significant cross-selling opportunities, in particular for its hosting and managed services offering.

We continue to look for acquisition opportunities that will add additional or complementary products, IP and skills, together with customer bases that we can grow through our managed services capability.

Corporate Governance Statement

The Board supports the principles of good governance. In fulfilling their responsibilities, the directors believe that they govern the company in the best interests of the shareholders, whilst having due regard to the interests of the stakeholders in the group including, in particular, customers, employees and suppliers. The Combined Code has been replaced by the UK Corporate Governance Code, which applies to companies of the main list of the London Stock Exchange, and the Quoted Companies Alliance's 2005 Corporate Governance Guidelines for Smaller Companies has been superseded by new QCA Guidelines issued in September 2010. Although as a company quoted on AIM it is not required to comply with the provisions of the UK Corporate Governance Code, the directors intend to comply with the provisions of the UK Corporate Governance Code in so far as they consider it appropriate having regard to the size of the group and have decided to provide corporate governance disclosures comparable with those required of a listed company.

The board

The group is headed by an effective board which meets on a bi-monthly basis. All meetings in the period were attended by all the directors, except that Mr PJ Claesson was unable to attend two of the meetings. It is supplied in a timely manner with information of a quality to enable it to discharge its duties. The board has determined those matters which are retained for board sanction and those matters which are delegated to the executive management of the business. The types of decisions which are to be taken by the Board are:

- approval of the financial statements and profit plans for the group;
- approval of any unbudgeted plans in accordance with prescribed authority levels;
- approval of all shareholders' circulars and announcements;
- approval of the appointment or termination of advisors to the group;
- the purchase or sale of any business or subsidiary;
- any new borrowings, facilities and related guarantees;
- any asset purchase or lease, hire purchase facility or rental agreement over prescribed authority limits;
- any donation to a political party, or any charitable donation exceeding £250.

The Board has established three standing sub-committees to assist in the discharge of corporate governance responsibilities. They are the nominations committee, remuneration committee and audit committee. The roles of each of the committees, their members and activities during the period are covered separately within this report.

The Board comprised the Chairman, two executive and one non-executive director, details of whom are included on page 27. The composition of the Board is designed to provide an appropriate balance of group, industry and general commercial experience and is reviewed as required to ensure that it remains appropriate to the nature of the group's activities.

The roles of the Chairman and Chief Executive are distinct. The office of Chairman is held by Mr TA Milne. The office of Chief Executive is held by Mr NA Makeham.

Appointments to the Board are the responsibility of the Nominations Committee.

Nominations Committee

The Nominations Committee comprises the Chairman, Mr TA Milne, and the non-executive director, Mr PJ Claesson, and the Chief Executive, Mr NA Makeham, and is chaired by the Chairman. Meetings are arranged as necessary and none were held during the year. The committee is responsible for nominating candidates (both executive and non-executive) for the approval of the Board to fill vacancies or appoint additional persons to the Board. Its terms of reference are available upon request and are placed on the company's website.

All directors receive induction on joining the Board covering the group's operations, goals and strategy, and their responsibilities as directors of the group. The company supports the directors in developing their knowledge and capabilities.

The directors have established a procedure, agreed by the Board, for directors in the furtherance of their duties to take independent professional advice, if necessary, at the company's expense.

The Combined Code requires that the Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. However, no formal evaluation was conducted during the period although informal evaluation of the performance of the individual executive directors was conducted by the Chairman.

All directors are subject to election by shareholders at the first opportunity after their appointment. In accordance with the Articles of Association, all directors are required to retire by rotation and shall be eligible for re-

election. The terms and conditions of appointment of the non-executive director are available for inspection upon request.

Remuneration Committee

The Remuneration Committee comprises the Chairman, Mr TA Milne, and the non-executive director, Mr PJ Claesson, and is chaired by the Chairman. It reviews the remuneration and contractual arrangements of the executive directors. The remuneration of the Chairman and the non-executive director is determined by the Board as a whole, based on a review of the current practices in other companies. The committee met once during the year and the meeting was attended by both members of the committee. The terms of reference are available upon request and are placed on the company's website.

Accountability and audit

Financial reporting

The Board recognises its responsibility to present a balanced and understandable assessment of the group's position and prospects, both within its half year and annual financial statements and in other price-sensitive public reports. The statement of the directors' responsibility in preparing the financial statements is made on page 25.

Going concern

After making enquiries, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

Internal control

The Board recognises its ultimate accountability for maintaining an effective system of internal control which is appropriate in relation to both the scope and nature of the group's activities. The system covers all controls including:

- financial;
- operational;
- compliance; and
- risk management.

The responsibility for managing risks on a day to day basis lies with the executive directors. The principle business risks and the actions to mitigate the risks are included in the Financial Review on pages 15 and 16. Details of operational risks are included below.

Operational

These risks, which are inherent in all business activities, are those which mainly result from the potential breakdown of individual business units or the group's control of its human, physical and operating resources. The potential financial or reputational loss arising from failures in internal controls, flaws or malfunctions in computer systems and poor product design or delivery all fall within this category.

There is an ongoing process for identifying, evaluating and managing the significant issues faced by the group which has been in place throughout the period and up to 17 September 2012. It has been regularly reviewed by the Board and it accords with the Turnbull guidance.

The Board and senior management have a clear and consistent understanding of the key risks facing the business. Whilst they recognise that it is not possible to eliminate risk completely, they have established an infrastructure of controls, systems, staff and processes which aim to minimise the likelihood of risks occurring or reduce the impact should they do so. The key elements of this infrastructure which enable the Board to review the effectiveness of the system of internal controls are as follows:

- establishment of a formal management structure, including the specification of matters reserved for decision by the Board;
- setting and reviewing the strategic objectives of the group;
- Board involvement in the setting and review of the annual budget;
- the regular review of the group's performance compared with budget and forecasts;
- pre and post investment appraisal of capital expenditure;
- integrity and competence of personnel as part of the control environment; and
- group reporting instructions and procedures including delegation of authority and authorisation levels, segregation of duties and other control procedures, and standardised accounting policies.

The Board and senior management are aware that any significant operational matters which raise cause for concern may have arisen because of or give rise to material internal control issues. There is a process in place whereby any member of management who becomes aware of an internal control issue can bring this to the attention of the Chief Finance Officer. There were no such issues raised during the period under review.

The Board acknowledges its responsibility for the group's system of internal control and for reviewing its effectiveness. The Board is committed to operating comprehensive processes to manage the key risks which face the business. They have established a framework of policies, systems and procedures to ensure that the nature and extent of the risk undertaken is commensurate with the commercial returns and, where necessary, to ensure prudent risk-taking to protect shareholder value. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable but not absolute assurance against material misstatement or loss.

Audit Committee

The Audit Committee comprises the Chairman, Mr TA Milne, and the non-executive director, Mr PJ Claesson, and is chaired by the Chairman. The committee met twice during the year, although Mr PJ Claesson was unable to attend one of them. The role of the Audit Committee is to consider the appointment of the auditors, audit fees, scope of audit work and any resultant findings. It reviews external audit activities, monitors compliance with statutory requirements for financial reporting and reviews the interim and full year financial statements before they are presented to the Board for approval. The Chief Executive, Chief Finance Officer and external auditors attend meetings of the Audit Committee by invitation. The committee is also required to review the effectiveness of the group's internal control systems, to review the group's statement on internal control systems prior to endorsement by the Board and to consider, from time to time, the need for a "risk sub-committee" to assist in monitoring the group's internal control systems. Its terms of reference are available upon request and are placed on the company's website.

The Audit Committee considers and determines relevant action in respect of any control issues raised by the auditors. Given the size of the group and the close day to day control exercised by the executive directors and senior management, no formal internal audit department is considered necessary.

Relations with shareholders

The company seeks to maintain good communication with shareholders. The executive directors make presentations to institutional shareholders covering the interim and full year results. Whilst most shareholder contact is with the executive directors, the Chairman and the non-executive director are available to meet major shareholders if requested to do so. The views of major shareholders are obtained through direct face-to-face contact and analysts' or brokers briefings.

The Board considers the AGM to be an important opportunity to communicate with shareholders and encourages their participation. The company despatches the notice of AGM, with explanatory notes describing items of special business, at least 21 working days before the meeting. All shareholders have the opportunity formally or informally to put questions to the company's AGMs. All directors attend the AGM and the Chairman of the Audit, Remuneration and Nominations Committees is available to answer questions from shareholders. At each AGM the Chairman advises shareholders of the proxy voting details on each of the resolutions which is dealt with on a show of hands.

Auditors' remuneration

Fees for services provided by the auditors have been as follows:

	2012 £000	2011 £000
Audit services		
• Statutory audit	**123**	87
Further assurance services:		
Tax services		
• Advisory services	**13**	10
Other services		
• Other services	**1**	2
	137	99

During the year, the auditors provided non-audit services in relation to consultation on interim results and tax advice in connection with acquisitions and payroll taxes. The Board considered the proposed non-audit services in advance to ensure that it was satisfied that neither the nature nor the scale of the non-audit services would impair the auditors' objectivity and independence.

Compliance with the UK Corporate Governance Code

Whilst the group is not required to comply with the provisions of the UK Corporate Governance Code, it has given considerable attention to the provisions set out therein. The group has not complied with all provisions required for listed companies, principally as it does not consider these appropriate given the size and nature of the group. However, the directors confirm that throughout the year ended 30 June 2012 the group has been in compliance with the Code provisions set out in Section 1 of the June 2010 FRC UK Corporate Governance Code, with the following exceptions:

- No director has been identified as a senior independent director. There is no alternative route for shareholders to raise their concerns other than the normal channels of the Chairman, Chief Executive or Chief Finance Officer. The directors consider this to be appropriate for the size of the group at present. (A.4.1)
- The Chairman's performance has not been appraised by the non-executive director, nor have there been meetings of the non-executive directors as there is only one non-executive director. (A.4.2)
- The group has only one non-executive director, Mr PJ Claesson, who is not considered independent due to the size of his shareholding. However, the Chairman is considered to be independent. (B.1.1) (B.1.2)
- The Nominations Committee, Remuneration Committee and Audit Committee each include only one non-executive director and he is not considered to be independent. However, the Chairman is considered to be independent. (C.3.1)
- The Board has not conducted a performance evaluation of the Board, its committees or its individual directors although informal evaluation of the executive directors has been conducted by the Chairman. (B.6.3)
- The directors have not conducted a formal and documented review of the effectiveness of the group's system of internal controls during the year ended 30 June 2012. (C.2.1)
- The non-executive director has not met with major shareholders during the year to 30 June 2012, although he was available to do so if requested. (E.1.1)

Remuneration Report

The salaries of the executive directors are determined after giving full consideration to the best practice provisions and after a review of the performance of the individual. It is the aim to reward directors competitively; consideration is, therefore, given to the median remuneration paid to senior management of comparable public companies. No director is involved in deciding his own remuneration.

	Year to 30 June 2012						2011
	Fees/basic salary £	Taxable benefits £	Annual bonuses £	Pension contributions £	Gains on exercise of options £	Total £	Total £
Chairman							
TA Milne	30,000	–	–	–	–	30,000	30,000
Executive							
NA Makeham	186,461	1,415	12,500	17,746	–	218,122	258,536
DJ Bolton	111,461	1,687	24,500	17,746	–	155,394	188,282
Non-executive							
PJ Claesson	15,000	–	–	–	–	15,000	15,000
Aggregate emoluments	342,922	3,102	37,000	35,492	–	418,516	491,818

Part of Mr Bolton's remuneration was paid directly by Dawson International Plc during both years (see note 29).

Each of the executive directors has a service contract providing 12 months notice.

Directors' pension entitlements

The company makes contributions to defined contribution schemes for each of the executive directors. There are no pension entitlements for the non-executive director.

Directors' indemnity cover

All directors benefit from qualifying third-party indemnity provisions in place during the financial period and at the date of this report.

Directors holding office

The directors who held office during the year ended 30 June 2012 were:

TA Milne

NA Makeham

DJ Bolton

PJ Claesson

Directors' share options and warrants

Mr PJ Claesson is interested in warrants for 25p ordinary shares held by companies associated with him as follows:

Company	Number of warrants	Exercise price
CA Fastigheter AB	200,000	90p
CA Fastigheter AB	500,000	123.5p
Johan & Marianne Claesson AB	400,000	90p

Details of exercise periods of both the share options and the warrants are given in note 22 to the consolidated financial statements.

The market price of the ordinary shares at 30 June 2012 was 167.5p and the range during the period was 122.0p to 222.8p.

Aggregate emoluments do not include any amounts for the value of options to acquire ordinary shares in the company granted to or held by the directors. Details of the options are as follows:

Name of Director	1 July 2011	Granted	Exercised	Lapsed	30 June 2012	Exercise price	Gains on exercise 2012	Gains on exercise 2011
NA Makeham	–	–	–	–	–	75p	–	75,667
NA Makeham	50,000	–	–	–	50,000	62.5p	–	–
NA Makeham	60,000	–	–	–	60,000	100p	–	–
NA Makeham	50,000	–	–	–	50,000	94p	–	–
NA Makeham	75,000	–	–	–	75,000	85p	–	–
NA Makeham	100,000	–	–	–	100,000	117.5p	–	–
DJ Bolton	–	–	–	–	–	75p	–	56,750
DJ Bolton	40,000	–	–	–	40,000	62.5p	–	–
DJ Bolton	60,000	–	–	–	60,000	100p	–	–
DJ Bolton	50,000	–	–	–	50,000	94p	–	–
DJ Bolton	100,000	–	–	–	100,000	85p	–	–
DJ Bolton	100,000	–	–	–	100,000	117.5p	–	–

No options were exercised during the year ended 30 June 2012.

The options for each of the above directors are exercisable as follows:

NA Makeham	DJ Bolton	Exercise Price	Exercisable if market price reaches at least
16,667	13,333	62.5p	100p
16,667	13,333	62.5p	125p
16,666	13,334	62.5p	150p
20,000	20,000	100p	125p
20,000	20,000	100p	150p
20,000	20,000	100p	175p
33,334	33,334	117.5p	165p
33,333	33,333	117.5p	215p
33,333	33,333	117.5p	265p

All of the above options are exercisable other than those with an exercise price of 117.5p.

In addition, the directors hold options which are exercisable if the growth of earnings per share (eps) over the three year period from the financial year in which the options were granted achieves the following:

NA Makeham	DJ Bolton	Exercise Price	Growth in eps is at least
12,500	12,500	94p	15%
12,500	12,500	94p	20%
25,000	25,000	94p	25%
18,750	25,000	85p	15%
18,750	25,000	85p	20%
37,500	50,000	85p	25%

The three year period for the options exercisable at 94p is that ended on 31 December 2007 and that ended 31 December 2011 for those exercisable at 85p. Of the above options, those with an exercise price of 94p are exercisable.

Two directors also hold options under the SAYE scheme which are exercisable at 118.8p. Mr Makeham holds 12,626 options exercisable on 1 January 2016. Mr Bolton holds 7,575 options exercisable on 1 January 2014.

Directors' Report

Principal activities

The principal activities of the group and the company are the supply of computer software and consultancy, and managed services.

The subsidiary undertakings principally affecting the profits or net assets of the group in the period are listed in note 13 to the consolidated financial statements.

Business review

The consolidated results of the period are shown on page 29.

Further details of the group's performance during the period, including the Companies Act 2006 requirements regarding KPIs, and expected future developments are contained in the business review on pages 7 to 13 and the Chairman's statement on pages 4 to 6.

The group's financial risk management objectives and policies are disclosed in the Financial Review on page 16 and in note 19 to the consolidated financial statements. Details of the use of financial instruments are given in note 20.

Results and dividends

The audited financial statements for the year ended 30 June 2012 are set out on pages 29 to 87. The group's profit for the year was £5.72m (2011: £4.48m).

The directors propose a net dividend of 1.0p per share (2011: 0.75p). No interim dividend was paid during the year (2011: 0.25p).

Directors

The directors who served during the year were as follows:

DJ Bolton

PJ Claesson

NA Makeham

TA Milne

Mr DJ Bolton retires by rotation and offers himself for re-election.

Statement of directors' responsibilities for the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Supplier payment policy

The company's policy, which is also applied by the group, is to agree terms of payment with suppliers when setting the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. Trade creditors of the company at 30 June 2012 were equivalent to 52 (2011: 55) days' purchases, based on the average daily amount invoiced by suppliers during the period.

Charitable and political contributions

Charitable contributions during the year amounted to £3,775 (2011: £4,096). There were no political contributions during the year.

Substantial shareholdings

On 17 September 2012, the company had been notified, in accordance with section 793 of the Companies Act 2006, of the following interests in the ordinary share capital of the company.

Name of holder	Number	Percentage Held
PJ Claesson	5,977,755	21.5%
Blackrock Group	3,329,507	11.7%
Investec	1,707,317	6.0%
Hargreave Hale	1,380,433	4.8%
Herald Investment Management	1,267,476	4.5%
DJ Bolton	936,800	3.3%
NA Makeham	902,748	3.2%

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee consultation

The group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the group. This is achieved through informal discussions between management and other employees at a local level.

Directors' indemnity cover

All directors benefit from qualifying third-party indemnity provisions in place during the financial period and at the date of this report.

Environmental matters

The directors recognise that whilst the group's business activities as a developer and supplier of software applications have minimal direct environmental impact, they acknowledge that the group's actions may have an impact on the environment through its day to day activities and through its wider network. They acknowledge a commitment to the protection of the environment and the group's environmental policy aims to raise awareness of environmental matters and to establish standards. The group's intention is to establish a paperless working environment wherever appropriate. This is supported through the automation of a number of internal management and administrative processes such as timesheets and performance appraisals. The group also encourages staff to minimise unnecessary travel by using web exchange, telephone conferencing and working from home in appropriate circumstances.

Events after the reporting date

These are detailed in note 30 to the consolidated financial statements.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Auditors

All of the current directors have taken all of the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of the information. The directors are not aware of any relevant audit information of which the auditors are unaware.

The Notice of Annual General Meeting contains a resolution to re-appoint BDO LLP as auditors for the ensuing year.

Baltimore House
50 Kansas Avenue
Manchester
M50 2GL

By order of the Board

BS Davis
Secretary
17 September 2012

Board of Directors

Thomas Adam Milne (Chairman) age 65

Tom was appointed as Executive Chairman on 24 May 2006. He has substantial experience in the retail software sector and in developing successful software companies in this sector. He was the founder director of Riva Group plc, one of the first true Microsoft Windows retail software houses in the UK. He assumed the role of Non-executive chairman of the group on 21 June 2007, following the successful conclusion of his executive role within K3's retail software division.

Per Johan Claesson (non-executive) age 61

Johan was appointed a director in March 2001. He is a Swedish national whose principal business interests are in property development and real estate and is a director of a number of listed companies. He has a controlling interest in and is chairman of Claesson and Anderzen AB ("C&A").

Nigel Andrew Makeham (Chief Executive) age 58

Andy was appointed Chief Executive in March 2001. He has over 20 years of experience running or working in IT companies, most recently with Kewill Systems plc, where he was a divisional sales and marketing director.

David John Bolton FCA (Chief Finance Officer) age 61

David was appointed Chief Finance Officer of the group in September 1998. Having qualified as a chartered accountant in the mid-1970s with Ernst and Young, he has held various finance positions in quoted and unquoted companies, most notably BTR where he spent 12 years. David is a non-executive director and chairman of Dawson International plc.

Independent Auditors' Report to the Shareholders of K3 Business Technology Group plc

We have audited the financial statements of K3 Business Technology Group plc for the year ended 30 June 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity, the company balance sheet and the related notes. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with sections Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at: www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 30 June 2012 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Philip Storer (senior statutory auditor)
For and on behalf of BDO LLP,
statutory auditor
Manchester
17 September 2012

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Income Statement
for the year ended 30 June 2012

	Notes	2012 £'000	2011 £'000
Revenue	2	**67,961**	52,800
Cost of sales		**(28,491)**	(23,486)
Gross profit		**39,470**	29,314
Administrative expenses		**(32,118)**	(23,501)
Profit from operations before amortisation of acquired intangibles, acquisition costs and exceptional items		**11,333**	9,581
Amortisation of acquired intangibles	11	**(3,586)**	(2,826)
Acquisition costs	3	**(593)**	(489)
Exceptional reorganisation costs	3	**(557)**	(453)
Exceptional income	3	**755**	–
Profit from operations	3	**7,352**	5,813
Finance income	6	**7**	35
Finance expense	6	**(1,316)**	(940)
Profit before taxation		**6,043**	4,908
Tax expense	7	**(319)**	(428)
Profit for the period		**5,724**	4,480

All of the profit for the period is attributable to equity shareholders of the parent.

Earnings Per Share			
Basic	9	**20.3p**	17.5p
Diluted	9	**19.8p**	17.0p

The notes on pages 34 to 87 form part of these financial statements.

Consolidated Statement of Comprehensive Income
for the year ended 30 June 2012

	2012 £'000	2011 £'000
Profit for the period	**5,724**	4,480
Other comprehensive (expense) income		
Exchange differences on translation of foreign operations	**(1,392)**	1,511
Net investment hedge	**415**	(504)
Cash flow hedges:		
Gains recognised on hedging instruments	**36**	(22)
Transferred to income statement	**49**	113
Other comprehensive (expense) income, net of tax	**(892)**	1,098
Total comprehensive income for the period	**4,832**	5,578

All of the total comprehensive income is attributable to equity holders of the parent.

Consolidated Statement of Financial Position

as at 30 June 2012

Registered number: 2641001

	Notes	2012 £'000	2011 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**2,722**	1,993
Goodwill	11	**43,540**	39,082
Other intangible assets	11	**21,255**	17,635
Deferred tax assets	21	**710**	551
Available-for-sale investments	14	**98**	196
Total non-current assets		**68,325**	59,457
Current assets			
Trade and other receivables	15	**30,322**	22,642
Cash and cash equivalents		**2,096**	814
Total current assets		**32,418**	23,456
Total assets		**100,743**	82,913
LIABILITIES			
Non-current liabilities			
Long-term borrowings	17	**–**	11,502
Other non-current liabilities	18	**892**	442
Deferred tax liabilities	21	**4,905**	4,427
Total non-current liabilities		**5,797**	16,371
Current liabilities			
Trade and other payables	16	**29,594**	24,074
Current tax liabilities		**669**	428
Short-term borrowings	17	**17,778**	4,798
Total current liabilities		**48,041**	29,300
Total liabilities		**53,838**	45,671
EQUITY			
Share capital	22	**7,120**	6,477
Share premium account	23	**7,239**	2,863
Other reserves	23	**10,448**	10,448
Cashflow hedging reserve	23	**–**	(85)
Translation reserve	23	**753**	1,730
Retained earnings	23	**21,345**	15,809
Total equity attributable to equity holders of the parent		**46,905**	37,242
Total equity and liabilities		**100,743**	82,913

The financial statements on pages 29 to 87 were approved and authorised for issue by the Board of Directors on 17 September 2012 and were signed on its behalf by:

NA Makeham
Director

DJ Bolton
Director

The notes on pages 34 to 87 form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 30 June 2012

	Notes	2012 £'000	2011 £'000
Cash flows from operating activities			
Profit for the period		**5,724**	4,480
Adjustments for:			
Share-based payments charge		**72**	52
Depreciation of property, plant and equipment		**729**	462
Amortisation of intangible assets and development expenditure		**4,394**	3,305
Loss on sale of property, plant and equipment		**1**	7
Impairment loss on available-for-sale investment		**98**	–
Finance income		**(7)**	(35)
Finance expense		**1,316**	940
Tax expense		**319**	428
Increase in trade and other receivables		**(5,498)**	(4,909)
Increase in trade and other payables		**136**	910
Cash generated from operations	31	**7,284**	5,640
Finance expense paid		**(846)**	(982)
Income taxes paid		**(1,312)**	(1,368)
Net cash generated from operating activities		**5,126**	3,290
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	27/31	**(3,960)**	(4,197)
Acquisition of other business units	27/31	**(3,173)**	(1,210)
Development expenditure capitalised		**(1,880)**	(1,374)
Purchase of property, plant and equipment		**(1,280)**	(681)
Proceeds from sale of property, plant and equipment		**1**	–
Finance income received		**7**	35
Net cash absorbed by investing activities		**(10,285)**	(7,427)
Cash flows from financing activities			
Net proceeds from issue of share capital		**5,026**	174
Proceeds from long-term borrowings		**4,050**	7,500
Payment of long-term borrowings		**(3,638)**	(2,768)
Payment of finance lease liabilities		**(51)**	(106)
Dividends paid		**(214)**	(64)
Net cash generated from financing activities		**5,173**	4,736
Net change in cash and cash equivalents		**14**	599
Cash and cash equivalents at start of period	31	**113**	(571)
Exchange (losses) gains on cash and cash equivalents		**(106)**	85
Cash and cash equivalents at end of period	31	**21**	113

The notes on pages 34 to 87 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2012

	Share capital £'000	Share premium £'000	Other reserve £'000	Cashflow hedging reserve £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
At 30 June 2010	6,411	2,711	10,448	(176)	723	11,326	31,443
Changes in equity for year ended 30 June 2011							
Share-based payment credit	–	–	–	–	–	111	111
Options exercised	66	152	–	–	–	–	218
Own shares acquired	–	–	–	–	–	(44)	(44)
Dividends to equity holders	–	–	–	–	–	(64)	(64)
Total comprehensive income for the period	–	–	–	91	1,007	4,480	5,578
At 30 June 2011	6,477	2,863	10,448	(85)	1,730	15,809	37,242
Changes in equity for year ended 30 June 2012							
Share-based payment credit	–	–	–	–	–	19	19
Issue of shares for cash	641	4,371	–	–	–	–	5,012
Options exercised	2	5	–	–	–	–	7
Movement in own shares held	–	–	–	–	–	7	7
Dividends to equity holders	–	–	–	–	–	(214)	(214)
Total comprehensive income for year	–	–	–	85	(977)	5,724	4,832
At 30 June 2012	7,120	7,239	10,448	–	753	21,345	46,905

The amount included in retained earnings of £5.72m (2011: £4.48m) represents profit attributable to owners of the parent company. The amount included in the cash flow hedging reserve and the translation reserve represents other comprehensive income for each component, net of tax of £nil (2011: £nil).

Notes forming part of the Financial Statements

for the year ended 30 June 2012

1 Accounting policies for the consolidated financial statements

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) as endorsed by the European Union ("endorsed IFRS") and with those parts of the Companies Act 2006 applicable to companies preparing their accounts under endorsed IFRS. The company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 88 to 102.

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the periods presented, unless otherwise stated. The consolidated financial statements have been prepared under the historical cost basis, except for the revaluation of certain derivative financial instruments which have been valued in accordance with IAS 39.

Adoption of new and revised standards

In preparing the Group financial statements for the current period, the Group has adopted the following new International Financial Reporting Standards (IFRS), amendments to IFRS and International Financial Reporting Interpretations Committee (IFRIC) Interpretations, which have not had a significant impact on the results or net assets of the Group:

IAS 24 (revised) Related Party Transactions

Improvements to IFRS (2010)

The following standards and interpretations were effective in 2012 but are not relevant to the Group:

IFRS 1 (amended) First-time Adoption of International Financial Reporting Standards

IFRIC 14 (amended) – Employee Benefits

IFRS 7 (amended) – Disclosures – Transfers of Financial Assets

1 Accounting policies for the consolidated financial statements (continued)

The following standards, amendments and interpretations to published standards are not yet effective:

New standard or interpretation	EU endorsement status	Mandatory effective date (periods beginning)
Amendment to IAS 12 – Deferred Tax: Recovery of Underlying Assets	Expected Q3 2012	1 January 2012
Amendment to IAS 19 – Employee Benefits	Endorsed	1 January 2013
Amendment to IAS 1 – Presentation of Items of Other Comprehensive Income	Endorsed	1 July 2012
IFRS 10 Consolidated Financial Statements	Expected Q4 2012	1 January 2013
IFRS 11 Joint Arrangements	Expected Q4 2012	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities	Expected Q4 2012	1 January 2013
IFRS 13 Fair Value Measurement	Expected Q3 2012	1 January 2013
IAS 27 Separate Financial Statements	Expected Q4 2012	1 January 2013
IAS 28 Investments in Associates and Joint Ventures	Expected Q4 2012	1 January 2013
Amendments to IFRS7 – Disclosures – Offsetting Financial Assets and Financial Liabilities	Expected Q4 2012	1 January 2013
Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities	Expected Q4 2012	1 January 2014
Improvements to IFRSs (2012)	Expected Q4 2012	1 January 2013

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will only have a material impact on the presentation in the financial statements of the Group.

IFRS 9 Financial Instruments	To be confirmed	1 January 2015

The Directors anticipate that the adoption of this Standard in future periods may have an impact on the results and net assets of the group.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow into the Group.

Revenue comprises the value of sales to third party customers of software licences, customised software, hardware and fees derived from installation, consultancy, training, support and managed services. It is stated exclusive of value added tax and net of trade discounts and rebates.

Revenue on the sale of software licences is recognised where there is persuasive evidence of an agreement with a customer (contract and/or binding purchase order), delivery of the software has taken place, collectability is probable and the fee is fixed and determinable. If significant post-delivery obligations exist, revenue is deferred until no significant obligations remain. Revenue on the sale of customised software, hardware and installation is recognised on delivery to a customer or on completion of contractual milestones. Revenue from training and consultancy is recognised as the contract progresses. Revenue from support and managed services is generally invoiced in advance, termed "deferred revenue", and taken to revenue in equal monthly instalments over the relevant period.

Profit from operations

Profit from operations is stated after charging all operating costs including those separately disclosed by virtue of their size or unusual nature or to facilitate a more helpful understanding of the group's results. It is stated before finance income and costs.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2012

1 Accounting policies for the consolidated financial statements (continued)

Principles of consolidation

The consolidated financial statements present the results of the company and its subsidiaries ("the group") as if they formed a single entity. Intra-group transactions, including sales, profits, receivables and payables, have been eliminated in the group consolidation.

Subsidiaries are entities controlled by the group. Control exists when the group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account.

Business combinations

All business combinations are accounted for by applying the purchase method. On acquisition, all of the subsidiaries' assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. The results of subsidiaries acquired in the period are included in the income statement from the date on which control is obtained.

Goodwill

Goodwill represents the excess of the fair value of the consideration paid on acquisition of a business over the fair value of the assets, including any intangible assets identified, liabilities and contingent liabilities acquired. Goodwill is not amortised but is measured at cost less impairment losses. In determining the fair value of consideration, the fair value of equity issued is the market value of equity at the date of completion, and the fair value of contingent consideration is based upon the present value of the expected future cashflows based on whether the directors believe performance conditions will be met and thus the extent to which further consideration will be payable.

As permitted by IFRS 1, goodwill arising on acquisitions before 1 January 2006 (date of transition to IFRS) has been frozen at the UK GAAP amounts subject to being tested for impairment at that date. Goodwill is tested for impairment at least annually. The group performs its impairment reviews at the cash-generating unit level. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

On disposal of a subsidiary, the attributable net book value of goodwill is included in the determination of the profit or loss on disposal.

1 Accounting policies for the consolidated financial statements (continued)

Impairment charges of non-financial assets (excluding deferred tax assets)

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken at the financial period end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of its fair value less costs to sell and its value in use (effectively the expected cash to be generated from using the asset in the business)), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the lowest group of assets in which the asset belongs for which there are separable identifiable cash flows). Goodwill is allocated on initial recognition to each of the group's cash-generating units that are expected to benefit from the synergies of the combination giving rise to the goodwill.

The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Impairment charges are included in administrative expenses in the consolidated income statement, except to the extent they reverse gains previously recognised in total comprehensive income. An impairment loss recognised for goodwill is not reversed.

Foreign currency translation

Transactions entered into by group entities in a currency other than the currency of the primary economic environment in which they operate (the "functional currency") are translated at the rates ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the rates ruling at that date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation, in which case exchange differences are recognised in a separate component of equity.

In order to hedge its exposure to certain foreign exchange risks, the group enters into forward contracts and options (see below for details of the group's accounting policies in respect of such derivative financial instruments). Where the group has entered into forward currency contracts to hedge future foreign currency cash flows, the group adopts hedge accounting for these transactions.

On consolidation, results of overseas subsidiaries are translated using the average exchange rate for the period. The balance sheets of overseas subsidiaries are translated using the closing period end rate. Exchange differences arising, if any, are taken to a separate component in equity (the translation reserve). Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRS as sterling denominated assets and liabilities.

Exchange differences recognised in the income statement of group entities' separate financial statements on the translation of long-term monetary items forming part of the group's net investment in the overseas operation concerned are reclassified to the translation reserve on consolidation.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2012

1 Accounting policies for the consolidated financial statements (continued)

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Executive Directors.

Financial assets

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Group has not classified any of its financial assets as held to maturity.

Financial assets are recognised at fair value on the group's statement of financial position when the group becomes a party to the contractual provisions of the instrument.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers, e.g. trade receivables. Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The group's loans and receivables comprise trade and other receivables and cash and cash equivalents.

Cash and cash equivalents include cash in hand, deposits held at call and overdrafts with banks.

Fair value through profit or loss

This category comprises only in-the-money derivatives (see Financial liabilities section for out-of-money derivatives). They are carried in the statement of financial position at fair value with changes in fair value recognised in the consolidated income statement in finance income or expense line. Other than derivative financial instruments which are not designated as a hedging instrument, the group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

Available-for-sale

Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise principally the Group's strategic investments in entities not qualifying as subsidiaries or associates. They are carried at fair value with changes in fair value generally recognised in other comprehensive income and accumulated in an available-for-sale reserve. Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset (which constitutes objective evidence of impairment), the full amount of impairment, including any amount previously recognised in other comprehensive income, is recognised in profit or loss.

1 Accounting policies for the consolidated financial statements (continued)

Financial liabilities

The group classifies its financial liabilities into one of two categories, depending on the purpose for which it was acquired. Other than financial liabilities in a qualifying hedging relationship (see below), the group's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises only out-of-the-money derivatives (see financial assets for in-the-money derivatives) and contingent consideration. They are carried in the statement of financial position at fair value with changes in fair value recognised in the consolidated income statement.

Other financial liabilities

Other financial liabilities include the following items:

- Bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding;
- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Fair value measurement hierarchy

IFRS 7 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement (see note 19). The fair value hierarchy has the following levels:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and

(c) inputs from the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the financial asset or financial liability is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

Hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either:

- Hedges of interest rate and foreign currency cash flow risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
- Hedges of a net investment in a foreign operation (net investment hedge).

The group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2012

1 Accounting policies for the consolidated financial statements (continued)

Hedge accounting (continued)

The fair values of derivative instruments used for hedging purposes are disclosed in note 20. Movements on the hedging reserve in shareholders' equity are shown in the consolidated statement of comprehensive income. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining hedged item is more than 12 months, and as a current asset or liability, if the remaining maturity of the hedged item is less than 12 months.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Hedges of a net investment in a foreign operation

Where the group has foreign currency borrowings to hedge changes in the net investment of foreign operations arising from movements in the forward exchange rate, to the extent that the hedge is effective, gains and losses arising on the foreign currency borrowings are recognised directly in equity. The ineffective portion of such hedges is recognised in the consolidated income statement.

Equity instruments

Equity instruments issued by the group are recorded at the proceeds received, net of direct issue costs.

Pension contributions

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred. The group has no defined benefit arrangements in place.

Share-based payments

The group issues equity-settled share-based payments to certain employees, that is, share options and warrants. Equity-settled share-based payments are measured at fair value at the date of grant. Fair value is measured by use of a trinomial lattice model. The expected life used in the model has been adjusted, based on the group's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations.

The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the group's estimate of the number of shares that will eventually vest. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the amount that eventually vest. Market vesting conditions are factored into the fair value of the options and warrants granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to meet a market vesting condition.

The group has applied the exemption available under IFRS 2, to apply its provisions only to those options and warrants granted after 7 November 2002 and which were outstanding at 1 January 2006.

1 Accounting policies for the consolidated financial statements (continued)

Leased assets

Leases for which the group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The amount initially recognised as an asset is the lower of the fair value of the leased asset and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease. The capital element reduces the balance owed to the lessor.

All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight-line basis over the lease term.

Externally acquired intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives. The amortisation expense is included within administrative expenses in the consolidated income statement.

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques (see section related to critical estimates and judgements below).

The significant intangibles recognised by the group, their estimated useful economic lives and the methods used to determine the cost of intangibles acquired in business combinations are as follows:

Intangible asset	Estimated useful economic life	Valuation method
Software distribution agreements	5-9 years	Estimated royalty stream if the rights were to be licensed
Contractual customer relationships	5-15 years	Estimated discounted cash flow
Intellectual property rights	6-10 years	Estimated royalty stream if the rights were to be licensed

Internally generated intangible assets (research and development costs)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from the group's software development is recognised only if all of the following conditions are met:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

The expenditure capitalised represents the cost of direct labour incurred in developing the software product.

Capitalised development costs are amortised on a straight-line basis over their useful lives commencing from the date of first income recognition. The estimated useful lives for development expenditure are estimated to be in a range of between three and seven years. The amortisation expense is included within administrative expenses in the consolidated income statement. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2012

1 Accounting policies for the consolidated financial statements (continued)

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit. Deferred tax liabilities are recognised on intangible assets and other temporary differences recognised in business combinations.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when the group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company; or
- different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. The cost of items of property, plant and equipment is its purchase cost, together with any incidental costs of acquisition. As well as the purchase price, cost includes directly attributable costs of bringing the asset into use.

Depreciation is calculated so as to write off, on a straight-line basis over the expected useful economic lives of the asset concerned, the cost of property, plant and equipment, less estimated residual values, which are adjusted, if appropriate, at each reporting date. The principal economic lives used for this purpose are:

- Long leasehold buildings — Period of lease
- Leasehold improvements — Period of lease
- Plant, fixtures and equipment — Three to five years
- Motor vehicles — Four years

Provision is made against the carrying value of items of property, plant and equipment where impairment in value is deemed to have occurred.

1 Accounting policies for the consolidated financial statements (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. The group considers all highly liquid investments with original maturity dates of three months or less to be cash equivalents. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management system are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Employee share ownership plans

As the company is deemed to have control of its ESOP trust, it is treated as a subsidiary and consolidated for the purposes of the group accounts. The material assets, liabilities, income and costs of the K3 Business Technology Group plc Share Incentive Plan are included in the financial statements. Until such time as the group's own shares vest unconditionally with employees, the consideration paid for the shares is deducted in equity shareholders funds.

Provisions

A provision is recognised in the statement of financial position when the group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

Provisions are reviewed on a regular basis and released to income statement where changes in circumstances indicate that a provision is no longer required.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The nature of the group's business is such that there can be unpredictable variation and uncertainty regarding its business. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The key sources of estimation that have a significant impact on the carrying value of assets and liabilities are discussed below:

Valuation of intangibles acquired in business combinations

Determining the fair value of software distribution agreements and intellectual property rights acquired in business combinations requires estimation of the discounted royalty payments that would have to be paid to acquire the distribution agreement or intellectual property rights if it had not been acquired as part of the business combination. Determining the fair value of contractual customer relationships acquired in business combinations requires estimation of the value of the cashflows related to those relationships and a suitable discount rate in order to calculate the present value. More details including carrying values are included in note 11.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2012

1 Accounting policies for the consolidated financial statements (continued)

Critical accounting estimates and judgements (continued)

Valuation of contingent consideration

When valuing the contingent consideration still payable on acquisitions, the group considers various factors including the performance of the acquired entity since acquisition together with its expected performance to the end of the earn-out period. Following the adoption of IFRS 3 (revised) – Business Combinations, contingent consideration is recognised at, and carried thereafter at, fair value. All changes in fair value (other than measurement period adjustments) are reflected in the income statement. More details including carrying values are included in notes 16 and 17.

Impairment of goodwill and other intangibles

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires an entity to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. An impairment review has been performed at the reporting date and no impairment has been identified. More details including carrying values are included in notes 11 and 12.

Useful economic lives of intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are amortised or depreciated over their useful economic lives. Useful lives are based on management's estimates of the period over which the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in changes in the carrying values and hence amounts charged to the income statement in particular periods which, in the case of intangible assets, could be significant. More details including carrying values are included in notes 10 and 11.

Capitalised development expenditure and subsequent amortisation

Where such expenditure meets the relevant criteria the group is required to capitalise development expenditure. In order to assess whether the criteria is met the Board is required to make estimates in relation to likely income generation and financial and technical viability of the relevant development projects and the period over which the group is likely to benefit from such expenditure.

2 Revenue

	2012 £'000	2011 £'000
The group's revenue comprises:		
Sale of software and hardware	12,916	10,235
Provision of consultancy services	21,984	18,971
Support and maintenance	33,061	23,594
Revenue	67,961	52,800
Finance income	7	35
Total revenue	67,968	52,835

3 Profit from operations

	2012 £'000	2011 £'000
This has been arrived at after charging/(crediting):		
Staff costs (see note 4)	30,968	22,836
Depreciation of property, plant and equipment	729	462
Amortisation of acquired intangible assets	3,586	2,826
Amortisation of development costs	808	479
Exceptional income (see below)	(755)	–
Reorganisation costs (see below)	557	453
Acquisition costs	593	489
Foreign exchange differences	(31)	(140)
Operating lease expenses		
– Plant and machinery	1,077	783
– Property	1,082	942
Audit fees	123	87
Fees paid to the company's auditors for non-audit services provided to the Company and UK subsidiaries	14	12
(Profit) loss on disposal of fixed assets	(1)	7

During the year, the group incurred costs in relation to acquiring new businesses of £0.59m (2011: £0.49m). In 2011, the group completed a reorganisation which enabled the full integration of the acquired businesses to create a platform for future growth, at a cost of £0.45m, which is accounted for an exceptional cost. This relates mainly to redundancy costs. During 2012, further reorganisation costs have been incurred to integrate the businesses acquired during the year, at a cost of £0.56m. The exceptional income during the year related to the sale of IP.

An analysis of fees paid to the Company's auditors for non-audit services is as follows:

	2012 £'000	2011 £'000
Tax services:		
– Advisory services	13	10
Other services:		
– Corporate finance services	–	–
– Other services	1	2
	14	12

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2012

4 Staff costs

	2012 £'000	2011 £'000
Staff costs (including directors) comprise:		
Wages and salaries	25,413	18,693
Short-term non-monetary benefits	1,578	1,300
Defined contribution pension cost	773	555
Share-based payment expense (see note 26)	72	52
Employers national insurance contributions and similar taxes	3,132	2,236
	30,968	22,836

	2012 Number	2011 Number
The average number of employees during the period was		
Consultants and programmers	478	361
Sales and distribution	78	55
Administration	74	54
	630	470

Directors and key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the group, including the Directors of the company listed on page 112 and the divisional directors.

	2012 £'000	2011 £'000
Key management personnel remuneration consists of:		
Remuneration	1,735	1,934
Compensation for loss of office	155	–
Company contributions to defined contribution pension schemes	108	129
Share-based payment expense (note 26)	33	34
	2,031	2,097

4 Staff costs (continued)

	2012 £'000	2011 £'000
Directors' remuneration consists of:		
Emoluments	383	329
Gains on exercise of share options	–	133
Contributions to personal pension schemes	36	30
	419	492

	2012 £'000	2011 £'000
Remuneration in respect of the highest paid director :		
Aggregate emoluments	200	167
Pension contributions	18	16
Gains on exercise of share options	–	76
	218	259

There were 2 directors in the company's defined contribution pension scheme (2011: 2).

Note that the directors' emoluments include amounts attributed to benefits-in-kind on which directors are assessed for tax purposes. This may differ to the cost to the group of providing those benefits included in note 4.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2012

5 Segment information

IFRS 8 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker ('CODM') in order to allocate resources to the segment and assess its performance. The CODM has been determined to be the Executive Directors as they are principally responsible for evaluating operating segment performance and deciding how to allocate resources to operating segments.

As indicated in last year's annual report, from 1 July 2011, the reporting of results reflects four trading divisions: Microsoft UK, International, SYSPRO and Sage, and Managed Services, together with Head Office costs. The comparatives for the year ended 30 June 2011 have been restated accordingly. These five segments represent the group's reportable segments under IFRS 8. Each reportable segment has a segment manager who is directly accountable to, and maintains regular contact with, the CODM.

Whilst there are several operating units within each reportable segment, the results of these operating units have been aggregated into one reportable segment as they exhibit similar economic characteristics and have one overall manager.

The Head Office segment comprises head office and other centrally incurred costs which are recharged to the units through a central management charge.

The activities and products and services of the operating segments are detailed in the Business Review on pages 8 to 13.

The CODM primarily assesses the performance of the operating segments based on adjusted operating profit. This is a measure of divisional operating profit less an allocation of centrally incurred costs. Adjusted operating profit is profit before interest, tax, amortisation of acquired intangibles, exceptional costs and acquisition costs.

The segment results for the year ended 30 June 2012 and for the year ended 30 June 2011, reconciled to profit before taxation as included in the consolidated income statement, are as follows:

	Year ended 30 June 2012					
	Microsoft UK £'000	International £'000	Managed Services £'000	SYSPRO and Sage £'000	Head Office £'000	Total £'000
Total segment revenue	25,057	12,881	5,473	25,053	–	68,464
Inter-segment revenue	(138)	(234)	(41)	(90)	–	(503)
External revenue	24,919	12,647	5,432	24,963	–	67,961
Cost of sales	(11,770)	(4,666)	(2,446)	(9,609)	–	(28,491)
Gross profit	13,149	7,981	2,986	15,354	–	39,470
Administrative expenses	(9,974)	(4,120)	(2,878)	(8,971)	(2,194)	(28,137)
Divisional operating profit	3,175	3,861	108	6,383	(2,194)	11,333
Management charges	(958)	(193)	(108)	(527)	1,786	–
Adjusted operating profit/(loss)	2,217	3,668	–	5,856	(408)	11,333
Amortisation of intangibles	(524)	(1,249)	(172)	(1,641)	–	(3,586)
Acquisition costs	(216)	(220)	–	(157)	–	(593)
Exceptional reorganisation costs	(63)	–	(58)	(176)	(260)	(557)
Exceptional income	–	755	–	–	–	755
Operating profit	1,414	2,954	(230)	3,882	(668)	7,352
Interest*	(1)	(74)	(7)	(7)	(1,220)	(1,309)
Profit before tax	1,413	2,880	(237)	3,875	(1,888)	6,043

5 Segment information (continued)

	Year ended 30 June 2011					
	Microsoft UK £'000	International £'000	Managed Services £'000	SYSPRO and Sage £'000	Head Office £'000	Total £'000
Total segment revenue	22,880	9,054	4,736	16,166	–	52,836
Inter-segment revenue	–	–	(36)	–	–	(36)
External revenue	22,880	9,054	4,700	16,166	–	52,800
Cost of sales	(10,818)	(4,476)	(2,749)	(5,443)	–	(23,486)
Gross profit	12,062	4,578	1,951	10,723	–	29,314
Administrative expenses	(8,572)	(2,140)	(1,411)	(5,786)	(1,824)	(19,733)
Divisional operating profit	3,490	2,438	540	4,937	(1,824)	9,581
Management charges	(709)	(100)	–	(766)	1,575	–
Adjusted operating profit/(loss)	2,781	2,338	540	4,171	(249)	9,581
Amortisation of intangibles	(305)	(1,189)	(264)	(1,068)	–	(2,826)
Acquisition costs	(201)	(14)	(102)	(143)	(29)	(489)
Exceptional reorganisation costs	(77)	–	(133)	(243)	–	(453)
Exceptional income	–	–	–	–	–	–
Operating profit	2,198	1,135	41	2,717	(278)	5,813
Interest*	(3)	(33)	(1)	(19)	(849)	(905)
Profit before tax	2,195	1,102	40	2,698	(1,127)	4,908

*Interest expense is reported net of interest income as this is how it is reported to the CODM. Interest income is not sufficiently material to disclose separately.

Segment assets and segment liabilities are reviewed by the CODM in a consolidated statement of financial position. Accordingly, this information is replicated in the group consolidated statement of financial position on page 31. As no measure of assets or liabilities for individual segments is reviewed regularly by the CODM, no disclosure of total assets or liabilities has been made, in accordance with the amendment to paragraph 23 of IFRS 8.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Transactions between segments are accounted for at cost.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2012

5 Segment information (continued)

The Group's revenue does not rely on any single major customer.

Analysis of the group's external revenues (by customer location) and non-current assets by geographical location are detailed below:

	External revenue		Non-current assets	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
United Kingdom	48,296	39,507	53,283	44,195
Netherlands	7,672	7,276	13,930	13,957
Ireland	5,189	3,378	1,112	1,305
Rest of Europe	2,037	82	–	–
USA	876	807	–	–
Rest of World	3,891	1,750	–	–
	67,961	52,800	68,325	59,457

6 Finance Income and Expense

	2012		2011	
	£'000	£'000	£'000	£'000
Finance income				
Bank interest received		(7)		(35)
Finance expense				
Bank borrowings	908		821	
Finance leases	16		16	
On related party balances	55		55	
On tax balances	12		7	
Foreign exchange	260		–	
Other		1,251		899
Unwinding of discount on provisions		93		78
Net change in fair value of cash flow hedges transferred from equity		(28)		(37)
		1,316		940
Net finance expense		1,309		905
Of which from financial instruments:				
Cash and cash equivalents		1,043		675
Financial liabilities at amortised cost		94		80
Derivatives used for hedging		(7)		(17)
Loan fee amortisation		179		167
		1,309		905

7 Tax expense

	2012		2011	
	£'000	£'000	£'000	£'000
Current tax expense				
UK corporation tax and income tax of overseas operations on profits for the period	1,471		1,474	
Adjustment in respect of prior periods	(72)		(53)	
		1,399		1,421
Deferred tax expense				
Origination and reversal of temporary differences	(769)		(690)	
Effect of change in rate of deferred tax	(311)		(303)	
		(1,080)		(993)
Total tax expense		319		428

The reasons for the difference between the actual tax charge for the period and the standard rate of corporation tax in the UK applied to profits for the period are as follows:

	2012 £'000	2011 £'000
Profit before tax	6,043	4,908
Expected tax charges based on the standard rate of corporation tax in the UK of 25.5% (2011: 27.5%)	1,541	1,350
Expenses not deductible for tax purposes	4	2
Effect of tax reliefs	(140)	(304)
Deferred tax assets not recognised at acquisition	–	–
Different tax rates applied in overseas jurisdictions	(684)	(281)
Effect of change in rate for deferred tax	(311)	(303)
Adjustment for (over) under provision in prior periods	(91)	(36)
Total tax charge	319	428

None of the items within other comprehensive income in the Consolidated Statement of Comprehensive Income have resulted in a tax expense or tax income.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2012

8 Dividends

	2012 £'000	2011 £'000
Final dividend of 0.75p (2011: 0.25p) per ordinary share		
proposed and paid during the year relating to the previous period's results	214	64
Interim dividend of nil (2011: nil) per ordinary share		
proposed and paid during the period	–	–
	214	64

A dividend in respect of the year ended 30 June 2012 of 1.0p per share, amounting to a total dividend of £285,000 is to be proposed at the annual general meeting on 5 December 2012. These financial statements do not reflect this dividend payable.

9 Earnings per share

The calculations of earnings per share are based on the profit for the period and the following numbers of shares.

	2012 Number of Shares	2011 Number of Shares
Denominator		
Weighted average number of shares used in basic EPS	28,242,505	25,650,457
Effects of:		
Employee share options and warrants	678,177	631,663
Weighted average number of shares used in diluted EPS	28,920,682	26,282,120

Certain employee options and warrants have not been included in the calculation of diluted EPS because their exercise is contingent on the satisfaction of certain criteria that had not been met at the end of the period.

The alternative earnings per share calculations have been computed because the directors consider that they are useful to shareholders and investors. These are based on the following profits and the above number of shares.

		2012			2011	
	Earnings £'000	Per share amount basic p	Per share amount diluted p	Earnings £'000	Per share amount basic p	Per share amount diluted p
Numerator						
Earnings per share	5,724	20.3	19.8	4,480	17.5	17.0
Add back:						
Amortisation of acquired intangibles (net of tax)	2,349	8.3	8.1	1,759	6.8	6.7
Acquisition costs (net of tax)	593	2.1	2.1	489	1.9	1.9
Exceptional reorganisation costs (net of tax)	415	1.5	1.4	328	1.3	1.2
Exceptional income (net of tax)	(562)	(2.0)	(1.9)	–	–	–
Adjusted EPS	8,519	30.2	29.5	7,056	27.5	26.8

10 Property, plant and equipment

	Long leasehold land and buildings £'000	Leasehold improvements £'000	Plant, fixtures and equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 30 June 2010	750	252	1,519	29	2,550
On acquisitions	–	196	138	35	369
Additions	–	46	635	–	681
Disposals	–	–	(61)	–	(61)
Effects of movements in foreign exchange rate	–	–	45	–	45
At 30 June 2011	750	494	2,276	64	3,584
On acquisitions	–	–	174	31	205
Additions	–	80	1,200	–	1,280
Disposals	–	–	(151)	(33)	(184)
Effect of movements in foreign exchange rate	–	–	(66)	(5)	(71)
At 30 June 2012	750	574	3,433	57	4,814
Accumulated depreciation					
At 30 June 2010	32	243	853	29	1,157
Depreciation charge	10	41	404	7	462
Disposals	–	–	(54)	–	(54)
Effect of movements in foreign exchange rate	–	–	26	–	26
At 30 June 2011	42	284	1,229	36	1,591
Depreciation charge	10	49	638	32	729
Disposals	–	–	(149)	(33)	(182)
Effect of movements in foreign exchange rate	–	–	(42)	(4)	(46)
At 30 June 2012	52	333	1,676	31	2,092
Net book value					
At 30 June 2010	718	9	666	–	1,393
At 30 June 2011	708	210	1,047	28	1,993
At 30 June 2012	698	241	1,757	26	2,722

Bank borrowings are secured on certain assets of the group including property, plant and equipment. There is a fixed charge over the long leasehold property.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2012

10 Property, plant and equipment (continued)

The net carrying amount of property, plant and equipment includes the following amounts in respect of assets held under finance leases (see note 24):

	2012 £'000	2011 £'000
Plant, fixtures and equipment	2	98
Motor vehicles	11	44
	13	142

11 Intangible assets

	Goodwill £'000	Development costs £'000	Contractual and non-contractual customer relationships £'000	Distribution agreements £'000	Intellectual property rights £'000	Total £'000
Cost or valuation						
At 30 June 2010	33,467	2,974	6,244	10,510	535	53,730
Additions – internally developed	–	1,374	–	–	–	1,374
Acquired through business combinations	4,706	–	5,485	–	384	10,575
Adjustments	(57)	–	–	–	–	(57)
Effects of movements in foreign exchange rate	966	44	525	212	59	1,806
At 30 June 2011	39,082	4,392	12,254	10,722	978	67,428
Additions – internally developed	–	1,906	–	–	–	1,906
Acquired through business combinations	5,765	71	6,527	–	45	12,408
Disposals	–	(43)	–	–	–	(43)
Adjustments	(243)	–	–	–	–	(243)
Effects of movements in foreign exchange rate	(1,064)	(117)	(585)	(223)	(63)	(2,052)
At 30 June 2012	43,540	6,209	18,196	10,499	960	79,404

£0.42m of the adjustment to goodwill relates to a reduction to the estimate of the contingent consideration payable in respect of K3 Managed Services Limited (formerly DigiMIS Limited). There is an increase of £0.18m relating to additional fair value provisions required in respect of the K3 Panacea, Sense Enterprise Solutions and Clarita Solutions acquisitions.

11 Intangible assets (continued)

	Goodwill £'000	Development costs £'000	Contractual and non-contractual customer relationships £'000	Distribution agreements £'000	Intellectual property rights £'000	Total £'000
Accumulated amortisation						
At 30 June 2010	–	1,477	1,462	4,148	–	7,087
Amortisation charge	–	479	1,318	1,452	56	3,305
Effect of movements in foreign exchange rate	–	11	166	141	1	319
At 30 June 2011	–	1,967	2,946	5,741	57	10,711
Amortisation charge	–	808	1,964	1,445	177	4,394
Disposals	–	(17)	–	–	–	(17)
Effect of movements in foreign exchange rate	–	(27)	(251)	(192)	(9)	(479)
At 30 June 2012	–	2,731	4,659	6,994	225	14,609
Net book value						
At 30 June 2010	33,467	1,497	4,782	6,362	535	46,643
At 30 June 2011	39,082	2,425	9,308	4,981	921	56,717
At 30 June 2012	43,540	3,478	13,537	3,505	735	64,795

All intangible assets, other than goodwill which has an indefinite life, have a useful life economic life of between 3 and 15 years. The remaining useful life of development costs is between 1 and 7 years, for contractual and non-contractual customer relationships is between 1.5 and 14 years, for distribution agreements is between 1.5 and 5 years and for intellectual property rights is between 6 and 8 years.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2012

12 Goodwill and impairment

Goodwill acquired in business combinations is allocated at acquisition to the cash generating units ("CGUs") that are expected to benefit from that business combination. Details of goodwill allocated to each CGU is as follows:

	Goodwill carrying amount	
	2012 £'000	2011 £'000
Small systems business, Hook (Chertsey)	1,555	1,555
K3 Syspro (SCS)	13,678	13,678
AX (including Sense)	2,455	2,400
Dynamics UK (Retail UK)	6,381	6,381
Dynamics International (Retail Netherlands)	8,757	9,726
Business Solutions (Clarita)	1,136	931
IP	372	417
Managed Services (including Panacea)	2,800	3,302
Sage – FDS 200	692	692
Azurri Retail	387	–
Sage – FDS Enterprise	2,697	–
Sage – FDS 200 (ISC)	228	–
Shine Marketing	79	–
Retail Systems Group (RSG)	1,058	–
Unisoft	495	–
Integrated Business Solutions (IBS)	770	–
	43,540	39,082

The recoverable amounts of the CGUs are determined from value in use calculations, derived from the present value of future cash flows generated by the CGUs. There are a number of assumptions and estimates involved in calculating the present value of the future cash flows, including but not restricted to the following:

- growth rates applied to profit from operations used as the basis for the future cash flows;
- the discount rate applied to the cash flows to calculate their present value.

Although the directors are satisfied that the assumptions used are appropriate to the current circumstances of the group, changes to these key assumptions or estimates could significantly affect the result of the impairment calculation. The basis of the assumptions used is as follows:

- management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the business. The growth rates are based on management forecasts for the markets in which each CGU operates.
- the group prepares pre-tax cash flow forecasts derived from the most recent financial forecasts approved by the directors for the next three years and extrapolates cash flows for future periods of between 5 and 14 years which is based on management's assessment of the useful economic lives. In the 2 year period following the approved forecasts, growth rates of between 2.25% and 20% have been applied (except for the CGU relating to the small-systems division Hook). The Hook CGU relates to small systems and a gradual attrition of income is expected, although this is lower than in previous

12 Goodwill and impairment (continued)

forecasts due to the increase in CRM services now provided by the division. Hence an attrition rate of 5% has been applied. The most recent financial forecasts have been prepared on the assumption that gross margins will be consistent with those in 2012 and that overheads are in line with any changes in the level of revenues forecast. The growth rates are based on industry growth rates, management's view of the observable markets as well as historical and estimated requirement by customers for the products and services.

- the rate used to discount the forecast pre-tax cash flows is 10% and represents the directors' current best estimate of the weighted average cost of capital ("WACC").

As a result of the impairment testing carried out on the basis of these estimates and assumptions, no impairment provisions are considered necessary.

13 Subsidiaries

The principal subsidiaries of K3 Business Technology Group plc, all of which have been included in these consolidated financial statements, are as follows:

Name	Country of incorporation	Proportion of ownership interest and ordinary share capital held
K3 Syspro Limited (formerly K3 Supply Chain Solutions Limited)	UK	100%
K3 Business Solutions BV	Netherlands	100%
K3 Software Solutions BV	Netherlands	100%
K3 Solutions BV	Netherlands	100%
K3 Holdings BV	Netherlands	100%
K3 AX Limited	UK	100%
K3 Retail and Business Solutions Limited	Ireland	100%
Integrated Manufacturing Software Limited	Ireland	100%
K3 Managed Services Limited	UK	100%
K3 Managed Services (International) Limited	Ireland	100%
K3 Panacea Limited	UK	100%
Sense Enterprise Solutions Limited	UK	100%
K3 Business Solutions Limited	UK	100%
K3 Business Technology Group Trustees Company Limited	UK	100%
Fifth Dimension Systems Limited	UK	100%
FDS Technology Systems Limited	Ireland	100%
Retail Systems Group Limited	UK	100%
Retail Computer Maintenance Limited	UK	100%
Intelligent Solutions Consultancy Limited	UK	100%
Shine Marketing UK Limited	UK	100%
K3 Singapore Pte Ltd	Singapore	100%

The principal activity of all the subsidiary undertakings is the supply of computer software and consultancy with the exception of the following: K3 Managed Services Limited, K3 Managed Services (International) Limited and K3 Panacea Limited which are hosting and managed services providers; K3 Business Technology Group Trustees Company Limited which is the trustee for the group's employee share ownership plan.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2012

14 Available-for-sale investments

	2012 £'000	2011 £'000
Beginning of period	196	196
Disposals	(98)	–
End of period	98	196

All amounts included above are non-current assets. There were no impairment provisions on available-for-sale financial assets in the year ended 30 June 2011. During the year, the group transferred part of its interest in Cyntergy Limited to the majority shareholder in accordance with the shareholder agreement for nil consideration. The loss on disposal included an impairment provision on the remaining interest of 15%.

Available-for-sale financial assets include the following:

	2012 £'000	2011 £'000
Unquoted:		
Equity Securities – UK	98	196

The fair value of the unquoted securities is based on the expected cash flows discounted using a rate based on the market interest rate and the risk premium specific to the unlisted security of 9.5%.

The Group's strategic investment is a 15% interest in Cyntergy Limited.

15 Trade and other receivables

	2012 £'000	2011 £'000
Trade receivables	23,063	17,406
Less: provision for impairment of trade receivables	(1,155)	(818)
Trade receivables – net	21,908	16,588
Other receivables	1,067	656
Accrued income	4,025	3,485
Prepayments	3,322	1,913
	30,322	22,642

The fair value of trade and other receivables approximates to book value at 30 June 2012 and 30 June 2011.

Of the above, trade receivables of £0.59m (2011: £nil) and accrued income of £0.10m (2011: £0.27m) is due after more than one year.

The group is exposed to credit risk with respect to trade receivables due from its customers. The group has over 3,100 customers spread across various industries, although predominantly in the retail sector, manufacturing and distribution sectors, and hence the concentration of credit risk is limited due to the large and diverse customer base. The group assesses the credit rating for new customers to minimise the credit risk. Provisions for bad and doubtful debts are made based on management's objective assessment of the risk taking into account the age of the debt and items considered to be in dispute with customers. Given that the large number of customers limits the concentration of credit risk, the directors consider that no further credit provision is required other than the provision for impairment of £1.16m (2011: £0.82m).

15 Trade and other receivables (continued)

As at 30 June 2012 trade receivables of £6.09m (2011: £8.84m) were past due but not impaired. They relate to the customers against whom no provision is considered necessary. The ageing analysis of these receivables is as follows:

	2012 £'000	2011 £'000
Up to 3 months overdue	1,582	5,511
3 to 6 months overdue	2,162	2,699
6 to 12 months overdue	1,170	625
Over 12 months overdue	1,180	–
	6,094	8,835

As at 30 June 2012 trade receivables of £1.16m (2011: £0.82m) were past due, impaired and provided against. There are no individually significant receivables included within this provision. The group takes a prudent view in assessing the risk of non-payment and considers provision for all debts more than 3 months in arrears unless there are specific circumstances to indicate that there is little or no risk of non-payment of these older debts.

The carrying amounts of the group's trade and other receivables are denominated in the following currencies:

	2012 £'000	2011 £'000
Pound Sterling	21,882	17,430
Euro	8,165	5,212
US Dollar	254	–
Singapore Dollar	21	–
	30,322	22,642

Movements on the group provision for impairment of trade receivables are as follows:

	2012 £'000	2011 £'000
At beginning of period	818	466
Acquired on business combinations	54	347
Provided during the period	1,001	375
Utilised during the period	(527)	(356)
Unused amounts released	(191)	(14)
At end of period	1,155	818

The movement on the provision for impaired receivables has been included in administrative expenses in the consolidated income statement.

Other classes of financial assets included within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable set out above.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2012

16 Trade and other payables – current

	2012 £'000	2011 £'000
Trade payables	4,943	4,717
Other payables	1,213	746
Deferred consideration (see note 18)	280	207
Accruals	5,127	6,437
Total financial liabilities, excluding loan and borrowings, classified as financial liabilities measured at amortised cost	11,563	12,107
Contingent consideration (see note 18)	1,687	1,347
Derivative financial instruments (see note 20)	1	72
Other tax and social security taxes	3,185	2,729
Deferred revenue	13,158	7,819
	29,594	24,074

The best estimate of contingent consideration was based on the cash flows discounted at 4.11% (2011: 4.11%).

To the extent trade and other payables are not carried at fair value in the consolidated balance sheet, book value approximates to fair value at 30 June 2012 and 30 June 2011.

Maturity analysis of the financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost, is as follows:

	2012 £'000	2011 £'000
Up to 3 months	10,567	11,572
3 to 6 months	701	500
6 to 12 months	296	107
	11,564	12,179

17 Loans and borrowings

	2012 £'000	2011 £'000
Non-current		
Bank loans (secured)	–	11,489
Finance lease creditors (note 24)	–	13
	–	11,502
Current		
Bank overdrafts	2,075	701
Bank loans (secured)	15,052	3,420
Finance lease creditors (note 24)	11	37
Loans from related parties (note 29)	640	640
	17,778	4,798
Total borrowings	17,778	16,300

Principal terms and the debt repayment schedule of the group's loans and borrowings are as follows:

	Currency	Nominal rate %	Year of maturity	Security
Secured bank loan	GBP	2.45% over LIBOR	2012	See below
Secured bank loan	EUR	2.45% over EURIBOR	2012	See below
Loans from related parties	GBP	8.5%	2012	Unsecured
Finance lease creditors (note 24)	GBP	22%	2012	Secured

The above split between non-current and current loans and borrowings reflects the situation as at 30 June 2012.

In September 2012 the Group agreed the extension of existing facilities through to December 2013 on the same terms with further facilities of up to £2.0m committed and a further £3.0m over the course of the facility period available to fund acquisitions.

Finance lease creditors are secured on the assets to which they relate.

£0.24m of the sterling bank loans at 30 June 2012 (2011: £1.97m) are covered by an interest rate collar which reduces the group's exposure to movements in interest rates. The maximum underlying LIBOR interest rate to which the group is exposed on this loan is 5.75%; the minimum is 4.75% (see note 20).

Maturity analysis of loans and borrowings:

	2012 £'000	2011 £'000
In less than one year	17,817	4,862
In more than one year but not more than two years	–	11,587
In more than two years but not more than five years	–	–
	17,817	16,449

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2012

17 Loans and borrowings (continued)

Bank borrowings

The bank loans are secured by a fixed charge over the group's long leasehold property and floating charges over the remaining assets of the group.

The group has undrawn committed borrowing facilities available at 30 June 2012 of £2.93m (2011: £4.3m) for which all conditions have been met. It is a Revolving Credit Facility on which interest is charged at a floating rate linked to LIBOR and, following the renegotiation since the year end, now expires in December 2013.

The currency profile of the group's loans and borrowings is as follows:

	2012 £'000	2011 £'000
Pound Sterling	15,312	12,560
Euro	2,466	3,741
US Dollars	–	(1)
	17,778	16,300

The Euro loan has been re-valued at the year end with the loss on the translation of the loan of £0.38m (2011: gain of £0.47m) of which £0.23m is recognised in the translation reserve within equity.

18 Other non-current liabilities

	2012 £'000	2011 £'000
Contingent consideration	342	–
Deferred consideration	184	304
Accruals	366	138
	892	442

Contingent consideration at 30 June 2012 is in relation to the acquisitions of IBS and Unisoft and is included at the fair value. Deferred consideration at 30 June 2012 and at 30 June 2011 is in relation to the acquisition of Pebblestone Netherlands.

19 Financial instruments

Risk management

The group is exposed through its operations to one or more of the following financial risks:

- Market price risk
  - Fair value or cash flow interest rate risk
  - Foreign currency risk
- Liquidity risk
- Credit risk

Policy for managing these risks is set by the Board following recommendations from the Chief Finance Officer. Certain risks are managed centrally, while others are managed locally following guidelines communicated from the centre. The policy for each of the above risks is described in more detail below. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes from previous periods in the group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or methods used to measure them.

Principal financial instruments

The principal financial instruments used by the group, from which financial risk arises, are as follows:

- Trade receivables
- Cash at bank
- Trade and other payables
- Floating-rate bank loans
- Loans from related parties
- Interest rate collars
- Forward currency contracts.

Market risk

Market risk arises from the group's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

Fair value and cash flow interest rate risk

The group has fixed interest loans in respect of finance leases with a net book value of £0.01m (2011: £0.05m) and loans from related parties of £0.64m (2011: £0.64m). The fixed rates applicable are 19% and 8.5% respectively.

Bank debt totalling £15.05m (2011: £14.91m) is held under floating rates linked to monthly LIBOR and EURIBOR. The group makes use of interest rate collar arrangements to mitigate its exposure to fluctuations in LIBOR. As at 30 June 2012, 2% (2011: 13%) of outstanding bank debt was covered by these arrangements.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2012

19 Financial instruments (continued)

Foreign currency risk

Foreign exchange risk arises because the group has operations located in Europe whose functional currency is not the same as the group's primary functional currency (sterling). The net assets from overseas operations are exposed to currency risk giving rise to gains or losses on retranslation into sterling. The group has hedged its net investments in overseas operations by denominating a proportion of its bank loans in Euros so that the cash flow risk created from such hedging techniques reduces the volatility in consolidated net assets.

Foreign exchange risk also arises when individual group operations enter into transactions denominated in a currency other than their functional currency. It is group policy that such transactions should be hedged by entering into forward contracts where it is considered the risk to the group is significant. This policy is managed centrally by group treasury entering into a matching forward contract with a reputable bank.

It is group policy that transactions between group entities are always denominated in the selling entity's functional currency thereby giving rise to foreign exchange risk in the income statement of both the purchasing group entity and the group. No external hedge is entered into as there is no exposure to consolidated net assets from intra-group transactions.

Other market price risk

Where the group has generated a significant amount of surplus cash it invests in money market over-night deposits. The directors believe that the exposure to market price risk from this activity is acceptable in the group's circumstances.

Liquidity risk

The liquidity risk of each group entity is managed centrally by the group treasury function comparing to budgets and quarterly forecasts.

All surplus cash is held centrally to maximise the returns on deposits through economies of scale. The type of cash instrument used and its maturity date will depend on the group's forecast cash requirements. The group maintains a revolving credit facility with a major banking corporation to manage any unexpected short-term cash shortfalls. The facilities from the Group's bankers require the Group to meet certain covenants throughout the term of the loans and the group's forecasts indicate that the group will remain within the set parameters.

The principle terms of the group's borrowings are set out in note 17.

Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the group. The group is mainly exposed to credit risk from credit sales. It is group policy, implemented locally, to assess the credit risk of new customers before entering contracts. Such credit ratings, taking into account local business practices, are then factored into any contractual arrangements.

The group does not have any significant credit risk exposure to any single customer. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the group's maximum exposure to credit risk.

Further details, including quantitative information, are included in note 15.

19 Financial instruments (continued)

Capital disclosures

The group monitors "adjusted capital" which comprises all components of equity (i.e. share capital, share premium, retained earnings and other reserves) other than amounts in the cashflow hedging reserve and the translation reserve. Other reserves comprise a merger relief reserve.

	2012 £'000	2011 £'000
Total equity	46,946	37,242
Less: amounts in cashflow hedging reserve	–	85
amounts in translation reserve	(753)	(1,730)
	46,193	35,597

The group's objective when maintaining capital is to safeguard the company's ability to continue as a going concern so that it can continue to provide returns to shareholders and benefits for other stakeholders. In order to maintain the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

Sensitivity analysis

Whilst the group takes steps to minimise its exposure to cash flow interest rate risk and foreign exchange risk as described above, changes in interest and foreign exchange rates will have an impact on profit.

The directors consider a 0.5% movement in the interest rate to be reasonably possible as at the reporting date. Excluding the impact of the interest rate collar, the annualised effect of a 0.5% increase or decrease in the interest rate at the reporting date on the variable rate debt carried at that date would, all other variables being held constant, in the directors' opinion, be immaterial.

The group's foreign exchange risk is dependent on the movement in the Euro to sterling exchange rate. The directors consider a 1% movement in the Euro rate to be reasonably possible as at the reporting date. The effect of a 1% strengthening or weakening in the Euro against sterling at the balance sheet date on the Euro denominated debt at the date and on the annualised interest on that amount would, all other variables being held constant, in the directors' opinion, be immaterial.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2012

19 Financial instruments (continued)

Financial instruments by category

The carrying value of the Group's financial instruments (together with non-financial instruments for reconciling purposes) are analysed as follows:

At 30 June 2012

	Notes	Loans and receivables	Available-for-sale	Financial instruments Derivatives designated as hedging relationships	Amortised cost	At FVTPL	Non financial instruments	Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets								
Non current assets		–	–	–	–	–	68,227	68,227
Available-for-sale		–	98	–	–	–	–	98
Trade and other receivables:								
Trade receivables	15	21,908	–	–	–	–	–	21,908
Other non derivative financial assets	15	1,067	–	–	–	–	–	1,067
Non financial instruments	15	–	–	–	–	–	7,347	7,347
Derivative financial assets		–	–	–	–	–	–	–
Cash and cash equivalents		2,096	–	–	–	–	–	2,096
Total assets		25,071	98	–	–	–	75,574	100,743
Liabilities								
Borrowings:								
Current	17	–	–	–	(17,778)	–	–	(17,778)
Non-current	17	–	–	–	–	–	–	–
Deferred tax liabilities	21	–	–	–	–	–	(4,905)	(4,905)
Other non current liabilities	18	–	–	–	(892)	–	–	(892)
Trade and other payables:								
Trade payables	16	–	–	–	(4,943)	–	–	(4,943)
Derivative financial liabilities	16	–	–	(1)	–	–	–	(1)
Contingent consideration	16/18	–	–	–	–	(1,687)	–	(1,687)
Other non derivative financial liabilities	16	–	–	–	(6,620)	–	–	(6,620)
Non financial instruments	16	–	–	–	–	–	(16,343)	(16,343)
Current tax liabilities		–	–	–	–	–	(669)	(669)
Total liabilities		–	–	(1)	(30,233)	(1,687)	(21,917)	(53,838)
Net assets		25,071	98	(1)	(30,233)	(1,687)	53,657	46,905

19 Financial instruments by category (continued)

At 30 June 2011

	Notes	Loans and receivables	Available-for-sale	Financial instruments Derivatives designated as hedging relationships	Amortised cost	At FVTPL	Non financial instruments	Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets								
Non current assets		–	–	–	–		59,261	59,261
Available-for-sale		–	196	–	–	–	–	196
Trade and other receivables:								
Trade receivables	15	16,588	–	–	–	–	–	16,588
Other non derivative financial assets	15	656	–	–	–	–	–	656
Non financial instruments	15	–	–	–	–	–	5,398	5,398
Derivative financial assets		–	–	–	–	–	–	–
Cash and cash equivalents		814	–	–	–	–	–	814
Total assets		18,058	196	–	–	–	64,659	82,913
Liabilities								
Borrowings:								
Current	17	–	–	–	(4,798)	–	–	(4,798)
Non-current	17	–	–	–	(11,502)	–	–	(11,502)
Deferred tax liabilities	21	–	–	–	–	–	(4,427)	(4,427)
Other non current liabilities	18	–	–	–	(442)	–	–	(442)
Trade and other payables:								
Trade payables	16	–	–	–	(4,717)	–	–	(4,717)
Derivative financial liabilities	16	–	–	(72)	–	–	–	(72)
Contingent consideration	16/18	–	–	–	–	(1,651)	–	(1,651)
Other non derivative financial liabilities	16	–	–	–	(8,737)	–	–	(8,737)
Non financial instruments	16	–	–	–	–	–	(8,897)	(8,897)
Current tax liabilities			–	–	–	–	(428)	(428)
Total liabilities		–	–	(72)	(30,196)	(1,651)	(13,752)	(45,671)
Net assets		18,058	196	(72)	(30,196)	(1,651)	50,907	37,242

Notes forming part of the Financial Statements (continued)
for the year ended 30 June 2012

19 Financial instruments (continued)

Financial instruments measured at fair value

	Fair value measurements at 30 June 2012			Fair value measurements at 30 June 2011		
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets						
Equity investments	–	–	98	–	–	196
Financial liabilities						
Derivative financial liabilities	–	–	(1)	–	(72)	–
Contingent consideration	–	–	(2,029)	–	–	(1,651)

Level 3 fair value measurements

	Unlisted available-for-sale investments		Contingent consideration	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Opening balance	196	196	–	–
Additions in the period	–	–	–	1,651
Disposals in the period	(98)	–	–	–
Closing balance	98	196	–	1,651

The fair value of the unlisted securities is based on expected cash flows discounted using a rate based on the market interest rate and the risk premium specific to the unlisted security of 13% (2011: 7%). Were the risk premium adjustments to be increased by 2%, the fair value of the level 3 asset would have been reduced by £0.01m (2011: £0.01m).

20 Derivative financial instruments

On 1 July 2008 the Group adopted cash flow hedge accounting.

	2012 £'000	2011 £'000
Derivatives designated as hedging instruments		
Interest rate collar – cash flow hedge	(1)	(72)
Forward foreign exchange contracts – cash flow hedge	–	–
	(1)	(72)

20 Derivative financial instruments (continued)

Interest rate collar

The Group had interest rate collar arrangements which expired on 31 August 2012 under which the floating LIBOR rate is capped at 5.75% with a floor at 4.75%. At 30 June 2012 the notional principal amount under the Group's interest rate collar was £0.24m (2011: £1.97m).

Losses recognised in the cash flow hedge reserve in equity (note 23) on the interest collar as of 30 June 2012 will be released to the income statement until the repayment of existing borrowings is complete.

Since the adoption of hedge accounting, given that the hedges are deemed to be highly effective, changes in the fair values of the collar have been taken to the cash flow hedge reserve in equity. Prior to the adoption of hedge accounting changes in the fair values of the collar were included in financial income and expense in the income statement.

Forward foreign exchange contract

The notional principal amounts of outstanding forward foreign exchange contracts at 30 June 2012 was £nil (2011: £0.29m). The hedged highly probable forecast transaction denominated in foreign currency was expected to occur within one month of the period end. Gains and losses recognised in the hedging reserve in equity (note 23) on forward foreign exchange contracts as of the period end are recognised in the income statement in the period during which the hedged forecast transaction affects the income statement.

Hedge of net investment in foreign entity

The group has Euro denominated borrowing amounting to £2.47m (2011: £4.13m) which is designated as a hedge of the net assets in the Group's Dutch subsidiary K3 Business Solutions BV. The fair value of the borrowing at 30 June 2012 was £2.47m (2011: £4.09m). The foreign exchange loss of £0.23m on translation of the borrowing to the presentational currency at the reporting date is recognised in the Translation reserve (note 23).

21 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 24% (2011: 26%).

The movement on net deferred tax is as shown below:

	2012 £'000	2011 £'000
At 30 June 2011	(3,876)	(3,275)
Credit to income statement	1,079	993
On business combinations	(1,451)	(1,520)
Credit to equity – re share options	(53)	59
Effect of movements in foreign exchange rates	106	(133)
At 30 June 2012	(4,195)	(3,876)

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets where the directors believe it is probable that these assets will be recovered.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2012

21 Deferred tax (continued)

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS12) during the period are shown below.

Deferred tax assets

	Accelerated capital allowances £'000	Other temporary differences £'000	Business combinations £'000	Total gross assets £'000
At 30 June 2010	88	97	185	370
Charge (credit) to income statement	14	89	(37)	66
Credit to equity	–	59	–	59
On business combinations	–	–	56	56
At 30 June 2011	102	245	204	551
Charge (credit) to income statement	9	(9)	(16)	(16)
Credit to equity	–	(53)	–	(53)
On business combinations	30	(1)	199	228
At 30 June 2012	141	182	387	710

There are no unrecognised deferred tax assets. Deferred tax assets on business combinations relate to those arising on fair value adjustments.

Deferred tax liabilities

	Other temporary differences £'000	Business combinations £'000	Total gross liabilities £'000
At 30 June 2010	(300)	(3,345)	(3,645)
On business combinations	–	(1,576)	(1,576)
(Charge) credit to income statement	(144)	1,072	928
Effects of movements in foreign exchange rates	–	(134)	(134)
At 30 June 2011	(444)	(3,983)	(4,427)
On business combinations	(2)	(1,678)	(1,680)
(Charge) credit to income statement	(145)	1,240	1,095
Effects of movements in foreign exchange rates	–	107	107
At 30 June 2012	(591)	(4,314)	(4,905)

Deferred tax liabilities on business combinations relate to those arising on separately identifiable intangibles.

No deferred tax has been provided on temporary differences of £1.27m (2011: £0.94m) relating to the unremitted earnings of foreign subsidiaries.

22 Share capital

	Issued and fully paid			
	2012 Number	2012 £'000	2011 Number	2011 £'000
Ordinary shares of 25p each				
At beginning of the period	25,907,755	6,477	25,644,088	6,411
Other issued for cash during the period	2,564,408	641	–	–
Employee share options exercised	5,891	2	263,667	66
At end of the period	28,478,054	7,120	25,907,755	6,477

All shares have equal voting rights and there are no restrictions on the distribution of dividends or repayment of capital.

	2012 Number	2011 Number
Own shares held	111,634	101,832

Own shares are held by a subsidiary undertaking, K3 Business Technology Group Trustees Company Limited, as trustee of the group's employee share ownership plan.

In connection with the loan made by CA Fastigheter AB to the company to assist it with the acquisition of Alpha Landsteinar, the company issued 200,000 warrants for ordinary shares of 25p each. These are exercisable at £0.90. The warrants are exercisable until the date on which the loan is repaid. The loan is currently outstanding. In addition, 500,000 warrants for ordinary shares of 25p each were issued to CA Fastigheter AB during 2007 in recognition of the reduction in its security following the increase in borrowings from the bank to fund the acquisition of McGuffie Brunton Limited. The warrants are exercisable at 123.5p and until the date on which the loan to CA Fastigheter AB is repaid upon meeting the following conditions: 300,000 of the warrants are exercisable when the company's share price reaches £2.50; 100,000 are exercisable when it reaches £3.25; 100,000 have no conditions attached to them.

In connection with a loan made by Johan and Marianne Claesson AB to the company to assist it with the acquisition of IEG, the company issued 400,000 warrants for the ordinary shares of 25p each. These are exercisable at £0.90. The warrants are exercisable until the date on which the loan to CA Fastigheter AB is repaid.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2012

22 Share capital (continued)

Options have been granted under the K3 Business Technology Group Plc Executive Share Option Scheme 2000 to subscribe for ordinary shares of the company as follows:

Number of shares under option	Subscription price per share	Exercise conditions	Exercise period
90,000	62.5p	⅓ on the achievement of market prices of 100p, 125p and 150p	Between 23 June 2006 and 22 June 2013
120,000	100p	⅓ on the achievement of market prices of 125p, 150p and 175p	Between 8 March 2007 and 7 March 2014
158,000	94p	¼ on achievement of growth in earnings per share over the three year period ending 31 December 2007 of 15% and 20%; ½ on growth of at least 25%	Between 21 June 2008 and 20 June 2015
490,000	85p	¼ on achievement of growth in earnings per share over the three year period ending 31 December 2011 of 15% and 20%; ½ on growth of at least 25%	Between 3 September 2012 and 2 September 2019
186,668	117.5p	On achievement of market price of 165p	Between 30 June 2013 and 29 June 2020
186,666	117.5p	On achievement of market price of 215p	Between 30 June 2013 and 29 June 2020
186,666	117.5p	On achievement of market price of 265p	Between 30 June 2013 and 29 June 2020

No options were exercised during the year and 135,000 options lapsed unexercised during the year. 5,891 options under the SAYE scheme were exercised during the year in accordance with the scheme rules. No options were granted during the year.

23 Reserves

The following describes the nature and purpose of each reserve within shareholders' equity.

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value.
Other reserve	Merger relief reserve for amount in excess of nominal value on issue of shares in relation to business combinations.
Cashflow hedge reserve	Effective portion of cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.
Translation	Gains/losses arising on retranslating the net assets of overseas operations into sterling and currency movements on loans treated as part of the effective hedge of the net investment in foreign entities.
Retained earnings	Cumulative net gains and losses recognised in the consolidated income statement and credits to equity in relation to share-based payments.

24 Leases

Finance leases

The group leases a small proportion of its office equipment and leasehold improvements (net carrying value £nil). Such assets are generally classified as finance leases as the rental period approximates to the estimated useful economic life of the assets concerned and often the group has the right to purchase the assets outright at the end of the minimum lease term by paying a nominal amount.

Future lease payments are due as follows:

	2012		
	Minimum lease payments £'000	Interest £'000	Present value £'000
Not later than one year	12	(1)	11
Later than one year and not later than five years	–	–	–
	12	(1)	11

	2011		
	Minimum lease payments £'000	Interest £'000	Present value £'000
Not later than one year	39	(2)	37
Later than one year and not later than five years	15	(2)	13
	54	(4)	50

The present values of future lease payments are analysed as follows:

	2012 £'000	2011 £'000
Current liabilities	11	37
Non-current liabilities	–	13
	11	50

Operating leases

With the exception of the property in Manchester, the group leases all of its properties. The terms of property leases vary, although they all tend to be tenant repairing with rent reviews every 2 to 5 years and many have break clauses. In addition, the group leases the majority of its motor vehicles which are generally 3 year contracts.

The total future value of minimum lease payments is due as follows:

	2012 £'000	2011 £'000
Not later than one year	1,836	1,395
Later than one year and not later than five years	2,694	2,981
Later than five years	701	883
	5,231	5,259

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2012

25 Retirement benefits

The group operates a defined contribution scheme and also makes contributions to personal pension schemes of certain senior employees and directors.

Pension costs for defined contribution schemes in period to 30 June 2012 are £0.70m (2011: £0.56m).

26 Share-based payments

As disclosed in note 22, K3 Business Technology Group plc operates an equity-settled share-based remuneration scheme for employees: an Executive Share Option Scheme for certain senior management including executive directors. Under the scheme there are two types of share options: those where the options vest based on the achievement of a share price target and those where the options vest on the achievement of target growth in adjusted earnings per share, i.e. adjusted for amortisation of acquired intangibles, cost of share-based payments and exceptional items and with the tax charge being 30% of the operating profit so adjusted. All options are subject to the employee having completed three years service from the date of grant.

	2012		2011	
	Weighted average exercise price (pence)	Options (number)	Weighted average exercise price (pence)	Options (number)
Outstanding at beginning of the period	103.14	1,988,819	101.87	1,982,970
Granted during the period	–	–	118.80	435,819
Exercised during the period	118.80	(5,891)	94.00	(107,000)
Lapsed during the period	99.44	(135,000)	119.50	(322,970)
Outstanding at the end of the period	103.36	1,847,928	103.14	1,988,819

The exercise price of options outstanding at the end of the period ranged between 62.5p and 117.5p (2011: 62.5p and 165.5p) and their weighted average contractual life was 4.44 years (2011: 4.45 years).

Of the total number of options outstanding at the end of the period, 368,001 (2011: 368,001) had vested and were exercisable at the end of the period at an average exercise price of 88.25p (2011: 88.25p).

The weighted average share price (at the date of exercise) of options exercised during the period was 118.80p (2011: 94.0p).

The weighted average fair value of each option granted during the period was nil (2011: 33.14p).

26 Share-based payments (continued)

The following information is relevant in the determination of the fair value of options granted during the period under the equity-settled share based remuneration schemes operated by the company.

	2012	2011
Option pricing model used	Trinomial Lattice	Trinomial Lattice
Weighted average share price at grant date (pence)	–	148.50
Weighted average exercise price (pence)	–	118.80
Weighted average contractual life (years)	–	4.24
Weighted average expected volatility	–	36.90%
Weighted average expected dividend growth	–	0.33%
Weighted average risk-free interest rate	–	1.32%

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of average weekly share prices since 1 January 2004.

Where the options vest on the achievement of a share price target, to allow for the effects of early exercise it was assumed that executive directors will exercise the options after the vesting date when the share price is 25% higher than the target share price and that other employees will exercise when the target share price is achieved.

	2012 £'000	2011 £'000
The share-based remuneration expense (note 4) comprises:		
Equity-settled schemes	72	52

The group did not enter into any share-based payment transactions with parties other than employees during the current or previous period.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2012

27 Acquisitions during the period

Azurri Retail

On 1 July 2011 the Company acquired the Retail Merchandising Division of Azurri Computer Solutions Limited ("Azurri Retail"). The initial consideration was £0.84m satisfied on completion in cash. Contingent consideration of £0.10m is payable dependent on the completion of certain contracts. Further contingent consideration of up to £0.50m is payable dependent on increases in gross margins generated over the next two years.

The following table sets out the book values of the identifiable assets and liabilities acquired and their values to the Group:

	Book value £'000	Adjustments £'000	Provisional fair value £'000
Assets			
Other intangible assets	–	1,010	1,010
Deferred tax assets	–	16	16
Liabilities			
Other payables	(62)	–	(62)
Deferred tax liabilities	–	(263)	(263)
Net (liabilities) assets	(62)	763	701

Consideration	
Initial cash consideration	838
Contingent cash consideration	250
	1,088
Goodwill (note 12)	387
Acquisition costs charged to income statement	17

The contingent consideration of £0.10m is payable on the completion of certain contracts. £0.05m was paid in February 2012 and it is anticipated that the balance will be paid in September 2012. The further contingent consideration is payable on increases in gross margins generated over the next two years and will fall in the range of £nil to £0.50m. The fair value is £0.15m.

The intangible assets recognised in the adjustments relate to customer relationships. £0.26m of the deferred tax liability recognised relates to these intangible assets. The goodwill is attributable to those intangibles such as the workforce which are not recognised separately.

Since the acquisition date, Azurri Retail has contributed £0.65m to group revenues and £0.15m to group profit.

27 Acquisitions during the period (continued)

Fifth Dimension Systems Limited

On 22 July 2011 the Company acquired Fifth Dimension Systems Limited ("FDS"). The initial consideration was £2.23m satisfied on completion in cash. Deferred consideration of £0.05m is payable. Further contingent consideration of up to £1.0m is payable dependent on profits generated in the year after acquisition.

The following table sets out the book values of the identifiable assets and liabilities acquired and their values to the Group:

	Book value £'000	Adjustments £'000	Provisional fair value £'000
Assets			
Property, plant and equipment	118	–	118
Other intangible assets	71	2,250	2,321
Deferred tax assets	30	–	30
Trade receivables	1,319	–	1,319
Other current assets	451	–	451
Cash and cash equivalents	62	–	62
Liabilities			
Bank loans	(414)	–	(414)
Trade and other payables	(3,619)	–	(3,619)
Deferred tax liabilities	–	(585)	(585)
Net (liabilities) assets	(1,982)	1,665	(317)

Consideration	
Initial cash consideration	2,230
Deferred cash consideration	50
Contingent cash consideration	100
	2,380
Goodwill (note 12)	2,697
Acquisition costs charged to income statement	74

The deferred consideration of £0.05m was paid shortly following completion. The contingent consideration is payable dependent on profits generated in the year after acquisition and will fall in the range of £nil and £1.0m. The fair value is £0.10m and it is anticipated that this will be paid in October 2012.

The intangible assets recognised in the adjustments relate to customer relationships. £0.59m of the deferred tax liability recognised relates to these intangible assets. The goodwill is attributable to the significant synergies which are expected to arise from the integration of this business with that of K3's existing Sage businesses, and those intangibles such as the workforce which are not recognised separately.

Since the acquisition date, Fifth Dimensions Systems Limited has contributed £6.53m to group revenues and £0.33m group profit.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2012

27 Acquisitions during the period (continued)

Unisoft BV

On 7 December 2011 the Company acquired certain assets of Unisoft BV ("Unisoft"). The initial consideration was €0.50m satisfied on completion in cash, with further consideration of up to €1.0m payable in cash dependent on certain criteria. Contingent consideration of €1.27m is payable dependent on profits generated in the three years following acquisition.

The following table sets out the book values of the identifiable assets and liabilities acquired and their values to the Group:

	Book value £'000	Adjustments £'000	Provisional fair value £'000
Assets			
Property, plant and equipment	29	–	29
Deferred tax asset	50	–	50
Other intangible assets	–	917	917
Trade receivables	277	–	277
Liabilities			
Other payables	(208)	–	(208)
Deferred tax liabilities	–	(229)	(229)
Net assets	148	688	836

Consideration	
Initial cash consideration	491
Contingent cash consideration	890
	1,381
Goodwill (note 12)	545
Acquisition costs charged to income statement	221

The further consideration of up to €1.0m is payable dependent on certain criteria and will fall in the range of €nil and €1.0m. The fair value is €0.87m. Contingent consideration of €1.27m is payable dependent on profits generated in the three years following acquisition and will fall in the range of €nil and €1.27m. The fair value is €0.17m.

The intangible assets recognised in the adjustments relate to customer relationships and IP. £0.23m of the deferred tax liability recognised relates to these intangible assets. The goodwill is attributable to the significant synergies which are expected to arise from the integration of this business with that of K3's existing International businesses, and those intangibles such as the workforce which are not recognised separately.

Since the acquisition date, Unisoft BV has contributed £2.40m to group revenues and £0.37m to group profit.

27 Acquisitions during the period (continued)

Integrated Business Systems

On 15 December 2011 the Company acquired certain assets of the Integrated Business Systems division ("IBS") of Maxima Holdings plc. The initial consideration was £1.40m satisfied on completion in cash. Contingent consideration of £0.20m is payable dependent on the retention of customers.

The following table sets out the book values of the identifiable assets and liabilities acquired and their values to the Group:

	Book value £'000	Adjustments £'000	Provisional fair value £'000
Assets			
Other intangible assets	–	1,630	1,630
Deferred tax assets	–	134	134
Other current assets	8	–	8
Liabilities			
Trade and other payables	(535)	–	(535)
Deferred tax liabilities	–	(408)	(408)
Net (liabilities) assets	(527)	1,356	829

Consideration	
Initial cash consideration	1,400
Contingent cash consideration	200
	1,600
Goodwill (note 12)	771
Acquisition costs charged to income statement	59

The contingent consideration of £0.20m is payable dependent on the retention of customers and will fall in the range of £nil and £0.20m. The fair value assumes that the consideration will be paid in full. The intangible assets recognised in the adjustments relate to customer relationships. £0.41m of the deferred tax liability recognised relates to these intangible assets. The goodwill is attributable to those intangibles such as the workforce which are not recognised separately.

Since the acquisition date, Integrated Business Systems has contributed £0.82m to group revenues and £0.31m to group profit.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2012

27 Acquisitions during the period (continued)

Retail Systems Group Limited

On 20 December 2011 the Company acquired Retail Systems Group Limited ("RSG"). The initial consideration was £1.13m satisfied on completion in cash, with a further payment of £1.50m in respect of surplus cash in the business at the date of acquisition. Contingent consideration of £0.15m is payable dependent on the outcome of certain warranty and indemnity claims in the period of one year after acquisition. Contingent consideration of up to £0.20m is payable dependent on profits generated in the two years after acquisition.

The following table sets out the book values of the identifiable assets and liabilities acquired and their values to the Group:

	Book value £'000	Adjustments £'000	Provisional fair value £'000
Assets			
Property, plant and equipment	22	–	22
Other intangible assets	–	502	502
Trade receivables	482	–	482
Other current assets	97	–	97
Cash and cash equivalents	1,807	–	1,807
Liabilities			
Trade and other payables	(681)	–	(681)
Current tax	(179)	–	(179)
Deferred tax liabilities	(2)	(126)	(128)
Net assets	1,546	376	1,922

Consideration	
Initial cash consideration	1,130
Initial cash consideration in respect of surplus cash	1,500
Contingent cash consideration	350
	2,980
Goodwill (note 12)	1,058
Acquisition costs charged to income statement	62

£0.15m of contingent consideration is payable dependent on the outcome of certain warranty and indemnity claims in the year after acquisition and will fall in the range of £nil to £0.15m. The fair value assumes that the consideration will be paid in full. £0.20m of contingent consideration is payable dependent on profits generated in the two years after acquisition and will fall in the range of £nil to £0.20m. The fair value assumes that the consideration will be paid in full.

The intangible assets recognised in the adjustments relate to customer relationships. £0.13m of the deferred tax liability recognised relates to these intangible assets. The goodwill is attributable to the significant synergies which are expected to arise from the integration of this business with that of K3's existing Microsoft UK businesses, and those intangibles such as the workforce which are not recognised separately.

Since the acquisition date, Retail Systems Group Limited has contributed £1.11m to group revenues and £0.10m to group profit.

If the acquisitions had occurred on 1 July 2011, the group revenue would have been £71.9m and group profit for the year would have been £6.3m.

The initial accounting in the above tables of book values of the identifiable assets and liabilities acquired together with their values to the Group contain estimates in respect of the fair value adjustments required.

28 Acquisitions of prior period

Panacea Limited

On 17 November 2010 the Company acquired the entire issued share capital of Panacea Limited, now called K3 Panacea Limited. The consideration was £1.55m satisfied on completion in cash. Contingent consideration of £0.03m was payable on the completion of certain contracts and was paid in February 2012.

The following table sets out the book values of the identifiable assets and liabilities acquired and their values to the group:

	Book value £'000	Adjustments £'000	Fair value £'000
Assets			
Property, plant and equipment	287	–	287
Other intangible assets	–	2,763	2,763
Trade receivables	1,092	–	1,092
Current tax assets	51	–	51
Other current assets	846	–	846
Liabilities			
Bank overdrafts	(617)	–	(617)
Trade and other payables	(4,389)	–	(4,389)
Finance lease creditors	(99)	–	(99)
Deferred tax liabilities	–	(737)	(737)
Net (liabilities) assets	(2,829)	2,026	(803)

Consideration	
Initial cash consideration	1,545
Contingent cash consideration	25
	1,570
Goodwill (note 12)	2,373
Acquisition costs charged to income statement	203

Since the 30 June 2011, the provisional fair value of trade and other payables has been reduced by £0.1m regarding an accrual no longer required.

The contingent cash consideration payable was dependent on completion of certain contracts and was paid in full in February 2012.

The intangible assets recognised in the adjustments relate to customer relationships. £0.74m of the deferred tax liability recognised relates to these intangible assets. The goodwill is attributable to the significant synergies which are expected to arise from the integration of this business with that of K3's existing Managed Services and other product offerings, and those intangibles such as the workforce which are not recognised separately. The existing Managed Services division acquired in 2010 (DigiMIS Limited) and Panacea are regarded as one CGU and the goodwill for Panacea is therefore included with that for DigiMIS in note 12.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2012

28 Acquisitions of prior period (continued)

FD Systems

On 23 December 2010 the Company acquired certain assets of FD Systems Limited. The initial consideration was £0.94m satisfied on completion in cash. Contingent consideration of £0.30m was payable, of which £0.26m was paid in February 2011 and the remainder in July 2011.

The following table sets out the book values of the identifiable assets and liabilities acquired and their values to the group:

	Book value £'000	Adjustments £'000	Fair value £'000
Assets			
Property, plant and equipment	19	–	19
Other intangible assets	200	1,006	1,206
Deferred tax assets	–	56	56
Trade receivables	216	–	216
Other current assets	115	–	115
Liabilities			
Trade and other payables	(171)	(566)	(737)
Deferred tax liabilities	–	(326)	(326)
Net assets	379	170	549

Consideration	
Initial cash consideration	941
Contingent cash consideration	300
	1,241
Goodwill (note 12)	692
Acquisition costs charged to income statement	42

£0.26m of the contingent consideration was paid in February 2011 and the remainder was paid in July 2011.

The intangible assets recognised in the adjustments relate to the intellectual property and customer relationships and a tax amortisation benefit. £0.33m of the deferred tax liability recognised relates to these intangible assets. The adjustment to trade and other payables relates to deferred income. The deferred tax asset of £0.06m relates to deferred income balances which have already been taxed on a receipts basis. The goodwill is attributable to the significant synergies which are expected to arise from the integration of this business with that of Panacea Limited, acquired in November 2010, and those intangibles such as the workforce which are not recognised separately.

28 Acquisitions of prior period (continued)

Sense Enterprise Solutions Limited

On 7 March 2011 the Company acquired the entire issued share capital of Sense Enterprise Solutions Limited. The initial consideration was £1.40m satisfied on completion in cash. Deferred consideration of £0.15m is payable. Contingent consideration is also payable on the introduction of new orders by the former managing director during the three year period following completion.

The following table sets out the book values of the identifiable assets and liabilities acquired and their values to the group:

	Book value £'000	Adjustments £'000	Fair value £'000
Assets			
Property, plant and equipment	15	–	15
Other intangible assets	–	1,018	1,018
Trade receivables	322	–	322
Other current assets	11	–	11
Cash and cash equivalents	438	–	438
Liabilities			
Trade and other payables	(393)	–	(393)
Finance lease creditors	(9)	–	(9)
Current tax liabilities	(85)	–	(85)
Deferred tax liabilities	(5)	(275)	(280)
Net assets	294	743	1,037

Consideration	
Initial cash consideration	1,400
Deferred cash consideration	150
Contingent cash consideration	165
	1,715
Goodwill (note 12)	678
Acquisition costs charged to income statement	136

Since 30 June 2011, the provisional fair value of property, plant and equipment has been reduced by £0.02m following a reassessment of the assets still held and a further accrual of £0.04m has been made in relation to certain contracts.

The deferred cash consideration is being paid in full; £0.10m was paid in July and August 2012 and the remainder is expected to be paid in October 2012. The amount is dependent on collection of trade receivables acquired. The contingent cash consideration payable is dependent on the introduction of new business by the former managing director and is payable in quarterly instalments as these contracts are introduced over the next three years. The contingent consideration will fall in the range of £nil to £0.90m. The fair value is £0.17m.

The intangible assets recognised in the adjustments relate to customer relationships. £0.28m of the deferred tax liability recognised relates to these intangible assets. The goodwill is attributable to the significant synergies which are expected to arise from the integration of this business with that of K3's existing AX business and other product offerings, and those intangibles such as the workforce which are not recognised separately. The existing AX business and Sense are regarded as one CGU and the goodwill for Sense is therefore included with that for the combined operating unit of AX in note 12.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2012

28 Acquisitions of prior period (continued)

Clarita Solutions Limited (now K3 Business Solutions Limited)

On 25 March 2011 the Company acquired the entire issued share capital of Clarita Solutions Limited. The consideration was £0.06m satisfied on completion in cash. Contingent consideration of £0.05m was payable on the confirmation of new orders received in the four month period following completion and was paid in July 2011.

The following table sets out the book values of the identifiable assets and liabilities acquired and their values to the group:

	Book value £'000	Adjustments £'000	Fair value £'000
Assets			
Property, plant and equipment	33	–	33
Other intangible assets	–	882	882
Trade receivables	572	(37)	535
Current tax assets	171	–	171
Other current assets	94	–	94
Liabilities			
Trade and other payables	(1,545)	(250)	(1,795)
Deferred tax liabilities	–	(238)	(238)
Net (liabilities) assets	(675)	357	(318)

Consideration	
Initial cash consideration	768
Contingent cash consideration	50
	818
Goodwill (note 12)	1,136
Acquisition costs charged to income statement	52

Since 30 June 2011, the provisional fair value of trade debtors has been adjusted by £0.25m following the recovery of those debtors. Further accruals have also been made totalling £0.46m in relation to certain contracts.

The contingent cash consideration payable is dependent on the confirmation of new orders received during the four months following completion and was paid in July 2011.

The intangible assets recognised in the adjustments relate to customer relationships. £0.24m of the deferred tax liability recognised relates to these intangible assets. The goodwill is attributable to the significant synergies which are expected to arise from the integration of this business with that of K3's existing Retail business in the UK and other product offerings, and those intangibles such as the workforce which are not recognised separately.

29 Related party transactions

Details of directors and key management compensation are given in the Remuneration Report on pages 22 to 24 and note 4. Other than their remuneration and participation in the group's share option schemes, there are no transactions with key management personnel. Other related party transactions are as follows:

Included within other loans due to related parties are loans of £0.64m (2011: £0.64m) from CA Fastigheter AB, a company connected with Mr PJ Claesson, a director of the Company. An initial loan of £0.75m was made in connection with the acquisition of Alpha Landsteinar in October 2004. The loan was repayable in twelve equal quarterly instalments commencing on 31 March 2006 subject to earlier repayments from proceeds from a future placing or from new bank loans raised. No repayments have been made during the current or previous period. Interest is charged at 8.5% per annum and the accrual at the year-end amounted to £14,000 and is included in accruals (2011: £14,000). In connection with the loan, the company issued 200,000 warrants for ordinary shares of 25p. These are exercisable at £0.90 and until the date upon which the loan is repaid. As the loan remains outstanding, the warrants remain exercisable. In addition, 500,000 warrants for ordinary shares of 25p each were issued to CA Fastigheter AB during 2007 in recognition of the reduction in its security following the increase in borrowings from the bank to fund the acquisition of McGuffie Brunton Limited. The warrants are exercisable at 123.5p and until the loan is repaid upon meeting the following conditions: 300,000 of the warrants are exercisable when the company's share price reaches £2.50; 100,000 are exercisable when it reaches £3.25; 100,000 have no conditions attached to them.

On 23 June 2005 the company received a loan of £1m from Johan and Marianne Claesson AB, a company connected with Mr PJ Claesson, a director of the company. The loan was made in connection with the acquisition of Information Engineering Group Limited in June 2005 and was repaid during 2005. In connection with the loan, the company issued 400,000 warrants for ordinary shares of 25p. These are exercisable at an exercise price of £0.90. The warrants are exercisable until the date on which the loan due to CA Fastigheter AB is repaid.

On 29 July 2008 Mr DJ Bolton was appointed a non-executive director of Dawson International Plc, a company connected with Mr PJ Claesson, a director of the Company. During the year ended 30 June 2011, the Company charged fees to Dawson International Plc for the services provided by Mr Bolton of £17,000, of which £nil was outstanding at the year-end. There were no transactions during the year ended 30 June 2012.

30 Events after the reporting date

On 17 September 2012 the Board announced a proposed dividend of 1.0p per share to shareholders on the record on 14 December 2012. Subject to shareholder approval at the forthcoming annual general meeting the dividend will be paid on 18 January 2013.

Notes forming part of the Financial Statements (continued)
for the year ended 30 June 2012

31 Notes to the cash flow statement

Cash generated from operations is stated after payments to regularise liabilities that were significantly outside normal statutory due dates and commercial terms at the date of acquiring companies, that the directors consider to be a cost of acquisition. In addition, cash flows from operations include acquisition costs and exceptional reorganisation costs arising as a result of acquisitions during the year. The adjusted cash generated from operations has been computed because the directors consider it more useful to shareholders and investors in assessing the underlying operating cash flow of the Group. The adjusted cash generated from operations is calculated as follows:

	2012 £'000	2011 £'000
Cash generated from operating activities	7,284	5,640
Add:		
Regularising liabilities	1,236	1,693
Acquisition costs	593	489
Exceptional reorganisation costs	409	453
Exceptional income	(755)	–
Adjusted cash generated from operations	8,767	8,275

Acquisition of subsidiaries and other business units, net of cash acquired comprises:

	2012 £'000	2011 £'000
Initial consideration	(7,820)	(4,219)
Cash balances acquired	1,455	(883)
Contingent and deferred consideration	(768)	(305)
	(7,133)	(5,407)

Cash and cash equivalents comprise:

	2012 £'000	2011 £'000
Cash available on demand	2,096	814
Overdrafts	(2,075)	(701)
	21	113

Significant non-cash transactions are as follows:

	2012 £'000	2011 £'000
Investing activities		
Equity consideration for business combinations	–	–

32 Notes to the Chairman's Statement and Business Review

*1 Calculated before amortisation of acquired intangibles of £3.59m (2011: £2.83m), acquisition costs of £0.59m (2011: £0.49m), exceptional reorganisation costs of £0.56m (2011: £0.45m) and exceptional income of £0.76m (2011: £nil).

*2 Calculated before amortisation of acquired intangibles of £0.55m, acquisition costs of £0.52m and exceptional reorganisation costs of £0.03m.

*3 Calculated before amortisation of acquired intangibles of £3.59m (2011: £2.83m), acquisition costs of £0.59m (2011: £0.49m), exceptional reorganisation costs of £0.56m (2011: £0.45m) and exceptional income of £0.76m (2011: £nil).

*4 Calculated before amortisation of acquired intangibles of £1.83m (2011: £1.39m), acquisition costs of £0.24m (2011: £0.34m), exceptional reorganisation costs of £0.42m (2011: £0.45m) and exceptional income of £0.76m (2011: £nil).

*5 Calculated before amortisation of acquired intangibles (net of tax) of £2.35m (2011: £1.76m), acquisition costs (net of tax) of £0.59m (2011: £0.49m), exceptional reorganisation costs (net of tax) of £0.42m (2011: £0.33m) and exceptional income (net of tax) of £0.56m (2011: £nil).

*6 Calculated before cashflows in respect of regularising liabilities of £1.24m (2011: £1.69m), acquisition costs of £0.59m (2011: £0.49m), exceptional reorganisation costs of £0.41m (2011: £0.45m) and exceptional income of £0.76m (2011: £nil).

*7 Calculated before amortisation of acquired intangibles of £3.59m (2011: £2.83m), acquisition costs of £0.59m (2011: £0.49m), exceptional reorganisation costs of £0.56m (2011: £0.45m) and exceptional income of £0.76m (2011: £nil).

*8 Calculated before cashflows in respect of regularising liabilities of £1.24m (2011: £1.69m), acquisition costs of £0.59m (2011: £0.49m), exceptional reorganisation costs of £0.41m (2011: £0.45m) and exceptional income of £0.76m (2011: £nil).

*9 Calculated before amortisation of acquired intangibles (net of tax) of £2.35m (2011: £1.76m), acquisition costs (net of tax) of £0.59m (2011: £0.49m), exceptional reorganisation costs (net of tax) of £0.42m (2011: £0.33m) and exceptional income (net of tax) of £0.56m (2011: £nil).

*10 Calculated before amortisation of acquired intangibles of £1.64m (2011: £1.07m), acquisition costs of £0.16m (2011: £0.14m) and exceptional reorganisation costs of £0.27m (2011: £0.24m).

*11 Calculated before amortisation of acquired intangibles of £0.32m, acquisition costs of £0.16m and exceptional reorganisation costs of £0.02m.

*12 Calculated before amortisation of acquired intangibles of £1.25m (2011: £1.19m), acquisition costs of £0.22m (2011: £0.01m), exceptional reorganisation costs of £nil (2011: £nil) and exceptional income of £0.76m (2011: £nil).

*13 Calculated before amortisation of acquired intangibles of £0.08m, acquisition costs of £0.22m, and exceptional reorganisation costs of £nil).

*14 Calculated before amortisation of acquired intangibles of £0.53m (2011: £0.31m), acquisition costs of £0.22m (2011: £0.20m) and exceptional reorganisation costs of £0.03m (2011: £0.08m).

*15 Calculated before amortisation of acquired intangibles of £0.16m, acquisition costs of £0.14m and exceptional reorganisation costs of £0.01m.

*16 Calculated before amortisation of acquired intangibles of £0.17m (2011: £0.26m), acquisition costs of £nil (2011: £0.01m) and exceptional reorganisation costs of £nil (2011: £0.01m).

*17 Calculated before amortisation of acquired intangibles of £3.59m (2011: £2.82m), acquisition costs of £0.59m (2011: £0.49m), exceptional reorganisation costs of £0.56m (2011: £0.45m) and exceptional income of £0.76m (2011: £nil).

*18 Calculated before amortisation of acquired intangibles (net of tax) of £2.35m (2011: £1.76m), acquisition costs (net of tax) of £0.59m (2011: £0.49m), exceptional reorganisation costs (net of tax) of £0.42m (2011: £0.33m) and exceptional income (net of tax) of £0.56m (2011: £nil).

Company Balance Sheet
as at 30 June 2012

	Notes	2012 £'000	2011 £'000
Fixed assets			
Development costs	5	1,263	989
Goodwill	5	2,702	1,104
Intangible fixed assets		3,965	2,093
Tangible assets	6	191	218
Investments	7	41,991	33,461
		46,147	35,772
Current assets			
Debtors	8	21,904	21,821
Cash at bank and in hand		667	–
		22,571	21,821
Creditors: Amounts falling due within one year	9	(32,754)	(16,431)
Net current (liabilities) / assets		(10,183)	5,390
Total assets less current liabilities		35,964	41,162
Creditors: Amounts falling due after more than one year	10	(338)	(11,627)
Provisions for liabilities and charges	11	(301)	(230)
Net assets		35,325	29,305
Capital and reserves			
Called-up share capital	12	7,120	6,477
Share premium account	13	7,239	2,863
Other reserve	13	10,324	10,324
Profit and loss account	13	10,642	9,641
Equity shareholders' funds	15	35,325	29,305

The financial statements on pages 88 to 102 were approved and authorised for issue by the Board of Directors on 17 September 2012 and were signed on its behalf by:

NA Makeham
Director

DJ Bolton
Director

The notes on pages 89 to 102 form part of these financial statements.

Notes forming part of the Company Financial Statements
for the year ended 30 June 2012

1 Accounting policies for the company financial statements

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding period.

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

Intangible assets – goodwill

The group has previously hived up the trade and assets of a subsidiary undertaking into the parent undertaking at book value. This results in the investment in a subsidiary which has no trade and hence provision would normally be made against that investment under UK GAAP. The company has however transferred an amount equal to the accounting impairment from investments to goodwill. The Board feels that this more accurately reflects the fact that in substance there has been no loss of value to the company. Had the investment been written down in strict accordance with UK GAAP, this would have resulted in a provision, in the parent undertaking only, of £883,000 (2011: £1,104,000) which is now being amortised over the remaining useful economic life of five years.

Goodwill arising on the acquisition of trade and assets is the difference between the value of the consideration paid and the value of the net assets acquired. It is amortised over the period during which the company is expected to benefit, which is between 9 to 10 years. Provision is made for any impairment.

Intangible assets – research and development

Research expenditure is written off as incurred. Development expenditure is also written off, except where the directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised over the period during which the company is expected to benefit. This period is between three and six years. Provision is made for any impairment. The directors do not consider the capitalised development costs are a realised loss as their carry forward is justifiable under the provisions of SSAP 13.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost of each asset on a straight-line basis over its expected useful life, as follows:

Leasehold improvements	Period of lease
Plant and machinery, office equipment and fixtures	20-33% per annum
Motor vehicles	25% per annum

Impairment of fixed assets and goodwill

The need for any fixed asset impairment write-down is assessed by comparison of the carrying value of the asset against the higher of realisable value and value in use.

Notes forming part of the Company Financial Statements (continued)

for the year ended 30 June 2012

1 Accounting policies for the company financial statements (continued)

Investments

Fixed asset investments are shown at cost less provision for impairment except for foreign currency investments where the company has applied net investment hedging. Where net investment hedging is applied, the revaluation is recorded in reserves. For investments in subsidiaries acquired for consideration including the issue of shares qualifying for merger relief, cost is measured either by reference to the nominal value or the fair value of the shares where appropriate. Any premium is ignored when the nominal value is used.

Taxation

Current tax, including UK corporation tax, is provided at the amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that resulted in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the period in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Turnover

Turnover is calculated net of value added tax and represents the total amount receivable by the company in respect of the sale of software licences, customised software, hardware and fees derived from installation, consultancy, training and support.

Income on the sale of software licences is recognised where there is persuasive evidence of an agreement with a customer (contract and/or binding purchase order), delivery of the software has taken place, collectability is probable and the fee is fixed and determinable. If significant post-delivery obligations exist, income is deferred until no significant obligations remain. Income on the sale of customised software, hardware and installation is recognised on delivery to a customer or on completion of contractual milestones. Income from training and consultancy is recognised as the contract progresses. Income from support is generally invoiced in advance, termed "deferred revenue", and taken to income in equal monthly instalments over the relevant period.

1 Accounting policies for the company financial statements (continued)

Pension costs

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the period. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate.

Where the company enters into foreign currency borrowings to hedge changes in the net investment of foreign subsidiaries arising from movements in the forward exchange rate, gains and losses arising on the foreign currency borrowings are recognised directly in equity.

Leases

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the lease to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

Share-based payment

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the profit and loss account over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the amount that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to meet a market vesting condition.

When the terms and conditions of the options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the profit and loss account over the remaining vesting period.

Fair value is measured by use of a trinomial lattice model. The expected life used in the model has been adjusted, based on the directors' best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Notes forming part of the Company Financial Statements (continued)

for the year ended 30 June 2012

2 Profit attributable to the Company

As permitted under section 408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the parent company.

The profit for the year dealt with in the financial statements of the parent company was £1,136,000 (2011: £3,093,000).

3 Staff numbers

The average monthly number of employees (including executive directors) was:

	2012 Number	2011 Number
Consultants and programmers	141	122
Sales and distribution	14	13
Administration	25	24
	180	159

Their aggregate remuneration comprised:

	2012 £'000	2011 £'000
Wages and salaries	8,264	8,341
Social security costs	1,212	1,012
Other pension costs (see note 17)	197	153
	9,673	9,506

4 Directors' remuneration, interests and transactions

Aggregate remuneration

The total amounts for directors' remuneration and other benefits were as follows:

	2012 £'000	2011 £'000
Emoluments	383	329
Gains on exercise of share options	–	133
Contributions to personal pension schemes	36	30
	419	492

The aggregate emoluments of the highest paid director were £200,376 (2011: £242,389) and company pension contributions of £17,746 (2011: £16,147) were made to a defined contribution scheme on his behalf.

	2012	2011
Retirement benefits are accruing to the following number of directors under:		
Defined contribution schemes	2	2

Directors' share options are disclosed in the Remuneration Report on pages 22 to 24.

Notes forming part of the Company Financial Statements (continued)

for the year ended 30 June 2012

5 Intangible fixed assets

	Development costs £'000	Goodwill £'000	Total £'000
Cost			
At 1 July 2011	2,163	5,520	7,683
Additions	630	2,677	3,307
At 30 June 2012	2,793	8,197	10,990
Amortisation			
At 1 July 2011	1,174	4,416	5,590
Charge for the year	356	1,079	1,435
At 30 June 2012	1,530	5,495	7,025
Net book value			
At 30 June 2012	1,263	2,702	3,965
At 30 June 2011	989	1,104	2,093

The goodwill arising during the year relates to that arising on the acquisition of the trade and certain assets of Azurri Retail and Integrated Business Solutions (see note 27 to the consolidated financial statements).

6 Tangible fixed assets

	Leasehold improvements £'000	Plant, office equipment and fixtures £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 July 2011	251	381	19	651
Additions	–	96	–	96
Disposals	–	(4)	(19)	(23)
At 30 June 2012	251	473	–	724
Depreciation				
At 1 July 2011	251	163	19	433
Charge for the year	–	122	–	122
Disposals	–	(3)	(19)	(22)
At 30 June 2012	251	282	–	533
Net book value				
At 30 June 2012	–	191	–	191
At 30 June 2011	–	218	–	218

Notes forming part of the Company Financial Statements (continued)

for the year ended 30 June 2012

7 Fixed asset investments

	2012 £'000	2011 £'000
Subsidiary undertakings	41,991	33,461

Subsidiary undertakings

The parent company has investments in the following subsidiary undertakings. To avoid a statement of excessive length, details of investments which are not significant have been omitted.

Subsidiary	*Country of Registration*
+ K3 Syspro Limited (formerly K3 Supply Chain Solutions Limited)	UK
+ K3 Business Solutions BV	Netherlands
+ K3 Software Solutions BV	Netherlands
+ K3 Solutions BV	Netherlands
+ K3 Holdings BV	Netherlands
+ K3 AX Limited	UK
+ K3 Retail and Business Solutions Limited	Ireland
+ Integrated Manufacturing Software Limited	Ireland
+ K3 Managed Services Limited	UK
+ K3 Managed Services (International) Limited	Ireland
+ K3 Panacea Limited	UK
+ Sense Enterprise Solutions Limited	UK
+ K3 Business Solutions Limited (formerly Clarita Solutions Limited)	UK
+ K3 Business Technology Group Trustees Company Limited	UK
+ Fifth Dimension Systems Limited	UK
+ FDS Technology Systems Limited	Ireland
+ Retail Systems Group Limited	UK
+ Retail Computer Maintenance Limited	UK
+ Intelligent Solutions Consultancy Limited	UK
+ Shine Marketing UK Limited	UK
+ K3 Singapore Pte Ltd	Singapore

The principal activity of all the subsidiary undertakings is the supply of computer software and consultancy, with the exception of K3 Managed Services Limited, K3 Managed Services (International) Limited and K3 Panacea Limited which are hosting and managed services providers; and K3 Business Technology Group Trustees Company Limited is the trustee for the group's employee share ownership plan.

All subsidiary undertakings are wholly owned and all shares consist of ordinary shares only.

+ Held directly by K3 Business Technology Group plc

7 Fixed asset investments (continued)

	£'000
Cost	
At 1 July 2011	33,599
Adjustment	(416)
Revaluation of investment in foreign subsidiaries	(416)
Additions	9,362
At 30 June 2012	42,129
Amounts written off	
At 1 July 2011	138
Provisions made during the year	–
At 30 June 2012	138
Net book value	
At 30 June 2012	41,991
At 30 June 2011	33,461

The adjustment in the year related to the contingent consideration due in respect of K3 Managed Services Limited (formerly Digimis Limited) as the amount paid in relation to the second year earn out period was lower than recognised at 30 June 2011. £5,687,000 of the additions in the year relate to acquisitions of Fifth Dimension Systems Limited, Intelligent Solutions Consultancy Limited, Shine Marketing UK Limited, Retail Systems Group Limited and K3 Holdings BV, parent company of Unisoft. A further £3,675,000 relates to the capitalisation of inter-company balances with K3 Panacea Limited and K3 Business Solutions Limited.

8 Debtors

	2012 £'000	2011 £'000
Amounts falling due within one year:		
Trade debtors	6,653	6,968
Amounts owed by subsidiary undertakings	12,151	13,070
Other debtors	85	114
Corporation tax	556	1
Prepayments and accrued income	2,459	1,668
	21,904	21,821

Of the above amounts, none of amounts due from subsidiary undertakings (2011: £3,495,000) and none of accrued income (2011: £273,000) falls due after more than one year.

Notes forming part of the Company Financial Statements (continued)
for the year ended 30 June 2012

9 Creditors: Amounts falling due within one year

	2012 £'000	2011 £'000
Bank loans and overdrafts	19,260	6,593
Other loans due to related parties (note 18)	640	640
Trade creditors	1,697	1,521
Amounts owed to subsidiary undertakings	4,530	656
Taxation and social security	787	968
Other creditors	445	343
Deferred consideration	680	666
Accruals	1,906	2,777
Deferred income	2,809	2,267
	32,754	16,431

10 Creditors: Amounts falling due after more than one year

	2012 £'000	2011 £'000
Bank loans	–	11,489
Other creditors	–	–
Deferred consideration	200	–
Accruals	138	138
	338	11,627

The bank loan is secured by a fixed and floating charge over the assets of the group.

At the year end, other borrowings were repayable as follows:

	2012 £'000	2011 £'000
Bank overdrafts		
On demand or within one year	4,208	3,173
Bank loans		
Between one and two years	–	11,489
Between two and five years	–	–
	–	11,489
On demand or within one year	15,052	3,420
	15,052	14,909
Other loans due to related parties		
On demand or within one year	640	640

Notes forming part of the Company Financial Statements (continued)

for the year ended 30 June 2012

11 Deferred taxation

	2012 £'000	2011 £'000
Accelerated capital allowances	38	48
Other timing differences	(339)	(278)
Deferred tax liability	(301)	(230)

The movements in deferred tax assets (liabilities) during the period are:

	Accelerated capital allowances £'000	Other timing differences £'000	Total £'000
At 1 July 2011	48	(278)	(230)
Charged to profit and loss	(10)	(61)	(71)
At 30 June 2012	38	(339)	(301)

The company has no unrecognised tax losses in either period. The deferred tax assets have been recognised as they are expected to be recoverable against future taxable profits.

12 Called-up share capital

	2012 £'000	2011 £'000
Allotted, called-up and fully-paid		
28,478,054 ordinary shares of 25p each (2011: 25,907,755)	7,120	6,477

See note 22 to the consolidated financial statements for details of the movements in called-up share capital and of outstanding warrants.

13 Reserves

	Share premium account £'000	Other reserve £'000	Profit and loss account £'000
At 1 July 2011	2,863	10,324	9,641
Retained profit for the year	–	–	1,136
Dividends to equity shareholders	–	–	(214)
Credit to equity for equity-settled share-based payments	–	–	72
Movement in own shares held	–	–	7
Share capital issued	4,376	–	–
At 30 June 2012	7,239	10,324	10,642

Of the above reserves, the directors only consider the profit and loss account to be distributable.

The own shares are held by a wholly-owned subsidiary, K3 Business Technology Group Trustees Company Limited, as trustee of the group's employee share ownership plan. The own shares represent 111,634 shares held under an employee share ownership plan which will be issued to the employees when they choose to withdraw them. The current market value of these shares as at 30 June 2012 was £187,000.

14 Share-based payment

K3 Business Technology Group plc operates an equity-settled share-based remuneration scheme for employees: an Executive Share Option Scheme for certain senior management including executive directors. See note 26 to the consolidated financial statements for details regarding share-based payments.

Notes forming part of the Company Financial Statements (continued)

for the year ended 30 June 2012

15 Reconciliation of movements in shareholders' funds

	2012 £'000	2011 £'000
Profit for the financial period	1,136	3,093
Issue of share capital	5,019	218
Dividends to equity shareholders	(214)	(64)
Credit to equity for equity-settled share-based payments	72	52
Transfer (purchase) of own shares	7	(44)
Net addition to shareholders' funds	6,020	3,255
Opening shareholders' funds	29,305	26,050
Closing shareholders' funds	35,325	29,305

16 Financial commitments

There were no capital commitments at the end of either financial period.

Annual commitments under non-cancellable operating leases are as follows:

	2012		2011	
	Land and buildings £'000	Other £'000	Land and buildings £000	Other £'000
Expiry date				
– within one year	–	11	–	28
– between two and five years	297	96	297	91
	297	107	297	119

Leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs.

17 Pension arrangements

The group operates a defined contribution scheme and also makes contributions to personal pension schemes of certain senior employees and directors for which the total pension cost charge for the year amounted to £206,000 (2011: £153,000).

18 Related party transactions

The company has taken advantage of the exemption conferred by Financial Reporting Standard 8, 'Related party disclosures', not to disclose transactions with subsidiary companies of the group headed by K3 Business Technology Group plc on the grounds that all subsidiaries are wholly owned.

Related party transactions are disclosed in note 29 to the consolidated financial statements. There were no other transactions with related parties during the year.

19 Contingent liability

The company has entered into a cross-guarantee with fellow group undertakings in relation to liabilities with Barclays Bank plc. At the year end the liabilities covered by this guarantee totalled £17,126,000.

Unaudited Five Year Summary

	Year ended 30 June[*1]			Year ended 31 December	
	2012 £'000	2011 £'000	2010 £'000	2008 £'000	2007 £'000
Revenue	67,961	52,800	43,842	37,619	34,146
Adjusted profit from operations[*2]	11,333	9,581	7,572	7,348	5,760
Profit from operations	7,352	5,813	5,492	5,370	4,712
Profit before tax	6,043	4,908	4,643	3,942	3,676
Profit after tax	5,724	4,480	3,648	2,805	2,915
Adjusted basic earnings per share[*3] (pence)	30.2	27.5	20.5	17.6	16.3
Basic earnings per share (pence)	20.3	17.5	14.6	11.8	13.4
Cash and cash equivalents	21	113	(571)	2,828	3,085
Gross debt[*4]	17,778	16,300	11,351	15,840	16,480
Net debt[*5]	15,682	15,486	10,982	13,012	13,395
Adjusted cashflow from operations[*6]	8,767	8,275	6,856	6,375	6,228
Net cashflow from operations	7,243	5,640	6,856	6,375	6,228

[*1] The financial period ended 30 June 2010 was an 18 month period following the change of the year end from 31 December to 30 June. However, the unaudited financial information for the 12 months ended 30 June 2010 has been shown in the five year summary as the directors consider it more useful to shareholders and investors.

[*2] Adjusted profit from operations is calculated before amortisation of acquired intangibles, acquisition costs, exceptional reorganisation costs and exceptional income.

[*3] Calculated before amortisation of acquired intangibles, acquisition costs, exceptional reorganisation costs, and profit/loss on sale of disposal groups, all net of attributable taxation. Prior to 2011, the adjusted earnings per share included an adjustment for the cost of share-based payments (net of tax). This is no longer included as the directors consider the amounts to be immaterial and therefore not useful to shareholders and investors. The comparatives have been adjusted accordingly.

[*4] Gross debt includes bank loans and overdrafts, finance lease creditors and loans from related parties.

[*5] Net debt is gross debt net of cash and cash equivalents.

[*6] Adjusted cash flow from operations is calculated before payments which the directors consider to be costs of acquisitions, including payments to regularise liabilities, acquisition costs and exceptional reorganisation costs. See note 31 to the consolidated financial statements.

Notice of Annual General Meeting

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice from your stockbroker or other independent adviser authorised under the Financial Services and Markets Act 2000.

If you have sold or transferred all of your shares in K3 Business Technology Group plc, please forward this document, together with the accompanying documents, as soon as possible either to the purchaser or transferee or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the annual general meeting of the Company will be held at the Company's offices at Baltimore House, 50 Kansas Avenue, Manchester M50 2GL on 5 December 2012 at 10.30am at which the following business will be transacted.

You will be asked to consider and vote on the resolutions below. Resolutions 1 to 5 will be proposed as ordinary resolutions and resolutions 6 and 7 will be proposed as special resolutions.

Ordinary Business

To consider and, if thought fit, pass the following resolutions which will be proposed as ordinary resolutions:

1. To receive the directors' and auditors' reports and the financial statements for the year ended 30 June 2012.
2. To re-elect Mr DJ Bolton as a director in accordance with Article 96 of the Articles of Association.
3. To re-appoint BDO LLP as auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next annual general meeting at which financial statements are laid before the Company and to authorise the directors to fix their remuneration.
4. To declare a final dividend for the year ended 30 June 2012 of 1.0p per ordinary share of 25 pence each in the issued share capital of the Company.
5. That the directors of the Company be and they are generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 ("the Act"), to exercise all powers of the Company to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company ("Rights") up to an aggregate nominal amount of £2,373,486 (being approximately one-third of the issued share capital of the Company at the date of this resolution) provided that this authority shall unless previously revoked or varied by the Company in general meeting expire five years from the date of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require shares to be allotted or Rights to be granted after such expiry and the directors of the Company may allot shares or grant Rights in pursuance of such an offer or agreement as if the authority conferred hereby had not expired. This authority is in substitution for all previous authorities conferred upon the directors pursuant to section 551 of the Act, but without prejudice to the allotment of any shares already made or to be made pursuant to such authorities.

To consider and, if thought fit, pass the following resolutions, which will be proposed as special resolutions:

Disapplication of pre-emption rights

6. That subject to and conditional on the passing of resolution 5 above, the directors of the Company be and they are empowered pursuant to section 570(1) of the Companies Act 2006 ("the Act") to allot equity securities (as defined in section 560(1) of the Act) for cash pursuant to the authority conferred by resolution 5 above as if section 561(1) of the Act did not apply to such allotment, provided that this power shall be limited to the allotment of equity securities:

6.1 in connection with an offer of such securities by way of rights to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange; and

6.2 otherwise than pursuant to sub-paragraph 6.1 above, up to an aggregate nominal amount of £712,046 (being approximately one-tenth of the issued share capital of the Company at the date of this resolution)

and, unless previously renewed, revoked or varied by the Company in general meeting, shall expire five years from the date of this resolution, or if earlier the date of the next annual general meeting of the Company, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted or equity securities held as treasury shares to be sold after such expiry and the directors of the Company may allot equity securities and/or sell equity securities held as treasury shares in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

Notice of Annual General Meeting (continued)

Special Business

Authority to Repurchase Ordinary Shares

7. That the Company be and is hereby generally and unconditionally authorised in accordance with section 701 of the Companies Act 2006 (“the Act”) to make one or more market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 25 pence each in the capital of the Company (“Shares”), provided that:
   (a) the maximum aggregate number of Shares authorised to be purchased is 4,269,427 (representing approximately 14.99% of the issued share capital of the Company at the date of the notice convening the meeting at which this resolution is proposed);
   (b) the minimum price (exclusive of expenses) which may be paid for a Share is 25 pence;
   (c) the maximum price (exclusive of expenses) which may be paid for a Share is an amount equal to the greater of (i) 105% of the average of the middle market quotations for a Share for the five business days immediately preceding the day on which that Share is purchased and (ii) the higher of the price of the last independent trade and the highest then current independent bid for any number of the Shares on the Alternative Investment Market of the London Stock Exchange;
   (d) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2013 or, if earlier, on the expiry of 15 months from the date of passing of this resolution unless such authority is renewed prior to such time; and
   (e) the Company may make one or more contracts to purchase Shares under this authority before the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority, and may make a purchase of Shares in pursuance of any such contract.

Registered Office

K3 Business Technology Group plc
Baltimore House
50 Kansas Avenue
Manchester M50 2GL

Dated 24 October 2012

By order of the Board

BS Davis
Company Secretary

Notes to the Notice of Annual General Meeting

Please refer to notes 6 to 19 relating to entitlement to attend and vote at the meeting and the appointment of proxies.

1. Mr DJ Bolton was appointed as Chief Financial Officer of the Company in August 1998. Biographical details of Mr DJ Bolton are set out on page 27 to these financial statements.
2. The payment of a dividend requires approval of the shareholders and that approval is sought in Resolution 4.
3. Resolution 5 would empower the directors to allot shares for any reason up to an aggregate nominal amount of £2,373,486 representing approximately one-third of the issued share capital of the Company at the date of the notice of Annual General Meeting.
4. Resolution 6 would empower the directors to allot equity securities for cash other than to existing shareholders pro rata to their existing holdings. Such power would be limited to the situations referred to in sub-paragraphs 6.1 and 6.2 of that resolution. Sub-paragraph 6.1 refers to rights issues and similar issues, where difficulties arise in offering relevant securities to certain overseas shareholders or where fractional entitlements arise. Sub-paragraph 6.2 permits allotments for cash (other than rights issues or similar) of ordinary shares up to an aggregate nominal amount of £712,046 representing approximately one-tenth of the current issued ordinary share capital of the Company. The resolution is proposed so as to give the directors greater flexibility to take advantage of business opportunities as they arise. The directors have no present intention of exercising the authority.
5. Resolution 7 seeks authority for the Company to make market purchases of its own ordinary shares and is proposed as a special resolution. If passed, the resolution gives authority for the Company to purchase up to 4,269,427 of its ordinary shares, representing approximately 14.99 per cent of the Company's issued ordinary share capital (excluding treasury shares) as at 24 October 2012. The resolution specifies the minimum and maximum prices which may be paid for any ordinary shares purchased under this authority. The authority will expire on the earlier of the Company's 2013 annual general meeting and the date 15 months after the resolution.

   The directors will only exercise the authority to purchase ordinary shares where they consider that such purchases will be in the best interests of shareholders generally and will result in an increase in earnings per ordinary share.

   The Company may either cancel any shares it purchases under this authority or transfer them into treasury (and subsequently sell or transfer them out of treasury or cancel them).
6. On a show of hands every shareholder present in person has one vote, on a poll every shareholder has one vote for each share held by him. The necessary quorum at this meeting is two members present in person or by proxy and entitled to vote upon the business to be transacted.
7. The Company specifies that only those members registered on the Company's register of members at:
   - 6.00pm on 3 December 2012; or,
   - if this Meeting is adjourned, at 6.00pm on the day two days prior to the adjourned meeting,

   shall be entitled to attend and vote at the Meeting.

Notice of Annual General Meeting (continued)

Notes to the Notice of Annual General Meeting (continued)

Issued shares and total voting rights

8. As at 5.00pm on 24 October 2012, the Company's issued share capital comprised 28,481,841 ordinary shares of 25 pence each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 5.00pm on 24 October 2012 is 28,481,841.

Documents on display

9. The following documents will be available for inspection at Baltimore House, 50 Kansas Avenue, Manchester M50 2GL from the date of the notice of the Annual General Meeting until the time of the Meeting and for at least 15 minutes prior to the Meeting and during the Meeting:
   - Copies of the service contracts of executive directors of the Company.
   - Copies of the letters of appointment of the non-executive directors of the Company.

Appointment of proxies

10. If you are a member of the Company at the time set out in note 7 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
11. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
12. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. Further copies of this form may be obtained by photocopying this form. Please indicate in the box next to the proxy's name the number of shares in relation to which he/she is authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned in the same envelope.
13. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

Appointment of proxy using hard copy proxy form

14. The notes to the proxy form explain how to direct your proxy to vote on each resolution or withhold their vote.

    To appoint a proxy using the proxy form, the form must be:
    - completed and signed;
    - sent to Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU or delivered to Capita Registrars at The Registry, 34 Beckenham Road, Beckenham Road, Kent BR3 4TU; and
    - received by Capita Registrars no later than 10.30am on 3 December 2012.

    In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

    Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

Proxy voting using the Registrar's share portal

15. You may also submit your proxy vote electronically using the Share Portal service at www.capitashareportal.com. If not already registered for the Share Portal, you will need your Investor Code as shown on a recent dividend tax voucher or recent share certificate. For an electronic proxy vote to be valid, your appointment must be received by no later than 10:30am on 3 December 2012.

CREST proxy voting (uncertificated shareholders)

16. (a) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

    (b) In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited' (formerly CRESTCo's) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuers' agent (ID RA10) by the latest time for receipt of proxy appointments specified in this notice. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the registrars are able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Appointment of proxy by joint members

17. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

Notes to the Notice of Annual General Meeting (continued)

Changing proxy instructions

18. To change your proxy instructions simply submit a new proxy appointment using the method set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

    Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Capita Registrars on 0871 664 0300. Calls cost 10 pence per minute plus network extras. Lines are open 8.30am to 5.30pm Monday to Friday.

    If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence. If the Company is unable to determine which of more than one valid proxy appointment was deposited or delivered last in time, none of them shall be treated as valid in respect of the share(s) to which they relate.

Termination of proxy appointments

19. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

    The revocation notice must be received by Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU no later than 10.30am on 3 December 2012.

    Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.

Information for Shareholders

Dividend mandates

If you wish to have dividends paid directly into a bank or building society account, you should contact our registrar on 0871 664 0300 (calls cost 10p per minute plus network extras. Lines are open 8:30am – 5:30pm Monday – Friday) or visit the shareholder portal at www.capitashareportal.com where you can set up or amend a dividend mandate. This method of payment removes the risk of delay or loss of dividend cheques in the post and ensures your account is credited on the due date.

Enquiring about your shareholding

If you want to ask, or need information, about your shareholding, please contact our registrar on 0871 664 0300 (calls cost 10p per minute plus network extras. Lines are open 8:30am – 5:30pm Monday – Friday). Alternatively, if you have internet access, you can access the shareholder portal at www.capitashareportal.com where you can, amongst other things, view details of your shareholding, set up or amend a dividend mandate and update your address details.

Electronic communications

You can elect to receive shareholder communications electronically by writing to our registrar at Capita Registrars, Freepost RLYX-GZTU-KRRG, SAS, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 9ZA. This will save on printing and distribution costs, creating environmental benefits. When you register, you will be sent a notification to say when shareholder communications are available on our website and you will be provided with a link to that information.

Officers and Advisors

Directors:	DJ Bolton	NA Makeham
	PJ Claesson (non-executive)	TA Milne (Chairman)
Company secretary:	BS Davis	
Registered office:	Baltimore House, 50 Kansas Avenue, Manchester M50 2GL	
Country of incorporation of parent company:	England and Wales	
Company number:	2641001	
Legal form:	Public limited liability company	
Auditors:	BDO LLP, 3 Hardman Street, Spinningfields, Manchester M3 3AT	
Solicitors:	Squire Sanders (UK) LLP, Trinity Court, 16 John Dalton Street, Manchester M60 8HS	
Nominated Advisor:	finnCap Limited, Cardinal Place, 60 New Broad Street, London EC2M 1JJ	
Bankers:	Barclays Bank plc, 1st Floor, 3 Hardman Street, Spinningfields, Manchester M3 3HF	
Registrars:	Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA	
Financial PR:	Biddicks, No.1 Cornhill, London EC3V 3ND	

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