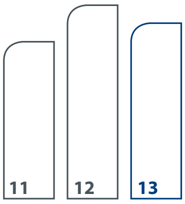
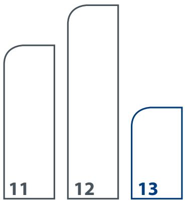
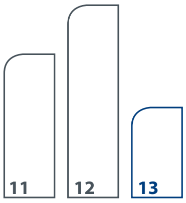
Financial Key Points



Revenue
£63.5m



Adjusted Operating Profit[*1]
£5.1m



Adjusted EPS[*2]
£14.0p

- Results show impact of challenging wider retail market and continuing investment into Project Gemstone[*].
- Revenues of £63.51m (2012: £67.96m) with recurring maintenance and support £34.54m (2012: £33.74m).
- Net costs of £2.2m related to Project Gemstone – after capitalising £1.45m of development costs.
- Cash generated from operations remained strong at £8.02m (2012: £7.28m).

Operational Key Points

- **Microsoft UK Division:**
  - First release of initial Gemstone functionality in H2 and some high profile initial orders signed in Q4 which will benefit the new financial year and beyond.
  - Signs of general improvement in retail technology spend.
  - Upturn in sales of established Microsoft NAV solution.
- **SYSPRO and Sage Division:**
  - Robust performance.
  - New SYSPRO 7 release and Sage X3 product will help drive demand in the new financial year.
- **International Division:**
  - Impacted by phasing of our IKEA growth plans and slowdown in the Dutch retail market.
- **Managed Services Division:**
  - Investment in hosting platforms completed.
  - Division should benefit from increased momentum in Microsoft software sales.
- Major new order wins totalled £11.56m (2012: £12.94m) – £8.13m (70%) signed in H2, mostly Q4.
- Board expects much improved financial performance in the new financial year.

* Project Gemstone is K3's investment to develop a new global Microsoft AX retail solution.

*1 Calculated before amortisation of acquired intangibles of £3.18m (2012: £3.59m), acquisition costs of £nil (2012: £0.59m), exceptional reorganisation costs of £0.73m (2012: £0.56m) and exceptional income of £nil (2012: £0.76m).

*2 Calculated before amortisation of acquired intangibles (net of tax) of £2.27m (2012: £2.35m), acquisition and reorganisation costs (net of tax) of £0.58m (2012: £1.01m) and exceptional income (net of tax) of £nil (2012: £0.56m).

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 over 3,000 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.

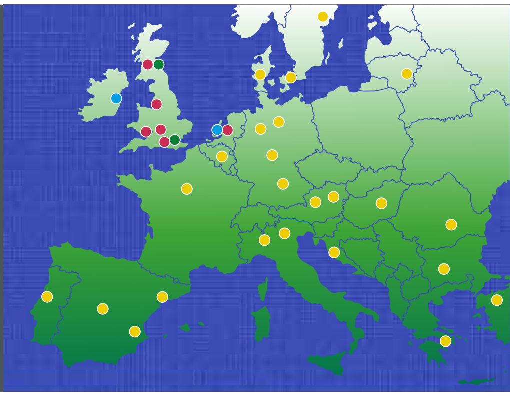
We have loyal customers and once installed, our software systems can remain in place for 15 years or longer. This ensures that K3 generates very high levels of recurring income.

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

- Over **3,000** customers
- **10 support** centres across the **UK and Europe**
- c**600** staff
- Microsoft **Inner Circle**
- Microsoft **President's Club**
- **Investors** in People
- ISO 27001

K3
Europe



- K3 Distributors
- K3 Development Centres
- K3 Hosting Centres
- K3 Offices

K3 supports 64 distributors and over 3,000 customers in more than 42 countries

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. 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 benefit from a strategic investment in multi-channel retail (including internet, store and mail order), and continues to win major new contracts year on year. In 2012/13 K3 has invested heavily in its new Gemstone offering which will provide a Retail and Wholesale solution for Microsoft Dynamics AX.

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

Our International Operations Division based in The Hague has become a major contributor to K3's performance in recent years. From here we support our international retail and distribution customers, with some major global corporate customers such as Inter IKEA Systems B.V., the owner and franchisor of the IKEA concept. Our Pebblestone fashion distribution solution is managed from here, supporting a network of 24 distributors in 27 countries.

Hosting and Managed Services

From data centres in Edinburgh, London, New York and Toronto 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

"A major strength of the business remains its high levels of recurring revenues, from licence renewals and support contracts, and K3 generated approximately £34.54m of recurring income over the financial year, accounting for 54% of the year's total revenues"

Overview

The year to 30 June 2013 has been one of K3's toughest and the results reflect the challenges of weak markets, especially retail, and our significant programme of investment to deliver a major new Microsoft-certified Dynamics AX solution, Gemstone, for the retail market. We remain very excited about the sales potential of Gemstone, both in the UK and through our international reseller channel.

While the Group's financial results are disappointing, the final quarter of the year ended very encouragingly. In particular, having made the first release of Gemstone functionality in the second half, we secured a number of initial orders with some high profile retailers and we now have a growing base of blue chip retail customers who will be valuable reference sites for Gemstone. In addition to capitalised costs of £1.45m, our investment in Gemstone, including sales, deployment and support teams, amounted to £2.2m over the year. We will be making further releases of Gemstone functionality later in 2013, with full product completion expected around mid 2014. There is a strong pipeline of interest and we are very encouraged about the opportunities. More generally, there are signs that retailers are returning to spending on technology. This is also illustrated in the marked upturn in new wins towards the close of the financial year for our established Microsoft NAV retail solution. The total value of the major new order wins secured in the year across the Group was £11.56m (2012: £12.94m), with some 70% by value, £8.13m, signed in the second half. This included £4.2m of retail orders in the fourth quarter, which will benefit the Microsoft UK Division's performance in the new financial year.

Our investment in our Managed Services Division also continued over the year and is now substantially concluded. We completed the development of our hosting platforms and now also offer a range of hosting services to cater for the needs of both smaller and large global customers. The long term opportunity to build substantial recurring revenues from this activity remains and we expect any upturn in demand across our other Divisions, especially Microsoft UK, to benefit the Division.

Our SYSPRO and Sage Division continued to generate high levels of recurring income and cash, and our SYSPRO activities delivered a very encouraging performance. A new release of SYSPRO and Sage's X3 product should help to stimulate growth in the new financial year.

A major strength of the business remains its high levels of recurring revenues, from licence renewals and support contracts, and K3 generated approximately £34.54m of recurring income over the financial year, accounting for 54% of the year's total revenues. This generated a strong adjusted operating cash flow*1 of £8.66m which represents 169% of adjusted profit from operations*2 (or 115% adjusting for the impact of development capitalisation and amortisation). Net debt at the year-end was 12% lower at £13.81m (2012: £15.68m). This is after product investment of £3.56m, £1.94m paid in respect of deferred and contingent consideration for past acquisitions and an equity fundraising of £2.61m (net) in March.

*See note 31 on page 83 for further details

Financial Results

Revenues for the year ended 30 June 2013 declined by 7% to £63.51m (2012: £67.96m), largely reflecting the weak performance of the Microsoft UK Division.

As expected, the Group incurred significant product development costs this financial year, which totalled £3.56m. A major element of this was Project Gemstone, within our Microsoft UK and International Divisions, but we also invested further across other product suites and in hosting in the Managed Services Division. Of the £3.56m of product development, £1.45m related to Project Gemstone, £0.63m related to Retail NAV, £0.64m related to Pebblestone, NAV and other product IP in Holland, £0.33m related to Fresh Dynamics, £0.25m related to SYSPRO and £0.26m was invested in hosting. We incurred additional costs of £2.2m in building our Gemstone sales, deployment and support teams in anticipation of demand that, late in the year, started to be realised.

We incurred exceptional costs of £0.73m in the year. This related primarily to restructuring of the acquisitions we made in prior years.

Adjusted profit from operations[*2] over the year decreased to £5.09m (2012: £11.33m). Taking into account amortisation of intangibles of £3.18m (2012: £3.59m), acquisition costs of £nil (2012: £0.59m), exceptional reorganisation costs of £0.73m (2012: £0.56m) and exceptional income of £nil (2012: £0.76m), statutory profit from operations for the year was £1.19m (2012: £7.35m).

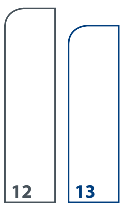
Adjusted profit before tax[*3] for the year ended 30 June 2013 decreased to £4.37m (2012: £10.02m). After taking into account amortisation of acquired intangibles and exceptional items listed above, statutory profit before taxation was £0.46m (2012: £6.04m). Finance expenses reduced to £0.73m (2012: £1.32m), reflecting lower borrowings and favourable movements in foreign exchange rates.

We have recognised a deferred tax credit of £0.91m in respect of intangibles and together with the impact of lower profits and research and development credits recognised only as claims are agreed with tax authorities, there is an overall tax credit of £0.78m in the year (2012: charge of £0.32m).

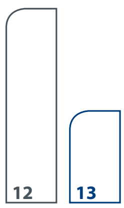
Adjusted earnings per share[*4] decreased to 14.0p (2012: 30.2p) and statutory basic earnings per share decreased to 4.3p (2012: 20.3p).

We are very excited about the sales potential of **Gemstone**

The final quarter of the year ended **very encouragingly**



Revenue
£63.5m



Adjusted Operating Profit[*2]
£5.1m

*See note 31 on page 83 for further details

Cash flows and banking

K3 generates good cash flows, with a seasonal weighting in October-December. Adjusting for £0.64m of exceptional reorganisation costs, the adjusted cash flow from operations*[1] was £8.66m (2012: £8.77m). After these costs, cash generated from operations was £8.02m (2012: £7.28m).

During the year the Group made net debt repayments of £2.83m, paid £0.82m of interest and paid tax of £1.22m. K3 also paid £1.94m to the vendors of the acquisitions made in prior years and outstanding deferred consideration on acquisitions has now reduced by 84% to £0.39m (2012: £2.49m). The Group undertook a placing of 2,848,184 new ordinary shares, in March 2013, which raised net proceeds of £2.61m. This has helped to reduce borrowings and net debt at 30 June 2013 was down 12% on the prior year to £13.81m (2012: £15.68m).

In September 2013 we agreed the extension of the Group's banking facilities through to December 2014 on substantially the same terms to the existing facilities.

Dividend

With the improving prospects for the Group, the Board is pleased to propose a final (and total) dividend for the financial year of 1.0p per share (2012: 1.0p). Subject to shareholder approval at K3's General Meeting, this dividend will become payable on 17 January 2014 to shareholders on the register on 13 December 2013.

K3's Annual General Meeting will be held on 27 November 2013 at 10.30am, at the Group's head office at Baltimore House, 50 Kansas Avenue, Manchester M50 2GL.

Board Appointment

In July 2013, we were pleased to appoint Peter Cookson to the Board as a Non-executive Director. A chartered accountant, Peter has many years' experience in senior management and finance roles, especially in the technology and retail sectors.

Outlook

After a difficult year, we finished the period strongly in all Divisions. Very encouragingly, we saw several significant initial retail order wins in the UK for our new Gemstone solution. We also saw an upturn in demand for our established NAV based retail solution that has underpinned the Microsoft UK retail business in recent years. Demand from Inter IKEA B.V. (the owner and franchisor of the IKEA concept and the largest customer in the Group) also remains strong and there is positive momentum in the SYSPRO and Sage Division. Financially, the Group remains robust, with good cash generation and banking facilities extended for a further year. As we look ahead therefore, we are encouraged by the prospects for the Group into 2013/14 and beyond.

Tom Milne
Chairman

Adjusted cash flow from operations was **£8.66m**

K3 generates **good cash flows,** with a seasonal weighting in October-December

*See note 31 on page 83 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.

	2013	2012
Revenue (£'000)	**63,513**	67,961
Recurring revenue (£'000)	**34,538**	33,740
Percentage of recurring revenue	**54%**	50%
Gross margin percentage	**52%**	58%
Adjusted profit from operations*5 (£'000)	**5,094**	11,333
Adjusted cashflow from operations*6 (£'000)	**8,659**	8,767
Adjusted EPS*7 (pence)	**14.0p**	30.2p

Despite lower revenue in the year, recurring revenue has remained robust.

The reduction in gross margin to 52% reflected lower services revenues from our delivery resources at Microsoft UK Division as a result of deferrals in expected orders.

The adjusted cashflow from operations*6 remained in line with the prior year due to strong cash collections and favourable cash terms on some of the new deals.

Definitions:

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.

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 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 and exceptional reorganisation costs, 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 and acquisition costs, divided by the weighted average number of shares during the period. This is a key performance indicator for quoted companies.

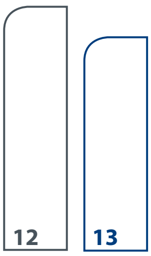
*See note 31 on page 83 for further details

Operational Review

K3 comprises four trading Divisions, Microsoft UK, SYSPRO and Sage, International, and Managed Services. The financial results of each Division together with head office costs are summarised in the table below. A fuller review of each Division is also provided below.

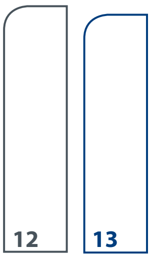
	Revenue to 30 June 2013 £'000	Revenue to 30 June 2012 £'000	Adjusted profit*[5] to 30 June 2013 £'000	Adjusted profit*[5] to 30 June 2012 £'000
Microsoft UK	**18,860**	24,919	**(1,663)**	2,217
SYSPRO and Sage	**25,377**	24,963	**5,580**	5,856
International	**12,864**	12,647	**2,258**	3,668
Managed Services	**6,412**	5,432	**(555)**	–
Head office costs	**–**	–	**(526)**	(408)
	63,513	67,961	**5,094**	11,333

Microsoft UK



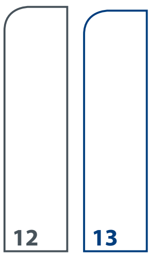
Revenue
£18.9m

SYSPRO and Sage



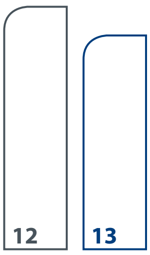
Revenue
£25.4m

International



Revenue
£12.9m

Managed Services



Revenue
£6.4m

Microsoft UK Division

Project Gemstone

Microsoft's new enterprise solution, Dynamics AX, represents a significant growth opportunity for K3 and Project Gemstone is our major software development programme, which is enriching and tailoring Microsoft's new AX product with our own IP to create a world class solution for the retail and wholesale markets.

Microsoft is supporting our development programme and the software is being written to Microsoft's strict development standards so that our solution will be accredited as 'Certified for Microsoft Dynamics'. The fully completed product will incorporate rich functionality which we have specifically developed for the retail and wholesale markets. The Microsoft UK Division capitalised £0.73m of costs in relation to Gemstone and a further £0.28m on UK specific Gemstone functionality.

We made the first commercial release of Gemstone functionality available in the second half of the year and importantly have completed initial implementations of Gemstone functionality. This gave us important reference sites which helped us to win some significant initial orders in the final quarter of the financial year and we now have an expanding base of reference customers, including some high profile retailers. We plan further releases of Gemstone later in 2013 and expect the development project to be fully complete around mid 2014.

Our position in the UK currently looks very encouraging and there is a strong pipeline of interest in our new Gemstone AX offering. We intend to leverage our international partner channel which gives us access to approximately 27 countries globally as we build sales.

*See note 31 on page 83 for further details

Results	2013	2012
Revenue (£'000)	**18,860**	24,919
Recurring revenue (£'000)	**8,315**	10,186
Percentage of recurring revenue	**44%**	41%
Gross margin percentage	**44%**	53%
Adjusted (loss) profit from operations*8 (£'000)	**(1,663)**	2,217

The Microsoft UK Division's disappointing results for the year reflect the combination of very tough conditions in the retail sector and the impact of Project Gemstone. The first half was severely affected by order deferrals, which meant that services income was low. However, there was a marked improvement in order wins in the second half. In total, we signed 59 major new orders, worth £6.5m (2012: 28 deals, £6.7m) but more significantly £4.2m of these deals were agreed in the final quarter of the year and included 14 major orders in UK Retail which will help to underpin a significant improvement in 2014.

Revenues decreased to £18.86m (2012: £24.92m), and the adjusted loss from operations*8 was £1.66m (2012: profit of £2.22m). The loss in the second half reduced to £0.40m against £1.26m in the first half, showing a significant turnaround. Margins for the twelve months fell by 9% to 44% reflecting both low level of services revenues in the year (the result of expected deals not signing) and our investment in the delivery resource. Recurring income decreased by £1.87m (18%) which mainly reflected some customers reducing spend on product support and fewer multi-year deals arising on new business.

As mentioned earlier, our new AX retail solution, Gemstone, now has customer reference sites, and £1.0m of the £5.0m new Retail business wins signed in the year were for AX solutions based on Gemstone functionality. A number of these orders were just for the initial phases of the implementation of Gemstone but, as further phases are taken, we expect these wins to generate approximately £8.0m of additional revenues.

The major part of the £5m of new Retail business wins were for our established NAV retail solution, which is targeted at medium-sized retailers who want a fully integrated multi-channel solution. This upturn in demand for our NAV solution is most encouraging. As most of the new business wins came late in the year, they had little impact on services income, but will benefit 2014 markedly.

The Division's prospect pipeline currently stands at approximately £38.0m (2012: £21.0m) with the large majority focused on our Gemstone AX solution. We are encouraged by signs that retailers are showing more confidence about investing in technology than has been previously apparent although it should be noted that customers are choosing to spend in stages.

The smaller units in the Division sell a mixture of non-retail NAV, non-retail AX and legacy products. These units generated revenue of £6.96m (2012: £7.27m) and adjusted profit from operations*9 of £0.35m (2012: loss of £0.21m), and closed 45 deals worth £1.50m (2012: 21 deals at £0.76m).

While the Division's results this year are disappointing, the improved order intake will result in a marked improvement in its performance in the new financial year. K3 is already one of Microsoft's leading global retail partners, with a strong track record in developing and delivering Dynamics NAV based retail solutions, focused on medium sized retailers. We believe that our investment in Gemstone will help us become as successful with Dynamics AX, which is focused on the larger retailers. As the trading environment improves, our existing strong market position should help to underpin the Division's improving prospects:

- we have the largest Microsoft Dynamics team in the UK;
- we have over 800 Microsoft Dynamics customers;
- c. 10,000 users per day log onto a K3 retail system in the UK;
- we provide daily support to 3,700 stores and service 9,500 point of sale terminals; and
- we are the only software house in Europe to be accredited by AMR (the global research organisation) as "Specialists in the Retail Sector".

*See note 31 on page 83 for further details

SYSPRO and Sage Division

	2013	2012
Revenue (£'000)	**25,377**	24,963
Recurring revenue (£'000)	**15,981**	14,765
Percentage of recurring revenue	**63%**	59%
Gross margin percentage	**62%**	61%
Adjusted profit from operations[*10] (£'000)	**5,580**	5,856

Revenues at the SYSPRO and Sage Division (which comprises four business units) increased marginally to £25.38m (2012: £24.96m). Adjusted profit from operations[*10] remained robust at £5.58m (2012: £5.86m), which was a very good performance considering the tough UK market conditions. It should be noted that our Sage activity typically delivers lower operating margins than SYSPRO.

Our SYSPRO business secured 10 new wins in total worth £1.77m compared with nine worth £0.9m last year, with a number of deals signed with extended period maintenance agreements. Lead intake is holding up well with new business leads up 25% to £2.0m, and demand from existing customers also remains strong. We are recruiting extra sales resource to manage the demand and the impending new release of SYSPRO 7 will also help drive sales in the coming year. At the year end the pipeline was £3.4m (2012: £4.4m).

"K3 is now Sage's 'Number 1' partner in X3 and the mid-market in the UK"

Our SYSPRO customer base generates high levels of recurring revenues through annual software licence and support renewals, with income at £6.96m (2012: £6.48m). The major part of this income is collected between October and December, giving the first half a significant weighting against the second half. Over 98% of our customers renewed their licence with K3 in the period under review, in line with previous years.

Over the last two years we have merged our two major Sage businesses (Panacea and Fifth Dimension Systems) so that they now operate under a single Managing Director and have a lower combined cost base. The final stage of the reorganisation was in January 2013 when we merged the sales, marketing and delivery resources. The cost of the integration is included in exceptional operating costs and is expected to result in an annualised benefit of £0.8m of which £0.4m was realised in H2 2013.

K3 Sage is now performing well and generated recurring annual income of around £6.50m (2012: £6.20m). After a slow first half with operating profit of £0.41m, new business wins picked up significantly in the second half and operating profit in the second half was £0.76m. In total, we signed 60 deals worth £2.05m over the year (2012: 58 deals worth £2.20m). Of these, 39 deals worth £1.55m were signed in the second half. We are seeing strong demand for Sage's new X3 Enterprise level solution and have closed eight X3 deals in the year (seven of which were in H2), with the Sage pipeline currently standing at £10.5m (2012: £6.5m). K3 is now Sage's 'Number 1' partner for X3 as well as the current overall 'Number 1' mid-market partner in the UK.

Demand from existing Sage customers is strong, and we offer a suite of complementary products, notably CRM and BI (Qlikview business intelligence). K3 Sage is now one of the top Qlikview partners in the UK, having being awarded 'Elite' status during the year. A number of our customers are also adopting our newly launched Sage hosted platforms for Sage 200 and X3.

Our other two business units in the Division have customers who can be offered upgrade opportunities to our Enterprise level solutions and hosting. These businesses contributed £3.24m (2012: £2.08m) of sales in the year, of which £2.52m is recurring (2012: £2.08m).

sage | Business Partner

*See note 31 on page 83 for further details

International Division

	2013	2012
Revenue (£'000)	**12,864**	12,647
Recurring revenue (£'000)	**5,689**	5,210
Percentage of recurring revenue	**44%**	41%
Gross margin percentage	**47%**	63%
Adjusted profit from operations[*11] (£'000)	**2,258**	3,668

Revenue was broadly flat year-on-year at £12.86m (2012: £12.65m) however adjusted profit from operations[*11] decreased by 38% to £2.26m (2012: £3.67m). This profit reduction was primarily in the first half year. The prior year second half results included a profit of £0.55m on a one-off contract and excluding the impact of this, the second half year results this year are in line with 2012. This one-off contract also boosted gross margin in the prior year, with the current year margin also being impacted by lower margins in the Dutch fashion and retail markets.

Our relationship with Inter IKEA Systems B.V. (the owner and franchisor of the IKEA concept and the largest customer in the Group) continues to be very strong, however some projects are commencing later than we anticipated and will now benefit 2014. The domestic Dutch fashion market slowed significantly as the Dutch Government's austerity measures impacted customer confidence, and we have an ongoing programme of operational changes to reduce the cost base and improve efficiency going forward. Our high margin international Pebblestone Distribution Channel was weaker in the first half of the financial year but strengthened during the second half, winning a deal a week in the final two months of the financial year. Revenues from maintenance contracts remained very satisfactory.

The Unisoft business that we acquired in December 2011, which provides retail Point of Sale (POS) solutions in Holland and Scandinavia, performed ahead of expectations, contributing sales of £3.48m and a profit of £0.57m.

Reflecting the weaker performance of the Pebblestone Distribution Channel and Dutch fashion market, the Division signed 35 new contracts in the period, worth a total of £1.13m (2012: 61 contracts, £3.3m, although this included one contract worth £0.55m). Looking ahead, the prospects pipeline currently amounts to approximately £5.9m (2012: £3.7m). This excludes potential business anticipated in the longer term plan with Inter IKEA Systems B.V.

The International and Microsoft UK Divisions are collaborating on Project Gemstone and we expect significant opportunities to flow through our international Pebblestone Distribution Channel as a result. The International Division capitalised £0.39m in respect of Gemstone in the year.

"The prospects pipeline currently amounts to approximately £5.9m"

*See note 31 on page 83 for further details

Managed Services Division

	2013	2012
Revenue (£'000)	**6,412**	5,432
Recurring revenue (£'000)	**4,553**	3,582
Percentage of recurring revenue	**71%**	66%
Gross margin percentage	**49%**	55%
Adjusted (loss) from operations*[12] (£'000)	**(555)**	–

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

Revenue over the year rose by 18% to £6.41m (2012: £5.43m). The run rate of recurring income at the year-end showed a 27% increase year on year to £4.55m (2012: £3.58m). Hosting represented £2.78m (2012: £1.84m) of this recurring revenue.

Many of our new hosting contracts come from our Microsoft UK Division and therefore the slowdown in the UK retail sector over the last year has impacted hosting growth. However as the Microsoft UK Division is now experiencing a marked improvement in new order wins, we would expect this to benefit hosting revenues going forward.

The adjusted loss from operations*[12] for the Division was £0.55m (2012: £nil), which reflected an increase in divisional overheads to £3.71m (2012: £2.99m) as we invested in our hosting platforms (AX and Sage X3) ahead of revenue.

We have now completed our investment in the development of our hosting platforms with £0.26m capitalised in the year, and offer a range of scaleable hosting services from low cost simple hosting for smaller customers, through to 'banking grade' hosted services for large global customers. The completion of our investment should also facilitate a reduction in the cost base of the Division and, since the year end, we have reorganised the hosting business unit. We believe the combination of an upturn in demand at our Microsoft UK Division, the availability of affordable and scalable high quality hosting platforms for all our products, and a new management team, will help drive a marked improvement in performance in 2014.

The pipeline of demand for hosting has increased to £3.37m (2012: £2.65m). Capitalised development was £0.26m (2012: £0.38m) and capital expenditure was £0.55m (2012: £0.84m).

"Revenue over the year rose by 18% to £6.41m"

*See note 31 on page 83 for further details

"With our investment phase now complete, we expect a faster growth rate in 2014"

Head Office Division

Head office costs for the year were £0.53m (2012: £0.41m). 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 consultancy associated with Project Gemstone.

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 our own Intellectual Property linked to established ERP and hosted solutions. 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

Whilst it has been a difficult year, we are seeing a marked improvement in demand for our Microsoft-based retail solutions, with a significant increase in new order wins late in the financial year. This is partly due to the market (retailers are now investing in IT once again) and partly due to the availability of modules from our new Gemstone AX retail solution. Our International prospects are encouraging with Inter IKEA Systems B.V. continuing to drive our growth. Managed Services hosting now has a full suite of hosting platforms to offer and with our investment phase now complete, we expect a faster growth rate in 2014. Our SYSPRO and Sage activities continue to perform well.

We believe all these factors should lead to a much improved financial performance in 2014.

Andy Makeham
Chief Executive

"We are seeing a marked improvement in demand for our Microsoft-based retail solutions, with a significant increase in new order wins late in the year"

*See note 31 on page 83 for further details

Financial Review

> "Revenue for the year was £63.51m compared to £67.96m for the year to 30 June 2012. The decline by 7% largely reflects the impact of the challenging retail market on the Microsoft UK Division"

Trading results

Revenue for the year was £63.51m compared to £67.96m for the year to 30 June 2012. The decline by 7% largely reflects the impact of the challenging retail market on the Microsoft UK Division. The Group registered an adjusted profit from operations[*13] of £5.09m for the year ended 30 June 2013 (2012: £11.33m). Profit from operations for the year was £1.19m (2012: £7.35m).

Exceptional reorganisation costs were £0.73m (2012: £0.56m) which related primarily to restructuring of the acquisitions made in prior years. During 2012, acquisition costs were £0.59m and there was exceptional income of £0.76m.

The amortisation of intangible assets was £3.18m (2012: £3.59m). Finance costs were £0.73m (2012: £1.32m). The resulting profit for the year was £1.24m (2012: £5.72m).

Earnings per share and dividends

Adjusted earnings per share[*14] was 14.0p (2012: 30.2p). Earnings per share was 4.3p (2012: 20.3p).

The directors propose to pay a dividend of 1.0p per share (2012: 1.0p).

Cash flow and net debt

The net cash position at 30 June 2013 was an overdrawn position of £0.83m (2012: cash of £0.02m). There were bank and other loans of £14.08m (2012: £17.78m). Repayments against bank and other loans during the year were £3.64m (2012: £3.69m). New loans of £0.84m were obtained during the year. £0.51m was paid to vendors of acquisitions made in prior years together with £1.43m of earn out and retention payments in relation to these acquisitions. There was an increase in the sterling value of the Euro denominated loan of £0.10m (2012: decrease of £0.38m).

The Group's net cash outflow in the year was £0.99m (2012: inflow £0.01m). The Group's inflow from operations in the period was £8.02m (2012: £7.28m).

Taxation

There was a tax credit for the year of £0.78m (2012: charge of £0.32m) comprising a credit of £0.13m (2012: charge of £1.40m) of current taxation and a credit of £0.65m (2012: £1.08m) of deferred taxation, of which £0.91m (2012: £1.24m) related to the amortisation of intangible assets. This credit for deferred tax in the year includes £0.18m following the reduction of the tax rate in the UK from 24% to 23%. The credit for current taxation includes an adjustment in respect of prior periods of £0.48m arising from the recognition of research and development credits recognised only as claims are agreed with tax authorities. The effective tax rate was 15.7% (2012: 19.4%) 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.

*See note 31 on page 83 for further details

Adjusted profit from operations of **£5.09m** for the year

Cash inflow from operations in the period was **£8.02m**

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 pages 19 to 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 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 acquisitions have played a key role in the growth of the business as illustrated by the major acquisitions made since 2003, and may do so in the future. 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.

We see the ownership of intellectual property as being critical to the future of the business, both in terms of full systems and innovative add-ons to third party products. We see the development of our Retail software IP into the Dynamics AX product set (Project Gemstone) as being a key strategic business driver over the next year.

During the prior year, following an 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. This process ended on 17 September 2012 as the Board did not believe the proposals received were at a level that would be acceptable to shareholders and the proposals were 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. This has enabled the Group to build 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 8 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.

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:

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

2012:

- Acquired Azurri Retail which provides additional maintenance income in the Retail sector;
- Acquired Fifth Dimension Systems Limited, a Sage Enterprise and E Commerce system provider with a significant maintenance base;
- Acquired Unisoft, a leading provider of retail point of sale solutions in Holland and Scandinavia;
- Acquired RSG, one of the leading providers of Microsoft Dynamics 'RMS' to retailers in the UK and Ireland, which brings us a software suite more suitable for smaller retailers; and
- Acquired 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 selective opportunities that will add additional or complementary products, IP and skills, together with customer bases that we can grow through our managed services and cloud 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 UK Corporate Governance Code, applies to companies of the main list of the London Stock Exchange, and the Quoted Companies Alliance's 2010 Corporate Governance Guidelines for Smaller Companies is applied to companies outside the main list. 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. 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.

During the year 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. Subsequent to the year end an additional non-executive director has been appointed.

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

During the year the Nominations Committee comprised the Chairman, Mr TA Milne, and the non-executive director, Mr PJ Claesson, and the Chief Executive, Mr NA Makeham, and was chaired by the Chairman. Following his appointment in July 2013, Mr P Cookson will join the Nominations Committee. 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 UK Corporate Governance 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

During the year the Remuneration Committee comprised the Chairman, Mr TA Milne, and the non-executive director, Mr PJ Claesson, and was 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. Following his appointment in July 2013 Mr P Cookson will join the Remuneration Committee.

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 16 September 2013. 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. Following his appointment in July 2013, Mr P Cookson has been appointed to the Audit Committee. 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:

	2013 £'000	2012 £'000
Audit services		
• Statutory audit	**109**	123
Further assurance services:		
Tax services		
• Advisory services	**35**	13
Other services		
• Other services	**1**	1
	145	137

During the year, the auditors provided non-audit services in relation to consultation on interim results and taxation advice to the overseas undertakings. 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 2013 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 had been identified as a senior independent director. As such there was no alternative route for shareholders to raise their concerns other than the normal channels of the Chairman, Chief Executive or Chief Finance Officer. Following discussions with shareholders, the Board has now appointed Mr P Cookson as the senior independent director. (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 was only one non-executive director in the period. (A.4.2)
- During the year the group had 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. Since the year end, Mr P Cookson has been appointed as a non–executive director. Mr Cookson is considered to be independent. (B.1.1) (B.1.2)
- The Nominations Committee, Remuneration Committee and Audit Committee each included only one non-executive director and he was not considered to be independent. However, the Chairman is considered to be independent. Since the year end, Mr PJ Cookson has been appointed as a non-executive director. Mr Cookson 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 2013. (C.2.1)
- The non-executive director has not met with major shareholders during the year to 30 June 2013, 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 2013						2012
	Fees/basic salary £	Taxable benefits £	Annual bonuses £	Pension contributions £	Gains on exercise of options £	Total £	Total £
Chairman							
TA Milne	80,000	–	–	–	–	80,000	30,000
Executive							
NA Makeham	191,765	1,613	–	18,276	50,250	261,904	218,122
DJ Bolton	191,765	1,996	1,000	18,276	40,200	253,237	155,394
Non-executive							
PJ Claesson	15,000	–	–	–	–	15,000	15,000
Aggregate emoluments	478,530	3,609	1,000	36,552	90,450	610,141	418,516

During the year ended 30 June 2012, part of Mr Bolton's remuneration was paid directly by Dawson International Plc.

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 2013 were:

TA Milne

NA Makeham

DJ Bolton

PJ Claesson

Mr PJ Cookson was appointed as a director on 11 July 2013.

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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 2013 was 101.0p and the range during the period was 93.0p to 188.5p.

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 2012	Granted	Exercised	Lapsed	30 June 2013	Exercise price	Gains on exercise 2013	Gains on exercise 2012
NA Makeham	50,000	–	(50,000)	–	–	62.5p	50,250	–
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	40,000	–	(40,000)	–	–	62.5p	40,200	–
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
20,000	20,000	100p	125p
20,000	20,000	100p	150p
20,000	20,000	100p	175p

All of the above options are exercisable.

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%

The three year period for the options exercisable at 94p was that ended on 31 December 2007 and these options are exercisable.

Two directors also hold options under the SAYE scheme which are exercisable at 118.8p. Mr Makeham holds 6,103 options exercisable on 1 January 2016. Mr Bolton holds 6,103 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.

During the year, the group capitalised £3.56m (2012: £1.91m) of the development costs. Further details are given in note 11.

Results and dividends

The audited financial statements for the year ended 30 June 2013 are set out on pages 29 to 83. The group's profit for the year was £1.24m (2012: £5.72m).

The directors propose a net dividend of 1.0p per share (2012: 1.0p). No interim dividend was paid during either year.

Directors

The directors who served during the year were as follows:

DJ Bolton

PJ Claesson

NA Makeham

TA Milne

Mr TA Milne retires by rotation and offers himself for re-election.

Mr PJ Cookson was appointed as a director on 11 July 2013.

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 2013 were equivalent to 58 (2012: 52) 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 £2,753 (2012: £3,775). There were no political contributions during the year.

Substantial shareholdings

On 16 September 2013, 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	19.0%
Kestrel Partners	3,757,358	12.0%
Investec Asset Management	2,425,000	7.7%
Hargreave Hale	1,556,161	5.0%
Herald Investment Management	1,393,792	4.4%
Henderson Volatis Capital	1,214,064	3.9%
DJ Bolton	953,800	3.0%
NA Makeham	910,748	2.9%

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 29 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
16 September 2013

Board of Directors

Thomas Adam Milne (Chairman) age 66

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 62

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 59

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 62

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.

Peter John Cookson (non-executive) age 67

Peter was appointed a director in July 2013. He is a chartered accountant with many years' experience in senior management and finance roles, especially in the technology and retail sectors. He is a non-executive of a number of companies, including Hasgrove plc, the digital and communications services business, and Riliance software, which provides risk and compliance software. He has had significant experience with leading the expansion of growing businesses. In his early career, he was Finance Director of Timpson Group, the retail chain, and Gateway food markets, the supermarket chain. He trained as a chartered accountant with Binders (now part of Deloitte LLP) and is a member of the Association of Corporate Treasurers.

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 2013 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2013 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
16 September 2013

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 2013

	Notes	2013 £'000	2012 £'000
Revenue	2	**63,513**	67,961
Cost of sales		**(30,375)**	(28,491)
Gross profit		**33,138**	39,470
Administrative expenses		**(31,953)**	(32,118)
Profit from operations before amortisation of acquired intangibles, acquisition costs and exceptional items		**5,094**	11,333
Amortisation of acquired intangibles	11	**(3,182)**	(3,586)
Acquisition costs	3	**–**	(593)
Exceptional reorganisation costs	3	**(727)**	(557)
Exceptional income	3	**–**	755
Profit from operations	3	**1,185**	7,352
Finance income	6	**2**	7
Finance expense	6	**(725)**	(1,316)
Profit before taxation		**462**	6,043
Tax income (expense)	7	**780**	(319)
Profit for the period		**1,242**	5,724

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

Earnings Per Share			
Basic	9	**4.3p**	20.3p
Diluted	9	**4.2p**	19.8p

The notes on pages 34 to 83 form part of these financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2013

	2013 £'000	2012 £'000
Profit for the period	**1,242**	5,724
Other comprehensive income (expense)		
Exchange differences on translation of foreign operations	**692**	(1,392)
Net investment hedge	**(148)**	415
Cash flow hedges:		
Gains recognised on hedging instruments	**–**	36
Transferred to income statement	**–**	49
Other comprehensive income (expense), net of tax	**544**	(892)
Total comprehensive income for the period	**1,786**	4,832

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

Consolidated Statement of Financial Position
as at 30 June 2013

Registered number: 2641001

	Notes	2013 £'000	2012 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**2,927**	2,722
Goodwill	11/12	**44,610**	43,540
Other intangible assets	11	**21,040**	21,255
Deferred tax assets	21	**723**	710
Available-for-sale investments	14	**98**	98
Total non-current assets		**69,398**	68,325
Current assets			
Trade and other receivables	15	**25,251**	30,322
Cash and cash equivalents		**272**	2,096
Total current assets		**25,523**	32,418
Total assets		**94,921**	100,743
LIABILITIES			
Non-current liabilities			
Long-term borrowings	17	**32**	–
Other non-current liabilities	18	**225**	892
Deferred tax liabilities	21	**4,267**	4,905
Total non-current liabilities		**4,524**	5,797
Current liabilities			
Trade and other payables	16	**25,081**	29,594
Current tax liabilities		**140**	669
Short-term borrowings	17	**14,051**	17,778
Total current liabilities		**39,272**	48,041
Total liabilities		**43,796**	53,838
EQUITY			
Share capital	22	**7,859**	7,120
Share premium account	23	**9,183**	7,239
Other reserves	23	**10,448**	10,448
Cashflow hedging reserve	23	**–**	–
Translation reserve	23	**1,297**	753
Retained earnings	23	**22,338**	21,345
Total equity attributable to equity holders of the parent		**51,125**	46,905
Total equity and liabilities		**94,921**	100,743

The financial statements on pages 29 to 83 were approved and authorised for issue by the Board of Directors on 16 September 2013 and were signed on its behalf by:

NA Makeham
Director

DJ Bolton
Director

The notes on pages 34 to 83 form part of these financial statements.

Consolidated Statement of Cash Flows
for the year ended 30 June 2013

	Notes	2013 £'000	2012 £'000
Cash flows from operating activities			
Profit for the period		**1,242**	5,724
Adjustments for:			
Share-based payments charge		**70**	72
Depreciation of property, plant and equipment		**932**	729
Amortisation of intangible assets and development expenditure		**4,347**	4,394
(Profit) loss on sale of property, plant and equipment		**(19)**	1
Impairment loss on available-for-sale investment		**–**	98
Finance income		**(2)**	(7)
Finance expense		**725**	1,316
Tax (income) expense		**(780)**	319
Decrease (increase) in trade and other receivables		**6,395**	(5,498)
(Decrease) increase in trade and other payables		**(4,888)**	136
Cash generated from operations	30	**8,022**	7,284
Finance expense paid		**(822)**	(846)
Income taxes paid		**(1,217)**	(1,312)
Net cash generated from operating activities		**5,983**	5,126
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	27/30	**(531)**	(3,960)
Acquisition of other business units	27/30	**(1,410)**	(3,173)
Development expenditure capitalised		**(3,563)**	(1,880)
Purchase of property, plant and equipment		**(1,050)**	(1,280)
Proceeds from sale of property, plant and equipment		**24**	1
Finance income received		**2**	7
Net cash absorbed by investing activities		**(6,528)**	(10,285)
Cash flows from financing activities			
Net proceeds from issue of share capital		**2,677**	5,026
Proceeds from long-term borrowings		**842**	4,050
Payment of long-term borrowings		**(3,641)**	(3,638)
Payment of finance lease liabilities		**(35)**	(51)
Dividends paid		**(286)**	(214)
Net cash (absorbed by) generated from financing activities		**(443)**	5,173
Net change in cash and cash equivalents		**(988)**	14
Cash and cash equivalents at start of period	30	**21**	113
Exchange gains (losses) on cash and cash equivalents		**134**	(106)
Cash and cash equivalents at end of period	30	**(833)**	21

The notes on pages 34 to 83 form part of these financial statements.

Consolidated Statement of Changes in Equity
for the year ended 30 June 2013

	Share capital £'000	Share premium £'000	Other reserves £'000	Cashflow hedging reserve £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
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)
Profit for the year	–	–	–	–	–	5,724	5,724
Other comprehensive income for the year	–	–	–	85	(977)	–	(892)
At 30 June 2012	7,120	7,239	10,448	–	753	21,345	46,905
Changes in equity for year ended 30 June 2013							
Share-based payment credit	–	–	–	–	–	43	43
Issue of shares for cash	712	1,897	–	–	–	–	2,609
Options exercised	27	47	–	–	–	–	74
Movement in own shares held	–	–	–	–	–	(6)	(6)
Dividends to equity holders	–	–	–	–	–	(286)	(286)
Profit for the year	–	–	–	–	–	1,242	1,242
Other comprehensive income for the year	–	–	–	–	544	–	544
At 30 June 2013	7,859	9,183	10,448	–	1,297	22,338	51,125

The amount included in retained earnings of £1.24m (2012: £5.72m) 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 (2012: £nil).

Notes forming part of the Financial Statements

for the year ended 30 June 2013

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 84 to 98.

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

The following standards and interpretations were effective in 2013 but not relevant to the group:

Amendment to IAS 12 – Deferred Tax: Recovery of Underlying Assets

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)
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, however, it is too early to quantify this.

Amendment to IAS 1 – Presentation of Items of Other Comprehensive Income	Endorsed	1 July 2012
IFRS 10 Consolidated Financial Statements	Endorsed	1 January 2013
IFRS 11 Joint Arrangements	Endorsed	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities	Endorsed	1 January 2013
IFRS 13 Fair Value Measurement	Endorsed	1 January 2013
IAS 27 Separate Financial Statements	Endorsed	1 January 2013
IAS 28 Investments in Associates and Joint Ventures	Endorsed	1 January 2013
IAS 19 Employee Benefits	Endorsed	1 January 2013
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	Endorsed	1 January 2013
Amendments to IFRS 7 – Disclosures–Offsetting Financial Assets and Financial Liabilities	Endorsed	1 January 2013
Amendments to IFRS 1 – Government Loans	Endorsed	1 January 2013
Annual Improvements to IFRSs	Endorsed	1 January 2013
Amendments to IFRS 10, IFRS 11 and IFRS 12 – Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	Endorsed	1 January 2013
Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities	Endorsed	1 January 2014
Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities	Expected Q4 2013	1 January 2014
Amendments to IAS36 – Recoverable amounts disclosures for non-financial assets	Expected Q4 2013	1 January 2014
Amendments to IAS39 – Novation of Derivatives and Continuation of Hedge Accounting	Expected Q4 2013	1 January 2014
IFRIC 21 Levies	Expected Q1 2014	1 January 2014

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.

1 Accounting policies for the consolidated financial statements (continued)

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 2013

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 that are largely independent of the cash flows from the other assets or groups of assets). 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 2013

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 on-going 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 2013

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 2013

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:

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.

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.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2013

1 Accounting policies for the consolidated financial statements (continued)

Critical accounting estimates and judgements (continued)

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.

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.

Useful economic lives of intangible assets

Intangible assets are amortised 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 could be significant. More details including carrying values are included in note 11.

2 Revenue

	2013 £'000	2012 £'000
The group's revenue comprises:		
Sale of software and hardware	11,720	12,916
Provision of consultancy services	17,256	21,984
Support and maintenance	34,537	33,061
Revenue	63,513	67,961
Finance income	2	7
Total revenue	63,515	67,968

3 Profit from operations

	2013 £'000	2012 £'000
This has been arrived at after charging/(crediting):		
Staff costs (see note 4)	32,877	30,968
Depreciation of property, plant and equipment	932	729
Amortisation of acquired intangible assets	3,182	3,586
Amortisation of development costs	1,165	808
Exceptional income (see below)	–	(755)
Reorganisation costs (see below)	727	557
Acquisition costs (see below)	–	593
Foreign exchange differences	59	(31)
Operating lease expenses		
– Plant and machinery	1,118	1,077
– Property	1,363	1,082
Audit fees	109	123
Fees paid to the company's auditors for non-audit services provided to the Company and UK subsidiaries	36	14
(Profit) loss on disposal of fixed assets	(19)	1

During the year, further reorganisation costs have been incurred to integrate the businesses acquired during the prior year at a cost of £0.73m (2012: £0.56m). In 2012, the group incurred costs in relation to acquiring new businesses of £0.59m. The exceptional income during 2012 related to the sale of IP.

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

	2013 £'000	2012 £'000
Tax services:		
– Advisory services	35	13
Other services:		
– Other services	1	1
	36	14

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2013

4 Staff costs

	2013 £'000	2012 £'000
Staff costs (including directors) comprise:		
Wages and salaries	27,000	25,413
Short-term non-monetary benefits	1,744	1,578
Defined contribution pension cost	945	773
Share-based payment expense (see note 26)	70	72
Employers national insurance contributions and similar taxes	3,118	3,132
	32,877	30,968

	2013 Number	2012 Number
The average number of employees during the period was		
Consultants and programmers	461	478
Sales and distribution	72	78
Administration	74	74
	607	630

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 108 and the divisional directors.

	2013 £'000	2012 £'000
Key management personnel remuneration consists of:		
Remuneration	1,465	1,735
Compensation for loss of office	38	155
Company contributions to defined contribution pension schemes	110	108
Share-based payment expense (note 26)	29	33
	1,642	2,031

4 Staff costs (continued)

	2013 £'000	2012 £'000
Directors' remuneration consists of:		
Emoluments	483	383
Gains on exercise of share options	90	–
Contributions to personal pension schemes	37	36
	610	419

	2013 £'000	2012 £'000
Remuneration in respect of the highest paid director :		
Aggregate emoluments	194	200
Pension contributions	18	18
Gains on exercise of share options	50	–
	262	218

There were 2 directors in the company's defined contribution pension scheme (2012: 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 2013

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.

The reporting of results to the CODM reflects four trading divisions: Dynamics UK, Dynamics International, SYSPRO and Sage, and Managed Services, together with Head Office costs. 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 12.

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 head office 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 2013 and for the year ended 30 June 2012, reconciled to profit before taxation as included in the consolidated income statement, are as follows:

			Year ended 30 June 2013			
	Microsoft UK £'000	International £'000	Managed Services £'000	SYSPRO and Sage £'000	Head Office £'000	Total £'000
Total segment revenue	19,029	12,938	6,412	25,447	–	63,826
Inter-segment revenue	(169)	(74)	–	(70)	–	(313)
External revenue	18,860	12,864	6,412	25,377	–	63,513
Cost of sales	(10,631)	(6,774)	(3,257)	(9,713)	–	(30,375)
Gross profit	8,229	6,090	3,155	15,664	–	33,138
Depreciation	(180)	(87)	(384)	(269)	(12)	(932)
Amortisation of development costs	(617)	(254)	(135)	(159)	–	(1,165)
Administrative expenses	(8,363)	(3,285)	(3,215)	(8,662)	(2,422)	(25,947)
Divisional operating profit (loss)	(931)	2,464	(579)	6,574	(2,434)	5,094
Management charges	(732)	(206)	24	(994)	1,908	–
Adjusted profit/(loss) from operations	(1,663)	2,258	(555)	5,580	(526)	5,094
Amortisation of intangibles	(600)	(580)	(172)	(1,830)	–	(3,182)
Acquisition costs	–	–	–	–	–	–
Exceptional reorganisation costs	(105)	(46)	(30)	(273)	(273)	(727)
Exceptional income	–	–	–	–	–	–
Profit (loss) from operations	(2,368)	1,632	(757)	3,477	(799)	1,185
Interest*	(3)	(35)	(9)	4	(680)	(723)
Profit before tax	(2,371)	1,597	(766)	3,481	(1,479)	462

5 Segment information (continued)

	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
Depreciation	(199)	(63)	(164)	(292)	(11)	(729)
Amortisation of development costs	(445)	(160)	(59)	(144)	–	(808)
Administrative expenses	(9,330)	(3,897)	(2,655)	(8,535)	(2,183)	(26,600)
Divisional operating profit	3,175	3,861	108	6,383	(2,194)	11,333
Management charges	(958)	(193)	(108)	(527)	1,786	–
Adjusted profit (loss) from operations	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
Profit (loss) from operations	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

*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 2013

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	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
United Kingdom	45,925	48,296	51,985	53,283
Netherlands	7,306	7,672	14,798	13,930
Ireland	3,774	5,189	2,615	1,112
Rest of Europe	3,023	2,037	–	–
USA	406	876	–	–
Rest of World	3,079	3,891	–	–
	63,513	67,961	69,398	68,325

6 Finance income and expense

	2013		2012	
	£'000	£'000	£'000	£'000
Finance income				
Bank interest received		(2)		(7)
Finance expense				
Bank borrowings	729		908	
Finance leases	9		16	
On related party balances	54		55	
On tax balances	11		12	
Foreign exchange	(96)		260	
Other		707		1,251
Unwinding of discount on provisions		18		93
Net change in fair value of cash flow hedges transferred from equity		–		(28)
		725		1,316
Net finance expense		723		1,309
Of which from financial instruments:				
Cash and cash equivalents		436		1,043
Financial liabilities at amortised cost		48		94
Derivatives used for hedging		–		(7)
Loan fee amortisation		239		179
		723		1,309

7 Tax income/expense

	2013		2012	
	£'000	£'000	£'000	£'000
Current tax income/expense				
UK corporation tax and income tax of overseas operations				
on profits for the period	346		1,471	
Adjustment in respect of prior periods	(478)		(72)	
		(132)		1,399
Deferred tax income/expense				
Origination and reversal of temporary differences	(465)		(769)	
Effect of change in rate of deferred tax	(183)		(311)	
		(648)		(1,080)
Total tax (income) expense		(780)		319

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:

	2013 £'000	2012 £'000
Profit before tax	462	6,043
Expected tax charges based on the standard rate of corporation tax in the UK of 23.75% (2012: 25.5%)	110	1,541
Expenses not deductible for tax purposes	16	4
Effect of tax reliefs	(7)	(140)
Utilisation of losses	(54)	–
Different tax rates applied in overseas jurisdictions	(279)	(684)
Effect of change in rate for deferred tax	(183)	(311)
Adjustment for over provision in prior periods	(383)	(91)
Total tax (credit) charge	(780)	319

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 2013

8 Dividends

	2013 £'000	2012 £'000
Final dividend of 1.0p (2012: 0.75p) per ordinary share proposed and paid during the year relating to the previous period's results	286	214

A dividend in respect of the year ended 30 June 2013 of 1.0p per share, amounting to a total dividend of £314,000 is to be proposed at the annual general meeting on 27 November 2013. 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.

	2013 Number of shares	2012 Number of shares
Denominator		
Weighted average number of shares used in basic EPS	29,216,238	28,242,505
Effects of:		
Employee share options and warrants	312,488	678,177
Weighted average number of shares used in diluted EPS	29,528,726	28,920,682

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.

		2013			2012	
	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	1,242	4.3	4.2	5,724	20.3	19.8
Add back:						
Amortisation of acquired intangibles (net of tax)	2,273	7.7	7.7	2,349	8.3	8.1
Acquisition costs (net of tax)	–	–	–	593	2.1	2.1
Exceptional reorganisation costs (net of tax)	580	2.0	2.0	415	1.5	1.4
Exceptional income (net of tax)	–	–	–	(562)	(2.0)	(1.9)
Adjusted EPS	4,095	14.0	13.9	8,519	30.2	29.5

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 2011	750	494	2,276	64	3,584
On acquisitions	–	–	174	31	205
Additions	–	80	1,200	–	1,280
Disposals	–	–	(151)	(33)	(184)
Effects of movements in foreign exchange rate	–	–	(66)	(5)	(71)
At 30 June 2012	750	574	3,443	57	4,814
Additions	–	27	1,058	37	1,122
Disposals	–	(204)	(850)	(46)	(1,100)
Effect of movements in foreign exchange rate	–	–	45	2	47
At 30 June 2013	750	397	3,686	50	4,883
Accumulated depreciation					
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
Depreciation charge	10	44	863	15	932
Disposals	–	(204)	(850)	(42)	(1,096)
Effect of movements in foreign exchange rate	–	–	27	1	28
At 30 June 2013	62	173	1,716	5	1,956
Net book value					
At 30 June 2011	708	210	1,047	28	1,993
At 30 June 2012	698	241	1,757	26	2,722
At 30 June 2013	688	224	1,970	45	2,927

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 2013

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):

	2013 £'000	2012 £'000
Plant, fixtures and equipment	32	2
Motor vehicles	34	11
	66	13

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 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)
Measurement period 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
Additions – internally developed	–	3,563	–	–	–	3,563
Acquired through business combinations	12	–	284	–	–	296
Measurement period adjustments	457	–	–	–	–	457
Effects of movements in foreign exchange rate	601	131	341	121	36	1,230
At 30 June 2013	44,610	9,903	18,821	10,620	996	84,950

£0.15m of the adjustment to goodwill relates to a reduction to the fair value of the contingent consideration payable in respect of Unisoft and Fifth Dimension Systems Limited. There is an increase of £0.61m relating to additional fair value provisions required in respect of Unisoft and Fifth Dimension Systems Limited 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 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
Amortisation charge	–	1,165	1,941	1,103	138	4,347
Effect of movements in foreign exchange rate	–	31	181	122	10	344
At 30 June 2013	–	3,927	6,781	8,219	373	19,300
Net book value						
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
At 30 June 2013	44,610	5,976	12,040	2,401	623	65,050

All intangible assets, other than goodwill which has an indefinite life, have a useful life economic life of between 0.5 and 13 years. The remaining useful life of development costs is between 1 and 10 years, for contractual and non-contractual customer relationships is between 0.5 and 13 years, for distribution agreements is between 0.5 and 4 years and for intellectual property rights is between 5 and 10 years.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2013

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 2013 £'000	2012 £'000
Walton	1,555	1,555
Syspro	14,117	14,105
Dynamics UK	10,438	10,438
Dynamics International	9,280	8,757
IP	398	372
Sage	6,108	5,990
Retail Systems Group (RSG)	1,103	1,058
Unisoft	841	495
Integrated Business Solutions (IBS)	770	770
	44,610	43,540

Cash generating units are identified as the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets and have been changed this year to reflect management's current day-to-day operation of the business.

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 two years and extrapolates cash flows for a further three years at growth rates of between 2.25% and 10% with exception of the Dynamics UK and Walton CGUs. The Walton CGU relates to small systems and a gradual attrition of income is expected, and an attrition rate of 5% has been applied. For the Dynamics UK CGU detailed financial forecasts have been prepared for the next five years. The most recent financial forecasts have been prepared on the assumption that gross margins will be consistent with those generated historically 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 14% 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	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 Hosting Limited (formerly 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%
Intelligent Solutions Consultancy Limited	UK	100%
Shine Marketing UK Limited	UK	100%
K3 Business Solutions Pte Ltd	Singapore	100%
K3 Business Solutions ehf	Iceland	100%
K3 Systems Support Limited	UK	100%

The principal activity of all the subsidiary undertakings is the supply of computer software and consultancy with the exception of the following: K3 Hosting Limited, K3 Managed Services (International) Limited, K3 Panacea Limited and K3 Systems Support 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 2013

14 Available-for-sale investments

	2013 £'000	2012 £'000
Beginning of period	98	196
Disposals	–	(98)
End of period	98	98

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 2013. 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 fair value of the remaining investment is considered not to be impaired.

Available-for-sale financial assets include the following:

	2013 £'000	2012 £'000
Unquoted:		
Equity Securities – UK	98	98

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 10% interest in Cyntergy Limited.

15 Trade and other receivables

	2013 £'000	2012 £'000
Trade receivables	17,306	23,063
Less: provision for impairment of trade receivables	(1,433)	(1,155)
Trade receivables – net	15,873	21,908
Current taxes	908	–
Other receivables	1,058	1,067
Accrued income	3,143	4,025
Prepayments	4,269	3,322
	25,251	30,322

The fair value of trade and other receivables approximates to book value at 30 June 2013 and 30 June 2012.

Of the above, trade receivables of £0.50m (2012: £0.59m) and accrued income of £0.17m (2012: £0.10m) 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 3,000 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 £1.43m (2012: £1.16m).

15 Trade and other receivables (continued)

As at 30 June 2013 trade receivables of £3.46m (2012: £6.09m) 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:

	2013 £'000	2012 £'000
Up to 3 months overdue	653	1,582
3 to 6 months overdue	1,624	2,162
6 to 12 months overdue	565	1,170
Over 12 months overdue	622	1,180
	3,464	6,094

As at 30 June 2013 trade receivables of £1.43m (2012: £1.16m) 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:

	2013 £'000	2012 £'000
Pound Sterling	18,711	21,882
Euro	6,404	8,165
US Dollar	104	254
Singapore Dollar	32	21
	25,251	30,322

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

	2013 £'000	2012 £'000
At beginning of period	1,155	818
Acquired on business combinations	–	54
Provided during the period	968	1,001
Utilised during the period	(690)	(527)
Unused amounts released	–	(191)
At end of period	1,433	1,155

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 2013

16 Trade and other payables – current

	2013 £'000	2012 £'000
Trade payables	5,702	4,943
Other payables	555	1,213
Deferred consideration (see note 18)	–	280
Accruals	5,728	5,127
Total financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost	11,985	11,563
Contingent consideration (see note 18)	392	1,687
Derivative financial instruments (see note 20)	–	1
Other tax and social security taxes	2,135	3,185
Deferred revenue	10,569	13,158
	25,081	29,594

The fair value of contingent consideration was based on the present value of cash flows.

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 2013 and 30 June 2012.

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

	2013 £'000	2012 £'000
Up to 3 months	10,266	10,567
3 to 6 months	311	701
6 to 12 months	1,408	296
	11,985	11,564

17 Loans and borrowings

	2013 £'000	2012 £'000
Non-current		
Bank loans (secured)	–	–
Finance lease creditors (note 24)	32	–
	32	–
Current		
Bank overdrafts	1,105	2,075
Bank loans (secured)	12,290	15,052
Finance lease creditors (note 24)	16	11
Loans from related parties (note 28)	640	640
	14,051	17,778
Total borrowings	14,083	17,778

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	2013	See below
Secured bank loan	EUR	2.45% over EURIBOR	2013	See below
Loans from related parties	GBP	8.5%	2013	Unsecured
Finance lease creditors (note 24)	GBP	14%	2013	Secured

The above split between non-current and current loans and borrowings reflects the situation as at 30 June 2013.

In September 2013 the Group agreed the extension of existing facilities through to December 2014 on substantially the same terms.

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

£0.24m of the sterling bank loans at 30 June 2012 were covered by an interest rate collar which reduced the group's exposure to movements in interest rates. The maximum underlying LIBOR interest rate to which the group was exposed on this loan was 5.75%; the minimum was 4.75% (see note 20). The arrangement ceased in August 2012.

Maturity analysis of loans and borrowings:

	2013 £'000	2012 £'000
In less than one year	14,151	17,817
In more than one year but not more than two years	20	–
In more than two years but not more than five years	17	–
	14,188	17,817

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2013

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 2013 of £3.76m (2012: £2.93m) 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 2014.

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

	2013 £'000	2012 £'000
Pound Sterling	11,500	15,312
Euro	2,583	2,466
US Dollars	–	–
	14,083	17,778

The Euro loan has been re-valued at the year end with a loss on the translation of the loan of £0.10m (2012: gain of £0.38m) of which £0.08m relates to the net investment hedge and is recognised in the translation reserve within equity.

18 Other non-current liabilities

	2013 £'000	2012 £'000
Contingent consideration	–	342
Deferred consideration	–	184
Accruals	225	366
	225	892

Contingent consideration at 30 June 2012 was in relation to the acquisitions of IBS and Unisoft and was included at the fair value. Deferred consideration at 30 June 2012 was 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 £0.05m (2012: £0.01m) and loans from related parties of £0.64m (2012: £0.64m). The fixed rates applicable are 14% and 8.5% respectively.

Bank debt totalling £12.29m (2012: £15.05m) is held under floating rates linked to quarterly LIBOR and EURIBOR. Until August 2012 the group made use of interest rate collar arrangements to mitigate its exposure to fluctuations in LIBOR. As at 30 June 2012, 2% of outstanding bank debt was covered by these arrangements.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2013

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.

	2013 £'000	2012 £'000
Total equity	51,125	46,905
Less: amounts in cashflow hedging reserve	–	–
amounts in translation reserve	(1,297)	(753)
	49,828	46,152

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. 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 2% movement in the Euro rate to be reasonably possible as at the reporting date. The effect of a 2% 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 2013

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 2013

	Notes	Loans and receivables £'000	Available-for-sale £'000	Financial instruments Derivatives designated as hedging relationships £'000	Amortised cost £'000	At FVTPL £'000	Non financial instruments £'000	Total £'000
Assets								
Non current assets		–	–	–	–	–	69,300	69,300
Available-for-sale		–	98	–	–	–	–	98
Trade and other receivables:								
Trade receivables	15	15,873	–	–	–	–	–	15,873
Other non derivative financial assets	15	1,058	–	–	–	–	–	1,058
Non financial instruments	15	–	–	–	–	–	7,412	7,412
Current tax assets	15	–	–	–	–	–	908	908
Cash and cash equivalents		272	–	–	–	–	–	272
Total assets		17,203	98	–	–	–	77,620	94,921
Liabilities								
Borrowings:								
Current	17	–	–	–	(14,051)	–	–	(14,051)
Non-current	17	–	–	–	(32)	–	–	(32)
Deferred tax liabilities	21	–	–	–	–	–	(4,267)	(4,267)
Other non current liabilities	18	–	–	–	(225)	–	–	(225)
Trade and other payables:								
Trade payables	16	–	–	–	(5,702)	–	–	(5,702)
Derivative financial liabilities	16	–	–	–	–	–	–	–
Contingent consideration	16/18	–	–	–	–	(392)	–	(392)
Other non derivative financial liabilities	16	–	–	–	(6,283)	–	–	(6,283)
Non financial instruments	16	–	–	–	–	–	(12,704)	(12,704)
Current tax liabilities		–	–	–	–	–	(140)	(140)
Total liabilities		–	–	–	(26,293)	(392)	(17,111)	(43,796)
Net assets		17,203	98	–	(26,293)	(392)	60,509	51,125

19 Financial instruments (continued)

At 30 June 2012

	Notes	Financial instruments Loans and receivables £'000	Available-for-sale £'000	Derivatives designated as hedging relationships £'000	Amortised cost £'000	At FVTPL £'000	Non financial instruments £'000	Total £'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
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

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2013

19 Financial instruments (continued)

Financial instruments measured at fair value

	Fair value measurements at 30 June 2013			Fair value measurements at 30 June 2012		
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets						
Equity investments	–	–	98	–	–	98
Financial liabilities						
Derivative financial liabilities	–	–	–	–	–	(1)
Contingent consideration	–	–	(392)	–	–	(2,029)

Level 3 fair value measurements

	Unlisted available-for-sale investments		Contingent consideration	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Opening balance	98	196	(2,029)	(1,347)
On acquisitions	–	–	–	(1,820)
Payments	–	–	1,431	747
Measurement period adjustments	–	–	156	406
Gain/loss in income statement	–	–	50	(15)
Disposals in the period	–	(98)	–	–
Closing balance	98	98	(392)	(2,029)

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% (2012: 13%). Were the risk premium adjustments to be increased by 2%, the fair value of the level 3 asset would have been reduced by £nil (2012: £0.01m).

20 Derivative financial instruments

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

	2013 £'000	2012 £'000
Derivatives designated as hedging instruments		
Interest rate collar – cash flow hedge	–	(1)

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 was 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.

Losses recognised in the cash flow hedge reserve in equity (note 23) on the interest collar as of 30 June 2012 were released to the income statement during the year ended 30 June 2013.

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.

Hedge of net investment in foreign entity

The group has Euro denominated borrowing amounting to £0.91m (2012: £2.47m) which is designated as a hedge of the net assets in the Group's Dutch subsidiary K3 Business Solutions B.V. The fair value of the borrowing at 30 June 2013 was £0.91m (2012: £2.47m). The foreign exchange loss of £0.08m 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 23% (2012: 24%).

The movement on net deferred tax is as shown below:

	2013 £'000	2012 £'000
At 30 June 2012	(4,195)	(3,876)
Credit to income statement	647	1,079
On business combinations	72	(1,451)
Credit to equity – re share options	(27)	(53)
Effect of movements in foreign exchange rates	(41)	106
At 30 June 2013	(3,544)	(4,195)

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 2013

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 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
Charge (credit) to income statement	25	169	(291)	(97)
Credit to equity	–	(27)	–	(27)
On business combinations	–	–	137	137
At 30 June 2013	166	324	233	723

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 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)
On business combinations	–	(65)	(65)
(Charge) credit to income statement	(167)	911	744
Effects of movements in foreign exchange rates	–	(41)	(41)
At 30 June 2013	(758)	(3,509)	(4,267)

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

No deferred tax has been provided on temporary differences of £1.72m (2012: £1.27m) relating to the unremitted earnings of foreign subsidiaries.

22 Share capital

	Issued and fully paid			
	2013 Number	2013 £'000	2012 Number	2012 £'000
Ordinary shares of 25p each				
At beginning of the period	28,478,054	7,120	25,907,755	6,477
Other issued for cash during the period	2,848,184	712	2,564,408	641
Employee share options exercised	107,787	27	5,891	2
At end of the period	31,434,025	7,859	28,478,054	7,120

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

	2013 Number	2012 Number
Own shares held	114,761	111,634

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 2013

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
120,000	100p	⅓ on the achievement of market prices of 125p, 150p and 175p	Between 8 March 2007 and 7 March 2014
144,000	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

114,000 options were exercised during the year and 1,050,000 options lapsed unexercised during the year. 3,787 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 motor vehicles (net carrying value £0.07m). 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:

		2013	
	Minimum lease payments £'000	Interest £'000	Present value £'000
Not later than one year	20	(4)	16
Later than one year and not later than five years	38	(6)	32
	58	(10)	48

		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

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

	2013 £'000	2012 £'000
Current liabilities	16	11
Non-current liabilities	32	–
	48	11

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:

	2013 £'000	2012 £'000
Not later than one year	1,948	1,836
Later than one year and not later than five years	2,308	2,694
Later than five years	686	701
	4,942	5,231

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2013

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 2013 are £0.95m (2012: £0.70m).

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.

	2013		2012	
	Weighted average exercise price (pence)	Options (number)	Weighted average exercise price (pence)	Options (number)
Outstanding at beginning of the period	103.36	1,847,928	103.14	1,988,819
Granted during the period	–	–	–	–
Exercised during the period	68.57	(107,787)	118.80	(5,891)
Lapsed during the period	89.13	(1,207,632)	99.44	(135,000)
Outstanding at the end of the period	107.86	532,509	103.36	1,847,928

The exercise price of options outstanding at the end of the period ranged between 94.0p and 118.8p (2012: 62.5p and 118.8p) and their weighted average contractual life was 4.54 years (2012: 4.44 years).

Of the total number of options outstanding at the end of the period, 264,000 (2012: 368,001) had vested and were exercisable at the end of the period at an average exercise price of 96.73p (2012: 88.25p).

The weighted average share price (at the date of exercise) of options exercised during the period was 68.57p (2012: 118.8p).

No options were granted during either year.

26 Share-based payments (continued)

	2013 £'000	2012 £'000
The share-based remuneration expense (note 4) comprises:		
Equity-settled schemes	70	72

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 2013

27 Acquisitions of prior 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 was payable dependent on the completion of certain contracts and was paid in full in February and October 2012. Further contingent consideration of up to £0.50m is payable dependent on increases in gross margins generated over the next two years. £0.10m was paid in October 2012.

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

	Fair value £'000
Assets	
Other intangible assets	1,010
Deferred tax assets	16
Liabilities	
Other payables	(62)
Deferred tax liabilities	(263)
Net assets	701
Consideration	
Initial cash consideration	838
Contingent cash consideration (note 16)	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 the balance in October 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. £0.10m was paid in October 2012.

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.

27 Acquisitions of prior 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 was payable and was paid shortly after completion. Further contingent consideration was payable dependent on profits generated in the year after acquisition and £0.07m was paid in January 2013.

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

	Fair value £'000
Assets	
Property, plant and equipment	118
Other intangible assets	2,321
Deferred tax assets	30
Trade receivables	1,270
Other current assets	451
Cash and cash equivalents	62
Liabilities	
Bank loans	(414)
Trade and other payables	(3,705)
Deferred tax liabilities	(585)
Net liabilities	(452)
Consideration	
Initial cash consideration	2,230
Deferred cash consideration	50
Contingent cash consideration (note 16)	67
	2,347
Goodwill (note 12)	2,799
Acquisition costs charged to income statement	74

Since 30 June 2012, the provisional fair value of trade receivables has been adjusted by £0.05m following the recovery of those receivables. Further accruals have been made totalling £0.09m in relation to certain contracts.

The deferred consideration of £0.05m was paid shortly following completion. The contingent consideration was payable dependent on profits generated in the year after acquisition. The fair value of the contingent consideration has decreased from £0.10m to £0.07m as a result of finalising the provisional fair values reported last year.

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.

Notes forming part of the Financial Statements (continued)
for the year ended 30 June 2013

27 Acquisitions of prior 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 was 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:

	Fair value £'000
Assets	
Property, plant and equipment	29
Deferred tax asset	194
Other intangible assets	917
Trade receivables	277
Liabilities	
Other payables	(807)
Deferred tax liabilities	(229)
Net assets	381
Consideration	
Initial cash consideration	491
Contingent cash consideration (note 16)	795
	1,286
Goodwill (note 12)	905
Acquisition costs charged to income statement	221

Since 30 June 2012, the provisional fair value of accruals has been adjusted by £0.60m in relation to certain contracts and a corresponding deferred tax asset of £0.14m has been recognised.

The further consideration was payable dependent on certain criteria and €0.93m was paid in November 2012. Contingent consideration of up to €1.27m was payable dependent on profits generated in the three years following acquisition. It has now been agreed that no contingent consideration will be payable. The fair value of the further and contingent consideration has been reduced from £0.89m to £0.80m as a result of finalising the provisional fair values reported last year.

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.

27 Acquisitions of prior 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:

	Fair value £'000
Assets	
Other intangible assets	1,630
Deferred tax assets	134
Other current assets	8
Liabilities	
Trade and other payables	(535)
Deferred tax liabilities	(408)
Net assets	829
Consideration	
Initial cash consideration	1,400
Contingent cash consideration (note 16)	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 and it is anticipated that it will be paid in January 2014. 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.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2013

27 Acquisitions of prior 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 was payable dependent on the outcome of certain warranty and indemnity claims in the period of one year after acquisition and was paid in January 2013. Contingent consideration of up to £0.20m is payable dependent on profits generated in the two years after acquisition. £0.10m was paid in May 2013.

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

	Fair value £'000
Assets	
Property, plant and equipment	22
Other intangible assets	502
Trade receivables	482
Other current assets	97
Cash and cash equivalents	1,807
Liabilities	
Trade and other payables	(726)
Current tax	(179)
Deferred tax liabilities	(128)
Net assets	1,877
Consideration	
Initial cash consideration	1,130
Initial cash consideration in respect of surplus cash	1,500
Contingent cash consideration (note 16)	350
	2,980
Goodwill (note 12)	1,103
Acquisition costs charged to income statement	62

Since 30 June 2012, the provisional fair value of accruals has been adjusted by £0.05m in relation to certain commitments to employees.

£0.15m of contingent consideration was payable dependent on the outcome of certain warranty and indemnity claims in the year after acquisition and was paid in January 2013. £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. £0.10m was paid in May 2013.

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.

28 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 (2012: £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 (2012: £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.

29 Events after the reporting date

In September 2013 the Group agreed the extension of existing bank facilities through to December 2014 on substantially the same terms.

In September 2013 the Board announced a proposed dividend of 1.0p per share to shareholders on the record on 13 December 2013. Subject to shareholder approval at the forthcoming annual general meeting the dividend will be paid on 17 January 2014.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2013

30 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:

	2013 £'000	2012 £'000
Cash generated from operating activities	8,022	7,284
Add:		
Regularising liabilities	–	1,236
Acquisition costs	–	593
Exceptional reorganisation costs	637	409
Exceptional income	–	(755)
Adjusted cash generated from operations	8,659	8,767

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

	2013 £'000	2012 £'000
Initial consideration	(10)	(7,820)
Cash balances acquired	–	1,455
Contingent and deferred consideration	(1,931)	(768)
	(1,941)	(7,133)

Cash and cash equivalents comprise:

	2013 £'000	2012 £'000
Cash available on demand	272	2,096
Overdrafts	(1,105)	(2,075)
	(833)	21

31 Notes to the Chairman's Statement and Business Review

*1 Calculated before cashflows in respect of regularising liabilities of £nil (2012: £1.24m), acquisition costs of £nil (2012: £0.59m), exceptional reorganisation costs of £0.64m (2012: £0.41m) and exceptional income of £nil (2012: £0.76m).

*2 Calculated before amortisation of acquired intangibles of £3.18m (2012: £3.59m), acquisition costs of £nil (2012: £0.59m), exceptional reorganisation costs of £0.73m (2012: £0.56m) and exceptional income of £nil (2012: £0.76m)

*3 Calculated before amortisation of acquired intangibles of £3.18m (2012: £3.59m), acquisition costs of £nil (2012: £0.59m), exceptional reorganisation costs of £0.73m (2012: £0.56m) and exceptional income of £nil (2012: £0.76m)

*4 Calculated before amortisation of acquired intangibles (net of tax) of £2.27m (2012: £2.35m), acquisition costs (net of tax) of £nil (2012: £0.59m), exceptional reorganisation costs (net of tax) of £0.58m (2012: £0.42m) and exceptional income of £nil (2012: £0.56m).

*5 Calculated before amortisation of acquired intangibles of £3.18m (2012: £3.59m), acquisition costs of £nil (2012: £0.59m), exceptional reorganisation costs of £0.73m (2012: £0.56m) and exceptional income of £nil (2012: £0.76m).

*6 Calculated before cashflows in respect of regularising liabilities of £nil (2012: £1.24m), acquisition costs of £nil (2012: £0.59m), exceptional reorganisation costs of £0.64m (2012: £0.41m) and exceptional income of £nil (2012: £0.76m).

*7 Calculated before amortisation of acquired intangibles (net of tax) of £2.27m (2012: £2.35m), acquisition costs (net of tax) of £nil (2012: £0.59m), exceptional reorganisation costs (net of tax) of £0.58m (2012: £0.42m) and exceptional income of £nil (2012: £0.56m).

*8 Calculated before amortisation of acquired intangibles of £0.60m (2012: £0.53m), acquisition costs of £nil (2012: £0.22m) and exceptional reorganisation costs of £0.11m (2012: £0.03m).

*9 Calculated before amortisation of acquired intangibles of £0.60m (2012: £0.53m), acquisition costs of £nil (2012: £0.22m) and exceptional reorganisation costs of £0.09m (2012: £0.03m).

*10 Calculated before amortisation of acquired intangibles of £1.83m (2012: £1.64m), acquisition costs of £nil (2012: £0.16m) and exceptional reorganisation costs of £0.27m (2012: £0.27m).

*11 Calculated before amortisation of acquired intangibles of £0.58m (2012: £1.25m), acquisition costs of £nil (2012: £0.22m), exceptional costs of £0.05m (2012: £nil) and exceptional income of £nil (2012: £0.76m).

*12 Calculated before amortisation of acquired intangibles of £0.17m (2012: £0.17m) and exceptional costs of £0.03m (2012: £nil).

*13 Calculated before amortisation of acquired intangibles of £3.18m (2012: £3.59m), acquisition costs of £nil (2012: £0.59m), exceptional reorganisation costs of £0.73m (2012: £0.56m) and exceptional income of £nil (2012: £0.76m).

*14 Calculated before amortisation of acquired intangibles (net of tax) of £2.27m (2012: £2.35m), acquisition costs (net of tax) of £nil (2012: £0.59m), exceptional reorganisation costs (net of tax) of £0.58m (2012: £0.42m) and exceptional income (net of tax) of £nil (2012: £0.56m).

Company Balance Sheet
as at 30 June 2013

	Notes	2013 £'000	2012 £'000
Fixed assets			
Development costs	5	1,637	1,263
Goodwill	5	930	2,702
Intangible fixed assets		2,567	3,965
Tangible assets	6	207	191
Investments	7	40,830	41,991
		43,604	46,147
Current assets			
Debtors	8	20,058	21,904
Cash at bank and in hand		1	667
		20,059	22,571
Creditors: Amounts falling due within one year	9	(25,617)	(32,754)
Net current liabilities		(5,558)	(10,183)
Total assets less current liabilities		38,046	35,964
Creditors: Amounts falling due after more than one year	10	(51)	(338)
Provisions for liabilities and charges	11	(178)	(301)
Net assets		37,817	35,325
Capital and reserves			
Called-up share capital	12	7,859	7,120
Share premium account	13	9,183	7,239
Other reserve	13	10,324	10,324
Profit and loss account	13	10,451	10,642
Equity shareholders' funds	15	37,817	35,325

The financial statements on pages 84 to 98 were approved and authorised for issue by the Board of Directors on 16 September 2013 and were signed on its behalf by:

NA Makeham
Director

DJ Bolton
Director

The notes on pages 85 to 98 form part of these financial statements.

Notes forming part of the Company Financial Statements
for the year ended 30 June 2013

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 £221,000 (2012: £883,000) 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 2013

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 2013

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 £31,000 (2012: £1,136,000).

3 Staff numbers

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

	2013 Number	2012 Number
Consultants and programmers	123	141
Sales and distribution	10	14
Administration	25	25
	158	180

Their aggregate remuneration comprised:

	2013 £'000	2012 £'000
Wages and salaries	8,541	8,264
Social security costs	1,033	1,212
Other pension costs (see note 17)	182	197
	9,756	9,673

4 Directors' remuneration, interests and transactions

Aggregate remuneration

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

	2013 £'000	2012 £'000
Emoluments	433	383
Gains on exercise of share options	90	–
Contributions to personal pension schemes	37	36
	560	419

The aggregate emoluments of the highest paid director were £243,628 (2012: £200,376) and company pension contributions of £18,276 (2012: £17,746) were made to a defined contribution scheme on his behalf.

	2013	2012
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 2013

5 Intangible fixed assets

	Development costs £'000	Goodwill £'000	Total £'000
Cost			
At 1 July 2012	2,793	8,197	10,990
Additions	925	100	1,025
Intra – group transfers	–	(1,627)	(1,627)
At 30 June 2013	3,718	6,670	10,388
Amortisation			
At 1 July 2012	1,530	5,495	7,025
Charge for the year	551	335	886
Intra – group transfers	–	(90)	(90)
At 30 June 2013	2,081	5,740	7,821
Net book value			
At 30 June 2013	1,637	930	2,567
At 30 June 2012	1,263	2,702	3,965

The goodwill arising during the year relates to an adjustment to the goodwill arising on the acquisition of the trade and certain assets of Azurri Retail. The intra group transfer relates to the goodwill arising on the acquisition of the trade and certain assets of Integrated Business Solutions which was transferred to K3 BTG Limited, a subsidiary, on 1 July 2012.

6 Tangible fixed assets

	Leasehold improvements £'000	Plant, office equipment and fixtures £'000	Total £'000
Cost			
At 1 July 2012	251	473	724
Additions	–	157	157
Disposals	(203)	(329)	(532)
At 30 June 2013	48	301	349
Depreciation			
At 1 July 2012	251	282	533
Charge for the year	–	141	141
Disposals	(203)	(329)	(532)
At 30 June 2013	48	94	142
Net book value			
At 30 June 2013	–	207	207
At 30 June 2012	–	191	191

Notes forming part of the Company Financial Statements (continued)

for the year ended 30 June 2013

7 Fixed asset investments

	2013 £'000	2012 £'000
Subsidiary undertakings	40,830	41,991

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	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 Hosting Limited (formerly K3 Managed Services Limited)	UK
+ K3 Managed Services (International) Limited	Ireland
+ K3 Panacea Limited	UK
Sense Enterprise Solutions Limited	UK
+ K3 Business 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
+ Intelligent Solutions Consultancy Limited	UK
+ Shine Marketing UK Limited	UK
K3 Singapore Pte Ltd	Singapore
K3 Business Solutions ehf	Iceland
+ K3 Systems Support Limited	UK

The principal activity of all the subsidiary undertakings is the supply of computer software and consultancy, with the exception of K3 Hosting Limited, K3 Managed Services (International) Limited, K3 Panacea Limited and K3 Systems Support 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 2012	42,129
Adjustments	(1,583)
Revaluation of investment in foreign subsidiaries	148
Additions	1,218
Disposals	(384)
At 30 June 2013	41,528
Amounts written off	
At 1 July 2012	138
Provisions made during the year	560
At 30 June 2013	698
Net book value	
At 30 June 2013	40,830
At 30 June 2012	41,991

£1,467,000 of the adjustments relates to the offset of dividends from subsidiaries out of profits earned prior to them becoming part of the K3 group. £116,000 relates to adjustments to the contingent consideration due in respect of the subsidiaries acquired during 2011. The additions of £1,218,000 relate to the capitalisation of inter-company balances with K3 Managed Services Limited and Shine Marketing UK Limited. The disposal in the year relates to the transfer of the company's investment in Retail Computer Maintenance Limited to Retail Systems Group Limited, another subsidiary of the company.

The provisions made during the year relate to the investment in Shine Marketing UK Limited which has been fully written down.

8 Debtors

	2013 £'000	2012 £'000
Amounts falling due within one year:		
Trade debtors	4,129	6,653
Amounts owed by subsidiary undertakings	12,971	12,151
Other debtors	67	85
Corporation tax	1,405	556
Prepayments and accrued income	1,486	2,459
	20,058	21,904

Of the above amounts, £1,095,000 of amounts due from subsidiary undertakings (2012: £nil) falls due after more than one year.

Notes forming part of the Company Financial Statements (continued)

for the year ended 30 June 2013

9 Creditors: Amounts falling due within one year

	2013 £'000	2012 £'000
Bank loans and overdrafts	16,720	19,260
Other loans due to related parties (note 18)	640	640
Trade creditors	1,485	1,697
Amounts owed to subsidiary undertakings	2,245	4,530
Taxation and social security	375	787
Other creditors	373	445
Deferred consideration	360	680
Accruals	1,689	1,906
Deferred income	1,730	2,809
	25,617	32,754

The bank loans and overdrafts are secured by a fixed and floating charge over the assets of the group.

10 Creditors: Amounts falling due after more than one year

	2013 £'000	2012 £'000
Deferred consideration	–	200
Accruals	51	138
	51	338

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

	2013 £'000	2012 £'000
Bank overdrafts		
On demand or within one year	4,430	4,208
Bank loans		
Between one and two years	–	–
Between two and five years	–	–
	–	–
On demand or within one year	12,290	15,052
	12,290	15,052
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 2013

11 Deferred taxation

	2013 £'000	2012 £'000
Accelerated capital allowances	43	38
Other timing differences	(367)	(339)
Losses	146	–
Deferred tax liability	(178)	(301)

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

	Accelerated capital allowances £'000	Other timing differences £'000	Losses £'000	Total £'000
At 1 July 2012	38	(339)	–	(301)
Charged to profit and loss	5	(28)	146	123
At 30 June 2013	43	(367)	146	(178)

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

	2013 £'000	2012 £'000
Allotted, called-up and fully-paid		
31,434,025 ordinary shares of 25p each (2012: 28,478,054)	7,859	7,120

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 2012	7,239	10,324	10,642
Retained profit for the year	–	–	31
Dividends to equity shareholders	–	–	(286)
Credit to equity for equity-settled share-based payments	–	–	70
Movement in own shares held	–	–	(6)
Share capital issued	1,944	–	–
At 30 June 2013	9,183	10,324	10,451

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 114,761 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 2013 was £116,000.

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 2013

15 Reconciliation of movements in shareholders' funds

	2013 £'000	2012 £'000
Profit for the financial period	31	1,136
Issue of share capital	2,683	5,019
Dividends to equity shareholders	(286)	(214)
Credit to equity for equity-settled share-based payments	70	72
(Purchase) transfer of own shares	(6)	7
Net addition to shareholders' funds	2,492	6,020
Opening shareholders' funds	35,325	29,305
Closing shareholders' funds	37,817	35,325

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:

	2013		2012	
	Land and buildings £'000	Other £'000	Land and buildings £000	Other £'000
Expiry date				
– within one year	–	28	–	11
– between two and five years	357	66	297	96
	357	94	297	107

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 company 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 £182,000 (2012: £197,000).

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 28 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 £13,395,000.

Unaudited Five Year Summary

	Year ended 30 June*1				Year ended 31 December
	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2008 £'000
Revenue	63,513	67,961	52,800	43,842	37,619
Adjusted profit from operations*2	5,094	11,333	9,581	7,572	7,348
Profit from operations	1,185	7,352	5,813	5,492	5,370
Profit before tax	462	6,043	4,908	4,643	3,942
Profit after tax	1,242	5,724	4,480	3,648	2,805
Adjusted basic earnings per share*3 (pence)	14.0	30.2	27.5	20.5	17.6
Basic earnings per share (pence)	4.3	20.3	17.5	14.6	11.8
Cash and cash equivalents	(833)	21	113	(571)	2,828
Gross debt*4	14,083	17,778	16,300	11,351	15,840
Net debt*5	13,811	15,682	15,486	10,982	13,012
Adjusted cashflow from operations*6	8,659	8,767	8,275	6,856	6,375
Net cashflow from operations	8,022	7,284	5,640	6,856	6,375

*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 30 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 27 November 2013 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 6 will be proposed as ordinary resolutions and resolutions 7, 8 and 9 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 2013.
2. To re-elect Mr TA Milne as a director in accordance with Article 96 of the Articles of Association.
3. To appoint Mr PJ Cookson as a director of the company, who was appointed by the Board since the last annual general meeting.
4. 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.
5. To declare a final dividend for the year ended 30 June 2013 of 1.0p per ordinary share of 25 pence each in the issued share capital of the Company.
6. 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 £2,619,502 (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

7. That subject to and conditional on the passing of resolution 6 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 6 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:

7.1 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

7.2 otherwise than pursuant to sub-paragraph 7.1 above, up to an aggregate nominal amount of £785,851 (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.

Special Business

Authority to Repurchase Ordinary Shares

8. 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 4,711,960 (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 2014 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.

Notice of Annual General Meeting (continued)

Alteration to Articles of Association

9. That the articles of association of the Company be amended:

   (a) by deleting the present article 155 and replacing it with the following new article 155:

   "155. The Company may pay any dividend, interest or other sum payable in respect of a share in cash or by direct debit, bank transfer, cheque, dividend warrant, or money order or by any other method, including by electronic means, as the Board may consider appropriate. The Company may send such payment by post or other delivery service (or by such means offered by the Company as the member or person entitled to it may agree in writing) to the registered address of the member or person entitled to it (or, in the case of joint holders, to the registered address of such of those persons as is first named in the register) or to such person and such address as such member or person may direct in writing. Every cheque, warrant, order or other form of payment is sent at the risk of the person entitled to the money represented by it, shall be made payable to the person or persons entitled, or to such other person as the person or persons entitled may direct in writing. Payment of the cheque, warrant, order or other form of payment (including transmission of funds through a bank transfer or other funds transfer system or by such other electronic means as permitted by these Articles or in accordance with the facilities and requirements of the relevant system concerned) shall be good discharge to the Company." and

   (b) by inserting the following new article 167A:

   "167A If on two consecutive occasions any notice (including but not limited to any notice of a general meeting), document or other information has been sent to any member at his registered address or his address for the service of notices (by electronic means or otherwise) but has been returned undelivered, such member shall not be entitled to receive notices, documents or other information from the Company until he shall have communicated with the Company and supplied in writing a new registered address or address within the United Kingdom for the service of notices or has informed the Company of an address for the service of notices and the sending or supply of documents and other information in electronic form. For these purposes, any notice, document or other information served, sent or supplied by post shall be treated as returned undelivered if the notice, document or other information is served, sent or supplied back to the Company (or its agents) and a notice, document or other information served, sent or supplied in electronic form shall be treated as returned undelivered if the Company (or its agents) receives notification that the notice, document or other information was not delivered to the address to which it was served, sent or supplied."

Registered Office

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

Dated 21 October 2013

By order of the Board

BS Davis
Company Secretary

Notes to the Notice of Annual General Meeting

Please refer to notes 8 to 21 relating to entitlement to attend and vote at the meeting and the appointment of proxies.

1. Mr TA Milne was appointed as Chairman of the Company in May 2006. Biographical details of Mr TA Milne are set out on page 27 to these financial statements
2. Mr PJ Cookson was appointed by the Board as a non-executive director on 11 July 2013. Biographical details of Mr PJ Cookson are set out on page 27 to these financial statements.
3. The payment of a dividend requires approval of the shareholders and that approval is sought in Resolution 5.
4. Resolution 6 would empower the directors to allot shares for any reason up to an aggregate nominal amount of £2,619,502 representing approximately one-third of the issued share capital of the Company at the date of the notice of Annual General Meeting.
5. Resolution 7 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 7.1 and 7.2 of that resolution. Sub-paragraph 7.1 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 7.2 permits allotments for cash (other than rights issues or similar) of ordinary shares up to an aggregate nominal amount of £785,851 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.
6. Resolution 8 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 4,711,960 of its ordinary shares, representing approximately 14.99 per cent of the Company's issued ordinary share capital (excluding treasury shares) as at 21 October 2013. 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 2014 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).
7. Under resolution 9, the Company is proposing to amend its articles of association to:
   (a) make express reference to the fact that dividends and other payments made in respect of shares can be made by direct debit, bank transfer or such other means (including electronic) that the Board considers appropriate, in addition to the methods of payment specified in the current articles (cheque, warrant and money order);
   (b) enable the Company to cease sending documents, notices and other information to members for whom the Company does not have a correct current address. The intention of this new article 167A is to save the Company the time and expense that would otherwise be incurred sending information that would not be received by a member.

Notice of Annual General Meeting (continued)

Notes to the Notice of Annual General Meeting (continued)

8. 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.
9. The Company specifies that only those members registered on the Company's register of members at:
   - 6.00pm on 25 November 2013; 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.

Issued shares and total voting rights

10. As at 5.00pm on 21 October 2013, the Company's issued share capital comprised 31,434,025 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 21 October 2013 is 31,434,025.

Documents on display

11. 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.
    - A copy of the Company's existing articles of association and proposed new articles of association marked to show all the changes.

Appointment of proxies

12. If you are a member of the Company at the time set out in note 9 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.
13. 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.
14. 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.
15. 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

16. 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 Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU or delivered to Capita Asset Services at The Registry, 34 Beckenham Road, Beckenham Road, Kent BR3 4TU; and
    - received by Capita Asset Services no later than 10.30am on 25 November 2013.

    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

17. 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 25 November 2013.

CREST proxy voting (uncertificated shareholders)

18. (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.

Notes to the Notice of Annual General Meeting (continued)

Appointment of proxy by joint members

19. 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).

Changing proxy instructions

20. 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 Asset Services 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

21. 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 Asset Services, 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 Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU no later than 10.30am on 25 November 2013.

    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, Capita Asset Services, 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, Capita Asset Services, 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, Capita Asset Services, 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 PJ Claesson (non-executive) PJ Cookson (non-executive)	NA Makeham 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 Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU	
Financial PR:	Biddicks, No.1 Cornhill, London EC3V 3ND	

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