K3 Business Technology Group plc

Annual report and financial statements for the year ended 30 June 2014

World Class Software. World Class Service.

K3 Business Technology Group plc

K3 is the UK's leading supplier of integrated business systems encompassing mission critical business software*, Customer Relationship Management (CRM) software, Business Intelligence and e-commerce, hosting and managed services to the retail, manufacturing and distribution sectors. Focussed on these markets, we support more than 3,100 customers in over 30 countries.

*Enterprise Resource Planning (ERP)

AIM: KBT
k3btg.com

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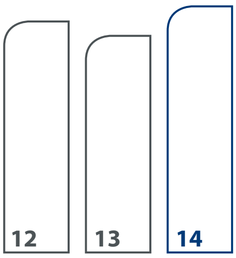
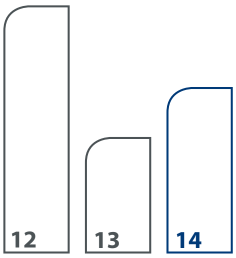
Financial Key Points

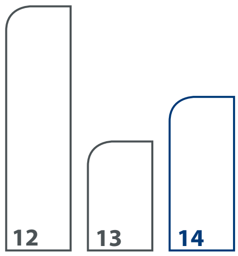
Very encouraging results – reflecting growing sales of new Microsoft-based flagship solution, "ax|is"



Revenue
£71.95m



Adjusted Operating Profit*1
£7.30m



Adjusted EPS*2
£18.6p

Operational Key Points

- Major contracts wins more than doubled to £25.3m (2013: £11.80m and 2012: £12.94m):
  - £12.63m of "ax|is" contracts signed (50% of total), including high profile retailers
  - Microsoft UK Division returned to profit
- SYSPRO and Sage Division continued to generate high levels of recurring income (46% of Group's total recurring income base) and good cash flows
- Managed Services Division delivered improved performance
  - including return to profitability
- Next steps for "ax|is" solution include:
  - capitalising on deepening Microsoft relationship
  - increased investment to broaden international channel to market
  - further software product releases tailored to specific market segments
- Board expects business recovery to continue and views growth prospects very positively
  - pipeline of opportunities is significant

*1 Calculated before amortisation of acquired intangibles of £2.99m (2013: £3.18m) and exceptional reorganisation costs of £1.72m (2013: £0.73m).

*2 Calculated before amortisation of acquired intangibles (net of tax) of £1.95m (2013: £2.27m) and exceptional reorganisation costs (net of tax) of £1.34m (2013: £0.58m).

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.

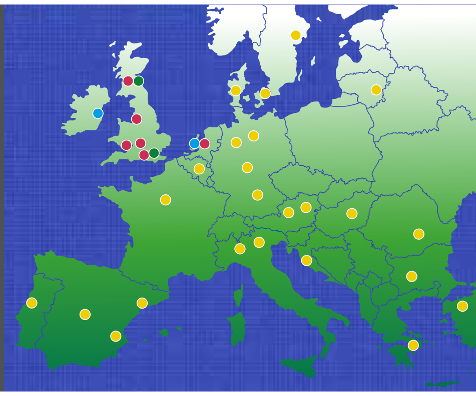
We have loyal customers and once installed, our software systems can remain in place for 15 years or longer. This ensures that K3 generates very high levels of recurring income.

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.

David Bolton
Chief Executive Officer

- Over **3,100** customers
- **10 support** centres across the **UK and Europe**
- c**680** staff
- Microsoft **Inner Circle**
- Microsoft **President's Club**
- **Investors** in People
- Sage X3 **partner of the year**

K3 Europe



K3 Distributors
K3 Development Centres
K3 Hosting Centres
K3 Offices

K3 supports 64 distributors and over 3,000 customers in more than 30 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. Over the last two years, K3 has invested heavily in its new ax|is offering which will provide a Retail and Wholesale solution for Microsoft Dynamics AX. The ax|is solution is being marketed worldwide through global distributors.

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.

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 K3s 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

> "Very **encouragingly**, the total value of major orders **won in the year at £25.3m** was more than **double the level** of last year"

Overview

In my final results statement as Chairman I am delighted to report on the very encouraging progress K3 has made across the business. Most importantly, we have commercially launched our new flagship Microsoft-based software product, "ax|is", which has been developed for the retail sector. Results for the year to 30 June 2014 reflect this progress with revenues up 13% year-on-year to £71.95m and adjusted profit before tax*[1] up 51% to £6.6m.

Very encouragingly, the total value of major orders won in the year at £25.3m was more than double the level of last year (2013: £11.8m). All our software products achieved year-on-year increases, assisted by a general improvement in trading conditions in the UK. The strongest growth came from our "ax|is" solutions which accounted for approximately £12.63m of our new business wins, some 50% of K3's total. This included two important pilot "ax|is" projects which are currently underway and should lead to further large orders. The financial benefits of these major new wins will continue to come through in the new financial year.

We are pleased with the traction we are gaining with our "ax|is" solution. The significant development work we have invested in tailoring Microsoft's generic Dynamics AX product for the retail sector and initial market reaction has led to a closer relationship with Microsoft. This is extremely helpful in supporting our plans to expand our channel to other markets around the world.

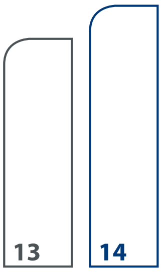
As we previously reported, the expansion of our existing international partner channel is a major strategic focus and we have invested significantly in this over the year. We have already entered into agreements with a number of new key partners and are engaging with global system integrators. The development of this indirect sales channel will fuel high margin growth and will be a key area of investment over the new financial year and beyond. We are now co-ordinating our plans with Microsoft.

We stepped up our recruitment and training of AX resource over the year. As we have commented before, Microsoft Dynamics AX skills are currently in short supply and this has had the effect of increasing our costs. However, our Dynamics AX in-house training and use of Dynamics AX resources which we have established in near-shore locations will help to mitigate this.

Our SYSPRO and Sage Division continued to generate high levels of recurring income and cash and the Division also saw strong software sales. New sales of our SYSPRO software also benefit our Managed Services Division as we are now delivering most of our new SYSPRO systems as part of a hosted cloud offering. Our Managed Services activities recorded a profit of £0.43m for the year compared to a loss of £0.56m last year. This reflected both the reorganisation and managerial changes we made in the Division and increasing sales of our products. The potential to develop significant recurring revenues from this activity, especially as we add new "ax|is" customers, remains exciting.

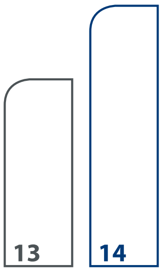
K3 continues to generate high levels of recurring revenues, principally from software licence renewals and support contracts, and as we grow our software product sales, this income stream will incrementally increase. Recurring revenues for the year amounted to £35.42m, accounting for 49% of K3's total revenues (2013: £34.54m, 54%). Net debt at the year end was £13.63m, only marginally lower than at the same period last year. We anticipate that it will reduce in the new financial year as a result of significantly decreased exceptional costs and a further improvement in profitability.

*See note 30 on page 80 for further details



Revenue

£71.9m



Adjusted Operating Profit[*2]

£7.3m

Financial Results

Revenues for the year ended 30 June 2014 increased by 13% to £71.95m (2013: £63.51m), with revenues in the second half 17% ahead year-on-year at £37.48m (2013: £31.96m). Growth was largely driven by the improving performance of our Microsoft-based activities, including our traditional Microsoft Dynamics NAV business but most especially from our newer Microsoft Dynamics AX-based solution, "ax|is".

Adjusted profit from operations[*2] over the year increased by 43% to £7.30m (2013: £5.09m). Adjusted profit from operations[*3] in the second half year was up 72% year-on-year to £3.69m (2013: £2.15m). The performance in the second half was especially notable in a business which historically has been H1 weighted due to the profit arising on SYSPRO annual licence fee renewals.

Adjusted profit before tax[*1] for the year ended 30 June 2014 increased by 51% to £6.60m (2013: £4.37m). Adjusted earnings per share[*4] increased by 33% to 18.6p (2013: 14.0p).

This recovery came off the back of the significant software product development investment that the Group has been making which totalled £3.99m over the year (2013: £3.56m). The largest element, approximately £2.06m (2013: £1.45m), was related to our "ax|is" solution but we made further investment in our other products, including Dynamics NAV and SYSPRO, and in our sales channel products.

We incurred exceptional costs of £1.72m (2013: £0.73m). This principally related to: our decision to restructure our Microsoft UK Division and Managed Services Division to accelerate the return of these businesses to profitability; senior management changes and some restructuring of prior acquisitions. We do not expect major exceptional costs in the coming year.

Finance expenses were broadly flat at £0.70m (2013: £0.73m) as working capital requirements increased for the enlarged business.

We have recognised a deferred tax credit of £0.89m (2013: £0.65m) largely in respect of intangibles and together with the impact of lower profits and research and development credits (that are recognised only as claims are agreed with tax authorities), there is an overall tax credit of £0.68m in the year (2013: £0.78m).

Taking into account amortisation of intangibles of £2.99m (2013: £3.18m) and exceptional reorganisation costs of £1.72m (2013: £0.73m), profit from operations for the year more than doubled to £2.59m (2013: £1.19m). Profit before taxation rose 3.1 times to £1.89m (2013: £0.46m). Basic earnings per share increased by 91% to 8.2p (2013: 4.3p).

Revenues in the second half **17% ahead** year-on-year at **£37.48m**

*See note 30 on page 80 for further details

Cash flows and banking

K3 has traditionally generated good cash flows, with a seasonal weighting to October-December. This has continued to be the case, although a combination of exceptional costs and increased working capital as the business expanded into larger contracts has meant that cash generation has reduced from historical levels. We have seen a working capital outflow of £2.79m in the current year as the business grew, compared to an inflow of £1.51m in the prior year. Adding back the cash impact of exceptional costs the adjusted cash flow from operations[*5] was £7.07m (2013: £8.66m), with cash generated from operations being £5.35m (2013: £8.02m).

Whilst the Group made debt repayments of £2.31m (net), raised £0.28m from the issue of share capital as employees exercised share options, and received £0.29m of tax repayments (net) in the year, net debt at 30 June 2014 was only marginally lower at £13.63m (2013: £13.81m). A major factor in this was the investment in product development of £3.99m which has been fundamental to the order wins that have driven the current year profit improvement. As K3's profitability improves further, and with significantly reduced exceptional costs, we expect the net debt position to improve significantly, whilst continuing our investment programme.

In August 2014 we agreed the extension of the Group's banking facilities for three years through to August 2017 on substantially the same terms as the existing facilities.

Dividend

With the improving prospects for the Group, the Board is pleased to propose an increased final (and total) dividend for the financial year of 1.25p per share (2013: 1.0p). Subject to shareholder approval at K3's General Meeting, this dividend will become payable on 16 January 2015 to shareholders on the register on 12 December 2014.

K3's Annual General Meeting will be held on 26 November 2014 at 10.30am, at the Group's head office at Baltimore House, 50 Kansas Avenue, Manchester M50 2GL.

Board Changes

In January 2014, we announced that after nearly 14 years as Chief Executive, Andy Makeham was leaving the Group and that Chief Finance Officer, David Bolton, who had led the Group's expansion with Andy, was assuming the role of Chief Executive. On behalf of the Board, I am delighted to welcome David in his new role and to thank Andy for his significant contribution over the years.

We appointed two new Non-executive Directors, Peter Cookson in July 2013 and Paul Morland in May 2014. Peter, a chartered accountant, has many years' experience in senior management and finance roles, especially in the technology and retail sectors. Paul Morland has a well-established track record in the Technology sector both in management and as an analyst.

In June 2014, we announced that, after nine years as Non-executive Chairman of the Group, I would be retiring at K3's forthcoming AGM. Plans for my succession are well advanced and the Board expects to announce further appointments in due course.

Outlook

The year has seen a strong recovery in the business with the initiatives we have taken in the development of intellectual property for the Retail sector paying dividends. The work we are now doing with Microsoft provides the opportunity for substantial further growth in our Microsoft Dynamics AX proposition, supported by a stable and profitable underlying business. Whilst further investment will be required to exploit the opportunity fully, I am confident that K3 is well placed to do this in future years. With a strong pipeline of opportunities ahead, the outlook for K3 is particularly encouraging.

Tom Milne
Chairman

An **increased** final **dividend** for the financial year of **1.25p** per share

The year has seen a **strong recovery** in the business

*See note 30 on page 80 for further details

Business Model

K3 is one of the UK's leading providers of integrated business solutions encompassing Enterprise Resource Planning (ERP) software, Customer Relationship Management (CRM) software, Business Intelligence and e-commerce, hosting and managed services 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.

More information about our business can be found at **www.k3btg.com**

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.

Cautionary Statement

This Strategic Report 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 Strategic Report 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.

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 key performance indicators used by the Board are summarised below and the table sets out K3's performance for the year under review.

	2014	2013
Revenue (£'000)	**71,950**	63,513
Recurring revenue (£'000)	**35,415**	34,538
Percentage of recurring revenue	**49%**	54%
Gross margin percentage	**54%**	52%
Adjusted profit from operations*6 (£'000)	**7,301**	5,094
Adjusted cash flow from operations*7 (£'000)	**7,074**	8,659
Adjusted EPS*8 (pence)	**18.6p**	14.0p

Strong growth in revenues with significant rise in software at £12.89m (2013: £9.0m) and services at £19.83m (2013: £16.4m).

The improvement in gross margin to 54% reflected higher services revenues and improved software margin.

The adjusted cash flow from operations*7 reduced due to higher working capital as the business has grown over the last 12 months, but has remained healthy at 97% (2013: 170%) of adjusted profit from operations*6.

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.

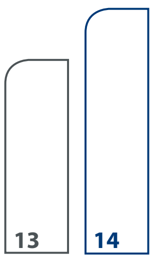
Adjusted EPS is calculated as profit for the period, adjusted for the tax affected impact of acquired intangibles amortisation, exceptional reorganisation costs and acquisition costs, divided by the weighted average number of shares during the period. This is a key performance indicator for quoted companies.

*See note 30 on page 80 for further details

Operational Review

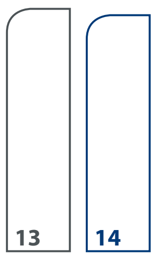
K3 comprises four trading Divisions: Microsoft UK, International, SYSPRO and Sage, and Managed Services. The financial results of each Division together with head office costs are summarised in the table below. A fuller review of each Division is also provided below.

Microsoft UK



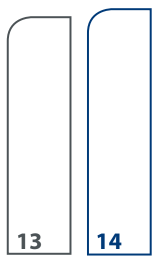
Revenue
£25.3m

International



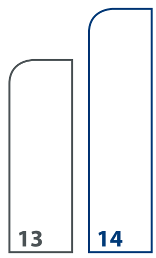
Revenue
£12.5m

SYSPRO and Sage



Revenue
£26.0m

Managed Services



Revenue
£8.2m

	Revenue year to 30 June 2014 £'000	Revenue year to 30 June 2013 £'000	Adjusted profit year to 30 June 2014 £'000	Adjusted profit year to 30 June 2013 £'000
Microsoft UK	**25,255**	18,860	**647**	(1,663)
International	**12,526**	12,864	**1,537**	2,258
Total Microsoft	**37,781**	31,724	**2,184**	595
SYSPRO and Sage	**26,017**	25,377	**5,070**	5,580
Managed Services	**8,152**	6,412	**432**	(555)
Head office	**–**	–	**(385)**	(526)
Total	**71,950**	63,513	**7,301**	5,094

Microsoft-based activities

The K3 Microsoft Dynamics business, comprising our Microsoft UK Division and International Division, is working together on global initiatives to generate additional intellectual property, cost effective resourcing and improved channels to market, particularly to support our new "ax|is" solution. Revenue for the total Microsoft business increased by 19% year-on-year to £37.78m (2013: £31.72m) and adjusted profit from operations*[9] rose by 2.7 times to £2.18m (2013: £0.60m).

*See note 30 on page 80 for further details

Microsoft UK Division

Revenue 2014

£25.3m

Divisional revenue increased by 34% to £25.26m (2013: £18.86m) and turned an adjusted loss in the prior year of £1.66m into an adjusted profit of £0.65m

Results	2014	2013
Revenue (£'000)	**25,255**	18,860
Recurring revenue (£'000)	**9,472**	8,315
Percentage of recurring revenue	**38%**	44%
Gross margin percentage	**48%**	44%
Adjusted profit (loss) from operations*10 (£'000)	**647**	(1,663)

The closure of major software wins for both our "ax|is" proposition (based on Microsoft Dynamics AX) and Dynamics NAV product drove a major turnaround in the Division's performance this year.

After a very encouraging first half, the Division continued to perform well, fuelled by "ax|is" and improving retail sentiment. Divisional revenue increased by 34% to £25.26m (2013: £18.86m) and turned an adjusted loss*10 in the prior year of £1.66m into an adjusted profit*10 of £0.65m. As would be expected, the improvement in services revenue to £8.90m (2013: £5.88m) and software revenue to £5.57m (2013: £3.64m) has had a major impact on the results. However there has also been a large increase in the cost of delivery. At the half year we highlighted that a significant increase in demand for Dynamics AX had in turn created a surge in demand for skilled Dynamics AX resource. We have made a significant short term investment on an accelerated programme of global recruitment, including near-shoring, and training to equip our staff. The reduction of costs of delivery is a key initiative for future profitable growth in the division.

Having secured a number of pilot orders for our "ax|is" product at the end of the last financial year, the Division secured wins worth a total of £12.63m for the solution over the year, across nine major contracts. This contributed some 82% of the total value of the Division's new wins. Including orders for our established Microsoft Dynamics NAV solution, the total value of new orders was £15.4m over the year (2013: £6.87m). Of these orders, we closed £6.16m in the second half year, including another two pilot projects for "ax|is" that could lead to further large orders.

What has helped to drive our new Microsoft Dynamics AX orders is our intellectual property ("IP"), which has created a richer more enhanced enterprise resource planning ("ERP") solution for retailers. It is worth noting that the average size of Microsoft Dynamics AX orders is much larger than for our traditional Microsoft Dynamics NAV business and that delivery is also over a more extended period. We are working closely with Microsoft on product releases and this relationship on product development is benefiting our overall stance in the marketplace.

Whilst our focus has been on the Microsoft Dynamics AX proposition, our traditional Microsoft Dynamics NAV business has also returned to growth with two major contracts worth £1.3m secured in the year, and a further deal worth £0.86m secured since the year end. We are also investing in a product upgrade path for existing customers to provide additional functionality for solutions purchased in previous years.

Software income of £5.57m compared to £3.64m in the prior period. These sales are from a mix of traditionally structured deals and Microsoft Enterprise Agreements. Enterprise Agreements are used by Microsoft on larger contracts and under these agreements K3 receives a "commission" for the software delivered to the customer combined with follow-on services as normal. We estimate that the software recognised would have increased by £1.16m to £6.73m on the traditional sales basis. Recurring maintenance income of £9.47m is up 14% over the prior year (2013: £8.32m) reflecting the impact of new deals and initiatives to encourage customer retention.

Whilst the Division is primarily focused on the Retail market, it also includes our businesses that service the wholesale, manufacturing and distribution, and events sector. These units saw strong growth, with an encouraging level of new contract wins in both our AX and NAV businesses. Revenues grew by 18% to £7.43m (2013: £6.27m) with a strong recovery in adjusted profit from operations*11 to £0.49m (2013: £0.10m). We also saw some good growth in our point of sales RSG business that focuses on the events sector, utilising the Microsoft Dynamics RMS product. The opportunities in this area encouraged us to make a small acquisition of a competitor (RTL) in July 2014.

At 30 June 2014, the pipeline for the Division was at £37.9m (2013: £38.8m). This excludes approximately £7.18m still to be delivered on the large contracts won in the current year.

*See note 30 on page 80 for further details

International Division

Revenue 2014

£12.5m

The ISV contains the "ax|is" product set developed in conjunction with the Microsoft UK Division which has been pivotal in the improvement in the results of the group

Results	2014	2013
Revenue (£'000)	**12,526**	12,864
Recurring revenue (£'000)	**5,259**	5,689
Percentage of recurring revenue	**42%**	44%
Gross margin percentage	**50%**	47%
Adjusted profit from operations*[12] (£'000)	**1,537**	2,258

The International Division includes our Dutch Microsoft Dynamics reseller business, our Point of Sale business focused on smaller retailers, and our ISV (software author and channel management) company.

The ISV contains the "ax|is" product set developed in conjunction with the Microsoft UK Division, which has been pivotal in the improvement in the results of the Group. Early market interest in our enhanced retail solution is very encouraging and Microsoft's support for our software development programme has led to a deepening relationship with them.

Revenue was broadly flat year-on-year at £12.53m (2013: £12.86m), however adjusted profit from operations*[12] decreased to £1.54m (2013: £2.26m). Whilst the slow recovery of the Dutch fashion and retail market has continued to be a major factor in the business performance, we have also made an investment in resources in the Dynamics AX product, which we have not historically sold in this territory. This division also includes our global reseller channel and personnel engaged in the development and marketing of our "ax|is" software product, which is having a profound impact on Group performance.

Software sales at £1.93m were up 19% (2013: £1.62m) though services revenues at £4.64m were down 3% (2013: £4.81m). Margins at 50% showed an improvement over the prior year as the development of product has been in full swing throughout the year and more cost has been capitalised. There has however been a significant increase in sales and marketing personnel to build our channel team and prepare the Dutch business to become a player in the local Dynamics AX market, having previously focused on the Dynamics NAV product.

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, with good levels of services income on planned projects, with further potential business to come. Shortly before the year end we commenced a major work stream for one of the franchisees and we are being encouraged by certain franchisees to use our expertise to assist them in other activities.

The Unisoft business is performing in line with our expectations with its RVE Point of Sale product gaining traction, whilst the market remains difficult. The move to subscription based sales is a big change, reducing the sales cycle down to weeks instead of months and building a recurring revenue base with commitments up to five years. Sales in the current year at £3.45m were in line with the prior year (2013: £3.48m). We are looking at the wider potential sales opportunities for this product.

The Division secured a total of £3.2m of major order wins (2013: £1.13m). The prospects pipeline, excluding potential business anticipated in a long term plan with Inter IKEA Systems B.V., currently amounts to £6.7m of orders (2013: £5.2m), highlighting that further improvement in business performance can be expected.

"The Division secured a total of £3.2m of major order wins"

*See note 30 on page 80 for further details

SYSPRO and Sage Division

Revenue 2014

£26.0m

The pipeline of prospects for the Division totalled £17.0m (2013: £14.8m) after significant wins in the final quarter

Results	2014	2013
Revenue (£'000)	**26,017**	25,377
Recurring revenue (£'000)	**15,112**	15,981
Percentage of recurring revenue	**58%**	63%
Gross margin percentage	**63%**	62%
Adjusted profit from operations*13 (£'000)	**5,070**	5,580

Revenues at the SYSPRO and Sage Division increased marginally to £26.02m (2013: £25.38m). Adjusted profit from operations*13 was satisfactory at £5.07m (2013: £5.58m), with the reduction mainly due to investment in sales resources in Sage and the acceleration of a programme in our SYSPRO business that is designed to replace employees likely to retire in the coming years.

The Division's recurring revenues remain high at £15.12m, albeit a £0.86m decrease on last year (2013: £15.98m), with the reduction reflecting the disposal of a small non-core Sage business in May 2013. SYSPRO maintenance and support levels remained strong with a 97% renewal rate (2013: 98%). Total software sales were excellent at £5.00m (2013: £3.84m) and total services income increased by £0.32m to £5.56m (2013: £5.24m).

The SYSPRO operation is the exclusive UK and sole European SYSPRO partner with a rolling five year distribution agreement. It has over £1.0m of income from own IP products covering functional requirements which are usually found only in significantly more expensive software. The SYSPRO business remains strong with high levels of recurring income, excellent management of opportunities and encouraging levels of new business wins. These increasingly involve elements of hosted services.

The SYSPRO business secured 14 new wins in total worth £2.34m compared with ten worth £1.77m last year. The majority of these new deals came with extended period maintenance agreements. At the year end the pipeline was £2.8m (2013: £3.4m), the reduction coming about as a result of a number of the current year wins were sizeable and are taking longer to replace.

Our SYSPRO customer base generates high levels of recurring revenues through annual software licence and support renewals, with income at £7.35m (2013: £6.96m). The major part of this income is recognised at the annual renewal date in October, giving the first half in this division a significant weighting compared to the second half. We will be investing in new resources over the next year to underpin longer term continuity within our professional services team and to take advantage of new technologies that will improve our own IP products, maintaining our competitive advantage.

After a slow start to the year as it reorganised its delivery and support functions and recruited a new Sales Director (ex-Sage), our K3 Sage operation enjoyed an extremely good second half year. In total, we signed 87 deals worth £3.7m over the year (2013: 60 deals worth £2.05m). The second half year was very strong for Sage's new X3 Enterprise level solution and we closed 12 deals worth £1.85m. We have an extremely popular standard template X3 model that allows us to deliver an ERP solution in less than 60 man days, which is almost unheard of for a relatively functionally rich ERP product. The X3 product is also sold in a premium version for larger implementations and this is a market that we are gradually moving into.

Our other business units in the Division have customers who can be offered upgrade opportunities to our Enterprise level solutions and hosting. These businesses contributed £3.58m (2013: £3.24m) of sales in the year. £2.50m of the income is recurring (2013: £2.52m).

The pipeline of prospects for the Division totalled £17.0m (2013: £14.8m) after significant wins in the final quarter of the financial year.

"We signed 87 deals worth £3.7m over the year"

sage | Business Partner

*See note 30 on page 80 for further details

Managed Services Division

Revenue 2014

£8.2m

Our ability to host multi-site overseas customers offers significant growth opportunities in both AX and SYSPRO

Results	2014	2013
Revenue (£'000)	**8,152**	6,412
Recurring revenue (£'000)	**5,572**	4,553
Percentage of recurring revenue	**68%**	71%
Gross margin percentage	**51%**	49%
Adjusted profit (loss) from operations*[14] (£'000)	**432**	(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 Philadelphia, London, Edinburgh and Toronto.

Revenue over the year rose by 27% to £8.15m (2013: £6.41m) and moved back into profit, generating £0.43m of adjusted profit from operations*[14] (2013: adjusted loss*[14] of £0.56m). The move back into profitability was achieved through a combination of increased revenues and lower operating costs. At the beginning of the year we recruited a small team of "operating system" consultants, who are delivering managed services for a number of our retail clients who were reported in our Microsoft UK division. Prior year comparatives for divisional results have not been restated as the impact is not material to the Group.

The run rate of recurring income at the year-end showed a 16% increase year-on-year to £5.30m (2013: £4.55m). Hosting represented £2.75m (2013: £2.78m) of this recurring revenue, having lost a major contract in the second half year with an external customer.

We have focused very strongly on widening the product offering to include "network as a service", "platform as a service" and "infrastructure as a service", in addition to our traditional "ERP as a service" model. Our ability to host multi-site overseas customers offers significant growth opportunities with deal wins of this nature in both AX and SYSPRO. We also expect to benefit from the marked improvement in new order wins in the Microsoft UK division in due course.

The pipeline of demand for hosting has increased to £4.1m (2013: £3.37m).

*See note 30 on page 80 for further details

Head Office Division

Central costs*[15] for the year were £0.39m (2013: £0.53m). 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. The costs have fallen year on year due to changes in management implemented in the second half year.

"Overall, we continue to remain very encouraged by growth prospects and look forward to another year of progression"

Change in reporting structure

It should be noted that in future the Board intends to report the Group's performance by reference to its industry sectors (retail, manufacturing and distribution) and its global intellectual property.

Outlook

The investments we have made over the last two years in Microsoft technology are starting to yield real benefits for the Group. We believe that there is significant long term potential to accelerate and widen sales for our new enhanced Microsoft Dynamic AX solution. The route is via further development of our global partner channel, which also brings margin benefits, and the launch of additional Dynamics AX products over the next few years, tailoring our existing "ax|is" template with IP for various retail market segments. Our deepening relationship with Microsoft is another positive step forward as we seek to scale the growth.

Whilst there are further costs to growth, we are also concentrating on driving margins and expect to see these improve progressively over the near term.

Overall, we continue to remain very encouraged by growth prospects and look forward to another year of progression.

David Bolton
Chief Executive Officer

*See note 30 on page 80 for further details

Financial Review

"Revenue for the year was **£71.95m** compared to £63.51m for the year to 30 June 2013. The increase of 13% is largely as a result of the **improved performance** of the Microsoft-based activities"

Trading results

Revenue for the year was £71.95m compared to £63.51m for the year to 30 June 2013. The increase of 13% is largely as a result of the improved performance of the Microsoft-based activities, in particular our new Microsoft Dynamics AX-based solutions, "ax|is". The Group registered an adjusted profit from operations*16 of £7.30m for the year ended 30 June 2014 (2013: £5.09m). Profit from operations for the year was £2.59m (2013: £1.19m).

Exceptional reorganisation costs were £1.72m (2013: £0.73m) which related primarily to changes in the business structure to facilitate improvements in operating performance and also some changes to senior management and restructuring of acquisitions made in recent years.

The amortisation of intangible assets was £2.99m (2013: £3.18m). Finance costs were £0.71m (2013: £0.73m). The resulting profit for the year was £2.56m (2013: £1.24m).

Earnings per share and dividends

Adjusted earnings per share*17 was 18.6p (2013: 14.0p). Earnings per share was 8.2p (2013: 4.3p).

The directors propose to pay a dividend of 1.25p per share (2013: 1.0p).

Cash flow and net debt

The net cash position at 30 June 2014 was a net overdraft of £3.00m (2013: £0.83m). There were bank and other loans of £14.28m (2013: £14.08m). Repayments against bank and other loans during the year were £3.37m (2013: £3.64m). New loans of £1.08m were obtained during the year. £0.13m was paid to vendors of acquisitions made in prior years compared to £1.94m in the previous year.

The Group's net cash outflow in the year was £2.17m (2013: £0.99m). The Group's inflow from operations in the period was £5.33m compared to £8.02m in the previous year, largely as a result of the exceptional costs incurred in the year and the increased working capital required for the growing level of business.

Taxation

There was a tax credit for the year of £0.68m (2013: £0.78m) comprising a charge of £0.22m (2013: credit of £0.13m) of current taxation and a credit of £0.89m (2013: £0.65m) of deferred taxation, of which £1.04m (2013: £0.91m) related to the amortisation of intangible assets. This credit for deferred tax in the year includes £0.40m following the reduction of the tax rate in the UK from 23% to 20%. The charge for current taxation is net of a credit for an adjustment in respect of prior periods of £0.38m arising from the recognition of research and development credits recognised only as claims are agreed with tax authorities. The effective tax rate was 16.4% (2013: 15.7%) 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.

Brian Davis
Chief Financial Officer

*See note 30 on page 80 for further details

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 report on pages 21 and 22. 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 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 as being a key strategic business driver over the next year.

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. We anticipate that the Group will develop a presence in the USA in the coming years.

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.
- **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.

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.

During 2013 and 2014, we have concentrated on developing and investing in our own IP rather than on acquisitions.

Since the year end, we have acquired Retail Technology Limited, a Microsoft Dynamics based EPOS provider to smaller retailers.

This Strategic Report is signed on behalf of the Board

DJ Bolton
Director
14 September 2014

Corporate Governance

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 UK Corporate Governance Code and does not give a statement of compliance, the directors have sought to apply certain provisions of the UK Corporate Governance Code in so far as they consider it appropriate having regard to the size and nature of the group.

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. Day to day management of the business is dealt with by the Chief Executive Officer who has an Operational Board reporting to him which includes senior management from each of the divisions together with the Chief Financial Officer and Operations Director.

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 (until 24 January 2014 when Mr NA Makeham left the Board) and two non-executive directors until 29 May 2014 when Mr PC Morland joined the Board as a third non-executive director. Details of the Board are included on page 28. The composition of the Board is designed to provide an appropriate balance of group, industry and general commercial experience and is reviewed as required to ensure that it remains appropriate to the nature of the group's activities.

The roles of the Chairman and Chief Executive are distinct. The office of Chairman is held by Mr TA Milne. Since 24 January 2014, the office of Chief Executive is held by Mr DJ Bolton. Prior to that it was 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 one of the non-executive directors, Mr PJ Claesson, and was chaired by the Chairman. Mr NA Makeham was a member of the committee until 24 January 2014. Meetings are arranged as necessary and one meeting was 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.

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 one of the non-executive directors, 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 directors is determined by the Board as a whole, based on a review of the current practices in other companies. The committee met once during the year and the meeting was attended by both members of the committee. The terms of reference are available upon request and are placed on the company's website.

Accountability and audit

Financial reporting

The Board recognises its responsibility to present a balanced and understandable assessment of the group's position and prospects, both within its half year and annual financial statements and in other price-sensitive public reports. The statement of the directors' responsibility in preparing the financial statements is made on page 26.

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 Operational Board. The principle business risks and the actions to mitigate the risks are included in the Strategic Report on pages 17 and 18. 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 14 September 2014. 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 Financial 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 directors, Mr PJ Claesson, Mr PJ Cookson and Mr PG Morland, and is chaired by the Chairman. The committee met twice during the year. 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 Financial 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 Operational Board, no formal internal audit department is considered necessary.

Relations with shareholders

The company seeks to maintain good communication with shareholders. The Group Chief Executive Officer together with members of the senior management team make presentations to institutional shareholders covering the interim and full year results. Whilst most shareholder contact is with Chief Executive Officer and Chief Financial Officer, the Chairman and the non-executive directors 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:

	2014 £'000	2013 £'000
Audit services		
• Statutory audit	**118**	109
Further assurance services:		
Tax services		
• Advisory services	**14**	14
• Overseas tax advice	**26**	21
Other services		
• Other services	**1**	1
	159	166

During the year, the auditors provided non-audit services in relation to consultation on interim results and taxation advice on potential overseas activities. 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.

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 2014							2013
	Fees/basic salary £	Taxable benefits £	Annual bonuses £	Compensation for loss of office £	Pension contributions £	Gains on exercise of options £	Total £	Total £
Chairman								
TA Milne	297,577	–	–	–	–	–	297,577	80,000
Executive								
NA Makeham	115,180	1,487	–	393,636	10,993	84,250	605,546	261,904
DJ Bolton	227,067	2,179	–	–	22,331	25,500	277,077	253,237
Non-executive								
PJ Claesson	15,000	–	–	–	–	–	15,000	15,000
PJ Cookson	15,000	–	–	–	–	–	15,000	–
PG Morland	1,667	–	–	–	–	–	1,667	–
Aggregate emoluments	671,491	3,666	–	393,636	33,324	109,750	1,211,867	610,141

During the year Mr TA Milne provided additional consultancy services in relation to the future strategy of the group's products and markets.

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 2014 were:

TA Milne

NA Makeham (resigned 24 January 2014)

DJ Bolton

PJ Claesson

PJ Cookson (appointed 11 July 2013)

PG Morland (appointed 29 May 2014)

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 2014 was 209.5p and the range during the period was 101.0p to 230.0p.

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 2013	Granted	Exercised	Lapsed	30 June 2014	Exercise price	Gains on exercise 2014	Gains on exercise 2013
NA Makeham	60,000	–	(60,000)	–	–	100p	25,500	–
NA Makeham	50,000	–	(50,000)	–	–	94p	58,750	–
DJ Bolton	60,000	–	(60,000)	–	–	100p	25,500	–
DJ Bolton	50,000	–	–	–	50,000	94p	–	–

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

DJ Bolton	Exercise Price	Growth in eps is at least
12,500	94p	15%
12,500	94p	20%
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.

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 31.

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 Strategic Report on pages 4 to 15.

The group's financial risk management objectives and policies are disclosed in the Strategic Report on page 18 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 £3.99m (2013: £3.56m) of the development costs. Further details are given in note 11.

Results and dividends

The audited financial statements for the year ended 30 June 2014 are set out on pages 31 to 80. The group's profit for the year was £2.56m (2013: £1.24m).

The directors propose a net dividend of 1.25p per share (2013: 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 (resigned 24 January 2014)

TA Milne

PJ Cookson (appointed 11 July 2013)

PG Morland (appointed 29 May 2014)

Mr PJ Claesson retires by rotation and offers himself for re-election.

Statement of directors' responsibilities for the financial statements

The directors are responsible for preparing the directors' report, strategic report and 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 2014 were equivalent to 63 (2013: 58) 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 £2,944 (2013: £2,753). There were no political contributions during the year.

Substantial shareholdings

On 14 September 2014, 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	18.8%
Hargreave Hale	4,260,100	13.4%
Kestrel Partners	3,859,651	12.2%
Investec Asset Management	1,774,154	5.6%
Herald Investment Management	1,393,792	4.4%
Miton Asset Management	1,186,000	3.7%
DJ Bolton	973,800	3.1%

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 28 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

14 September 2014

Board of Directors

Thomas Adam Milne (Chairman) age 67

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 63

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").

David John Bolton FCA (Chief Executive Officer) age 63

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. He was appointed as Chief Executive Officer in January 2014.

Peter John Cookson (non-executive) age 68

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.

Paul Gilmer Morland (non-executive) age 54

Paul was appointed a director in May 2014. His background is in securities research where he has been consistently highly ranked as a technology analyst throughout his career. Paul was latterly UK technology analyst at Peel Hunt LLP and prior to that, over a period of some 15 years he covered the software and IT services sector at a number of securities houses, including Arbuthnot Securities, Societe Generale and Deutsche Bank AG. The early part of his career in investment banking was at Schroder Investment Management initially as an analyst and then as a fund manager. Paul has also spent approximately seven years in industry, including as Finance Director at netdecisions, an IT services and consultancy company now trading as Agilisys, divisional Finance Director at Serco plc and Group Accountant at David S. Smith plc, a leading European packaging company. Paul qualified as a chartered accountant with Price Waterhouse in 1985.

The K3 Business

Mission critical business software*
for the supply chain industry

Sector Focus
Retail
Manufacturing
& Distribution

30 countries

No.1
Microsoft Dynamics UK supplier

SYSPRO European supplier

Sage European mid-market partner

Core product offering
based on Microsoft, SYSPRO & Sage solutions

Own IP
tailors software products

3,100
'sticky' customers

15 year lifespan
is typical for a software system – drives recurring income
(via licence renewals / maintenance contracts)

*Enterprise Resource Planning ("ERP")

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 2014 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 Financial Reporting Council's (FRC'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 FRC'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 2014 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 strategic report and 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

14 September 2014

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 2014

	Notes	2014 £'000	2013 £'000
Revenue	2	**71,950**	63,513
Cost of sales		**(32,990)**	(30,375)
Gross profit		**38,960**	33,138
Administrative expenses		**(36,370)**	(31,953)
Profit from operations before amortisation of acquired intangibles and exceptional costs		**7,301**	5,094
Amortisation of acquired intangibles	11	**(2,989)**	(3,182)
Exceptional reorganisation costs	3	**(1,722)**	(727)
Profit from operations	3	**2,590**	1,185
Finance income	6	**3**	2
Finance expense	6	**(708)**	(725)
Profit before taxation		**1,885**	462
Tax income	7	**675**	780
Profit for the period		**2,560**	1,242

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

Earnings Per Share			
Basic	9	**8.2p**	4.3p
Diluted	9	**8.1p**	4.2p

The notes on pages 36 to 80 form part of these financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2014

	2014 £'000	2013 £'000
Profit for the period	**2,560**	1,242
Other comprehensive (expense) income		
Exchange differences on translation of foreign operations	**(1,099)**	692
Net investment hedge	**31**	(148)
Other comprehensive (expense) income, net of tax	**(1,068)**	544
Total comprehensive income for the period	**1,492**	1,786

All of the total comprehensive income is attributable to equity holders of the parent. All of the other comprehensive income will be reclassified subsequently to profit or loss when specific conditions are met.

Consolidated Statement of Financial Position
as at 30 June 2014

Registered number: 2641001

	Notes	2014 £'000	2013 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**2,439**	2,927
Goodwill	11/12	**43,952**	44,610
Other intangible assets	11	**20,040**	21,040
Deferred tax assets	21	**538**	723
Available-for-sale investments	14	**98**	98
Total non-current assets		**67,067**	69,398
Current assets			
Trade and other receivables	15	**28,888**	25,251
Cash and cash equivalents		**647**	272
Total current assets		**29,535**	25,523
Total assets		**96,602**	94,921
LIABILITIES			
Non-current liabilities			
Long-term borrowings	17	**14**	32
Other non-current liabilities	18	**554**	225
Deferred tax liabilities	21	**3,151**	4,267
Total non-current liabilities		**3,719**	4,524
Current liabilities			
Trade and other payables	16	**26,002**	25,081
Current tax liabilities		**15**	140
Short-term borrowings	17	**14,261**	14,051
Total current liabilities		**40,278**	39,272
Total liabilities		**43,997**	43,796
EQUITY			
Share capital	22	**7,930**	7,859
Share premium account	23	**9,412**	9,183
Other reserves	23	**10,448**	10,448
Translation reserve	23	**229**	1,297
Retained earnings	23	**24,586**	22,338
Total equity attributable to equity holders of the parent		**52,605**	51,125
Total equity and liabilities		**96,602**	94,921

The financial statements on pages 31 to 80 were approved and authorised for issue by the Board of Directors on 14 September 2014 and were signed on its behalf by:

DJ Bolton
Director

The notes on pages 36 to 80 form part of these financial statements.

Consolidated Statement of Cash Flows
for the year ended 30 June 2014

	Notes	2014 £'000	2013 £'000
Cash flows from operating activities			
Profit for the period		**2,560**	1,242
Adjustments for:			
Share-based payments charge		**27**	70
Depreciation of property, plant and equipment		**962**	932
Amortisation of intangible assets and development expenditure		**4,560**	4,347
Loss (profit) on sale of property, plant and equipment		**2**	(19)
Finance income		**(3)**	(2)
Finance expense		**708**	725
Tax income		**(675)**	(780)
(Increase) decrease in trade and other receivables		**(4,625)**	6,395
Increase (decrease) in trade and other payables		**1,836**	(4,888)
Cash generated from operations	29	**5,352**	8,022
Finance expense paid		**(851)**	(822)
Income taxes received (paid)		**290**	(1,217)
Net cash generated from operating activities		**4,791**	5,983
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	29	**(129)**	(531)
Acquisition of other business units	29	**–**	(1,410)
Development expenditure capitalised		**(3,985)**	(3,563)
Purchase of property, plant and equipment		**(502)**	(1,050)
Proceeds from sale of property, plant and equipment		**–**	24
Finance income received		**3**	2
Net cash absorbed by investing activities		**(4,613)**	(6,528)
Cash flows from financing activities			
Net proceeds from issue of share capital		**277**	2,677
Proceeds from long-term borrowings		**1,077**	842
Payment of long-term borrowings		**(3,369)**	(3,641)
Payment of finance lease liabilities		**(16)**	(35)
Dividends paid		**(316)**	(286)
Net cash absorbed by financing activities		**(2,347)**	(443)
Net change in cash and cash equivalents		**(2,169)**	(988)
Cash and cash equivalents at start of period	29	**(833)**	21
Exchange gains on cash and cash equivalents		**5**	134
Cash and cash equivalents at end of period	29	**(2,997)**	(833)

The notes on pages 36 to 80 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2014

	Share capital £'000	Share premium £'000	Other reserves £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
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
Changes in equity for year ended 30 June 2014						
Share-based payment credit	–	–	–	–	27	27
Options exercised	71	229	–	–	–	300
Movement in own shares held	–	–	–	–	(23)	(23)
Dividends to equity holders	–	–	–	–	(316)	(316)
Profit for the year	–	–	–	–	2,560	2,560
Other comprehensive income for the year	–	–	–	(1,068)	–	(1,068)
At 30 June 2014	7,930	9,412	10,448	229	24,586	52,605

The amount included in retained earnings of £2.56m (2013: £1.24m) represents profit attributable to owners of the parent company.

Notes forming part of the Financial Statements

for the year ended 30 June 2014

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 81 to 94.

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 2014 but have not had a material impact on the group::

IFRS 13 Fair Value Measurement

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 15 Revenue from contracts with customers	Expected Q2 2015	1 January 2017
IFRS 9 Financial Instruments	To be confirmed	1 January 2018

The Directors anticipate that the adoption of these Standards in future periods may have an impact on the results and net assets of the group, however, it is too early to quantify this.

1 Accounting policies for the consolidated financial statements (continued)

Adoption of new and revised standards (continued)

IFRS 10 Consolidated Financial Statements	Endorsed	1 January 2014
IFRS 11 Joint Arrangements	Endorsed	1 January 2014
IFRS 12 Disclosure of Interests in Other Entities	Endorsed	1 January 2014
IAS 27 Separate Financial Statements	Endorsed	1 January 2014
IAS 28 Investments in Associates and Joint Ventures	Endorsed	1 January 2014
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 2014
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	Endorsed	1 January 2014
Amendments to IAS36 – Recoverable amounts disclosures for non-financial assets	Endorsed	1 January 2014
Amendments to IAS39 – Novation of Derivatives and Continuation of Hedge Accounting	Endorsed	1 January 2014
Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions	Expected Q4 2014	1 July 2014
Annual improvements to IFRSs 2010 – 2012 Cycle	Expected Q4 2014	1 July 2014
Annual improvements to IFRSs 2011 – 2013 Cycle	Expected Q4 2014	1 July 2014
IFRS 14 Regulatory Deferral Accounts	To be confirmed	1 January 2016
Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations	Expected Q1 2015	1 January 2016
Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation	Expected Q1 2015	1 January 2016

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.

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 and the customer has the ability to use the software, collectability is probable and the fee is fixed and determinable. If significant post-delivery obligations exist, revenue is deferred until no significant obligations remain. Where the Group acts as an agent, commission income is recognised at the point the customer has placed an order and the Group's obligations have been fulfilled. 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.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2014

1 Accounting policies for the consolidated financial statements (continued)

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.

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 cash flows 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.

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 2014

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 Operational Board.

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.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2014

1 Accounting policies for the consolidated financial statements (continued)

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 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.

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 2014

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.

1 Accounting policies for the consolidated financial statements (continued)

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.

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.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2014

1 Accounting policies for the consolidated financial statements (continued)

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.

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

	2014 £'000	2013 £'000
The group's revenue comprises:		
Sale of software and hardware	16,355	11,720
Provision of consultancy services	20,180	17,256
Support and maintenance	35,415	34,537
Revenue	71,950	63,513
Finance income	3	2
Total revenue	71,953	63,515

3 Profit from operations

	2014 £'000	2013 £'000
This has been arrived at after charging/(crediting):		
Staff costs (see note 4)	33,293	29,500
Depreciation of property, plant and equipment	962	932
Amortisation of acquired intangible assets	2,989	3,182
Amortisation of development costs	1,571	1,165
Reorganisation costs (see below)	1,722	727
Foreign exchange differences	143	59
Operating lease expenses		
– Plant and machinery	1,263	1,118
– Property	1,159	1,363
Audit fees for the group	118	109
Fees paid to the company's auditors for non-audit services provided to the Company and UK subsidiaries	41	36
Loss (profit) on disposal of fixed assets	2	(19)

During the year, further reorganisation costs have been incurred to implement major changes in the business structure to facilitate improvements in operating performance and also some changes to senior management and restructuring of acquisitions made in recent years at a cost of £1.72m (2013: £0.73m).

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

	2014 £'000	2013 £'000
Tax services:		
– Advisory services	40	35
Other services:		
– Other services	1	1
	41	36

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2014

4 Staff costs

	2014 £'000	2013 £'000
Staff costs (including directors) comprise:		
Wages and salaries	30,134	27,000
Short-term non-monetary benefits	1,852	1,744
Defined contribution pension cost	1,252	945
Share-based payment expense (see note 26)	27	70
Employers national insurance contributions and similar taxes	3,354	3,118
	36,619	32,877

Of the above staff costs, £3,326,000 (2013: £3,377,000) has been capitalised within development costs (see note 11).

	2014 Number	2013 Number
The average number of employees during the period was		
Consultants and programmers	460	457
Sales and distribution	61	60
Administration	91	90
	612	607

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 104 and the divisional directors.

	2014 £'000	2013 £'000
Key management personnel remuneration consists of:		
Remuneration	1,923	1,465
Compensation for loss of office	640	38
Company contributions to defined contribution pension schemes	112	110
Share-based payment expense (note 26)	4	29
	2,679	1,642

4 Staff costs (continued)

	2014 £'000	2013 £'000
Directors' remuneration consists of:		
Emoluments	675	483
Compensation for loss of office	394	–
Gains on exercise of share options	110	90
Contributions to personal pension schemes	33	37
	1,212	610

	2014 £'000	2013 £'000
Remuneration in respect of the highest paid director :		
Aggregate emoluments	117	194
Compensation for loss of office	394	–
Pension contributions	11	18
Gains on exercise of share options	84	50
	606	262

There were 2 directors in the company's defined contribution pension scheme (2013: 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 2014

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 Operational Board 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: Microsoft UK, 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 Strategic Report on pages 10 to 15.

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 and exceptional costs.

The segment results for the year ended 30 June 2014 and for the year ended 30 June 2013, reconciled to profit before taxation as included in the consolidated income statement, are as follows:

	Year ended 30 June 2014					
	Microsoft UK £'000	International £'000	Managed Services £'000	SYSPRO and Sage £'000	Head Office £'000	Total £'000
Total segment revenue	25,658	12,653	8,152	26,287	–	72,750
Inter-segment revenue	(403)	(127)	–	(270)	–	(800)
External revenue	25,255	12,526	8,152	26,017	–	71,950
Cost of sales	(13,176)	(6,216)	(3,970)	(9,628)	–	(32,990)
Gross profit	12,079	6,310	4,182	16,389	–	38,960
Depreciation	(138)	(118)	(408)	(280)	(18)	(962)
Amortisation of development costs	(852)	(373)	(171)	(193)	–	(1,589)
Administrative expenses	(9,653)	(4,061)	(3,195)	(9,753)	(2,446)	(29,108)
Divisional operating profit (loss)	1,436	1,758	408	6,163	(2,464)	7,301
Management charges	(789)	(221)	24	(1,093)	2,079	–
Adjusted profit (loss) from operations	647	1,537	432	5,070	(385)	7,301
Amortisation of intangibles	(366)	(531)	(301)	(1,791)	–	(2,989)
Exceptional reorganisation costs	(411)	(307)	(237)	(177)	(590)	(1,722)
Profit (loss) from operations	(130)	699	(106)	3,102	(975)	2,590
Interest*	–	(71)	(12)	(3)	(619)	(705)
Profit (loss) before tax*	(130)	628	(118)	3,099	(1,594)	1,885

5 Segment information (continued)

	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)
Exceptional reorganisation costs	(105)	(46)	(30)	(273)	(273)	(727)
Profit (loss) from operations	(2,368)	1,632	(757)	3,477	(799)	1,185
Interest*	(3)	(35)	(9)	4	(680)	(723)
Profit (loss) before tax*	(2,371)	1,597	(766)	3,481	(1,479)	462

*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. Tax expense is reviewed by the CODM for the Group in total. According, no disclosure of the tax expense for individual segments has been made.

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 33. 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 2014

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	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
United Kingdom	54,531	45,925	49,183	51,985
Netherlands	8,963	7,306	13,100	14,798
Ireland	1,875	3,774	4,784	2,615
Rest of Europe	1,967	3,023	–	–
USA	833	406	–	–
Rest of World	3,781	3,079	–	–
	71,950	63,513	67,067	69,398

6 Finance income and expense

	2014		2013	
	£'000	£'000	£'000	£'000
Finance income				
Bank interest received	(1)		(2)	
On tax balances	(2)		–	
		(3)		(2)
Finance expense				
Bank borrowings	742		729	
Finance leases	13		9	
On related party balances	54		54	
On tax balances	–		11	
Foreign exchange	144		(96)	
Other		953		707
Unwinding of discount on provisions		–		18
Changes in fair values of contingent consideration		(245)		–
		708		725
Net finance expense		705		723
Of which from financial instruments:				
Cash and cash equivalents		722		436
Financial liabilities at amortised cost		–		48
Financial liabilities at fair value through profit or loss		(245)		–
Loan fee amortisation		228		239
		705		723

7 Tax income/expense

	2014 £'000	2014 £'000	2013 £'000	2013 £'000
Current tax income/expense				
UK corporation tax and income tax of overseas operations on profits for the period	601		346	
Adjustment in respect of prior periods	(383)		(478)	
		218		(132)
Deferred tax income/expense				
Origination and reversal of temporary differences	(491)		(465)	
Effect of change in rate of deferred tax	(402)		(183)	
		(893)		(648)
Total tax income		(675)		(780)

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:

	2014 £'000	2013 £'000
Profit before tax	1,885	462
Expected tax charges based on the standard rate of corporation tax in the UK of 22.5% (2013: 23.75%)	424	110
Expenses not deductible for tax purposes	(62)	16
Effect of tax reliefs	(41)	(7)
Utilisation of losses	(19)	(54)
Different tax rates applied in overseas jurisdictions	(178)	(279)
Effect of change in rate for deferred tax	(402)	(183)
Adjustment for over provision in prior periods	(397)	(383)
Total tax income	(675)	(780)

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 2014

8 Dividends

	2014 £'000	2013 £'000
Final dividend of 1.0p (2013: 1.0p) per ordinary share proposed and paid during the year relating to the previous period's results	316	286

A dividend in respect of the year ended 30 June 2014 of 1.25p per share, amounting to a total dividend of £397,000 is to be proposed at the annual general meeting on 26 November 2014. 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.

	2014 Number of shares	2013 Number of shares
Denominator		
Weighted average number of shares used in basic EPS	31,417,736	29,216,238
Effects of:		
Employee share options and warrants	339,261	312,488
Weighted average number of shares used in diluted EPS	31,756,998	29,528,726

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.

		2014			2013	
	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	2,560	8.2	8.1	1,242	4.3	4.2
Add back:						
Amortisation of acquired intangibles (net of tax)	1,952	6.2	6.1	2,273	7.7	7.7
Exceptional reorganisation costs (net of tax)	1,335	4.2	4.2	580	2.0	2.0
Adjusted EPS	5,847	18.6	18.4	4,095	14.0	13.9

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 2012	750	574	3,433	57	4,814
Additions	–	27	1,058	37	1,122
Disposals	–	(204)	(850)	(46)	(1,100)
Effects of movements in foreign exchange rate	–	–	45	2	47
At 30 June 2013	750	397	3,686	50	4,883
Additions	–	14	488	–	502
Disposals	–	–	(182)	–	(182)
Effect of movements in foreign exchange rate	–	–	(58)	(2)	(60)
At 30 June 2014	750	411	3,934	48	5,143
Accumulated depreciation					
At 30 June 2012	52	33	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
Depreciation charge	10	46	887	19	962
Disposals	–	–	(180)	–	(180)
Effect of movements in foreign exchange rate	–	–	(33)	(1)	(34)
At 30 June 2014	72	219	2,390	23	2,704
Net book value					
At 30 June 2012	698	241	1,757	26	2,722
At 30 June 2013	688	224	1,970	45	2,927
At 30 June 2014	678	192	1,544	25	2,439

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 2014

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):

	2014 £'000	2013 £'000
Plant, fixtures and equipment	51	32
Motor vehicles	34	34
	85	66

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 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
Additions – internally developed	–	3,985	–	–	–	3,985
Disposals	–	(175)	–	–	–	(175)
Effects of movements in foreign exchange rate	(658)	(300)	(395)	(131)	(39)	(1,523)
At 30 June 2014	43,952	13,413	18,426	10,489	957	87,237

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 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
Amortisation charge	–	1,571	1,909	908	172	4,560
Disposals	–	(175)	–	–	–	(175)
Effect of movements in foreign exchange rate	–	(61)	(235)	(128)	(16)	(440)
At 30 June 2014	–	5,262	8,455	8,999	529	23,245
Net book value						
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
At 30 June 2014	43,952	8,151	9,971	1,490	428	63,992

All intangible assets, other than goodwill which has an indefinite life, have a useful life economic life of between 0.5 and 12 years. The remaining useful life of development costs is between 1 and 7 years, for contractual and non-contractual customer relationships is between 0.5 and 12 years, for distribution agreements is between 0.5 and 3 years and for intellectual property rights is between 5 and 9 years.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2014

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 are as follows:

	Goodwill carrying amount 2014 £'000	2013 £'000
Walton	1,555	1,555
Syspro	14,505	14,117
Business Solutions	3,591	3,591
Retail	6,460	6,847
Dynamics International	8,713	9,280
IP	371	398
Sage	6,108	6,108
Retail Systems Group (RSG)	1,103	1,103
Unisoft	776	841
Integrated Business Solutions (IBS)	770	770
	43,952	44,610

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 three years and extrapolates cash flows for a further two years at growth rates of between 2% and 5% with exception of the Walton and IBS CGUs. These CGUs relates to small systems and a gradual attrition of income is expected, and an attrition rate of 5% has been applied. The most recent financial forecasts have been prepared on the assumption that gross margins will be consistent with those 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 Partner Network (International) Limited (formerly K3 Managed Services (International) Limited)	Ireland	100%
K3 FDS Limited (formerly K3 Panacea 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%
K3 Business Solutions Pte Ltd	Singapore	100%
K3 Business Solutions ehf	Iceland	100%
Colne Investments Limited	UK	100%
K3 Systems Support Limited	UK	100%
K3 BTG Limited	UK	100%
K3 CRM 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 Partner Network (International) Limited, K3 FDS 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 2014

14 Available-for-sale investments

	2014 £'000	2013 £'000
At the beginning and 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 2014.

Available-for-sale financial assets include the following:

	2014 £'000	2013 £'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

	2014 £'000	2013 £'000
Trade receivables	16,359	17,306
Less: provision for impairment of trade receivables	(594)	(1,433)
Trade receivables – net	15,765	15,873
Current taxes	338	908
Other receivables	509	1,058
Accrued income	8,850	4,231
Prepayments	3,426	3,181
	28,888	25,251

The fair value of trade and other receivables approximates to book value at 30 June 2014 and 30 June 2013.

Of the above, trade receivables of £0.33m (2013: £0.50m) and accrued income of £1.25m (2013: £0.17m) 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, 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 £0.59m (2013: £1.43m).

15 Trade and other receivables (continued)

As at 30 June 2014 trade receivables of £2.62m (2013: £3.46m) 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:

	2014 £'000	2013 £'000
Up to 3 months overdue	378	653
3 to 6 months overdue	1,144	1,624
6 to 12 months overdue	765	565
Over 12 months overdue	336	622
	2,623	3,464

As at 30 June 2014 trade receivables of £0.59m (2013: £1.43m) 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 three 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:

	2014 £'000	2013 £'000
Pound Sterling	23,057	18,711
Euro	5,555	6,404
US Dollar	80	104
Canadian Dollar	179	–
Singapore Dollar	17	32
	28,888	25,251

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

	2014 £'000	2013 £'000
At beginning of period	1,433	1,155
Provided during the period	339	968
Utilised during the period	(1,077)	(690)
Unused amounts released	(101)	–
At end of period	594	1,433

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 2014

16 Trade and other payables – current

	2014 £'000	2013 £'000
Trade payables	7,203	5,702
Other payables	801	555
Accruals	5,820	5,728
Total financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost	13,824	11,985
Contingent consideration (see note 19)	18	392
Other tax and social security taxes	2,468	2,135
Deferred revenue	9,692	10,569
	26,002	25,081

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 2014 and 30 June 2013.

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

	2014 £'000	2013 £'000
Up to 3 months	12,722	10,266
3 to 6 months	299	311
6 to 12 months	803	1,408
	13,824	11,985

17 Loans and borrowings

	2014 £'000	2013 £'000
Non-current		
Bank loans (secured)	–	–
Finance lease creditors (note 24)	14	32
	14	32
Current		
Bank overdrafts	3,644	1,105
Bank loans (secured)	9,959	12,290
Finance lease creditors (note 24)	18	16
Loans from related parties (note 27)	640	640
	14,261	14,051
Total borrowings	14,275	14,083

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	2.95% over LIBOR	2014	See below
Loans from related parties	GBP	8.5%	2014	Unsecured
Finance lease creditors (note 24)	GBP	14%	2016	Secured

The above split between non-current and current loans and borrowings reflects the situation as at 30 June 2014.

In August 2014 the Group agreed the extension of existing facilities through to August 2017 on substantially the same terms.

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

Maturity analysis of loans and borrowings:

	2014 £'000	2013 £'000
In less than one year	14,385	14,151
In more than one year but not more than two years	9	20
In more than two years but not more than five years	7	17
	14,401	14,188

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2014

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 2014 of £1.36m (2013: £3.76m) 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 August 2017.

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

	2014 £'000	2013 £'000
Pound Sterling	13,979	11,500
Euro	296	2,583
	14,275	14,083

The Euro loan was fully repaid during the year. At the previous year end, the Euro loan was re-valued with a loss on the translation of the loan of £0.10m.

18 Other non-current liabilities

	2014 £'000	2013 £'000
Accruals	554	225

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 Financial 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
- 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 £0.03m (2013: £0.05m) and loans from related parties of £0.64m (2013: £0.64m). The fixed rates applicable are 14% and 8.5% respectively.

Bank debt totalling £10.0m (2013: £12.29m) is held under floating rates linked to quarterly LIBOR.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2014

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. Following the repayment of the Euro denominated borrowings in March 2014, the net investment hedge was not in place at the end of the financial year.

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 translation reserve. Other reserves comprise a merger relief reserve.

	2014 £'000	2013 £'000
Total equity	52,605	51,125
Less: amounts in translation reserve	(229)	(1,297)
	52,376	49,828

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 0.75% movement in the interest rate to be reasonably possible as at the reporting date. The annualised effect of a 0.75% 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. Following the repayment of the Euro loan in March 2014, there will be no impact on the annualised interest arising from movements in the Euro to sterling exchange rate.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2014

19 Financial instruments (continued)

Financial instruments by category

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

At 30 June 2014

	Notes £'000	Loans and receivables £'000	Available-for-sale £'000	Amortised cost £'000	At FVTPL £'000	Non financial instruments £'000	Total £'000
Assets							
Non current assets		–	–	–	–	66,969	66,969
Available-for-sale		–	98	–	–	–	98
Trade and other receivables:							
Trade receivables	15	15,765	–	–	–	–	15,765
Other non derivative financial assets	15	509	–	–	–	–	509
Non financial instruments	15	–	–	–	–	12,276	12,276
Current tax assets	15	–	–	–	–	338	338
Cash and cash equivalents		647	–	–	–	–	647
Total assets		16,921	98	–	–	79,583	96,602
Liabilities							
Borrowings:							
Current	17	–	–	(14,261)	–	–	(14,261)
Non-current	17	–	–	(14)	–	–	(14)
Deferred tax liabilities	21	–	–	–	–	(3,151)	(3,151)
Other non current liabilities	18	–	–	(554)	–	–	(554)
Trade and other payables:							
Trade payables	16	–	–	(7,203)	–	–	(7,203)
Contingent consideration	16	–	–	–	(18)	–	(18)
Other non derivative financial liabilities	16	–	–	(6,621)	–	–	(6,621)
Non financial instruments	16	–	–	–	–	(12,160)	(12,160)
Current tax liabilities		–	–	–	–	(15)	(15)
Total liabilities		–	–	(28,653)	(18)	(15,326)	(43,997)
Net assets		16,921	98	(28,653)	(18)	64,257	52,605

19 Financial instruments (continued)

Financial instruments by category (continued)

At 30 June 2013

	Notes	Loans and receivables £'000	Available-for-sale £'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)
Contingent consideration	16	–	–	–	(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

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2014

19 Financial instruments (continued)

Financial instruments measured at fair value

	Fair value measurements at 30 June 2014			Fair value measurements at 30 June 2013		
	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	–	–	–	–	–	–
Contingent consideration	–	–	(18)	–	–	(392)

Level 3 fair value measurements

	Unlisted available-for-sale investments 2014 £'000	Unlisted available-for-sale investments 2013 £'000	Contingent consideration 2014 £'000	Contingent consideration 2013 £'000
Opening balance	98	98	(392)	(2,029)
Payments	–	–	129	1,431
Measurement period adjustments	–	–	–	156
Gain in income statement	–	–	245	50
Closing balance	98	98	(18)	(392)

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% (2013: 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 (2013: £nil).

20 Derivative financial instruments

Hedge of net investment in foreign entity

The group had Euro denominated borrowings which expired in March 2014 which were 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 2014 was £nil (2013: £0.91m). The foreign exchange profit of £0.01m 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 20% (2013: 23%).

The movement on net deferred tax is as shown below:

	2014 £'000	2013 £'000
At 30 June 2013	(3,544)	(4,195)
Credit to income statement	893	647
On business combinations	–	72
Credit to equity – re share options	–	(27)
Effect of movements in foreign exchange rates	38	(41)
At 30 June 2014	(2,613)	(3,544)

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 2014

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 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
Charge (credit) to income statement	58	(42)	(192)	(176)
Credit to equity	–	–	–	–
At 30 June 2014	224	282	41	547

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 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)
Credit to income statement	31	1,044	1,075
Effects of movements in foreign exchange rates	–	41	41
At 30 June 2014	(727)	(2,424)	(3,151)

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

No deferred tax has been provided on temporary differences of £1.75m (2013: £1.72m) relating to the unremitted earnings of foreign subsidiaries.

22 Share capital

	Issued and fully paid			
	2014 Number	2014 £'000	2013 Number	2013 £'000
Ordinary shares of 25p each				
At beginning of the period	31,434,025	7,859	28,478,054	7,120
Other issued for cash during the period	–	–	2,848,184	712
Employee share options exercised	287,457	71	107,787	27
At end of the period	31,721,482	7,930	31,434,025	7,859

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

	2014 Number	2013 Number
Own shares held	127,075	114,761

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.

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
71,500	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

192,500 options were exercised during the year. No options lapsed unexercised during the year. 94,957 options under the SAYE scheme were exercised during the year in accordance with the scheme rules. No options were granted during the year.

Notes forming part of the Financial Statements (continued)
for the year ended 30 June 2014

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.
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 £0.09m). 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:

	2014 Minimum lease payments £'000	2014 Interest £'000	2014 Present value £'000
Not later than one year	20	(2)	18
Later than one year and not later than five years	16	(2)	14
	36	(4)	32

	2013 Minimum lease payments £'000	2013 Interest £'000	2013 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

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

	2014 £'000	2013 £'000
Current liabilities	18	16
Non-current liabilities	14	32
	32	48

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:

	2014 £'000	2013 £'000
Not later than one year	2,092	1,948
Later than one year and not later than five years	2,474	2,308
Later than five years	513	686
	5,079	4,942

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2014

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 the period to 30 June 2014 are £1.25m (2013: £0.95m).

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.

	2014		2013	
	Weighted average exercise price (pence)	Options (number)	Weighted average exercise price (pence)	Options (number)
Outstanding at beginning of the period	107.86	532,509	103.36	1,847,928
Granted during the period	–	–	–	–
Exercised during the period	104.70	(287,457)	68.57	(107,787)
Lapsed during the period	118.80	(40,957)	89.13	(1,207,632)
Outstanding at the end of the period	110.11	204,095	107.86	532,509

The exercise price of options outstanding at the end of the period ranged between 94.0p and 118.8p (2013: 94.0p and 118.8p) and their weighted average contractual life was 5.09 years (2013: 4.54 years).

Of the total number of options outstanding at the end of the period, 73,015 (2013: 264,000) had vested and were exercisable at the end of the period at an average exercise price of 94.51p (2013: 96.73p).

The weighted average share price (at the date of exercise) of options exercised during the period was 104.70p (2013: 68.57p).

No options were granted during either year.

	2014 £'000	2013 £'000
The share-based remuneration expense (note 4) comprises:		
Equity-settled schemes	27	70

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

27 Related party transactions

Details of directors and key management compensation are given in the Remuneration Report on pages 24 and 25 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 (2013: £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 (2013: £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.

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2014

28 Events after the reporting date

In August 2014 the Group agreed the extension of existing bank facilities through to August 2017 on substantially the same terms.

In September 2014 the Board announced a proposed dividend of 1.25p per share to shareholders on the record on 12 December 2014. Subject to shareholder approval at the forthcoming annual general meeting the dividend will be paid on 16 January 2015.

Retail Technology Limited

On 27 July 2014 the Company acquired Retail Technology Limited. The initial consideration was £0.69m satisfied on completion in cash. Deferred consideration of £0.05m is payable over the next two years.

The following table sets out the provisional fair values of the identifiable assets and liabilities acquired:

	Provisional fair value £'000
Assets	
Other intangible assets	613
Trade receivables	16
Other current assets	21
Cash and cash equivalents	236
Liabilities	
Trade and other payables	(135)
Deferred tax liabilities	(123)
Net assets	628
Consideration	
Initial cash consideration	694
Deferred cash consideration	50
	744
Goodwill	116
Acquisition costs to be charged to the income statement	4

The intangible assets recognised in the adjustments relate to customer relationships. £0.12m 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.

29 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:

	2014 £'000	2013 £'000
Cash generated from operating activities	5,352	8,022
Add:		
Exceptional reorganisation costs	1,722	637
Adjusted cash generated from operations	7,074	8,659

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

	2014 £'000	2013 £'000
Initial consideration	–	(10)
Contingent and deferred consideration	(129)	(1,931)
	(129)	(1,941)

Cash and cash equivalents comprise:

	2014 £'000	2013 £'000
Cash available on demand	647	272
Overdrafts	(3,644)	(1,105)
	(2,997)	(833)

Notes forming part of the Financial Statements (continued)

for the year ended 30 June 2014

30 Notes to the Strategic Report

*1 Calculated before amortisation of acquired intangibles of £2.99m (2013: £3.18m) and exceptional reorganisation costs of £1.72m (2013: £0.73m).

*2 Calculated before amortisation of acquired intangibles of £2.99m (2013: £3.18m) and exceptional reorganisation costs of £1.72m (2013: £0.73m).

*3 Calculated before amortisation of acquired intangibles of £1.28m (2013: £1.37m) and exceptional reorganisation costs of £1.14m (2013: £0.22m).

*4 Calculated before amortisation of acquired intangibles (net of tax) of £1.95m (2013: £2.27m) and exceptional reorganisation costs (net of tax) of £1.34m (2013: £0.58m).

*5 Calculated before cash flows in respect of exceptional reorganisation costs of £1.72m (2013: £0.64m).

*6 Calculated before amortisation of acquired intangibles of £2.99m (2013: £3.18m) and exceptional reorganisation costs of £1.72m (2013: £0.73m).

*7 Calculated before cash flows in respect of exceptional reorganisation costs of £1.72m (2013: £0.64m).

*8 Calculated before amortisation of acquired intangibles (net of tax) of £1.95m (2013: £2.27m) and exceptional reorganisation costs (net of tax) of £1.34m (2013: £0.58m).

*9 Calculated before amortisation of acquired intangibles of £0.90m (2013: £1.18m) and exceptional reorganisation costs of £0.72m (2013: £0.15m).

*10 Calculated before amortisation of acquired intangibles of £0.37m (2013: £0.60m) and exceptional reorganisation costs of £0.41m (2013: £0.11m).

*11 Calculated before amortisation of acquired intangibles of £0.36m (2013: £0.60m) and exceptional reorganisation costs of £0.08m (2013: £0.09m).

*12 Calculated before amortisation of acquired intangibles of £0.53m (2013: £0.58m) and exceptional reorganisation costs of £0.31m (2013: £0.05m).

*13 Calculated before amortisation of acquired intangibles of £1.79m (2013: £1.83m) and exceptional costs of £0.18m (2013: £0.27m).

*14 Calculated before amortisation of acquired intangibles of £0.30m (2013: £0.17m) and exceptional costs of £0.24m (2013: £0.03m).

*15 Calculated before exceptional costs of £0.59m (2013: £0.27m).

*16 Calculated before amortisation of acquired intangibles of £2.99m (2013: £3.18m) and exceptional reorganisation costs of £1.72m (2013: £0.73m).

*17 Calculated before amortisation of acquired intangibles (net of tax) of £1.95m (2013: £2.27m) and exceptional reorganisation costs (net of tax) of £1.36m (2013: £0.58m).

Company Balance Sheet
as at 30 June 2014

Registered number: 2641001

	Notes	2014 £'000	2013 £'000
Fixed assets			
Development costs	5	1,672	1,637
Goodwill	5	–	930
Intangible fixed assets		1,672	2,567
Tangible assets	6	228	207
Investments	7	38,530	40,830
		40,430	43,604
Current assets			
Debtors	8	22,539	20,058
Cash at bank and in hand		1	1
		22,540	20,059
Creditors: Amounts falling due within one year	9	(22,358)	(25,617)
Net current assets (liabilities)		182	(5,558)
Total assets less current liabilities		40,612	38,046
Creditors: Amounts falling due after more than one year	10	(230)	(51)
Provisions for liabilities and charges	11	(353)	(178)
Net assets		40,029	37,817
Capital and reserves			
Called-up share capital	12	7,930	7,859
Share premium account	13	9,412	9,183
Other reserve	13	10,324	10,324
Profit and loss account	13	12,363	10,451
Equity shareholders' funds	15	40,029	37,817

The financial statements on pages 81 to 94 were approved and authorised for issue by the Board of Directors on 14 September 2014 and were signed on its behalf by:

DJ Bolton
Director

The notes on pages 82 to 94 form part of these financial statements.

Notes forming part of the Company Financial Statements

for the year ended 30 June 2014

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 year.

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 £nil (2013: £221,000) which has now been amortised over its 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.

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 and the customer has the ability to use the software, collectability is probable and the fee is fixed and determinable. If significant post-delivery obligations exist, income is deferred until no significant obligations remain. Where the company acts as an agent, commission income is recognised at the point the customer has placed an order and the company's obligations have been fulfilled. 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.

Notes forming part of the Company Financial Statements (continued)

for the year ended 30 June 2014

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.

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 £2,224,000 (2013: £31,000).

3 Staff numbers

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

	2014 Number	2013 Number
Consultants and programmers	137	123
Sales and distribution	11	10
Administration	30	25
	178	158

Their aggregate remuneration comprised:

	2014 £'000	2013 £'000
Wages and salaries	10,764	8,541
Social security costs	1,179	1,033
Other pension costs (see note 17)	396	182
	12,339	9,756

Notes forming part of the Company Financial Statements (continued)
for the year ended 30 June 2014

4 Directors' remuneration, interests and transactions

Aggregate remuneration

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

	2014 £'000	2013 £'000
Emoluments	675	483
Compensation for loss of office	394	–
Gains on exercise of share options	110	90
Contributions to personal pension schemes	33	37
	1,212	610

The aggregate emoluments of the highest paid director (including compensation for loss of office of £393,636) were £605,546 (2013: £243,628) and company pension contributions of £10,993 (2013: £18,276) were made to a defined contribution scheme on his behalf.

	2014	2013
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 24 and 25.

5 Intangible fixed assets

	Development costs £'000	Goodwill £'000	Total £'000
Cost			
At 1 July 2013	3,718	6,670	10,388
Additions	693	–	693
Intra – group transfers	–	(1,150)	(1,150)
At 30 June 2014	4,411	5,520	9,931
Amortisation			
At 1 July 2013	2,081	5,740	7,821
Charge for the year	658	–	658
Intra – group transfers	–	(220)	(220)
At 30 June 2014	2,739	5,520	8,259
Net book value			
At 30 June 2014	1,672	–	1,672
At 30 June 2013	1,637	930	2,567

The intra group transfer relates to the goodwill arising on the acquisition of the trade and certain assets of Azurri Retail which was transferred to K3 Systems Support Limited, a subsidiary, on 1 July 2013.

Since the year end, all of the development costs and goodwill have been transferred to K3 Retail Solutions Limited, a subsidiary, on 1 July 2014.

Notes forming part of the Company Financial Statements (continued)
for the year ended 30 June 2014

6 Tangible fixed assets

	Leasehold improvements £'000	Plant, office equipment and fixtures £'000	Total £'000
Cost			
At 1 July 2013	48	301	349
Additions	–	166	166
Disposals	–	(47)	(47)
At 30 June 2014	48	420	468
Depreciation			
At 1 July 2013	48	94	142
Charge for the year	–	145	145
Disposals	–	(47)	(47)
At 30 June 2014	48	192	240
Net book value			
At 30 June 2014	–	22	228
At 30 June 2013	–	207	207

7 Fixed asset investments

	2014 £'000	2013 £'000
Subsidiary undertakings	38,530	40,830

7 Fixed asset investments (continued)

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	UK
+ K3 Partner Network (International) Limited (formerly K3 Managed Services (International) Limited)	Ireland
+ K3 FDS Limited (formerly K3 Panacea 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
K3 Singapore Pte Ltd	Singapore
K3 Business Solutions ehf	Iceland
+ Colne Investments Limited	UK
+ K3 Systems Support Limited	UK
+ K3 BTG Limited	UK
K3 CRM Limited	UK
+ K3 Retail and Business Solutions Holdco Limited	UK
+ K3 Business Systems Holdco Limited	UK
+ K3 Managed Services Holdco 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 Partner Network (International) Limited, K3 FDS 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

Since the year end, the group has undertaken a reorganisation and the majority of the subsidiaries listed above are now held indirectly by K3 Business Technology Group Plc.

Notes forming part of the Company Financial Statements (continued)

for the year ended 30 June 2014

7 Fixed asset investments (continued)

	£'000
Cost	
At 1 July 2013	41,528
Adjustments	
Revaluation of investment in foreign subsidiaries	(31)
Additions	952
Disposals	(3,221)
At 30 June 2014	39,228
Amounts written off	
At 1 July 2013 and 30 June 2014	698
Net book value	
At 30 June 2014	38,530
At 30 June 2013	40,830

The additions of £952,000 relate to the capitalisation of inter-company balances with K3 Solutions BV. The disposals in the year relates to the transfer of the company's investments in K3 AX Limited to K3 Business Solutions Limited and Intelligent Solutions Consultancy Limited to K3 FDS Limited, both subsidiaries of the company.

8 Debtors

	2014 £'000	2013 £'000
Amounts falling due within one year:		
Trade debtors	3,129	4,129
Amounts owed by subsidiary undertakings	13,597	12,971
Other debtors	66	67
Corporation tax	1,251	1,405
Prepayments and accrued income	4,496	1,486
	22,539	20,058

Of the above amounts, £705,000 of amounts due from subsidiary undertakings (2013: £1,095,000) falls due after more than one year.

9 Creditors: Amounts falling due within one year

	2014 £'000	2013 £'000
Bank loans and overdrafts	12,400	16,720
Other loans due to related parties (note 18)	640	640
Trade creditors	1,486	1,485
Amounts owed to subsidiary undertakings	3,530	2,245
Taxation and social security	515	375
Other creditors	381	373
Deferred consideration	–	360
Accruals	2,038	1,689
Deferred income	1,368	1,730
	22,358	25,617

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

	2014 £'000	2013 £'000
Accruals	230	51

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

	2014 £'000	2013 £'000
Bank overdrafts		
On demand or within one year	2,441	4,430
Bank loans		
Between one and two years	–	–
Between two and five years	–	–
	–	–
On demand or within one year	9,959	12,290
	9,959	12,290
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 2014

11 Deferred taxation

	2014 £'000	2013 £'000
Accelerated capital allowances	43	43
Other timing differences	1	(367)
Losses	(397)	146
Deferred tax liability	(353)	(178)

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 2013	43	(367)	146	(178)
Charged to profit and loss	–	(30)	(145)	(175)
At 30 June 2014	43	(397)	1	(353)

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

	2014 £'000	2013 £'000
Allotted, called-up and fully-paid		
31,721,482 ordinary shares of 25p each (2013: 31,434,025)	7,930	7,859

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 2013	9,183	10,324	10,451
Retained profit for the year	–	–	2,224
Dividends to equity shareholders	–	–	(316)
Credit to equity for equity-settled share-based payments	–	–	27
Movement in own shares held	–	–	(23)
Share capital issued	229	–	–
At 30 June 2014	9,412	10,324	12,363

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 127,075 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 2014 was £266,000.

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.

15 Reconciliation of movements in shareholders' funds

	2014 £'000	2013 £'000
Profit for the financial period	2,224	31
Issue of share capital	300	2,683
Dividends to equity shareholders	(316)	(286)
Credit to equity for equity-settled share-based payments	27	70
Purchase of own shares	(23)	(6)
Net addition to shareholders' funds	2,212	2,492
Opening shareholders' funds	37,817	35,325
Closing shareholders' funds	40,029	37,817

Notes forming part of the Company Financial Statements (continued)

for the year ended 30 June 2014

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:

	2014		2013	
	Land and buildings £'000	Other £'000	Land and buildings £000	Other £'000
Expiry date				
– within one year	–	22	–	28
– between two and five years	357	84	357	66
	357	106	357	94

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 £396,000 (2013: £182,000).

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 27 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 £13,604,000.

20 Post balance sheet events

On 1 July 2014, the trade and assets of the Retail division was transferred to K3 Retail Solutions Limited, a subsidiary.

Unaudited Five Year Summary

	Year ended 30 June[*1]				
	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Revenue	71,950	63,513	67,961	52,800	43,842
Adjusted profit from operations[*2]	7,301	5,094	11,333	9,581	7,572
Profit from operations	2,590	1,185	7,352	5,813	5,492
Profit before tax	1,885	462	6,043	4,908	4,643
Profit after tax	2,560	1,242	5,724	4,480	3,648
Adjusted basic earnings per share[*3] (pence)	18.6	14.0	30.2	27.5	20.5
Basic earnings per share (pence)	8.2	4.3	20.3	17.5	14.6
Cash and cash equivalents	(2,997)	(833)	21	113	(571)
Gross debt[*4]	14,275	14,083	17,778	16,300	11,351
Net debt[*5]	13,628	13,811	15,682	15,486	10,982
Adjusted cash flow from operations[*6]	7,074	8,659	8,767	8,275	6,856
Net cash flow from operations	5,352	8,022	7,284	5,640	6,856

*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 29 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 26 November 2014 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 and 8 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 2014.
2. To re-elect Mr PJ Claesson as a director in accordance with Article 96 of the Articles of Association.
3. To appoint Mr PG Morland 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 2014 of 1.25p 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 £2,648,917 (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 £794,675 (being approximately one-tenth of the issued share capital of the Company at the date of this resolution);

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

Notice of Annual General Meeting (continued)

Special Business

Authority to Repurchase Ordinary Shares

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 4,764,871 (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 2015 or, if earlier, on the expiry of 15 months from the date of passing of this resolution unless such authority is renewed prior to such time; and
   (e) the Company may make one or more contracts to purchase Shares under this authority before the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority, and may make a purchase of Shares in pursuance of any such contract.

Registered Office

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

Dated 20 October 2014

By order of the Board

BS Davis
Company Secretary

Notes to the Notice of Annual General Meeting

Please refer to notes 7 to 20 relating to entitlement to attend and vote at the meeting and the appointment of proxies.

1. Mr PJ Claesson was appointed as a non-executive director of the Company in March 2001. Biographical details of Mr PJ Claesson are set out on page 28 to these financial statements.
2. Mr PG Morland was appointed by the Board as a non-executive director on 29 May 2014. Biographical details of Mr PG Morland are set out on page 28 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 £2,648,917 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 £794,675 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 4,764,871 of its ordinary shares, representing approximately 14.99 per cent of the Company's issued ordinary share capital (excluding treasury shares) as at 20 October 2014. 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 2015 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. 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.

Notice of Annual General Meeting (continued)

Notes to the Notice of Annual General Meeting (continued)

8. The Company specifies that only those members registered on the Company's register of members at:
   - 6.00pm on 24 November 2014; 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

9. As at 5.00pm on 20 October 2014, the Company's issued share capital comprised 31,786,997 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 20 October 2014 is 31,786,997.

Documents on display

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

Appointment of proxies

11. If you are a member of the Company at the time set out in note 8 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.
12. 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.
13. 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.
14. 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

15. 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 24 November 2014.

    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

16. 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 24 November 2014.

CREST proxy voting (uncertificated shareholders)

17. (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.

Notice of Annual General Meeting (continued)

Notes to the Notice of Annual General Meeting (continued)

Appointment of proxy by joint members

18. 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

19. 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

20. 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 24 November 2014.

    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)	TA Milne (Chairman) PG Morland (non-executive)
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 Patton Boggs 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:	KTZ Communications, No.1 Cornhill, London EC3V 3ND	

Designed and produced by Mears Ash Limited
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