18 September 2012
KBT

K3 BUSINESS TECHNOLOGY GROUP PLC
("K3" or "the Group")
IT solutions supplier to the supply chain industry

Final results for the 12 months to 30 June 2012

HIGHLIGHTS

Financial Key Points

- Good performance in challenging market conditions
- Revenues of £67.96m (2011: £52.80m) – incl. £11.82m from acquisitions
  - recurring revenue up by 40% to £33.74m, accounting for 50% of the total (2011: £24.18m)
- Adjusted profit from operations[*1] of £11.33m (2011: £9.58m) – incl. £2.18m from acquisitions[*2]
  Profit from operations of £7.35m (2011: £5.81m)
- Adjusted profit before tax[*3] of £10.02m (2011: £8.68m)
  Profit before tax of £6.04m (2011: £4.91m)
- Adjusted basic earnings per share[*4] of 30.2p (2011: 27.5p)
  Basic earnings per share of 20.3p (2011: 17.5p)
- Net debt at 30 June 2012 of £15.68m (2011: £15.49m), having repaid £3.64m in the year
  - banking facilities extended to Dec 2013
- Proposed final dividend of 1.0p (2011: 0.75p), an increase of 33%
- Formal sale process now ended (as announced separately today)

Operational Key Points

- Five significant acquisitions completed – now integrated and performing in line with expectations
- Revenues up in all four Divisions (SYSPRO and Sage, International, Microsoft UK & Managed Services) but difficult conditions in the UK
  - SYSPRO and Sage Division, generated high levels of recurring income
  - International Division, especially strong performance
  - Microsoft UK Division, profitability impacted by investment in Microsoft AX and UK trading conditions
  - Managed Services, significant investment and encouraging progress
- Major new contract wins totalled £13.3m (2011: £11.1m)
- Board sees new financial year as one of investment – in Microsoft Dynamics AX and Managed Services – to drive recurring revenues
  - financial benefits to come through in 2013 and beyond

Tom Milne, Chairman, said,

"In tough trading conditions, K3 delivered good results for the year to 30 June 2012. One of the strengths of the business is that a considerable portion of Group income is recurring, with existing customers accounting for recurring revenues of £33.74m, up 40% on last year. Revenues also benefited from the five significant acquisitions completed in the year.

All four of our Divisions recorded increases in revenue year-on-year although the Microsoft UK Division was affected both by market conditions and our investment programme, and saw profitability decrease. Against that, the International Division delivered an especially good performance and the Managed Services Division continues to show significant growth potential. We signed £13.3m of major new contract wins across the Group, up 20% on last year, with many of the benefits still to come. Deal slippage continues to be a feature of the trading environment.

With the end of the formal sale process, we are now re-focusing on our strategy for growth. We have a number of medium term growth opportunities to leverage our large customer base and build on our key customer and supplier relationships, especially in Managed Services and our International operations.

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

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Notes:

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

Note 2 Calculated before amortisation of acquired intangibles of £0.55m, acquisition costs of £0.52m, exceptional reorganisation costs of £0.02m and exceptional income of £nil.

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

Note 4 Calculated before amortisation of acquired intangibles (net of tax) of £2.35m (2011: £1.76m), acquisition and reorganisation costs (net of tax) of £1.01m (2011: £0.82m) and exceptional income (net of tax) of £0.56m (2011: £nil).

K3 BUSINESS TECHNOLOGY GROUP PLC

CHAIRMAN'S STATEMENT

OVERVIEW

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

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

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

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

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

FINANCIAL RESULTS

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

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

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

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

Cash flows and banking

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

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

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

DIVIDEND

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

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

OUTLOOK

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

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

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

Tom Milne
Chairman

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

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

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

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

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

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

CHIEF EXECUTIVE'S STATEMENT

KEY PERFORMANCE INDICATORS

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

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

OPERATIONAL REVIEW

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

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

SYSPRO and Sage Division

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

Revenues at the SYSPRO and Sage Division (which comprises four business units) increased by 54% to £24.96m (2011: £16.17m), with the majority of the increase reflecting our acquisitions. These contributed £7.55m of revenue. Adjusted profit from operations[*10] rose by 40% to £5.86m (2011:

£4.17m), with acquisitions contributing £1.15m of adjusted operating profit*11. It should be noted that our Sage activity typically delivers lower operating margins compared to our SYSPRO activities.

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

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

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

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

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

International Division

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

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

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

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

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

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

Microsoft UK Division

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

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

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

Our acquisitions of Azurri and RSG have brought some notable benefits to the Division. RSG, one of the leading providers of Microsoft Dynamics 'RMS' to retailers in the UK and Ireland, brings us a software suite suitable for smaller retailers and therefore widens our marketplace. It also has a managed service offering which further expands K3's own growing Managed Services Division. RSG has closed 21 new business deals since acquisition, worth a total of £0.76m. Azurri, which supports the retail solutions used by several major high street retailers, brings us additional recurring income and potential customers for our Microsoft Dynamics products.

The Microsoft UK retail business secured £5.9m of new business wins compared to £5.6m last year after a slow start, closing seven major new deals, including our first major order for Microsoft's new AX for Retail solution in a contract we won with Eason. The agreement has been structured so that Microsoft is the prime delivery contractor, with K3 providing the specialist retail modules required. Other significant AX deals include Grafton, Wynsors and Weird Fish, with the remaining deals being NAV multi-channel offerings. The deals were closed late in each half year and therefore have resulted in low services income to date with the focus to date being on scoping and system discovery rather than on high levels of implementation. Our multi-channel offering, incorporating our own IP, continues to support our performance on NAV. The prospects pipeline for the UK retail business stands at approximately £21.0m (2011: £19.0m), with over 50% focused on our Microsoft AX Multi Channel retail solution. We are hopeful that a number of these deals will close in the first half of the new financial year.

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

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

Managed Services Division

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

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

Revenue rose by 16% to £5.43m (2011: £4.70m) but more noteworthy is the 36% increase in the year end run rate of recurring income to £3.58m (2011: £2.64m) of which around £195,000 per month (2011: £115,000 per month) or £2.34m annualised is hosting revenue. As expected, profits lagged revenue growth as we added £1.16m of additional resource. Divisional overheads have increased to £2.99m (2011: £1.41m), capitalised development was £0.38m and capital expenditure was £0.84m. Adjusted result from operations[*16] was £nil (2011: profit of £0.54m). We now have platforms in place for the hosting of SYSPRO, Microsoft Dynamics NAV and Sage 200 software and are seeing a good demand for these and the other complementary services we can offer from "the Cloud". Our deployment now ranges from on-site managed services to fully hosted services provided on a multi-tenanted solution in the Cloud. The final quarter of the year saw an acceleration of new deployments and included a substantial new SYSPRO order in Canada. We are also launching hosting with SYSPRO Australia and have launched 'mini-SYSPRO' hosting with a low cost option for up to 10 users.

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

Central Division

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

Exceptional costs and Income

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

OUTLOOK

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

Andy Makeham
Chief Executive

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

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

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

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

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

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

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

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

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

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

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.

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.

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.

CONSOLIDATED INCOME STATEMENT
For the year ended 30 June 2012

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

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

Earnings per share

	Notes	2012	2011
Basic	3	20.3p	17.5p
Diluted	3	19.8p	17.0p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2012

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2012

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

CONSOLIDATED STATEMENT OF CASHFLOWS
For the year ended 30 June 2012

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2012

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

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

NOTES

1. Profit from operations

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

2. Tax expense

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

3. Earnings per share

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

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

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

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

3. Earnings per share (continued)

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

4. Loans and borrowings

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

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

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

5. Other non-current liabilities

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

6. Trade and other payables – current

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

7. Notes to the cashflow statement

Cash generated from operations is stated after payments made 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 the acquisition. In addition, cash flows from operations include acquisition costs and exceptional reorganisation costs arising as a result of acquisitions during the year. The adjusted cash generated from operations has been computed because the directors consider it more useful to shareholders and investors in assessing the underlying operating cash flow of the Group. The adjusted cash generated from operations is calculated as follows:

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

8. The Board recommends the payment of a dividend of per share 1.0p (2011: 0.75p) to be payable to shareholders on the register on 14 December 2012.

9. The financial information set out above does not comprise the Company's statutory accounts. The Annual Report and Financial Statements for the year ended 30 June 2011 have been filed with the Registrar of Companies. The Independent Auditors' Report on the Annual Report and Financial Statement for the year ended 30 June 2011 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

The Independent Auditors' Report on the Annual Report and Financial Statement for the year ended 30 June 2012 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006. These will be delivered to the Registrar of Companies following the annual general meeting.

10. The Group's full statutory financial statements for 30 June 2012 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.

11. This preliminary announcement was approved by the Board of directors on 17 September 2012.

12. The full financial statements will be posted to shareholders on or around 24 October 2012. Further copies will also be available on its website (www.k3btg.com) and from the Company's registered office at Baltimore House, 50 Kansas Avenue, Manchester, M50 2GL from that date.