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

Final results for the 12 months to 30 June 2013

KEY POINTS

Financial

- Results in line with revised expectations and show impact of a challenging wider retail market and continuing investment into Project Gemstone* – significant upturn in retail order wins in Q4
- Revenues of £63.51m (2012: £67.96m) – with recurring maintenance and support at £34.54m (2012: £33.74m)
- Adjusted PBT [*1] of £4.37m (2012: £10.02m) / Statutory PBT of £0.46m (2012: £6.04m)
- Exceptional costs of £0.73m (2012: £0.56m) – related to reorganisation costs
- Net costs of £2.2m related to Project Gemstone – after capitalising £1.45m of development costs
- Adjusted basic EPS [*2] of 14.0p (2012: 30.2p) / Statutory basic EPS of 4.3p (2012: 20.3p)
- Cash generated from operations remained strong at £8.02m (2012: £7.28m)
- Net debt at 30 June 2013 of £13.81m (2012: £15.68m), after share placing of £2.61m (net)
- Proposed final (and total) dividend of 1.0p (2012: 1.0p)

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

Operational

- Microsoft UK Division (Sales: £18.9m) – first release of initial Gemstone functionality in H2 and some high profile initial orders signed in Q4, which will benefit new financial year and beyond Furthermore:
  - signs of a general improvement in retail technology spend
  - upturn in sales of established Microsoft NAV solution
- SYSPRO and Sage Division (Sales: £25.4m) – robust performance. New SYSPRO 7 release and Sage X3 product will help drive demand in new financial year
- International Division (Sales: £12.9m) – impacted by phasing of our IKEA growth plans and slowdown in the Dutch retail market
- Managed Services Division (Sales: £6.4m) – investment in hosting platforms completed. Division should benefit from increasing momentum in Microsoft software sales
- Major new order wins £11.56m (2012: £12.94m) - £8.13m (70%) signed in H2 , mostly in Q4
- Board expects much improved financial performance in new financial year

Tom Milne, Chairman, said,

"The year was one of K3's toughest, combining very weak markets, especially in the retail sector, at a time of major investment in Project Gemstone, which is delivering a new Microsoft-certified AX solution for the retail market.

The final quarter of the financial year however ended very encouragingly. We secured a number of initial order wins for the first release of Gemstone with some high profile retailers. We also sold significantly more of our established Microsoft NAV-based retail solution in this quarter than in any other quarter in the year. The full benefit of these wins will be felt in the new financial year. More generally, there seem to be signs that retailers are returning to spending on technology.

As we start the new financial year, prospects across our three other Divisions also look encouraging. There is positive momentum in the SYSPRO and Sage Division, and the International Division will benefit from strong demand from Inter IKEA Systems B.V. (the owner and franchisor of the IKEA concept). Having completed our investment and reorganisation in the Managed Services Division, we expect to see a significant improvement in the Division's performance.

Financially, the Group remains robust, with good cash generation and high levels of recurring revenues, which continues to be a major strength of the business. With initial implementations of our new Gemstone functionality completed and signs of an improving market, K3 enters the new financial year in a stronger position and we expect to see a much improved financial performance."

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Notes:

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

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

K3 BUSINESS TECHNOLOGY GROUP PLC

CHAIRMAN'S STATEMENT

OVERVIEW

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

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

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

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

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

FINANCIAL RESULTS

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

As expected, the Group incurred significant product development costs this financial year, which totalled £3.56m. A major element of this was Project Gemstone, within our Microsoft UK and International Divisions, but we also invested further across other product suites and in hosting in the Managed Services Division. Of the £3.56m of product development, £1.45m related to Project Gemstone, £0.63m related to Retail NAV, £0.64m related to Pebblestone, NAV and other product IP in

Holland, £0.33m related to Fresh Dynamics, £0.25m related to SYSPRO and £0.26m was invested in hosting. We incurred additional costs of £2.2m in building our Gemstone sales, deployment and support teams in anticipation of demand that, late in the year, started to be realised.

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

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

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

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

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

Cash flows and banking

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

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

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

DIVIDEND

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

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

BOARD APPOINTMENT

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

OUTLOOK

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

Tom Milne
Chairman

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

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

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

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

CHIEF EXECUTIVE'S STATEMENT

KEY PERFORMANCE INDICATORS

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

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

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

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

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

OPERATIONAL REVIEW

K3 comprises four trading Divisions, Microsoft UK, SYSPRO and Sage, International, and Managed Services. The financial results of each 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 2013 £000	**Revenue to 30 June 2012 £000**	**Adjusted profit*5 to 30 June 2013 £000**	**Adjusted profit*5 to 30 June 2012 £000**
Microsoft UK	18,860	24,919	(1,663)	2,217
SYSPRO and Sage	25,377	24,963	5,580	5,856
International	12,864	12,647	2,258	3,668
Managed Services	6,412	5,432	(555)	-
Head office costs	-	-	(526)	(408)
	63,513	67,961	5,094	11,333

Microsoft UK Division

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

Microsoft is supporting our development programme and the software is being written to Microsoft's strict development standards so that our solution will be accredited as 'Certified for

Microsoft Dynamics'. The fully completed product will incorporate rich functionality which we have specifically developed for the retail and wholesale markets. The Microsoft UK Division capitalised £0.73m of costs in relation to Gemstone and a further £0.28m on UK specific Gemstone functionality.

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

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

Results

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

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

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

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

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

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

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

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

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

SYSPRO and Sage Division

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

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

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

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

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

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

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

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

International Division

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

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

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

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

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

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

Managed Services Division

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

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

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

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

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

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

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

Head office Division

Central costs for the year were £0.53m (2012: £0.41m). These costs included Directors' costs, group human resources, accounting and legal personnel, and costs associated with the Plc including financing. The costs are stated net of recovery of elements recharged to the operating units and are higher year-on-year due to additional costs arising from the acquired companies and consultancy associated with Project Gemstone.

OUTLOOK

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

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

Andy Makeham
Chief Executive

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

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

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

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

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

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

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

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

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.

CONSOLIDATED INCOME STATEMENT
For the year ended 30 June 2013

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

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

Earnings per share

	Notes	2013	2012
Basic	3	4.3p	20.3p
Diluted	3	4.2p	19.8p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2013

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2013

	Notes	**2013**	2012
		£'000	£'000
ASSETS			
Non-current assets			
Property, plant and equipment		**2,927**	2,722
Goodwill		**44,610**	43,540
Other intangible assets		**21,040**	21,255
Deferred tax assets		**723**	710
Available-for-sale investments		**98**	98
Total non-current assets		**69,398**	68,325
Current assets			
Trade and other receivables		**25,251**	30,322
Cash and cash equivalents		**272**	2,096
Total current assets		**25,523**	32,418
Total assets		**94,921**	100,743
LIABILITIES			
Non-current liabilities			
Long-term borrowings	4	**32**	-
Other non-current liabilities	5	**225**	892
Deferred tax liabilities		**4,267**	4,905
Total non-current liabilities		**4,524**	5,797
Current liabilities			
Trade and other payables	6	**25,081**	29,594
Current tax liabilities		**140**	669
Short-term borrowings	4	**14,051**	17,778
Total current liabilities		**39,272**	48,041
Total liabilities		**43,796**	53,838
EQUITY			
Share capital		**7,859**	7,120
Share premium account		**9,183**	7,239
Other reserves		**10,448**	10,448
Cash flow hedging reserve		**-**	-
Translation reserve		**1,297**	753
Retained earnings		**22,338**	21,345
Total equity attributable to equity holders of the parent		**51,125**	46,905
Total equity and liabilities		**94,921**	100,743

CONSOLIDATED STATEMENT OF CASHFLOWS
For the year ended 30 June 2013

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2013

	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 2011	6,477	2,863	10,448	(85)	1,730	15,809	37,242
Changes in equity for year ended 30 June 2012							
Share-based payment credit	-	-	-	-	-	19	19
Issue of shares for cash	641	4,371	-	-	-	-	5,012
Options exercised	2	5	-	-	-	-	7
Movement in own shares held	-	-	-	-	-	7	7
Dividends to equity holders	-	-	-	-	-	(214)	(214)
Profit for the year	-	-	-	-	-	5,724	5,724
Other comprehensive income for the period	-	-	-	85	(977)	-	(892)
At 30 June 2012	7,120	7,239	10,448	-	753	21,345	46,905
Changes in equity for year ended 30 June 2013							
Share-based payment credit	-	-	-	-	-	43	43
Issue of shares for cash	712	1,897	-	-	-	-	2,609
Options exercised	27	47	-	-	-	-	74
Movement in own shares held	-	-	-	-	-	(6)	(6)
Dividends to equity holders	-	-	-	-	-	(286)	(286)
Profit for the year	-	-	-	-	-	1,242	1,242
Other comprehensive income for the period	-	-	-	-	544	-	544
At 30 June 2013	7,859	9,183	10,448	-	1,297	22,338	51,125

The amount included in retained earnings of £1.24m (2012: £5.72m) represents profit attributable to owners of the parent company. The amount included in the cash flow hedging reserve and the translation reserve represents other comprehensive income for each component, net of tax of £nil (2012: £nil).

NOTES

1. Profit from operations

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

2. Tax income/expense

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

3. Earnings per share

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

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

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

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

3. Earnings per share (continued)

	2013			2012		
	Earnings	**Per share amount Basic**	**Per share amount Diluted**	**Earnings**	**Per share amount Basic**	**Per share amount Diluted**
	£000	**p**	**p**	**£000**	**p**	**p**
Numerator						
Earnings per share	1,242	4.3	4.2	5,724	20.3	19.8
Add back:						
Amortisation of acquired intangibles (net of tax)	2,273	7.7	7.7	2,349	8.3	8.1
Acquisition costs (net of tax)	-	-	-	593	2.1	2.1
Exceptional reorganisation costs (net of tax)	580	2.0	2.0	415	1.5	1.4
Exceptional income (net of tax)	-	-	-	(562)	(2.0)	(1.9)
Adjusted EPS	4,095	14.0	13.9	8,519	30.2	29.5

4. Loans and borrowings

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

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

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

5. Other non-current liabilities

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

6. **Trade and other payables – current**

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

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. The adjusted cash generated from operations has been computed because the directors consider it more useful to shareholders and investors in assessing the underlying operating cash flow of the Group. The adjusted cash generated from operations is calculated as follows:

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

8. The Board recommends the payment of a dividend of per share 1.0p (2012: 1.0p) to be payable on 17 January 2014 to shareholders on the register on 13 December 2013.

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 2012 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 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.

The Independent Auditors' Report on the Annual Report and Financial Statement for the year ended 30 June 2013 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 2013 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 2013.

12. The full financial statements will be posted to shareholders on or around 21 October 2013. 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.