AIM: KBT
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This announcement is inside information for the purposes of Article 7 of Regulation 596/2014.

K3 BUSINESS TECHNOLOGY GROUP PLC
("K3" or "the Group" or "the Company")

Provider of mission-critical software (owned and third party), cloud solutions and managed services to the retail, manufacturing and distribution sectors

Final results for the 12 months to 30 June 2016

KEY POINTS

		Year to 30 June 2016	Change	Year to 30 June 2015
Revenue		**£89.18m**	+7%	£83.43m
Recurring income		**£41.62m**	+4%	£39.85m
Adj.profit from operations*1		**£9.50m**	+17%	£8.15m
Adj. PBT*1		**£8.80m**	+22%	£7.22m
Reported PBT		**£4.53m**	+17%	£3.88m
Adj. EPS*2		**23.5p**	+21%	19.4p
Reported EPS		**12.6p**	+16%	10.9p
Dividend		**1.75p**	+17%	1.50p
Net debt*3		**£8.88m**	-26%	£12.08m
Operating cash generation		**£5.50m**	-43%	£9.60m

Financial Highlights

- Benefits of growth strategy and transition to own IP model coming through in higher margins and profitability:
    - K3 Product licence revenues increased to c.25% of total licence sales (2015: 23%)
    - gross margins up to 54.4% from 51.5%
    - channel partner sales gaining momentum
    - new orders hit a record high of £35.3m, up 66%

- Results broadly in line with market expectations despite a significant customer, My Local, entering administration at the end of the period

- Recurring revenues (from software maintenance renewals, support contracts and hosting & managed services) grew to £41.62m and remain high at 47% of total revenues

- Adj. EPS*2 increased by 21% to 23.5p (2015: 19.4p)

- Operating cash at £5.50m was affected by record sales activity at year end

- Placing in April raised £13.04m (net) for acquisition of DdD Retail and to support growth

- Net debt reduced by 26% to £8.88m, aided by placing proceeds – debt expected to decrease significantly

- Proposed final (and total) dividend of 1.75p per share (2015: 1.50p)

Operational Highlights

- Record software licence sales at £16.23m, up 17% - helped by a strong contribution from retail software sales, including “ax l is Fashion” deals

- Channel partner network secured three major wins, Lacoste, KLiNGEL, TriStyle

- Hosting & managed services activities progressed well – although impacted by the major customer entering administration

- Acquisitions - of DdD Retail (April 2016) and Merac Limited (acquired since the year end) - add valuable IP and recurring revenues

- Pipeline of new business up 23% to £76.1m on a like-for-like basis

- Proposed Board changes – David Bolton, CEO to become Chairman

- Board remains confident about growth outlook

Lars-Olof Norell, Chairman, said:

“*The growth of the business has been encouraging with record levels of software licence sales and adjusted earnings per share up 21% to 23.5p. The Group’s recurring income also increased and now stands at almost half of total revenues.*

“We have continued to expand our channel partner network. This route to market for our products represents a significant opportunity and a strong pipeline is building with channel partners in addition to our own direct business. The acquisitions, of DdD Retail and Merac Limited, provide us with further excellent product sets to add to the K3 product portfolio.

“Prospects for our business in the new financial year remain very encouraging. There are strong growth drivers, including channel partner sales and hosting. This, combined with further initiatives to improve margins and costs, leaves the Group well-positioned to increase profits and improve cash flows.”

Enquiries:

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Notes:

Note 1 Calculated before amortisation of acquired intangibles of £2.73m (2015: £2.80m), exceptional reorganisation costs of £1.05m (2015: £0.41m), and acquisition costs of £0.49m (2015: £0.14m).

Note 2 Calculated before amortisation of acquired intangibles (net of tax) of £2.19m (2015: £2.24m), exceptional reorganisation costs (net of tax) of £0.84m (2015: £0.32m), and acquisition costs (net of tax) of £0.49m (2015: £0.14m).

Note 3 Net debt is gross debt net of cash and cash equivalents.

CHAIRMAN'S STATEMENT

OVERVIEW

K3's results show another year of encouraging progress, with adjusted profit before tax*3 up 22% to £8.80m on revenues up 7% to £89.18m. This was despite a £0.83m write-off against profits after a major customer, My Local, went into administration. Importantly, gross margins have continued to improve, rising to 54.4% from 51.5%, and new orders hit a record high of £35.3m, up 66% year-on-year, helped by a strong performance from our retail software products. Recurring income, which delivers high margins, increased by 4% and now accounts for 47% of total revenues.

These pleasing results reflect the strength of our software offering, which now contains greater levels of our own intellectual property ("IP"). Approximately 25% of our total software and maintenance licence revenues were generated by our own IP this year. We continue to focus on the development of new and innovative products to bring competitive edge to our customers, with capitalisation of development costs of £4.64m gross (2015: £3.81m). Results also reflect our focus on driving sales through channel partners. As we previously reported, a major highlight in the first half was our first order for our "ax I is Fashion" solution through a Global Systems Integrator. This was to a leading European mail order fashion retailer, TriStyle Mode GmbH. Our channel partner network signed a total of 27 new customers in the year, which included two other major contracts for "ax l is Fashion" with Lacoste and KLiNGEL. We continue to view our channel partner network as a major sales opportunity.

Our cloud hosting and managed services activities grew strongly and we remain confident that the business will become increasingly important as customers move towards adopting cloud-based systems.

We made one acquisition in the year, in the fourth quarter, and a second smaller one after the year end in July. Both acquisitions are wholly complementary and bring valuable additional IP and recurring revenues. DdD Retail ("DdD"), purchased for an initial £6.80m in April, has added a state-of-the-art retail solution, "Retail in a Box", and Merac Limited, acquired in July for an initial £1.70m, including £0.43m of cash acquired, is a leader in the visitor attractions retail sub-sector.

Looking ahead, our new business pipeline looks extremely strong with potential new deals standing at a record level of £76.1m, up by 23% on a like-for-like basis (2015: £62.0m). This includes our channel partner pipeline which also looks encouraging at £4.61m (2015: £3.69m). We therefore believe that K3 is well positioned to make further progress over the new financial year and continue to view prospects with confidence.

As we have previously reported, we expect subscription models to feature more strongly in our results as our industry moves towards cloud-based consumption licensing and away from traditional perpetual licensing. This means that income from contracts will be recognised over longer periods rather than upfront and that the lifetime value has the potential to be significantly higher.

FINANCIAL RESULTS

	Revenue (£m)		Gross margin (£m)		Gross margin	
	2016	2015	**2016**	2015	**2016**	2015
Software licences	**16.23**	13.83	**11.01**	8.81	**67.8%**	63.7%
Services	**25.74**	24.85	**8.12**	7.82	**31.5%**	31.5%
Recurring *	**41.62**	39.85	**28.04**	25.33	**67.4%**	63.6%
Hardware and other	**5.59**	4.90	**1.37**	1.02	**24.5%**	20.8%
Total	**89.18**	83.43	**48.54**	42.98	**54. 4%**	51.5%

**Recurring revenue comprises software maintenance renewals, support contracts, and hosting & managed services.*

	2016	2015
Adjusted profit from operations[*1] (£m)	**9.50**	8.15
Recurring revenue as % of total revenues	**47%**	48%
Customer adds (like-for-like)	**198**	228

K3 Intellectual Property

We highlight the revenue generated by K3's own IP below. It is included in the revenues above.

	Revenue (£m)	
	2016	2015
K3 Product Licence[1]	**10.76**	8.74
K3 Product Related[2]	**10.51**	9.15
Total K3 Product	**21.27**	17.89
Gross margin (£m)	**14.08**	11.71
Gross margin (%)	**66.2%**	65.5%

[1] K3 Product Licence includes initial and annual software licences.
[2] K3 Product Related represents the additional identifiable revenues which flow directly from our K3 Product sales.

For the year to 30 June 2016, total revenues rose by 7% to £89.18m (2015: £83.43m), with second half revenues 12% ahead year-on-year at £46.88m (2015: £41.76m). Recurring revenues, with margins at 67.4% (from software maintenance renewals, support contracts, hosting & managed services), rose by 4% to £41.62m and accounted for 47% of the Group's income. Software licence sales, with margins at 67.8%, increased by 17% to a record high of £16.23m (2015: £13.83m). Services income increased by 4% to £25.74m (2015: £24.85m). Our acquisition, DdD, made a two month contribution of £0.80m to revenue and £0.02m to profit, as we commenced the integration into K3.

Gross margins increased to £48.54m (2015: £42.98m), up 13%, with an improvement to 54.4% from 51.5% in 2015. This increase was mainly driven by higher software licences sales and the increase of our own IP in the sales mix. Overhead costs[*2] rose to £39.04m (2015: £34.83m) reflecting a full year of Starcom overheads (2015: two months) as well as two months of DdD overheads (2015: nil). The increase reflects an additional £2.70m of personnel cost and £0.45m of additional development cost amortisation. We have invested in management to support our channel partner strategy and in further sales resource for our manufacturing and distribution activities.

Adjusted profit from operations*1 rose by 17% to £9.50m (2015: £8.15m) with the second half year being up 9% year-on-year to £4.39m (2015: £4.04m). We incurred £1.05m (2015: £0.41m) of exceptional costs which related to organisational and management changes primarily in the Retail operations, and £0.49m (2015: £0.14m) of acquisition-related costs. The charge for amortisation of acquired intangibles was £2.73m (2015: £2.80m). Finance expenses were £0.70m (2015: £0.93m).

Adjusted profit before tax*3 rose by 22% to £8.80m (2015: £7.22m) and reported profit before tax increased by 17% to £4.53m (2015: £3.88m).

Adjusted earnings per share*4 rose by 21% to 23.5p (2015: 19.4p). Basic earnings per share increased by 16% to 12.6p (2015: 10.9p). There was a net tax charge for the year of £0.43m (2015: £0.44m) after the benefit of a £0.42m deferred tax credit (2015: £0.26m).

Cash flow and banking

Net debt at 30 June 2016 decreased by 26% to £8.88m (2015: £12.08m). This reduction is after the acquisition of DdD in April 2016 at a cost of £7.66m, including £0.86m of contingent consideration paid into escrow, and a placing to raise £13.04m (net). It also includes the impact of the administration of a major customer and the weakening of sterling after the referendum vote. The change in the € to £ exchange rate at the year end to a rate of c.€1.2 to £1 led to an increase in debt of £0.6m.

Cash flow from operations was £5.50m (2015: £9.60m) reflecting the very high level of activity at the close of the year, when we signed four major deals, including extended licensing and settlement terms. We expect that operational cash will improve next year with the unwinding of working capital and increase in development amortisation. Net cash generated from financing in the period was £9.76m (2015: £3.18m). Expenditure on capitalised development was £4.64m (2015: £3.81m) or £2.30m net of amortisation (2015: £1.92m) - and on fixed assets was £0.93m (2015: £0.68m) as we increased our hosting capacity.

Dividend

The Board is pleased to propose a final (and total) dividend for the financial year of 1.75p per share (2015: 1.50p per share). This dividend will become payable, subject to shareholder approval, on 13 January 2017 to shareholders on the register on 9 December 2016.

K3's Annual General Meeting will be held on 24 November 2016 at 10.30 a.m. at the Group's offices at Baltimore House, 50 Kansas Avenue, Manchester M50 2GL.

BOARD CHANGES

We announce today proposed Board changes which will take effect in the coming months. David Bolton, Chief Executive, will be relinquishing his role to take up the position of Executive Chairman while I will become a Non-executive Director. The process of appointing David's successor is well-advanced and a further announcement regarding these changes will be issued in due course.

In December 2015, Jonathan Manley joined the Board as a Non-executive Director. Jonathan has extensive senior level experience in IT at leading UK and US companies including a number of high profile retailers. Peter Cookson has retired and left with our best wishes and grateful thanks for his wise counsel as a Non-executive Director. After the year end, in July, we were very pleased to welcome Adalsteinn Valdimarsson as a Non-executive Director. He has over 20 years' experience in the software industry and has founded and led the expansion of product-based software companies. He also has significant experience in retail software, including the Microsoft Dynamics platform.

OUTLOOK

The business has been growing rapidly over the last two years and gross margins are improving in line with our strategy. Our channel partner distribution network has continued to expand and we see further opportunities that could accelerate this. We will continue to invest significantly in developing our product offerings, including our cloud-based subscription models, which are expected to become increasingly important to us as the industry moves towards cloud-based consumption, a process which we expect to see evolve more rapidly over the next 12 months.

We remain confident of K3's prospects.

Lars-Olof Norell
Chairman

13 September 2016

[*1] Group adjusted profit from operations is calculated before amortisation of acquired intangibles of £2.73m (2015: £2.80m), exceptional reorganisation costs of £1.05m (2015: £0.41m), and acquisition costs of £0.49m (2015: £0.14m)

[*2] Overhead costs are calculated before amortisation of acquired intangibles of £2.73m (2015: £2.80m), exceptional reorganisation costs of £1.05m (2015: £0.41m), and acquisition costs of £0.49m (2015: £0.14m)

[*3] Group adjusted profit before tax is calculated before amortisation of acquired intangibles of £2.73m (2015: £2.80m), exceptional reorganisation costs of £1.05m (2015: £0.41m), and acquisition costs of £0.49m (2015: £0.14m)

[*4] Group adjusted earnings per share is calculated before amortisation of acquired intangibles (net of tax) of £2.19m (2015: £2.24m), exceptional reorganisation costs (net of tax) of £0.84m (2015: £0.32m) and acquisition costs (net of tax) of £0.49m (2015: £0.14m)

OPERATIONAL REVIEW

RESULTS OVERVIEW BY INDUSTRY SECTOR

The operational results for the Group, by industry sector, were:

	Revenue (£m) 2016	**Revenue (£m) 2015**	**Adj profit (£m) 2016**	**Adj profit (£m) 2015**
Retail[*5]	**44.92**	39.74	**6.05**	3.51
Manufacturing & Distribution[*6]	**44.26**	43.69	**4.28**	5.12
Head office	**-**	-	**(0.83)**	(0.48)
Total	**89.18**	83.43	**9.50**	8.15
Total recurring revenue	**41.62**	39.85		
Total K3 product licence revenue	**10.76**	8.74		

RETAIL ACTIVITIES

	Revenue (£m)		**Gross margin (£m)**		**Gross margin**	
	2016	2015	**2016**	2015	**2016**	2015
Software licences	**10.34**	7.14	**7.57**	5.14	**73.2%**	72.0%
Services	**14.52**	15.11	**3.92**	3.63	**27.0%**	24.0%
Recurring *	**16.74**	14.75	**10.96**	9.56	**65.5%**	64.9%
Hardware and other	**3.32**	2.74	**0.91**	0.62	**27.4%**	22.6%
Total	**44.92**	39.74	**23.36**	18.95	**52.0%**	47.8%

**Recurring revenue comprises software maintenance renewals, support contracts, and hosting & managed services.*

	2016	2015
Adjusted profit from operations[*5] (£m)	**6.05**	3.51
Recurring revenue* as % of total revenues	**37.3%**	37.1%
Customer adds (like-for-like)	**81**	129

**Recurring revenue comprises software maintenance renewals, support contracts, and hosting & managed services.*

Intellectual Property

	Revenue (£m)	
	2016	2015
K3 Product Licence[1]	**7.34**	5.50
K3 Product Related[2]	**10.13**	8.40
Total K3 Product	**17.47**	13.90
Gross margin	**10.57**	8.02
Gross margin %	**60.5%**	57.7%

[1] K3 Product Licence includes initial and annual software licences.
[2] K3 Product Related represents the additional identifiable revenues which flow directly from our K3 Product sales.

Our Offering

Our core offering is based on the Microsoft Dynamics suite of software, comprising Microsoft Dynamics AX and Microsoft Dynamics NAV. Our flagship "ax l is" product is the outcome of our major IP development programme to create a functionally rich solution for retailers and is powered by the Microsoft Dynamics AX solution. We also provide an enhanced Microsoft Dynamics NAV solution, which is typically aimed at mid and smaller-sized retailers. Pebblestone is our fashion wholesale product based on Microsoft Dynamics NAV. We also offer other solutions, which are wholly K3 authored and developed, including our digital commerce product "REALIZe" and the recently acquired DdD and Merac product sets. Our products can be provided through the cloud as well as through traditional on-premise delivery. We intend to launch additional K3 authored solutions to create a family of dedicated solutions addressing key market segments within the retail sector.

Performance

The Group's retail activities increased sales by 13% to £44.92m (2015: £39.74m). This reflected extremely strong software licences sales which rose by 45% to £10.34m (2015: £7.14m) across our core products. K3 product licence sales in retail increased by 33% to £7.34m (2015: £5.50m) and drove additional related sales of £10.13m (2015: £8.40m). There was also a constant flow of work from Inter IKEA Systems BV and their franchisees ("InterIKEA"), as we delivered their store roll-out and upgrade plan.

Recurring revenues increased by 13% to £16.74m (2015: £14.75m), with a number of the new customers purchasing extended software licence enhancement arrangements ahead of Microsoft's planned licensing structure changes. Recurring revenue accounted for 37% of total retail sales (2015: 37%).

Services revenues decreased by 4% to £14.52m (2015: £15.11m) and our initiatives to reduce the costs of implementations, through the use of near-shore resource, in-house training and more automated implementation systems, resulted in gross margins on services improving to 27% from 24% in the prior year.

New orders in the year almost doubled to £20.99m (2015: £11.30m) and included major contracts for both Microsoft Dynamics AX and Microsoft Dynamics NAV. Our larger contracts included orders from Bonmarché, Sue Ryder, Fortnum & Mason, and Ann Summers. New orders from our channel partner network for our own IP increased to £2.43m (2015: £1.60m) and included 27 additional customers. Eight new orders were signed for "ax l is Fashion", three of which were major contracts with TriStyle, KLiNGEL and Lacoste. This solution has now been sold across the globe from USA to Australia and driving channel sales remains a major focus for us.

In April, we acquired DdD which has developed the state-of-the-art "Retail in a Box" product. DdD has good market penetration in Scandinavia and "Retail in a Box" has cloud-based product architecture that is state-of-the-art and is highly suitable for our channel partner network. Our acquisition of Merac after the year end added both IP and recurring income.

The transition of the business and the amalgamation of activities led to a number of staffing changes. This included initiatives at the beginning of the financial year to reduce our cost base in our Dutch fashion and retail business and to remove a number of roles in our services delivery practice in the UK.

The Microsoft product offering has evolved to include both on-premise and cloud-based options with a variety of delivery and pricing mechanisms. We are well positioned to take advantage of the shift to the cloud, with strategic investments to ensure that our "ax l is Fashion" and "Pebblestone" products are both on-premise and cloud enabled. Our contribution to Microsoft is recognised by being awarded "Inner Circle" status, which is reserved for their strategically important partners, and being nominated as "Partner of the Year" in both product and implementation categories.

Retail Prospects

Our "ax l is" offering had another good year and we are encouraged with the momentum now being demonstrated by our channel partner network, with three excellent deals in Europe. We see a good opportunity to sell "ax l is" and other products into North America. As well as driving software licence revenues, our channel partner strategy will also benefit recurring revenues, through annual renewals of software maintenance licences and support contracts from customers who choose to adopt perpetual licence structures.

Our relationship with InterIKEA remains very close and we will continue to support the expansion of the franchisee network, with our strategic partnership extended until 2020.

Our new deal pipeline (computed on a perpetual-model basis) has increased by 40% to £44.9m (2015: £32.1m), of which £4.6m (2015: £3.7m) is from our channel partners. These increases underpin our confidence that our underlying retail operations will continue to strengthen.

MANUFACTURING AND DISTRIBUTION ACTIVITIES

Results Overview

	Revenue		**Gross Margin**		**Gross Margin**	
	£m	£m	**£m**	£m	**%**	%
	2016	2015	**2016**	2015	**2016**	2015
Software licences	**5.89**	6.70	**3.44**	3.68	**58.4%**	54.9%
Services	**11.22**	9.74	**4.20**	4.19	**37.4%**	43.0%
Recurring *	**24.88**	25.09	**17.08**	15.76	**68.6%**	62.8%
Hardware and other	**2.27**	2.16	**0.46**	0.40	**20.3%**	18.5%
Total	**44.26**	43.69	**25.18**	24.03	**56.9%**	55.0%

**Recurring revenue comprises software maintenance renewals, support contracts and hosting & managed services.*

	2016	2015
Adjusted profit from operations*[6] (£m)	**4.28**	5.12
Recurring revenue* as % of total revenues	**56.2%**	57.4%
Customer adds	**117**	99

**Recurring revenue comprises software maintenance renewals, support contracts, and hosting & managed services.*

Intellectual Property

	Revenue (£m)	
	2016	2015
K3 Product Licence[1]	**3.42**	3.24
K3 Product Related[2]	**0.38**	0.75
Total K3 Product	**3.80**	3.99
Gross margin	**3.51**	3.70
Gross margin %	**92.5%**	92.7%

[1] K3 Product Licence includes initial and annual software licences.
[2] K3 Product Related represents the additional identifiable revenues which flow directly from our K3 Product sales.

Our Offering

Our key offerings to manufacturers and distributors comprise SYSPRO, Sage, and Microsoft Dynamics AX and Microsoft Dynamics NAV solutions which we tailor with our own IP. Supporting these solutions, we have many related software products which we have developed in-house. These products serve to enhance the functionality of the core solutions and/or provide valuable integration benefits. They include modules for customer relationship management ("CRM"), advanced planning and scheduling, warehouse management, pallet management, data integration, payroll and HR.

Our cloud hosting & managed services activities are included in this segment. We offer hosting and managed services to both internal and external customers.

Performance

Our manufacturing and distribution operations had a challenging year, affected by a significant underperformance by our Sage business. This offset the continuing momentum in our hosting & managed services operations. Recurring income, which makes up 56.2% of the total sales in this segment were relatively unchanged year-on-year, as increases achieved in the Microsoft and hosting & managed businesses were offset by reductions in our Sage business. SYSPRO maintenance and support renewals continued to account for the major part of recurring income and SYSPRO renewal rates remained high at 98% (2015: 98%). There was a significant improvement in gross margin on recurring income, with margins rising from 62.8% to 68.6%. This mainly reflected the increase in higher margin hosting support income.

Software licence income decreased by 12% to £5.89m (2015: £6.70m). The majority of this reduction was in Sage product and in CRM software. As both are relatively low margin sales, it meant that the overall gross margin on software licences revenues increased to 58.4% from 54.9%.

Services revenue at £11.22m (2015: £9.74m) was up 15%, reflecting higher levels of activity in the Microsoft Dynamics business, CRM and hosting implementation work.

New orders were encouraging, rising by 43% to £14.3m (2015: £10.0m) and our Microsoft Dynamics NAV and AX business had a very strong second half with a number of deals closing. We also focused heavily on internal training in the Dynamics unit with a view to improving efficiency and reducing the use of external contractors.

Our SYSPRO business performed robustly in the year with good contributions from recurring income and upgrades to our own IP products (Dataswitch, Equator Payroll and Orchard Warehouse Management) being sold to existing customers delivering both revenues and increasing stickiness. However, the level of new business orders in the second half was disappointing and we have taken action at the end of the period to refresh the new business sales team.

We had anticipated an improvement in the Sage operation in the second half, however this has been disappointingly slow to materialise with deals proving difficult to close. Year-on-year profitability reduced by c.£1.0m on lower revenues. At the end of the period we have made changes to our sales teams to improve closure rates as our pipeline of potential business remains strong, particularly in the Sage X3 product where we have been awarded 'Global Partner of the Year' for the last two years.

Our cloud hosting & managed services businesses continued to progress well, benefiting from the addition of Starcom, acquired in April 2015. We estimate that Starcom has added £2.3m to revenue and £0.25m to profit year-on-year. The enlarged business has enabled us to provide hosting to different service level requirements and also to merge a number of on-premise support businesses under common management. However, the business suffered a setback at the year-end with the administration of a major retail customer, My Local. Nonetheless, the underlying momentum is very good and the business is well placed for growth. We have invested in additional equipment in the second half to meet the expected demand. Even after the loss of My Local, the closing contracted run-rate of subscription income has increased to £8.5m (2015: £8.0m) with £6.5m (2015: £6.0m) arising from hosting.

Prospects

Whilst this has been a challenging year, the outlook for these operations remains good. With its extensive customer base, our Manufacturing and Distribution activities deliver excellent recurring income and significant cash flows. The new business pipeline now stands at £31.2m (2015: £29.8m) and our Microsoft Tier 1 accredited Hosting business remains an exciting growth area.

CENTRAL COSTS

Head office costs[*7] include directors' costs, human resources, accounting and legal personnel, and costs associated with the Plc including financing. Costs are stated net of recovery of elements recharged to the operating units. Costs for the year increased to £0.83m (2015: £0.48m) which primarily reflected the investment in new senior resource to support ongoing growth.

OUTLOOK

We remain focused on our product-centric strategy and are confident of continuing progress. We are encouraged by the strong close to the financial year, with new orders reaching a record high, and the new business pipeline. However, we expect that the changes in licence structures in the Microsoft market to become more evident over the coming year. This will have a bearing on the timescales over which profit is recognised. We will continue to add further IP to our existing portfolio of products, particularly where we believe that there is an opportunity to sell complementary products sets through our channel partner network.

David Bolton
Chief Executive Officer

[*5] Retail adjusted profit from operations is calculated before amortisation of acquired intangibles of £0.64m (2015: £0.63m), exceptional reorganisation costs of £0.74m (2015: £0.22m) and acquisition costs of £0.29m (2015: £nil)

[*6] Manufacturing and Distribution adjusted profit from operations is calculated before amortisation of acquired intangibles of £2.10m (2015: £2.18m), exceptional reorganisation costs of £0.20m (2015: £0.15m) and acquisition costs of £nil (2015: £0.01m)

[*7] Head office costs are calculated before exceptional reorganisation costs of £0.11m (2015: £0.04m) and acquisition costs of £0.20m (2015: £0.13m)

CONSOLIDATED INCOME STATEMENT
For the year ended 30 June 2016

	Notes	2016 £'000	2015 £'000
Revenue		**89,175**	**83,427**
Cost of sales		**(40,636)**	**(40,446)**
Gross profit		**48,539**	**42,981**
Administrative expenses		**(43,310)**	**(38,176)**
Adjusted profit from operations		**9,501**	**8,151**
Amortisation of acquired intangibles		**(2,734)**	**(2,800)**
Acquisition costs	1	**(492)**	**(138)**
Exceptional reorganisation costs	1	**(1,046)**	**(408)**
Profit from operations		**5,229**	**4,805**
Finance income		**4**	**6**
Finance expense		**(705)**	**(932)**
Profit before taxation		**4,528**	**3,879**
Tax (expense) income	2	**(425)**	**(436)**
Profit for the period		**4,103**	**3,443**

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

Earnings per share

	Notes	2016	2015
Basic	3	12.6p	10.9p
Diluted	3	12.3p	10.7p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2016

	2016 £'000	2015 £'000
Profit for the period	**4,103**	3,443
Other comprehensive income (expense)		
Exchange differences on translation of foreign operations	**3,073**	(2,226)
Other comprehensive expense	**3,073**	(2,226)
Total comprehensive income for the period	**7,176**	1,217

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. None of the items within other comprehensive income had a tax impact.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2016

	Notes	2016	2015
		£'000	£'000
ASSETS			
Non-current assets			
Property, plant and equipment		**2,389**	2,316
Goodwill		**48,793**	43,541
Other intangible assets		**26,369**	20,806
Deferred tax assets		**423**	736
Available-for-sale investments		**98**	98
Total non-current assets		**78,072**	67,497
Current assets			
Trade and other receivables		**40,923**	31,839
Cash and cash equivalents		**2,772**	1,895
Total current assets		**43,695**	33,734
Total assets		**121,767**	101,231
LIABILITIES			
Non-current liabilities			
Long-term borrowings	4	**8,272**	10,531
Other non-current liabilities	5	**-**	882
Deferred tax liabilities		**3,753**	3,437
Total non-current liabilities		**12,025**	14,850
Current liabilities			
Trade and other payables	6	**32,824**	29,405
Current tax liabilities		**132**	38
Short-term borrowings	4	**3,376**	3,443
Total current liabilities		**36,332**	32,886
Total liabilities		**48,357**	47,736
EQUITY			
Share capital		**9,000**	7,949
Share premium account		**21,586**	9,462
Other reserves		**10,448**	10,448
Translation reserve		**1,076**	(1,997)
Retained earnings		**31,300**	27,633
Total equity attributable to equity holders of the parent		**73,410**	53,495
Total equity and liabilities		**121,767**	101,231

CONSOLIDATED STATEMENT OF CASHFLOWS
For the year ended 30 June 2016

	Notes	2016	2015
		£'000	£'000
Cash flows from operating activities			
Profit for the period		**4,103**	3,443
Adjustments for:			
Share-based payments charge		**28**	18
Depreciation of property, plant and equipment		**971**	916
Amortisation of intangible assets and development expenditure		**5,077**	4,690
Loss on sale of property, plant and equipment		**4**	2
Finance income		**(4)**	(6)
Finance expense		**705**	932
Tax expense		**425**	436
Increase in trade and other receivables		**(5,977)**	(3,031)
Increase in trade and other payables		**170**	2,200
Cash from operations	8	**5,502**	9,600
Finance expense paid		**(789)**	(956)
Income taxes paid		**(688)**	(264)
Net cash generated from operating activities		**4,025**	8,380
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**(7,401)**	(1,998)
Development expenditure capitalised		**(4,642)**	(3,806)
Purchase of other intangible assets		**-**	(78)
Purchase of property, plant and equipment		**(931)**	(680)
Proceeds from sale of property, plant and equipment		**15**	-
Finance income received		**6**	6
Net cash used in investing activities		**(12,953)**	(6,556)
Cash flows from financing activities			
Net proceeds from issue of share capital		**13,175**	69
Proceeds from long-term borrowings		**-**	5,400
Payment of long-term borrowings		**(2,928)**	(1,875)
Payment of finance lease liabilities		**(12)**	(20)
Dividends paid		**(477)**	(397)
Net cash from financing activities		**9,758**	3,177
Net change in cash and cash equivalents		**830**	5,001
Cash and cash equivalents at start of period		**1,895**	(2,997)
Exchange gains (losses) on cash and cash equivalents		**47**	(109)
Cash and cash equivalents at end of period		**2,772**	1,895

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2016

	Share capital £'000	Share premium £'000	Other reserve £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
At 30 June 2014	7,930	9,412	10,448	229	24,586	52,605
Changes in equity for year ended 30 June 2015						
Profit for the year	-	-	-	-	3,443	3,443
Other comprehensive income for the year	-	-	-	(2,226)	-	(2,226)
Total comprehensive income	-	-	-	(2,226)	3,443	1,217
Share-based payment credit	-	-	-	-	18	18
Options exercised	19	50	-	-	-	69
Movement in own shares held	-	-	-	-	(17)	(17)
Dividends to equity holders	-	-	-	-	(397)	(397)
At 30 June 2015	7,949	9,462	10,448	(1,997)	27,633	53,495
Changes in equity for year ended 30 June 2016						
Profit for the year	-	-	-	-	4,103	4,103
Other comprehensive income for the year	-	-	-	3,073	-	3,073
Total comprehensive income	-	-	-	3,073	4,103	7,176
Share-based payment credit	-	-	-	-	28	28
Options exercised	28	107	-	-	-	135
Issue of new shares	1,023	12,017	-	-	-	13,040
Movement in own shares held	-	-	-	-	13	13
Dividends to equity holders	-	-	-	-	(477)	(477)
At 30 June 2016	9,000	21,586	10,448	1,076	31,300	73,410

The amount included in retained earnings of £4.10m (2015: £3.44m) represents profit attributable to owners of the parent company.

NOTES

1. **Profit from operations and exceptional costs**

During the year reorganisation costs have been incurred which related to organisational and management changes particularly in the retail division at a cost of £1.05m (2015: £0.41m). The Group incurred costs in relation to acquiring new businesses of £0.49m (2015: £0.14m).

2. **Tax expense**

	2016	**2015**
	£'000	**£'000**
Current tax expense		
UK corporation tax and income tax of overseas operations on profits for the period	866	597
Adjustment in respect of prior periods	(25)	103
Total current tax expense	841	700
Deferred tax income		
Origination and reversal of temporary differences	(94)	(249)
Adjustment in respect of prior periods	(322)	-
Effect of change in rate of deferred tax	-	(15)
Total deferred tax income	(416)	(264)
Total tax expense	425	436

3. **Earnings per share**

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

	2016 Number of shares	**2015 Number of shares**
Denominator		
Weighted average number of shares used in basic EPS	32,439,624	31,637,381
Effects of:		
Employee share options and warrants	798,049	590,623
Weighted average number of shares used in diluted EPS	33,237,673	32,228,004

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)

		2016			2015	
	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	4,103	12.6	12.3	3,443	10.9	10.7
Add back:						
Amortisation of acquired intangibles (net of tax)	2,190	6.8	6.6	2,240	7.1	7.0
Acquisition costs (net of tax)	492	1.5	1.5	138	0.4	0.4
Exceptional reorganisation costs (net of tax)	837	2.6	2.5	323	1.0	1.0
Adjusted EPS	7,622	23.5	22.9	6,144	19.4	19.1

4. **Loans and borrowings**

	2016 £'000	2015 £'000
Non-current		
Bank loans (secured)	8,234	10,525
Finance lease creditors	38	6
	8,272	10,531
Current		
Bank loans (secured)	2,718	2,797
Finance lease creditors	18	6
Loans from related parties	640	640
	3,376	3,443
Total borrowings	11,648	13,974

5. **Other non-current liabilities**

	2016 £'000	2015 £'000
Deferred consideration	-	25
Accruals	-	857
	-	882

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

	2016 £'000	2015 £'000
Trade payables	8,192	7,602
Other payables	713	665
Accruals	9,548	7,875
Total financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost	18,453	16,142
Contingent consideration	912	75

Deferred consideration	25	25
Other tax and social security taxes	4,266	3,556
Deferred revenue	9,168	9,607
	32,824	29,405

7. Acquisitions

Retail Support International ApS ("DdD Retail")

On 29 April 2016 the group acquired 100% of the issued share capital of Retail Support International Aps, known as DdD Retail. DdD Retail provides a proprietary combined point of sale ("PoS") software/hardware solution, focusing on the fashion retail industry. The initial consideration was €8.9m (£6.8m) satisfied on completion in cash. Contingent consideration of €1.1m (£0.9m) is payable during next year.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below:

	Provisional fair value £'000
Assets	
Tangible fixed assets	15
Other intangible assets	4,669
Trade receivables	667
Other current assets	205
Cash and cash equivalents	345
Liabilities	
Trade and other payables	(959)
Deferred tax liabilities	(921)
Net assets	4,021
Consideration	
Initial cash consideration	6,802
Contingent cash consideration	863
	7,665
Goodwill	3,644
Acquisition costs to be charged to the income statement	292
Net cash outflow arising on acquisition	
Cash consideration	6,802
Contingent consideration paid into escrow	863
Less cash and cash equivalent balances acquired	(345)
	7,320

The intangible assets recognised in the adjustments relate to customer relationships and IP. £0.92m 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.

8. Notes to the cash flow statement

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:

	2016 £'000	2015 £'000
Cash generated from operating activities	5,502	9,600
Add:		
Exceptional reorganisation costs	1,046	311
Acquisition costs	300	-
Adjusted cash generated from operations	6,848	9,911

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

	2016 £000	2015 £000
Initial consideration	(6,802)	(2,580)
Cash balances acquired	345	582
Contingent consideration paid into escrow	(863)	-
Contingent and deferred consideration	(81)	-
	(7,401)	(1,998)

9. The Board recommends the payment of a dividend of 1.75p per share (2015: 1.5p) payable on 13 January 2017 to shareholders on the register on 9 December 2016.

10. 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 2015 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 2015 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 2016 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.

11. The Group's full statutory financial statements for 30 June 2016 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.

12. This preliminary announcement was approved by the Board of directors on 12 September 2016.

13. The full financial statements will be posted to shareholders on or around 19 October 2016. 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.