AIM: KBT
15 September 2015

K3 BUSINESS TECHNOLOGY GROUP PLC

("K3" or "the Group" or "the Company")
IT solutions supplier to retail, manufacturing and distribution sectors

Final results for the 12 months to 30 June 2015

KEY POINTS

	Year to 30 June 2015	Change	Year to 30 June 2014
Revenue	**£83.43m**	+16%	£71.95m
Recurring income	**£39.85m**	+13%	£35.42m
Adjusted profit from operations*1	**£8.15m**	+12%	£7.30m
Adjusted PBT*1	**£7.22m**	+9%	£6.60m
PBT	**£3.88m**	+105%	£1.89m
Adjusted EPS*2	**19.4p**	+4%	18.6p
EPS	**10.9p**	+33%	8.2p
Dividend	**1.50p**	+20%	1.25p
Operating cash generation	**£9.60m**	+79%	£5.35m
Net debt	**£12.08m**	-11%	£13.63m

*EPS*2 in 2014 benefited from change in the UK tax rate*

- Strong performance as business continues to transition to increase focus on own IP
- Revenues up 16% to £83.43m
  - software licence sales up 7% to £13.83m
  - services revenue up 25% to £24.85m after high level of orders closed in last 18 months
  - recurring revenues up 13% to £39.85m
- Adj. profit from operations*1 up 12% to £8.15m – following significant investment, some adverse currency impact and weak Dutch market, now addressed
- Major new orders remained buoyant at £21.25m after a particularly strong prior year (2014: £25.3m) – all product lines contributed
- Enhanced Microsoft relationship – K3 now an 'Inner Circle' partner – will drive more opportunities
- Channel partner sales – a key growth driver – progressing very well
  - encouraging level of deal closures in H2 with momentum, continuing into the new financial year
- Cloud hosting and managed services activities growing strongly
  - annualised subscription income now at £8.0m, with over 450 customers
- Inter IKEA contract extended until 2020
- Net debt reduced by 11% to £12.08m – and expected to decrease materially
- Prospects remain very positive
  - major new retail order reported today – see separate announcement

Lars-Olof Norell, Chairman, said:

"*The growth of the business has been excellent, reflecting progress with both our new and existing product offerings. Record software licence sales over the last two years were the key driver to the 16% rise in Group revenues to £83.43m. Adjusted profit from operations increased by 12% to £8.15m following significant investment in the business, adverse currency impact and the weak Dutch market, where we have now resized the business.*

"We are pleased with the progress we are making in transitioning K3 into a software vendor with product suites that contain increasing levels of our own intellectual property. Microsoft's recognition of K3 as an 'Inner Circle' member, one of a small elite of preferred partners globally, directly reflects its support for our development work with our Microsoft Dynamics offerings. We expect our enhanced relationship with Microsoft to help to open up further opportunities for us.

"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.

"Growth prospects for our business look good for the new financial year. There are strong growth drivers, including channel partner sales and hosting. This, combined with our initiatives to improve margins and costs, leaves the Group well positioned to drive further increases in profit and strong cash flows."

Enquiries:

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Notes:

Note 1 Calculated before amortisation of acquired intangibles of £2.80m (2014: £2.99m), exceptional reorganisation costs of £0.41m (2014: £1.72m), and acquisition costs of £0.14m (2014: £nil).

Note 2 Calculated before amortisation of acquired intangibles (net of tax) of £2.24m (2014: £1.95m), exceptional reorganisation costs (net of tax) of £0.32m (2014: £1.34m), and acquisition costs (net of tax) of £0.14m (2014: £nil).

CHAIRMAN'S STATEMENT

OVERVIEW

K3's transition into a software vendor with product suites that contain increasing levels of the Group's own intellectual property ("IP"), and which are capable of being sold internationally through channel partners, is progressing well. We still have further to go in transitioning the business but we remain very confident of the significant growth opportunity available to us.

Results for the year show continuing encouraging progress, with revenues up by 16% to £83.43m (2014: £71.95m), driven by strong demand for our products. Software licence sales reached a record high of £13.83m (2014: £12.89m) and adjusted profit from operations[*1] increased by 12% to £8.15m (2014: £7.30m), although the weak Dutch market and strength of sterling against the euro adversely affected this result, with the currency impact being approximately £0.25m.

The business continues to deliver high levels of recurring revenues from its base of customers across the retail, manufacturing and distribution sectors. These recurring revenues are mainly derived from annual software maintenance renewals, support contracts and hosting, and have increased by 13% in the year to £39.85m. They now comprise 48% of the Group's total income.

Strategically, we achieved two key milestones in the year. Firstly, Microsoft recognised K3 as its leading partner for the fashion retail sector. This reflects their support for our development work with our "ax l is" product. Secondly, we achieved our first orders for "ax l is" through our channel partner network. This sales network enables our products to reach more customers globally, driving licence sales and recurring income.

Following the year end, in July 2015, Microsoft made K3 a member of its Microsoft Dynamics 'Inner Circle' making the Group one of a small elite of preferred partners globally. We expect our increasing involvement with Microsoft to take K3 into larger deal sizes and to support channel partner interest in our solutions.

After a high level of order wins in the prior year, major new orders in the period remained strong, totalling £21.25m (2014: £25.3m), with all product lines contributing to this result. We also closed the financial year with the pipeline of potential new deals valued at £62.0m (2014: £62.2m).

We are encouraged by the level of product licence revenues that were generated from our own IP. This higher margin revenue has grown to £8.74m (2014: £8.09m) and now accounts for 23% of all product licence revenue. We expect it to grow further, particularly as our channel partner strategy gains traction.

Our Cloud hosting and managed services activities are growing strongly with annualised subscription income now at £8.0m, of which over £6.2m is from our Cloud hosting operations. This result includes revenues from Willow Starcom Limited ("Willow Starcom") acquired in April 2015. Subscription income in this area already makes up 20% of the Group's total recurring revenue and will become increasingly important as customers move towards adopting Cloud hosted systems.

Looking ahead, prospects for the business are very encouraging. We remain focused on driving growth and margins, and the Group remains well positioned to continue to make progress.

FINANCIAL RESULTS

	Revenue (£m)		Gross Margin (£m)		Gross Margin (%)	
	2015	2014	**2015**	2014	**2015**	2014
Software licences	**13.83**	12.89	**8.81**	8.20	**63.7%**	63.6%
Services	**24.85**	19.83	**7.82**	6.11	**31.5%**	30.8%
Recurring *	**39.85**	35.42	**25.33**	23.96	**63.6%**	67.6%
Hardware and other	**4.90**	3.81	**1.02**	0.69	**20.8%**	18.1%
Total	**83.43**	71.95	**42.98**	38.96	**51.5%**	54.1%

** Recurring revenue is from software maintenance renewals, support contracts, and hosting and managed services.*

	2015	2014
Adjusted profit from operations[*1] (£m)	**8.15**	7.30
Recurring revenue as % of total revenues	**48%**	49%
Customer adds	**228**	192

K3 Intellectual Property

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

	Revenue (£m)	
	2015	2014
K3 Product Licence[1]	**8.74**	8.09
K3 Product Related[2]	**9.15**	7.07
Total K3 Product	**17.89**	15.16
Gross margin £m	**11.71**	10.15
Gross margin %	**65.5%**	66.9%

[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 2015, total revenues rose by 16% to £83.43m (2014: £71.95m), with revenues in the second half 11% ahead year-on-year at £41.76m (2014: £37.48m). Software licence sales increased by 7% to a record high of £13.83m (2014: £12.89m). Services income was up 25% to £24.85m (2014: £19.83m) reflecting the very high level of deals closed over the last 2 years and also the support we are providing to our new channel partners as we grow this route to market. Recurring revenues, from software maintenance renewals, support contracts, hosting and managed services, accounted for 48% of the Group's income and rose by 13% to £39.85m (2014: £35.42m).

Gross margin at £42.98m was up 10% year-on-year (2014: £38.96m) although the gross percentage margin reduced to 52% (2014: 54%). This reduction reflected the increase in lower margin services revenues. It was also affected by the agency margin attributed to K3 from the Microsoft Embed programme (OEM sales of Microsoft core product) which is recognised as recurring income. As expected, resource cost pressures for implementations, which we flagged in the first half, eased in the second half with margins improving as a result. This improvement largely reflected our in-house training and near-shore resourcing initiatives. Overhead costs[*2] increased to £34.83m (2014: £31.66m) and includes an additional £2.3m of personnel cost and £0.3m of additional development cost amortisation. We have invested in management to support our partner channel and further sales resource for our manufacturing and distribution activities.

Group adjusted profit from operations*1 increased by 12% to £8.15m (2014: £7.30m) with the second half year being up 9% year-on-year at £4.04m (2014: £3.69m). We incurred £0.41m (2014: £1.72m) of exceptional costs which related to organisational and management changes as we simplified the Group's structure. The charge for amortisation of acquired intangibles was £2.80m (2014: £2.99m) with the reduction being due to certain acquisitions now being fully amortised.

Finance expenses increased to £0.93m (2014: £0.71m) as a result of increased working capital requirements as the business expanded.

Adjusted profit before tax*3 rose by 9% to £7.22m (2014: £6.60m). Profit before tax more than doubled to £3.88m (2014: £1.89m) reflecting the reduction in exceptional items and improvement in profit from operations.

Adjusted earnings per share*4 rose by 4% to 19.4p (2014: 18.6p, which benefited from a reduction in the UK tax rate). Basic earnings per share increased by 33% to 10.9p (2014: 8.2p). There was a net tax charge for the year of £0.44m (2014: £0.68m credit) after the benefit of a £0.26m deferred tax credit (2014: £0.89m).

Cash flow and banking

Net debt at 30 June 2015 decreased by 11% to £12.08m (2014: £13.63m). This reduction is after two acquisitions totalling £2.0m in cash (Retail Technology Limited for £0.46m and Willow Starcom Limited for £1.54m) and is despite the significant increase in activity of the business particularly in the last months of the financial year. The growth of the business has been assisted by additional loan facilities for a three year period agreed in August 2014.

Cash flow from operations was up 79% at £9.60m (2014: £5.35m). Net cash generated from financing in the period was £3.18m (2014: £2.35m absorbed). The expenditure on capitalised development decreased to £3.81m (2014: £3.99m), however the development of our IP will remain a key feature of our business. Expenditure on fixed assets was £0.68m (2014: £0.50m) and acquisition of other businesses cost £2.0m (2014: £0.13m).

Dividend

The Board is pleased to propose a 20% increase in the final (and total) dividend for the financial year of 1.50p per share (2014: 1.25p per share). Subject to shareholder approval at K3's Annual General Meeting, this dividend will become payable on 15 January 2016 to shareholders on the register on 11 December 2015.

K3's Annual General Meeting will be held on 9 December 2015 at 10.30 a.m. at the Group's offices at Baltimore House, 50 Kansas Avenue, Manchester M50 2GL.

OUTLOOK

The increasing emphasis we are placing on extending our own IP across our core offerings is a pillar in our business model. As we drive this strategy forward, it will significantly benefit gross margins and recurring revenues. A second major component to our growth strategy is the development of sales through our global channel partners. Our channel partner distribution network now includes global systems integrators and territory specialists. As it gains traction, this network together with our enhanced relationship with Microsoft should help to accelerate sales globally.

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.

We remain confident of K3's growth prospects.

Lars-Olof Norell
Chairman

15 September 2015

[*1] Group adjusted profit from operations is calculated before amortisation of acquired intangibles of £2.80m (2014: £2.99m), exceptional reorganisation costs of £0.41m (2014: £1.72m), and acquisition costs of £0.14m (2014: £nil)

[*2] Overhead costs are calculated before amortisation of acquired intangibles of £2.80m (2014: £2.99m), exceptional reorganisation costs of £0.41m (2014: £1.72m), and acquisition costs of £0.14m (2014: £nil)

[*3] Group adjusted profit before tax is calculated before amortisation of acquired intangibles of £2.80m (2014: £2.99m), exceptional reorganisation costs of £0.41m (2014: £1.72m), and acquisition costs of £0.14m (2014: £nil)

[*4] Group adjusted earnings per share is calculated before amortisation of acquired intangibles (net of tax) of £2.24m (2014: £1.95m), exceptional reorganisation costs (net of tax) of £0.32m (2014: £1.34m) and acquisition costs (net of tax) of £0.14m (2014: £nil)

OPERATIONAL REVIEW

RESULTS OVERVIEW BY INDUSTRY SECTOR

As previously reported, the operational results for the Group are now being presented by industry sector, namely retail, and manufacturing and distribution. This reflects our move to streamline and align our activities globally by customer industry sector.

	Revenue	Revenue	Adj profit	Adj profit
	2015	**2014**	**2015**	**2014**
	£m	**£m**	**£m**	**£m**
Retail[*5]	**39.74**	33.14	**3.51**	2.20
Manufacturing & Distribution[*6]	**43.69**	38.81	**5.12**	5.49
Head office	**-**	-	**(0.48)**	(0.39)
Total	**83.43**	**71.95**	**8.15**	**7.30**
Total recurring revenue	**39.85**	35.42		
Total product licence revenue	**8.74**	8.09		

RETAIL ACTIVITIES

Results Overview

	Revenue (£m)		Gross margin (£m)		Gross margin (%)	
	2015	2014	**2015**	2014	**2015**	2014
Software licences	**7.14**	6.62	**5.14**	4.82	**72.0%**	72.8%
Services	**15.11**	12.16	**3.63**	2.93	**24.0%**	24.1%
Recurring *	**14.75**	12.32	**9.56**	8.27	**64.9%**	67.1%
Hardware and other	**2.74**	2.04	**0.62**	0.42	**22.6%**	20.6%
Total	**39.74**	33.14	**18.95**	16.44	**47.8%**	49.6%

** Recurring revenue is from software maintenance renewals, support contracts, and hosting and managed services.*

	2015	2014
Adjusted profit from operations[*5] (£m)	**3.51**	2.20
Recurring revenue* as % of total revenues	**37.1%**	37.2%
Customer adds	**129**	92

** Recurring revenue is from software maintenance renewals, support contracts, and hosting and managed services.*

Intellectual Property

	Revenue (£m)	
	2015	2014
K3 Product Licence[1]	**5.50**	4.48
K3 Product Related[2]	**8.40**	6.77
Total K3 Product	**13.90**	11.25
Gross margin	**8.02**	6.71
Gross margin %	**57.7%**	59.6%

[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 offerings are based on the Microsoft Dynamics suite of software, comprising Microsoft Dynamics AX and Microsoft Dynamics NAV. Our "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 a functionally 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. In addition, we offer other solutions which are wholly K3 authored and developed, including our digital product "REALIZe". All our products can be provided through the Cloud or on a hosted basis, 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.

Our retail operations are mainly based in the UK and the Netherlands. We also have three satellite offices to support our overseas customers, which include Inter IKEA Systems b.v. (the owner and franchisor of the IKEA concept and the largest customer in the Group).

Performance

Our retail activities generated total sales of £39.74m, up 20% on last year. This reflected sales of both our "ax l is" product and our other existing product solutions, as well as a growing flow of work from IKEA.

Difficult trading conditions in the Dutch fashion and retail market together with a weakening euro impacted the Division's performance. We have taken steps since the year end to reduce the cost base of the Dutch business at a cost of approximately £0.4m

Software licence sales rose by 8% over the year to £7.14m, with a significant proportion of sales signed in June, reflecting Microsoft's seasonal promotional activity. Services revenues were up 24% year-on-year at £15.11m. This significant increase reflected the high volume of new deals signed over the last two years. In the half year report, we reported that gross margin on revenues was hampered by the high cost of project delivery but that we expected it to improve in the second half, helped by our initiatives to establish near-shore resource and in-house training. This improvement came through as anticipated and services gross margin closed at 24.0% at the year-end, compared to 21% in H1.

Recurring revenues increased by 20% to £14.75m and accounted for 37% of total retail sales. The gross margin percentage on this revenue stream has reduced slightly reflecting the Microsoft Embed (OEM) programme.

Major new orders in the period totalled £11.3m (2014: £17.1m). While this is lower than last year's exceptional result, which benefited from the timing of certain orders, it is nonetheless very encouraging as it includes first stage commitments with two major retailers, with significant follow-on orders expected. It also includes our first orders for our "ax l is fashion" product from our expanded channel partner network, with an order from a major American NFL franchise adding to orders from Vince Holding Corp, Roberto Verino and Jeanswest all secured by our channel partners in the first half. We also saw excellent sales for our Microsoft Dynamics NAV fashion wholesale product, Pebblestone, both from our own sales team and through our partner channel. The total value of sales from our partner channel was £3.8m (2014: £2.4m).

As we transition to a product offering which includes increasing levels of our own IP, we are encouraged to see that revenue directly generated by our own IP has risen by 24% to £13.90m from £11.25m in 2014. This higher margin revenue is set to grow as our product suites, particularly "ax l is", and our partner channel, mature.

Retail Prospects

Our "ax l is" offering is demonstrating global sales potential. A central component of our growth plan is to sell this higher margin product set and other products through an international network of channel partners. As well as driving software licence sales this strategy will also increase recurring revenues as a result of annual renewals of software maintenance licences and support contracts. We expect to make further investment in our channel partner network over the new financial year.

As previously reported in November 2014, we were accredited as a member of Microsoft's Global Independent Software Vendor programme, making K3 the first Microsoft Dynamics AX partner for the fashion retail sector and one of only 25 companies globally to be included in this programme. In July 2015, reflecting our increasingly engagement with Microsoft, we were confirmed as a member of the Microsoft Dynamics Inner Circle. This recognition by Microsoft will greatly assist our growth strategy.

Our relationship with Inter IKEA and the Inter IKEA Concept franchisees remains very close and we continue to support the expansion of the franchisee network, evidenced by our strategic partnership being extended until 2020.

We have closed the financial year end with a good mix of new order wins and our new deal pipeline stands at a very healthy £32.2m (2014: £33.1m), of which £3.7m (2014: £1.4m) was from our channel partners. With further reductions to the cost base to come, as a result of streamlining our Dutch operations and initiatives to reduce the cost of our implementations, coupled with a growing partner channel pipeline, we expect the Retail Division to continue to make progress and improve its operating performance in 2016.

MANUFACTURING AND DISTRIBUTION ACTIVITIES

Results Overview

	Revenue (£m)		Gross Margin (£m)		Gross Margin (%)	
	2015	2014	**2015**	2014	**2015**	2014
Software licences	**6.70**	6.27	**3.68**	3.38	**54.9%**	53.9%
Services	**9.74**	7.67	**4.19**	3.18	**43.0%**	41.5%
Recurring *	**25.09**	23.09	**15.76**	15.69	**62.8%**	67.9%
Hardware and other	**2.16**	1.78	**0.40**	0.27	**18.5%**	15.2%
Total	**43.69**	38.81	**24.03**	22.52	**55.0%**	58.0%

** Recurring revenue is from software maintenance renewals, support contracts and hosting and managed services.*

	2015	2014
Adjusted profit from operations*[6] (£m)	**5.12**	5.49
Recurring revenue* as % of total revenues	**57.4%**	59.5%
Customer adds	**99**	100

** Recurring revenue is from software maintenance renewals, support contracts, and hosting and managed services.*

Intellectual Property

	Revenue (£m)	
	2015	2014
K3 Product Licence[1]	**3.24**	3.62
K3 Product Related[2]	**0.75**	0.30
Total K3 Product	**3.99**	3.92
Gross margin	**3.70**	3.44
Gross margin %	**92.7%**	87.8%

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

In line with the strategy in our Retail Division, we are now investing to establish international distribution channels for our products.

Performance

Our manufacturing and distribution activities continue to generate high levels of recurring income and strong cash flows, underpinned by a very large customer base. Revenues increased by 13% to £43.69m, supported by a strong performance from SYSPRO, significant growth of our Microsoft AX and NAV solutions, and increased Sage sales, with K3 being awarded Sage X3 'Global Partner of the Year'. Software licence sales rose by 7% to £6.70m and services income increased by 27% to £9.74m. New orders increased by 26% to £9.98m (2014: £7.91m).

Recurring revenues increased by 9% to £25.09m and remain high at 57% of total revenues generated by our manufacturing and distribution activities. SYSPRO maintenance and support renewals continued to contribute significantly to recurring income, with a 98% renewal rate (2014: 98%). As annual renewals for SYSPRO are billed in October, revenues and cash flows from this segment are significantly weighted to the first half of the financial year. We have invested in our maintenance and support resource and, while this has reduced margins in the short term, we see it as a key initiative for building the business as our new product sets come on stream.

Notwithstanding the excellent sales performance, adjusted profit from operations[*6] has reduced by 7% to £5.12m. This mainly reflected increased overhead costs[*7] which rose by £1.89m and included investment across our SYSPRO (£0.40m), Microsoft (£1.0m), and CRM (£0.30m) activities. Willow Starcom, acquired in mid-April 2015 and since integrated into our Cloud hosting and managed services activities, contributed £0.50m to turnover and £0.08m to profit.

We are very pleased with the continuing development of our Cloud hosting and managed services businesses, reflected in the growing customer base, which is now in excess of 450 customers. These operations now have £8.0m of annualised subscription income (2014: £5.3m) with over £6.0m (2014: £3.8m) coming from our Cloud hosting activity. The uplift in subscription income reflects the acquisition of Willow Starcom as well as a number of sizeable contract wins in the year, together with the activation of projects deferred from the first half. The range of Cloud hosting activities that we can now offer across a variety of products and price points is proving attractive in the markets in which we operate, and we remain very optimistic about continuing growth prospects.

Prospects

The outlook for this Division remains encouraging. With its extensive customer base, the Division delivers excellent recurring income and significant cash flows. Having exited from low margin hardware prospects, the new business pipeline now stands at £29.8m (2014: £29.2m like-for-like).

Our Cloud hosting business remains an exciting area for long term growth as customers increasingly take delivery of solutions through the Cloud model. We expect this area of our activities to make an increasingly material contribution to the Group's revenues and profitability.

CENTRAL COSTS

Head office

Head office costs[*8] for the year were £0.48m (2014: £0.39m) and 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. The increase in Head Office costs in the year reflect investment in legal staff and consultancy as the business has expanded.

OUTLOOK

Growth prospects for the Group remain very positive.

David Bolton
Chief Executive Officer

*5 Retail adjusted profit from operations is calculated before amortisation of acquired intangibles of £0.63m (2014: £0.64m) and exceptional reorganisation costs of £0.22m (2014: £0.65m)

*6 Manufacturing and Distribution adjusted profit from operations is calculated before amortisation of acquired intangibles of £2.18m (2014: £2.35m), exceptional reorganisation costs of £0.15m (2014: £0.48m) and acquisition costs of £0.01m (2014: £nil)

*7 Manufacturing and Distribution overhead costs are calculated before amortisation of acquired intangibles of £2.18m (2014: £2.35m), exceptional reorganisation costs of £0.15m (2014: £0.48m) and acquisition costs of £0.01m (2014: £nil)

*8 Head office costs are calculated before exceptional reorganisation costs of £0.04m (2014: £0.59m) and acquisition costs of £0.13m (2014: £nil)

CONSOLIDATED INCOME STATEMENT
For the year ended 30 June 2015

	Notes	2015 £'000	2014 £'000
Revenue		**83,427**	71,950
Cost of sales		**(40,446)**	(32,990)
Gross profit		**42,981**	38,960
Administrative expenses		**(38,176)**	(36,370)
Adjusted profit from operations		**8,151**	7,301
Amortisation of acquired intangibles		**(2,800)**	(2,989)
Acquisition costs	1	**(138)**	-
Exceptional reorganisation costs	1	**(408)**	(1,722)
Profit from operations		**4,805**	2,590
Finance income		**6**	3
Finance expense		**(932)**	(708)
Profit before taxation		**3,879**	1,885
Tax (expense) income	2	**(436)**	675
Profit for the period		**3,443**	2,560

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

Earnings per share			
Basic	3	10.9p	8.2p
Diluted	3	10.7p	8.1p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2015

	2015 £'000	2014 £'000
Profit for the period	**3,443**	2,560
Other comprehensive (expense) income		
Exchange differences on translation of foreign operations	**(2,226)**	(1,099)
Net investment hedge	**-**	31
Other comprehensive expense, net of tax	**(2,226)**	(1,068)
Total comprehensive income for the period	**1,217**	1,492

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2015

	Notes	2015 £'000	2014 £'000
ASSETS			
Non-current assets			
Property, plant and equipment		**2,316**	2,439
Goodwill		**43,541**	43,952
Other intangible assets		**20,806**	20,040
Deferred tax assets		**736**	538
Available-for-sale investments		**98**	98
Total non-current assets		**67,497**	67,067
Current assets			
Trade and other receivables		**31,839**	28,888
Cash and cash equivalents		**1,895**	647
Total current assets		**33,734**	29,535
Total assets		**101,231**	96,602
LIABILITIES			
Non-current liabilities			
Long-term borrowings	4	**10,531**	14
Other non-current liabilities	5	**882**	554
Deferred tax liabilities		**3,437**	3,151
Total non-current liabilities		**14,850**	3,719
Current liabilities			
Trade and other payables	6	**29,405**	26,002
Current tax liabilities		**38**	15
Short-term borrowings	4	**3,443**	14,261
Total current liabilities		**32,886**	40,278
Total liabilities		**47,736**	43,997
EQUITY			
Share capital		**7,949**	7,930
Share premium account		**9,462**	9,412
Other reserves		**10,448**	10,448
Translation reserve		**(1,997)**	229
Retained earnings		**27,633**	24,586
Total equity attributable to equity holders of the parent		**53,495**	52,605
Total equity and liabilities		**101,231**	96,602

CONSOLIDATED STATEMENT OF CASHFLOWS
For the year ended 30 June 2015

	Notes	2015 £'000	2014 £'000
Cash flows from operating activities			
Profit for the period		**3,443**	2,560
Adjustments for:			
Share-based payments charge		**18**	27
Depreciation of property, plant and equipment		**916**	962
Amortisation of intangible assets and development expenditure		**4,690**	4,560
Loss on sale of property, plant and equipment		**2**	2
Finance income		**(6)**	(3)
Finance expense		**932**	708
Tax expense (income)		**436**	(675)
Increase in trade and other receivables		**(3,031)**	(4,625)
Increase in trade and other payables		**2,200**	1,836
Cash from operations	7	**9,600**	5,352
Finance expense paid		**(956)**	(851)
Income taxes (paid) received		**(264)**	290
Net cash generated from operating activities		**8,380**	4,791
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**(1,998)**	(129)
Development expenditure capitalised		**(3,806)**	(3,985)
Purchase of other intangible assets		**(78)**	-
Purchase of property, plant and equipment		**(680)**	(502)
Finance income received		**6**	3
Net cash used in investing activities		**(6,556)**	(4,613)
Cash flows from financing activities			
Net proceeds from issue of share capital		**69**	277
Proceeds from long-term borrowings		**5,400**	1,077
Payment of long-term borrowings		**(1,875)**	(3,369)
Payment of finance lease liabilities		**(20)**	(16)
Dividends paid		**(397)**	(316)
Net cash from (used in) financing activities		**3,177**	(2,347)
Net change in cash and cash equivalents		**5,001**	(2,169)
Cash and cash equivalents at start of period		**(2,997)**	(833)
Exchange (losses) gains on cash and cash equivalents		**(109)**	5
Cash and cash equivalents at end of period		**1,895**	(2,997)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2015

	Share capital £'000	Share premium £'000	Other reserve £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
At 30 June 2013	7,859	9,183	10,448	1,297	22,338	51,125
Changes in equity for year ended 30 June 2014						
Share-based payment credit	-	-	-	-	27	27
Options exercised	71	229	-	-	-	300
Movement in own shares held	-	-	-	-	(23)	(23)
Dividends to equity holders	-	-	-	-	(316)	(316)
Profit for the year	-	-	-	-	2,560	2,560
Other comprehensive income for the year	-	-	-	(1,068)	-	(1,068)
At 30 June 2014	7,930	9,412	10,448	229	24,586	52,605
Changes in equity for year ended 30 June 2015						
Share-based payment credit	-	-	-	-	18	18
Options exercised	19	50	-	-	-	69
Movement in own shares held	-	-	-	-	(17)	(17)
Dividends to equity holders	-	-	-	-	(397)	(397)
Profit for the year	-	-	-	-	3,443	3,443
Other comprehensive income for the year	-	-	-	(2,226)	-	(2,226)
At 30 June 2015	7,949	9,462	10,448	(1,997)	27,633	53,495

The amount included in retained earnings of £3.44m (2014: £2.56m) 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 as we simplified the Group's structure at a cost of £0.41m (2014: £1.72m). The Group incurred costs in relation to acquiring new businesses of £0.14m (2014: £nil).

2. Tax expense

	2015 £'000	2014 £'000
Current tax expense		
UK corporation tax and income tax of overseas operations on profits for the period	597	601
Adjustment in respect of prior periods	103	(383)
Total current tax expense	700	218
Deferred tax income		
Origination and reversal of temporary differences	(249)	(491)
Effect of change in rate of deferred tax	(15)	(402)
Total deferred tax income	(264)	(893)
Total tax expense (income)	436	(675)

3. Earnings per share

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

	2015 Number of shares	2014 Number of shares
Denominator		
Weighted average number of shares used in basic EPS	31,637,381	31,417,736
Effects of:		
Employee share options and warrants	590,623	339,262
Weighted average number of shares used in diluted EPS	32,228,004	31,756,998

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)

	2015 Earnings	2015 Per share amount Basic	2015 Per share amount Diluted	2014 Earnings	2014 Per share amount Basic	2014 Per share amount Diluted
	£000	p	p	£000	p	p
Numerator						
Earnings per share	3,443	10.9	10.7	2,560	8.2	8.1
Add back:						
Amortisation of acquired intangibles (net of tax)	2,240	7.1	7.0	1,952	6.2	6.1
Acquisition costs (net of tax)	138	0.4	0.4	-	-	-
Exceptional reorganisation costs (net of tax)	323	1.0	1.0	1,335	4.2	4.2
Adjusted EPS	6,144	19.4	19.1	5,847	18.6	18.4

4. Loans and borrowings

	2015 £'000	2014 £'000
Non-current		
Bank loans (secured)	10,525	-
Finance lease creditors	6	14
	10,531	14
Current		
Bank overdrafts	-	3,644
Bank loans (secured)	2,797	9,959
Finance lease creditors	6	18
Loans from related parties	640	640
	3,443	14,261
Total borrowings	13,974	14,275

The above split between non-current and current loans and borrowings reflects the situation as at 30 June 2015.

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

5. Other non-current liabilities

	2015 £'000	2014 £'000
Deferred consideration	25	-
Accruals	857	554
	882	554

6. Trade and other payables – current

	2015 £'000	2014 £'000
Trade payables	7,602	7,203
Other payables	665	801
Accruals	7,875	5,820
Total financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost	16,142	13,824
Contingent consideration	75	18
Deferred consideration	25	-
Other tax and social security taxes	3,556	2,468
Deferred revenue	9,607	9,692
	29,405	26,002

7. Notes to the cashflow 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:

	2015 £'000	2014 £'000
Cash generated from operating activities	9,600	5,352
Add:		
Exceptional reorganisation costs	311	1,722
Adjusted cash generated from operations	9,911	7,074

8. The Board recommends the payment of a dividend of 1.5p per share (2014: 1.25p) payable on 15 January 2016 to shareholders on the register on 11 December 2015.

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 2014 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 2014 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 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. 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 2015 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 14 September 2015.

12. The full financial statements will be posted to shareholders on or around 19 October 2015. 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.