

# K3 Business Technology Group plc

Unaudited Half Yearly Report for the six months to 31 December 2014



World Class Software. World Class Service.

# K3 Business Technology Group plc

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

\*Enterprise Resource Planning (ERP)



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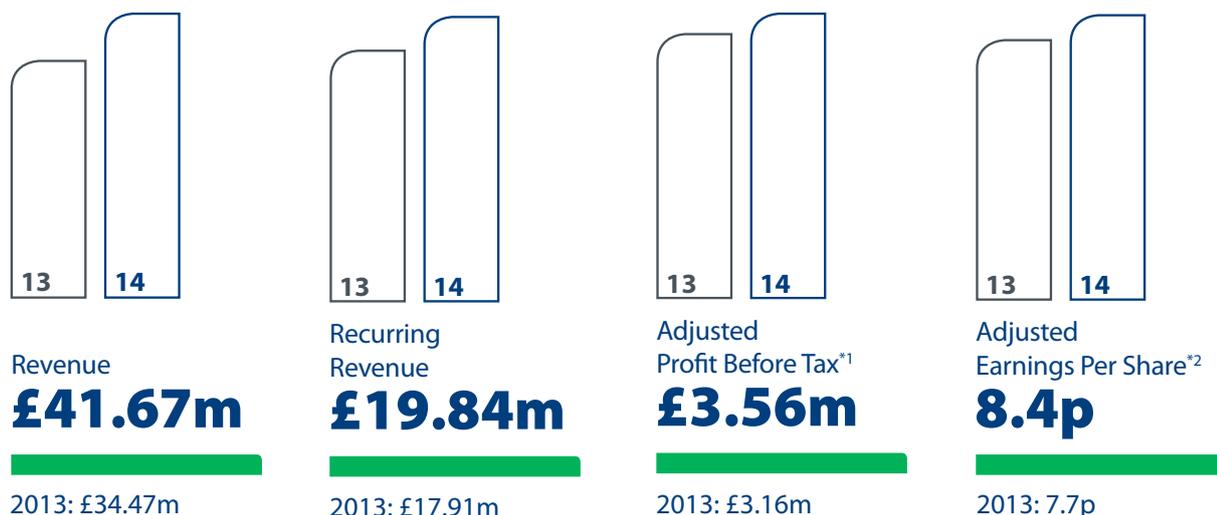
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## Financial Key Points



## Operational Key Points

- Very encouraging performance, reflecting:
  - progress with new flagship retail product
  - improving sales of existing established software products
- Significant milestones achieved for flagship retail product “ax|is”:
  - K3 accredited as member of Microsoft’s Global Independent Software Vendor programme
    - represents major endorsement of our IP and reflects product’s global potential
  - first sales from expanded partner channel
- Increasing focus on extending own IP across our core offerings:
  - will help drive gross margins and recurring revenues
- Prospects for growth remain very encouraging

<sup>\*1</sup> Adjusted profit from operations and adjusted profit before tax for the six months ended 31 December 2014 is calculated before amortisation of acquired intangibles of £1.61m (2013: £1.71m) and exceptional reorganisation costs of £0.16m (2013: £0.58m).

<sup>\*2</sup> Adjusted basic EPS for the six months ended 31 December 2014 is calculated before amortisation of acquired intangibles (net of tax) of £1.29m (2013: £1.05m) and exceptional reorganisation costs (net of tax) of £0.13m (2013: £0.45m).

## Chairman's Statement

We are encouraged by the level of product licence revenues that we derive from our own intellectual property ("IP") which has grown to £4.89m. This now accounts for 18% of all product licence revenue and we expect it to grow further.

### Overview

Results for the first half of the new financial year are very encouraging and show the Group continuing to make progress on many fronts. Revenues in the six months increased by 21% to £41.67m and, despite the substantial investment that we are currently making in the business, adjusted profit from operations<sup>1</sup> rose by 14% to £4.11m.

Major new orders in the first half were strong, totalling £12.3m (2014: £12.7m), with all product lines contributing to this result. A total of 81 new customers were added in the period. We are also encouraged by the level of product licence revenues that we derive from our own intellectual property ("IP"), which has grown to £4.89m (2013: £4.11m). This now accounts for 18% of all product licence revenue and we expect it to grow further, benefiting the Group's gross margins.

We are working to increase the international reach of our products with our global partners, which now exceed 60, covering our key technologies.

K3 continues to deliver high levels of recurring revenues from its base of over 3,100 customers. Generated principally

from software licence renewals, support contracts and hosting, they have increased by 11% in the period and comprised 48% of Group income.

These encouraging results reflect both the progress we are making with our new and established solutions for the retail, manufacturing and distribution sectors where our own IP that has been developed and enhanced over a number of years gives unique selling points to K3's offerings and help drive recurring revenues.

A key growth driver continues to be our new own IP retail product, powered by the Microsoft Dynamics AX solution ("AX") which has created an enhanced solution meeting the specific needs of retailers globally. We were delighted that this was recognised by Microsoft in November 2014 by being accredited with membership of their Global Independent Software Vendor ("GISV") programme, making K3 the first such partner for the fashion retail sector and one of only 25 companies globally to be included in this programme. The award represents a major endorsement of our IP and the global potential for our products.

The shortage of Microsoft Dynamics AX skills in the UK remains and has had the effect of increasing delivery costs of AX implementations. However, the investment we have made with in-house training and near-shore resourcing is starting to have an impact and we remain focused on reducing delivery costs.

Our hosting and managed services activities continue to be an important focus and contribute to the Group's long term contracted revenues. We have secured a number of sizeable contracts that due to project phasing will show through in later periods. We believe there is significant potential to grow this business in the next 12-18 months.

The Group's results are being presented for the first time in a new format recognising our focus on sectors, and the importance of our IP and recurring revenues. This reflects how the Group now reports internally and the basis on which the Group makes resourcing decisions.

## Financial Results

	Six months to 31 December 2014	Six months to 31 December 2013	Year to 30 June 2014
Software revenue (£m)	<b>7.63</b>	5.69	12.89
Services revenue (£m)	<b>11.93</b>	9.19	19.83
Recurring revenue* (£m)	<b>19.84</b>	17.91	35.42
Hardware and other revenue (£m)	<b>2.27</b>	1.68	3.81
<b>Total revenue (£m)</b>	<b>41.67</b>	34.47	71.95
Gross margin (£m)	<b>21.11</b>	18.92	38.96
Gross margin (%)	<b>50.7%</b>	54.9%	54.1%
Adjusted profit from operations (£m)	<b>4.11</b>	3.61	7.30
Recurring revenue as % of total revenues	<b>48%</b>	52%	49%

\*from software licence renewals, support contracts and hosting and managed services

### ■ Software licence sales increased by 34% to a record high

For the first six months to 31 December 2014, revenues rose by 21% to £41.67m (2013: £34.47m). Recurring revenues, from software licence renewals, support contracts, hosting and managed services, accounted for 48% of the total and rose by 11% on the prior period to £19.84m (2013: £17.91m). Software licence sales increased by 34% to a record high of £7.63m (2013: £5.69m) and services income was up 30% to £11.93m (2013: £9.19m) reflecting the excellent level of deals closed in the previous financial year.

### ■ Gross margin was up 12% year-on-year

Gross margin at £21.11m was up 12% year-on-year (2013: £18.92m) although gross percentage margin reduced to 51% (2013: 55%). This reduction reflected resource cost pressures for implementations although in the last few months of the period our in-house training and near-shore resourcing has helped. Overhead costs increased to £17.0m (2013: £15.3m), including an additional £1.2m of personnel cost and £0.3m of development cost amortisation. A large part of the investment in personnel was in management (partner channel and manufacturing and distribution) and sales resources across the group to support future growth.

Adjusted profit from operations<sup>1</sup> increased by 14% to £4.11m (2013: £3.61m). We incurred £0.16m (2013: £0.58m) of exceptional costs in relation to further organisational and management changes as we simplified the Group's structure. The charge for amortisation of acquired intangibles was £1.61m (2013: £1.71m) with the reduction being due to certain acquisitions now being fully amortised.

Adjusted profit before tax<sup>2</sup> rose by 13% to £3.56m (2013: £3.16m). Profit before tax more than doubled to £1.79m (2013: £0.88m) reflecting the improvement in profit from operations.

Adjusted earnings per share<sup>3</sup> rose by 9% to 8.4p (2013: 7.7p) with basic earnings per share increasing by 34% to 3.9p (2013: 2.9p). Adjusted earnings per share<sup>3</sup> is stated after amortisation of intangibles (net of tax) of £1.29m (2013: £1.05m) and reorganisation costs (net of tax) of £0.13m (2013: £0.45m).

There was a net tax charge for the period of £0.57m (2013: £0.02m credit) after the benefit of a £0.12m deferred tax credit (2013: £0.45m).

\*See note 8 on page 20 for further details

# “The development of our IP will remain a key feature of our business”

## Cash flow and banking

Net debt at 31 December 2014 increased to £12.07m (2013: £9.91m) reflecting the significant increase in activity of the business particularly in the last two months of the period, with larger contracts and lower levels of customer deposits leading to a working capital outflow in the period of £1.16m (2013: £1.60m inflow). Cash flow from operations in the first half was £4.30m representing 104% of adjusted profit from operations<sup>1</sup> (2013: £5.85m, representing 162%). The cash generation in the first half year is boosted by the SYSPRO licence and support contract renewals.

The growth of the business has been assisted by additional loan facilities for a three year period agreed in August 2014. Net cash generated from financing in the period was £3.06m (2013: £1.58m absorbed). The expenditure on capitalised development decreased to £1.75m (2013: £1.95m). The development of our IP will remain a key feature of our business. Expenditure on fixed assets and a small acquisition in the current period cost a further £0.78m (2013: £0.23m).

## Dividend

In line with the Group's dividend policy, no interim dividend will be declared but the Directors intend to propose a final progressive dividend with results for the full financial year.



## ax|is fashion

- Specialist for fashion retail / wholesale
- Built around Microsoft Dynamics AX
- Extends established K3 fashion network

## Operational Review

### Summary

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

### Group results by industry sector

	Revenue Six months to 31 December 2014	Revenue Six months to 31 December 2013	Adjusted profit Six months to 31 December 2014	Adjusted profit Six months to 31 December 2013
Retail <sup>4</sup> (£m)	<b>19.63</b>	14.67	<b>1.06</b>	0.47
Manufacturing & Distribution <sup>5</sup> (£m)	<b>22.04</b>	19.80	<b>3.40</b>	3.54
Head Office (£m)	–	–	<b>(0.35)</b>	(0.40)
<b>Total (£m)</b>	<b>41.67</b>	34.47	<b>4.11</b>	3.61
Recurring (£m)	<b>19.84</b>	17.91		
Recurring (%)	<b>47.6%</b>	52.0%		

### K3 Intellectual Property

K3 is increasingly focused on improving sales of its own IP, which will help to enhance Group margins as well as drive recurring revenues. We therefore highlight the Group's current performance against these parameters in the table below. For clarity, it should be noted that the revenue reported in the table above includes the revenue stated below.

	Six months to 31 December 2014	Six months to 31 December 2013	Year to 30 June 2014
K3 Product Licence Revenue <sup>1</sup> (£m)	<b>4.89</b>	4.11	9.22
K3 Product Related Revenue <sup>2</sup> (£m)	<b>4.18</b>	2.86	6.46
<b>Total K3 Product Revenue (£m)</b>	<b>9.07</b>	6.97	15.68
Gross margin (£m)	<b>5.80</b>	4.56	10.67
Gross margin % on K3 Product Revenue	<b>64.0%</b>	65.0%	67.8%
Group gross margin (%)	<b>50.7%</b>	54.9%	54.1%

1 K3 Product Licence Revenue includes initial and annual software licences.

2 K3 Product Related Revenue represents the additional identifiable revenues which flow directly from our K3 Product sales.

## Retail Activities

### Retail Results overview

	Six months to 31 December 2014	Six months to 31 December 2013	Year to 30 June 2014
Software revenue (£m)	<b>4.08</b>	3.39	6.62
Services revenue (£m)	<b>7.63</b>	5.47	12.16
Recurring revenue* (£m)	<b>6.78</b>	4.85	12.32
Hardware and other revenue (£m)	<b>1.14</b>	0.96	2.03
<b>Total revenue (£m)</b>	<b>19.63</b>	14.67	33.13
Gross margin (£m)	<b>8.56</b>	6.90	16.44
Gross margin (%)	<b>43.6%</b>	47.0%	49.6%
Adjusted operating profit* <sup>4</sup> (£m)	<b>1.06</b>	0.47	2.20
Recurring revenue as % of total revenues	<b>34.5%</b>	33.1%	37.2%
Customer Adds	<b>33</b>	30	57

\*from software licence renewals and support contracts

### Retail Intellectual Property

	Six months to 31 December 2014	Six months to 31 December 2013	Year to 30 June 2014
K3 Product Licence Revenue <sup>1</sup> (£m)	<b>2.97</b>	2.10	5.27
K3 Product Related Revenue <sup>2</sup> (£m)	<b>3.97</b>	2.57	5.98
<b>Total K3 Product Revenue (£m)</b>	<b>6.94</b>	4.67	11.25
Gross margin (£m)	<b>3.84</b>	2.56	6.71
Gross margin % on K3 Product Revenue	<b>55.4%</b>	54.8%	59.7%

1 K3 Product Licence Revenue includes initial and annual software licences.

2 K3 Product Related Revenue represents the additional identifiable revenues which flow directly from our K3 Product sales.

**“We are encouraged by the growth in IP related revenues and the additional gross margin that this brings”**



## Introduction

Our core offering to retailers is based around our new flagship product, "ax|is". This product is the outcome of our major IP development programme to deliver our own IP retail product, powered by the Microsoft Dynamics AX solution ("AX") creating a functionally rich product for the retail market. We have done this previously with the Microsoft Dynamics NAV ("NAV") solution, which is typically aimed at mid and smaller-sized retailers. In addition we also offer solutions which are exclusively K3 authored and developed. We augment these products with complementary products, including business information, channel and point of sale software suites. All our products can be provided through the Cloud or on a hosted basis, as well as through traditional on-premise delivery, depending on customer preferences.

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

We believe our "ax|is" offering has global sales potential and a central component of our growth plan is to develop a wider international partner channel for both it and our other IP solutions. Sales via this indirect route to market also generate a recurring revenue stream through software licence renewals and support. It was especially pleasing therefore to see the first sales of "ax|is fashion" from our expanding partner channel come through in the period, from Europe, Australasia and North America. We expect to see continuing traction, with the support of Microsoft and channel partners, including global systems integrators. It is testimony to its market appeal that in November 2014, K3 was accredited as Microsoft's first GISV partner for the fashion retail sector. This high status accreditation provides us with extensive technical, sales and marketing support and establishes K3 as Microsoft's preferred partner globally for the fashion sector. In July 2014 we were also named as Microsoft Dynamics ISV of the Year in the UK.

We intend to launch additional K3 authored "ax|is" offerings as we transition to a more product-centric Group. This will include related product to create a family of dedicated solutions addressing key market segments within the retail sector.

## Performance

Retail generated total sales of £19.63m, up 34% on the same period last year, driven by sales of our new flagship "ax|is" product and our existing NAV offering as well as a steady flow of work from Inter IKEA and its franchisees. The Dutch fashion and retail market continue to be very slow, with customers deferring software sales in this region. Recurring revenues increased by 40% to £6.78m and accounted for 35% of total retail sales. Software sales rose by 20% to £4.08m. Reflecting the deals closed in previous period, software related services revenue improved by 39% to £7.63m (2013: £5.47m). However, the gross margin on this income stream, at 21%, was hampered by the high cost of AX project delivery as the level of services ramped up to meet demand. This should now improve as cost issues are reduced, helped by initiatives to establish near-shore resource and in-house training.

New orders in the period totalled £6.8m, which was down from the £10.0m achieved in the same period last year but in line with expectations. New wins included deals with Countrywide Farmers and Wasabi, respectively for AX and NAV solutions. Significantly, the first new orders for AX via our expanding international partner channel came through. These included orders from Vince Holding Corp, in the USA, Roberto Verino, in Spain, and Jeanswest in Australia. The total value of sales from our partner channel across all solutions was £2.26m (2013: £1.27m).

Gross margin has grown significantly in the period, reflecting the growth in service revenues, however the gross margin percentage has decreased. The decrease is accounted for by the higher proportion of services income in the overall revenue mix and, for product sales, the agency margin attributed to K3 on the Microsoft embed programme (OEM sales of Microsoft core product) in relation to the NAV fashion wholesale product, Pebblestone. We are encouraged by the growth in IP related revenues and the additional gross margin that this brings.

## Prospects

Our retail activities have generated a good level of contracted services revenues which will continue to come through in the second half of the financial year. The new deal pipeline at the period end stood at £26.3m (2013: £38.0m), with the reduction reflecting the strong order wins over the last year which has fuelled services revenues in this period.

## Manufacturing and Distribution Activities

### Manufacturing and Distribution Results overview

	Six months to 31 December 2014	Six months to 31 December 2013	Year to 30 June 2014
Software revenue (£m)	<b>3.54</b>	2.30	6.27
Services revenue (£m)	<b>4.30</b>	3.72	7.67
Recurring revenue* (£m)	<b>13.06</b>	13.06	23.09
Hardware and other revenue (£m)	<b>1.14</b>	0.72	1.79
<b>Total revenue (£m)</b>	<b>22.04</b>	19.80	38.82
Gross margin (£m)	<b>12.55</b>	12.02	22.52
Gross margin (%)	<b>56.9%</b>	60.7%	58.0%
Adjusted operating profit <sup>5</sup> (£m)	<b>3.40</b>	3.54	5.49
Recurring revenue as % of total revenues	<b>59.3%</b>	66.0%	59.5%
Customer Adds	<b>48</b>	41	105

\*from software licence renewals, support contracts and hosting and managed services

### Manufacturing and Distribution Intellectual Property

	Six months to 31 December 2014	Six months to 31 December 2013	Year to 30 June 2014
K3 Product Licence Revenue <sup>1</sup> (£m)	<b>1.92</b>	2.01	3.96
K3 Product Related Revenue <sup>5</sup> (£m)	<b>0.21</b>	0.29	0.48
<b>Total K3 Product Revenue<sup>5</sup> (£m)</b>	<b>2.13</b>	2.30	4.44
Gross margin (£m)	<b>1.96</b>	2.00	3.96
Gross margin % on K3 Product Revenue	<b>91.8%</b>	87.2%	89.3%

1 K3 Product Licence Revenue includes initial and annual software licences.

2 K3 Product Related Revenue represents the additional identifiable revenues which flow directly from our K3 Product sales.

**“Revenues for the half year  
increased by 11% to £22.04m”**

## Introduction

The key offerings to manufacturers and distributors comprise SYSPRO, Sage and Microsoft Dynamics AX and NAV solutions tailored by our own IP for customer requirements.

Supporting these solutions we have many related software products, which have been developed in-house and form part of the overall offering. These serve to enhance the functionality of the core solutions and/or provide valuable integration benefits. They include modules for advanced planning and scheduling, warehouse management, pallet management, data integration and payroll/HR.

To support the products we provide, we also offer hosting and managed services, with a Cloud service recently launched for SYSPRO.

We are the exclusive SYSPRO partner for the UK and Europe and have one of the largest installed user bases in mid-tier manufacturing, with exceptionally high renewals of annual software licence and support contracts. Building on this domestic strength we have invested heavily to establish international distribution channels for not only SYSPRO but also our complementary products.

We are one of the UK's largest Sage partners and the largest reseller globally of their new flagship product "Sage X3".

Having invested heavily in Microsoft Dynamics AX and NAV, these products have yielded very encouraging results, most notably when these technologies have been sold as part of a wider solution encompassing a number of K3's product and service offerings.



## Performance

Revenues for the half year increased by 11% to £22.04m (2013: £19.80m), with software sales up 54% to £3.54m (2013: £2.30m). New orders more than doubled to £5.50m (2013: £2.16m). These excellent results benefited from a continuing strong performance from SYSPRO, two large wins for our Microsoft AX and NAV solutions, and increased Sage sales.

Services income in the period increased by 16% to £4.30m (2013: £3.72m) with our available resources in key skill areas being heavily utilised. Skill shortages in both AX and Sage X3 have resulted in higher costs of delivery with a consequent impact on gross margin percentage.

We have been investing significantly in personnel to support future performance, in particular in our SYSPRO resources. This impacted profitability, with adjusted profit from operations<sup>5</sup> reducing by 4% from £3.54m to £3.40m.

Recurring revenues of £13.06m remain high at 59% of the total from our manufacturing and distribution activities (2013: £13.06m) although the unchanged value year-on-year reflects competition in the lower tiers of our Sage offering where there is higher customer volatility. SYSPRO maintenance and support renewals continue to contribute significantly to recurring income, with a 98% renewal rate (2013: 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.

Our hosting and managed services activities contributed £4.0m to revenues (2013: £3.93m) and is expected to enjoy a stronger second half, benefiting from the activation of projects deferred from the first half together with further internal and external opportunities.

## Prospects

The outlook for our manufacturing and distribution activities remains encouraging with new products being introduced such as SYSPRO Business Live (Cloud based SYSPRO), new channel partners in three countries in Europe for SYSPRO, and an upgrade of our Microsoft Dynamics NAV distribution product, K3 Advantage, to the latest version, NAV 2015. The pipeline for our manufacturing and distribution activities has increased by 22% to £29.0m (2013: £23.8m) reflecting these initiatives.

### Head Office

Head office costs\*<sup>6</sup> represent costs after management charges to the trading subsidiaries and reduced in the period to £0.35m (2013: £0.40m).



### Outlook

The genesis of our new retail AX based flagship product, formally launched some 16 months ago, illustrates the increasing emphasis we are placing on extending our own IP across our core offerings, and this will remain a key feature, with the consequent benefits on gross margin and recurring revenues.

The opportunity to broaden sales globally through channel partners will also help to drive a valuable stream of long term recurring revenues for K3 and the support of Microsoft within this is significant.

Cost-related challenges, mostly relating to implementations, are being addressed and we remain confident of the exciting growth prospects that are available to us and continue to invest heavily in the business. In addition, we will continue to look at external opportunities and partnerships that will increase our product offerings and accelerate the growth from our existing product portfolios, which together can strengthen our multi product proposition.

**Lars-Olof Norell**  
Chairman

# Consolidated Income Statement

## for the six months ended 31 December 2014

	Notes	Unaudited Six months to 31 December 2014 £'000	Unaudited Six months to 31 December 2013 £'000	Audited Year to 30 June 2014 £'000
Revenue		<b>41,669</b>	34,469	71,950
Profit from operations before amortisation of acquired intangibles and exceptional reorganisation costs		<b>4,108</b>	3,608	7,301
Amortisation of acquired intangibles		<b>(1,606)</b>	(1,708)	(2,989)
Exceptional reorganisation costs		<b>(158)</b>	(581)	(1,722)
Profit from operations		<b>2,344</b>	1,319	2,590
Finance income		<b>7</b>	2	3
Finance expense		<b>(558)</b>	(446)	(708)
Profit before taxation		<b>1,793</b>	875	1,885
Tax income/(expense)	2	<b>(574)</b>	19	675
Profit for the period		<b>1,219</b>	894	2,560

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

Earnings Per Share	3			
Basic		<b>3.9p</b>	2.9p	8.2p
Diluted		<b>3.8p</b>	2.8p	8.1p

# Consolidated Statement of Comprehensive Income

## for the six months ended 31 December 2014

	Unaudited Six months to 31 December 2014 £'000	Unaudited Six months to 31 December 2013 £'000	Audited Year to 30 June 2014 £'000
Profit for the period	<b>1,219</b>	894	2,560
Other comprehensive (expense) income			
<i>Items that may be reclassified into profit or loss</i>			
Exchange differences on translation of foreign operations	<b>(421)</b>	(409)	(1,099)
Net investment hedge	–	24	31
Other comprehensive expense, net of tax	<b>(421)</b>	(385)	(1,068)
Total comprehensive income for the period	<b>798</b>	509	1,492

All of the total comprehensive income for the period 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 31 December 2014

	Notes	Unaudited As at 31 December 2014 £'000	Unaudited As at 31 December 2013 £'000	Audited As at 30 June 2014 £'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment		<b>2,306</b>	2,631	2,439
Goodwill		<b>43,839</b>	44,362	43,952
Other intangible assets		<b>19,557</b>	20,338	20,040
Deferred tax assets		<b>418</b>	648	538
Available-for-sale investments		<b>98</b>	98	98
<b>Total non-current assets</b>		<b>66,218</b>	68,077	67,067
<b>Current assets</b>				
Trade and other receivables		<b>32,497</b>	26,246	28,888
Cash and cash equivalents		<b>1,366</b>	1,244	647
<b>Total current assets</b>		<b>33,863</b>	27,490	29,535
<b>Total assets</b>		<b>100,081</b>	95,567	96,602
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Long-term borrowings	4	<b>10,406</b>	23	14
Other non-current liabilities	5	<b>656</b>	257	554
Deferred tax liabilities		<b>3,056</b>	3,728	3,151
<b>Total non-current liabilities</b>		<b>14,118</b>	4,008	3,719
<b>Current liabilities</b>				
Trade and other payables	6	<b>28,875</b>	28,517	26,002
Current tax liabilities		<b>598</b>	164	15
Short-term borrowings	4	<b>3,034</b>	11,127	14,261
<b>Total current liabilities</b>		<b>32,507</b>	39,808	40,278
<b>Total liabilities</b>		<b>46,625</b>	43,816	43,997
<b>EQUITY</b>				
Share capital		<b>7,946</b>	7,891	7,930
Share premium account		<b>9,457</b>	9,281	9,412
Other reserves		<b>10,448</b>	10,448	10,448
Translation reserve		<b>(192)</b>	912	229
Retained earnings		<b>25,797</b>	23,219	24,586
<b>Total equity attributable to equity holders of the parent</b>		<b>53,456</b>	51,751	52,605
<b>Total equity and liabilities</b>		<b>100,081</b>	95,567	96,602

# Consolidated Statement of Cash Flows

## for the six months ended 31 December 2014

	Notes	Unaudited Six months to 31 December 2014 £'000	Unaudited Six months to 31 December 2013 £'000	Audited Year to 30 June 2014 £'000
<b>Cash flows from operating activities</b>				
Profit for the period		<b>1,219</b>	894	2,560
Adjustments for:				
Share based payments charge		<b>9</b>	14	27
Depreciation of property, plant and equipment		<b>451</b>	468	962
Amortisation of intangible assets and development expenditure		<b>2,670</b>	2,458	4,560
Loss on sale of property, plant and equipment		–	–	2
Finance income		<b>(7)</b>	(2)	(3)
Finance expense		<b>558</b>	446	708
Tax expense (income)		<b>574</b>	(19)	(675)
Increase in trade and other receivables		<b>(4,030)</b>	(2,065)	(4,625)
Increase in trade and other payables		<b>2,856</b>	3,660	1,836
Cash generated from operations	7	<b>4,300</b>	5,854	5,352
Finance expense paid		<b>(697)</b>	(533)	(851)
Income taxes received (paid)		<b>242</b>	511	290
<b>Net cash generated from operating activities</b>		<b>3,845</b>	5,832	4,791
<b>Cash flows from investing activities</b>				
Acquisition of subsidiaries, net of cash acquired	7	<b>(458)</b>	–	(129)
Development expenditure capitalised		<b>(1,748)</b>	(1,951)	(3,985)
Purchase of property, plant and equipment		<b>(326)</b>	(229)	(502)
Finance income received		<b>7</b>	2	3
<b>Net cash absorbed by investing activities</b>		<b>(2,525)</b>	(2,178)	(4,613)
<b>Cash flows from financing activities</b>				
Net proceeds from issue of share capital		<b>44</b>	103	277
Proceeds from long-term borrowings		<b>3,650</b>	–	1,077
Payment of long-term borrowings		<b>(625)</b>	(1,673)	(3,369)
Payment of finance lease liabilities		<b>(9)</b>	(8)	(16)
Dividends paid		–	–	(316)
<b>Net cash generated from/(absorbed by) financing activities</b>		<b>(3,060)</b>	(1,578)	(2,347)
<b>Net change in cash and cash equivalents</b>		<b>4,380</b>	2,076	(2,169)
Cash and cash equivalents at start of period		<b>(2,997)</b>	(833)	(833)
Exchange (losses) gains on cash and cash equivalents		<b>(17)</b>	1	5
<b>Cash and cash equivalents at end of period</b>		<b>1,366</b>	1,244	(2,997)

# Consolidated Statement of Changes in Equity

## for the six months ended 31 December 2014

	Share capital £'000	Share premium £'000	Other reserve £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
At 1 July 2013	7,859	9,183	10,448	1,297	22,338	51,125
Changes in equity for six months ended 31 December 2013						
Share-based payment credit	-	-	-	-	14	14
Options exercised	32	98	-	-	-	130
Movement in own shares held	-	-	-	-	(27)	(27)
Profit for the period	-	-	-	-	894	894
Other comprehensive income for the period	-	-	-	(385)	-	(385)
At 31 December 2013	7,891	9,281	10,448	912	23,219	51,751
Changes in equity for six months ended 30 June 2014						
Share-based payment credit	-	-	-	-	13	13
Options exercised	39	131	-	-	-	170
Movement in own shares held	-	-	-	-	4	4
Dividends to equity holders	-	-	-	-	(316)	(316)
Profit for the period	-	-	-	-	1,666	1,666
Other comprehensive income for the period	-	-	-	(683)	-	(683)
At 30 June 2014	7,930	9,412	10,448	229	24,586	52,605
Changes in equity for six months ended 31 December 2014						
Share-based payment credit	-	-	-	-	9	9
Options exercised	16	45	-	-	-	61
Movement in own shares held	-	-	-	-	(17)	(17)
Profit for the period	-	-	-	-	1,219	1,219
Other comprehensive income for the period	-	-	-	(421)	-	(421)
At 31 December 2014	7,946	9,457	10,448	(192)	25,797	53,456

# Notes to the Unaudited Half Yearly Report

## 1 Basis of preparation

The consolidated interim financial information has been prepared in accordance with the accounting policies that are expected to be adopted in the Group's full financial statements for the year ending 30 June 2015 which are not expected to be significantly different to those set out in Note 1 of the Group's audited financial statements for the year ended 30 June 2014. These are based on the recognition and measurement principles of IFRS in issue as adopted by the European Union (EU) and are effective at 30 June 2015 or are expected to be adopted and effective at 30 June 2015. The financial information has not been prepared (and is not required to be prepared) in accordance with IAS 34. The accounting policies have been applied consistently throughout the Group for the purposes of preparation of this financial information.

The financial information in this statement relating to the six months ended 31 December 2014 and the six months ended 31 December 2013 has neither been audited nor reviewed pursuant to guidance issued by the Auditing Practices Board. The financial information for the year ended 30 June 2014 does not constitute the full statutory accounts for that period. 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.

## 2 Tax expense (income)

	Unaudited Six months to 31 December 2014 £'000	Unaudited Six months to 31 December 2013 £'000	Audited Year to 30 June 2014 £'000
<b>Current tax expense</b>			
UK corporation tax and income tax of overseas operations on profits for the period	<b>693</b>	463	601
Adjustment in respect of prior periods	–	(35)	(383)
<b>Total current tax expense</b>	<b>693</b>	428	218
<b>Deferred tax expense</b>			
Origination and reversal of temporary differences	<b>(119)</b>	(182)	(491)
Effect of change in rate of deferred tax	–	(265)	(402)
<b>Total deferred tax income</b>	<b>(119)</b>	(447)	(893)
<b>Total tax expense (income)</b>	<b>574</b>	(19)	(675)

### 3 Earnings per share

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

	Unaudited Six months to 31 December 2014 Number of shares	Unaudited Six months to 31 December 2013 Number of shares	Audited Year to 30 June 2014 Number of shares
Weighted average number of shares:			
For basic earnings per share	<b>31,620,805</b>	31,317,823	31,417,736
Effects of employee share options and warrants	<b>452,602</b>	234,925	339,261
For diluted earnings per share	<b>32,073,407</b>	31,552,748	31,756,998

Adjusted 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:

	Unaudited six months to 31 December 2014			Unaudited six months to 31 December 2013			Audited year to 30 June 2014		
	Earnings £'000	Per share amount basic p	Per share amount diluted p	Earnings £'000	Per share amount basic p	Per share amount diluted p	Earnings £'000	Per share amount basic p	Per share amount diluted p
Earnings per share (eps)	<b>1,219</b>	<b>3.9</b>	<b>3.8</b>	894	2.9	2.8	2,560	8.2	8.1
Amortisation of acquired intangibles (net of tax)	<b>1,285</b>	<b>4.1</b>	<b>4.0</b>	1,051	3.4	3.3	1,952	6.2	6.1
Exceptional reorganisation costs (net of tax)	<b>125</b>	<b>0.4</b>	<b>0.4</b>	450	1.4	1.4	1,335	4.2	4.2
Adjusted eps	<b>2,629</b>	<b>8.4</b>	<b>8.2</b>	2,395	7.7	7.5	5,847	18.6	18.4

# Notes to the Unaudited Half Yearly Report continued

## 4 Loans and borrowings

	Unaudited As at 31 December 2014 £'000	Unaudited As at 31 December 2013 £'000	Audited As at 30 June 2014 £'000
<b>Non-current</b>			
Bank loans (secured)	<b>10,400</b>	–	–
Finance lease creditors	<b>6</b>	23	14
	<b>10,406</b>	23	14
<b>Current</b>			
Bank overdrafts	–	–	3,644
Bank loans (secured)	<b>2,377</b>	10,470	9,959
Finance lease creditors	<b>17</b>	17	18
Loans from related parties	<b>640</b>	640	640
	<b>3,034</b>	11,127	14,261
<b>Total borrowings</b>	<b>13,440</b>	11,150	14,275

The bank loans and other facilities include a multi-option facility which expires in August 2017.

## 5 Other non-current liabilities

	Unaudited As at 31 December 2014 £'000	Unaudited As at 31 December 2013 £'000	Audited As at 30 June 2014 £'000
Contingent consideration	<b>25</b>	–	–
Accruals	<b>631</b>	257	554
	<b>656</b>	257	554

## 6 Trade and other payables

	Unaudited As at 31 December 2014 £'000	Unaudited As at 31 December 2013 £'000	Audited As at 30 June 2014 £'000
Trade payables	<b>4,652</b>	4,248	7,203
Other payables	<b>556</b>	584	801
Accruals	<b>8,246</b>	6,958	5,820
Total financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost	<b>13,454</b>	11,790	13,824
Contingent consideration	<b>43</b>	390	18
Other tax and social security taxes	<b>4,780</b>	4,149	2,468
Deferred revenue	<b>10,598</b>	12,188	9,692
	<b>28,875</b>	28,517	26,002

## 7 Notes to the cash flow statement

Cash generated from operations is stated after exceptional reorganisation costs. 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:

	Unaudited Six months ended 31 December 2014 £'000	Unaudited Six months ended 31 December 2013 £'000	Audited Year ended 30 June 2014 £'000
Cash generated from operating activities	<b>4,300</b>	5,854	5,352
Add:			
Exceptional reorganisation costs	<b>158</b>	511	1,722
Adjusted cash generated from operations	<b>4,458</b>	6,365	7,074

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

	Unaudited Six months ended 31 December 2014 £'000	Unaudited Six months ended 31 December 2013 £'000	Audited Year ended 30 June 2014 £'000
Initial consideration	<b>(694)</b>	–	–
Cash balances acquired	<b>236</b>	–	–
Contingent and deferred consideration paid	–	–	(129)
	<b>(458)</b>	–	(129)

# Notes to the Unaudited Half Yearly Report continued

## 8 Notes to the Chairman's Statement

- \*1 Group adjusted profit from operations is calculated before amortisation of acquired intangibles of £1.61m (2013: £1.71m) and exceptional reorganisation costs of £0.16m (2013: £0.58m).
- \*2 Group adjusted profit before tax is calculated before amortisation of acquired intangibles of £1.61m (2013: £1.71m) and exceptional reorganisation costs of £0.16m (2013: £0.58m).
- \*3 Group adjusted earnings per share is calculated before amortisation of acquired intangibles (net of tax) of £1.29m (2013: £1.05m) and exceptional reorganisation costs (net of tax) of £0.13m (2013: £0.45m).
- \*4 Retail adjusted profit from operations is calculated before amortisation of acquired intangibles of £0.32m (2013: £0.31m) and exceptional reorganisation costs of £0.05m (2013: £0.24m).
- \*5 Manufacturing and Distribution adjusted profit from operations is calculated before amortisation of acquired intangibles of £1.29m (2013: £1.40m) and exceptional reorganisation costs of £0.10m (2013: £0.19m).
- \*6 Head office costs are calculated before exceptional reorganisation costs of £nil (2013: £0.15m).

9 The above information is being sent to the shareholders and is available from the Company's website, [www.k3bttg.com](http://www.k3bttg.com), and from its registered office: Baltimore House, 50 Kansas Avenue, Manchester M50 2GL.



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