



K3 Business  
Technology Group plc

Interim Report & Financial Statements 2004

# K3 Business Technology Group plc



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## Chairman's Statement

### OVERVIEW

We have ambitious growth plans for the Group, which are focused around the development of Microsoft-based business solutions and expansion into the distribution and retail sectors. Over the first half of 2004, we made constructive steps forward with our objectives. In March, we completed the sale of the Enterprise Systems Division, realising a profit of £1.30m and in April, we acquired the outstanding balance of shares in a warehousing and distribution management software business, PSE Ltd ("PSE"). The acquisition of PSE is important to us strategically, extending our footprint beyond our traditional manufacturing sector and into retail and distribution.

I can also report good progress in the development of SmartVisionCRM, our new business solution product which has Microsoft's new CRM software embedded within it. We invested approximately £0.24m in its development during the first half, and we have a substantial pipeline of prospects. Our investment has been charged against profits.

In April, we conducted a share consolidation of one 25p ordinary share for every five 5p ordinary shares previously in issue. As a consequence our shares in issue and our earnings per share have been restated accordingly.

### Financial Results

Results for the first half reflect the disposal of our Enterprise Systems business. Turnover therefore reduced to £2.79m against £3.48m in the same period last year. As expected, turnover on continuing operations showed a small decline as we switched to generating demand for our SmartVisionCRM product, with £1.92m of sales against £2.23m in the same period last year.

After costs of £0.24m, relating to the development of our SmartVisionCRM business application, which commenced in January 2004, adjusted operating profit<sup>1</sup> on continuing operations was £0.05m (2003: loss of £0.25m).

For the three months to June 2004, our new acquisition, PSE, contributed an adjusted operating profit<sup>2</sup> of £0.08m. For the two months to 29 February, prior to its disposal, our Enterprise Systems Division contributed an adjusted operating profit<sup>3</sup> of £0.01m. Overall, the Group's operating loss of £0.12m was better than expectations (2003: £0.39m which reflects the impact of write-offs of £0.55m).

<sup>1</sup> Calculated before amortisation of goodwill of £0.15m and exceptional write offs of £nil.

<sup>2</sup> Calculated before amortisation of goodwill of £0.02m and exceptional write offs of £nil.

<sup>3</sup> Calculated before amortisation of goodwill of £0.08m and exceptional write offs of £nil.

The sale of the Enterprise Systems Division resulted in a profit on disposal of £1.30m. Profit on ordinary activities before taxation was £1.17m (2003: loss of £0.43m). This resulted in earnings per share before amortisation of goodwill of 11.5p (2003: loss of 2.0p) and earnings per share of 9.0p (2003: loss per share of 4.0p).

At 30 June 2004, the Group had a positive cash balance of £3.05m compared with £0.12m at 30 June 2003 and £1.23m at 31 December 2003.

The Directors do not propose to pay a dividend (2003: nil). However, authority was obtained from shareholders in April for a share capital reduction which will enable us to seek the confirmation of the High Court which, if obtained, will enable us to pay dividends in the future.

### OPERATIONAL REVIEW

#### Business Systems Division

The Business Systems Division, based in Walton-on-Thames, turned in a good performance with sales of Sigma, Omnis, JobBOSS and SmartVision to both new and existing customers. Considerable interest has been shown in SmartVisionCRM, our new Microsoft centric business solution for the SME sector, and whilst this is still being developed, a strong pipeline of orders has been generated that is likely to benefit 2005.

#### Enterprise Systems Division

This Division, based at Crewe, was sold in March 2004 to Azur Group Limited for £1.92m, of which £0.05m is deferred, realising a profit on sale of £1.30m. The sale of the business is part of the management's strategy to focus on both developing the Group's Microsoft-based business solutions and expand the business into the distribution and retail sectors. Figures for the first half include the results of this Division for the period to 29 February.

## PSE

In April, we announced the acquisition of the remaining 62% of the shares in PSE Limited, the warehousing and distribution software company based in Lancashire. We had previously acquired a 38% holding in PSE in November 2003. The balance of the shares in April was acquired for an initial consideration of £0.45m, bringing the total cash consideration for the entire share capital of PSE to £0.64m. With an estimated deferred consideration based on future growth in the business over the next three years of £0.25m, the expected total price is £0.89m.

In its first three months as part of the Group, PSE won six new orders worth £0.4m and sales reached £0.46m in the period. This is substantially ahead of 2003 levels where sales for the twelve month period to 30 November 2003 were £1.18m. The strong first quarter performance was helped by orders from JJB Sports (clothing), Bright Minds (educational toys), and Rock Group (electronics). PSE contributed £0.08m to adjusted operating profit<sup>2</sup>. The prospective orders are encouraging and should translate into a continued strong performance in the second half year.

## Outlook

We expect market conditions in the manufacturing sector to remain challenging but are encouraged by the increasing interest in SmartVisionCRM and the level of order intake in PSE which should see it continue to perform well over the second half of the year.

With our enhanced cash position, we are well placed to exploit acquisition opportunities that fulfil our criteria and are in active negotiations with a number of possible acquisitions that will strengthen our portfolio of Microsoft based business solutions for the Supply Chain Sector. We continue to view the Group's prospects very positively.

## George Matthews

Chairman

30 September 2004

## Consolidated Profit and Loss Account

For the six months ended 30 June 2004

Notes	Unaudited six months to 30 June 2004 £'000	Unaudited six months to 30 June 2003 £'000	Audited year to 31 December 2003 £'000
<b>Turnover</b>			
Continuing	1,921	2,233	4,305
Acquisitions	456	-	-
Discontinued	413	1,250	2,697
<b>Total</b>	<b>2,790</b>	<b>3,483</b>	<b>7,002</b>
Operating profit before goodwill amortisation and exceptional write down	132	407	1,074
Goodwill amortisation	(255)	(243)	(463)
Exceptional write down	-	(550)	(605)
Continuing	(104)	(410)	(276)
Acquisitions	52	-	-
Discontinued	(71)	24	282
<b>Operating (loss) profit</b>	<b>3</b>	<b>(386)</b>	<b>6</b>
Profit (loss) on disposal of operations	1,303	-	(100)
Net interest payable and similar charges	(6)	(46)	(105)
Profit (loss) on ordinary activities before taxation	1,174	(432)	(199)
Tax on profit (loss) on ordinary activities	(256)	-	(130)
<b>Profit (loss) for the financial period</b>	<b>918</b>	<b>(432)</b>	<b>(329)</b>

## Earnings (loss) per share

(comparatives restated for share consolidation of one 25p share for every five 5p shares)

Basic	6	9.0p	(4.0p)	(3.0p)
Diluted	6	9.0p	(4.0p)	(3.0p)
Basic before amortisation of goodwill	6	11.5p	(2.0p)	1.5p
Basic before amortisation of goodwill and exceptional items	6	0.9p	3.5p	6.5p

The group has no recognised gains or losses in any of the above periods other than the profit (loss) for that period.

<sup>2</sup> Calculated before amortisation of goodwill of £0.02m and exceptional write offs of £nil.

## Consolidated Balance Sheet

As at 30 June 2004

	Notes	Unaudited as at 30 June 2004 £'000	Unaudited as at 30 June 2003 £'000	Audited as at 31 December 2003 £'000
<b>Fixed assets</b>				
Goodwill		2,919	3,574	3,354
Tangible assets		317	425	342
Investments		-	-	190
		<u>3,236</u>	<u>3,999</u>	<u>3,886</u>
<b>Current assets</b>				
Debtors		1,564	3,338	2,558
Cash at bank and in hand		3,045	122	1,226
		<u>4,609</u>	<u>3,460</u>	<u>3,784</u>
Creditors: amounts falling due within one year	7	(3,921)	(4,565)	(4,706)
Net current assets (liabilities)		<u>688</u>	<u>(1,105)</u>	<u>(922)</u>
Total assets less current liabilities		3,924	2,894	2,964
Creditors: amounts falling due after more than one year		(12)	(33)	-
Provisions for liabilities and charges		-	-	-
<b>Net assets</b>		<u>3,912</u>	<u>2,861</u>	<u>2,964</u>
<b>Capital and reserves</b>				
Called-up share capital		2,548	2,548	2,548
Shares to be issued	8	30	-	-
Share premium account	8	6,441	6,441	6,441
Other reserve	8	2,359	2,359	2,359
Profit and loss account	8	(7,466)	(8,487)	(8,384)
<b>Equity shareholders' funds</b>		<u>3,912</u>	<u>2,861</u>	<u>2,964</u>

## Consolidated Cash Flow Statement

For the period ended 30 June 2004

	Notes	Unaudited six months to 30 June 2004 £'000	Unaudited six months to 30 June 2003 £'000	Audited year to 31 December 2003 £'000
Net cash inflow from operating activities	9	703	113	1,365
Returns on investments and servicing of finance		(6)	(11)	(23)
Taxation		-	-	(11)
Capital expenditure and financial investment		(25)	(87)	(99)
Acquisitions and disposals		1,131	-	(95)
Cash inflow before financing		<u>1,803</u>	<u>15</u>	<u>1,137</u>
Financing		16	(16)	(34)
Increase (decrease) in cash in the period		<u>1,819</u>	<u>(1)</u>	<u>1,103</u>

## Notes to the Financial Statements

- The interim financial information has been prepared in accordance with the accounting policies adopted in the accounts for the year ended 31 December 2003.
- The financial information in this statement relating to the six months ended 30 June 2004 and the six months ended 30 June 2003 is unaudited and does not constitute full statutory accounts within the meaning of Section 240 of the Companies Act 1985. The figures for the year ended 31 December 2003 have been extracted from the statutory accounts which have been filed with the Registrar of Companies. The audit report was unqualified and did not contain any statement under section 237 (2) and (3) of the Companies Act 1985.

### 3. OPERATING PROFIT (LOSS)

The operating profit (loss) is stated after charging £0.24m for development costs relating to the SmartVisionCRM project (2003: is stated after charging a write down £0.55m relating to the disposal of the Group's interest in RAP Group Limited).

### 4. ACQUISITION OF SUBSIDIARY UNDERTAKING

On 5 April 2004 the company acquired the remaining 62% of the issued share capital of PSE Limited ("PSE"). The company acquired a 38% shareholding in PSE in November 2003 for an initial consideration of £0.19m. The balance of the shares were acquired for an initial consideration of £0.45m with further consideration payable based on PSE's revenues rising to £5m over the period up to 31 March 2007. The fair value of the total consideration is estimated to be £0.89m.

The following table sets out the book values of the identifiable assets and liabilities acquired and their fair value to the group:

	Book value £'000	Fair value adjustments £'000	Fair value to the group £'000
<b>Fixed assets</b>			
Tangible	67	-	67
<b>Current assets</b>			
Debtors	228	(25)	203
Cash	50	-	50
<b>Total assets</b>	<b>345</b>	<b>(25)</b>	<b>320</b>
<b>Creditors</b>			
Trade	(106)	-	(106)
Other	(100)	-	(152)
Accruals and deferred income	(152)	-	(100)
<b>Total liabilities</b>	<b>(358)</b>	<b>-</b>	<b>(358)</b>
<b>Net liabilities</b>	<b>(13)</b>	<b>(25)</b>	<b>(38)</b>
Goodwill			928
<b>Consideration</b>			<b>890</b>
<b>Satisfied by</b>			
Cash consideration			640
Deferred cash consideration			220
Shares to be issued			30
			<b>890</b>

The fair value adjustment relates to a provision against a debt which is not considered recoverable.

Net cash inflows in respect of the acquisition comprised:

	£'000
Cash at bank and in hand acquired	50

PSE earned a profit after taxation of £53,000 in the three months ended 30 June 2004.

## 5. DISPOSAL OF DIVISIONAL UNDERTAKING

On 29 February 2004 the group disposed of its interest in its Enterprise Systems Division to Azur Group Limited for a consideration of £1.92m.

Net assets disposed of and the related sales proceeds were as follows:

	£'000
<b>Fixed assets</b>	
Goodwill	1,108
Tangible	38
<b>Creditors</b>	
Deferred income	(678)
<b>Net assets</b>	468
Transaction costs of disposal	25
Other costs of disposal	126
Profit before tax on sale	1,303
Proceeds	1,922
<b>Satisfied by</b>	
Cash	1,872
Deferred cash consideration	50
	1,922

In addition to the proceeds and the costs of the disposal, the company collected trade receivables and discharged trade payables generating a further £0.69m.

## 6. EARNINGS (LOSS) PER SHARE

The calculations of earnings (loss) per share are based on the following earnings (losses) and numbers of shares (restated for the share consolidation of one 25p share for every five 5p share):

	Unaudited six months to 30 June 2004		Basic and diluted Unaudited six months to 30 June 2003		Audited year to 31 December 2003	
	£'000	p	£'000	p	£'000	p
Basic earnings (loss) per share	918	9.0	(432)	(4.0)	(329)	(3.0)
Effect of goodwill amortisation	255	2.5	243	2.0	463	4.5
Basic earnings (loss) per share before amortisation of goodwill	1,173	11.5	(189)	(2.0)	134	1.5
Exceptional items (net of tax)	<sup>1</sup> (1,085)	(10.6)	<sup>2</sup> 550	5.5	<sup>2</sup> 524	5.0
Basic earnings per share before amortisation of goodwill and exceptional items	88	0.9	361	3.5	658	6.5
			Number of shares		Number of shares	
Weighted average number of shares	10,192,428		10,192,428		10,192,428	

<sup>1</sup> Exceptional item in six months to 30 June 2004 relates to profit on disposal of the Enterprise Systems Division of £1.30m less tax of £0.22m.

<sup>2</sup> Exceptional item in six months to 30 June 2003 relates to write-off of irrecoverable balances from RAP Group of £0.61m less tax with a further loss on disposal of the legacy businesses in second half of 2003 arising from reduced deferred consideration of £0.10m which had no tax effect.

## 7. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Included in creditors due within one year is deferred income of £1.49m (2003: £2.29m) relating to income from support which is generally invoiced in advance and recognised as revenue in equal monthly instalments over the relevant periods.

8. **RESERVES**

	Share premium account £'000	Shares to be issued £'000	Other reserve £'000	Profit and loss account £'000
At 1 January 2004	6,441	-	2,359	(8,384)
Deferred consideration in relation to acquisition of PSE Limited	-	30	-	-
Retained profit for the period	-	-	-	918
At 30 June 2004	6,441	30	2,359	(7,466)

9. **CASH FLOW STATEMENT**

**Reconciliation of operating (loss) profit to operating cash flows**

	Unaudited six months to 30 June 2004 £'000	Unaudited six months to 30 June 2003 £'000	Audited year to 31 December 2003 £'000
Operating (loss) profit	(123)	(386)	6
Depreciation and fixed asset impairment	79	88	182
Loss on sale of tangible fixed assets	-	-	1
Amortisation of goodwill	255	243	463
Decrease in debtors	1,247	560	1,290
Decrease in creditors	(755)	(392)	(577)
	703	113	1,365

10. The above information is being sent to the shareholders and is available from the Company's registered office: Unit 19, Linden Business Centre, Linden Road, Colne, Lancashire, BB8 9BA.



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