



K3 Business  
Technology Group plc  
Interim Report & Financial Statements 2003



# K3 Business Technology Group plc

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## Chairman's Statement

### OVERVIEW

Against a background of continuing difficult market conditions, the Group has traded in line with expectations. The Group's performance was aided by the benefit of the cost-saving initiatives we put in place last year and we remain focused on maintaining business efficiencies. At the operating level, our figures show a significant underlying improvement on 2002. This improvement however, is masked by the write-offs we have made relating to the sale of RAP Group Limited ("RAP").

In July 2003, we announced that RAP, in which we held an interest, had sold its hardware companies. K3 disposed of these hardware companies to RAP in March 2001 but the consideration had been deferred until their onward sale by RAP. Deferred consideration of £0.2m is included in debtors and is expected to be recovered in full. In addition, since March 2001, K3 had provided additional funding to RAP and the debt outstanding at July 2003 amounted to approximately £1.1m.

The proceeds due to us from the sale of the hardware companies are approximately £0.75m, of which £0.45m is expected by 31 December and the balance in early 2004. This will result in a loss of £0.55m. We intend to retain the cash for future acquisitions as and when suitable opportunities arise.

### Financial Results

During the six months under review, turnover on continuing operations was £3.48m against £3.79m in the same period last year. This reflected the challenging trading conditions in our maintenance renewal marketplaces, however, it is pleasing to note that with our focus on client service, the trend over the last 18 months of declining maintenance revenues has been arrested. Operating profit on continuing operations, before amortisation of goodwill and exceptional write-offs, was £0.41m (2002: £0.36m). The operating loss, which reflects the impact of write-offs of £0.55m, was £0.39m (2002: £0.02m). In July 2003, our interest in RAP was realised when RAP sold its hardware companies. The disposal has resulted in a write-off of £0.55m of K3's loan to RAP. However, our cash position will be strengthened by the disposal proceeds of £0.75m. Loss on ordinary activities before taxation was £0.43m (2002: loss of £0.05m). This resulted in loss per share before amortisation of goodwill of 0.4p (2002: earnings of 0.4p) and loss per share of 0.8p (2002: loss per share of 0.1p).

At 30 June 2003, the Group had a positive cash balance of £0.12m compared with an overdraft of £0.18m at 30 June 2002 and a cash balance of £0.12m at 31 December 2002. The cash balance at 31 August 2003 is £0.16m.

The Directors do not propose to pay a dividend (2002: nil).

### OPERATIONAL REVIEW

#### Business Systems Division

The Business Systems Division, based in Walton-on-Thames, continued its excellent trading performance in the first half. Towards the end of the period, the Division introduced its new SmartVision product, which replaces the MFW mid range manufacturing control system. Uptake has been good so far and the new product is expected to help stimulate sales in the second half and beyond.

#### Enterprise Systems Division

The Enterprise Systems Division, based in Crewe, saw modest new sales in the first half. In June 2003, we released Version 3 of our IBS ERP solution. The product is targeted at both new and existing customers and we are pleased with the interest it is generating although we remain realistic about the time required in the current environment to convert prospects into firm orders. The business rationalisation undertaken in mid-2002 resulted in cost savings of £0.25m against the comparable period last year and we will continue to manage the business in line with market conditions.

#### Outlook

Market conditions for both our ERP divisions remain difficult and more especially for the Enterprise Systems Division. The second half of the year is, traditionally, our stronger period, and whilst the outcome is dependent on closing substantial new business sales, with the Group's large client base, and new products, we remain cautiously optimistic.

We continue to evaluate a number of potential acquisition opportunities in our sector and with our improving cash position we will seek to exploit these appropriately.

#### George Matthews

Chairman

22 September 2003

## Consolidated Profit and Loss Account

For the six months ended 30 June 2003

|                 | Notes | Unaudited<br>six months to<br>30 June 2003<br>£'000 | Unaudited<br>six months to<br>30 June 2002<br>£'000 | Audited<br>year to<br>31 December 2002<br>£'000 |
|-----------------|-------|---|---|---|
| <b>Turnover</b> |       |   |   |   |
| Continuing      |       | 3,483   | 3,790   | 7,916   |
| Discontinued    |       | -   | 154   | 172   |
| <b>Total</b>    |       | <b>3,483</b>  | <b>3,944</b>  | <b>8,088</b>                                    |

|   |  |       |       |       |
|---|--|-------|-------|-------|
| Operating profit before goodwill amortisation<br>and exceptional write down |  | 407   | 220   | 975   |
| Goodwill amortisation   |  | (243) | (242) | (463) |
| Exceptional write down  |  | (550) | -     | -     |

|                                |   |              |             |            |
|--------------------------------|---|--------------|-------------|------------|
| Continuing                     |   | (386)        | 115         | 658        |
| Discontinued                   |   | -            | (137)       | (146)      |
| <b>Operating (loss) profit</b> | 3 | <b>(386)</b> | <b>(22)</b> | <b>512</b> |

|  |  |       |      |       |
|--|--|-------|------|-------|
| Loss on disposal of operations                       |  | -     | -    | (173) |
| Net interest payable and similar charges             |  | (46)  | (27) | (73)  |
| (Loss) profit on ordinary activities before taxation |  | (432) | (49) | 266   |
| Tax on (loss) profit on ordinary activities          |  | -     | -    | 108   |
| (Loss) profit for the financial period               |  | (432) | (49) | 374   |

### Earnings (loss) per share

|  |   |        |        |      |
|--|---|--------|--------|------|
| Basic  | 4 | (0.8p) | (0.1p) | 0.7p |
| Diluted  | 4 | (0.8p) | (0.1p) | 0.7p |
| Basic before amortisation of goodwill                          | 4 | (0.4p) | 0.4p   | 1.6p |
| Basic before amortisation of goodwill<br>and exceptional items | 4 | 0.7p   | 0.4p   | 2.0p |

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



## Consolidated Balance Sheet

As at 30 June 2003

|                     | Notes | Unaudited as at<br>30 June 2003<br>£'000 | Unaudited as at<br>30 June 2002<br>£'000 | Audited as at<br>31 December 2002<br>£'000 |
|---------------------|-------|--|--|--|
| <b>Fixed assets</b> |       |  |  |  |
| Goodwill            |       | 3,574                                    | 4,038                                    | 3,817                                      |
| Tangible assets     |       | 425                                      | 567                                      | 426  |
|                     |       | <b>3,999</b>                             | <b>4,605</b>                             | <b>4,243</b>                               |

### Current assets

|                               |  |              |              |              |
|-------------------------------|--|--------------|--------------|--------------|
| Properties for resale         |  | -            | 70           | 30           |
| Debtors - due within one year |  | 3,338        | 2,982        | 3,668        |
| - due after one year          |  | -            | 250          | 200          |
| Cash at bank and in hand      |  | 122          | -            | 123          |
|                               |  | <b>3,460</b> | <b>3,302</b> | <b>4,021</b> |

|  |   |         |         |         |
|--|---|---------|---------|---------|
| Creditors: amounts falling due within one year | 5 | (4,565) | (4,933) | (4,920) |
|--|---|---------|---------|---------|

|                                |  |                |                |              |
|--------------------------------|--|----------------|----------------|--------------|
| <b>Net current liabilities</b> |  | <b>(1,105)</b> | <b>(1,631)</b> | <b>(899)</b> |
|--------------------------------|--|----------------|----------------|--------------|

|  |  |              |              |              |
|--|--|--------------|--------------|--------------|
| <b>Total assets less current liabilities</b> |  | <b>2,894</b> | <b>2,974</b> | <b>3,344</b> |
|--|--|--------------|--------------|--------------|

|  |  |      |      |      |
|--|--|------|------|------|
| Creditors: amounts falling due<br>after more than one year |  | (33) | (70) | (51) |
|--|--|------|------|------|

|  |  |   |      |   |
|--|--|---|------|---|
| Provisions for liabilities and charges |  | - | (12) | - |
|--|--|---|------|---|

|                   |  |              |              |              |
|-------------------|--|--------------|--------------|--------------|
| <b>Net assets</b> |  | <b>2,861</b> | <b>2,892</b> | <b>3,293</b> |
|-------------------|--|--------------|--------------|--------------|

### Capital and reserves

|                         |   |         |         |         |
|-------------------------|---|---------|---------|---------|
| Called-up share capital |   | 2,548   | 2,540   | 2,548   |
| Shares to be issued     |   | -       | 58      | -       |
| Share premium account   | 6 | 6,441   | 6,452   | 6,441   |
| Other reserve           | 6 | 2,359   | 2,320   | 2,359   |
| Profit and loss account | 6 | (8,487) | (8,478) | (8,055) |

|                                   |  |              |              |              |
|-----------------------------------|--|--------------|--------------|--------------|
| <b>Equity shareholders' funds</b> |  | <b>2,861</b> | <b>2,892</b> | <b>3,293</b> |
|-----------------------------------|--|--------------|--------------|--------------|



## CONSOLIDATED CASH FLOW STATEMENT

For the period ended 30 June 2003

|   | Notes | Unaudited<br>six months to<br>30 June 2003<br>£'000 | Unaudited<br>six months to<br>30 June 2002<br>£'000 | Audited<br>year to<br>31 December 2002<br>£'000 |
|---|-------|---|---|---|
| Net cash inflow (outflow) from operating activities | 7     | 113   | (7)   | 471   |
| Returns on investments and servicing of finance     |       | (11)  | (10)  | (35)  |
| Taxation  |       | -   | -   | -   |
| Capital expenditure and financial investment        |       | (87)  | (62)  | (66)  |
| Acquisitions and disposals                          |       | -   | -   | (105)   |
| Cash inflow (outflow) before financing              |       | 15  | (79)  | 265   |
| Financing   |       | (16)  | (40)  | (79)  |
| (Decrease) increase in cash in the period           |       | (1)   | (119)   | 186   |

## NOTES TO THE FINANCIAL STATEMENTS

1. The interim financial information has been prepared in accordance with the accounting policies adopted in the accounts for the year ended 31 December 2002.

2. The financial information in this statement relating to the six months ended 30 June 2003 and the six months ended 30 June 2002 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 2002 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 (LOSS) PROFIT

The operating (loss) profit is stated after charging a write down £0.55m (2002: £nil) relating to the disposal of the Group's interest in RAP Group Limited.

### 4. EARNINGS (LOSS) PER SHARE

The calculations of earnings (loss) per share are based on the following earnings (losses) and numbers of shares:

|  | Unaudited<br>six months to<br>30 June 2003<br>£'000 |                  | Basic and diluted<br>Unaudited<br>six months to<br>30 June 2002<br>£'000 |                  | Audited<br>year to<br>31 December 2002<br>£'000 |                  |
|--|---|------------------|--|------------------|---|------------------|
|  | p   | p                | p  | p                | p   | p                |
| Basic (loss) earnings per share  | (432)   | (0.8)            | (49)   | (0.1)            | 374   | 0.7              |
| Effect of goodwill amortisation  | 243   | 0.4              | 242  | 0.5              | 463   | 0.9              |
| Basic (loss) earnings per share before amortisation of goodwill                | (189)   | (0.4)            | 193  | 0.4              | 837   | 1.6              |
| Exceptional items (net of tax)   | *550  | 1.1              | -  | -                | 173   | 0.4              |
| Basic earnings per share before amortisation of goodwill and exceptional items | 361   | 0.7              | 193  | 0.4              | 1,010   | 2.0              |
|  |   | No. of<br>shares |  | No. of<br>shares |   | No. of<br>shares |
| Weighted average number of shares  | 50,962,144  |                  | 50,794,279   |                  | 50,844,943                                      |                  |

\*Relates to write-off of debt due from RAP Group.

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

Included in creditors due within one year is deferred income of £2,285,000 (2002: £2,135,000) relating to income from support which is generally invoiced in advance and recognised as revenue in equal monthly instalments over the relevant periods.

## 6. RESERVES

|                              | Share<br>premium<br>account<br>£'000 | Other<br>reserve<br>£'000 | Profit<br>and loss<br>account<br>£'000 | Total<br>£'000 |
|------------------------------|--------------------------------------|---------------------------|--|----------------|
| At 1 January 2003            | 6,441                                | 2,359                     | (8,055)                                | 745            |
| Retained loss for the period | -                                    | -                         | (432)                                  | (432)          |
| At 30 June 2003              | 6,441                                | 2,359                     | (8,487)                                | 313            |

## 7. CASH FLOW STATEMENT

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

|  | Unaudited<br>six months to<br>30 June 2003<br>£'000 | Unaudited<br>six months to<br>30 June 2002<br>£'000 | Audited<br>year to<br>31 December 2002<br>£'000 |
|--|---|---|---|
| Operating (loss) profit                  | (386)   | (22)  | 512   |
| Depreciation and fixed asset impairment  | 88  | 113   | 206   |
| Loss on sale of tangible fixed assets    | -   | -   | 29  |
| Write down of properties held for resale | -   | -   | 40  |
| Amortisation of goodwill                 | 243   | 242   | 463   |
| Decrease (increase) in debtors           | 560   | 222   | (312)   |
| Decrease in creditors                    | (392)   | (443)   | (336)   |
| Decrease in provisions                   | -   | (119)   | (131)   |
|  | 113   | (7)   | 471   |

8. 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.

