

KBT  
17 March 2009



**K3 BUSINESS TECHNOLOGY GROUP PLC**  
**(“K3” or “the Group”)**

**IT solutions supplier to the supply chain industry**

**Announces**  
**Final Results for the Year to 31 December 2008**

**Highlights**

- \* Creditable results in more difficult trading environment
- \* Revenue increased by 10% to £37.62m (2007: £34.15m)
- \* Adjusted profit before tax (note 1) rose by 25% to £5.92m (2007: £4.72m)  
Profit before tax rose by 7% to £3.94m (2007: £3.68m)
- \* Adjusted earnings per share (note 2) increased by 8% to 18.2p (2007: 16.8p)  
Earnings per share of 11.8p (2007: 13.4p)
- \* Cash generated from operations increased by 2% to £6.38m (2007: £6.23m)
- \* Recurring income, from software licence fee renewals and associated support, increased by 26% to £15.6m (2007: £12.4m) – reflects enlarged customer base
- \* Revenue from development of own IP modules around core software products enhances gross margins
- \* Proposed final dividend of 0.5p (2007: 0.5p)
- \* Board anticipates difficult 2009 but sees growth opportunities

Note 1 Calculated before amortisation of acquired intangibles of £1.88m (2007: £0.90m) and share-based payment costs of £0.10m (2007: £0.15m).

Note 2 Calculated before amortisation of acquired intangibles and related tax charge of £1.37m (2007: £0.49m), share-based payment costs and related tax charge of £0.13m (2007: £0.11m) and loss on disposal of operations including the related tax charge in 2007 of £0.14m.

Tom Milne, Chairman, commented,

*“I am pleased to report that K3 generated very creditable results for the year. The trading environment became much more difficult in the second half of the financial year, reflecting the wider economic downturn in the UK and overseas. Results for the year are therefore especially pleasing and are testimony to our strategy of building critical mass, organically and through acquisition, to establish a dominant presence in our core markets, with results benefiting from a full year’s contribution from the three acquisitions we made over the course of 2007.*

*While market conditions are getting tougher, we believe that our cash generative model and high levels of predictable income will continue to underpin our performance throughout 2009 and beyond.”*

**Enquiries:**

K3 Business Technology Group plc	Andy Makeham, Chief Executive David Bolton, Chief Finance Officer	T: 020 7448 1000 (today) Thereafter: 01282 864111
Biddicks	Katie Tzouliadis	T: 020 7448 1000
Daniel Stewart (NOMAD)	Paul Shackleton	T: 020 7776 6550

## CHAIRMAN'S STATEMENT

### OVERVIEW

I am pleased to report that K3 generated very creditable results for the year. The trading environment became much more difficult in the second half of the financial year, reflecting the wider economic downturn in the UK and overseas. Results for the year are therefore especially pleasing. Revenue for the 12 months to 31 December 2008 increased by 10% to £37.62m, adjusted profit before tax<sup>\*1</sup> rose by 25% to £5.92m and adjusted earnings per share<sup>\*2</sup> increased by 8% to 18.2p. These results are testimony to our strategy of building critical mass, organically and by acquisition, to establish a dominant presence in our core markets, with results benefiting from a full year's contribution from the three acquisitions we made over the course of 2007.

Both the Retail Software and Manufacturing Software Divisions performed well, with encouraging new business sales supported by high levels of recurring income from our substantial customer base. As we expected, online retail has remained a strong growth market for K3 as the High Street has increasingly come under pressure and our multi-channel retail solution generated a significant proportion of new business wins over the year.

Two ongoing initiatives are worth highlighting this year. Firstly, with the expansion in our customer base, particularly over last two years, we are placing more emphasis on selling additional products and services to existing customers while also driving new customer sales. Secondly, in both Software Divisions, we have continued to invest heavily in product development, creating more K3 modules which surround the core software solutions we resell. This allows K3 to maintain its competitive edge and, importantly, helps to improve margins as we retain more of the customer revenues.

During the year, we conducted reviews of the business to improve operational efficiencies and make changes to ensure that the cost base remains at an appropriate level. In 2008, the reorganisation costs in respect of these reviews totalled £0.2m (2007: £0.15m). In the first quarter of 2009, we have made further reductions to the cost base and will make additional changes as necessary.

Looking ahead, K3 is one of the UK's largest Microsoft Dynamics business partners and well placed to benefit from Microsoft's ongoing investment in business solutions. While market conditions are tougher, we believe that our cash generative model and high levels of predictable income will continue to underpin our performance throughout 2009 and beyond.

### FINANCIAL RESULTS

Group revenue for the year to 31 December 2008 increased by 10% to £37.62m from £34.15m last year. Recurring income, from software licence fee renewals and associated support, rose by 26% to £15.6m from £12.4m, reflecting the increase in the customer base.

Adjusted profit from operations<sup>\*1</sup> for the year rose by 28% to £7.35m (2007: £5.76m) after absorbing £0.2m of one-off reorganisation costs. After amortisation of acquired intangible assets of £1.88m (2007: £0.90m) and share-based payment costs of £0.10m (2007: £0.15m), the profit from operations was £5.37m (2007: £4.71m), an increase of 14% on last year.

Adjusted profit before tax<sup>\*1</sup> rose by 25% to £5.92m (2007: £4.72m). After taking into account amortisation of acquired intangibles of £1.88m (2007: £0.9m) and share-based payment costs of £0.10m (2007: £0.15m), profit before taxation increased by 7% to £3.94m (2007: £3.68m).

The tax charge for the year was £1.14m (2007: £0.76m) reflecting the charge on a full year's contribution from the three acquisitions made in 2007 and additional prior year tax liabilities of £0.08m (2007: £0.12m credit).

Adjusted earnings per share<sup>\*2</sup> increased by 8% to 18.2p (2007: 16.8p) and basic earnings per share, impacted by the increase in amortisation of intangibles noted above, reduced to 11.8p (2007: 13.4p).

At 31 December 2008, the Group's cash balance stood at £2.83m (2007: £3.09m) and the total of bank and other loans was £15.84m (2007: £16.48m). The Group made £3.59m of debt repayments in the year and paid £1.32m of interest. The Sterling value of Euro-denominated debt has risen due to the sharp decline in the second half year in the value of Sterling against the Euro (£1.96m) and an

additional shareholder loan of £1.0m. Euro-denominated loans are held by the Group as a hedge against Euro earnings.

We have committed facilities running through to August 2012, including £4.5m of revolving credit facilities with covenants aligned to current market conditions.

In May 2008 we acquired an investment in a company, Lumos Services Limited, which provides support services to our Group. It is accounted for as an associate and has made a loss of £0.01m since the date of our acquisition.

## **DIVIDEND**

The Board is pleased to propose a final (and total) dividend for the year of 0.5p per share (2007: final (and total), 0.5p). This will be paid on 8 July 2009 to shareholders on the register at the close of business on 12 June 2009, subject to shareholder approval at the Annual General Meeting, which is to be held at the offices of K3 Supply Chain Solutions Limited, Baltimore House, 50 Kansas Avenue, Salford Quays, Manchester M50 2GL on 10 June 2009 at 10.30 am.

## **REVIEW OF OPERATIONS**

### **Retail Software Division**

The Retail Software Division, comprising our UK and Holland-based businesses, which both supply Microsoft Dynamics software, generated total sales of £22.18m, an increase of 8% over last year (2007: £20.47m), and adjusted profits from operations<sup>\*3</sup> rose by 36% to £3.96m over last year (2007: £2.91m), with the gross margin percentage improving by 3 percentage points to 60%. These good results reflected the benefits of the acquisition of K3 Netherlands, which made a four month contribution to last year's results, as well as 11 significant new business wins in the UK, worth £3.9m in total. In the UK annual software maintenance and support revenues over the year increased by 19% to £5.0m (2007: £4.2m), reflecting the expansion of our customer base. The addition of K3 Netherlands has increased the Division's annual software maintenance and support revenues by a further £2.3m (2007: £0.3m in 4 months), taking the total to £7.3m. This represents a 62% rise on last year (2007: £4.5m).

The business is helped by its strong market position as one of the UK's largest Microsoft Dynamics partners. Additionally, our investment to develop a multi-channel solution, especially for online retail sales, underpinned significant new business activity. It also helped to enhance our gross margins, since we own the intellectual property of the software. Six of our new contract wins in the year were multi-channel, compared with one in 2007, and online sales remain a growth market within the retail sector.

Our focus in the UK has been on margin enhancement and cost reduction. We completed a small reorganisation of the UK retail software business in the second half year and, together with further changes made after year end, should realise full year savings of approximately £0.3m.

Within our Dutch operation, which developed and retains the worldwide rights to software modules for franchises of Inter IKEA System B.V. ("IKEA"), the global home furnishing business, we invested in both the sales team and delivery resource in order to develop growth opportunities alongside our strong IKEA relationship. We have also widened our product range to include AGR, CRM and software connector tools which should assist in increasing sales across the customer base.

Our UK pipeline of enquiries remains healthy, with several deals at an advanced stage of negotiation, a number of which include our own multi-channel functionality. In Holland, IKEA represents a reliable revenue stream and we expect significant upgrade projects during 2009. At the same time, our wider non-IKEA sales pipeline is currently looking promising.

## Manufacturing Software Division

Total sales over the year rose by 14% to £15.43m (2007: £13.50m) and adjusted profit from operations<sup>4</sup> increased by 7% to £3.65m (2007: £3.42m), boosted by a full year's contribution from two acquisitions made in 2007. The gross margin percentage remained high at 84% (2007: 84%).

The Manufacturing Software Division now has over 1,000 customers and recurring revenues, derived from annual licence fee renewals, rose by 5% to £8.31m (2007: £7.89m). As the majority of licence fee renewals falls in the last quarter of the year, results from the Division are always weighted towards the second half of the year. This income stream is very stable and predictable, reflecting the business critical nature of the software we sell and maintain.

We won 23 new contracts in 2008, with revenues of £2m in total. With our enlarged customer base, a major focus over the year was offering customers additional products and services. Our network infrastructure services business unit, which we established in November 2007, made pleasing progress over the period. Offering IT managed services, it is targeted towards our existing customers and uptake to date has been encouraging, with customers able to reduce the costs of their in-house IT infrastructure. We are also seeking to improve the chargeability and utilisation of our consultancy team and have brought in expertise to help us identify key performance measures across the business.

Index Computer Systems, which resells Dynamics AX software and which we acquired in late December 2007, has now been fully integrated with the Group and renamed K3 AX. The business opens a new complementary marketplace for us and we are investing significantly in it.

2009 has started well, with strong order intake and encouraging pipelines although it must be stressed that the underlying economic environment remains challenging.

## OUTLOOK

We believe that 2009 will be a difficult year and have already taken steps to reduce our cost base in both our Retail Software and Manufacturing Software Divisions, in line with current business activity levels. However, having established a significant presence in our core markets, we believe that K3 is better placed than many to weather the downturn. The Group generates good cash flows and the high levels of predictable annual revenues, from licence fee renewals and associated software support alone, now totals approximately £15.6m.

We have continued to invest in enhancing our core Microsoft-based product offering, both to aid our sales proposition and for margin advantage. We are also continuing to look for complementary acquisitions which will enhance our existing product range and skills.

## Tom Milne Chairman

<sup>1</sup> Calculated before amortisation of acquired intangibles of £1.88m (2007: £0.9m) and share-based payment costs of £0.10m (2007: £0.15m).

<sup>2</sup> Calculated before amortisation of acquired intangibles and related tax charge of £1.37m (2007: £0.49m), share-based payment costs and related tax charge of £0.13m (2007: £0.11m) and loss on disposal of operations including the related tax charge in 2007 of £0.14m.

<sup>3</sup> Calculated before amortisation of acquired intangibles of £0.77m (2007: £0.24m) and share-based payment costs of £0.05m (2007: £0.07m).

<sup>4</sup> Calculated before amortisation of acquired intangibles of £1.11m (2007: £0.66m) and share-based payment costs of £0.06m (2007: £0.08m).

## BUSINESS REVIEW

### CURRENT YEAR OPERATIONS SUMMARY

The Board considers the key performance indicators by which it measures the performance of the Group to be revenue, gross margin and profit from operations, adjusted for amortisation of acquired intangibles and share-based payment costs. The performance indicators used by the Group are summarised as follows:

	2008	2007
Revenue (£000)	37,619	34,146
Gross margin percentage	70%	67%
Adjusted profit from operations <sup>*1</sup> (£000)	7,348	5,760
Operating cash percentage <sup>10</sup>	87%	108%
Adjusted EPS (pence)	18.2p	16.8p
Percentage of recurring revenue	41%	36%
Staff retention percentage	83%	77%

The Group's results for the twelve months to 31 December 2008 are creditable, especially against a background of deteriorating economic conditions, which became more evident from July onwards. Total revenues increased by 10%, with recurring revenues rising by 26% over the previous year, and adjusted profit from operations<sup>\*1</sup> rose by 28%. Two key areas of focus during the year were improving margins and maximising sales to existing customers. The operating cash percentage was 87%, reduced from 103% last year, as deposits on new contracts signed towards the end of the year were at a higher level in 2007 than in 2008.

Our policy of focusing on Microsoft-based business solutions continues to serve us well and as one of the larger Microsoft business partners in the UK, we remain well placed to benefit from Microsoft's ongoing investment in the business solutions sector. K3 is a member of Microsoft's Inner Circle, which is reserved for its top 60 partners worldwide, and we continue to pursue our goal to become the UK's market leading supplier of Microsoft-based supply chain management solutions to small and medium-sized companies. We expect 2009 to be a difficult year, with the UK in recession and the Euro markets following. We have responded to this by reducing our cost base, concentrating on further margins improvement and focusing on product innovation to attract new customers.

### DIVISIONAL REVIEW

#### Retail Software Division

	2008	2007
Revenue (£000)	22,176	20,473
Gross margin percentage	60%	57%
Adjusted profit from operations <sup>*3</sup> (£000)	3,955	2,912
Percentage of recurring revenue	33%	22%
Staff retention percentage	76%	80%

The Retail Software Division specialises in the development and delivery of Microsoft Dynamics retail solutions and has operations in the UK and Holland. The Division continued to increase its customer base over the year and sales increased by 8% to £22.18m with adjusted profit from operations<sup>\*3</sup> rising by 36% over the twelve months to £3.96m. Reflecting the increase in the customer base, we closed the year with the Division's annual maintenance and support revenues up 19% at £5.0m (2007: £4.19m). The UK business generated revenue of £17.71m (2007: £18.86m) and saw a 12% increase in adjusted profit from operations<sup>\*4</sup> of £2.63m (2007: £2.34m). K3 Netherlands generated revenue of £4.47m (2007: £1.61m in four months) and adjusted profit from operations<sup>\*5</sup> of £1.33m (2007: £0.57m in four months).

It was encouraging to see our gross margin percentage rise by 3 percentage points. This was primarily due to higher sales of multi-channel software, which include our own modules, but also to the increase in higher margin support and maintenance income.

Over the year, we secured 11 significant new customer wins including Fred Perry (the fashion retailer), Evans Cycles (the UK's largest quality cycle retailer), Graham & Green (the houseware and lifestyle retailer), Beaconsfield Footwear (the specialist shoe manufacturer), The Liberation Group (the pubs and drinks distributor business) and Harding Brothers (the provider of goods and services to the leisure shipping industry). Revenue from these new deals totalled £3.9m (2007: £5.3m from 11 deals). However, with many of these deals closing in the second half, consultancy income was lower than expected at £8.7m. A major new deal, with an initial value of £1.3m, which we had expected to sign in 2008, is now at an advanced stage of negotiation. We were pleased with the results of our initiative to maximise sales to existing customers and gained significant new income from the customer base. In addition to the major expenditure on our multi-channel product, we have also enhanced our product offering in the fashion and brewery sectors with positive results as noted above.

We also invested significantly in product development at K3 Netherlands, bolstering the business's offerings in key sectors, including multi-channel, fashion, electronic point of sale ("EPOS") and customer relationship management ("CRM"). During 2008, we also invested in K3 Netherlands' sales resource to develop its presence within the Benelux fashion and general retail markets, and to capitalise on its well-established relationship with IKEA. Our IKEA relationship continues to be very strong and generated revenue of £2.55m (2007: £1.76m). This relationship represents a reliable revenue stream for the business and work with IKEA in the new financial year includes further upgrades and store openings.

### Manufacturing Software Division

	2008	2007
Revenue (£000)	15,433	13,495
Gross margin percentage	84%	84%
Adjusted operating profit <sup>6</sup> (£000)	3,654	3,417
Percentage of recurring revenue	54%	58%
Staff retention percentage	91%	74%

The Manufacturing Software Division comprises three business units: K3 Supply Chain Solutions ("SCS"), Index Computer Systems, now renamed K3 AX, and our operations at Walton-on-Thames. Together these units generated sales of £15.4m (2007: £13.5m) and an adjusted profit from operations<sup>6</sup> of £3.65m (2007: £3.42m). Recurring revenues, derived from annual licence fee renewals, rose by 5% over last year to £8.31m (2007: £7.89m).

SCS, our core business within this Division, is the sole UK distributor of the SYSPRO range of Microsoft-based enterprise resource planning ("ERP") software for manufacturing and distribution companies. Having been created from the merger of McGuffie Brunton and IEG last year, the combined business contributed sales of £10.73m (2007: £10.40m) and adjusted profit from operations<sup>7</sup> of £2.53m (2007: £2.45m) to the Division's overall results. The business has a particularly strong telesales and marketing team, with a comprehensive sales prospect database, and it secured 23 new customers during the year. Our network infrastructure services unit, launched in November 2007, is designed to enable existing customers to outsource part of their in-house IT infrastructure and so reduce costs and improve efficiency. Since its launch customer reaction has been very positive and we hope to see the operation develop further over the course of 2009. In order to underpin SCS going forward, we have reviewed its cost base and implemented changes which are anticipated to save approximately £0.6m in 2009.

Our Walton-on-Thames based manufacturing systems business unit primarily services a large user base of smaller manufacturing customers. The business continued to perform well with good demand for its implementation and support team with its expertise in specialist areas such as CRM. Services income increased from £0.4m in 2007 to £0.6m this year and we also sold £0.4m (2007: £0.5m) of software to existing and new customers. As a result, while overall revenues declined, as expected, from £3.05m to £2.70m, adjusted profit from operations<sup>8</sup> increased by 8% to £1.05m (2007: £0.97m).

K3 AX supplies Microsoft Dynamics AX software and holds the intellectual property rights for complementary modules in the food and process manufacturing vertical markets. The business contributed revenues of £2.01m (2007: one month contribution of £0.05m) and adjusted profit from operations<sup>9</sup> of £0.08m (2007: one month contribution of £0.01m). K3 AX opens up a new marketplace for us and we are making significant investment in the business, strengthening the sales and delivery teams. Deal sizes are typically large and currently we have a pipeline worth approximately £6m.

2009 has started well for the Manufacturing Software Division and, as a result of additional orders taken in the first quarter of the new financial year and cost cuts referred to above, we are seeing consultancy services operating at almost full capacity. In addition, the managed service business is continuing to grow steadily and is an ideal defensive tool for an economic downturn.

### Central Division

Central costs for the year were £0.26m (2007: £0.49m) reflecting reduction in salary costs and the increasing utilisation of central resources within the operating units.

### Outlook

Our creditable performance in 2008 reflects our work over the last two years to build a significant presence in our core markets as well as the high levels of predictable income, in the form of licence fee renewals and associated support, which is generated annually from our large customer base.

We are anticipating a tougher 2009, however, we believe opportunities for the business over the longer term remain encouraging. Additionally we are continuing to consider acquisitions which complement our existing businesses.

### Andy Makeham Chief Executive

<sup>\*1</sup> Calculated before amortisation of acquired intangibles of £1.88m (2007: £0.9m) and share-based payment costs of £0.10m (2007: £0.15m).

<sup>\*2</sup> Calculated before amortisation of acquired intangibles and related tax charge of £1.37m (2007: £0.49m), share-based payment costs and related tax charge of £0.13m (2007: £0.11m) and loss on disposal of operations including the related tax charge in 2007 of £0.14m.

<sup>\*3</sup> Calculated before amortisation of acquired intangibles of £0.77m (2007: £0.24m) and share-based payment costs of £0.05m (2007: £0.07m).

<sup>\*4</sup> Calculated before share-based payment costs of £0.05m (2007: £0.07m).

<sup>\*5</sup> Calculated before amortisation of acquired intangibles of £0.77m (2007: £0.24m).

<sup>\*6</sup> Calculated before amortisation of acquired intangibles of £1.11m (2007: £0.66m) and share-based payment costs of £0.06m (2007: £0.08m).

<sup>\*7</sup> Calculated before amortisation of acquired intangibles of £0.86m (2007: £0.65m) and share-based payment costs of £0.03m (2007: £0.05m).

<sup>\*8</sup> Calculated before share-based payment costs of £0.02m (2007: £0.04m).

<sup>\*9</sup> Calculated before amortisation of acquired intangibles of £0.24m (2007: £0.01m).

<sup>\*10</sup> Operating cash percentage is the operating cash generated divided by the adjusted operating profit.

**CONSOLIDATED INCOME STATEMENT**  
For the year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
<b>Revenue</b>		<b>37,619</b>	34,146
Cost of sales		(11,278)	(11,415)
Gross profit		<b>26,341</b>	22,731
Administrative expenses		(20,971)	(18,019)
Profit from operations before amortisation of acquired intangibles and cost of share-based payments		<b>7,348</b>	5,760
Amortisation of acquired intangibles		(1,875)	(896)
Cost of share-based payments		(103)	(152)
<b>Profit from operations</b>		<b>5,370</b>	4,712
Finance income		14	45
Finance expense		(1,430)	(1,081)
Share of profit of associates		(12)	-
Profit before taxation		<b>3,942</b>	3,676
Tax expense		(1,137)	(761)
Profit for the year		<b>2,805</b>	2,915

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

**Earnings per share**

Basic	1	<b>11.8p</b>	13.4p
Diluted	1	<b>11.7p</b>	13.1p

**CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE**  
For the year ended 31 December 2008

	2008 £'000	2007 £'000
Exchange differences on translation of foreign operations	<b>3,678</b>	1,082
Exchange difference on hedge of net investment in foreign operations	(1,956)	(536)
Loss on cash flow hedges	(271)	-
Transferred to income statement on cash flow hedges	6	-
Net profit recognised direct in equity	<b>1,457</b>	546
Profit for the year	<b>2,805</b>	2,915
Total recognised income and expense for the year	<b>4,262</b>	3,461

All of the above recognised income and expense is attributable to equity holders of the parent.

**CONSOLIDATED BALANCE SHEET**  
**As at 31 December 2008**

	Notes	<b>2008</b> <b>£'000</b>	2007 £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		1,333	1,305
Goodwill		33,225	31,494
Other intangible assets		12,075	12,282
Deferred tax assets		244	466
Investment in associates		222	-
<b>Total non-current assets</b>		<b>47,099</b>	<b>45,547</b>
<b>Current assets</b>			
Trade and other receivables		10,690	10,984
Cash and cash equivalents		2,828	3,085
<b>Total current assets</b>		<b>13,518</b>	<b>14,069</b>
<b>Total assets</b>		<b>60,617</b>	<b>59,616</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Long-term borrowings	4	10,346	12,437
Other non-current liabilities	3	25	564
Deferred tax liabilities		3,343	3,508
<b>Total non-current liabilities</b>		<b>13,714</b>	<b>16,509</b>
<b>Current liabilities</b>			
Trade and other payables	2	13,229	14,704
Current tax liabilities		312	639
Short-term borrowings	4	5,494	4,043
<b>Total current liabilities</b>		<b>19,035</b>	<b>19,386</b>
<b>Total liabilities</b>		<b>32,749</b>	<b>35,895</b>
<b>EQUITY</b>			
Share capital		5,939	5,926
Share premium account	5	1,619	1,588
Other reserves	5	10,448	10,448
Cashflow hedging reserve	5	(265)	-
Translation reserve	5	2,253	531
Retained earnings	5	7,874	5,228
<b>Total equity attributable to equity holders of the parent</b>		<b>27,868</b>	<b>23,721</b>
<b>Total equity and liabilities</b>		<b>60,617</b>	<b>59,616</b>

**CONSOLIDATED CASHFLOW STATEMENT**  
**For the year ended 31 December 2008**

	<b>2008</b>	2007
	<b>£'000</b>	£'000
<b>Cash flows from operating activities</b>		
Profit before tax	3,942	3,676
Adjustments for:		
Share-based payments charge	103	152
Depreciation of property, plant and equipment	323	308
Amortisation of intangible assets and development expenditure	2,135	1,078
Profit on sale of property, plant and equipment	(11)	(4)
Loss on sale of disposal group	-	121
Interest received	(14)	(45)
Interest expense	1,430	1,081
Share of (profits) losses of associates	12	-
Decrease in trade and other receivables	153	594
Decrease in trade and other payables	(1,698)	(733)
Cash generated from operations	6,375	6,228
Interest paid	(1,323)	(1,243)
Income taxes paid	(1,614)	(2,074)
Net cash generated from operating activities	3,438	2,911
<b>Cash flows from investing activities</b>		
Acquisition of subsidiaries, net of cash acquired	(58)	(19,068)
Acquisition of associates	(234)	-
Development expenditure capitalised	(1,004)	(372)
Proceeds from sale of trade investments	-	1,398
Proceeds from sale of disposal group	-	1,081
Purchase of property, plant and equipment	(330)	(271)
Proceeds from sale of property, plant and equipment	19	51
Interest received	14	45
Net cash absorbed by investing activities	(1,593)	(17,136)
<b>Cash flows from financing activities</b>		
Proceeds from issue of share capital	24	263
Proceeds from long-term borrowings	-	16,586
Proceeds from loans from related parties	1,000	-
Payment of long-term borrowings	(3,591)	(1,915)
Payment of finance lease liabilities	(43)	(125)
Dividends paid	(119)	-
Net cash (absorbed) generated from financing activities	(2,729)	14,809
<b>Net change in cash and cash equivalents</b>	<b>(884)</b>	584
Cash and cash equivalents at start of year	3,085	2,267
Exchange gains on cash and cash equivalents	627	234
<b>Cash and cash equivalents at end of year</b>	<b>2,828</b>	3,085

## NOTES

### 1. Earnings per share

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

	2008 Number of shares	2007 Number of shares
<i>Denominator</i>		
Weighted average number of shares used in basic EPS	23,675,195	21,695,518
Effects of:		
Employee share options and warrants	339,517	641,022
Weighted average number of shares used in diluted EPS	24,014,712	22,336,540

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 year. In addition, certain employee options have also been excluded from the calculation of diluted EPS as their exercise price is greater than the weighted average share price during the year (i.e. they are out-of-the-money) and therefore would not be advantageous for the holders to exercise those options.

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 (losses) and the above number of shares.

	Earnings	2008 Per share amount Basic	Per share amount Diluted	Earnings	2007 Per share amount Basic	Per share amount Diluted
	£000	p	p	£000	p	p
<i>Numerator</i>						
Profit for the year (for both basic and diluted EPS)	2,805	11.8	11.7	2,915	13.4	13.1
Add back:						
Amortisation of acquired intangibles (net of tax)	1,371	5.8	5.7	492	2.3	2.2
Share-based payments (net of tax)	128	0.6	0.5	106	0.5	0.4
Loss on sale of disposal group (net of tax)	-	-	-	137	0.6	0.6
Adjusted EPS	4,304	18.2	17.9	3,650	16.8	16.3

The loss on sale of a disposal group (net of tax) in 2007 relates to Elucid on which the pre-tax loss was £0.12m and the tax charge was £0.02m.

## 2. Trade and other payables – current

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
Trade payables	2,106	2,733
Other tax and social security taxes	2,740	2,694
Other payables	307	623
Contingent consideration	25	320
Derivative financial instruments	325	-
Accruals	2,651	3,458
Total financial liabilities, excluding loan and borrowings, classified as financial liabilities measured at amortised cost	<u>8,154</u>	<u>9,828</u>
Deferred revenue	5,075	4,876
	<u>13,229</u>	<u>14,704</u>

## 3. Other non-current liabilities

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
Contingent consideration	25	474
Other payables	-	90
	<u>25</u>	<u>564</u>

## 4. Loans and borrowings

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
<b>Non-current</b>		
Bank loans (secured)	10,309	12,378
Finance lease creditors	37	59
	<u>10,346</u>	<u>12,437</u>
<b>Current</b>		
Bank loans (secured)	3,818	3,346
Finance lease creditors	22	43
Loans from related parties	1,654	654
	<u>5,494</u>	<u>4,043</u>
<b>Total borrowings</b>	<u>15,840</u>	<u>16,480</u>

## 5. Reserves

	<b>Share premium</b>	<b>Other reserve</b>	<b>Translation reserve</b>	<b>Cashflow hedging reserve</b>	<b>Retained earnings</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£000</b>	<b>£'000</b>
At 1 January 2008	1,588	10,448	531	-	5,228
Share-based payment debit	-	-	-	-	(20)
Options exercised	31	-	-	-	-
Own shares acquired	-	-	-	-	(20)
Dividends to equity holders	-	-	-	-	(119)
Change in fair value of hedging derivatives	-	-	-	(265)	-
Net investment hedge	-	-	(1,956)	-	-
Translation differences on overseas operations	-	-	3,678	-	-
Profit for the year	-	-	-	-	2,805
At 31 December 2008	<u>1,619</u>	<u>10,448</u>	<u>2,253</u>	<u>(265)</u>	<u>7,874</u>

6. The Board recommends the payment of a dividend of 0.5p per share (2007: 0.5p) to be payable to shareholders on the register on 12 June 2009.
7. The financial information set out above does not comprise the Company's statutory accounts. Statutory accounts for the previous financial year ended 31 December 2007 have been delivered to the Registrar of Companies. The auditors have reported on those accounts; their report was unqualified and did not include references to any matters to which the auditors drew attention by way of emphasis of matter without qualifying their opinion and did not contain any statement under section 237(2) or (3) of the Companies Act 1985. The auditors have given an unqualified opinion on the accounts for the year ended 31 December 2008; their report did not include references to any matters to which the auditors drew attention by way of emphasis of matter without qualifying their opinion and it did not contain any statement under section 237(2) or (3) of the Companies Act 1985. These will be delivered to the Registrar of Companies following the annual general meeting.
8. The Group's full statutory financial statements for 31 December 2008 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 1985 applicable to companies preparing their accounts under endorsed IFRS.
9. This preliminary announcement was approved by the Board of directors on 17 March 2009.
10. The full financial statements will be posted to shareholders on or around 20 April 2009. Further copies will also be available on its website [www.k3btg.com](http://www.k3btg.com) and from the Company's registered office at Linden Business Centre, Linden Road, Colne, Lancashire, BB8 9BA from that date.