



K3 BUSINESS TECHNOLOGY GROUP PLC
("K3" or "the Group")

Announces

Unaudited
Half Yearly Report
For the six months to 30 June 2009

Key Points

- Encouraging results in more difficult trading environment demonstrate resilience of the business
- Revenue of £15.9m (2008: £17.1m)
- Adjusted profit from operations of £1.54m (2008: £2.32m)
- Profit from operations of £0.68m (2008: £1.51m)
- Cash generated from operations of £0.48m (2008: outflow of £0.63m), an improvement of £1.1m
- Adjusted EPS of 3.1p (2008: 5.6p). Basic EPS of 0.5p (2008: 3.1p)
- Core manufacturing and retail software business units performed robustly, offsetting weaker performances from other units
- Cost base reduction ongoing; expected to deliver annualised savings in excess of £1m
- Growing library of own Intellectual Property will strengthen margins
- New business pipeline remains encouraging in tough market conditions
 - good progress being made on key deals for H2
- Board views prospects for the Group positively and continues to seek complementary acquisitions

Commenting on the results, Tom Milne, Chairman of K3, said,

"Market conditions have been very challenging and the impact of this is evident in our results for the first half of the year. Nonetheless, the Group's overall performance has been encouraging in the face of the downturn and broadly in line with management expectations. Although new business has been tougher, new contract wins within our two core business units were pleasing and will help underpin services income into the second half.

While the trading environment is expected to remain difficult, there is a high degree of resilience to the business, with a significant proportion of the Group's revenue underpinned by high levels of predictable income arising from annual software licence renewals and maintenance income. In addition, as we enter the second half of the financial year, the Group's new business sales pipelines look stronger and cash generation remains healthy. We are also continuing to look for complementary acquisitions."

Notes:

Adjusted profit from operations is calculated before amortisation of acquired intangibles of £0.81m (2008: £0.75m) and share-based payments of £0.06m (2008: £0.06m).

Adjusted EPS is calculated before amortisation of acquired intangibles (net of tax) of £0.58m (2008: £0.54m) and share-based payments (net of tax) of £0.04m (2008: £0.04m).

Basic EPS is calculated after amortisation of acquired intangibles (net of tax) of £0.58m (2008: £0.54m) and cost of share based payments (net of tax) of £0.04m (2008: £0.04m). As in prior years, basic earnings per share are expected to rise significantly in the second half of the year, reflecting the impact of the second half weighting of profit generation from our manufacturing business.

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K3 BUSINESS TECHNOLOGY GROUP PLC CHAIRMAN'S STATEMENT

OVERVIEW

Market conditions have been very challenging and the impact of this is evident in our results for the first half of the year. Nonetheless, the Group's overall performance has been encouraging in the face of the downturn and broadly in line with management expectations, with revenues of £15.9m and adjusted profit from operations¹ of £1.54m. In addition, cash generation remains strong.

Lower than predicted services revenue affected results in the first quarter. This largely reflected the late closure of orders in 2008. Services income returned to satisfactory levels in the second quarter. Although new business has been tougher, new contract wins within our two core business units were very pleasing and will help underpin services income in the second half. A total of 24 new contracts were signed across the Group in the first half, with an aggregate contract value of £4.5m compared to 20, worth a total of £2.4m, in the same period last year.

During 2008, in response to the slowdown, we embarked on an overhead reduction programme. This continued into 2009, at a cost of £0.2m in the first half but the programme should benefit second half results by up to £0.65m and is expected to deliver savings in excess of £1m in a full year. We are continuing to seek improved efficiencies across the businesses and to deliver further cost saving initiatives throughout the Group.

Over recent years, we have been increasingly focused on developing additional software modules to enhance our Microsoft Dynamics and other Microsoft-based product offerings. The strategy of 'Developing Dynamics' to extend the footprint of the core Dynamics product into our prime supply chain markets helps to create both a competitive edge and to improve our margins. We now own an extensive and growing library of Intellectual Property ("IP") to sell to our customer base and which, in due course, we could consider distributing through other global Microsoft partners.

Looking ahead over the remainder of the year, while the trading environment is expected to remain difficult, there is a high degree of resilience to the business, with a significant proportion of the Group's revenue arising from annual software licence renewals and maintenance fees. It should be noted though that a major part of these predictable, recurring revenue streams fall in the second half of the year and, more specifically, in the last financial quarter. This, coupled with the benefit of our cost initiatives, helps underpin our expectations in the second half. The sales pipelines in our two core businesses are encouraging and the Group remains strongly cash generative. By the end of 2009, we expect net debt to reduce to approximately £9m (31 December 2008: £13.0m).

We continue to look for complementary acquisitions.

FINANCIAL RESULTS

For the six months to 30 June 2009, the Group generated revenue of £15.9m (2008: £17.1m), with the Retail Software Division contributing £9.83m (2008: £10.45m) and the Manufacturing Software Division contributing £6.12m (2008: £6.66m) to this result.

Adjusted profit from operations^{*1} was £1.54m (2008: £2.32m) while profit from operations was £0.68m (2008: £1.51m).

Profit before tax was £0.13m (2008: £0.91m). Adjusted earnings per share^{*2} were 3.1p (2008: 5.6p). After amortisation of acquired intangibles (net of tax) of £0.58m (2008: £0.54m) and cost of share based payments (net of tax) of £0.04m (2008: £0.04m), basic earnings per share were 0.5p (2008: 3.1p). As in the prior year, earnings per share are expected to rise significantly in the second half of

the financial year, reflecting the impact of the second half weighting of annual software licence fees in our Manufacturing Software Division.

The tax charge of £0.02m includes the benefit of £0.15m credit relating to deferred tax on acquired intangibles (2008: £0.17m).

At 30 June 2009, the Group had an overdraft of £0.68m (2008: £0.77m) and bank loans of £12.16m (2008: £15.19m). In the second half, we expect strong cash flow arising from customers' annual software licence fee renewals and maintenance and support renewals, specifically in our Manufacturing Software Division, where we expect to bill in excess of £6m in October.

Dividends

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

OPERATIONAL REVIEW

Retail Software Division

Revenue at the Retail Software Division in the first half of the financial year decreased by 6% to £9.83m (2008: £10.45m) and adjusted profit from operations^{*3} was £1.16m (2008: £1.61m). The UK business performed robustly in difficult market conditions and although revenue decreased to £7.80m (2008: £8.02m), the adjusted profit from operations^{*4} increased by 9% to £0.85m (2008: £0.78m). This was as a result of both tight financial management and the margin benefit arising from owning IP. The UK operation closed £2.0m of new business contracts in the first half (2008: £1.2m) and I am pleased to report that it has a strong pipeline in the second half.

Our Netherland-based business, K3 Nederland, contributed £2.02m (2008: £2.43m) to revenue and £0.31m (2008: £0.83m) to adjusted profit from operations^{*5}. The impact of the credit crunch and subsequent recession in Europe lagged behind the UK, with the downturn being felt predominantly in the first half of this year rather than the second half of last year. Despite this, K3 Nederland closed two new business contracts in the period, the benefits of which will come through in the second half and beyond. We have also made changes to the senior management team, which will strengthen the business.

We have continued to develop our own IP throughout the first half and our library of IP now includes a full multi-channel offering with call centre management, online ordering, internet kiosks and .net point of sale capability, all integrated into the Division's core Dynamics Enterprise Resource Planning ("ERP") offering. We have also developed our own IP within the fashion and brewing sectors as well as further software modules for electronic funds transfer, business information, mobile technology, sales portals, customer relationship management and fiscal solutions for a number of territories.

As we enter the second half of the financial year, we have preferred supplier status on a number of key deals and are starting to see some movement on a number of projects that have been deferred over the past 12 months.

Manufacturing Software Division

Revenue at the Manufacturing Software Division was £6.12m (2008: £6.66m) and adjusted profit from operations^{*6} was £0.53m (2008: £1.02m). K3 Supply Chain Solutions ("SCS"), our Syspro business which we reorganised at the beginning of the year, performed strongly, contributing revenue of £4.1m (2008: £4.1m) and adjusted operating profit^{*7} of £0.38m (2008: £0.28m). The business closed 14 new deals over the period, worth a total of £2.1m (2008: 10 worth £1.1m) with the average contract sizes increasing significantly. As previously mentioned, results from SCS, which represent our core activity within the Division, are heavily weighted towards the second half of the year when over £6m annual software licences and support contracts are invoiced in October.

Our Microsoft Dynamics AX business (specialising in process manufacturing) underperformed as new business deals were deferred. As a result, sales reduced to £0.80m (2008: £1.14m) producing an adjusted loss^{*8} of £0.3m (2008: £0.18m profit). We have taken action to reduce the cost base and have refreshed the sales team. The pipeline of potential new business looks strong and there are a number of deals at an advanced stage which could benefit results in the second half.

Our Walton-on-Thames business generated sales of £1.26m (2008: £1.45m) and adjusted operating profits^{*9} of £0.45m (2008: £0.56m). The business saw one major upgrade in the year, with the conversion of a customer's existing legacy system to Syspro. Contracted orders and interest in our Microsoft CRM based solutions are increasing and we are investing further in this area in the second half.

Our library of IP in the Manufacturing Software Division now includes software for advanced planning and scheduling, warehouse management, delivery route planning, recipe management, personnel, and time and attendance systems.

Central Costs

Central costs decreased from £0.31m to £0.14m as we achieved reductions to the central cost base, a process which continues. Our share of associated company losses in the period was £0.024m (2008: nil).

OUTLOOK

The outlook for the second half is encouraging with the benefit of increased service activity from deals closed in the first half as well as improving margins and stronger new business pipelines. In the current environment, the Group's resilience is very evident, underpinned by high levels of predictable income (software licence renewals and maintenance income), which coupled with account management income represent approximately 75% of our annualised revenues in 2008, a level that we see continuing in 2009, even when our new business wins are taken into account.

Cash generation remains strong and our borrowings are expected to be around £9m at the year-end (31 December 2008: £13.0m).

We continue to seek complementary acquisitions in our marketplace where we see increasing opportunities for consolidation. Meanwhile, we consider that the Group remains well-positioned to make good progress in the second half of the year and beyond.

Tom Milne Chairman

- *1 calculated before amortisation of acquired intangibles of £0.81m (2008: £0.75m) and share-based payments of £0.06m (2008: £0.06m)
- *2 calculated before amortisation of acquired intangibles (net of tax) of £0.58m (2008: £0.54m) and share-based payments (net of tax) of £0.04m (2008: £0.04m)
- *3 calculated before amortisation of acquired intangibles of £0.43m (2008: £0.37m) and share-based payments of £0.03m (2008: £0.03m)
- *4 calculated before share-based payments of £0.03m (2008: £0.03m)
- *5 calculated before amortisation of acquired intangibles of £0.43m (2008: £0.37m)
- *6 calculated before amortisation of acquired intangibles of £0.38m (2008: £0.38m) and share-based payments of £0.03m (2008: £0.03m)
- *7 calculated before amortisation of acquired intangibles of £0.26m (2008: £0.26m) and share-based payments of £0.02m (2008: £0.02m)
- *8 calculated before amortisation of acquired intangibles of £0.12m (2008: £0.12m)
- *9 calculated before share-based payments of £0.01m (2008: £0.01m)

K3 BUSINESS TECHNOLOGY GROUP PLC

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2009

	Notes	Unaudited Six months to 30 June 2009 £'000	Unaudited Six months to 30 June 2008 £'000	Audited Year to Dec 2008 £'000
Revenue		15,941	17,109	37,619
Profit from operations before amortisation of acquired intangibles and cost of share-based payments		1,542	2,321	7,348
Amortisation of acquired intangibles		(812)	(750)	(1,875)
Cost of share-based payments		(55)	(61)	(103)
Profit from operations		675	1,510	5,370
Finance income		5	19	14
Finance expense		(525)	(621)	(1,430)
Share of loss of associate		(24)	-	(12)
Profit before taxation		131	908	3,942
Tax expense	2	(23)	(166)	(1,137)
Profit for the period		108	742	2,805

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

Earnings per share	3			
Basic		0.5p	3.1p	11.8p
Diluted		0.5p	3.1p	11.7p

K3 BUSINESS TECHNOLOGY GROUP PLC**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the six months ended 30 June 2009

	Unaudited Six months to 30 June 2009	Unaudited Six months to 30 June 2008	Audited Year to 31 Dec 2008
Notes			
	£'000	£'000	£'000
Profit for the period	108	742	2,805
Other comprehensive (expense) income			
Exchange differences on translation of foreign operations	(1,962)	874	3,678
Net investment hedge	888	(467)	(1,956)
Cash flow hedges	40	-	(265)
Other comprehensive (expense) income, net of tax	(1,034)	407	1,457
Total comprehensive (expense) income for the period	(926)	1,149	4,262

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

K3 BUSINESS TECHNOLOGY GROUP PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2009

		Unaudited As at 30 June 2009	Unaudited As at 30 June 2008	Audited As at 31 Dec 2008
	Notes	£'000	£'000	£'000
ASSETS				
Non-current assets				
Property, plant and equipment		1,211	1,398	1,333
Goodwill		32,011	31,677	33,225
Other intangible assets		11,095	12,071	12,075
Deferred tax assets		272	391	244
Investments in associates		198	210	222
Total non-current assets		44,787	45,747	47,099
Current assets				
Trade and other receivables		9,559	9,683	10,690
Current tax assets		83	-	-
Cash and cash equivalents		-	-	2,828
Total current assets		9,642	9,683	13,518
Total assets		54,429	55,430	60,617
LIABILITIES				
Non-current liabilities				
Long-term borrowings	4	8,594	12,811	10,346
Other non-current liabilities	5	-	334	25
Deferred tax liabilities		3,104	3,503	3,343
Total non-current liabilities		11,698	16,648	13,714
Current liabilities				
Trade and other payables	6	10,810	9,962	13,229
Current tax liabilities		-	180	312
Short-term borrowings	4	4,937	3,877	5,494
Total current liabilities		15,747	14,019	19,035
Total liabilities		27,445	30,667	32,749
EQUITY				
Share capital		5,939	5,939	5,939
Share premium account		1,619	1,619	1,619
Other reserves		10,448	10,448	10,448
Cashflow hedging reserve		(225)	-	(265)
Translation reserve		1,179	938	2,253
Retained earnings		8,024	5,819	7,874
Total equity attributable to equity holders of the parent		26,984	24,763	27,868
Total equity and liabilities		54,429	55,430	60,617

K3 BUSINESS TECHNOLOGY GROUP PLC**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the six months ended 30 June 2009

	Unaudited Six months to 30 June 2009	Unaudited Six months to 30 June 2008	Audited Year to 31 Dec 2008
	£'000	£'000	£'000
Cash flows from operating activities			
Profit before tax	131	908	3,942
Adjustments for:			
Share based payments charge	55	61	103
Depreciation of property, plant and equipment	143	166	323
Amortisation of intangible assets and development expenditure	1,060	859	2,135
Profit on sale of property, plant and equipment	-	-	(11)
Interest received	(5)	(19)	(14)
Interest expense	525	621	1,430
Share of losses of associate	24	-	12
Decrease in trade and other receivables	865	1,304	153
Decrease in trade and other payables	(2,323)	(4,530)	(1,698)
Cash generated from (absorbed by) operations	475	(630)	6,375
Interest paid	(538)	(664)	(1,323)
Income taxes paid	(579)	(640)	(1,614)
Net cash (absorbed by) generated from operating activities	(642)	(1,934)	3,438
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	(25)	(47)	(58)
Acquisition of associates	-	(210)	(234)
Development expenditure capitalised	(509)	(424)	(1,004)
Purchase of property, plant and equipment	(33)	(259)	(330)
Proceeds from sale of property, plant and equipment	-	-	19
Interest received	5	19	14
Net cash absorbed by investing activities	(562)	(921)	(1,593)
Cash flows from financing activities			
Net proceeds from issue of share capital	(13)	35	24
Proceeds from short-term borrowings	-	-	1,000
Payment of short-term borrowings	(1,000)	-	-
Payment of long-term borrowings	(1,099)	(1,022)	(3,591)
Payment of finance lease liabilities	(10)	(33)	(43)
Dividends paid	-	(119)	(119)
Net cash absorbed by financing activities	(2,122)	(1,139)	(2,729)
Net change in cash and cash equivalents	(3,326)	(3,994)	(884)
Cash and cash equivalents at start of period	2,828	3,085	3,085
Exchange (losses) gains on cash and cash equivalents	(186)	132	627
Cash and cash equivalents at end of period	(684)	(777)	2,828

K3 BUSINESS TECHNOLOGY GROUP PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009

	Share capital	Share premium	Other reserve	Cashflow hedging reserve	Translation reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2008	5,926	1,588	10,448	-	531	5,228	23,721
Changes in equity for six months ended 30 June 2008							
Share-based payment debit	-	-	-	-	-	(23)	(23)
Options exercised	13	31	-	-	-	-	44
Own shares acquired	-	-	-	-	-	(9)	(9)
Dividends to equity holders	-	-	-	-	-	(119)	(119)
Total comprehensive income for the period	-	-	-	-	407	742	1,149
At 30 June 2008	5,939	1,619	10,448	-	938	5,819	24,763
Changes in equity for six months ended 31 December 2008							
Share-based payment credit	-	-	-	-	-	3	3
Own shares acquired	-	-	-	-	-	(11)	(11)
Total comprehensive income for the period	-	-	-	(265)	1,315	2,063	3,113
At 31 December 2008	5,939	1,619	10,448	(265)	2,253	7,874	27,868
Changes in equity for six months ended 30 June 2009							
Share-based payment credit	-	-	-	-	-	55	55
Own shares acquired	-	-	-	-	-	(13)	(13)
Total comprehensive income for the period	-	-	-	40	(1,074)	108	(926)
At 30 June 2009	5,939	1,619	10,448	(225)	1,179	8,024	26,984

K3 BUSINESS TECHNOLOGY GROUP PLC

NOTES TO THE HALF-YEAR STATEMENT

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 ended 31 December 2009 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 31 December 2008. These are based on the recognition and measurement principles of IFRS in issue as adopted by the European Union (EU) and are effective at 31 December 2009 or are expected to be adopted and effective at 31 December 2009. 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 presentational requirements of IAS 1 (revised) have been adopted in these interim statements as this standard will be effective for the Group's full year financial statements to 31 December 2009. IFRS 8 Operating Segments will also be adopted in the Group's full year financial statements to 31 December 2009. The adoption of these standards will have no impact on the results or net assets of the Group.

The financial information in this statement relating to the six months ended 30 June 2009 and the six months ended 30 June 2008 has neither been audited nor reviewed pursuant to guidance issued by the Auditing Practices Board. The comparative figures for the year ended 31 December 2008 do not amount to full statutory accounts within the meaning of section 240 of the Companies Act 1985. Those accounts have been reported on by the group's auditors and delivered to the registrar of companies. The audit report was unqualified, did not include references to matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

2. Tax expense

	Unaudited Six months to 30 June 2009 £'000	Unaudited Six months to 30 June 2008 £'000	Audited Year to 31 Dec 2008 £'000
Current tax expense			
UK corporation tax and income tax of overseas operations on profits for the period	203	330	1,344
Adjustment in respect of prior periods	(31)	(88)	84
Total current tax expense	172	242	1,428
Deferred tax expense			
Origination and reversal of temporary differences	(149)	(76)	(280)
Effect of change in rate of deferred tax	-	-	(11)
Total deferred tax expense	(149)	(76)	(291)
Total tax expense	23	166	1,137

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 30 June 2009 Number of shares	Unaudited Six months to 30 June 2008 Number of shares	Audited Year to 31 Dec 2008 Number of shares
Weighted average number of shares:			
For basic earnings per share	23,675,469	23,672,029	23,675,195
Effects of employee share options and warrants	3,582	556,285	339,517
For diluted earnings per share	23,679,051	24,228,314	24,014,712

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 30 June 2009			Unaudited six months to 30 June 2008			Audited year to 31 December 2008		
	Earnings	Per share amount Basic	Per share amount Diluted	Earnings	Per share amount Basic	Per share amount Diluted	Earnings	Per share amount Basic	Per share amount Diluted
	£'000	p	p	£'000	p	p	£'000	p	p
Earnings per share (eps)	108	0.5	0.5	742	3.1	3.1	2,805	11.8	11.7
Amortisation of acquired intangibles (net of tax)	584	2.4	2.4	540	2.3	2.2	1,371	5.8	5.7
Share-based payments (net of tax)	40	0.2	0.2	43	0.2	0.2	128	0.6	0.5
Adjusted eps	732	3.1	3.1	1,325	5.6	5.5	4,304	18.2	17.9

4. **Loans and borrowings**

	Unaudited	Unaudited	Audited
	As at	As at	As at
	30 June	30 June	31 Dec
	2009	2008	2008
	£'000	£'000	£'000
Non-current			
Bank loans	8,569	12,762	10,309
Finance lease creditors	25	49	37
	8,594	12,811	10,346
Current			
Bank loans and other facilities	4,273	3,203	3,818
Finance lease creditors	24	20	22
Loans from related parties	640	654	1,654
	4,937	3,877	5,494
Total borrowings	13,531	16,688	15,840

5. **Other non-current liabilities**

	Unaudited	Unaudited	Audited
	As at	As at	As at
	30 June	30 June	31 Dec
	2009	2008	2008
	£'000	£'000	£'000
Contingent consideration	-	267	25
Other	-	67	-
	-	334	25

6. **Trade and other payables**

	Unaudited	Unaudited	Audited
	As at	As at	As at
	30 June	30 June	31 Dec
	2009	2008	2008
	£'000	£'000	£'000
Trade payables	2,867	2,329	2,106
Other payables	257	341	307
Contingent consideration	25	50	25
Derivative financial instruments	295	-	325
Accruals	1,779	1,974	2,651
Total financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost	5,223	4,694	5,414
Other tax and social security taxes	2,178	1,725	2,740
Deferred revenue	3,409	3,543	5,075
	10,810	9,962	13,229

7. The above information is being sent to the shareholders and is available from the Company's website, www.k3btg.com, and from its registered office: Baltimore House, 50 Kansas Avenue, Manchester M50 2GL.