

KBT
8 March 2010

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

Unaudited Second Interim Statement
Covering
the 12 months to 31 December 2009
and
the six months to 31 December 2009

KEY POINTS

Following the change of accounting year end from 31 December to 30 June, announced in December 2009, K3 is issuing a second unaudited interim statement. This statement covers both the 12 month period to 31 December 2009 and the six month period to 31 December 2009. Comparative data is provided for both periods.

Financial Key Points

- Excellent trading results against a difficult economic backdrop
 - £11.3m of major new orders signed in 2009 (2008: £6.4m); significant weighting to final quarter
- Revenue - £39.46m for 12 months to 31 December 2009 (2008: £37.62m) /for six months to 31 December 2009, £23.52m (2008: £20.51m)
- Adjusted profit from operations - £7.01m for the 12 month period (2008: £7.35m) /for the six month period, £5.47m (2008: £5.03m). Late closing of deals together with impact of sales mix reduced margins

Profit from operations - £5.01m for the 12 month period (2008: £5.37m) /for the six months, £4.34m (2008: £3.86m)

- Profit before tax - £4.04m for the 12 month period (2008: £3.94m) /for the six month period, £3.91m (2008: £3.03m)
- Very strong operating cash generation - £8.92m for the 12 month period (2008: £6.38m), boosted by customer deposits on software deals. For the six month period, cash generation of £8.44m (2008: £7.01m)
- Net debt – down by 59% to £5.38m at 31 December 2009 (2008: £13.01m)
- Dividend - 0.5p per share declared, giving a total dividend for the 12 month period of 0.5p (2008: 0.5p)
- Adjusted EPS – 18.2p for the 12 month period (2008: 18.2p) /for the six month period, 14.9p (2008: 12.3p)

Basic EPS – 12.3p for the 12 month period (2008: 11.8p) /for the six month period, 11.6p (2008: 8.7p)

Operational Key Points

- Very strong level of major new orders, with a number of deals secured against competition from SAP, IBM and Oracle
 - Retail Software Division won 11 major new deals, totalling £7.0m (2008: £4.0m)
 - Manufacturing Software Division won 23 major new deals, totalling £4.3m (2008: £2.4m)
- Intellectual Property portfolio continues to grow
- New business pipeline remains encouraging
- Post period end, two acquisitions completed, DigiMIS and Pebblestone (announced today in a separate statement)
- Board views prospects for the Group very positively

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

“Against a difficult economic backdrop, we are very pleased with K3’s performance over the year to 31 December 2009. Results were supported by the high levels of predictable income the Group enjoys from annual software licence renewals and maintenance income, which will continue in 2010. However, what is especially pleasing about these results is the number and size of new business wins which the Group secured over the year, and especially in the final quarter of 2009. A number of these new contracts we signed for our Microsoft Dynamics and Syspro ERP systems were secured against competition from SAP, IBM and Oracle.

Although markets are likely to remain tough, the outlook for the next six months is encouraging. New business pipelines across both our Divisions are strong and K3 should also benefit from increased service activity arising from the new orders closed at the end of 2009 and improving margins.

The two acquisitions we have made since the period end, in March 2010, help us to move K3 forward both strategically and at the earnings level. We will continue to seek further complementary acquisitions.

We continue to view the K3’s prospects very positively.”

Notes:

Adjusted profit from operations for the six months ended 31 December 2009 is calculated before amortisation of acquired intangibles of £1.15m (2008: £1.13m) and share-based payments credit of £0.02m (2008: cost of £0.04m).

Adjusted profit from operations for the twelve months ended 31 December 2009 is calculated before amortisation of acquired intangibles of £1.96m (2008: £1.88m) and share-based payments of £0.04m (2008: £0.10m).

Adjusted EPS for the six months ended 31 December 2009 is calculated before amortisation of acquired intangibles (net of tax) of £0.83m (2008: £0.83m) and a credit to share-based payments (net of tax) of £0.01m (2008: cost of £0.03m). Adjusted EPS for the twelve months ended 31 December 2009 is calculated before amortisation of acquired intangibles (net of tax) of £1.41m (2008: £1.37m) and cost of share-based payments (net of tax) of £0.03m (2008: £0.13m).

Basic EPS for the six months ended 31 December 2009 is calculated after amortisation of acquired intangibles (net of tax) of £0.83m (2008: £0.83m) and a credit to share based payments (net of tax) of £0.01m (2008: cost of £0.03m). Basic EPS for the twelve months ended 31 December 2009 is calculated after amortisation of acquired intangibles (net of tax) of £1.41m (2008: £1.37m) and the cost of share based payments (net of tax) of £0.03m (2008: cost of £0.13m).

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K3 BUSINESS TECHNOLOGY GROUP PLC

CHAIRMAN'S STATEMENT

OVERVIEW

Against a difficult economic backdrop, we are very pleased with K3's performance over the year to 31 December 2009. Results were supported by the high levels of predictable income the Group enjoys from annual software licence renewals and maintenance income, which will continue in 2010. However, what is especially pleasing about these results is the number and size of new business wins which the Group secured over the year and especially in the final quarter of 2009.

In total, K3 won 52 new contracts in the twelve month period to 31 December 2009. Of these, 34 were major contracts, worth a combined £11.3m. By comparison, in the same period in 2008, we signed a total of 47 new contracts, 35 of which were large deals with a combined value of £6.4m. I am also pleased to report that a number of the new contracts which we signed for our Microsoft Dynamics and Syspro ERP systems were secured against competition from SAP, IBM and Oracle. This seems to indicate that customers are now looking for more cost-effective ERP solutions, which is a trend that plays to our advantage. The benefits of our wins in 2009 however are not fully reflected in the trading results for the 12 months under review, especially given the timing of the closure of some of the larger contracts and the commencement of implementations.

Revenue for the 12 months to 31 December 2009 was £39.46m, up by 5% against the same period last year, with the adjusted profit from operations*¹ a highly creditable £7.01m although down by 5% year on year. This reduction partly reflected the sales mix which, in 2009, included larger contracts with increased levels of lower margin hardware than the historical mix; it also reflected lower levels of services income and delays in deals closing. However, the implementation of these new contracts through 2010 should deliver improved margins once initial workshop phases are complete by mid March 2010. Adjusted profit from operations for the six months to 31 December 2009 was £5.47m (2008: £5.03m).

Cash generation was exceptionally strong, with £8.92m generated from operations in the 12 month period (2008: £6.38m). £8.44m of cash was generated in the last six months of 2009, when the majority of our large deals closed and customer deal deposits came through (2008: £7.01m). I am also pleased to report that the Group's net debt has been substantially reduced. We made some £4.69m of loan repayments and net debt at 31 December 2009 stood at £5.38m against £13.01m at the same point in 2008. In addition, we have agreed an increase in our banking facilities on improved terms.

In the first week of March 2010, we were delighted to announce the acquisition of DigiMIS Limited in the UK, and today we are pleased to announce a second acquisition, that of Pebblestone Netherlands in Holland. Both are highly complementary and synergistic. The acquisition of DigiMIS is strategically important, enabling us to offer hosting services and adding critical mass to our existing managed services operation. Pebblestone increases our presence in the fashion sector and brings strong recurring maintenance and account management revenues.

We are continuing to grow our library of Intellectual Property ("IP") to sell to our customer base and are investing, in particular, in Retail AX, following the recent strategic investments made by Microsoft.

FINANCIAL RESULTS

In December 2009, we announced that K3's financial year end would be changing from 31 December to 30 June, with the objective of bringing K3's year end into line with that of Microsoft Corporation and providing shareholders with greater visibility on full year results since the majority of K3's revenues typically fall in the second half of the calendar year. As a result of the change, this report comprises the second unaudited interim results, covering the 12 month period to 31 December 2009 as well as the six month period to 31 December 2009.

Results for the 12 months to 31 December 2009

For the twelve months to 31 December 2009, the Group generated revenues of £39.46m (2008: £37.62m), with the Retail Software Division contributing £23.08m (2008: £22.18m) and the Manufacturing Software Division contributing £16.38m (2008: £15.43m) to this result.

Adjusted profit from operations^{*1} for the 12 month period was £7.01m (2008: £7.35m) and the profit from operations was £5.01m (2008: £5.37m).

The profit before tax was £4.04m (2008: £3.94m) and adjusted earnings per share^{*2} were 18.2p (2008: 18.2p). After amortisation of acquired intangibles (net of tax) of £1.41m (2008: £1.37m) and cost of share based payments (net of tax) of £0.03m (2008: £0.13m), basic earnings per share were 12.3p (2008: 11.8p).

The tax charge for the twelve months to 31 December 2009 was £1.07m (2008: £1.14m) and includes the benefit of £0.38m credit relating to deferred tax on acquired intangibles (2008: £0.28m).

At 31 December 2009, the Group had cash of £5.22m (2008: £2.83m) and loans and other indebtedness of £10.60m (2008: £15.84m). Cash flow for the Group is highly cyclical and strongly weighted to the final quarter of the calendar year when the receipt of annual Syspro licence fees falls due. The weighting was more marked in 2009, reflecting the share placing in September 2009, which raised £1.44m (net) and the significant deposits received against some major software deals.

Result for the six months to 31 December 2009

The results for the six months ended 31 December 2009 were significantly stronger than the results for the same period in 2008. For the six months to 31 December 2009, the Group generated revenues 15% ahead of the same period in 2008 at £23.52m (2008: £20.51m), with the Retail Software Division accounting for £13.26m (2008: £11.72m) of this result and the Manufacturing Software Division accounting for £10.27m (2008: £8.78m).

Adjusted profit from operations^{*3} for the six month period was 9% up on the comparable period last year at £5.47m (2008: £5.03m) and profit from operations increased by 12% to £4.34m (2008: £3.86m).

Profit before tax for the six months rose by 29% to £3.91m (2008: £3.03m) with adjusted earnings per share^{*4} up by 19% to 14.6p (2008: 12.3p). After amortisation of acquired intangibles (net of tax) of £0.83m (2008: £0.83m) and a credit for share based payments (net of tax) of £0.01m (2008: cost of £0.03m), basic earnings per share were 11.6p (2008: 8.7p).

The tax charge for the period of £1.05m (2008: £0.97m) includes the benefit of £0.23m credit relating to deferred tax on acquired intangibles (2008: £0.20m).

Central Costs

Central costs for the 12 month period were £0.40m (2008: £0.26m) and in the six months to 31 December 2009, central costs were £0.26m (2008: credit of £0.04m). Costs in the six month period included the one-off costs of relocation and reorganisation of head office functions and the recognition of additional VAT costs. Underlying costs remain unchanged but subject to the operational performance of the Group. Our share of associated company losses in the six months to 31 December 2009 was £0.004m (2008: £0.0012m), bringing the 12 months to date to £0.03m (2008: losses of £0.01m).

Dividends

The Directors are pleased to declare a dividend for the period of 0.5p per share, giving a total dividend for the 12 months to 31 December 2009 of 0.5p (2008: 0.5p). The dividend will be paid on 25 June 2010 to shareholders on the register at close of business on 28 May 2010, subject to shareholders approval of the Annual General Meeting of the Company. This meeting will be held on 26 May 2010 at the Company's offices at Baltimore House, 50 Kansas Avenue, Manchester M50 2GL, commencing at 10.30am. Formal notice of the Annual General Meeting will be issued in due course.

OPERATIONAL REVIEW

Retail Software Division

For the 12 months to 31 December 2009, revenues at the Retail Software Division, which comprises our UK and Holland-based businesses supplying Microsoft Dynamics software, rose by 4% year on year to £23.08m (2008: £22.18m), with adjusted profit from operations^{*5} at £3.15m (2008: £3.96m). In the six months to 31 December 2009, the Division's revenues increased by 13% to £13.26m from £11.72m in 2008 and adjusted profit from operations^{*6} was £1.99m (2008: £2.35m).

In a difficult year, I am pleased to report that the Retail Software Division secured 11 major new wins, worth a total of £7.0m (2008: 11 wins worth a total of £3.9m) and providing a mixture of software, enhancement and hardware revenues. The majority of these orders were secured in the second half of 2009 and will help to support the Division's performance in the current financial year. These major orders were largely driven by our full multi-channel offering, which provides retailers with an integrated ERP solution, encompassing online ordering capability as well as call centre management, internet kiosks and .net point of sale functionality.

The UK business secured eight of the Division's 11 major new business wins. As most of these orders were secured in the latter half of 2009, the UK business enters 2010 in an extremely strong position. Revenues for the 12 months to 31 December 2009 were 8% ahead at £19.13m (2008: £17.71m). In the six months to 31 December 2009 revenues showed a 17% increase on the same period last year, at £11.33m (2008: £9.69m). However, the timing of the closures of these deals affected services income and as a result, adjusted profit from operations^{*7} for year was marginally below last year at £2.53m (2008: £2.63m). For the six months to 31 December 2009, this figure was £1.68m (2008: £1.86m). Once initial workshop phases are completed on the new contracts, the UK business will be running at close to full capacity. Very encouragingly, the pipeline of new opportunities remains strong. Our investment in Retail AX is also starting to pay dividends, with a significant order being obtained at the period end.

Our Netherlands-based business, K3 Nederland, closed three major deals and generated revenues of £3.95m (2008: £4.47m) and an adjusted operating profit^{*8} of £0.62m (2008: £1.33m) for the 12 months to 31 December 2009. For the six month period, revenues were £1.92m (2008: £2.04m) and the adjusted profit from operations^{*9} was £0.31m (2008: £0.49m). These results reflected the impact of the recession in Europe, which was felt later than in the UK. We expect the competitive environment to remain tough but are encouraged by the new deals currently under negotiation.

Our position within our retail sectors remains strong, underpinned by the market-leading software, Microsoft Dynamics, which we offer and the Intellectual Property we have developed to extend and enhance our core offering. These software modules add significant value to our customers, providing us with a competitive edge and we will continue to add to our library of IP.

Manufacturing Software Division

For the 12 months to 31 December 2009, the Manufacturing Software Division generated revenues of £16.38m (2008: £15.43m) and an adjusted profit from operations^{*10} of £4.26m (2008: £3.65m). In the six months to 31 December 2009, revenues rose by 17% to £10.27m (2008: £8.78m) and adjusted profit from operations^{*11} was 42% ahead of the same period last year at £3.74m (2008: £2.64m).

This Division has one of the largest mid-tier manufacturing software customer bases in the UK, with some 1,000 customers and recurring revenues, arising from annual licence fee renewals and support, increased by 9% to £9.1m over the twelve months. This income stream continues to be very stable and highly predictable, reflecting the business critical nature of the systems we implement and support. As previously noted, the majority of licence fee renewals fall in the last quarter of the calendar year and therefore significant cash flows are generated in this period.

K3 Supply Chain Solutions (“SCS”), which supplies Syspro ERP solutions, enjoyed a strong 2009 and benefited from the reorganisation we completed at the beginning that year. Revenue for the 12 months to 31 December 2009 increased to £11.36m (2008: £10.73m), with the adjusted profit from operations^{*12} rising to £3.43m (2008: £2.53m). For the six months ended 31 December 2009, revenue increased by 10% to £7.31m (2008: £6.66m) and the adjusted profit from operations^{*13} rose by 36% to £3.06m (2008: £2.25m). The last six months of 2009 saw the benefits of our reorganisation both in terms of the cost base and efficiency, whilst a steady stream of deal closures has maintained momentum in services income. This is continuing, with service capacity fully booked for four months ahead. In addition to new business wins, we have had an encouraging flow of additional service days sold to our base customers. Our recurring maintenance income remains at very high levels too, with little attrition.

K3 AX, our Microsoft Dynamics AX business (specialising in process manufacturing), closed two major deals in the latter half of 2009, with the larger valued at in excess of £1m. This represented a strong turnaround in its performance after a difficult first half with new business deals deferring. As a result of this turnaround, revenues for the 12 month period to 31 December 2009 rose by 11% year on year to £2.23m (2008: £2.01m) with the first half loss position of £0.3m improving to an adjusted loss from operations^{*14} of £0.12m for the twelve month period (2008: profit of £0.08m). The impact of the two new orders is evident in the half year on half year comparison. Revenue in the six months to 31 December 2009 was £1.43m, 64% ahead of the same period in 2008 (2008: £0.87m) and adjusted profit from operations^{*15} was £0.19m against an adjusted loss from operations of £0.1m. This major turnaround was underpinned by the reorganisation we undertook earlier in the year. I am pleased to report that there is a strong pipeline of qualified new business and we expect the business to continue to make good progress during 2010.

Our Walton-on-Thames legacy business generated sales in the 12 months period to 31 December 2009 of £2.79m (2008: £2.70m) and an adjusted profit from operations^{*16} of £0.95m (2008: £1.05m). Sales in the six months to 31 December 2009 were £1.53m (2008: £1.25m) and the adjusted profit from operations^{*17} was £0.50m (2008: £0.49m). The last six months saw the second tranche of the upgrade of a customer’s existing legacy system to Syspro. The development team at Walton is also being utilised to enhance our AX offering and we anticipate merging development resources into one site during 2010.

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.

Post Period Events

In early March 2010, K3 was delighted to announce the strategically important acquisition of DigiMIS Limited and today we are also announcing a second strategic acquisition, Pebblestone Netherlands.

On 2 March, K3 reported that it had agreed terms to acquire DigiMIS Limited, a UK hosting and managed services provider that delivers hosted solutions for range of applications including Microsoft Dynamics and Syspro. DigiMIS has customers across the UK, Europe and USA, and already works closely with K3 hosting solutions for several K3 customers. This acquisition extends the footprint of our managed services operation and provides us with the ability to deliver 'Software as a Service' and Cloud Computing solutions to the substantial K3 customer base.

K3 has today also acquired the Dutch operations of Pebblestone Netherlands, one of the world's leading providers of Microsoft Dynamics based fashion solutions. K3 has already partnered with Pebblestone and has implemented the software in fashion retailers. This acquisition substantially increases our presence in the Dutch fashion sector and brings with it strong recurring maintenance and account management revenues from 140 customers including Levi's, Just Brands, Claudia Strater and Van Bommel.

Outlook

K3 continues to demonstrate its ability to perform resiliently against a very difficult economic background. This reflects the strength of our product offering, which combines market-leading software solutions, enhanced by our IP, and the effective sales and support engines we have established within the business.

Importantly, K3's revenues are underpinned by high levels of recurring income, generated from annual customer software licence renewals and maintenance fees. This income, combined with account management income, represented approximately 79% of K3's annualised revenues in 2009. We see this level of predictable income continuing in 2010. The Group generates good cash flows and, as in previous years, we expect very strong cash flow in the second half of the 2010 calendar year, when in excess of £6.0m of Syspro annual software licences renew.

Although markets are likely to remain tough, the outlook for the next six months is encouraging. New business pipelines across both our Divisions are strong and K3 should also benefit from increased service activity arising from the new orders closed at the end of 2009 and improving margins.

The two acquisitions we have made since the period end, in March 2010, help us to move K3 forward both strategically and at the earnings level. We will continue to seek further complementary acquisitions.

We continue to view the K3's prospects very positively.

Tom Milne
Chairman

*1 calculated before amortisation of acquired intangibles of £1.96m (2008: £1.88m) and share-based payments of £0.04m (2008: £0.10m)

- *2 calculated before amortisation of acquired intangibles (net of tax) of £1.41m (2008: £1.37m) and share-based payments (net of tax) of £0.03m (2008: £0.13m)
- *3 calculated before amortisation of acquired intangibles of £1.15m (2008: £1.13m) and a credit for share-based payments of £0.02m (2008: cost of £0.04m)
- *4 calculated before amortisation of acquired intangibles of £0.83m (2008: £0.83m) and a credit for share-based payments of £0.01m (2008: cost of £0.03m)
- *5 calculated before amortisation of acquired intangibles of £0.86m (2008: £0.77m) and share-based payments of £0.02m (2008: £0.05m)
- *6 calculated before amortisation of acquired intangibles of £0.43m (2008: £0.40m) and a credit for share-based payments of £0.01m (2008: cost of £0.02m)
- *7 calculated before share-based payments of £0.02m (2008: £0.05m)
- *8 calculated before amortisation of acquired intangibles of £0.86m (2008: £0.77m)
- *9 calculated before amortisation of acquired intangibles of £0.43m (2008: £0.40m)
- *10 calculated before amortisation of acquired intangibles of £1.10m (2008: £1.11m) and share-based payments of £0.02m (2008: £0.06m)
- *11 calculated before amortisation of acquired intangibles of £0.72m (2008: £0.73m) and a credit for share-based payments of £0.01m (2008: cost of £0.02m)
- *12 calculated before amortisation of acquired intangibles of £0.86m (2008: £0.86m) and share-based payments of £0.01m (2008: £0.03m)
- *13 calculated before amortisation of acquired intangibles of £0.60m (2008: £0.60m) and a credit for share-based payments of £0.01m (2008: cost of £0.01m)
- *14 calculated before amortisation of acquired intangibles of £0.24m (2008: £0.24m)
- *15 calculated before amortisation of acquired intangibles of £0.12m (2008: £0.12m)
- *16 calculated before share-based payments of £0.01m (2008: £0.02m)
- *17 calculated before share-based payments of £nil (2008: £0.01m)

K3 BUSINESS TECHNOLOGY GROUP PLC

CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2009

	Unaudited Six months to 31 Dec 2009	Unaudited Six months to 31 Dec 2008	Unaudited Year to 31 Dec 2009	Audited Year to 31 Dec 2008
Notes	£'000	£'000	£'000	£'000
Revenue	23,522	20,510	39,463	37,619
Profit from operations before amortisation of acquired intangibles and cost of share-based payments	5,468	5,027	7,010	7,348
Amortisation of acquired intangibles	(1,151)	(1,125)	(1,963)	(1,875)
Cost of share-based payments	20	(42)	(35)	(103)
Profit from operations	4,337	3,860	5,012	5,370
Finance income	18	-	23	14
Finance expense	(443)	(814)	(968)	(1,430)
Share of loss of associate	(4)	(12)	(28)	(12)
Profit before taxation	3,908	3,034	4,039	3,942
Tax expense	(1,049)	(971)	(1,072)	(1,137)
Profit for the period	2,859	2,063	2,967	2,805

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

Earnings per share	3				
Basic		11.6p	8.7p	12.3p	11.8p
Diluted		11.6p	8.7p	12.3p	11.7p

K3 BUSINESS TECHNOLOGY GROUP PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2009

	Notes	Unaudited Six months to 31 Dec 2009 £'000	Unaudited Six months to 31 Dec 2008 £'000	Unaudited Year to 31 Dec 2009 £'000	Audited Year to 31 Dec 2008 £'000
Profit for the period		2,859	2,063	2,967	2,805
Other comprehensive income (expense)					
Exchange differences on translation of foreign operations		772	2,804	(1,190)	3,678
Net investment hedge		(309)	(1,489)	579	(1,956)
Cash flow hedges		31	(265)	71	(265)
Other comprehensive income (expense), net of tax		494	1,050	(540)	1,457
Total comprehensive income for the period		3,353	3,113	2,427	4,262

All of the total 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 31 December 2009

	Notes	Unaudited As at 31 December 2009	Audited As at 31 December 2008
		£'000	£'000
ASSETS			
Non-current assets			
Property, plant and equipment		1,212	1,333
Goodwill		32,496	33,225
Other intangible assets		10,097	12,075
Deferred tax assets		252	244
Investments in associates		194	222
Total non-current assets		44,251	47,099
Current assets			
Trade and other receivables		12,939	10,690
Cash and cash equivalents		5,220	2,828
Total current assets		18,159	13,518
Total assets		62,410	60,617
LIABILITIES			
Non-current liabilities			
Long-term borrowings	4	7,485	10,346
Other non-current liabilities	5	-	25
Deferred tax liabilities		2,895	3,343
Total non-current liabilities		10,380	13,714
Current liabilities			
Trade and other payables	6	16,644	13,229
Current tax liabilities		633	312
Short-term borrowings	4	3,111	5,494
Total current liabilities		20,388	19,035
Total liabilities		30,768	32,749
EQUITY			
Share capital		6,380	5,939
Share premium account		2,627	1,619
Other reserves		10,448	10,448
Cashflow hedging reserve		(194)	(265)
Translation reserve		1,642	2,253
Retained earnings		10,739	7,874
Total equity attributable to equity holders of the parent		31,642	27,868
Total equity and liabilities		62,410	60,617

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

For the six months ended 31 December 2009

	Unaudited Six months to 31 Dec 2009	Unaudited Six months to 31 Dec 2008	Unaudited Year to 31 Dec 2009	Audited Year to 31 Dec 2008
	£'000	£'000	£'000	£'000
Cash flows from operating activities				
Profit before tax	3,908	3,034	4,039	3,942
Adjustments for:				
Share based payments charge	(20)	42	35	103
Depreciation of property, plant and equipment	114	157	257	323
Amortisation of intangible assets and development expenditure	1,439	1,276	2,499	2,135
Profit on sale of property, plant and equipment	-	(11)	-	(11)
Interest received	(18)	-	(23)	(14)
Interest expense	443	814	968	1,430
Share of losses of associate	4	12	28	12
(Increase) decrease in trade and other receivables	(3,249)	(1,151)	(2,384)	153
Increase (decrease) in trade and other payables	5,823	2,832	3,500	(1,698)
Cash generated from operations	8,444	7,005	8,919	6,375
Interest paid	(443)	(664)	(981)	(1,323)
Income taxes paid	(508)	(974)	(1,087)	(1,614)
Net cash generated from operating activities	7,493	5,367	6,851	3,438
Cash flows from investing activities				
Acquisition of subsidiaries, net of cash acquired	-	(11)	(25)	(58)
Acquisition of associates	-	(24)	-	(234)
Development expenditure capitalised	(286)	(580)	(795)	(1,004)
Purchase of property, plant and equipment	(109)	(71)	(142)	(330)
Proceeds from sale of property, plant and equipment	-	19	-	19
Interest received	18	-	23	14
Net cash absorbed by investing activities	(377)	(667)	(939)	(1,593)
Cash flows from financing activities				
Net proceeds from issue of share capital	1,440	(11)	1,427	24
Proceeds from short-term borrowings	-	1,000	-	1,000
Payment of short-term borrowings	-	-	(1,000)	-
Payment of long-term borrowings	(2,565)	(2,569)	(3,664)	(3,591)
Payment of finance lease liabilities	(13)	(10)	(23)	(43)
Dividends paid	(119)	-	(119)	(119)
Net cash absorbed by financing activities	(1,257)	(1,590)	(3,379)	(2,729)
Net change in cash and cash equivalents	5,859	3,110	2,533	(884)
Cash and cash equivalents at start of period	(684)	(777)	2,828	3,085
Exchange gains (losses) on cash and cash equivalents	45	495	(141)	627
Cash and cash equivalents at end of period	5,220	2,828	5,220	2,828

K3 BUSINESS TECHNOLOGY GROUP PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 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
Changes in equity for six months ended 31 December 2009							
Share-based payment debit	-	-	-	-	-	(16)	(16)
Proceeds on share issue	441	1,008	-	-	-	-	1,449
Own shares acquired	-	-	-	-	-	(9)	(9)
Dividends to equity holders	-	-	-	-	-	(119)	(119)
Total comprehensive income for the period	-	-	-	31	463	2,859	3,353
At 31 December 2009	6,380	2,627	10,448	(194)	1,642	10,739	31,642

K3 BUSINESS TECHNOLOGY GROUP PLC

NOTES TO THE UNAUDITED 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 18 months ended 30 June 2010 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 30 June 2010 or are expected to be adopted and effective at 30 June 2010. 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 period financial statements to 30 June 2010. IFRS 8 Operating Segments will also be adopted in the Group's full period financial statements to 30 June 2010. 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 31 December 2009, the year ended 31 December 2009 and the six months ended 31 December 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 31 Dec 2009 £'000	Unaudited Six months to 31 Dec 2008 £'000	Unaudited Year to 31 Dec 2009 £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	1,305	1,014	1,508	1,344
Adjustment in respect of prior periods	(30)	172	(61)	84
Total current tax expense	1,275	1,186	1,447	1,428
Deferred tax expense				
Origination and reversal of temporary differences	(226)	(204)	(375)	(280)
Effect of change in rate of deferred tax	-	(11)	-	(11)
Total deferred tax expense	(226)	(215)	(375)	(291)
Total tax expense	1,049	971	1,072	1,137

K3 BUSINESS TECHNOLOGY GROUP PLC

NOTES TO THE UNAUDITED HALF-YEAR STATEMENT

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 Dec 2009 Number of shares	Unaudited Six months to 31 Dec 2008 Number of shares	Unaudited Year to 31 Dec 2009 Number of shares	Audited Year to 31 Dec 2008 Number of shares
Weighted average number of shares:				
For basic earnings per share	24,634,237	23,694,483	24,153,883	23,675,195
Effects of employee share options and warrants	40,422	81,320	19,234	339,517
For diluted earnings per share	24,674,659	23,775,803	24,173,117	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 31 Dec 2009			Unaudited six months to 31 Dec 2008		
	Earnings	Per share amount Basic	Per share amount Diluted	Earnings	Per share amount Basic	Per share amount Diluted
	£'000	p	p	£'000	p	p
Earnings per share (eps)	2,859	11.6	11.6	2,063	8.7	8.7
Amortisation of acquired intangibles (net of tax)	830	3.4	3.4	831	3.5	3.5
Share-based payments (net of tax)	(14)	(0.1)	(0.1)	30	0.1	0.1
Adjusted eps	3,675	14.9	14.9	2,924	12.3	12.3

K3 BUSINESS TECHNOLOGY GROUP PLC

NOTES TO THE UNAUDITED HALF-YEAR STATEMENT

3. Earnings per share (continued)

	Unaudited year to 31 Dec 2009			Audited year to 31 Dec 2008		
	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)	2,967	12.3	12.3	2,805	11.8	11.7
Amortisation of acquired intangibles (net of tax)	1,414	5.8	5.8	1,371	5.8	5.7
Share-based payments (net of tax)	25	0.1	0.1	128	0.6	0.5
Adjusted eps	4,406	18.2	18.2	4,304	18.2	17.9

4. Loans and borrowings

	Unaudited As at 30 Dec 2009 £'000	Audited As at 31 Dec 2008 £'000
Non-current		
Bank loans	7,473	10,309
Finance lease creditors	12	37
	7,485	10,346
Current		
Bank loans and other facilities	2,447	3,818
Finance lease creditors	24	22
Loans from related parties	640	1,654
	3,111	5,494
Total borrowings	10,596	15,840

5. Other non-current liabilities

	Unaudited As at 31 Dec 2009 £'000	Audited As at 31 Dec 2008 £'000
Contingent consideration	-	25

K3 BUSINESS TECHNOLOGY GROUP PLC

NOTES TO THE UNAUDITED HALF-YEAR STATEMENT

6. Trade and other payables

	Unaudited	Audited
	As at	As at
	31 Dec	31 Dec
	2009	2008
	£'000	£'000
Trade payables	2,199	2,106
Other payables	325	307
Contingent consideration	25	25
Derivative financial instruments	250	325
Accruals	5,335	2,651
Total financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost	8,134	5,414
Other tax and social security taxes	2,683	2,740
Deferred revenue	5,827	5,075
	16,644	13,229

7. Events after the balance sheet date

On 2 March 2010 the Company announced that it has agreed terms to acquire the entire issued share capital of DigiMIS Limited ("DigiMIS"), the provider of cloud computing services, for an initial consideration of £0.803m, payable in a mix of cash, loan notes and shares. Further consideration of up to £1.325m is to be paid through an earn-out arrangement linked to DigiMIS's performance in the two years to March 2012.

On 6 March 2010, the Company acquired the trade and certain assets of Pebblestone Netherlands ("Pebblestone"), a leading European provider of Microsoft Dynamics ERP solutions for the fashion industry. The initial consideration for the acquisition is €1.4m, payable in cash, with a deferred consideration of €0.6m. The deferred consideration of €0.6m, payable in cash over the next five years, carries a coupon of 6% until settled. After tax deductions, the total net consideration for the acquisition is €1.5m.

8. 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.