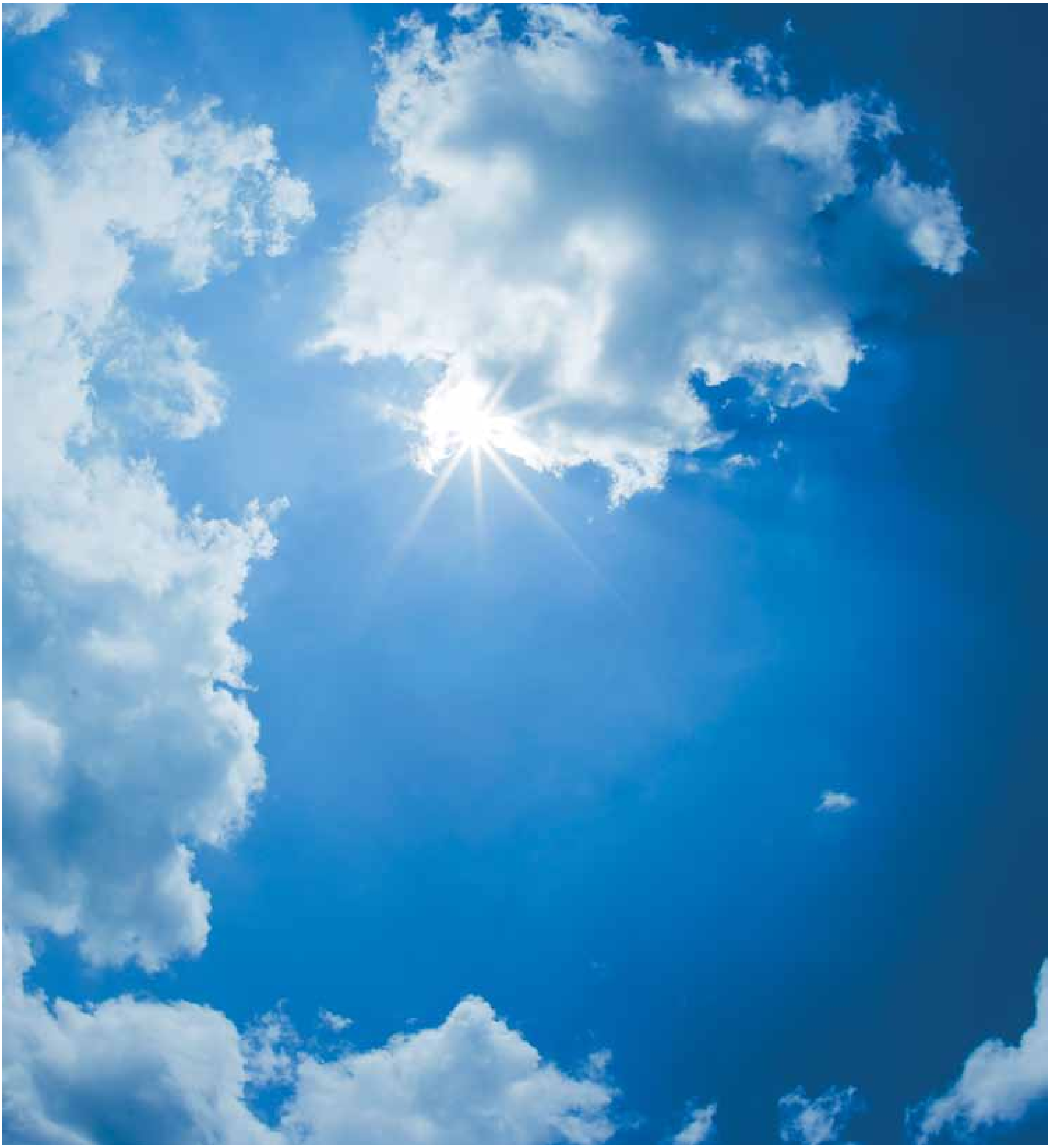
K3 Business Technology Group plc
Unaudited Half Yearly Report
for the six months to 31 December 2011



World Class Software. **World Class Service.**

K3 Business Technology Group plc

K3 is the UK's leading supplier of integrated business systems encompassing Enterprise Resource Planning (ERP) software, Customer Relationship Management (CRM) software, Business Intelligence and e-commerce, hosting and managed services to the supply chain industry. Focussed on the Retail, Manufacturing and Distribution markets, we support more than 3,000 customers in over 20 countries.

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Chairman's Statement

Financial Statements

Notes

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Chairman's Statement

"In tough market conditions, results for the six months to 31 December 2011 are encouraging and continue to illustrate the robustness of K3's earnings, which are underpinned by high levels of recurring income."

Overview

In tough market conditions, results for the six months to 31 December 2011 are encouraging and continue to illustrate the robustness of K3's earnings, which are underpinned by high levels of recurring income. The Group's revenues increased by 35% year-on-year to £33.36m, helped by the acquisitions we have made. Adjusted profit before tax*1 increased to £6.23m, which is a 7% rise on the same period last year. The level of profitability was held back, as expected, by the significant investment that we made in our Managed Services and Microsoft UK Divisions in the period.

In line with our growth plan, we continued to make acquisitions, completing five significant purchases in the period. Initial payments on acquisitions were £6.36m. All the acquisitions are complementary to our existing operations and can be readily integrated. A major strand of our acquisition strategy is to add complementary customer bases which are suitable for introduction to our hosting model. In this way, we will accelerate the growth of our recurring income stream.

I am particularly encouraged by the growth in our International Division which has seen revenues rise by 29% to £4.84m and adjusted profit from operations*2 rise by 25% to £1.4m in the first half. These excellent results have been driven by a combination of steady order wins in our fashion/wholesale market and a high level of activity with Inter IKEA Systems B.V. (the owner and franchisor of The IKEA Concept), the largest customer in the International Division. We anticipate further good growth in this division.

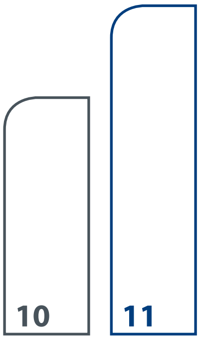
The UK market remained challenging and our Microsoft UK Division and SYSPRO and Sage Division are highly focused on minimising costs whilst delivering sales targets. We have however invested heavily in the development of our Retail AX Multi Channel solution as we believe there are significant opportunities to drive growth as Microsoft takes this product to market. This decision bore fruit at the end of the period with a number of very significant order wins, including Eason and Son Ltd ("Eason"), the largest supplier of books, magazines and newspapers in Ireland.

The development of our Managed Services Division has huge potential to drive K3's long-term growth and we have invested heavily in this in the current financial year and will continue to do so. Revenues at the Division are growing well, however the required investment and increase in costs together with the phased recognition of income (which is recognised over the life of the hosting contract) means that profitability is being impacted. The exploitation of the hosting proposition is the key focus of our growth plans.

On 1 December 2011, we announced that we had received an approach from K3's largest shareholder, Mr P J Claesson, regarding a possible offer for the Company. At the same time, we also began a strategic review of the options available to the Group. Since then, on 26 January 2012, we announced that the Board of K3 did not wish to take Mr Claesson's proposal forward. On 1 March 2012, we announced that the Company had received a number of indicative proposals at levels materially higher than the current share price at that date. Whilst the Board firmly believes that the Company has a secure future as an independent business, it recognises that further investment will enable it to more fully exploit the potential of its managed services business. The strategic review has therefore completed and the Company is holding ongoing discussions with these potential offerors. We will make any further announcements as appropriate.

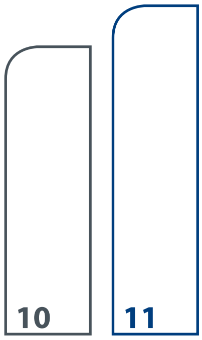
K3 continues to generate good cash flows and our bankers are highly supportive of both our acquisition strategy and our working capital needs. K3 is financially and operationally well-placed. Our strong product offering and good cash flows will help to support our growth and we view prospects for the remainder of the year positively.

*See note 9 on page 23 for further details



Revenue

£33.4m



Adjusted Profit From Operations[*2]

£6.9m

Financial Results

For the six months to 31 December 2011, the Group generated revenues of £33.36m, representing an increase of 35% over the prior period (2010: £24.67m). The five acquisitions completed in the period made a revenue contribution totalling £3.73m. Recurring revenues from maintenance and support in the half year totalled £17.1m (2010: £12.6m), representing 51% of Group income in the first half, and it continues to underpin profitability.

Adjusted profit from operations[*2] for the six month period rose by 11% to £6.91m against the same period last year (2010: £6.24m). It should be noted that this was after significant investment in our Managed Services Division and Retail AX software suite in the period, of which we have expensed £0.5m. Additionally,we have capitalised £0.45m in respect of platforms and intellectual property that will benefit future periods and spent £0.25m on equipment. Acquisitions contributed £0.51m of the adjusted profit[*3]. Acquisition and reorganisation costs included write-off of investments of £0.10m (2010: £nil). Profit from operations remained flat at £4.66m (2010: £4.66m) reflecting higher acquisition and exceptional costs together with an increased charge for the amortisation of intangibles.

Adjusted profit before tax[*1] rose by 7% to £6.23m (2010: £5.81m). Profit before tax was 6% lower at £3.98m (2010: £4.23m). This is after a £0.35m increase in acquisition and reorganisation costs, a £0.26m increase in finance costs and a £0.32m increase in goodwill amortisation. Adjusted earnings per share[*4] increased by 7% to 18.1p (2010: 16.9p). Basic earnings per share was 3% lower at 12.3p (2010: 12.7p). This is stated after amortisation of acquired intangibles (net of tax) of £1.19m (2010: £0.93m) and acquisition and reorganisation costs of £0.46m (2010: £0.15m). The tax charge for the period was £0.52m (2010: £0.98m) and includes the benefit of a £0.57m credit to deferred tax on acquired intangibles (2010: £0.51m) and a £0.20m current tax credit primarily in respect of research and development from prior years.

- **Recurring revenues** from maintenance and support in the half year **totalled £17.1m**
- The **five acquisitions** completed during the period made a revenue contribution **totalling £3.73m**

*See note 9 on page 23 for further details

K3 continues to **generate good cash flows** and our bankers are **highly supportive** of both our acquisition strategy and our working capital needs

Cash flows and banking

Net debt at the period end increased to £13.35m (2010: £11.48m) but has reduced from the 30 June 2011 position of £15.49m. We completed a share placing of £5.02m (net of costs) in July 2011 and in the same month agreed £1.05m of additional revolving credit facility, which was used for an acquisition. The acquisitions we made in the first half were also funded by cash in the business and the share placing completed in July 2011. The initial net cash cost of acquisitions (i.e. net of amounts paid/deducted for cash balances and overdrafts in the acquired businesses) was £6.36m with a further £1.27m payable on a contingent basis and up to £1.48m of potential earn out subject to the achievement of performance criteria. A further £1.18m was utilised to fund the working capital requirements and loan repayments of the acquired businesses, together with acquisition costs of £0.26m. Additional facilities of up to £5.00m are available to match the net receipts of the share placing though we have not utilised these to date. Operating cash flow in the first half was £5.81m, representing 84% of adjusted profit from operations*2 (2010: £4.91m, representing 79%). After adding back overdue liabilities, together with acquisition and reorganisation costs relating to the acquisitions, the underlying operating cash for the period is £7.29m, representing 105% of adjusted operating profit*2. Finance costs at £0.69m (2010: £0.43m) reflect higher average borrowings and facility fees.

Dividend

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

"Operating cash flow in the first half was £5.81m, representing 84% of adjusted profit from operations*2"

*See note 9 on page 23 for further details

Operational Review

As indicated in the annual report and financial statements for the year ended 30 June 2011, from 1 July 2011, the reporting of results reflects four trading divisions: Microsoft UK, International, SYSPRO and Sage, and Managed Services together with central costs. The comparatives for the six months ended 31 December 2010 have been restated accordingly.

The financial results by operating division are summarised in the table below:

	Revenue Six months to 31 December 2011 £m	Revenue Six months to 31 December 2010 £m	Adjusted profit Six months to 31 December 2011 £m	Adjusted profit Six months to 31 December 2010 £m
Microsoft UK	12.10	10.67	1.52	1.58
International	4.84	3.75	1.40	1.12
SYSPRO and Sage	13.81	8.57	4.07	3.53
Managed Services	2.61	1.68	0.09	0.15
Central costs	–	–	(0.17)	(0.14)
	33.36	24.67	6.91	6.24

Microsoft UK Division

Revenues at the Microsoft UK Division increased by 13% to £12.10m (2010: £10.67m), with recurring income delivering £4.37m (2010: £3.41m). However adjusted profit from operations[*5] at £1.52m was unchanged year-on-year (2010: £1.58m) partly reflecting the major investment we are making in our retail software offering, in particular bringing the Microsoft AX product in line with our Microsoft Dynamics NAV portfolio. We also invested in our sales and delivery resource in advance of sales of this product offering. The cost of our investment was £0.30m with a further £0.25m capitalised as development costs.

After a slow start to the financial year in our UK retail markets, the Division closed three major new deals in November and December worth a combined £5.7m (2010: eight major contracts, £3.4m). This included our first major order for Microsoft's new AX for Retail solution in a substantial contract we won with Eason, which was secured against some tier one competitors. We are very encouraged by the increasing demand for this new solution and are well placed to exploit it. A large element of our own IP is included in these sales, which supports good margins.

In the course of our Group reorganisation to create the Microsoft UK Division, we have integrated our other smaller Microsoft based software units under a single management team. This is allowing cost savings to be achieved and we are also seeing efficiencies arising from the use of common resources.

The addition of Retail Systems Group Ltd ("RSG") in December 2011, one of the leading providers of Microsoft Dynamics 'RMS' to retailers in the UK and Ireland, brings us a software suite more suitable for smaller retailers and therefore widens our marketplace. RSG also has a managed service offering which will further expand K3's own growing Managed Services Division.

The prospects pipeline for the Division stands at approximately £24.0m (2010: £18.0m), with nearly half the opportunities focused on our Microsoft AX Multi Channel retail solution.

*See note 9 on page 23 for further details

- Revenues at the Microsoft UK Division **increased by 13% to £12.10m**
- Revenues for the International Division **increased by 29% year-on-year to £4.84m**

International Division

The International Division, based in The Netherlands, performed very strongly in the first half. Revenues increased by 29% year-on-year to £4.84m (2010: £3.75m), with recurring income at £1.90m (2010: £1.76m), and adjusted profit from operations*6 rose by 25% to £1.40m (2010: £1.12m). These results are in part due to the strengthening of our relationship with Inter IKEA Systems B.V. (the owner and franchisor of The IKEA Concept), the largest customer in the Division. They also reflect the growth of the Pebblestone acquisitions, made in 2010, which established K3 as a major supplier of ERP systems in the Dutch fashion market and added a 30 country international partner channel for K3's IP. Sales into this reseller channel have increased by 58% to £0.75m as a result of investment in the Pebblestone solution that was made over the last 18 months.

We signed nine major new contracts in the period, worth a total of £0.50m (2010: six contracts, £0.64m). The Division also generated excellent levels of services income and we are currently recruiting additional personnel to add extra resource.

In December 2011, we acquired certain assets of Unisoft BV, a leading provider of retail point of sale solutions in Holland and Scandinavia. The solutions complement our existing offering and should create cross-selling opportunities.

The prospects pipeline, excluding potential business anticipated in a long term plan with Inter IKEA Systems B.V., currently amounts to approximately £3.3m of orders. It also includes a number of AX opportunities, a market that is now becoming increasingly important to us.

"The International Division generated excellent levels of services income"

*See note 9 on page 23 for further details

Business Partner

SYSPRO and Sage Division

In the first half, the SYSPRO and Sage Division (which comprises four business units) saw revenues increase by 61% to £13.81m (2010: £8.57m), with recurring income at £8.79m (2010: £6.15m). Adjusted profit from operations[*7] rose by 15% to £4.07m (2010: £3.53m). Acquisitions contributed £3.09m of revenue and £0.31m of adjusted operating profit[*8]. The majority of the revenue increase relates to Sage acquisitions that generally deliver lower operating margins. The pipeline of prospects is holding up well with a value of £9.20m, split relatively evenly between Sage and SYSPRO opportunities.

Our key business unit in this Division, K3 Syspro (formerly Supply Chain Solutions) which supplies SYSPRO ERP solutions, performed robustly. It closed six new deals with a combined value of £0.60m in the period (2010 full year: 13 deals; £0.93m) and generated significant additional work from the customer base. Annual software licence fee renewals for SYSPRO were collected between October and December and licence renewals were in excess of 98% as is usual. The SYSPRO maintenance licence and support income is worth approximately £5.90m per annum and we recognise some 85% of this figure in this half of our financial year.

Having entered the Sage marketplace in November 2010, we are now a leading Sage supplier and provide the full range of Sage products, from Sage 50 up to enterprise level Sage 1000. Our Sage customer base now stands at 900 customers (2010: 400 customers) and generates recurring income of around £6.00m (2010: £2.4m) per annum, approximately half of which falls in the first half of our financial year. In July 2011, we acquired Fifth Dimension Systems Ltd and, in October 2011, the business secured the Sage Enterprise Partner of the Year award, which entitles it to higher margins in the next year. Our Sage operations secured 39 new deals worth £1.3m (2010: 16 deals worth £0.3m). While the Sage support market is highly price competitive, we continue to attract customers from other Sage partners. Mirroring the model we are deploying for our Microsoft and SYSPRO customers, we will be cross-selling our Cloud Computing solutions to our new Sage customer base and have a deployment model already operational for the Sage 200 product.

The other two business units comprise customers running smaller ERP systems who can be offered upgrade opportunities to our SYSPRO or AX solutions and hosting. These businesses contributed £1.02m (2010: £1.15m) of sales in the period, substantially all of which is recurring.

*See note 9 on page 23 for further details

"We remain excited about the future prospects for the Group"

Managed Services Division

Revenue rose by 55% to £2.61m (2010: £1.68m), with recurring income delivering £2.04m (2010: £1.09m). However, as expected, profits lagged revenue growth as we invested £0.2m in additional resource. Divisional overheads have increased to £1.36m (2010: £0.7m), capitalised development was £0.22m and capital expenditure was £0.25m. Adjusted profit from operations*9 was £0.09m (2010: £0.15m). We now have platforms in place for the hosting of SYSPRO, Microsoft Dynamics NAV and Sage 200 software and are seeing a good demand for these and the other complementary services we can offer from "the Cloud". Our deployment now ranges from on-site managed services to fully hosted services provided on a multi-tenanted solution in the Cloud.

As this Division grows, it will increase our annualised recurring income, which at 31 December 2011 had increased to c.£4.2m (2010: £3.28m), with a delivery pipeline of £0.77m awaiting deployment. Currently, the prospects pipeline stands at £2.38m of potential income.

Head Office

Central costs*10 for the first half were £0.17m (2010: £0.14m). Underlying costs remain unchanged but subject to the operational performance of the Group.

Outlook

The increase in K3's underlying profitability and cash flow is highly encouraging. We have an excellent record of acquiring complementary businesses and delivering synergies. We also have a number of exciting growth opportunities to leverage our large customer base and build on our key customer and supplier relationships. A formal sale process is now in place and we will be making further announcements in due course.

With the growth opportunities available and the strong financial platform in place, we remain excited about the future prospects for the Group.

Tom Milne
Chairman

*See note 9 on page 23 for further details

Consolidated Income Statement

for the six months ended 31 December 2011

	Notes	Unaudited Six months to 31 December 2011 £'000	Unaudited Six months to 31 December 2010 £'000	Audited Year to 30 June 2011 £'000
Revenue		**33,355**	24,671	52,800
Profit from operations before amortisation of acquired intangibles, acquisition and reorganisation costs		**6,912**	6,237	9,581
Amortisation of acquired intangibles		**(1,754)**	(1,434)	(2,826)
Acquisition and reorganisation costs		**(498)**	(146)	(942)
Profit from operations		**4,660**	4,657	5,813
Finance income		**3**	2	35
Finance expense		**(688)**	(426)	(940)
Profit before taxation		**3,975**	4,233	4,908
Tax expense	2	**(518)**	(981)	(428)
Profit for the period		**3,457**	3,252	4,480

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

	Notes			
Earnings Per Share	3			
Basic		**12.3p**	12.7p	17.5p
Diluted		**12.0p**	12.5p	17.0p

Consolidated Statement of Comprehensive Income

for the six months ended 31 December 2011

	Unaudited Six months to 31 December 2011 £'000	Unaudited Six months to 31 December 2010 £'000	Audited Year to 30 June 2011 £'000
Profit for the period	**3,457**	3,252	4,480
Other comprehensive (expense) income			
Exchange differences on translation of foreign operations	**(900)**	635	1,511
Net investment hedge	**278**	(258)	(504)
Cash flow hedges:			
Losses recognised on hedging instruments	**(4)**	(16)	(22)
Transferred to income statement	**35**	67	113
Other comprehensive (expense) income, net of tax	**(591)**	428	1,098
Total comprehensive income for the period	**2,866**	3,680	5,578

All of the total comprehensive income is attributable to equity holders of the parent.

Consolidated Statement of Financial Position
as at 31 December 2011

	Notes	Unaudited As at 31 December 2011 £'000	Unaudited As at 31 December 2010 £'000	Audited As at 30 June 2011 £'000
ASSETS				
Non-current assets				
Property, plant and equipment		**2,310**	1,942	1,993
Goodwill		**44,293**	36,272	39,082
Other intangible assets		**22,846**	16,739	17,635
Deferred tax assets		**524**	487	551
Available-for-sale investments		**98**	196	196
Total non-current assets		**70,071**	55,636	59,457
Current assets				
Trade and other receivables		**26,791**	21,238	22,642
Cash and cash equivalents		**1,405**	2,684	814
Total current assets		**28,196**	23,922	23,456
Total assets		**98,267**	79,558	82,913
LIABILITIES				
Non-current liabilities				
Long-term borrowings	5	**–**	10,711	11,502
Other non-current liabilities	6	**1,915**	1,104	442
Deferred tax liabilities		**5,551**	4,481	4,427
Total non-current liabilities		**7,466**	16,296	16,371
Current liabilities				
Trade and other payables	7	**30,300**	23,224	24,074
Current tax liabilities		**819**	1,258	428
Short-term borrowings	5	**14,751**	3,457	4,798
Total current liabilities		**45,870**	27,939	29,300
Total liabilities		**53,336**	44,235	45,671
EQUITY				
Share capital		**7,119**	6,443	6,477
Share premium account		**7,236**	2,795	2,863
Other reserves		**10,448**	10,448	10,448
Cashflow hedging reserve		**(54)**	(125)	(85)
Translation reserve		**1,108**	1,100	1,730
Retained earnings		**19,074**	14,662	15,809
Total equity attributable to equity holders of the parent		**44,931**	35,323	37,242
Total equity and liabilities		**98,267**	79,558	82,913

Consolidated Statement of Cash Flows

for the six months ended 31 December 2011

	Notes	Unaudited Six months to 31 December 2011 £'000	Unaudited Six months to 31 December 2010 £'000	Audited Year to 30 June 2011 £'000
Cash flows from operating activities				
Profit for the period		**3,457**	3,252	4,480
Adjustments for:				
Share based payments charge		**36**	16	52
Depreciation of property, plant and equipment		**382**	180	462
Amortisation of intangible assets and development expenditure		**2,215**	1,620	3,305
Loss on sale of property, plant and equipment		**–**	–	7
Impairment loss on available-for-sale investment		**98**	–	–
Finance income		**(3)**	(2)	(35)
Finance expense		**688**	426	940
Tax expense		**518**	981	428
Increase in trade and other receivables		**(1,967)**	(4,217)	(4,909)
Increase in trade and other payables		**383**	2,656	910
Cash generated from operations	8	**5,807**	4,912	5,640
Finance expense paid		**(409)**	(529)	(982)
Income taxes paid		**(605)**	(625)	(1,368)
Net cash generated from operating activities		**4,793**	3,758	3,290
Cash flows from investing activities				
Acquisition of subsidiaries, net of cash acquired	8	**(3,823)**	(2,184)	(4,197)
Acquisition of other business units	8	**(2,729)**	(967)	(1,210)
Development expenditure capitalised		**(753)**	(449)	(1,374)
Purchase of property, plant and equipment		**(480)**	(419)	(681)
Finance income received		**3**	2	35
Net cash absorbed by investing activities		**(7,782)**	(4,017)	(7,427)
Cash flows from financing activities				
Net proceeds from issue of share capital		**4,988**	103	174
Proceeds from long-term borrowings		**1,050**	5,025	7,500
Payment of long-term borrowings		**(1,650)**	(1,616)	(2,768)
Payment of finance lease liabilities		**(40)**	(44)	(106)
Dividends paid		**–**	–	(64)
Net cash generated from financing activities		**4,348**	3,468	4,736
Net change in cash and cash equivalents		**1,359**	3,209	599
Cash and cash equivalents at start of period		**113**	(571)	(571)
Exchange (losses) gains on cash and cash equivalents		**(67)**	46	85
Cash and cash equivalents at end of period		**1,405**	2,684	113

Consolidated Statement of Changes in Equity

for the six months ended 31 December 2011

	Share capital £'000	Share premium £'000	Other reserve £'000	Cashflow hedging reserve £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
At 1 January 2010	6,380	2,627	10,448	(194)	1,642	10,739	31,642
Changes in equity for six months ended 30 June 2010							
Share-based payment debit	–	–	–	–	–	(56)	(56)
Proceeds on share issue	31	84	–	–	–	–	115
Own shares acquired	–	–	–	–	–	(11)	(11)
Dividends to equity holders	–	–	–	–	–	(128)	(128)
Total comprehensive income for the period	–	–	–	18	(919)	782	(119)
At 30 June 2010	6,411	2,711	10,448	(176)	723	11,326	31,443
Changes in equity for six months ended 31 December 2010							
Share-based payment credit	–	–	–	–	–	97	97
Proceeds on share issue	32	84	–	–	–	–	116
Own shares acquired	–	–	–	–	–	(13)	(13)
Total comprehensive income for the period	–	–	–	51	377	3,252	3,680
At 31 December 2010	6,443	2,795	10,448	(125)	1,100	14,662	35,323
Changes in equity for six months ended 30 June 2011							
Share-based payment credit	–	–	–	–	–	14	14
Proceeds on share issue	34	68	–	–	–	–	102
Own shares acquired	–	–	–	–	–	(31)	(31)
Dividends to equity holders	–	–	–	–	–	(64)	(64)
Total comprehensive income for the period	–	–	–	40	630	1,228	1,898
At 30 June 2011	6,477	2,863	10,448	(85)	1,730	15,809	37,242
Changes in equity for six months ended 31 December 2011							
Share-based payment debit	–	–	–	–	–	(165)	(165)
Proceeds on share issue	642	4,373	–	–	–	–	5,015
Own shares acquired	–	–	–	–	–	(27)	(27)
Total comprehensive income for the period	–	–	–	31	(622)	3,457	2,866
At 31 December 2011	7,119	7,236	10,448	(54)	1,108	19,074	44,931

Notes to the Unaudited Half Yearly Report

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 ending 30 June 2012 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 30 June 2011. 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 2012 or are expected to be adopted and effective at 30 June 2012. 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 financial information in this statement relating to the six months ended 31 December 2011 and the six months ended 31 December 2010 has neither been audited nor reviewed pursuant to guidance issued by the Auditing Practices Board. The financial information for the year ended 30 June 2011 does not constitute the full statutory accounts for that period. The Annual Report and Financial Statements for the year ended 30 June 2011 have been filed with the Registrar of Companies. The Independent Auditors' Report on the Annual Report and Financial Statement for the year ended 30 June 2011 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

2 Tax expense

	Unaudited Six months to 31 December 2011 £'000	Unaudited Six months to 31 December 2010 £'000	Audited Year to 30 June 2011 £'000
Current tax expense			
UK corporation tax and income tax of overseas operations on profits for the period	**1,268**	1,403	1,474
Adjustment in respect of prior periods	**(195)**	–	(53)
Total current tax expense	**1,073**	1,403	1,421
Deferred tax expense			
Origination and reversal of temporary differences	**(457)**	(315)	(690)
Effect of change in rate of deferred tax	**(98)**	(107)	(303)
Total deferred tax expense	**(555)**	(422)	(993)
Total tax expense	**518**	981	428

Notes to the Unaudited Half Yearly Report continued

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 December 2011 Number of shares	Unaudited Six months to 31 December 2010 Number of shares	Audited Year to 30 June 2011 Number of shares
Weighted average number of shares:			
For basic earnings per share	**28,134,239**	25,553,904	25,650,457
Effects of employee share options and warrants	**711,335**	393,510	631,663
For diluted earnings per share	**28,845,574**	25,947,414	26,282,120

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 December 2011			Unaudited six months to 31 December 2010			Audited year to 30 June 2011		
	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 £'000	Per share amount basic p	Per share amount diluted p
Earnings per share (eps)	3,457	12.3	12.0	3,252	12.7	12.5	4,480	17.5	17.0
Amortisation of acquired intangibles (net of tax)	1,186	4.2	4.1	927	3.6	3.6	1,759	6.8	6.7
Acquisition and reorganisation costs (net of tax)	462	1.6	1.6	146	0.6	0.6	817	3.2	3.1
Adjusted eps	5,105	18.1	17.7	4,325	16.9	16.7	7,056	27.5	26.8

4 Acquisitions during the period

Azurri Retail

On 1 July 2011 the Company acquired the Retail Merchandising Division of Azurri Computer Solutions Limited ("Azurri Retail"). The initial consideration was £0.84m satisfied on completion in cash. Contingent consideration of £0.10m is payable dependent on the completion of certain contracts. Further contingent consideration of up to £0.50m is payable dependent on increases in gross margins generated over the next two years.

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

	Book value £'000	Adjustments £'000	Provisional fair value £'000
Assets			
Other intangible assets	–	1,010	1,010
Deferred tax assets	–	17	17
Liabilities			
Other payables	(62)	–	(62)
Deferred tax liabilities	–	(263)	(263)
Net (liabilities) assets	(62)	764	702

Consideration	
Initial cash consideration	838
Contingent cash consideration	350
	1,188
Goodwill	486
Acquisition costs charged to income statement	17

Notes to the Unaudited Half Yearly Report continued

4 Acquisitions during the period (continued)

Fifth Dimension Systems Limited

On 22 July 2011 the Company acquired FD Systems Limited ("FDS"). The initial consideration was £2.23m satisfied on completion in cash. Deferred consideration of £0.05m is payable. Further contingent consideration of up to £1.0m is payable dependent on profits generated in the year after acquisition.

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

	Book value £'000	Adjustments £'000	Provisional fair value £'000
Assets			
Property, plant and equipment	124	–	124
Other intangible assets	250	2,250	2,500
Trade receivables	1,366	–	1,366
Other current assets	451	–	451
Cash and cash equivalents	62	–	62
Liabilities			
Bank loans	(414)	–	(414)
Trade and other payables	(3,414)	–	(3,414)
Deferred tax liabilities	–	(585)	(585)
Net (liabilities) assets	(1,575)	1,665	90

Consideration	
Initial cash consideration	2,230
Deferred cash consideration	50
Contingent cash consideration	200
	2,480
Goodwill	2,390
Acquisition costs charged to income statement	80

4 Acquisitions during the period (continued)

Unisoft BV

On 7 December 2011 the Company acquired certain assets of Unisoft BV ("Unisoft"). The initial consideration was €0.50m satisfied on completion in cash, with further consideration of up to €1.0m payable in cash dependent on certain criteria. Contingent consideration of €1.27m is payable dependent on profits generated in the three years following acquisition.

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

	Book value £'000	Adjustments £'000	Provisional fair value £'000
Assets			
Property, plant and equipment	29	–	29
Other intangible assets	–	918	918
Trade receivables	276	–	276
Liabilities			
Deferred tax liabilities	–	(230)	(230)
Net assets	305	688	993
Consideration			
Initial cash consideration			491
Contingent cash consideration			1,034
			1,525
Goodwill			532
Acquisition costs charged to income statement			101

Notes to the Unaudited Half Yearly Report continued

4 Acquisitions during the period (continued)

Integrated Business Systems

On 15 December 2011 the Company acquired certain assets of the Integrated Business Systems division ("IBS") of Maxima Holdings plc. The initial consideration was £1.40m satisfied on completion in cash. Contingent consideration of £0.20m is payable dependent on the retention of customers.

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

	Book value £'000	Adjustments £'000	Provisional fair value £'000
Assets			
Other intangible assets	–	1,630	1,630
Deferred tax assets	–	119	119
Other current assets	8	–	8
Liabilities			
Trade and other payables	(475)	–	(475)
Deferred tax liabilities	–	(408)	(408)
Net (liabilities) assets	(467)	1,341	874

Consideration	
Initial cash consideration	1,400
Contingent cash consideration	200
	1,600
Goodwill	726
Acquisition costs charged to income statement	46

4 Acquisitions during the period (continued)

Retail Systems Group Limited

On 20 December 2011 the Company acquired Retail Systems Group Limited ("RSG"). The initial consideration was £1.13m satisfied on completion in cash, with a further payment of £1.50m in respect of surplus cash in the business at the date of acquisition. Contingent consideration of £0.15m is payable dependent on the outcome of certain warranty and indemnity claims in the period of one year after acquisition. Contingent consideration of up to £0.20m is payable dependent on profits generated in the two years after acquisition.

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

	Book value £'000	Adjustments £'000	Provisional fair value £'000
Assets			
Property, plant and equipment	22	–	22
Other intangible assets	–	626	626
Trade receivables	482	–	482
Current tax	30	–	30
Other current assets	97	–	97
Cash and cash equivalents	1,807	–	1,807
Liabilities			
Trade and other payables	(556)	–	(556)
Deferred tax liabilities	(2)	(156)	(158)
Net assets	1,880	470	2,350

	£'000
Consideration	
Initial cash consideration	1,130
Initial cash consideration in respect of surplus cash	1,500
Contingent cash consideration	350
	2,980
Goodwill	630
Acquisition costs charged to income statement	37

The initial accounting in the above tables of book values of the identifiable assets and liabilities acquired together with their values to the Group contain estimates in respect of the fair value adjustments required.

Notes to the Unaudited Half Yearly Report continued

5 Loans and borrowings

	Unaudited As at 31 December 2011 £'000	Unaudited As at 31 December 2010 £'000	Audited As at 30 June 2011 £'000
Non-current			
Bank loans and other facilities	**–**	10,699	11,489
Finance lease creditors	**–**	12	13
	–	10,711	11,502
Current			
Bank overdrafts	**–**	–	701
Bank loans and other facilities	**14,101**	2,726	3,420
Finance lease creditors	**10**	91	37
Loans from related parties	**640**	640	640
	14,751	3,457	4,798
Total borrowings	**14,751**	14,168	16,300

The bank loans and other facilities include a revolving credit facility which expires in December 2012.

6 Other non-current liabilities

	Unaudited As at 31 December 2011 £'000	Unaudited As at 31 December 2010 £'000	Audited As at 30 June 2011 £'000
Contingent consideration	**1,849**	483	–
Deferred consideration	**–**	386	304
Accruals	**66**	235	138
	1,915	1,104	442

7 Trade and other payables

	Unaudited As at 31 December 2011 £'000	Unaudited As at 31 December 2010 £'000	Audited As at 30 June 2011 £'000
Trade payables	**4,808**	4,131	4,717
Other payables	**315**	265	746
Deferred consideration	**190**	131	207
Accruals	**7,912**	5,817	6,437
Total financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost	**13,225**	10,344	12,107
Derivative financial instruments	**37**	138	72
Other tax and social security taxes	**3,976**	3,333	2,729
Contingent consideration	**2,436**	1,040	1,347
Deferred revenue	**10,626**	8,369	7,819
	30,300	23,224	24,074

Notes to the Unaudited Half Yearly Report continued

8 Notes to the cash flow statement

Cash generated from operations is stated after payments to regularise liabilities that were significantly outside normal statutory due dates and commercial terms at the date of acquiring companies, that the directors consider to be a cost of acquisition. In addition, cash flows from operations include acquisition costs and exceptional reorganisation costs arising as a result of acquisitions during the year. The adjusted cash generated from operations has been computed because the directors consider it more useful to shareholders and investors in assessing the underlying operating cash flow of the Group. The adjusted cash generated from operations is calculated as follows:

	Unaudited Six months ended 31 December 2011 £'000	Unaudited Six months ended 31 December 2010 £'000	Audited Year ended 30 June 2011 £'000
Cash generated from operating activities	**5,807**	4,912	5,640
Add:			
Regularising liabilities	**1,180**	914	1,693
Acquisition and reorganisation costs	**300**	146	942
Adjusted cash generated from operations	**7,287**	5,972	8,275

Acquisition of subsidiaries and other business units, net of cash acquired comprises:

	Unaudited Six months ended 31 December 2011 £'000	Unaudited Six months ended 31 December 2010 £'000	Audited Year ended 30 June 2011 £'000
Initial consideration (including costs incurred in 2010)	**(7,820)**	(2,512)	(4,219)
Cash balances acquired	**1,455**	(617)	(883)
Contingent and deferred consideration paid	**(187)**	(22)	(305)
	(6,552)	(3,151)	(5,407)

9 Notes to the Chairman's Statement and Business Review

*1 Group adjusted profit before tax is calculated before amortisation of acquired intangibles of £1.75m (2010: £1.43m) and acquisition and reorganisation costs of £0.50m (2010: £0.15m).

*2 Group adjusted profit from operations is calculated before amortisation of acquired intangibles of £1.75m (2010: 1.43m) and acquisition and reorganisation costs of £0.50m (2010: £0.15m).

*3 Adjusted profit from operations on acquisitions is calculated before amortisation of acquired intangibles of £0.08m and acquisition and reorganisation costs of £0.38m.

*4 Group adjusted earnings per share is calculated before amortisation of acquired intangibles (net of tax) of £1.19m (2010: £0.93m) and acquisition and reorganisation costs (net of tax) of £0.46m (2010: £0.15m).

*5 Microsoft UK Division adjusted profit from operations is calculated before amortisation of acquired intangibles of £0.20m (2010: £0.12m) and acquisition and reorganisation costs of £0.11m (2010: £nil).

*6 International Division adjusted profit from operations is calculated before amortisation of acquired intangibles of £0.60m (2010: £0.59m) and acquisition and reorganisation costs of £0.10m (2010: £nil).

*7 SYSPRO and Sage Division adjusted profit from operations is calculated before amortisation of acquired intangibles of £0.88m (2010: £0.62m) and acquisition and reorganisation costs of £0.17m (2010: £0.14m).

*8 Adjusted profit from operations on SYSPRO and Sage acquisitions is calculated before amortisation of acquired intangibles of £0.05m and acquisition and reorganisation costs of £0.17m.

*9 Managed Services Division adjusted profit from operations is calculated before amortisation of acquired intangibles of £0.08m (2010: £0.11m).

*10 Central costs are calculated before acquisition and reorganisation costs of £0.12m (2010: £nil).

10 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.

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