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COMPANY INFORMATION

K3 Business Technology Group plc (LSE:KBT)

Info sheet compiled Nov 2006

Company Eye Ranking	28/50

EDITOR'S NOTE

K3 Business Technology Group PLC is a Global leader in providing next-generation enterprise software for businesses in the Retail, Manufacturing and Distribution sectors. It has more than 3,000 customer installations in over 30 countries.
Over the past two years, the business has been fundamentally transformed through acquisition. The Group's earnings comprise a mix of new licence sales from the rapidly growing Retail and Distribution Divisions.
K3 Business Technology Group plc reported significant improvement in its operating performance made in the first half of 2006 compared to the same period in 2005.
This Company, in our opinion, has a good potential for short/medium term growth.

CHART

FUNDAMENTALS

Company Name	K3 Business Technology Group plc
Current Price	118
Status	AIM
Market Cap	22.76 m.
Shares in Issue	19.29[m]
Activities	Supply of computer software and consultancy
Sector	Software
Corporate advisor	Bridgewell Limited
Registrar	Capita Registrars

HISTORY

In March 2001, the Group completed its restructuring, with the disposal of the remaining hardware businesses, Harwood Hardware Limited, Welpac Hardware Limited and Anderson and Firmin Limited. At the same time, the Group acquired two enterprise resource planning ("ERP") software businesses, K3 Business Technology Group Limited and K3 Business Technology Software Limited. On completion of the restructuring, the Company changed its name from RAP Group plc to K3 Business Technology Group plc in order to reflect the Group's new focus.

THE BUSINESS

K3 Business Technology Group focuses on three sectors-retail, distribution, and manufacturing. The company develops Microsoft-based enterprise resource planning (ERP) software that clients use to manage functions such as accounting, marketing, and supply chain management. Its products include JoBOSS (workshop for engineers, machine shops, and subcontractors), SmartVision (ERP system), and Elucid (for distribution and multi-channel sales). The company serves such clients as marketing services company Database Direct, footwear retailer Cosyfeet, and Axminster Power Tools. Through the company's international network of consultants, K3 Business Technology Group serves more than 200 clients worldwide.

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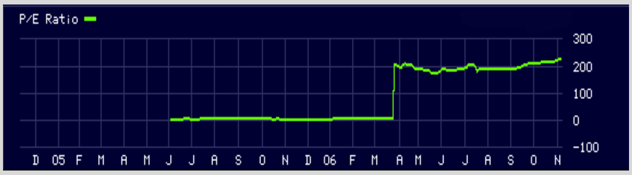
COMPANY INFORMATION

ROLLING EPS

P/E RATIO



ACTIVITIES

The Group's principal activity is supplying computer software and consultancy. The Group provides a scaleable range of Microsoft centric business solutions to the complementary markets of Retail, Distribution and Manufacturing. The Group offers solutions for companies that focus on sales and distribution, with integrated accounting, warehouse management, distribution and order processing. Its customers can track, manage and develop customer opportunities through multiple integrated sales channels. The Group's products include Sigma, Omnis, SmartVision and JobBOSS.

INVESTMENTS

The group has investments in the following subsidiary undertakings.
*K3 Elucid Limited.
*K3 Landsteinar Limited.
*K3 Landsteinar (Ireland) Limited.
*Miracle Hindsight Limited.
*Information Engineering Group Limited.
*K3 Information Engineering Limited.
*Integrated Manufacturing Software Limited.
*K3 Business Technology Group Trustees Company Limited.
The principal activity of all the subsidiary undertakings is the supply of computer software and consultancy, with the exception of K3 Elucid Limited which became dormant on 1 January 2005 when its trade and assets were transferred to its parent company, and K3 Business Technology Group Trustees Company Limited which is the trustee for the group’s employee share ownership plan.
All subsidiary undertakings are wholly owned and all shares consist of ordinary shares only, with the exception of K3 Information Engineering Limited where there are also preference shares.
All subsidiary undertakings operate in the United Kingdom and are registered in England and Wales, with the exception of K3 Landsteinar (Ireland) Limited and Integrated Manufacturing Software Limited which operate in the Republic of Ireland and are registered in the Republic of Ireland.

DIVISIONS

RETAIL SOFTWARE DIVISION
The company was seeking to acquire Microsoft-based retail solutions businesses as part of its growth strategy and in October 2004 the company completed the acquisition of the three companies, Alpha Landsteinar Limited, Alpha Landsteinar (Ireland) Limited and Miracle Hindsight Limited, that together comprise Alpha Landsteinar. Established in 1997, the business is recognised as one of the leading providers of retail management solutions within the mid-market space and it supports over 150 customers. It is a Microsoft Gold Partner and Microsoft’s largest Navision partner in the UK. Alpha Landsteinar, shortly was renamed to K3 Landsteinar

DISTRIBUTION SOFTWARE DIVISION
K3 provide one of the UK’s leading solutions for companies that focus on sales and distribution, with integrated accounting, warehouse management, distribution and order processing, customers can track, manage and develop customer opportunities through multiple integrated sales channels.

MANUFACTURING SOFTWARE DIVISION
Information Engineering, one of only two Syspro distributors in the UK, which The company acquired in June 2004.
K3 are the largest provider of SME manufacturing software in the UK and have a reputation for providing solutions that can be quickly and easily assimilated into businesses without any long costly delay during the implementation process.

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DEVELOPMENT HIGHLIGHTS

September 2006 - K3 announces new, ground-breaking version of SYSPRO ERP Software.
February 2006 - Leading golf specialists American Golf have announced that they have selected K3 Landsteinar to implement their new Retail System throughout their 63 stores in the UK.
August 2005 - K3 joins Microsoft's Inner Circle.
July 2005 - K3 signs SYSPRO distribution deal.
October 2004 - the acquisition of the entire share capital of the three companies that together comprise Alpha Landsteinar.
February 2004 - Microsoft Appoint K3 as a Strategic ISV.
March 2004 - sale of its Enterprise Systems Division, based in Crewe, to Azur Group Limited for £2.55m.
April 2004 - the acquisition of PSE Ltd, the warehousing and distribution management software company based in Lancashire.
September 2003 - K3 committed to becoming a leading authorised partner of Microsoft's new flagship business application – Microsoft CRM.

OUTLOOK

The Group is actively engaged in seeking appropriate acquisition opportunities to complement the existing business activities.
Its goal is to become the UK's market leading supplier of Microsoft-based supply chain management solutions to small and medium sized companies.
In the previous year, K3 Landsteinar won 12 major new retail contracts worth £7.53m, including significant second half orders from Gamestation (electronic games), Adidas (sportswear), James Cropper (papermakers) and Housing Units (furniture). These orders together with implementation and roll out programmes at Carpetright and Moss Pharmacy (now Alliance Pharmacy) helped deliver record results.
The Carpetright implementation entered its 'roll out' phase during 2006 when it was implementing in 450 stores throughout the UK. Each store require software licences and consultancy services. The implementation should therefore help to underpin revenues throughout 2007.

DIRECTORS

Thomas Adam Milne (Chairman)
Tom Milne, aged 59 years, is very well known within the retail software industry and he has substantial experience in developing successful software companies in this sector. Tom was the founder director of Riva Group plc, one of the first true Microsoft Windows retail software houses in the UK. He floated the company on the USM in 1988, and continued growing the business until his retirement in 1993. He then went on to found Metabet Ltd, which developed electronic point of sale terminals for betting shops. This was adopted by several major bookmakers, including Coral group, and the business was subsequently sold to Alphameric plc.
In recent years, Tom has maintained an active interest in the retail software sector. His current directorships are Retroform Limited and Team Knowledge Limited.

Nigel Andrew Makeham (Chief Executive Officer)
Andy was appointed Chief Executive in March 2001. He has over 20 years experience running or working in IT companies, most recently with Kewill Systems plc where he was a divisional sales and marketing director.

David John Bolton (Chief Financiel Officer)
David was appointed Chief Finance Officer of the group in September 1998. Having qualified as a chartered accountant in the mid-1970s with Ernst and Young, he has held various finance positions in quoted and unquoted companies, most notably BTR where he spent 12 years.

Russell Edward Dorset (Chief Operating Officer)
Russell joined K3 as Sales Director of the Business Systems Division in January 2001. He was appointed to the Board in March 2003 and became Chief Operating Officer in September 2004. He has a broad experience of the IT, commercial and industrial sectors. He was previously Sales Director for an operating company within Misys, and Ramesys where he led their development within the food retail sector. More recently he worked within the e-business applications division of Nortel.

Johan Claesson (Non Executive Director)
Johan was appointed a director in March 2001. He is a Swedish national whose principal business interests are in property development and real estate and is a director of a number of listed companies. He has a controlling interest in and is Chairman of Claesson and Anderzen AB ("C&A").

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SHAREHOLDINGS

	Number	%
Per Johan Claesson	3,961,448	20.5
Marlborough Fund Managers	1,040,000	5.38
Pennsylvania State Employees	732,763	4.1

	Number	%
David Bolton	762,300	4.0

FINANCIAL HISTORY

Profit and loss account

£000	Six months to 30th June 2006	Year to 31st Dec 2005
Turnover	12,733	22,029
Operating profit before goodwill amortisation	1,296	2,356
Goodwill amortisation	(1,106)	(1,752)
Continuing	190	604
Discontinued	-	-
Operating profit	190	604
Loss on disposal of operations	-	(90)
Net interest payable and similar charges	(140)	(287)
Profit on ordinary activities before taxation	50	227
Tax on profit on ordinary activities	(354)	(493)
Loss for the financial period	(304)	(266)
(Loss) earnings per share Basic and diluted:	(1.7p)	(1.8p)
Continuing	(1.7p)	(0.9p)
Discontinued	-	(0.9p)

Balance Sheet

£000	30th June 2006	31st December 2005
Development costs and intellectual property	239	162
Goodwill	14,656	15,682
Intangible fixed assets	14,895	15,844
Tangible assets	484	508
Investments	-	-
Fixed assets	15,379	16,352
Debtors	7,725	6,596
Cash at bank and in hand	64	874
Current assets	7,789	7,470
Creditors: amounts falling due within one year Convertible debt	-	-
Other creditors	(10,448)	(10,583)
Net current liabilities	(2,659)	(3,113)
Total assets less current liabilities	12,720	13,239
Creditors: amounts falling due after more than one year	(2,186)	(2,439)
Provisions for liabilities and charges	-	-
Net assets	10,534	10,800
Capital and reserves		
Called-up share capital	4,435	4,435
Share premium account	7,813	7,813
Other reserve	6,070	6,070
Share option reserve	122	83
Treasury shares	(21)	(20)
Profit and loss account	(7,885)	(7,581)
Equity shareholders' funds	10,534	10,800

FINANCIAL STATEMENT

For the six month period, Group turnover rose by 36% to £12.73m from £9.34m. This reflected a full six months' revenue contribution of £2.20m from Information Engineering acquired in June 2005 and strong growth in both the Retail and Distribution Software Divisions.

RISK FACTORS

In addition to the other relevant information, the following specific factors should be considered carefully when evaluating whether to make an investment in the Company. The investment offered in this document may not be suitable for all of its recipients. Before making an investment decision, prospective Investors should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. A prospective

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Investor should consider carefully whether an investment in the Company is suitable for him/her in the light of his/her personal circumstances and the financial resources available to him/her. There are various risk and other factors associated with an investment of the type described in this document. In particular:

The value of an investment in the Company is largely dependent upon the expertise of the Directors and their ability to identify and acquire or invest in suitable companies or businesses. There can be no certainty that the Company will be able to identify suitable acquisition targets or complete the purchase of any identified targets at a price the Directors consider acceptable. In the event of an aborted acquisition it is likely that resources may have been expended on investigative work and due diligence, which cannot be recovered.

The acquisition of other businesses can involve significant commercial and financial risks and there can be no certainty that any acquired business will not have a material adverse effect on the operations, results or financial position of the Company.

CONTACT

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85-89 High Street,
Walton on Thames,
Surrey,
KT12 1BX

RANKING

	Ranking out of 50 (50 being highest)
Business model - competitive advantage	
Competition	29
Customers	26
Low cost	26
Management	
- corporate governance	25
- quality	30
- shareholding	25
Product	29
Sector	27
Financial evaluation	
Early and profitable exit potential	31
Financial strength	
- cash flow	28
- conservative accounting	
- need for funding	
Growth at a reasonable price	29
Risk	26
Overall average rating	**28**

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FURTHER INFORMATION ABOUT THE RANKING

Competitive advantage
Companies are assessed according to their business model and how this translates into strong and sustainable competitive advantage. This can only be achieved with low cost activities and doing something different from the competition. This 'differentiation' must add value to the customer who is then prepared to pay a premium price. The differentiation is most obvious in the product but it can exist anywhere in the company's value chain of activities, such as easy payment terms, convenient locations, superior management, and quality of suppliers. Companies that do not achieve competitive advantage because they have the same costs and/or do the same as the competition are marooned in a profitless zone. They helplessly try to compete with the one weapon left open to them, which is the disaster of cutting prices and typically leads to similar retaliation by competitors, with disastrous results.

THE FOLLOWING ELABORATES ON THE RANKING CRITERIA

Competition
How intense is the competition and are there barriers to entry?

Customers
Is the company controlling its customers and therefore its revenue streams? Are customers glued to the company and providing valuable and reliable recurring revenue or are they one-off, or 'transactional', providing shaky revenue? The company should ideally have weak and numerous customers.

Low costs
Has the company achieved low cost activities thus allowing more of the top line revenue to trickle down to the profit line?

Management
Is there good corporate governance? What is the quality of management, as this is crucial to any business? Are the directors' shareholdings significant but not so large that they control the company?

Product
Is the product different from the competition and adds value to the customer? Are there threatening substitutes? Does it have a powerful brand?

Sector
Is the company in an attractive sector that is profitable and adds value? Services tend to be more protected than products from international competition. Does the sector ride the tailwind of multi-year mega trends? Is the business well positioned in the current stage of the economic cycle? What is its resistance to a recession?

Profitable exit potential
What is the potential for selling the share profitably? This is more applicable to pre-flotation investments.

Financial strength
Does the company have strong cash flow, the lifeblood of any business? Is the accounting conservative or is there 'accounting for growth'? Does it need more funding? Is the profit margin healthy and at least equal to its sector? What has been the track record in the growth rate of profits?

Growth at a reasonable price
Does the share offer growth at a reasonable price? This is commonly measured using the PEG. This is the price earnings ratio (PE) divided by the forecast growth rate in earnings per share (EPS). The lower the PEG the better and under 1.0 is considered good for a blue chip company and under 0.6 for a small growth company.

Risk
What is the risk rating of the share due to factors such as new markets, its business model and strategies?