K3 Business Technology Group PLC

Annual Report and Financial Statements for the year ended 30 November 2018

Registered number: 2641001

K3 Business Technology Group plc

K3 is a Business Technology group. Through our services, our partnerships and our software, we believe in making technology relevant for our retail, manufacturing and distribution customers.

We are passionate about providing end-to-end business technology solutions, further enhanced with deep knowledge of our chosen industry verticals, both on-premise and in the cloud.

AIM: KBT

k3btg.com

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K3 Business Technology Group plc Company Registration No. 2641001

Overview

Highlights

Summary

- Benefits of transformation strategy initiated two years ago now beginning to come through
- Balance sheet strengthened with net debt reduced to £0.6m at year end, helped by stronger cash generation
- Prospects for continuing progress, especially own IP sales strategy, remain very encouraging

Financial

The comparatives for 2017 are for a 17-month period to 30 November 2017

	12 months to 30 November 2018	17 months to 30 November 2017
Revenue	£83.3m	£118.2m
– recurring revenue as a % of total	48.3%	48.7%
– own IP revenue as a % of total	21.0%	19.8%
Gross margin	52.7%	51.6%
Adjusted profit from operations*1	£4.6m	Loss of £1.6m
Reported profit from operations	£0.7m	Loss of £14.8m
Adjusted profit before tax*2	£4.0m	Loss of £3.0m
Reported profit/(loss) before tax	£0.02m	Loss of £16.1m
Adjusted earnings per share*3 (2017 restated)	6.8p	Loss per share 3.0p
Reported earnings per share	(1.1)p	(35.3)p
Net cash generated from operating activities	£7.8m	£5.1m
Net debt*4	£0.6m	£4.3m
Dividend per share (final and total)	1.54p	1.40p

- Own IP gross margin increased to 73.6% (17 months to 30 November 2017: 64.1%)
- Recurring revenue gross margin on Own IP increased to 79.8% (17 months to 30 November 2017: 76.0%)

Operational

- ‘K3|imagine’ platform formally launched – a cornerstone product in Group’s own IP strategy
  - offers an easy-to-implement solution that provides latest functionality
  - post year end sales are encouraging
- Enterprise-focused product, ‘K3|fashion’, delivered a very strong performance, with channel partner strategy working very well
  - 11 major deals won compared to 7 over the 17 months period in 2017
- Global Accounts unit grew strongly. Office opened in Malaysia to support demand in the Far East
- Microsoft Dynamics businesses combined into a single practice – enhances customer service capability
- A firm platform for ongoing growth is now in place, following reorganisation and strategic refocusing
- Trading since the year end has been encouraging and the Board is confident of continuing progress

See note 28 on page 95 for further details

At a Glance

K3 is a leading provider of mission-critical Enterprise Resource Planning ("ERP") and other business solutions for customers who make, move and sell products in the supply chain sector.

We install and support software solutions based on own IP and on Microsoft, Sage and SYSPRO solutions. Our customer base is large, comprising around 3,700 companies in the UK, in Europe, the Far East and the USA. Once installed, our solutions typically generate high levels of recurring revenues through annual software maintenance renewals, support contracts and hosting, and customer relationships are very long, something we promote through high service levels. This also creates the opportunity for us to upgrade and offer additional products and solutions.

Own IP

K3's own IP is a cornerstone of the business and differentiates us in the market, drives higher margins and enables us to repeatedly service our customers with relevant solutions specifically designed for their vertical needs. It also enables us to extend our market reach by selling through partners globally.

Building on our already strong customer foundation, we are applying and extending our IP development expertise to new areas such as the development of K3|imagine – a cloud-native, ERP agnostic platform and library of scalable, fit for purpose apps that easily integrate into any existing infrastructure. This is a key enabler for our strategic future growth in the rapidly changing business applications landscape and enables us to design and develop relevant and value adding solutions for our customers.

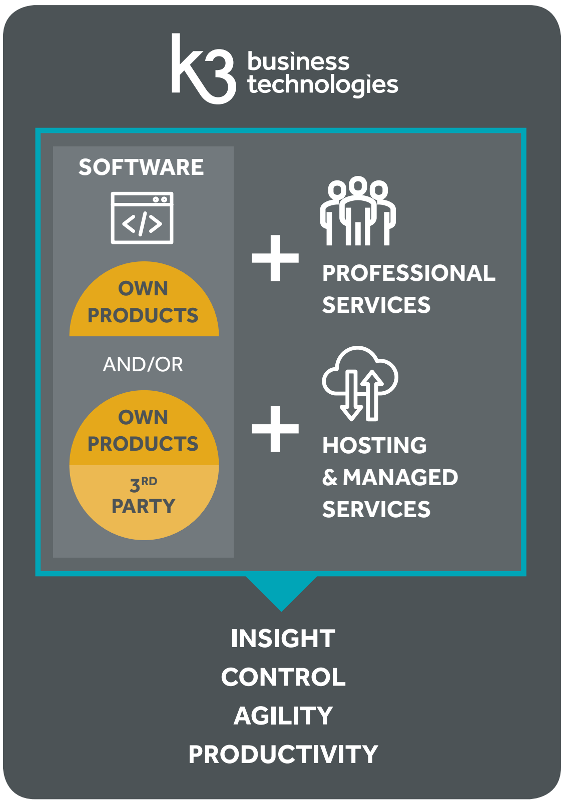
Our Customers

MAKE
- KEEP TRACK OF PRODUCTS IN PRODUCTION
- BUSINESS FORECASTING & REPORTING

MOVE
- OPTIMISE MY WAREHOUSE OPERATIONS
- CUSTOMISED REPLENISHMENT

SELL
- MULTI-SITE STOCK MANAGEMENT
- OMNI-CHANNEL PROMOTIONS & PRICING

Our Solutions



Routes to Market

In the UK & Ireland we provide end-to-end solutions and services for customers in supply chain driven industries. This includes the ERP platforms from Microsoft, SYSPRO and Sage, as well as 3rd party applications for specific verticals in combination with our own IP. We offer our customers the choice of having these solutions on premise, in the cloud or as a hybrid offering and we offer hosting and managed services capabilities backed by a 24/7 support desk.

K3 also offers highly specialised services to global customers and their unique eco-systems. We have the experience and business model processes to manage global implementations, especially in the franchise context where the franchisor defines the core system requirements and we implement for the franchisees using our own IP as an enabler where relevant.

Our cloud IP is sold throughout Europe, providing our customer with packaged Software as a Service (SaaS) solutions that require minimal implementation effort and support. Among other things, this model provides customers with a very quick return on investment by using standardised cloud software.

Furthermore, we have a growing eco-system of reselling partners and system integrators to sell our IP globally. In addition to our IP, we provide deep vertical and product subject matter expertise as a packaged solution to support our partners with the implementation and support services.

Our Revenue Streams

Strategic Report

Chairman's Statement

Overview

We are very pleased to report that K3 has returned to profitability at the operating level, with an adjusted profit from operations[*1] for the financial year of £4.6m, against an adjusted loss from operations[*1] of £1.6m in the 17-month period to 30 November 2017. Reported profit from operations was £0.7m (17 months ended 30 November 2017: loss of £14.8m). As importantly, cash generation was significantly stronger too and helped to drive an 86% reduction in net debt at the year end to £0.6m from £4.3m at 30 November 2017.

These results are very encouraging and better than original market expectations. They reflect the initiatives we started some two years ago to strengthen and reposition the Group.

The key elements of our transformation strategy have been focused on increasing sales of our intellectual property ("IP"), integrating our operations for greater synergies, and improving our customer delivery capability and routes to market. The formal launch of 'K3|imagine', our cutting-edge, cloud-native product, in the final quarter of the financial year was an important step in our growth strategy, and it has made good progress since then. We see 'K3|imagine' as a cornerstone product for the Group as we increase own IP sales within our overall offering.

Looking ahead, we remain very positive about K3's growth prospects in the new financial year and will continue to focus on growing own IP sales, operational efficiency, and cash generation.

**See note 28 on page 95 for further details*

Business Model and Performance

K3 is a leading provider of mission-critical Enterprise Resource Planning ("ERP") and other business solutions for customers who make, move and sell products in the supply chain sector.

We install and support software solutions based on own IP and on Microsoft, Sage and SYSPRO solutions. Our customer base is large, comprising around 3,700 companies in the UK, Europe, the Far East and USA. Once installed, our solutions typically generate high levels of recurring revenues through annual software maintenance renewals, support contracts and hosting, and customer relationships are very long, something we promote through high service levels. This also creates the opportunity for us to upgrade and offer additional products and solutions.

A core element of our growth strategy is to increase revenues from our own IP, which benefits margins and recurring revenues. Our IP underpins our 'stand-alone' products and is also embedded within specific third-party ERP solutions, including Microsoft's. As part of a third-party product, our IP enriches the existing solution with additional functionality and enables us to tailor it for specific market sectors. In doing so, we are able to strongly differentiate our offering from that of the competition, and it also helps to underpin strong customer relationships. While the majority of our sales are direct, through our sales teams, we also sell through channel partners. These indirect sales have the potential to be a major profit driver for the Group and remain a key focus for future growth.

Over the year, our reinvigorated model has supported good sales and margin growth. The change in our market approach for our Enterprise-related product, 'K3|fashion' (our own IP add-on to a Microsoft ERP product that we previously sold as 'ax|is Fashion') – shifting more towards channel partner sales – is working well, and some major new wins were secured during the year through System Integrators ("SI"). We have also established a new "sell with" relationship with Microsoft, which has resulted in some good new customer wins, helped by a more confident outlook in international markets.

Our revenue percentage from non-UK markets is now 44.0% compared to 32.5% in the 17 months to 30 November 2017. This has been largely driven by the growth in sales from both our channel partner network and from our Global Accounts unit.

During the year we completed and launched the 'K3|imagine' platform, a class-leading, cloud native product, which offers customers a scalable platform and easy-to-integrate point solutions. These point solutions include simple apps such as our mobilePOS solution, as well as more complex solutions such as kiosks. We also intend to provide customers with access to the 'K3|imagine' platform itself for their own bespoke apps. All these propositions are provided to customers on a Software-as-a-Service ("SaaS") basis i.e. on a consumption model.

An important selling point for the 'K3|imagine' platform and our point solutions is that they can be easily and quickly integrated into any existing IT infrastructure. Customers therefore do not need to replace core systems, unlike traditional solutions. As a result, the whole offering enables customers to adopt innovative solutions and applications rapidly and flexibly. It also provides them with a faster return-on-investment and extends the life of their previous IT investments. We plan to develop new applications for 'K3|imagine', working in conjunction with customers, and will be using proven routes to markets to develop sales in new geographies.

As previously announced, we created a single, Group-level IP unit that is responsible for software development and own IP management. This measure has improved resource utilisation and allows for a more commercially-focused approach, increasing the linkage between our 'build' and 'sell' teams.

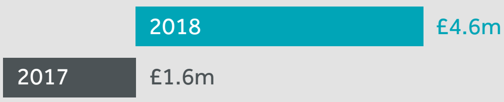
Following the completion of the review into the Group's resources at the beginning of the financial year, we announced that we would be combining our Microsoft Dynamics businesses (AX, NAV and CRM) into a single practice to enhance our customer service capability. We are pleased to report that this was successfully concluded during the year. Together the restructuring and efficiency programmes are enabling us to convert earnings more efficiently into cash. At the same time, we are also investing in growth areas notably in our own IP and internationally.

During the year, we also opened an office in Kuala Lumpur, Malaysia, to support our continuing growth in the Far East, especially at our Global Accounts operation.

Financial Results

Adjusted profit/(loss) from operations

£4.6m



"The Group's gross margin percentage increased, reflecting the increased focus of selling our IP.

It should be noted that all comparative figures for 2017 refer to the 17-month period to 30 November 2017.

K3 generated an adjusted profit from operations[*1] of £4.6m (2017: adjusted loss from operations[*1] of £1.6m), a £6.2m turnaround. We incurred charges relating to our Microsoft Dynamics combination programme, including exceptional reorganisation costs of £1.4m (2017: £4.7m). After adjusting for these exceptional costs, and for amortisation of intangibles of £2.5m and share-based payment charge of £0.1m, the profit from operations was £0.7m (2017: loss from operations of £14.8m – with exceptional costs at £4.7m, amortisation of intangibles at £3.9m, and share-based payment charge at nil). The Board considers it useful to include the share-based payment charge within exceptional items because the amount can fluctuate significantly. The share-based payment charge related to the share options granted during the year to 30 November 2018.

Adjusted earnings per share[*3] was 6.8p (2017: adjusted loss per share[*3] of 3.0p as restated), and the basic loss per share reduced to 1.1p (2017: loss per share of 35.3p).

The Group's gross margin percentage increased, reflecting the increased focus of selling our IP, which carries a higher gross margin, as well as better resource utilisation and chargeability in Services. This will remain a focus for the Group over the new financial year.

The major factors influencing the outcome for the period are discussed in the Operational Review.

*See note 28 on page 95 for further details

Balance Sheet and Cash Generation

The Group's working capital continues to improve and has helped to drive strong cash generation together with the improvement in adjusted profit from operations*[1]. At the financial year end, net debt stood at £0.6m, which is a £3.7m improvement from the same point in 2017 (30 November 2017: net debt of £4.3m).

The Group is currently close to finalising an expected extension of its current banking facilities, which expire in October 2019, to March 2021.

Dividend

The Board is pleased to propose an increased final (and total) dividend for the financial year of 1.54p per share (2017: 1.4p), which will become payable, subject to shareholder approval, on the 14 June 2019 to all shareholders on the register on 17 May 2019.

K3's Annual General Meeting will be held on 22 May 2019 at 10.30am at the offices of finnCap Limited, 60 New Broad Street, London, EC2M 1JJ.

Staff

We would like to thank our employees for their dedication and efforts over the financial year. The Company's move into profitability has been supported by their ability and talent, and we look forward to building on the momentum that is now back in the business.

Brexit

The Board has assessed the risk from Brexit and currently does not believe that Brexit, including a 'no-deal' Brexit, will have a material impact on the Group. This view reflects the 'in-country' nature of software implementations and the fact that software deployment does not have physical logistics challenges. However, we are mindful of the potential impact it may have on economic activity in general and on our UK based customers, in particular potentially lengthening decision-making processes. However much of the Group's growth is focused on international markets. The Group's consolidated reported earnings, which are denominated in sterling, would be impacted by any changes in revaluation of non-sterling earnings caused by currency movements.

Outlook

The benefits of the extensive changes we have made to the business over the past two years are now increasingly showing through in our results.

Looking forward over the next financial year, the Group is in a significantly better position to increase profitability and to grow. Sales of products based on our own IP, particularly 'K3|imagine', have the potential to be a material driver of margins and recurring income. Since the year end, we have launched a number of 'K3|imagine' modules, including a warehouse management product, and early sales of these new applications have been encouraging, with uptake in Asia, Scandinavia and the UK. We have also consolidated sales and marketing into a global team and are in the process of strengthening our sales capability. We will continue to look for internal efficiencies and to realign resource to focus on growth opportunities. The pipeline of deals for 'K3|fashion' is promising, with some large deals expected.

In addition, the Group is now generating stronger cash flows and its recurring income, which accounts for nearly half total revenues, provides a solid financial underpinning.

As we have highlighted before, K3's revenue profile is changing, reflecting the shift towards 'consumption-based' models, away from 'on-premise' solutions. The effect of this shift is a flattening of the Group's growth profile since revenues are spread over a longer term, rather than paid upfront under the traditional model, and we expect this trend to accelerate.

Trading since end of the financial year has been encouraging and we continue to view prospects positively notwithstanding any further Brexit-related uncertainties. We expect to see the traditional seasonality between the two halves of the financial year, with earnings and cash flows being stronger in the second half than the first half. The difference is principally being due to the timing of a large proportion of software licence and maintenance contract renewals.

S Darling
Chairman
18 March 2019

**See note 28 on page 95 for further details*

Chief Executive's Review

Key Performance Indicators

The Board considers the key performance indicators by which it measures the performance of the Group to be revenue, recurring revenue (both the level and the percentage of total revenue), gross margin, profit from operations and earnings per share, both adjusted for amortisation of acquired intangibles, acquisition costs, exceptional reorganisation costs and exceptional income. The key performance indicators used by the Board are summarised below and the table sets out K3's performance for the year under review.

Own IP revenue

21.0% of total revenues

Gross margin percentage

52.7%

	Year ended 30 November 2018	17 months ended 30 November 2017
Revenue (£'000)	83,335	118,176
Recurring revenue (£'000)	40,291	57,573
Percentage of recurring revenue	48.3%	48.7%
Gross margin percentage	52.7%	51.6%
Adjusted profit/(loss) from operations (£'000)*1	4,649	(1,666)
Adjusted EPS (pence)*3	6.8p	(3.0p)

Recurring revenue for the year were 48.3% of the Group's total revenue (17 months to 30 November 2017: 48.7% – which benefited from two cycles of SYSPRO licence and support renewals). Own IP revenue increased to 21.0% of total revenues (17 months to 30 November 2017: 19.8%), which is very encouraging. The greater proportion of revenue resulting from own IP sales has contributed to an increase in both the level of gross profit and the gross margin % which increased from 51.6% to 52.7%.

*See note 28 on page 95 for further details

Definitions

Revenue is the gross revenue as reported in the financial statements, comprising software, hardware, services, and recurring revenue. This is a key measure of activity within each business segment and for the Group as a whole.

Recurring revenue is the income provided for software maintenance renewals, support contracts for software used by our customers and hosting and managed services. This is a key indicator in measuring the underlying resilience and growth of the business.

Percentage of recurring revenue measures the growth of income providing core stability to the business.

Gross margin percentage is calculated as gross profit as a percentage of revenue. This measure identifies the level of contribution derived from each sale or component thereof.

Adjusted profit from operations is calculated as profit from operations per the financial statements, adjusted for the impact of amortisation of acquired intangibles, acquisition costs, exceptional costs and exceptional income. This is a key performance indicator for many listed companies and is considered by the directors a better reflection of the trading performance of the business in both the period under review and for comparison between periods.

Adjusted EPS is calculated as profit for the period, adjusted for the tax affected impact of acquired intangibles amortisation, acquisition costs, exceptional costs and exceptional income, divided by the weighted average number of shares during the period. This is a key performance indicator for many listed companies and is considered by the directors to be useful to shareholders and investors as it provides a better reflection of the trading performance of the business in both the period under review and for comparison between periods. The adjusted EPS/(LPS) for the 17 months ended 30 November 2017 has been amended to reflect that there was no tax charge or credit recognised in the period on either the exceptional reorganisation costs or on the exceptional impairment charge. The calculation has been amended to reflect the actual tax charge or credit directly allocable rather than on an effective tax rate as previously determined as the directors consider this to be a fairer representation.

> "The Group has a very high proportion of 'low risk' gross profit, which is derived from recurring revenue, long-term contracted services and account management revenue. Circa 80% of gross profit is generated from these sources.

Operational Review

Our segmental reporting reflects our objective to focus on driving own IP sales.

It should be noted that the comparative figures for 2017 cover a 17-month period to 30 November 2017

	Revenue		Gross Profit		Adjusted Profit	
	2018 £m	2017 17 months £m	2018 £m	2017 17 months £m	2018 £m	2017 17 months £m
Own IP*6	17.5	23.4	12.9	15.0	4.2	0.9
Supply Chain Solutions & Managed Services*5	65.8	94.8	31.0	46.0	6.5	4.7
Support Costs*7	–	–	–	–	(6.1)	(7.2)
Total	**83.3**	118.2	**43.9**	61.0	**4.6**	(1.6)

	2018	2017 17 months
Gross margin	52.7%	51.6%
Recurring revenue:** as a percentage of total revenue	48.3%	48.7%
Own IP revenues*: as a percentage of total revenue	21.0%	19.8%
Own IP gross profit: as a percentage of total gross profit	29.3%	24.6%

**Own IP revenues from K3 IP* includes initial and annual software licences and those additional revenues which flow directly from K3 IP.

***Recurring revenue* comprises software maintenance renewals, support contracts, and hosting & managed services.

The Group generated revenue of £83.3m for the year. This can be compared to unaudited revenue of £82.7m for the 12-month period to 30 November 2017, and shows an 0.8% increase.

Recurring revenue accounted for 48.3% of the Group's total revenue for the year (17 months to 30 November 2017: 48.7% – which benefited from two cycles of SYSPRO licence and support renewals).

Own IP revenue of £17.5m made up 21.0% of total revenues (17 months to 30 November 2017: 19.8%), which is very encouraging.

Gross profit for the year was £43.9m and an unaudited equivalent comparison would show a 5.5% increase year-on-year. The impact of own IP sales on gross profit is very pronounced, with own IP gross profit making up 29.3% of the Group's gross profit (17 months to 30 November 2017: 24.6%).

In addition, the Group has a very high proportion of 'low risk' gross profit, which is derived from recurring revenue, long-term contracted services and account management revenue. Circa 80% of gross profit is generated from these sources.

The Group has moved from an adjusted loss from operations*1 of £1.6m for the 17 months to 30 November 2017 to an adjusted profit from operations*1 of £4.6m for the 12 months to 30 November 2018. This excellent result was driven by the increase in sales of own IP, especially 'K3|fashion', together with services growth and margin expansion in Supply Chain Solutions.

**See note 28 on page 95 for further details*

Supply Chain Solutions and Managed Services

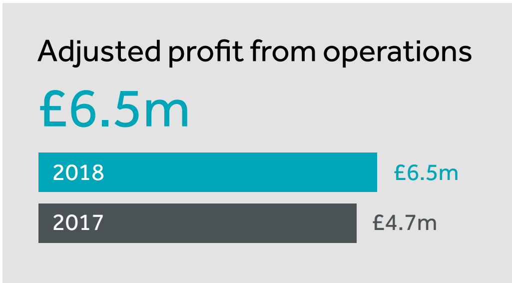
K3's business solutions and managed services are tailored to the requirement of the supply chain industry, including retailers, manufacturers and distributors. The Group's core offering is based on Microsoft, SYSPRO and Sage solutions.

	Revenue		Gross Profit		Gross Margin	
	2018 £m	2017 17 months £m	2018 £m	2017 17 months £m	2018	2017 17 months
Software licences	5.3	10.4	2.7	5.6	50.7%	54.0%
Services*	27.4	34.7	7.3	8.8	26.8%	25.3%
Recurring**	31.4	45.4	20.5	30.5	65.0%	67.0%
Hardware and other	1.7	4.3	0.5	1.1	31.1%	26.7%
Total	**65.8**	94.8	**31.0**	46.0	**47.1%**	48.4%

**Services revenue* comprises installation, integration and software development services.

***Recurring revenue* comprises software maintenance renewals, support contracts, and hosting & managed services.

	2018	2017 17 months
Adjusted profit from operations[*5] (£m)	**6.5**	4.7
Recurring revenue as % of total revenues	**47.8%**	47.9%
Customer adds (like-for-like)	**82**	87



Supply Chain Solutions & Managed Services' revenue for the year was £65.8m (17 months to 30 November 2017: £94.8m), with gross margin at 47.1% (17 months to 30 November 2017: 48.4 %). Recurring revenues made up 47.8% of total revenues. Gross margin was 47.1% and shows a decrease on the 17-month period to 30 November 2017, because 2017 benefited from two cycles of SYSPRO renewals, which has higher associated margin. Services gross margins benefited from better utilisation following the integration of the Dynamics practices and Global Accounts growth. The Microsoft Dynamics integration resulted in the operational and legal merger of our three Dynamics practices and resulted in some exceptional costs. Software margins reduced due to a higher proportion of resale software being from lower margin vendors.

**See note 28 on page 95 for further details*

Our Global Accounts business, which includes our relationship with Inter IKEA Systems B.V. (the owner and franchisor of the IKEA concept) and the Inter IKEA Concept franchisees, performed very strongly. Growth is coming from the expansion of franchisee stores, new franchisees being appointed, as well as penetration of own IP into franchisees. Over the last two years, we have doubled the headcount within Global Accounts, and in Spring 2018, we opened an office in Kuala Lumpur, Malaysia to better service growth from the Far Eastern franchisee. We will continue to add resource as required. During the year, we delivered the first franchisee roll out of the IKEA CRM platform. We have also started to sell our Dataswitch product to the Global Accounts customer base and, after the year end, we delivered the first 'K3|imagine' warehouse solution, Mobile Goods Flow in Asia.

The SYSPRO business continues to generate strong cash flows and delivered good results. Customer renewals of software licences remained high at 98% (2017: 98%). Both the Sage and Managed Service & Hosting practices continued to improve and generated good profits. As mentioned above, we combined the Microsoft Dynamics units (AX, NAV, CRM) into one practice, benefiting Services gross margins.

Within the Microsoft Dynamics space, we are experiencing a gear-shift in how technology is being delivered, with the model changing from 'on-premise' technology to cloud-based delivery and the associated move to the consumption/subscription pricing model, away from large up-front software licence payments. However, we believe the benefit for K3 will be cloud-based solutions becoming more standardised and thus creating additional opportunities for our products, including 'K3|fashion' and 'K3|pebblestone'. There is also less complexity to implementations, so reducing risk. The move towards cloud-based consumption licensing has positive long-term implications for the Group. The lifetime value of customer relationships under this new model has the potential to be significantly higher compared to the traditional model of perpetual software licences (which are typically paid upfront at the start of a relationship). The shift will affect the Group's rate of reported revenue growth though, since income from cloud/consumption-based contracts is recognised over longer periods. We also report consumption-based income as recurring revenue (as opposed to software revenue under the perpetual software licence model).

Own IP

K3's IP is used in two ways:

- it is embedded into third party solutions to add extra functionality and produce a richer overall solution for K3's target markets; and
- sold in solely-authored stand-alone solutions.

For instance, 'K3|fashion' and 'K3|pebblestone' are two products that are based on Microsoft Dynamics, while 'Dataswitch', 'DdD' and 'K3|imagine' have been solely authored by K3 and are sold as discrete solutions. K3's strategy is to increase the proportion of own IP sales.

	Revenue		Gross Profit		Gross Margin	
	2018 £m	2017 17 months £m	2018 £m	2017 17 months £m	2018	2017 17 months
Software licences	4.3	2.9	4.0	2.6	94.4%	88.4%
Services*	1.6	3.4	0.7	1.3	44.9%	38.2%
Recurring**	8.8	12.1	7.1	9.2	79.8%	76.0%
Hardware and other	2.8	5.0	1.1	1.9	38.2%	38.4%
Total	**17.5**	23.4	**12.9**	15.0	**73.6%**	64.1%

*Services revenue comprises installation, integration and software development services.
**Recurring revenue comprises software maintenance renewals, support contracts, and hosting & managed services.

	2018	2017 17 months
Adjusted profit from operations*[6] (£m)	**4.2**	0.9
Recurring revenue as % of total revenues	**50.6%**	52.0%
Customer adds (like-for-like)	**280**	340

Total revenue from own IP over the year amounted to £17.5m (17 months to 30 November 2017: £23.4m), with gross margins at 73.6% (17 months to 30 November 2017: 64.1%). Recurring revenues gross margin was 79.8% in 2018, up from 76.0% in 2017. Gross profit was £12.9m (17 months to 30 November 2017: £15.0m) up 22% on a pro-rata basis.

As a share of gross profit, software licences accounted for 31.0% (17 months to 30 November 2017: 17.3%), driven by the strong sales of 'K3|fashion' through channel partners and SI's, where K3 does not take on the implementation process.

See note 28 on page 95 for further details

Sales of 'K3|fashion' recovered markedly in the year. We closed 11 deals in 2018 compared to 7 deals in the 17-month period to November 2017, a pro-rata increase of 220%. Average deal size also increased. In addition, existing customers of 'K3|fashion' also increased the number of their licences of the product. Channel partner sales were especially strong and we were pleased to see four deals won in the North American market. Major new customer wins included SanMar, a leading US-based supplier of apparel and accessories, Columbia Sportswear, the US-based manufacturer and distributor of outdoor apparel and products, and Oberalp, the European sports clothing and equipment manufacturer and retailer. The strong upturn in deals reflects a number of factors including increasing acceptance of the cloud-based Dynamics 365, our "sell with" relationship with Microsoft, a reinvigorated K3 sales force and IP team. The standardised evergreen nature of Dynamics 365 with continuous updates also means that customers are seeking IP solutions such as 'K3|fashion' instead of updating bespoke work.

Sales of 'K3|pebblestone', our leading business software for the mid-market fashion industry, which we also sell through channel partners, continued to be strong, as in the prior year.

Dataswitch, which is K3's integration suite saw its first full year of trading as a stand-alone product and it generated good sales in line with our expectations. Dataswitch technology also forms the integration layer of our 'K3|imagine' suite, linking it to any IT infrastructure.

DdD, which was acquired in 2016, performed well. The DdD product offering has been migrated to our 'K3|imagine' mPOS point solution and we are excited about new geographic opportunities for sales expansion.

The development and formal launch this year of the 'K3|imagine' platform and modules have been an important step for us. The platform enables us to integrate leading-edge 'module' solutions into any existing IT infrastructure swiftly and cost-effectively. It therefore enables us to bring product innovation and the full power of the cloud to customers in a commercially and operationally attractive way. Our first suite of modules for Imagine are based around our retail offerings, and Imagine mPOS is currently being rolled out in mainland Europe. We plan to expand our portfolio of Imagine solutions so that they are relevant across the supply chain sector. Our offering will range from simple apps to more complex solutions, such as kiosks, and in a further innovation will enable customers to access the Imagine platform for their own bespoke apps. We are working on a number of exciting 'K3|imagine' projects and implementations with new and existing customers, and view prospects for the platform and modules very positively.

Support Costs

Support costs include PLC-related costs, director costs, human resources, internal IT, accounting and legal personnel, as well as Group marketing costs. Costs are stated net of recovery of elements recharged to operating units. Support costs[*7] for the 12-month period amounted to £6.0m (17 months to 30 November 2017: £7.3m).

Outlook

We are encouraged by the progress the Group has made, in particular by own IP business units and by the volume and quality of recent new deals for 'K3|fashion'. We believe that 'K3|imagine' has very strong growth potential and have a clear strategy to expand and drive its growth, both with new and existing customers.

We remain focused on improving the Group's performance and in particular driving own IP revenues, and are confident of continuing progress.

Adalsteinn Valdimarsson
Chief Executive Officer

**See note 28 on page 95 for further details*

Financial Review

Trading Results

It should be noted that all comparative figures for 2017 refer to the 17-month period to 30 November 2017.

Revenue for the year ended 30 November 2018 was £83.3m (2017: £118.2m which benefitted from two cycles of SYSPRO licence and support renewals) and gross profit of £43.9m compared to £60.9m for 2017 with gross margins of 52.7% and 51.6% respectively. Compared to the equivalent unaudited revenue for the 12-month period to 30 November 2017 of £82.7m, the revenue for the 12 months to 30 November 2018 represents an increase of 0.8% and there was an increase of 5.5% in gross profit.

The Group registered an adjusted profit from operations[*1] of £4.6m (2017: adjusted loss[*1] of £1.6m). The profit from operations was £0.7m (2017: loss of £14.8m).

During the year, the Group incurred exceptional reorganisation costs of £1.4m (2017: £4.7m). The costs in the year related largely to the consolidation of our UK Microsoft Dynamics operations. The costs in the prior period related to organisational and management changes across the Group in order to streamline the organisation and centralise product and support functions. In addition, during the prior period, an exceptional impairment charge of £4.5m was made against development costs for certain products which are no longer core to the Group's strategy. The amortisation of acquired intangible assets was £2.5m (2017: £3.9m). Finance costs were £0.7m (2017: £1.4m). During the year, the Group has granted share options for which the charge is £0.1m (2017: nil). This has been shown separately as the Board considers it useful to highlight to shareholders and as the amount can fluctuate significantly. After tax, the resulting loss for the year was £0.5m (2017: loss of £13.4m).

Earnings per Share and Dividends

Adjusted earnings per share[*3] was 6.8p (2017: adjusted loss per share[*3]: 3.0p). Loss per share was 1.1p (2017: loss per share: 35.3p).

The directors propose to pay a dividend of 1.54p per share (2017: 1.4p).

Taxation

There was a tax charge for the year of £0.5m (2017: credit of £2.8m) comprising a charge of £1.2m (2017: credit of £0.6m) for current taxation and a credit of £0.7m (2017: £2.2m) for deferred taxation, of which £0.6m (2017: £0.9m) related to the amortisation of intangible assets. The charge for current taxation includes an adjustment in respect of prior periods of £0.7m (2017: credit of £0.2m) of which £0.4m relates to the UK subsidiaries, £0.2m to Irish subsidiaries and £0.1m to Dutch subsidiaries. The deferred tax credit includes a net increase of £0.2m in respect of losses which the directors consider it is probable will be recovered but no asset has been recognised in respect of losses of £2.3m for which the recoverability is uncertain and for which the credit to the income statement would have been £0.4m. The effective tax rate is determined as the tax expense/(credit) divided by the accounting profit/(loss) before tax. The Group's tax rate is sensitive to the geographical mix of its profits and losses. The effective tax rate for the year in the tax jurisdictions in which the Group is paying tax is 21.7% with the effective tax rate for the UK being nil due to the availability of tax losses. The effective tax rate excluding the impact of the change in the rate of deferred tax for the 17-month period ended 30 November 2017 was 16%.

**See note 28 on page 95 for further details*

> The improved adjusted profit from operations and continued working capital improvements have resulted in the Group's net cash flow being an inflow of £5.0m compared to an outflow of £0.9m during the prior period.

Balance Sheet

Additions to development costs were £2.6m compared to £6.2m in the previous period, which reflects a more focussed approach to our software development together with it being a 12-month period compared to the previous period being 17 months. Amortisation of development costs was £2.6m (2017: £5.0m plus an impairment charge of £4.5m as discussed above within trading results). There have been no changes to goodwill other than the effect of exchange rate movements and no additions to other intangible assets (other than development costs). The amortisation charge on these other intangible assets was £2.5m compared to £3.9m, reflecting both the shorter period of 12 months compared to 17 months and that some of the assets are now fully amortised.

Trade receivables and accrued income are lower than at 30 November 2017 by a combined amount of £2.5m reflecting the continued tight approach to working capital management and the reduced level of multi-year deals. Trade payables and accruals are also lower than at 30 November 2017 by a combined amount of £1.4m.

The bank loans are now due within one year as the existing banking facilities expire in October 2019. Hence the bank borrowings of £7.5m (2017: £6.1m) are now shown within current liabilities whereas at 30 November 2017 the amount was within non-current liabilities. This has resulted in net current liabilities at 30 November 2018 of £2.3m whereas at 30 November there were net current assets of £2.9m. The Group is currently close to finalising an expected extension of its current banking facilities, which expire in October 2019, to March 2021.

Cash Flow and Net Debt

The net debt position at 30 November 2018 was £0.6m (2017: £4.3m).

The improved adjusted profit from operations[*1] and continued working capital improvements have resulted in the Group's net cash flow being an inflow of £5.0m compared to an outflow of £0.9m in the prior period. The Group's cashflow from operations in the period was £8.6m compared to £5.9m in the previous period.

Robert Price
Chief Financial Officer

**See note 28 on page 95 for further details*

Risk Management

There are a number of potential risks and uncertainties, which could have a material impact on the Group's performance and could cause actual results to differ materially from expected and historical results. The Group's risk management policies and procedures to deal with operational risk are included in the Corporate Governance report on pages 27 and 28. The principal business risks which the Group faces can be categorised as follows:

Strategic

Changes in the business environment influence the Group's development in terms of the strategies which it pursues and the products and services it offers. These changes may stem from market competition or economic and technological advancement. The directors regularly review the Group's strategic progress and obtain market information to assist in strategic decisions around products, competitors and potential acquisitions. We recognise that acquisitions have played a key role in the past growth of the business and as we evaluate growth opportunities for customer acquisition and product functionality, we will evaluate opportunities through the prism of buy, build or partner.

We see the ownership of intellectual property as being critical to the future of the business, both in terms of point solutions and innovative add-ons to third party products. We see the continuing development of our own IP from point solutions such as K3|imagine and add-ons such as K3|fashion as key strategic drivers over the future years. The ability to widen our channels to market these products is also a key driver.

Business Environment

The Group's customer base is mainly in the United Kingdom and Europe. The environment in which the Group offers its products and services is, therefore, dependent on the economic and other circumstances affecting these business sectors including competitor behaviour. Over the years we have developed a creative, innovative, competitive culture and a reputation for advanced functionality and product quality. The Group has made significant investment in its library of IP which protects the business from competition and increases the barrier to entry in our specialist markets. This has enabled the Group to build high levels of predictable income from its existing customer base, both in the UK and in its overseas markets. The Group's exposures to mainstream UK Retail High Street is not high and the Group is mitigating exposure by growing more internationally and investing in our new Imagine offering is focused on faster return on investment for customers.

As mentioned in the Chairman's statement, the Board has assessed the risk from Brexit and does not believe that Brexit, including a no deal Brexit, would have a material impact on the Group due to the in-country nature of implementations and that software deployment does not have physical logistics challenges. The Group GBP consolidated reported earnings would be impacted by any changes in revaluation of non-GBP earnings caused by currency movements.

Relationships

The Group benefits from a number of close commercial relationships with key suppliers and customers. Damage to or loss of these relationships could have a direct and detrimental effect on the Group's results. The key Group supplier relationships are secured by commercial agreements lasting for up to 5 years and management participate in regular product and strategy reviews with the supplier. On an annual basis our customers commit to maintenance and support agreements that facilitate availability of product upgrades and business support.

Delivery

Our products and services operate in business-critical areas for our customers and any failure to meet contractual commitments and client expectations could damage our reputation and impact upon our financial position. To mitigate this risk we monitor our performance continuously against contractual commitments and expectations and deploy a wide range of experienced technical specialists and project managers to evaluate performance.

As delivery of products migrates to the cloud hosted and cloud native solutions the Group will also be increasingly responsible for access and data breaches. We mitigate this risk with security controls over our hosting and data centre.

Financial

Whilst all risks may be considered to have a financial impact, the management of the Group's financial resources represents a key area of focus. Financial risks are faced in ensuring sufficient funds are available to meet financial commitments as and when they fall due and protecting the Group's financial strength against adverse movements in financial markets. Further details are provided in note 17.

- **Credit risk** – The Group's credit risk is primarily attributable to its trade receivables and accrued income. The amounts presented in the statement of financial position are net of allowances for doubtful debts, estimated by the Group's management based on prior experience and their assessment of the current economic environment. The Group operates in three key verticals and hence the credit risk is concentrated on retail, manufacturing and distribution customers. The Group manages credit risk by ensuring that outlays by the Group are matched with receipts from customers where possible and by tight control over contractual terms.
- **Currency risk** – The Group's currency risk is primarily attributable to its trade receivables where certain customers are billed in US Dollars, Euros and other currencies, where these are not the functional currency of the Group company. Where possible the risk is hedged by amounts payable in those currencies. The Board does not believe Brexit represents a major risk to activities.
- **Liquidity and cash flow** – The Group has a bank loan and ensures that it has sufficient funds to meet its obligations or commitments associated with its financial instruments by monitoring cash flow as part of its day-to-day control procedures and that appropriate facilities are available to be drawn upon when the need arises. The facilities from the Group's bankers require the Group to meet certain covenants throughout the term of the loans and the Group's forecasts indicate that the Group will remain within the set parameters. The Group is currently close to finalising an expected extension of its current banking facilities, which expire in October 2019, to March 2021.

This Strategic Report is signed on behalf of the Board

Adalsteinn Valdimarsson
Director
18 March 2019

Governance

Board of Directors

Stuart Darling (Chairman) age 55

Stuart was appointed a non-executive director on 3 April 2017 and became Chairman in December 2017, having been Interim Chairman since July 2017. He is an FCA and has extensive senior level financial and commercial experience in the technology sector and with growing companies. He is currently CFO of Physiolab Technologies Limited which develops and sells repair and recovery products that aid recovery and rehabilitation of soft tissue injuries. He was previously Chief Financial Officer of Wifinity Ltd, a wireless network internet provider; CFO of YASA Motors Ltd, a supplier of customer and off-the-shelf e-motors and controllers to automotive customers; and, for 10 years, was CFO of Amino Technologies PLC, the global provider of digital TV entertainment and cloud solutions to network operators. He is Chairman of the Audit Committee.

Adalsteinn Valdimarsson (Chief Executive Officer) age 49

Adalsteinn was appointed as Chief Executive Officer on 1 October 2016 having been appointed as non-executive director on 11 July 2016. He has over 20 years of experience in the software industry and has founded and led the expansion of a number of product-based software companies. He has significant experience in the retail software sector and in particular with the Microsoft Dynamics platform. Most recently, he was the Chairman of LS Retail, the supplier of retail and hospitality solutions and Microsoft Dynamics ISV of the year 2015. Prior to that, he was Executive Chairman of Hands Holding where he was responsible for the strategic restructuring of a number of large IT companies owned by Hands Holding and, before that, he was one of the founders of the Landsteinar Group, focusing on products and services for the Dynamics NAV platform.

Per Johan Claesson (non-executive) age 68

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").

Robert David Price (Chief Financial Officer) age 51

Robert was appointed to the Board on 5 July 2017 having joined the Group as CFO in October 2016. He has more than 20 years' experience in senior finance roles in technology and supply chain and has worked extensively in international markets. He was previously CFO of the London fintech start up, ipagoo, and prior to that CFO/COO of the private equity backed distributor Enotria Wine Group. Between 2002 and 2008 he was at Carlsberg Breweries, latterly as CFO and Change Management Director of Carlsberg Italy. Robert qualified as a chartered accountant with Ernst & Young and holds an MBA from IMD, Lausanne.

Jonathan Paul Manley (non-executive) age 65

Jonathan became a non-executive director in December 2015. He has over 35 years' experience in IT, both as Chief Information Officer ("CIO") and as a Consultant. Until recently, Jonathan was IT Director for Harrods Ltd where he has been leading its IT transformation since 2014. Before that, he was IT Director of Shared Services at the John Lewis Partnership (2012-2014) and Global CIO at Estee Lauder Companies, in New York (2006-2012). In his earlier career, he was Global CIO at LSG SkyChefs and Universal Music, and a Consulting Partner at Ernst & Young.

Paul Gilmer Morland (non-executive) age 58

Paul was appointed a director on 29 May 2014. A chartered accountant, Paul's background is in equities research where he has been consistently highly ranked as an analyst throughout his career and helped many technology companies to raise funds on the stock market. Paul has also spent approximately seven years in industry, including as Finance Director at netdecisions, an IT services and consultancy company now trading as Agilisys, divisional Finance Director at Serco plc and Group Accountant at David S. Smith plc, a leading European packaging company.

Corporate Governance Statement

Introduction from K3's Chairman

The K3 board supports the principles of good governance. In fulfilling their responsibilities, the directors believe that they govern the company in the best interests of the shareholders, whilst having due regard to the interests of the stakeholders in the group including, in particular customers, employees and suppliers.

As a result of the recent changes to AIM Rules, the directors have considered and re-assessed the most appropriate recognised corporate governance code having regard to the size and nature of the K3 group, and, with effect on and from 28 September 2018, have applied the Quoted Companies Alliance's (QCA) Corporate Governance Code ("the Code") subject to the departure to principle 7 as noted below.

K3 has reviewed and considered where and how we apply each of the principles of the Code, and we set out on our website at https://www.k3btg.com/investor-centre/corporate-govenanance/corporate-governance-code-disclosures/ an explanation of this, and the circumstances where we believe we have not currently applied all of the principles of the Code. Our key area that we have not yet applied is in relation to principle 7 (evaluating board performance based on clear and relevant objectives), where a clear process of board evaluation has not previously been operated by the company. This is an area we will be assessing for future improvements.

As Chairman of the board, I am responsible for implementing corporate governance at the K3 group, working with the other members of the board and the company secretary. I chair meetings of the board and am responsible for ensuring the board agenda appropriately focuses on the Group's delivery against its strategic objectives. As a member of each board committee, including acting as chairman of the Audit Committee, I also have specific roles in relation to the work of those committees, and any associated governance implications.

I am a passionate believer in robust corporate governance, and some recent changes at K3, both in respect of our corporate governance practices, shareholder engagement and our wider business hopefully indicate our commitment to this. Our corporate governance practices will not remain static, and we will be regularly reviewing practices to seek improvement, and to keep pace with our business change. Our disclosures will be subject to update on our website, and our annual report will continue to provide detailed governance updates.

Board Composition

During the period the Board comprised the Chairman (Mr S Darling), two executive (Mr A Valdimarsson and Mr RD Price) and three non-executive directors (Mr PG Morland, Mr PJ Claesson and Mr JP Manley). Biographical details of the Board are included on page 23. The composition of the Board is designed to provide an appropriate balance of group, industry and general commercial experience and is reviewed as required to ensure that it remains appropriate to the nature of the group's activities. Board skills are kept up to date both independently by directors and by board-wide updates and knowledge sharing.

The roles of the Chairman and Chief Executive are distinct. The office of Chairman is held by Mr S Darling and the office of Chief Executive is held by Mr A Valdimarsson.

Appointments to the Board are the responsibility of the Nominations Committee. All non-executive directors have written terms of appointment and are paid a fixed fee for their office which is not performance or incentive based.

The Company has three independent non-executive directors (Mr PG Morland, Mr S Darling and Mr JP Manley), as recommended by the QCA Code. Mr JP Manley provided additional consultancy services for the Company for which he is paid a fee, in addition to his role as non-executive director, but this is not regarded as compromising his independence. Mr PJ Claesson (non-executive director) is a significant shareholder and has been on the board for over 9 years and would therefore more likely not be regarded as independent in accordance with the Code.

Notwithstanding this, the Board believes that the interests of each non-executive director are aligned with those of shareholders and that the board composition is appropriate for the circumstances of the Company.

All directors are subject to election by shareholders at the first opportunity after their appointment. The Articles of Association of the Company require that no fewer than one-third of directors should be subject to re-election at each AGM. Any non-executive director serving over 9 years since first appointment is also subject to re-election at each AGM in accordance with the Company's articles. The terms and conditions of appointment of the non-executive director are available for inspection upon request.

Operation of the Board

The Board is responsible for determining the main aims of the Company and agreeing a strategy to achieve those aims. The Board is also responsible for monitoring progress against K3's strategic and financial goals and for initiating any corrective measures. The strategic report on pages 6 to 21 sets out the Board's strategy and business model to promote long-term value for shareholders.

The Board has determined those matters which are retained for board sanction and those matters which are delegated to the executive management of the business. Day to day management of the business is dealt with by the Chief Executive Officer who has a Senior Management Team reporting to him which includes senior management from each of the divisions together with the Chief Financial Officer. The types of decisions which are to be taken by the Board are:

- approval of the financial statements and financial budgets and plans for the group;
- approval of all shareholders' circulars and announcements;
- the purchase or sale of any business or subsidiary;
- any new borrowings, facilities and related guarantees; and
- any asset purchase or lease, hire purchase facility or rental agreement over prescribed authority limits.

Board Meetings and Effectiveness

The Board met on nine occasions during the financial period. Directors are expected to attend all meetings, and to dedicate sufficient time to the Group's business and affairs so as to enable them to discharge their duties. Board (and committee) meeting attendance during the financial period was as set out below. In light of circumstances, the members of the nominations committee determined that no formal meetings of the nominations committee were required to be held during the financial period.

Director	Board (9)	Remuneration (3)	Audit (3)	Product (1)
S Darling	9	3	3	1
JP Manley	9	3	3	1
PG Morland	7	3	3	1
RD Price	9	n/a	n/a	n/a
A Valdimarsson	9	n/a	n/a	n/a
PJ Claesson	7	2	2	1

The Board is supplied in a timely manner with information of a quality to enable it to discharge its duties, which includes a regular monthly board pack including updates from the executive management team, detailed financial information relating to the financial period to date, including measurement against pre-defined KPI's.

The Board is also provided with regular weekly operational updates, and non-executive directors regularly communicate with executive directors between formal board meetings.

The directors have established a procedure, agreed by the Board, for directors in the furtherance of their duties to take independent professional advice, if necessary, at the company's expense.

Board performance is presently reviewed regularly but informally, and there is no specific formal evaluation process (whether internal or externally facilitated) as recommended by the QCA Code. The Board intends to review both performance measurement and succession planning in light of the recommendations of the Code during the 2018/2019 financial year, with a view to assessing the implementation of a more formal process.

Board Committees

The Board has established four standing sub-committees to assist in the discharge of corporate governance responsibilities. They are the nominations committee, remuneration committee, product committee and audit committee. The roles of the committees and their activities are available at
https://www.k3btg.com/investor-centre/corporate-governance/corporate-governance-code-disclosures/

During the financial period, all four non-executive directors were the members of each committee.

Nominations Committee

During the period the Nominations Committee was chaired by Mr PG Morland. Meetings of the committee are arranged as necessary. The committee is responsible for nominating candidates (both executive and non-executive) for the approval of the Board to fill vacancies or appoint additional persons to the Board.

All directors receive induction on joining the Board covering the Group's operations, goals and strategy, and their responsibilities as directors of the Group. The Company supports the directors in developing their knowledge and capabilities.

Remuneration Committee

During the period the Remuneration Committee was chaired by Mr PG Morland. The duties and role of the Remuneration Committee are set out in the Remuneration Committee report on pages 31 to 33.

Audit Committee

During the period the Audit Committee was chaired by the Chairman, Mr S Darling. The duties and role of the Audit Committee are set out in the audit committee report on pages 29 and 30.

Product Committee

During the financial period, the Product Committee was chaired by Mr JP Manley. The Committee is responsible for overseeing the Group's product (own IP) development, and for preparing, and submitting to the Board, a proposed annual budget for development of the group's products. Meetings of the Committee are arranged as necessary.

Corporate Culture and Ethical Values

The Group seeks to carry out its business with the highest standards of integrity, and on the basis of sound ethical values, and its corporate culture seeks to reflect this premise.

The Board maintains oversight of this through receipt of regular management reporting, which would, where appropriate, include any material issues relating to corporate culture and integrity and ethics, including any updates to or non-compliance with key internal ethics policies.

The Group maintains written policies and procedures concerning a number of areas that impact on its ethical values, and these policies, which are shared with all of the Group's staff, underpin some of the ethical elements of the Group's culture. These include detailed policies addressing health and safety, anti-bribery and corruption, whistleblowing, equal opportunities and anti-harassment.

Relations with Shareholders

The Company seeks to maintain good communication with shareholders. The Group Chief Executive Officer together with members of the Senior Management Team make presentations to institutional shareholders covering the interim and full year results. Whilst most shareholder contact is with Chief Executive Officer and Chief Financial Officer, the Chairman and the non-executive directors are available to meet major shareholders if requested to do so. The views of major shareholders are obtained through direct face-to-face contact and analysts' or brokers' briefings.

The Board considers the AGM to be an important opportunity to communicate with shareholders and encourages their participation. The company despatches the notice of AGM, with explanatory notes describing items of special business, at least 21 working days before the meeting. All shareholders have the opportunity, formally or informally, to put questions to the company's AGMs. All directors attend the AGM and the Chairman of the Audit, Remuneration and Nominations Committees is available to answer questions from shareholders. The Company has also recently commenced, and plans to continue, a programme of investor presentations, to enhance investor engagement with management, and to elicit feedback.

The Company maintains RNS details on its website at: http://www.k3btg.com/investor-centre/regulatory-news/regulatory-news/

These include notices of, as well as results of, AGM, together with prior years' annual reports. Whilst the Chairman announces detailed proxy voting results during each AGM for resolutions passed on a show of hands, these detailed results are not separately published by RNS. The Company intends to publish on its website these detailed proxy results in respect of future AGMs.

Internal Control and Risk Management

The Board recognises its ultimate accountability for maintaining an effective system of internal control which is appropriate in relation to both the scope and nature of the group's activities. The system covers all controls including:

- financial;
- operational;
- compliance; and
- risk management.

The responsibility for managing risks on a day to day basis lies with the CEO and Senior Management Team. The principal business risks and the actions to mitigate the risks are included in the Strategic Report on pages 19 to 21. Details of operational risks are included below. A description of the risk management adopted by the Board to address the risks highlighted, and in order to deliver on its strategy, is set out below and on page 28.

Operational

These risks, which are inherent in all business activities, are those which mainly result from the potential breakdown of individual business units or the group's control of its human, physical and operating resources. The principal financial risks to which the group is exposed through its operations are liquidity and credit risk. The potential financial or reputational loss arising from failures in internal controls, flaws or malfunctions in computer systems and poor product design or delivery all fall within these categories.

There is an ongoing process for identifying, evaluating and managing the significant issues faced by the group which has been in place throughout the period and up to 18 March 2019. It has been regularly reviewed by the Board.

The Board and Senior Management Team have a clear and consistent understanding of the key risks facing the business. Whilst they recognise that it is not possible to eliminate risk completely, they have established an infrastructure of controls, systems, staff and processes which aim to minimise the likelihood of risks occurring or reduce the impact should they do so. The key elements of this infrastructure which enable the Board to review the effectiveness of the system of internal controls are as follows:

- establishment of a formal management structure, including the specification of matters reserved for decision by the Board;
- setting and reviewing the strategic objectives of the group;
- Board involvement in the setting and review of the annual budget;
- the regular review of the group's performance compared with budget and forecasts;
- pre and post investment appraisal of K3 IP development expenditure;
- pre and post investment appraisal of capital expenditure;
- integrity and competence of personnel as part of the control environment; and
- group reporting instructions and procedures including delegation of authority and authorisation levels, segregation of duties and other control procedures, and standardised accounting policies.

The Board and Senior Management Team are aware that any significant operational matters which raise cause for concern may have arisen because of or give rise to material internal control issues. There is a process in place whereby any member of management who becomes aware of an internal control issue can bring this to the attention of the Chief Financial Officer. There were no such issues raised during the period under review.

The Board acknowledges its responsibility for the group's system of internal control and for reviewing its effectiveness. The Board is committed to operating comprehensive processes to manage the key risks which face the business. They have established a framework of policies, systems and procedures to ensure that the nature and extent of the risk undertaken is commensurate with the commercial returns and, where necessary, to ensure prudent risk-taking to protect shareholder value. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable but not absolute assurance against material misstatement or loss.

Audit Committee Report

Audit Committee Composition

During the financial period, the Audit Committee was chaired by the Chairman, Mr S Darling, and included each of the other non-executive directors, Mr PG Morland, Mr PJ Claesson and Mr JP Manley.

The Chief Executive, Chief Financial Officer and external auditors attend meetings of the Audit Committee by invitation.

Audit Committee Role and Duties

The role of the Audit Committee is to consider the appointment of the auditors, audit fees, scope of audit work and any resultant findings. It reviews external audit activities, monitors compliance with statutory requirements for financial reporting and reviews the interim and full year financial statements before they are presented to the Board for approval. The committee is also required to review the effectiveness of the group's internal control systems, to review the group's statement on internal control systems prior to endorsement by the Board and to consider, from time to time, the need for a "risk sub-committee" to assist in monitoring the group's internal control systems.

The Audit Committee considers and determines relevant action in respect of any control issues raised by the auditors. Given the size of the group and the close day to day control exercised by the Senior Management Team, no formal internal audit department is considered necessary.

The key matters considered and actioned by the Audit Committee during the financial period were:

- review of audit plan and consideration of key audit matters;
- review of Annual Report and financial statements;
- review and consideration of external audit report and management representation letter;
- going concern review;
- internal control systems review;
- audit meeting with external auditor, without management.

External Auditor and Audit Process

The external auditor, BDO LLP, sets out the scope of its audit in an audit plan, which is reviewed and approved in advance by the Committee. Following the audit, the auditor presented its findings to the Audit Committee, and no major areas of concern were highlighted.

The Audit Committee regularly reviews auditor independence, including the provision of any non-audit services by the auditor. The Audit Committee has confirmed its recommendation to re-appoint BDO LLP at the next AGM.

Auditors' Remuneration

Fees for services provided by the auditors have been as follows:

	Year ended 30 November 2018 £000	17 months ended 30 November 2017 £000
Audit services		
• Statutory audit of the company	25	25
• Statutory audit of the subsidiaries	93	163
Further assurance services:		
Tax services		
• Advisory services	–	4
• Overseas tax advice	3	49
Other services		
• Other services	1	4
	122	245

During the period, the auditors provided non-audit services in relation to tax advice to the overseas subsidiaries. The Board considered the proposed non-audit services in advance to ensure that it was satisfied that neither the nature nor the scale of the non-audit services would impair the auditors' objectivity and independence.

Risk Management and Compliance

The Audit Committee has reviewed both the Company's risk management and internal controls (referenced at page 27), and the Company's policies on key compliance matters, such as anti-bribery and whistleblowing, and is satisfied that current control systems and policies are operating effectively.

Remuneration Committee Report

Remuneration Committee Composition

During the period the Remuneration Committee was chaired by Mr PG Morland, and included each of the other non-executive directors, Mr S Darling, Mr PJ Claesson and Mr JP Manley.

The Chief Executive and Chief Financial Officer attend meetings of the Remuneration Committee by invitation, where appropriate.

Remuneration Committee Role and Duties

The Remuneration Committee reviews the remuneration and contractual arrangements of the executive directors. The remuneration of the Chairman and the non-executive directors is determined by the Board as a whole, based on a review of the current practices in other companies. The committee meets when necessary.

The salaries (and other remuneration) of the executive directors are determined after giving full consideration to the best practice provisions and after a review of the performance of the individual. It is the aim to reward directors competitively; consideration is, therefore, given to the median remuneration paid to senior management of comparable public companies. No director is involved in deciding his own remuneration.

The key matters considered and actioned by the Remuneration Committee during the financial period were:

- Review, consideration and adoption of a new long-term incentive plan for senior management and employees;
- Approval of the award of share options under that plan; and
- Review of all board salaries, benchmarking, and approval or (as appropriate) recommendations for amendment.

Directors' Remuneration year ended 2018

Set out below is a summary of the total gross remuneration of directors who served during the financial year to 30 November 2018.

	Year ended 30 November 2018					17 months ended 30 November 2017
	Fees/ basic salary £	Taxable benefits £	Annual bonuses £	Pension contributions £	Total £	Total £
Chairman						
L-O Norell	–	–	–	–	–	46,861
S Darling	50,834	–	–	1,383	52,217	20,400
Executive						
DJ Bolton	–	–	–	–	–	234,699
A Valdimarsson	309,000	–	–	30,000	339,000	493,475
RD Price	174,000	–	–	16,500	190,500	178,863
Non-executive						
PJ Claesson	23,333	–	–	–	23,333	21,250
PG Morland	28,333	–	–	767	29,100	28,900
JP Manley	71,218	–	–	–	71,218	52,515
Aggregate emoluments	656,718	–	–	48,650	705,368	1,076,963

Included within the fees/basic salary amount for Mr L-O Norell for the 17 month period ended 30 November 2017 was £19,361 for consultancy services in relation to the future strategy of the group's product's and markets and for Mr JP Manley £42,884 (17 month period ended 30 November 2017: £24,617) in relation to consultancy on the own IP positioning and development and for Mr A Valdimarsson £95,000 for the 17 month period ended 30 November 2017 in relation to consultancy on the future strategy for the Group in the period of his non-executive directorship prior to his appointment as Chief Executive Officer.

The executive directors have service contracts providing 12 months' notice.

Directors' Pension Entitlements

The company makes contributions to defined contribution schemes for Mr A Valdimarsson, Mr RD Price, Mr S Darling and Mr PG Morland.

Directors' Share Options and Warrants

Mr P J Claesson has interests in warrants for 25p ordinary shares held by companies associated with him as follows:

Company	Number of warrants	Exercise price
CA Fastigheter AB	400,000	123.5p

On the 4 July 2017, 600,000 warrants in which Mr PJ Claesson was interested were exercised at a price of 90p, together with 100,000 warrants at an exercise price of 123.5p.

Details of exercise periods of the warrants are given in note 19 to the consolidated financial statements.

The market price of the ordinary shares at 30 November 2018 was 237.5p and the range during the year was 163.5p to 243.5p.

There are no options outstanding or held by any of the directors, other than as set out below.

1,390,000 options ("LTIP Options") were granted to Mr A Valdimarsson and Mr RD Price during the year under the terms of a new K3 Long Term Incentive Plan (the "LTIP"). They are exercisable at a price of 25p per share, being nominal value. The LTIP Options vest in three tranches, as set out below, based on the achievement of certain hurdles relating to the adjusted operating profit ("AOP", being operating profits prior to any share based payment charges) of the Group for each of the two years to 30 November 2019 and, in respect of the last tranche, a further criteria based on the Company's share price during the 30 days immediately following the announcement of K3's results for the year ended 30 November 2020 (the "Price Vesting Criteria") and the Adjusted Profit per share for the year ending 30 November 2020.

The performance measures relate to the three years to 30 November 2020. The proportion of each award vesting upon delivery are set out in note 19 to the financial statements.

Aggregate emoluments do not include any amounts for the value of options to acquire ordinary shares in the company granted to or held by the directors. Details of the options are as follows:

Name of Director	1 December 2017	Granted	Exercised	Lapsed	30 November 2018
A Valdimarsson	–	840,000	–	–	840,000
RD Price	–	550,000	–	–	550,000

All options are exercisable at a price of 25p.

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 30 November 2018. The corporate governance statement on pages 22 to 33 also forms part of the Directors' report.

Review of Business

The Chairman's statement on pages 6 to 9 and the Chief Executive's review on pages 10 to 16 provide a review of the business, the Group's trading for the year ended 30 November 2018, key performance indicators and an indication of future developments.

Research and Development

During the year, the Group carried out development work of which £2.63m (17-month period ended 30 November 2017: £6.16m) was capitalised. Development related to the Group's own IP including the K3|imagine platform.

Result and Dividend

The Group has reported its Consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

The Group's results for the year are set out in the Consolidated Income Statement on page 46. The Company has applied FRS 101: Reduced Disclosure Framework to the Company accounts for the year ended 30 November 2018.

The directors propose a net dividend of 1.54p per share (2017: 1.4p). A final dividend relating to the period ended 30 November 2017 of 1.4p, amounting to £0.60m, was paid during the year. No interim dividend was paid during either period.

Directors

The directors who served during the year were as follows:

PJ Claesson
S Darling
JP Manley
PG Morland
RD Price
A Valdimarsson

Mr PJ Claesson and Mr JP Manley retire by rotation and offer themselves for re-election.

Directors' Interest

Directors hold interests in the company's shares as follows:

	As at 30 November 2018 Number of shares	As at 30 November 2017 Number of shares
PJ Claesson	5,087,697	4,859,790
S Darling	14,286	14,286
JP Manley	20,680	20,680
RD Price	50,000	50,000
A Valdimarsson	71,429	71,429

Financial Instruments Risks

Details of financial instruments risks are included in note 17 to the financial statements.

Substantial Shareholdings

On 18 March 2019, the company had been notified, in accordance with section 793 of the Companies Act 2006, of the following interests in the ordinary share capital of the company.

Name of holder	Number	Percentage held
Kestrel Partners	9,606,429	23.1%
Canaccord Genuity	6,044,372	14.1%
PJ Claesson	5,087,697	11.9%
Richard Griffiths	4,875,536	11.4%
Liontrust Asset Management	4,649,199	10.8%

Disabled Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee Consultation

The group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the group. This is achieved through regular web presentations by and newsletters from the Chief Executive Officer and informal discussions between management and other employees at a local level.

Directors' Indemnity Cover

All directors benefit from qualifying third-party indemnity provisions in place during the financial period and at the date of this report.

Going Concern

After making enquiries, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Whilst the Group has net current liabilities of £2.30m at 30 November 2018 due to the bank loans of £7.49m being due within one year as the Group's current syndicated facility agreement expires in October 2019, the Group is currently close to finalising an expected extension of its current banking facilities to March 2021. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Events after the Reporting Date

These are detailed in note 26 to the consolidated financial statements.

Auditors

All of the current directors have taken all of the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of the information. The directors are not aware of any relevant audit information of which the auditors are unaware.

The Notice of Annual General Meeting contains a resolution to re-appoint BDO LLP as auditors for the ensuing year.

By order of the Board

Baltimore House
50 Kansas Avenue
Manchester
M50 2GL

A Valdimarsson
Director
18 March 2019

Statement of Directors' Responsibilities

The directors are responsible for preparing the strategic report, the annual report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including Financial Reporting Standard 101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss for the group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements: and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website Publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Financial Statements

Independent Auditors' Report to the Members of K3 Business Technology Group plc

Opinion

We have audited the financial statements of K3 Business Technology Group Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 November 2018 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and parent company statement of financial position, the consolidated statement of cash flows, the consolidated and parent company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 November 2018 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition	How we addressed the key audit matter in the audit
The group has a number of different revenue streams, each of which has a different revenue recognition policy dependent on the specific terms of the transfer of goods or the service provision. We focused on this area because the recognition of revenue for each component of a sale, when sold together under one contract with a customer, requires the application of judgment in the recognition of revenue between the components of the contract. Given that licence revenue is either recognised up front in full where performance obligations have been fulfilled, deferred until no significant obligations remain or recognised over time under a Software as a Service agreement, whereas support, hosting and managed services revenue is spread over the duration of the contact term, there is a risk of there being inappropriate allocation of revenue, particularly relevant for contracts entered into with customers in the period immediately prior to the year end. In view of the judgements required to be made by management in this area we have determined that revenue recognition is a significant risk in the audit and hence a key audit matter. Refer to notes 1 and 2 of the financial statements for disclosure.	• We have confirmed that the policies adopted by the Group in relation to revenue recognition are in accordance with the accounting framework for a sample of contracts. • Where revenue has been recognised for overruns on consultancy days above the amount specified in the original contract we have agreed the date of revenue recognition to the date licenses were delivered and the delivery date of in-house software. • For a sample of contracts which have been "un-bundled" by management to recognise the element of consultancy, license and support revenue separately we have confirmed that these are stand-alone transactions and are not intrinsic. • For a sample of multi-year deals we have verified, with reference to the terms of the contracts and the fulfilment of obligations by all parties, that revenue has been recognised appropriately at either a point in time or over the term of the contract. • We have tested cut-off at the period end in detail and considered revenue recognised after date on material contracts to check this is in line with the group's accounting policy.

Development costs	How we addressed the key audit matter in the audit
All development expenditure that meets the criteria within International Accounting Standard 38 'Intangible assets' must be capitalised as an asset and amortised over the assets useful economic life from the date the asset is available for use. Management are also required to consider the carrying value of all capitalised development costs, including those capitalised in previous periods, both with reference to the future cash flows expected to be generated from the assets and the reasonableness of the amortisation period assigned to the asset. Refer to notes 1 and 11 of the financial statements for disclosure.	• We have agreed a sample of development costs capitalised by management to supporting documentation such as timecards, external invoices, etc. • For each project for which development expenditure has been capitalised we have obtained supporting evidence in relation to the future revenue to be generated from the development expenditure, including contracts evidencing sales of the software development undertaken. • We have tested a sample of the brought forward development costs to check that they remain supported by future cashflows. • We have reviewed the appropriateness of the impairment of development costs based on future cashflows. • We have considered the appropriateness of the amortisation period for other intangibles assigned to assets by comparison to market averages and a review of net book values supported by future cashflows.

Carrying value of intangibles and goodwill	How we addressed the key audit matter in the audit
Management are required to review the carrying value of goodwill and test it annually for impairment. Management exercise significant judgement in determining the underlying assumptions used in the impairment review; the assumptions include the discount rate used, the allocation of assets to cash generating units (CGU) and the future cash flows attributed to each CGU. Refer to notes 1 and 11 of the financial statements for disclosure.	• We have cast the calculations prepared by management in the impairment review of goodwill and intangibles and checked that formulas which underpin the calculations are correct. • We have assessed the reasonableness of the assumptions underlying management's assessment of goodwill and intangibles, including the discount rate by consultation with an internal expert, by challenging the forecast growth in comparison to actual for the period to 30 November 2018 and by performing sensitivity analysis. • Particular consideration has been given to the key areas of judgement made by management being the definition of the CGUs and the forecast period over which the impairment calculations have been performed. We have considered if they are reasonable and in line with our understanding of the business. • We have considered the appropriateness of the amortisation periods adopted by comparison within the market to similar entities and by assessing the current carrying values as detailed above.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	**£416,000 (2017: £590,000)**
Basis for materiality	0.5% of revenue (2017: 0.5% of revenue)
Rationale for the benchmark adopted	Revenue is the most stable and relevant measure, the percentage determined was considered appropriate for a listed entity.

In considering individual account balances and classes of transactions we apply a lower level of materiality (performance materiality) in order to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality. Performance materiality was set at £291,200 (2017: £410,000), representing 70% of materiality.

Component materiality ranged from £312,000 to £143,000 (2017: £245,000 to £165,000) with a similar restriction of 70% for performance materiality. Parent company materiality was £143,000 (2017: £500,000).

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of £13,500 (2017: £14,000). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

Our group audit scope focused on the group's significant components, which are located in the UK and Netherlands. The audit of all significant components was performed by the UK audit team.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, our Group audit scope focused on the Group's significant components: the parent company, K3 Business Technologies Limited and KS Business Solutions BV. Together with the subsidiaries located in Ireland (which were also subject to full scope audit) and the insignificant components subject to limited scope procedures these components account for 81% of the Group's revenue and 93% of the Group's net assets.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and financial statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement (set out on page 37), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the parent company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the parent company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Julien Rye (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Manchester, UK
18 March 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated income statement

for the year ended 30 November 2018

	Notes	Year ended 30 November 2018 £'000	17 months ended 30 November 2017 £'000
Revenue	2	**83,335**	118,176
Cost of sales		**(39,446)**	(57,197)
Gross profit		**43,889**	60,979
Administrative expenses		**(43,205)**	(75,762)
Adjusted profit/(loss) from operations		**4,649**	(1,666)
Amortisation of acquired intangibles	11	**(2,507)**	(3,930)
Acquisition costs	3	**–**	(308)
Exceptional reorganisation costs	3	**(1,355)**	(4,731)
Exceptional impairment of development costs	3	**–**	(4,541)
Share-based payment charge	3	**(103)**	–
Release of contingent consideration	3	**–**	393
Profit/(loss) from operations	3	**684**	(14,783)
Finance expense	6	**(667)**	(1,360)
Profit/(loss) before taxation		**17**	(16,143)
Tax (expense)/credit	7	**(505)**	2,773
Loss for the year/period		**(488)**	(13,370)

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

(Loss)/earnings per share

		Year ended 30 November 2018	17 months ended 30 November 2017
Basic	9	**(1.1)p**	(35.3)p
Undiluted	9	**(1.1)p**	(35.3)p

The notes on pages 51 to 95 form part of these financial statements.

Consolidated statement of comprehensive income

for the year ended 30 November 2018

	Year ended 30 November 2018 £'000	17 months ended 30 November 2017 £'000
Loss for the year	**(488)**	(13,370)
Other comprehensive income		
Exchange differences on translation of foreign operations	**300**	1,110
Other comprehensive income	**300**	1,110
Total comprehensive expense for the year/period	**(188)**	(12,260)

All of the total comprehensive expense is attributable to equity holders of the parent. All of the other comprehensive income will be reclassified subsequently to profit or loss when specific conditions are met. None of the items within other comprehensive income/(expense) had a tax impact.

Consolidated statement of financial position

as at 30 November 2018 Registered number: 2641001

	Notes	2018 £'000	2017 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**2,326**	2,479
Goodwill	11/12	**51,187**	51,019
Other intangible assets	11	**18,184**	20,539
Deferred tax assets	18	**1,307**	1,281
Available-for-sale investments		**98**	98
Total non-current assets		**73,102**	75,416
Current assets			
Trade and other receivables	14	**27,006**	30,429
Cash and cash equivalents		**6,914**	1,941
Total current assets		**33,920**	32,370
Total assets		**107,022**	107,786
LIABILITIES			
Non-current liabilities			
Long-term borrowings	16	**15**	6,170
Deferred tax liabilities	18	**1,814**	2,524
Total non-current liabilities		**1,829**	8,694
Current liabilities			
Trade and other payables	15	**28,428**	29,249
Current tax liabilities		**279**	127
Short-term borrowings	16	**7,517**	59
Total current liabilities		**36,224**	29,435
Total liabilities		**38,053**	38,129
EQUITY			
Share capital	19	**10,737**	10,737
Share premium account	20	**28,897**	28,897
Other reserves	20	**10,448**	10,448
Translation reserve	20	**2,486**	2,186
Retained earnings	20	**16,401**	17,389
Total equity attributable to equity holders of the parent		**68,969**	69,657
Total equity and liabilities		**107,022**	107,786

The financial statements on pages 46 to 95 were approved and authorised for issue by the Board of Directors on 18 March 2019 and were signed on its behalf by:

RD Price
Director

The notes on pages 51 to 95 form part of these financial statements.

Consolidated statement of cash flows

for the year ended 30 November 2018

	Notes	Year ended 30 November 2018 £'000	17 months ended 30 November 2017 £'000
Cash flows from operating activities			
Loss for the period		**(488)**	(13,370)
Adjustments for:			
Share-based payments charge		**103**	67
Depreciation of property, plant and equipment		**885**	1,373
Amortisation and impairment of intangible assets and development expenditure		**5,091**	13,481
Loss on sale of property, plant and equipment		**22**	–
Finance expense		**667**	1,360
Tax expense/(credit)		**505**	(2,773)
Decrease in trade and other receivables		**2,697**	10,022
Decrease in trade and other payables		**(853)**	(4,206)
Cash generated from operations	27	**8,629**	5,954
Finance expense paid		**(662)**	(1,237)
Income taxes (paid)/received		**(151)**	356
Net cash from operating activities		**7,816**	5,073
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	27	**–**	(989)
Development expenditure capitalised		**(2,627)**	(6,158)
Purchase of property, plant and equipment		**(748)**	(1,307)
Net cash used in investing activities		**(3,375)**	(8,454)
Cash flows from financing activities			
Net proceeds from issue of share capital		**–**	8,408
Proceeds from long-term borrowings		**1,204**	5,715
Payment of long-term borrowings		**–**	(10,885)
Payment of finance lease liabilities		**(58)**	(77)
Dividends paid		**(601)**	(630)
Net cash from financing activities		**545**	2,531
Net change in cash and cash equivalents		**4,986**	(850)
Cash and cash equivalents at start of year	27	**1,941**	2,772
Exchange gains on cash and cash equivalents		**(13)**	19
Cash and cash equivalents at end of year	27	**6,914**	1,941

The notes on pages 51 to 95 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 30 November 2018

	Share capital £'000	Share premium £'000	Other reserves £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
At 30 June 2016	9,000	21,586	10,448	1,076	31,300	73,410
Changes in equity for period ended 30 November 2017						
Loss for the period	–	–	–	–	(13,370)	(13,370)
Other comprehensive income for the period	–	–	–	1,110	–	1,110
Total comprehensive income/(expense)	–	–	–	1,110	(13,370)	(12,260)
Share-based payment credit	–	–	–	–	67	67
Warrants exercised	175	488	–	–	–	663
Conversion of shareholder loan to equity	114	526	–	–	–	640
Issue of new shares	1,448	6,297	–	–	–	7,745
Movement in own shares held	–	–	–	–	22	22
Dividends paid to equity holders	–	–	–	–	(630)	(630)
At 30 November 2017	10,737	28,897	10,448	2,186	17,389	69,657
Changes in equity for year ended 30 November 2018						
Loss for the year	–	–	–	–	(488)	(488)
Other comprehensive income for the year	–	–	–	300	–	300
Total comprehensive income/(expense)	–	–	–	300	(488)	(188)
Share-based payment credit	–	–	–	–	103	103
Movement in own shares held	–	–	–	–	(2)	(2)
Dividends paid to equity holders	–	–	–	–	(601)	(601)
At 30 November 2018	10,737	28,897	10,448	2,486	16,401	68,969

The own shares are held by a wholly-owned subsidiary, K3 Business Technology Group Trustees Company Limited, as trustee of the group's employee share ownership plan. The own shares represent 75,665 shares held under an employee share ownership plan which will be issued to the employees when they choose to withdraw them. The current market value of these shares as at 30 November 2018 was £180,000.

Notes forming part of the financial statements

for the year ended 30 November 2018

1. Accounting policies for the group financial statements

Statement of compliance

These group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) as endorsed by the European Union ("endorsed IFRS") and with those parts of the Companies Act 2006 applicable to companies preparing their accounts under endorsed IFRS. The company financial statements have been prepared in accordance with Financial Reporting Standard 101, Reduced Disclosure Framework ("FRS101"); these are presented on pages 96 to 104.

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the periods presented. The financial statements are presented in round thousands and are prepared on an historical cost basis.

Adoption of new and revised standards

New accounting standards adopted by the Group

There have been no new standards or amendments which have had a material effect on the Group's results.

New accounting standards in issue but not yet effective

The following IFRS have been issued but are not yet effective:

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' is effective for accounting periods beginning on or after 1 January 2018 and, therefore, the transition to IFRS 15 for the Group will be from 1 December 2018. IFRS 15 sets out the requirements for recognising revenue with customers and the related disclosure requirements. The standard requires entities to apportion revenue earned from contracts to performance obligations on a relative stand-alone basis, based on a five-step model. The Group has decided to apply the cumulative effect method as of the date of initial application with no restatement of comparatives. The cumulative effect of applying the new standard will be recorded as an adjustment to the opening balance of equity (retained earnings) at the date of initial application, i.e. 1 December 2018.

The Group has carried out a project to assess the effect of the adoption of IFRS 15 and has assessed the group's performance obligations under each significant contract in order to assess whether they are distinct and to determine the point in time, or period over which, it is appropriate to recognise revenue. This has also included determining whether customers have a right to use or a right to access the software. The Group's initial assessment as disclosed in the financial statement for the previous period was that there may be some contracts where revenue may need to be recognised differently under IFRS 15 than under existing IFRS and these areas included the following:

- Software licences where there are significant customisation and installation obligations
- Customers rights under multi-year deals
- Customers rights under hosted services
- Bundled software and support services

Having reviewed the Group's contracts covering each of the above, it has been concluded that revenue recognised for certain software licences will be deferred into future periods where performance obligations are not fulfilled. The impact is estimated to be an immaterial reduction in retained earnings. Revenue recognition in relation to the other areas identified above is not expected to change or lead to an adjustment at 1 December 2018 although the Group will continue to review the terms of significant new contracts to consider whether there are situations where there are significant customisation and installation obligations or where other performance obligations are distinct that may affect the timing of the recognition of revenue.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2018

The adoption of IFRS 15 will also result in changes to the disclosures in the Annual Report. The key changes expected are as follows:

- existing revenue disclosures will be amended to comply with the requirements to disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and associated cash flows are affected by economic factors
- further detail will be provided around contract balances and their movements
- an aggregate amount of the transaction price allocated to the performance obligation that are unsatisfied as of the end of the reporting period and an explanation of when the entity expects the amounts to be recognised as revenue will be provided.

IFRS 9 'Financial instruments'

IFRS 9 'Financial instruments' is effective for accounting periods beginning on or after 1 January 2018 and, therefore, the transition to IFRS 9 for the Group will be from 1 December 2018. The standard replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 sets out a new forward looking 'expected credit loss (ECL)' model which replaces the incurred loss model in IAS 39 and applies to, amongst other financial assets and liabilities, trade receivables and accrued income (a 'contract asset' within the standard). The new requirements will lead to the earlier recognition of larger credit losses. Unlike IAS 39, entities will be required to consider forward looking information when measuring ECL. Therefore, a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognised. Therefore, the provision for impairment of trade receivables will take account of the forward-looking information. The Group has decided to apply the cumulative effect method as of the date of initial application with no restatement of comparatives. The cumulative effect of applying the new standard will be recorded as an adjustment to the opening balance of equity (retained earnings) at the date of initial application, i.e. 1 December 2018.

The Group is adopting the 'simplified approach' permitted under the standard to its trade receivables and contract assets, i.e. accrued income, as these do not contain a significant financing component under IFRS 15 (i.e. are generally due within 12 months). A provision matrix has been determined based on historical loss rates adjusted for forward looking information. The assessment is ongoing but it has been estimated that the likely impact on transition will not have a material impact on retained earnings.

IFRS 16 'Leases'

IFRS 16 'Leases' was issued on 13 January 2016 and is mandatory for the Group from 1 December 2019 with early adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The Group is not adopting the standard early and, therefore, the transition to IFRS 16 for the Group will be from 1 December 2019. The standard represents a significant change in the accounting and reporting of leases for lessees as it provides a single lessee accounting model, and as such, requires lessees to recognise assets and liabilities for all leases unless the underlying asset has a low value or the lease term is 12 months or less. The impact of the standard on the Group is currently being assessed and it is not yet practicable to quantify the effect of IFRS 16 on these consolidated financial statements. However, on adoption of IFRS 16, the Group will recognise within the balance sheet a right of use asset and lease liability for all applicable leases, and within the income statement rent expense will be replaced by depreciation and interest expense which will result in a decrease in administrative expenses and an increase in finance expenses. The standard will also impact a number of statutory measures such as profit from operations and cash generated from operations. The Group has not finalised its assessment of the impact but a gauge of the level of the asset and liability that may be brought onto the balance sheet is the value of operating lease commitments which was £5.9m at 30 November 2018 (see note 21).

Basis of consolidation

Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present:

- power over the investee;
- exposure to variable returns from the investee; and
- the ability of the investor to use its power to affect those variable returns.

Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The consolidated financial statements present the results of the company and its subsidiaries as if they formed a single entity.

Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained.

Business combinations

All business combinations are accounted for by applying the acquisition method. On acquisition, all of the subsidiaries' assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. The results of subsidiaries acquired in the period are included in the income statement from the date on which control is obtained. Costs of acquisitions are expensed to the income statement immediately. Contingent consideration is recognised at fair value and any subsequent adjustments to the initial fair value are recognised in the income statement.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow into the Group.

Revenue comprises the value of sales to third party customers of software licences, customised software, hardware and fees derived from installation, consultancy, training, support and managed services. It is stated exclusive of value added tax and net of trade discounts and rebates.

Revenue on the sale of software licences is recognised where there is persuasive evidence of an agreement with a customer (contract and/or binding purchase), delivery of the software has taken place and the customer has the ability to use the software, collectability is probable and the fee is fixed or determinable. Where the Group acts as a reseller of third-party software and maintenance contracts, revenue is recognised at the point the customer received the rights to the contract and the Group has fulfilled its obligations. Revenue on the sale of customised software, hardware and installation is recognised on delivery to a customer or on completion of contractual milestones. Revenue from training and consultancy is recognised as the contract progresses. Revenue from support, hosting and managed services is generally invoiced in advance, termed "deferred revenue", and taken to revenue in equal monthly instalments over the relevant period. Revenue on the sale of third-party licences, and support and maintenance contracts is recognised once the group has fulfilled its obligations.

The Group has a number of different revenue streams for which the revenue recognition varies as outlined above. Where there is one contract covering more than one revenue stream, the contract is "unbundled" to recognise the revenue on each stream in accordance with the revenue recognition set out above. Where a contract for consultancy specifies a fixed number of days and these are exceeded, i.e. the contract overruns, the recognition of revenue is adjusted to reflect the number of days to date as a proportion of the total expected number of days.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2018

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit. Deferred tax liabilities are recognised on intangible assets and other temporary differences recognised in business combinations.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when the group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company; or
- different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Dividends

Dividends are recognised when paid.

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. The cost of items of property, plant and equipment is its purchase cost, together with any incidental costs of acquisition. As well as the purchase price, cost includes directly attributable costs of bringing the asset into use.

Depreciation is calculated so as to write off, on a straight-line basis over the expected useful economic lives of the asset concerned, the cost of property, plant and equipment, less estimated residual values, which are adjusted, if appropriate, at each reporting date. The principal economic lives used for this purpose are:

• Long leasehold buildings	Period of lease
• Leasehold improvements	Period of lease
• Plant, fixtures and equipment	Three to five years

Provision is made against the carrying value of items of property, plant and equipment where impairment in value is deemed to have occurred.

Goodwill

Goodwill represents the excess of the fair value of the consideration paid on acquisition of a business over the fair value of the assets, including any intangible assets identified, liabilities and contingent liabilities acquired. Goodwill is not amortised but is measured at cost less impairment losses. In determining the fair value of consideration, the fair value of equity issued is the market value of equity at the date of completion.

On disposal of a subsidiary, the attributable net book value of goodwill is included in the determination of the profit or loss on disposal.

Externally acquired intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives. The amortisation expense is included within administrative expenses in the consolidated income statement.

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques (see section related to critical estimates and judgements below).

The significant intangibles recognised by the group, their estimated useful economic lives and the methods used to determine the cost of intangibles acquired in business combinations are as follows:

Intangible asset	*Estimated useful economic life*	*Valuation method*
Software distribution agreements	5-9 years	Estimated royalty stream if the rights were to be licensed
Contractual and non-contractual customer relationships	5-15 years	Estimated discounted cash flow
Intellectual property rights	6-10 years	Estimated royalty stream if the rights were to be licensed

Notes forming part of the financial statements (continued)

for the year ended 30 November 2018

Internally generated intangible assets (research and development costs)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from the group's software development is recognised only if all of the following conditions are met:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

The expenditure capitalised represents the cost of direct labour incurred in developing the software product.

Capitalised development costs are amortised on a straight-line basis over their useful lives commencing from the date the asset is available for use. The estimated useful lives for development expenditure are estimated to be in a range of between three and seven years. Where the estimate useful life is more than five years, this reflects the judgement that there will be more substantial economic benefit flowing in the last five years of the period. The amortisation expense is included within administrative expenses in the consolidated income statement. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment charges of non-current assets (excluding deferred tax assets)

Impairment tests on goodwill are undertaken at the financial period end. Other non-current assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Other intangibles are assessed annually for impairment as well as when triggers of impairment arise. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of its fair value less costs to sell and its value in use (effectively the expected cash to be generated from using the asset in the business)), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the lowest group of assets in which the asset belongs for which there are separable identifiable cash flows that are largely independent of the cash flows from the other assets or groups of assets). Goodwill is allocated on initial recognition to each of the group's cash-generating units that are expected to benefit from the synergies of the combination giving rise to the goodwill.

The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Impairment charges are included in administrative expenses in the consolidated income statement and have been disclosed within exceptional costs. An impairment loss recognised for goodwill is not reversed.

Financial assets

The Group has not classified any of its financial assets as held to maturity.

Financial assets are recognised at fair value on the group's statement of financial position when the group becomes a party to the contractual provisions of the instrument.

Loans and receivables

These assets arise principally through the provision of goods and services to customers, e.g. trade receivables. Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The group's loans and receivables comprise trade and other receivables and cash and cash equivalents.

Available-for-sale

Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise principally the Group's strategic investments in entities not qualifying as subsidiaries or associates. They are carried at fair value with changes in fair value generally recognised in other comprehensive income and accumulated in an available-for-sale reserve. Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset (which constitutes objective evidence of impairment), the full amount of impairment, including any amount previously recognised in other comprehensive income, is recognised in profit or loss.

Financial liabilities

The group classifies its financial liabilities into one of two categories, depending on the purpose for which it was acquired. The group's accounting policy for each category is as follows:

Other financial liabilities

Other financial liabilities include the following items:

- Bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding;
- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2018

Equity instruments

Equity instruments issued by the group are recorded at the proceeds received, net of direct issue costs.

Leased assets

All leases other than finance leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight-line basis over the lease term.

Employee share ownership plans

As the company is deemed to have control of its ESOP trust, it is treated as a subsidiary and consolidated for the purposes of the group accounts. The material assets, liabilities, income and costs of the K3 Business Technology Group plc Share Incentive Plan are included in the financial statements. Until such time as the group's own shares vest unconditionally with employees, the consideration paid for the shares is deducted in equity shareholders' funds.

Share-based payments

The group issues equity-settled share-based payments to certain employees, that is, share options. Equity-settled share-based payments are measured at fair value at the date of grant. Fair value is measured by use of a trinomial lattice model. The expected life used in the model has been adjusted, based on the group's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations.

The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the group's estimate of the number of shares that will eventually vest. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the amount that eventually vest. Market vesting conditions are factored into the fair value of the options and warrants granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to meet a market vesting condition.

Pension contributions

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred. The group has no defined benefit arrangements in place.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. The group considers all highly liquid investments with original maturity dates of three months or less to be cash equivalents. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management system are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Foreign currency translation

The presentational currency is sterling.

Transactions entered into by group entities in a currency other than the currency of the primary economic environment in which they operate (the "functional currency") are translated at the rates ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the rates ruling at that date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement.

On consolidation, results of overseas subsidiaries are translated using the average exchange rate for the period. The balance sheets of overseas subsidiaries are translated using the closing period end rate. Exchange differences arising, if any, are taken to a separate component in equity (the translation reserve). Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRS as sterling denominated assets and liabilities.

Exchange differences recognised in the income statement of group entities' separate financial statements on the translation of long-term monetary items forming part of the group's net investment in the overseas operation concerned are reclassified to the translation reserve on consolidation.

Critical accounting estimates and judgements

The key sources of estimation that have a significant impact on the carrying value of assets and liabilities are discussed below:

Impairment of goodwill and other intangibles

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires an entity to estimate the future cash flows expected to arise from the cash generating unit. It also requires judgement as to a suitable discount rate in order to calculate present value, i.e. the directors' current best estimate of the weighted average cost of capital ("WACC"). Other intangibles are assessed annually for impairment as well as when triggers of impairment arise. An impairment review has been performed at the reporting date and no impairment has been identified. More details including carrying values are included in notes 11 and 12.

Capitalised development expenditure and subsequent amortisation

Where such expenditure meets the relevant criteria, the group is required to capitalise development expenditure. In order to assess whether the criteria are met the Board is required to make estimates in relation to likely income generation and financial and technical viability of the relevant development projects and the period over which the group is likely to benefit from such expenditure. Development projects are subject to an investment appraisal process with the product managers to assess the status of the development and the expected commercial opportunities. Development costs are assessed for impairment which requires an estimation of the future expected revenues to be generated from each product. This methodology, which is similar to that used to assess any impairment of goodwill, is discussed further in note 12. Expenditure is only capitalised when the investment appraisal process has assessed that the product is likely to benefit the Group in the future. More details including carrying values are included in note 11.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2018

2. Revenue

	Year ended 30 November 2018 £'000	17 months ended 30 November 2017 £'000
The group's revenue comprises:		
Software licence revenue	9,619	13,304
Services revenue*	28,987	38,074
Recurring revenue**	40,291	57,573
Hardware and other revenue	4,438	9,225
Revenue	83,335	118,176

*from installation, integration and software development services

**from software maintenance renewals, support contracts and hosting and managed services

3. Profit/(loss) from operations

	Year ended 30 November 2018 £'000	17 months ended 30 November 2017 £'000
This has been arrived at after charging/(crediting):		
Staff costs (see note 4)	43,208	64,885
Depreciation of property, plant and equipment	885	1,373
Amortisation of acquired intangible assets	2,507	3,930
Amortisation of development costs	2,584	5,010
Exceptional impairment of development costs (see below)	–	4,541
Acquisition costs (see below)	–	308
Exceptional reorganisation costs (see below)	1,355	4,731
Share-based payment charge	103	–
Release of contingent consideration (see below)	–	(393)
Foreign exchange differences	2	34
Operating lease expenses		
– Plant and machinery	905	2,062
– Property	1,691	2,010
Loss on disposal of fixed assets	22	–
Audit fees:		
– Audit services	118	188
– Non-audit services	4	57

3. Profit/(loss) from operations (continued)

During the year, the Group carried out a programme to combine its UK Microsoft Dynamics businesses in addition to continuing the reorganisation programme commenced during the previous period and incurred reorganisation costs, predominantly redundancy costs, of £1.36m. During the previous period, the Group implemented a programme to simplify and more closely integrate the Group's operations. In order to achieve this, significant changes were made which resulted in exceptional reorganisation costs of £4.73m, of which the vast majority were redundancy costs. Also during the prior period, following a review of development costs, the costs relating to certain products that are no longer core to the Group's strategy were written down to £nil at a cost of £4.54m. This impairment charge had no cash impact. Also during the prior period, the Group incurred costs in relation to acquiring new businesses of £0.31m and contingent consideration not required to be paid of £0.39m.

During the year, the Group granted share options for which the charge for the year was £0.10m.

Fees paid to the company's auditors are disclosed in the Corporate Governance statement on page 30.

4. Staff costs

	Year ended 30 November 2018 £'000	17 months ended 30 November 2017 £'000
Staff costs (including directors) comprise:		
Wages and salaries	36,472	53,245
Short-term non-monetary benefits	1,092	3,000
Defined contribution pension cost	1,847	2,458
Share-based payment expense (see note 23)	103	67
Employers national insurance contributions and similar taxes	3,694	6,115
	43,208	64,885

Of the above staff costs, £2.42m (17 months ended 30 November 2017: £4.28m) has been capitalised within development costs (see note 11).

The average number of employees during the year was:

	Year ended 30 November 2018 Number	17 months ended 30 November 2017 Number
Consultants and programmers	506	556
Sales and distribution	80	77
Administration	101	132
	687	765

Notes forming part of the financial statements (continued)

for the year ended 30 November 2018

4. Staff costs (continued)

Directors and key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the group, including the Directors of the company listed on page 34 and the divisional directors.

	Year ended 30 November 2018 £'000	17 months ended 30 November 2017 £'000
Key management personnel remuneration consists of:		
Remuneration	1,321	2,440
Compensation for loss of office	–	1,472
Company contributions to defined contribution pension schemes	99	138
Share-based payment expense (note 23)	87	–
Employers national insurance contributions and similar taxes	141	317
	1,648	4,367

No share options were exercised during the year, hence there were no gains on exercise of share options (17-month period ended 30 November 2017: £nil).

Included in the totals above is directors' remuneration:

	Year ended 30 November 2018 £'000	17 months ended 30 November 2017 £'000
Directors' remuneration consists of:		
Emoluments	656	1,023
Contributions to personal pension schemes	49	53
Total per remuneration report (page 32)	705	1,076
Employers national insurance contributions and similar taxes	84	119
	789	1,195

	Year ended 30 November 2018 £'000	17 months ended 30 November 2017 £'000
Remuneration in respect of the highest paid director:		
Aggregate emoluments	309	457
Pension contributions	30	36
	339	493

There were four directors in defined contribution pension schemes (period ended 30 November 2017: 4).

Note that the directors' emoluments include amounts attributed to benefits-in-kind on which directors are assessed for tax purposes. This may differ to the cost to the group of providing those benefits included in this note.

5. Segment information

The Support Costs segment comprises head office and other centrally incurred costs which are recharged to the units through a central management charge. This classification is different from previous reporting and now reflects the centralised management of these resources and costs. The comparatives for the 17 month period ended 30 November 2017 have been restated on the same basis. A reconciliation of the restated position with that previously disclosed is shown on page 66.

The activities and products and services of the operating segments are detailed in the Strategic Report on pages 12 to 16.

Transactions between operating segments are on an arms-length basis.

The CODM (Chief Operating Decision Maker, the Board) primarily assesses the performance of the operating segments based on adjusted profit from operations. This is a measure of segment operating profit less an allocation of head office costs. Adjusted profit from operations is profit before interest, tax, amortisation of acquired intangibles, acquisition costs, exceptional costs, exceptional income and share-based payment charges.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2018

5. Segment information (continued)

The segment results for the year ended 30 November 2018 and for the period ended 30 November 2017, reconciled to profit before taxation as included in the consolidated income statement, are as follows:

	Year ended 30 November 2018			
	Own IP units £'000	Supply chain solutions and managed services £'000	Support costs £'000	Total £'000
Total segment revenue	19,245	65,864	–	85,109
Inter-segment revenue	(1,750)	(24)	–	(1,774)
Software licence revenue	4,281	5,338	–	9,619
Services revenue	1,582	27,405	–	28,987
Recurring revenue	8,849	31,442	–	40,291
Hardware and other revenue	2,783	1,655	–	4,438
External revenue	17,495	65,840	–	83,335
Cost of sales	(4,617)	(34,829)	–	(39,446)
Gross profit	12,878	31,011	–	43,889
Depreciation	(80)	(712)	(93)	(885)
Amortisation of development costs	(1,282)	(1,302)	–	(2,584)
Other administrative expenses	(7,021)	(20,806)	(7,944)	(35,771)
Divisional operating profit/(loss)	4,495	8,191	(8,037)	4,649
Management charges	(278)	(1,717)	1,995	–
Adjusted profit/(loss) from operations	4,217	6,474	(6,042)	4,649
Amortisation of acquired intangibles	(981)	(1,526)	–	(2,507)
Acquisition costs	–	–	–	–
Exceptional reorganisation costs	(206)	(1,058)	(91)	(1,355)
Share–based payment charge	–	–	(103)	(103)
Profit/(loss) from operations	3,030	3,890	(6,236)	684
Finance expense	–	(37)	(630)	(667)
Profit/(loss) before tax	3,030	3,853	(6,866)	17

5. Segment information (continued)

	17 months ended 30 November 2017 (as restated)			
	Own IP units £'000	Supply chain solutions and managed services £'000	Support costs £'000	Total £'000
Total segment revenue	25,683	94,842	–	120,525
Inter-segment revenue	(2,271)	(78)	–	(2,349)
Software licence revenue	2,915	10,389	–	13,304
Services revenue	3,367	34,707	–	38,074
Recurring revenue	12,163	45,410	–	57,573
Hardware and other revenue	4,967	4,258	–	9,225
External revenue	23,412	94,764	–	118,176
Cost of sales	(8,404)	(48,793)	–	(57,197)
Gross profit	15,008	45,971	–	60,979
Depreciation	(123)	(1,230)	(20)	(1,373)
Amortisation of development costs	(1,923)	(3,086)	–	(5,009)
Other administrative expenses	(11,591)	(34,565)	(10,107)	(56,263)
Divisional operating profit/(loss)	1,371	7,090	(10,127)	(1,666)
Management charges	(499)	(2,308)	2,807	–
Adjusted profit/(loss) from operations	872	4,782	(7,320)	(1,666)
Amortisation of acquired intangibles	(1,829)	(2,101)	–	(3,930)
Acquisition costs	–	–	(308)	(308)
Exceptional reorganisation costs	(246)	(2,929)	(1,556)	(4,731)
Exceptional impairment charge	(1,593)	(2,948)	–	(4,541)
Release of contingent consideration	393	–	–	393
Loss from operations	(2,403)	(3,196)	(9,184)	(14,783)
Finance expense	–	(15)	(1,345)	(1,360)
Loss before tax	(2,403)	(3,211)	(10,529)	(16,143)

Notes forming part of the financial statements (continued)

for the year ended 30 November 2018

5. Segment information (continued)

A reconciliation of the restated position with the amounts previously disclosed is as follows:

	Own IP units £'000	Supply chain solutions and managed services £'000	Support costs £'000	Total £'000
Gross profit	15,008	45,971	–	60,979
Depreciation	(123)	(1,230)	(20)	(1,373)
Amortisation of development costs	(1,923)	(3,086)	–	(5,009)
Other administrative expenses as previously stated	(12,257)	(39,487)	(4,519)	(56,263)
Reallocation of centrally incurred costs	666	4,922	(5,588)	–
Other administrative expenses as restated	(11,591)	(34,565)	(10,107)	(56,263)
Divisional operating profit/(loss)	1,371	7,090	(10,127)	(1,666)
Management charges	(499)	(2,308)	2,807	–
Adjusted profit/(loss) from operations	872	4,782	(7,320)	(1,666)
Amortisation of acquired intangibles, acquisition costs exceptional reorganisation costs, exceptional impairment charge, and release of contingent consideration	(3,275)	(7,978)	(1,864)	(13,117)
Loss from operations	(2,403)	(3,196)	(9,184)	(14,783)
Finance expense as previously stated	(203)	(15)	(1,142)	(1,360)
Reallocation of centrally incurred costs	203	–	(203)	–
Finance expense as restated	–	(15)	(1,345)	(1,360)
Loss before tax	(2,403)	(3,211)	(10,529)	(16,143)

5. Segment information (continued)

Segment assets and segment liabilities are reviewed by the CODM in a consolidated statement of financial position. Accordingly, this information is replicated in the group consolidated statement of financial position on page 48. As no measure of assets or liabilities for individual segments is reviewed regularly by the CODM, no disclosure of total assets or liabilities has been made, in accordance with the amendment to paragraph 23 of IFRS 8.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Transactions between segments are accounted for at cost.

The Group's revenue does not arise from any individual customer accounting for in excess of 10% of revenues.

Analysis of the group's external revenues (by customer location) and non-current assets by geographical location are detailed below:

	External revenue		Non-current assets	
	Year ended 30 November 2018 £'000	17 months ended 30 November 2017 £'000	2018 £'000	2017 £'000
United Kingdom	46,567	79,767	46,292	48,316
Netherlands	12,784	12,584	12,200	12,375
Ireland	2,892	4,153	6,402	5,848
Rest of Europe	12,120	12,886	8,168	8,821
Middle East	3,236	2,214	–	–
Asia	3,344	4,232	37	53
USA	1,656	1,198	3	3
Rest of World	736	1,142	–	–
	83,335	118,176	73,102	75,416
% of non-UK revenue	44.0%	32.5%		

6. Finance income and expense

	Year ended 30 November 2018 £'000	17 months ended 30 November 2017 £'000
Finance expense		
Bank borrowings	754	1,236
On related party balances	–	55
Other	(87)	69
Net finance expense	667	1,360

Notes forming part of the financial statements (continued)

for the year ended 30 November 2018

7. Tax expense

	Year ended 30 November 2018 £'000	Year ended 30 November 2018 £'000	17 months ended 30 November 2017 £'000	17 months ended 30 November 2017 £'000
Current tax expense/(credit)				
UK corporation tax on profits/(losses) for the period	–		(508)	
Income tax of overseas operations on profits/(losses) for the period	472		120	
Adjustment in respect of prior periods	745		(176)	
		1,217		(564)
Deferred tax income				
Origination and reversal of temporary differences	(629)		(2,046)	
Effect of change in rate of deferred tax	(83)		(163)	
		(712)		(2,209)
Total tax expense/(credit) in current year		505		(2,773)

The reasons for the difference between the actual tax charge for the period and the standard rate of corporation tax in the UK applied to profits/(losses) for the year are as follows:

	Year ended 30 November 2018 £'000	17 months ended 30 November 2017 £'000
Profit/(loss) before tax	17	(16,141)
Expected tax charges based on the standard rate of corporation tax in the UK of 19% (2017: 19.53%)	3	(3,152)
Expenses not deductible for tax purposes	(64)	(188)
Effect of tax reliefs	–	–
Utilisation of losses	–	(320)
Movement in losses not recognised (see note 18)	(331)	1,249
Different tax rates applied in overseas jurisdictions	191	222
Effect of change in rate for deferred tax	(83)	(163)
Adjustment for under/(over) provision in prior periods	789	(421)
Total tax expense/(credit) in current period	505	(2,773)

None of the items within other comprehensive income in the Consolidated Statement of Comprehensive Income have resulted in a tax expense or tax income.

8. Dividends

	Year ended 30 November 2018 £'000	17 months ended 30 November 2017 £'000
Final dividend of 1.4p (2017: 1.75p) per ordinary share proposed and paid during the period relating to the previous period's results	601	630

A dividend in respect of the year ended 30 November 2018 of 1.54p per share, amounting to a total dividend of £662,000 is to be proposed at the annual general meeting on 22 May 2019. These financial statements do not reflect this dividend payable.

9. (Loss)/earnings per share

The calculations of (loss)/earnings per share are based on the profit/(loss) for the year and the following numbers of shares:

	2018 Number of shares	2017 Number of shares
Denominator		
Weighted average number of shares used in basic EPS	42,871,000	37,893,951
Effects of:		
Employee share options and warrants	–	–
Weighted average number of shares used in diluted EPS	42,871,000	37,893,951

Certain employee options and warrants have not been included in the calculation of diluted EPS because their exercise is contingent on the satisfaction of certain criteria that had not been met at the end of the year.

The alternative earnings per share calculations have been computed because the directors consider that they are useful to shareholders and investors. These are based on the following profits/(losses) and the above number of shares.

	Year ended 30 November 2018			17 months ended 30 November 2017 (restated)		
	Earnings £'000	Per share amount Basic p	Per share amount Diluted p	Earnings £'000	Per share amount Basic p	Per share amount Diluted p
Numerator						
Loss per share	(488)	(1.1)	(1.1)	(13,370)	(35.3)	(35.3)
Add back:						
Amortisation of acquired intangibles (net of tax recognised)	1,952	4.6	4.6	3,037	8.0	8.0
Acquisition costs (net of tax recognised)	–	–	–	308	0.8	0.8
Exceptional reorganisation costs (net of tax recognised)	1,355	3.2	3.2	4,731	12.5	12.5
Exceptional impairment charge (net of tax recognised)	–	–	–	4,541	12.0	12.0
Release of contingent consideration (net of tax recognised)	–	–	–	(393)	(1.0)	(1.0)
Share-based payment charge (net of tax recognised)	103	0.1	0.1	–	–	–
Adjusted EPS/(LPS)	2,922	6.8	6.8	(1,146)	(3.0)	(3.0)

The adjusted EPS/(LPS) for the 17 months ended 30 November 2017 has been amended to reflect that there was no tax charge or credit recognised in the period on either the exceptional reorganisation costs or on the exceptional impairment charge. The calculation has been amended to reflect the actual tax charge or credit directly allocable rather than on an effective tax rate as previously determined as the directors consider this to be a fairer representation.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2018

10. Property, plant and equipment

	Long leasehold land and buildings £'000	Leasehold improvements £'000	Plant, fixtures and equipment £'000	Total £'000
Cost				
At 30 June 2016	750	419	5,293	6,462
On acquisitions	–	–	6	6
Additions	–	–	1,443	1,443
Disposals	–	–	(155)	(155)
Effect of movements in foreign exchange rate	–	–	85	85
At 30 November 2017	750	419	6,672	7,841
Additions	–	–	748	748
Disposals	–	(372)	(488)	(860)
Effect of movements in foreign exchange rate	–	–	20	20
At 30 November 2018	750	47	6,952	7,749
Accumulated depreciation				
At 30 June 2016	92	314	3,667	4,073
Depreciation charge	15	73	1,285	1,373
Disposals	–	–	(145)	(145)
Effect of movements in foreign exchange rate	–	–	61	61
At 30 November 2017	107	387	4,868	5,362
Depreciation charge	10	23	852	885
Disposals	–	(363)	(475)	(838)
Effect of movements in foreign exchange rate	–	–	14	14
At 30 November 2018	117	47	5,259	5,423
Net book value				
At 30 June 2016	658	105	1,626	2,389
At 30 November 2017	643	32	1,804	2,479
At 30 November 2018	633	–	1,693	2,326

Bank borrowings are secured on certain assets of the group including property, plant and equipment. There is a fixed charge over the long leasehold property.

The net carrying amount of property, plant and equipment includes the following amounts in respect of assets held under finance leases (see note 21):

	2018 £'000	2017 £'000
Plant, fixtures and equipment	33	85

11. Intangible assets

	Goodwill £'000	Development costs £'000	Contractual and non-contractual customer relationships £'000	Distribution agreements £'000	Intellectual property rights £'000	Total £'000
Cost or valuation						
At 30 June 2016	48,793	22,456	23,068	10,557	3,774	108,648
Additions	–	6,158	–	–	–	6,158
Acquired through business combinations	1,334	–	440	–	299	2,073
Elimination of cost of assets no longer in use	–	(8,552)	–	–	–	(8,552)
Effect of movements in foreign exchange rate	892	568	503	–	205	2,168
At 30 November 2017	51,019	20,630	24,011	10,557	4,278	110,495
Additions	–	2,627	–	–	–	2,627
Effect of movements in foreign exchange rate	168	76	88	–	32	364
At 30 November 2018	51,187	23,333	24,099	10,557	4,310	113,486

Notes forming part of the financial statements (continued)

for the year ended 30 November 2018

11. Intangible assets (continued)

	Goodwill £'000	Development costs £'000	Contractual and non-contractual customer relationships £'000	Distribution agreements £'000	Intellectual property rights £'000	Total £'000
Accumulated amortisation						
At 30 June 2016	–	9,675	12,470	10,557	784	33,486
Amortisation charge	–	5,010	3,191	–	739	8,940
Impairment charge	–	4,541	–	–	–	4,541
Elimination of accumulated amortisation on assets no longer in use	–	(8,552)	–	–	–	(8,552)
Effect of movements in foreign exchange rate	–	183	301	–	38	522
At 30 November 2017	–	10,857	15,962	10,557	1,561	38,937
Amortisation charge	–	2,584	1,980	–	527	5,091
Effect of movements in foreign exchange rate	–	7	67	–	13	87
At 30 November 2018	–	13,448	18,009	10,557	2,101	44,115
Net book value						
At 30 June 2016	48,793	12,781	10,598	–	2,990	75,162
At 30 November 2017	51,019	9,773	8,049	–	2,717	71,558
At 30 November 2018	51,187	9,885	6,090	–	2,209	69,371

During the prior period, certain development costs were written down to nil at a cost of £4.54m. This was included within exceptional costs in the income statement.

All intangible assets, other than goodwill which has an indefinite life, have a useful economic life of between 3 and 10 years. The remaining useful life of development costs is between 1 and 7 years, for contractual and non-contractual customer relationships is between 0 and 9 years, for distribution agreements is 0 years and for intellectual property rights is between 0 and 6 years.

12. Goodwill and impairment

Goodwill acquired in business combinations is allocated at acquisition to the cash generating units ("CGUs") that are expected to benefit from that business combination. Details of goodwill allocated to each CGU are as follows:

	Goodwill carrying amount 2018 £'000	2017 £'000
Walton	1,555	1,555
Syspro	13,680	13,680
Hosting and managed services	2,905	2,905
Dynamics UK	10,051	10,051
Dynamics International	9,650	9,541
IP	413	410
Sage	4,556	4,556
Retail Systems Group (RSG) (including Merac)	1,707	1,707
Unisoft	876	872
Integrated Business Solutions (IBS)	770	770
DdD Retail	5,024	4,972
	51,187	51,019

The recoverable amounts of the CGUs are determined from value in use calculations, derived from the present value of future cash flows generated by the CGUs. There are a number of assumptions and estimates involved in calculating the present value of the future cash flows, including but not restricted to the following:

- growth rates applied to profit from operations used as the basis for the future cash flows;
- the discount rate applied to the cash flows to calculate their present value.

The basis of the assumptions used is as follows:

- management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the business. The growth rates are based on management forecasts for the markets in which each CGU operates.
- the group prepares pre-tax cash flow forecasts derived from the most recent financial forecasts approved by the Board for the next five years. The forecasts assume growth rates for most revenue streams of 2-10% across the 5 year period (17 month ended 30 November 2017: Years 2-3 growth rates of 5-20%, Years 4-5 growth rates of 2-5%) with exceptions for the Walton, IBS, IP, Unisoft and DdD Retail CGUs. Growth rate after Year 5 is 2.25% for all CGUs.
    - o The Walton CGU relates to small systems and a gradual attrition of revenue is expected, and an attrition rate of 2% has been applied (17-month period ended 30 November 2017: 5%).
    - o The IBS CGU also relates to small systems and is forecast to have no growth during the next 5 years.
    - o Growth rates in the IP CGU reflect the Board's positive view of the growth in sales from our own IP, in particular K3|imagine, which is reflected in the assumptions as maintenance revenue which is forecast to double in Years 2-3, slowing to a 20% growth in Years 4-5 revenues. Subscription revenue is forecast to grow by 10-20% in Years 2-5 (17 month period ended 30 November 2017: 58% in Year 2 and 33% in Year 3 for all revenue streams).

Notes forming part of the financial statements (continued)

for the year ended 30 November 2018

12. Goodwill and impairment (continued)

- o The forecasts for the Unisoft and DdD Retail CGUs also reflect growth in sales from our own IP including K3|imagine and software revenues are forecast to grow by 50% and 100% respectively in each of the next 5 years.
- o The most recent financial forecasts have been prepared on the assumption that gross margins will be consistent with those generated historically (taking into account the change in the sales mix, in particular the shift towards "consumption-based" models) and that overheads are in line with any changes in the level of revenues forecast adjusted for the reorganisation benefit.
- o The growth rates are based on industry growth rates, the Board's view of the observable markets as well as historical and estimated requirement by customers for the products and services.

- the rate used to discount the forecast pre-tax cash flows is 13.7% and represents the directors' current best estimate of the weighted average cost of capital ("WACC"). The directors consider that there are no material differences in the WACC for different CGUs.

As a result of the impairment testing carried out on the basis of these estimates and assumptions, no impairment provisions are considered necessary.

For all CGUs no reasonably possible changes to the assumptions used in the impairment test would give rise to an impairment.

13. Subsidiaries

The trading subsidiaries of K3 Business Technology Group plc, all of which have been included in these consolidated financial statements, are as follows:

Name	Country of incorporation	Proportion of ownership interest and ordinary share capital held
K3 BTG Limited	UK	100%
K3 Business Solutions Limited (see below)	UK	100%
K3 Business Technologies Limited (formerly K3 Retail Solutions Limited)	UK	100%
K3 Business Technology Group Trustees Company Limited	UK	100%
K3 CRM Limited (see below)	UK	100%
K3 FDS Limited	UK	100%
K3 Syspro Limited	UK	100%
K3 Systems Support Limited	UK	100%
Retail Systems Group Limited	UK	100%
Starcom Technologies Limited	UK	100%
FDS Technology Systems Limited	Ireland	100%
Integrated Manufacturing Software Limited	Ireland	100%
K3 Retail and Business Solutions Limited	Ireland	100%
K3 Business Solutions BV	Netherlands	100%
K3 Software Solutions BV	Netherlands	100%
K3 Solutions BV	Netherlands	100%
K3 Business Solutions Pte Limited	Singapore	100%
K3 Business Solutions SDN BHD	Malaysia	100%
K3 Business Solutions ehf	Iceland	100%
K3 Software Solutions LLC	USA	100%
DdD Retail A/S	Denmark	100%
DdD Retail Norway A/S	Norway	100%
DdD Retail Germany AG	Germany	100%
DdD Retail Sweden	Sweden	100%

The principal activity of all of the above subsidiary undertakings is the supply of computer software and consultancy with the exception of the following: Starcom Technologies Limited, and K3 Systems Support Limited which are hosting and managed services providers; K3 Business Technology Group Trustees Company Limited which is the trustee for the group's employee share ownership plan.

K3 Business Solutions Limited and K3 CRM Limited ceased to trade on 1 October 2018 when the trade and assets of both businesses were transferred to K3 Business Technologies Limited.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2018

13. Subsidiaries (continued)

The registered office for all the UK companies is Baltimore House, 50 Kansas Avenue, Manchester, M50 2GL. The registered office for all the Irish companies is Beaux Lane House, Mercer Street Lower, Dublin 2, Ireland. The registered offices for the other overseas subsidiaries are:

K3 Business Solutions BV	Gildeweg 9b, 2632 BD Nootdorp, The Netherlands
K3 Software Solutions BV	Gildeweg 9b, 2632 BD Nootdorp, The Netherlands
K3 Solutions BV	Cartografenweg 6, 5141 MT Waalwijk, The Netherlands
K3 Business Solutions Pte Limited	133 New Bridge Road, #10-09 Chinatown Point, Singapore 059413
K3 Business Solutions SDN BHD	First Avenue, One Utama, 47800 Petaling Jaya, Kuala Lumpur, Malaysia
K3 Business Solutions ehf	Austurstræt 12, 101 Reykjavik, Iceland
K3 Software Solutions LLC	33S 6th St., Suite 4200, Minneapolis MN 55402, USA
DdD Retail A/S	Theilgaards Allé 2, 4600 Køge, Denmark
DdD Retail Norway A/S	195, Stensarmen 4, 3112, Tonsberg, Norway
DdD Retail Germany AG	Weilstrasse 41, 89143 Balubeuren, Germany
DdD Retail Sweden	Vallhal Park, Stjernsvards Alle 52, 262 74 Angelholm, Sweden

13. Subsidiaries (continued)

In addition, the company has the following subsidiaries which are non-trading or intermediate holding companies and all of which have been included in these consolidated financial statements:

Name	Country of incorporation	Proportion of ownership interest and ordinary share capital held
Clarita Support Limited	UK	100%
Colne Investments Limited	UK	100%
Fashion Cloud Software.com, LLC	USA	100%
FDS Holdco Limited	UK	100%
Fifth Dimension Systems Limited	UK	100%
Intelligent Solutions Consultancy Limited	UK	100%
K3 AX Limited	UK	100%
K3 Business Systems Holdco Limited	UK	100%
K3 FD Systems Limited	UK	100%
K3 Global Products Limited	UK	100%
K3 Hosting Limited	UK	100%
K3 Information Engineering Limited	UK	100%
K3 Information Services Limited	UK	100%
K3 International Support Services Limited	Ireland	100%
K3 Landsteinar Limited	UK	100%
K3 Managed Services Holdco Limited	UK	100%
K3 Partner Network (International) Limited	Ireland	100%
K3 Retail and Business Solutions Holdco Limited	UK	100%
Merac Limited	UK	100%
Retail Computer Maintenance Limited	UK	100%
Retail Technology Limited	UK	100%
Sense Enterprise Solutions Limited	UK	100%
Shine Marketing UK Limited	UK	100%
Syspro (UK) Limited	UK	100%
Syspro Europe Limited	UK	100%
Syspro Limited	UK	100%
K3 Holdings BV	Netherlands	100%
K3 Managed Services Inc	USA	100%
NTS Systemhaus Sud Verwaltungs GmbH	Germany	100%
Retail Support International ApS	Denmark	100%

Notes forming part of the financial statements (continued)

for the year ended 30 November 2018

14. Trade and other receivables

	2018 £'000	2017 £'000
Trade receivables	16,445	18,038
Less: provision for impairment of trade receivables	(1,075)	(1,460)
Trade receivables – net	15,370	16,578
Current taxes	91	1,007
Other receivables	231	507
Accrued income	8,617	9,891
Prepayments	2,697	2,446
	27,006	30,429

The fair value of trade and other receivables approximates to book value at 30 November 2018 and 30 November 2017.

Of the above, trade receivables of £nil (2017: £0.03m) and accrued income of £2.97m (2017: £4.80m) is due after more than one year.

The group is exposed to credit risk with respect to trade receivables due and accrued income which will become due from its customers. The group has c.3,700 customers spread across various industries, although predominantly in the retail, manufacturing and distribution sectors, and hence the concentration of credit risk is limited due to the large and diverse customer base. The group assesses the credit rating for new customers to minimise the credit risk. Provisions for bad and doubtful debts are made based on management's objective assessment of the risk taking into account the age of the debt and items considered to be in dispute with customers. Given that the large number of customers limits the concentration of credit risk, the directors consider that no further credit provision is required other than the provision for impairment of £1.08m (2017: £1.46m).

As at 30 November 2018 trade receivables of £3.47m (2017: £3.15m) were past due but not impaired. They relate to the customers against whom no provision is considered necessary. The ageing analysis of these receivables is as follows:

	2018 £'000	2017 £'000
Up to 3 months overdue	744	750
3 to 6 months overdue	1,319	1,182
6 to 12 months overdue	495	572
Over 12 months overdue	907	645
	3,465	3,149

As at 30 November 2018 trade receivables of £1.08m (2017: £1.46m) were past due, impaired and provided against. There are no individually significant receivables included within this provision. The group takes a prudent view in assessing the risk of non-payment and considers provision for all debts more than three months in arrears unless there are specific circumstances to indicate that there is little or no risk of non-payment of these older debts.

14. Trade and other receivables (continued)

The carrying amounts of the group's trade and other receivables are denominated in the following currencies:

	2018 £'000	2017 £'000
Pound sterling	17,036	20,436
Euro	8,709	9,400
Other	1,261	593
	27,006	30,429

The currency denominated receivables are predominantly held in the functional currency of the relevant subsidiary.

Movements on the group provision for impairment of trade receivables are as follows:

	2018 £'000	2017 £'000
At beginning of year	1,460	1,330
Provided during the period	1,077	1,721
Utilised during the period	(1,335)	(1,498)
Unused amounts released	(127)	(93)
At end of year	1,075	1,460

The movement on the provision for impaired receivables has been included in administrative expenses in the consolidated income statement.

Other classes of financial assets included within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable set out above.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2018

15. Trade and other payables – current

	2018 £'000	2017 £'000
Trade payables	5,163	4,739
Other payables	903	594
Accruals	6,945	8,818
Total financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost	13,011	14,151
Other tax and social security taxes	4,897	3,961
Deferred revenue	10,520	11,137
	28,428	29,249

To the extent trade and other payables are not carried at fair value in the consolidated balance sheet, book value approximates to fair value at 30 November 2018 and 30 November 2017.

Maturity analysis of the financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost, is as follows:

	2018 £'000	2017 £'000
Up to 3 months	11,638	12,737
3 to 6 months	605	395
6 to 12 months	768	1,019
	13,011	14,151

16. Loans and borrowings

	2018 £'000	2017 £'000
Non-current		
Bank loans (secured)	–	6,124
Finance lease creditors (note 21)	15	46
	15	6,170
Current		
Bank loans (secured)	7,485	–
Finance lease creditors (note 21)	32	59
	7,517	59
Total borrowings	7,532	6,229

Principal terms and the debt repayment schedule of the group's loans and borrowings are as follows:

	Currency	Nominal rate%	Year of maturity	Security
Secured bank loan	GBP	2.1% – 6.00 % over LIBOR	2019	See below
Finance lease creditors (note 21)	GBP	0.7%	2019	Secured

The above split between non-current and current loans and borrowings reflects the situation as at 30 November 2018. The Group is currently close to finalising an expected extension of its current banking facilities, which expire in October 2019, to March 2021.

Finance lease creditors are secured on the assets to which they relate.

Maturity analysis of loans and borrowings:

	2018 £'000	2017 £'000
In less than one year	7,648	62
In more than one year but not more than two years	5	6,409
In more than two years but not more than five years	13	16
	7,666	6,487

Bank borrowings

The bank loans are secured by a fixed charge over the group's long leasehold property and floating charges over the remaining assets of the group.

The group has undrawn committed borrowing facilities available at 30 November 2018 of £12.38m (2017: £13.63m) for which all conditions have been met. It is a syndicated revolving loan facility on which interest is charged at a floating rate linked to LIBOR.

The currency profile of the group's loans and borrowings is as follows:

	2018 £'000	2017 £'000
Pound sterling	4,417	2,354
Euro	3,115	3,875
	7,532	6,229

Notes forming part of the financial statements (continued)

for the year ended 30 November 2018

17. Financial instruments

Risk management

The group is exposed through its operations to one or more of the following financial risks:

- Market risk
- Liquidity risk
- Credit risk

Policy for managing these risks is set by the Board following recommendations from the Chief Financial Officer. Certain risks are managed centrally, while others are managed locally following guidelines communicated from the centre. The policy for each of the above risks is described in more detail below. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes from previous periods in the group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or methods used to measure them.

Principal financial instruments

The principal financial instruments used by the group, from which financial risk arises, are as follows:

- Trade receivables;
- Cash at bank;
- Trade and other payables;
- Floating-rate bank loans; and
- Loans from related parties.

Market risk

Market risk arises from the group's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

Fair value and cash flow interest rate risk

The group has fixed interest loans in respect of finance leases with a net book value of £0.03m (2017: £0.11m). The fixed rate applicable on finance leases is 0.7%.

Bank debt totalling £7.49m (2017: £6.12m) is held under floating rates linked to quarterly LIBOR.

Foreign currency risk

Foreign exchange risk arises because the group has operations located overseas whose functional currency is not the same as the group's primary functional currency (sterling). The net assets from overseas operations are exposed to currency risk giving rise to gains or losses on retranslation into sterling.

Foreign exchange risk also arises when individual group operations enter into transactions denominated in a currency other than their functional currency. It is group policy that such transactions should be hedged by entering into forward contracts where it is considered the risk to the group is significant. This policy is managed centrally by group treasury entering into a matching forward contract with a reputable bank.

It is group policy that transactions between group entities are always denominated in the selling entity's functional currency thereby giving rise to foreign exchange risk in the income statement of both the purchasing group entity and the group. No external hedge is entered into as there is no exposure to consolidated net assets from intra-group transactions.

17. Financial instruments (continued)

Liquidity risk

The liquidity risk of each group entity is managed centrally by the group treasury function comparing to budgets and quarterly forecasts.

The group maintains a syndicated revolving loan facility with two major banking corporations to manage any unexpected short-term cash shortfalls. The facilities from the Group's bankers require the Group to meet certain covenants throughout the term of the loans with which the Group was compliant during the year and the Group's forecasts indicate that it will remain within the set parameters.

The principal terms of the group's borrowings are set out in note 16.

Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the group. The group is mainly exposed to credit risk from credit sales. It is group policy, implemented locally, to assess the credit risk of new customers before entering contracts. Such credit ratings, taking into account local business practices, are then factored into any contractual arrangements.

The group does not have any significant credit risk exposure to any single customer. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the group's maximum exposure to credit risk.

Further details, including quantitative information, are included in note 14.

Capital disclosures

The group monitors "adjusted capital" which comprises all components of equity (i.e. share capital, share premium, retained earnings and other reserves) other than amounts in the translation reserve. Other reserves comprise a merger relief reserve.

	2018 £'000	2017 £'000
Total equity	68,969	69,657
Less: amounts in translation reserve	(2,486)	(2,186)
	66,483	67,471

The group's objective when maintaining capital is to safeguard the company's ability to continue as a going concern so that it can continue to provide returns to shareholders and benefits for other stakeholders. In order to maintain the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

Sensitivity analysis

Whilst the group takes steps to minimise its exposure to cash flow interest rate risk and foreign exchange risk as described above, changes in interest and foreign exchange rates will have an impact on profit.

The directors consider a 0.4% movement in the interest rate to be reasonably possible as at the reporting date. The annualised effect of a 0.4% increase or decrease in the interest rate at the reporting date on the variable rate debt carried at that date would, all other variables being held constant, in the directors' opinion, be immaterial.

The group's foreign exchange risk is dependent on the movement in the Euro to sterling exchange rate. The directors consider a 1% movement in the Euro rate to be reasonably possible as at the reporting date. The effect of a 1% strengthening or weakening in the Euro against sterling at the balance sheet date on the Euro denominated debt at the date and on the annualised interest on that amount would, all other variables being held constant, in the directors' opinion, be immaterial.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2018

17. Financial instruments (continued)

Financial instruments by category

The carrying value of the Group's financial instruments are analysed as follows:

As at 30 November 2018

	Notes	Loans and receivables £'000	Available-for-sale £'000	Amortised cost £'000	At FVTPL £'000	Total £'000
Assets						
Available-for-sale		–	98	–	–	98
Trade and other receivables:						
Trade receivables	14	15,370	–	–	–	15,370
Other non-derivative financial assets	14	231	–	–	–	231
Accrued income	14	8,617	–	–	–	8,617
Cash and cash equivalents		6,914	–	–	–	6,914
Total assets		31,132	98	–	–	31,230
Liabilities						
Borrowings:						
Current	16	–	–	(7,517)	–	(7,517)
Non-current	16	–	–	(15)	–	(15)
Trade and other payables:						
Trade payables	15	–	–	(5,163)	–	(5,163)
Other non-derivative financial liabilities	15	–	–	(7,848)	–	(7,848)
Total liabilities		–	–	(20,543)	–	(20,543)
		31,132	98	(20,543)	–	10,687

17. Financial instruments (continued)

Financial instruments by category (continued)

As at 30 November 2017

	Notes	Loans and receivables £'000	Available-for-sale £'000	Amortised cost £'000	At FVTPL £'000	Total £'000
Assets						
Available-for-sale		–	98	–	–	98
Trade and other receivables:						
Trade receivables	14	16,578	–	–	–	16,578
Other non-derivative financial assets	14	507	–	–	–	507
Accrued income	14	9,891	–	–	–	9,891
Cash and cash equivalents		1,941	–	–	–	1,941
Total assets		28,917	98	–	–	29,015
Liabilities						
Borrowings:						
Current	16	–	–	(59)	–	(59)
Non-current	16	–	–	(6,170)	–	(6,170)
Trade and other payables:						
Trade payables	15	–	–	(4,739)	–	(4,739)
Other non-derivative financial liabilities	15	–	–	(9,412)	–	(9,412)
Total liabilities		–	–	(20,380)	–	(20,380)
		28,917	98	(20,380)	–	8,635

Financial instruments measured at fair value

There were no financial instruments measured subsequent to initial recognition at fair value at the end of either period.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2018

18. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 17% (2017: 19%).

The movement on net deferred tax is as shown below:

	2018 £'000	2017 £'000
At 30 November 2017	(1,243)	(3,330)
Credit to income statement	712	2,209
On business combinations	–	(154)
Effect of movements in foreign exchange rates	24	32
At 30 November 2018	(507)	(1,243)

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets where the directors believe it is probable that these assets will be recovered.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS12) during the period are shown below.

Deferred tax assets	Accelerated capital allowances £'000	Other temporary differences £'000	Business combinations £'000	Total gross assets £'000
At 30 June 2016	144	238	41	423
Credit to income statement	124	622	–	746
Effect of movements in foreign exchange rates	–	112	–	112
At 30 November 2017	268	972	41	1,281
Credit/(charge) to income statement	124	(126)	–	(2)
Effect of movements in foreign exchange rates	–	28	–	28
At 30 November 2018	392	874	41	1,307

There are unrecognised deferred tax assets of £0.39m in relation to losses for which the recoverability is uncertain.

18. Deferred tax (continued)

Deferred tax liabilities	Other temporary allowances £'000	Business combinations £'000	Total gross liabilities £'000
At 30 June 2016	(990)	(2,763)	(3,753)
On business combinations	–	(154)	(154)
Credit to income statement	570	893	1,463
Effect of movements in foreign exchange rates	(2)	(78)	(80)
At 30 November 2017	(422)	(2,102)	(2,524)
Credit to income statement	138	576	714
Effect of movements in foreign exchange rates	4	(8)	(4)
At 30 November 2018	(280)	(1,534)	(1,814)

Deferred tax liabilities on business combinations relate to those arising on separately identifiable intangibles.

No deferred tax has been provided on temporary differences of £2.19m (2017: £1.64m) relating to the unremitted earnings of foreign subsidiaries.

19. Share capital

	Issued and fully paid			
	2018		2017	
	Number	£'000	Number	£'000
Ordinary shares of 25p each				
At beginning of the year	42,946,665	10,737	35,999,201	9,000
New shares issued	–	–	5,790,322	1,448
Warrants exercised	–	–	700,000	175
Shareholder loan converted to equity	–	–	457,142	114
At end of the year	42,946,665	10,737	42,946,665	10,737

All shares have equal voting rights and there are no restrictions on the distribution of dividends or repayment of capital.

During the period ended 30 November 2017, 5,790,322 ordinary shares having a nominal value of £1.45m were allotted in respect of a placing to strengthen the Group's balance sheet and provide additional working capital. The aggregate consideration received was £8.11m.

700,000 ordinary shares having a nominal value of £0.18m were allotted during the prior period following the exercise of warrants (see below). The aggregate consideration received was £0.66m.

457,142 ordinary shares having a nominal value of £0.11m were allocated during the prior period following the conversion of the shareholder loan (see below). The aggregate consideration received was £0.64m.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2018

19. Share capital (continued)

No ordinary shares were allocated under the employee share option schemes during the year.

	2018 Number	2017 Number
Own shares held	75,665	83,726

Own shares are held by a subsidiary undertaking, K3 Business Technology Group Trustees Company Limited, as trustee of the group's employee share ownership plan.

In connection with the loan made by CA Fastigheter AB to the company to assist it with the acquisition of Alpha Landsteinar, the company issued 200,000 warrants for ordinary shares of 25p each. These were exercised on 4 July 2017 at the exercise price of £0.90. In addition, 500,000 warrants for ordinary shares of 25p each were issued to CA Fastigheter AB during 2007 in recognition of the reduction in its security following the increase in borrowings from the bank to fund the acquisition of McGuffie Brunton Limited. The warrants were exercisable at 123.5p and until the date on which the loan to CA Fastigheter AB was repaid upon meeting the following conditions: 300,000 of the warrants were exercisable when the company's share price stands at £2.50; 100,000 were exercisable when it stands at £3.25; 100,000 had no conditions attached to them. The 100,000 warrants with no conditions attached to them were exercised on 4 July 2017. The remaining warrants remain outstanding at the same exercise price and upon the same company share prices but, following conversion of the loan due to CA Fastigheter AB into equity, the terms were amended such that the warrants are now exercisable until 5 July 2022. This has had no impact on the diluted earnings per share.

In addition, Johan and Marianne Claesson AB held 400,000 warrants for the ordinary shares of 25p each. These were exercised on 4 July 2017 at the exercise price of £0.90.

217,497 options were granted during the year ended 30 June 2016 under the SAYE 2016 scheme (none granted during the either the year ended 30 November 2018 or the period ended 30 November 2017). None of these options have been exercised during either period.

2,890,000 options ("LTIP Options") were granted during the year under the terms of a new K3 Long Term Incentive Plan (the "LTIP"). They are exercisable at a price of 25p per share, being nominal value. The LTIP Options vest in three tranches, as set out below, based on the achievement of certain hurdles relating to the adjusted operating profit ("AOP", as defined in the option agreements as being operating profits prior to any share based payment charges) of the Group for each of the two years to 30 November 2019 and, in respect of the last tranche, a further criteria based on the Company's share price during the 30 days immediately following the announcement of K3's results for the year ended 30 November 2020 (the "Price Vesting Criteria") and the Adjusted Profit per share for the year ending 30 November 2020. The model and key assumptions used in the valuation of the share-based payment are disclosed in note 23.

19. Share capital (continued)

The performance measures for each of the three years to 30 November 2020, and the proportion of each award vesting upon delivery are as follows:

Tranche	Year to 30 November	Minimum AOP to trigger award	% of total award triggered
1	2018	AOP of £5.8m	20%
2	2019	AOP of £8.0m	10%
3a	2020	Adjusted profit per share £0.19 – £0.28	0% – 35% (based on a straight-line sliding scale)
3b	2020 results announcement	Share Price £2.20 – £3.20	0% – 35% (based on a straight-line sliding scale)

If performance criteria are missed for the first and/or second tranches, the awarded LTIP Options will be rolled over into the following year(s) but will only vest upon the achievement of the performance criteria of the second or third tranche, as the case may be. In the event that the first and second tranches are rolled into the third tranche, they will vest on the basis of a 50/50 split between the two separate third tranche tests, and upon achievement of the minimum target for the relevant of the two tests.

20. Reserves

The following describes the nature and purpose of each reserve within shareholders' equity.

Reserve	*Description and purpose*
Share premium	Amount subscribed for share capital in excess of nominal value.
Other reserve	Merger relief reserve for amount in excess of nominal value on issue of shares in relation to business combinations.
Translation	Gains/losses arising on retranslating the net assets of overseas operations into sterling and currency movements on loans treated as part of the effective hedge of the net investment in foreign entities.
Retained earnings	Cumulative net gains and losses recognised in the consolidated income statement and credits to equity in relation to share-based payments.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2018

21. Leases

Finance leases

The group leases a small proportion of its office equipment (net carrying value £0.03m). Such assets are generally classified as finance leases as the rental period approximates to the estimated useful economic life of the assets concerned and often the group has the right to purchase the assets outright at the end of the minimum lease term by paying a nominal amount.

Future lease payments are due as follows:

	2018 Minimum lease payments £'000	2018 Interest £'000	2018 Present value £'000
Not later than one year	33	(1)	32
Later than one year and not later than five years	18	(3)	15
	51	(4)	47

	2017 Minimum lease payments £'000	2017 Interest £'000	2017 Present value £'000
Not later than one year	62	(3)	59
Later than one year and not later than five years	50	(4)	46
	112	(7)	105

The present values of future lease payments are analysed as follows:

	2018 £'000	2017 £'000
Current liabilities	32	59
Non-current liabilities	15	46
	47	105

Operating leases

With the exception of the property in Manchester, the group leases all of its properties. The terms of property leases vary, although they all tend to be tenant repairing with rent reviews every 2 to 5 years and many have break clauses. In addition, the group leases the majority of its motor vehicles which are generally 3-year contracts.

The total future value of minimum lease payments under non-cancellable operating leases is due as follows:

	2018 £'000	2017 £'000
Not later than one year	2,214	1,970
Later than one year and not later than five years	3,032	4,742
Later than five years	664	599
	5,910	7,311

22. Retirement benefits

The group operates a defined contribution scheme and also makes contributions to personal pension schemes of certain senior employees and directors.

Pension costs for defined contribution schemes in the year to 30 November 2018 are £1.85m (period to 30 November 2017: £2.46m).

23. Share-based payments

As disclosed in note 19, K3 Business Technology Group plc operates an equity-settled share-based remuneration scheme for employees: the K3 Long Term Incentive Plan ("LTIP") for certain senior management including executive directors. Under the scheme there are two types of share options: those where the options vest based on the achievement of a share price target and those where the options vest on the achievement of adjusted operating profit or adjusted earnings per share, i.e. adjusted for amortisation of acquired intangibles, cost of share-based payments and exceptional items. All options are subject to the employee having completed three years' service from the date of grant. The group also operates a Save As You Earn ("SAYE") scheme for employees.

	2018		2017	
	Weighted average exercise price Pence	Options Number	Weighted average exercise price Pence	Options Number
Outstanding at beginning of the year	295.5	141,711	295.50	217,497
Granted during the year	25.0	2,890,000	–	–
Exercised during the year	–	–	–	–
Lapsed during the year	295.5	(26,189)	–	(75,786)
Outstanding at the end of the year	35.4	3,005,522	295.50	141,711

The exercise price of options outstanding at the end of the year was 25p under the LTIP scheme and 295.5p under the SAYE scheme (30 November 2017: 295.5p under the SAYE scheme) and their weighted average contractual life was 9.76 years (30 November 2017: 3.85 years).

No options had vested or were exercisable at the end of either period.

The weighted average fair value of options granted during the year was 87.6p.

Options were granted on three dates during the year. The following information is relevant in the determination of the fair value of the options granted during the year. All options are under equity-settled remuneration schemes operated by the Group. The options granted during the year have been valued using a trinomial lattice model, the Hoadley Options model. The weighted average share price at the date of grant was 174.9p; the exercise price was 25p; and the weighted average contractual life was 10 years. The weighted average expected volatility was 33.8%; the weighted average expected dividend growth was 7%; and the weighted average risk-free rate was 0.97%.

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily share prices for the Company over the last four years.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2018

23. Share-based payments (continued)

The share-based remuneration expense (note 4) comprises:

	Year ended 30 November 2018 £'000	17 months ended 30 November 2017 £'000
Equity-settled schemes	103	67

The group did not enter into any share-based payment transactions with parties other than employees during the current or previous period.

24. Acquisitions of the prior period

Merac Limited.

On 1 July 2016, the company acquired the entire share capital of Merac Limited. The initial consideration was £1.70m satisfied on completion in cash. Contingent consideration of £0.18m which was dependent on profits generated in the year from 1 April 2016 was paid in full in April 2017.

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

	Fair value £'000
Assets	
Property, plant and equipment	6
Other intangible assets	1,315
Trade receivables	133
Other current assets	25
Cash and cash equivalents	434
Liabilities	
Trade and other payables	(259)
Deferred tax liabilities	(263)
Net assets	1,391
Consideration	
Initial cash consideration	1,702
Contingent cash consideration	175
	1,877
Goodwill	486
Acquisition costs to be charged to the income statement	41
Net cash outflow arising on acquisition	
Cash consideration	1,702
Less cash and cash equivalent balances acquired	(434)
	1,268

The intangible assets recognised in the adjustments relate to customer relationships and IP. £0.26m of the deferred tax liability recognised relates to these intangible assets. The goodwill is attributable to those intangibles such as the workforce which are not recognised separately.

25. Related party transactions

Details of directors and key management compensation are given in the Remuneration Report on pages 31 to 33 and note 4. Other than their remuneration and participation in the group's share option schemes, there are no transactions with key management personnel. Other related party transactions are as follows:

During the prior period, there were various transactions with companies connected to Mr PJ Claesson, a director of the company. CA Fastigheter AB, a company connected with Mr PJ Claesson, was owed a loan of £0.64m until it was converted into 457,142 ordinary shares on 4 July 2017. Interest was charged at 8.5% per annum. In connection with the loan, the company issued 200,000 warrants for ordinary shares of 25p. These were exercised on 4 July 2017 at the exercise price of £0.90. In addition, 500,000 warrants for ordinary shares of 25p each were issued to CA Fastigheter AB during 2007 in recognition of the reduction in its security following the increase in borrowings from the bank to fund the acquisition of McGuffie Brunton Limited. The warrants were exercisable at £1.235 and until the loan was repaid upon meeting the following conditions: 300,000 of the warrants were exercisable when the company's share price stands at £2.50, 100,000 are exercisable when it stands at £3.25; 100,000 had no conditions attached to them. The 100,000 warrants with no conditions attached to them were exercised on 4 July 2017. The remaining warrants remain outstanding at the same exercise price and upon the same company share prices but, following conversion of the loan into equity, the terms were amended such that the warrants are now exercisable until 5 July 2022.

In addition, Johan and Marianne Claesson AB, a company connected with Mr PJ Claesson, a director of the company, held 400,000 warrants for ordinary shares of 25p. These were exercised on 4 July 2017 at the exercise price of £0.90.

As part of the placing of new shares on 4 July 2017 of ordinary shares of 25p at £1.40, Mr A Valdimarsson acquired 71,429 shares; Mr R Price acquired 50,000 shares; and Mr S Darling acquired 14,286 shares. Mr J Manley acquired 20,680 ordinary shares of 25p at a price of £1.45 on 15 July 2017.

26. Events after the reporting date

On 6 February 2019 the Company granted an additional 350,000 options under the K3 long Term Incentive Plan (the "LTIP"). They are exercisable at a price of 25p per share, being nominal value, and on the same terms as the options granted during the year ended 30 November 2018. See note 19 for details.

In March 2019 the Board announced a proposed dividend of 1.54p per share to shareholders on the record on 17 May 2019. Subject to shareholder approval at the forthcoming annual general meeting the dividend will be paid on 14 June 2019.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2018

27. Notes to the cash flow statement

Change in liabilities arising from financing activities

	Non-current loans and borrowings £'000	Current loans and borrowings £'000	Total £'000
At 1 December 2017	6,170	59	6,229
Cash flows	1,173	(27)	1,146
Non-cash flows:			
Amortisation of finance charges	121	–	121
Effects of foreign exchange	36	–	36
Loans and borrowings classified as non-current at 1 December 2017 which have become current during the year	(7,485)	7,485	–
At 30 November 2018	15	7,517	7,532

Adjusted cash generated from operations

Cash flows from operations include acquisition costs, exceptional costs and exceptional income. 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:

	Year ended 30 November 2018 £'000	17 months ended 30 November 2017 £'000
Cash generated from operating activities	8,629	5,954
Add:		
Exceptional reorganisation costs	1,355	4,731
Acquisition costs	–	308
Release of contingent consideration	–	(393)
Adjusted cash generated from operations	9,984	10,600

Cash flows relating to acquisition of subsidiaries and other business units

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

	Year ended 30 November 2018 £'000	17 months ended 30 November 2017 £'000
Initial consideration	–	(1,506)
Cash balances acquired	–	324
Contingent consideration repaid from escrow	–	393
Contingent and deferred consideration	–	(200)
	–	(989)

Cash and cash equivalents comprise:

	2018 £'000	2017 £'000
Cash available on demand	6,914	1,941

28. Notes to the strategic report

*1 Group adjusted profit from operations is calculated before amortisation of acquired intangibles of £2.51m (2017: £3.93m), exceptional reorganisation costs of £1.36m (2017: £4.73m), exceptional impairment of development costs of £nil (2017: £4.54m), acquisition costs of £nil (2017: £0.31m), share-based payment charge of £0.10m (2017: £nil) and release of contingent consideration of £nil (2017: £0.39m).

*2 Group adjusted profit before tax is calculated before amortisation of acquired intangibles of £2.51m (2017: £3.93m), exceptional reorganisation costs of £1.36m (2017: £4.73m), exceptional impairment of development costs of £nil (2017: £4.54m), acquisition costs of £nil (2017: £0.31m), share-based payment charge of £0.10m (2017: £nil) and release of contingent consideration of £nil (2017: £0.39m).

*3 Group adjusted earnings/(loss) per share is calculated before amortisation of acquired intangibles (net of tax) of £1.95m (2017: £3.04m), exceptional reorganisation costs (net of tax) of £1.36m (2017: £4.73m), exceptional impairment of development costs (net of tax) £nil (2017: £4.54m), acquisition costs (net of tax) of £nil (2017: £0.31m), share-based payment charge (net of tax) of £0.10m (2017: £nil) and release of contingent consideration (net of tax) of £nil (2017: £0.39m). The adjusted EPS/(LPS) for the 17 months ended 30 November 2017 has been amended to reflect that there was no tax charge or credit recognised in the period on either the exceptional reorganisation costs or on the exceptional impairment charge. The calculation has been amended to reflect the actual tax charge or credit directly allocable rather than on an effective tax rate as previously determined as the directors consider this to be a fairer representation.

*4 Net debt is gross debt net of cash and cash equivalents.

*5 Supply Chain Solutions & Managed Services adjusted profit from operations is calculated before amortisation of acquired intangibles of £1.53m (2017: £2.10m), exceptional reorganisation costs of £1.06m (2017: £2.93m), and exceptional impairment of development costs of £nil (2017: £2.95m).

*6 Own IP adjusted profit from operations is calculated before amortisation of acquired intangibles of £0.98m (2017: £1.83m), exceptional reorganisation costs of £0.25m (2017: £0.25m), exceptional impairment of development costs of £nil (2017: £1.59m), and release of contingent consideration of £nil (2017: £0.39m).

*7 Support costs are calculated before exceptional reorganisation costs of £0.09m (2017: £1.56m), acquisition costs of £nil (2017: £0.31m) and share-based payment charge of £0.10m (2017: £nil).

The above comparatives for 2017 are for a 17-month period to 30 November 2017.

Company balance sheet

as at 30 November 2018

Registered number: 2641001

	Notes	2018 £'000	2017 £'000
Fixed assets			
Tangible assets	4	419	387
Investments	5	45,751	40,755
		46,170	41,142
Current assets			
Debtors	6	37,839	44,684
Cash at bank and in hand		108	1,491
		37,947	46,175
Creditors: Amounts falling due within one year	7	(14,674)	(13,656)
Net current assets		23,273	32,519
Total assets less current liabilities		69,443	73,661
Creditors: Amounts falling due after more than one year	8	–	(6,124)
Provisions for liabilities and charges	9	–	–
Net assets		69,443	67,537
Capital and reserves			
Called-up share capital	10	10,737	10,737
Share premium account		28,897	28,897
Other reserve		10,324	10,324
Profit and loss account		19,485	17,579
Equity shareholders' funds		69,443	67,537

As permitted under section 408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the parent company.

The profit for the year dealt with in the financial statements of the parent company was £2,406,000 (period ended 30 November 2017: £2,318,000).

The financial statements on pages 96 to 104 were approved and authorised for issue by the board of directors on 18 March 2019 and signed on its behalf by:

RD Price
Director

The notes on pages 98 to 104 form part of these financial statements.

Company statement of changes in equity

as at 30 November 2018

	Share capital £'000	Share premium £'000	Other reserve £'000	Retained earnings £'000	Total equity £'000
At 30 June 2016	9,000	21,586	10,324	15,802	56,712
Changes in equity for period ended 30 November 2017					
Profit for the period	–	–	–	2,318	2,318
Total comprehensive income	–	–	–	2,318	2,318
Share-based payment credit	–	–	–	67	67
Warrants exercised	175	488	–	–	663
Conversion of shareholder loan to equity	114	526	–	–	640
Issue of new shares	1,448	6,297	–	–	7,745
Movement in own shares held	–	–	–	22	22
Dividends paid to equity holders	–	–	–	(630)	(630)
At 30 November 2017	10,737	28,897	10,324	17,579	67,537
Changes in equity for year ended 30 November 2018					
Profit for the year	–	–	–	2,406	2,406
Total comprehensive income	–	–	–	2,406	2,406
Share-based payment credit	–	–	–	103	103
Movement in own shares held	–	–	–	(2)	(2)
Dividends paid to equity holders	–	–	–	(601)	(601)
At 30 November 2018	10,737	28,897	10,324	19,485	69,443

Of the above reserves, the directors only consider the profit and loss account to be distributable.

The own shares are held by a wholly-owned subsidiary, K3 Business Technology Group Trustees Company Limited, as trustee of the group's employee share ownership plan. The own shares represent 75,665 shares held under an employee share ownership plan which will be issued to the employees when they choose to withdraw them. The current market value of these shares as at 30 November 2018 was £180,000.

Notes forming part of the company financial statements

for the year ended 30 November 2018

1. Accounting policies for the company financial statements

The principal accounting policies are summarised below where they differ from those in the consolidated financial statements on pages 51 to 59. They have all been applied consistently throughout the current year and the preceding period.

Basis of accounting

The financial statements have been prepared in accordance with Financial Reporting Standard 101, Reduced Disclosure Framework ("FRS101").

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted by the company are set out below.

In preparing these financial statements, the company has taken advantage of certain exemptions permitted by FRS 101, as the equivalent disclosures are made in the group accounts. Exemptions have been applied in respect of the following disclosures:

- The cash flow statement and related notes
- Capital management disclosures
- The effects of new but not yet effective IFRSs
- The disclosure of the remuneration of key management personnel
- Disclosure of related party transactions with other wholly owned members of the K3 Business Technology Group plc group of companies
- Financial instrument disclosures

Investments

Fixed asset investments are shown at cost less provision for impairment. Loans due from subsidiary companies which are of a long-term nature are regarded as permanent equity and included in investments. For investments in subsidiaries acquired for consideration including the issue of shares qualifying for merger relief, cost is measured either by reference to the nominal value or the fair value of the shares where appropriate. Any premium is ignored when the nominal value is used.

2. Staff numbers

The average monthly number of employees (including executive directors) was:

	Year ended 30 November 2018 Number	17 months ended 30 November 2017 Number
Administration	19	17

Their aggregate remuneration comprised:

	Year ended 30 November 2018 £'000	17 months ended 30 November 2017 £'000
Wages and salaries	1,577	3,051
Social security costs	187	349
Other pension costs (see note 12)	158	233
Share-based payment costs	103	67
Short term non-monetary benefits	160	243
	2,185	3,943

3. Directors' remuneration, interests and transactions

Directors' remuneration is disclosed in note 4 to the consolidated financial statements.

Directors' share options are disclosed in the Remuneration Report on pages 31 to 33.

4. Tangible fixed assets

	Plant, office equipment and fixtures £'000
Cost	
At 1 December 2017	429
Additions	125
At 30 November 2018	554
Depreciation	
At 1 December 2017	42
Charge for the year	93
At 30 November 2018	135
Net book value	
At 30 November 2018	419
At 30 November 2017	387

Notes forming part of the company financial statements (continued)

for the year ended 30 November 2018

5. Fixed asset investments

	2018 £'000	2017 £'000
Subsidiary undertakings	45,751	40,755

Subsidiary undertakings

The trading subsidiaries of K3 Business Technology Group plc are disclosed in note 13 to the consolidated financial statements.

All subsidiary undertakings are wholly owned and all shares consist of ordinary shares only.

	Cost of investment £'000	Loans £'000	Total £'000
Cost			
At 1 December 2017	16,731	24,722	41,453
Additions	7,714	–	7,714
Loans realised	22,004	(22,004)	–
Transferred to current assets	–	(2,718)	(2,718)
At 30 November 2018	46,449	–	46,449
Amounts written off			
At 1 December 2017	698	–	698
Net book value			
At 30 November 2018	45,751	–	45,751
At 30 November 2017	16,033	24,722	40,755

Additions in the year represent the net transfer of investments from certain subsidiary undertakings to the company.

£22,004,000 of the loans of £24,722,000 due from subsidiary undertakings in relation to investments in other subsidiary undertakings which had been considered to be permanent equity have been realised during the year by the transfer of those investments back to the company.

The investments in subsidiary undertakings have been assessed for any impairment and no impairment provisions are considered necessary.

5. Fixed asset investments (continued)

Under section 479A of the Companies Act 2006 the Group's subsidiaries, listed below, are claiming exemption from audit. The parent undertaking, K3 Business Technology Group plc, registered number 02641001, guarantees all outstanding liabilities to which each subsidiary is subject at the end of the financial year (being the year ended 30 November 2018 for each company listed below). The guarantee is enforceable against the parent undertaking by any person to whom the subsidiary undertaking is liable in respect of those liabilities.

Colne Investments Limited	03563989
K3 BTG Limited	06338304
K3 Business Solutions Limited	06161823
K3 Business Systems Holdco Limited	09044690
K3 CRM Limited	08857608
K3 FDS Limited	02052916
K3 Global Products Limited	09923308
K3 Hosting Limited	SC280273
K3 Managed Services Holdco Limited	09044734
K3 Retail and Business Solutions Holdco Limited	09044764
K3 Syspro Limited	01748035
K3 Systems Support Limited	08497112
Merac Limited	03030207
Retail Systems Group Limited	01763900
Shine Marketing UK Limited	05972660
Starcom Technologies Limited	02286795

Notes forming part of the company financial statements (continued)

for the year ended 30 November 2018

6. Debtors

	2018 £'000	2017 £'000
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	36,977	43,790
Other debtors	374	327
Corporation tax	317	507
Deferred tax (see note 9)	67	25
Prepayments and accrued income	104	35
	37,839	44,684

Interest is charged on amount owed by subsidiary undertakings at 4.25% (period ended 30 November 2017: 3.8%) which is deemed to be a market rate.

7. Creditors: Amounts falling due within one year

	2018 £'000	2017 £'000
Bank loans and overdrafts	7,485	–
Trade creditors	163	269
Amounts owed to subsidiary undertakings	6,066	12,392
Taxation and social security	129	45
Other creditors	384	472
Accruals	447	478
	14,674	13,656

The bank loans and overdrafts are secured by a fixed and floating charge over the assets of the group.

Interest is charged on amount owed to subsidiary undertakings at 4.25% (period ended 30 November 2017: 3.8%) which is deemed to be a market rate.

8. Creditors: Amounts falling due after more than one year

	2018 £'000	2017 £'000
Bank loans	–	6,124

At the year end, other borrowings were repayable as follows:

	2018 £'000	2017 £'000
Bank overdrafts		
On demand or within one year	–	–
Bank loans		
Between one and two years	–	6,124
On demand or within one year	7,485	–
	7,485	6,124

9. Deferred taxation

	2018 £'000	2017 £'000
Accelerated capital allowances	15	(3)
Other timing differences	52	28
Deferred tax asset	67	25

The deferred tax asset is included within Debtors (see note 6).

The movements in deferred tax assets (liabilities) during the year are:

	Accelerated capital allowances £'000	Other timing differences £'000	Total £'000
At 1 December 2017	(3)	28	25
Charged to profit and loss	18	24	42
At 30 November 2018	15	52	67

The company has no unrecognised tax losses in either period. The deferred tax assets have been recognised as they are expected to be recoverable against future taxable profits.

Notes forming part of the company financial statements (continued)

for the year ended 30 November 2018

10. Called-up share capital

	2018 £'000	2017 £'000
Allotted, called-up and fully-paid		
42,946,665 ordinary shares of 25p each (2017: 42,946,665)	10,737	10,737

See note 19 to the consolidated financial statements for details of the movements in called-up share capital and of outstanding warrants.

11. Share-based payment

K3 Business Technology Group plc operates an equity-settled share-based remuneration scheme for employees: the K3 Long Term Incentive Plan ("LTIP") for certain senior management including executive directors, and a Save As You Earn (SAYE) scheme for employees. See note 23 to the consolidated financial statements for details regarding share-based payments.

12. Pension arrangements

The company operates a defined contribution scheme and also makes contributions to personal pension schemes of certain senior employees and directors for which the total pension cost charge for the year amounted to £158,000 (period ended 30 November 2017: £233,000).

13. Related party transactions

Related party transactions are disclosed in note 25 to the consolidated financial statements. There were no other transactions with related parties during the year.

14. Contingent liability

The company has entered into a cross-guarantee with fellow group undertakings in relation to liabilities with Barclays Bank plc and HSBC Bank plc. At the period end the liabilities covered by this guarantee totalled £7,485,000.

Unaudited five year summary

	12 months ended 30 November 2018 £'000	17 months ended 30 November 2017 £'000	12 months ended 30 June 2016 £'000	2015 £'000	2014 £'000
Revenue	83,335	118,176	89,175	83,427	71,950
Adjusted profit/(loss) from operations*1	4,649	(1,666)	9,501	8,151	7,301
Profit/(loss) from operations	684	(14,783)	5,229	4,805	2,590
Profit/(loss) before tax	17	(16,143)	4,528	3,879	1,885
(Loss)/profit after tax	(488)	(13,370)	4,103	3,443	2,560
Adjusted basic earnings/(loss) per share*2 (pence)					
(2017 as restated)	6.8	(3.0)	23.5	19.4	18.6
Basic (loss)/earnings per share (pence)	(1.1)	(35.3)	12.6	10.9	8.2
Cash and cash equivalents	6,914	1,941	2,772	1,895	(2,997)
Gross debt*3	7,532	6,229	11,648	13,974	14,275
Net debt*4	618	4,288	8,876	12,079	13,628
Adjusted cashflow from operations*5	9,984	10,600	6,848	9,911	7,074
Net cashflow from operations	8,629	5,954	5,502	9,600	5,352

*1 Adjusted profit from operations is calculated before amortisation of acquired intangibles, acquisition costs, exceptional costs and exceptional income.

*2 Calculated before amortisation of acquired intangibles, acquisition costs, exceptional costs, and exceptional income, all net of attributable taxation.

*3 Gross debt includes bank loans and overdrafts, finance lease creditors and loans from related parties.

*4 Net debt is gross debt net of cash and cash equivalents.

*5 Adjusted cash flow from operations is calculated before payments which the directors consider to be costs of acquisitions, including payments to regularise liabilities, acquisition costs, exceptional costs and exceptional income. See note 27 to the consolidated financial statements.

Notice of Annual General Meeting

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice from your stockbroker or other independent adviser authorised under the Financial Services and Markets Act 2000.

If you have sold or transferred all of your shares in K3 Business Technology Group plc (the "Company"), please forward this document, together with the accompanying documents, as soon as possible either to the purchaser or transferee or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the annual general meeting of the Company will be held at the offices of the Company's nominated advisor finnCap, at 60 New Broad Street, London EC2M 1JJ on Wednesday 22 May 2019 at 10.30 am at which the following business will be transacted.

You will be asked to consider and vote on the resolutions below. Resolutions 1 to 7 will be proposed as ordinary resolutions 8 and 9 will be proposed as special resolutions.

Ordinary resolutions

To consider and, if thought fit, pass the following resolutions which will be proposed as ordinary resolutions:

1. To receive, consider and adopt the directors' and auditors' reports and the financial statements for the year ended 30 November 2018.
2. To re-elect Mr PJ Claesson as a director of the Company in accordance with Articles 22.5 and 22.6 of the articles of association.
3. To re-elect Mr JP Manley as a director of the Company in accordance with Articles 22.5 and 22.6 of the articles of association.
4. To re-appoint BDO LLP as auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next annual general meeting at which financial statements are laid before the Company.
5. To authorise the directors of the Company to determine the auditor's remuneration.
6. To declare a final dividend for the year ended 30 November 2018 of 1.54p per ordinary share of 25 pence each in the issued share capital of the Company.
7. That the directors of the Company be and they are generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the "Act"), to exercise all powers of the Company to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company ("Rights") up to an aggregate nominal amount of £3,578,889 (being approximately one-third of the issued share capital of the Company at the date of the notice convening the meeting at which this resolution is proposed) provided that this authority shall unless previously revoked, renewed or varied by the Company in general meeting expire five years from the date of this resolution or if earlier, the date of the next annual general meeting of the Company, save that the Company may before such expiry make an offer or agreement which would or might require shares to be allotted or Rights to be granted after such expiry and the directors of the Company may allot shares or grant Rights in pursuance of such an offer or agreement as if the authority conferred hereby had not expired. This authority is in substitution for all previous unexercised authorities conferred upon the directors pursuant to section 551 of the Act, but without prejudice to the allotment of any shares or the grant of any Rights already made or to be made pursuant to such authorities.

Special resolutions

To consider and, if thought fit, pass the following resolutions, which will be proposed as special resolutions:

Disapplication of pre-emption rights

8. That subject to and conditional on the passing of resolution 7 above, the directors of the Company be and they are empowered pursuant to section 570 and 573 of the Act to allot equity securities (as defined in section 560(1) of the Act) for cash pursuant to the authority conferred by resolution 7 above as if section 561(1) of the Act did not apply to such allotment, provided that this power shall be limited to the allotment of equity securities:

8.1 in connection with an offer of such securities by way of rights to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares and to holders of other equity securities as required by the rights of those securities or as the direction otherwise consider necessary, but subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange; and

8.2 otherwise than pursuant to sub-paragraph 8.1 above, up to an aggregate nominal amount of £536,833 (being approximately one-twentieth of the issued share capital of the Company (excluding treasury shares) at the date of the notice convening the meeting at which this resolution is proposed);

and, unless previously renewed, revoked or varied by the Company in general meeting, the authority granted by this resolution shall expire five years from the date of this resolution, or if earlier the date of the next annual general meeting of the Company, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted or equity securities held as treasury shares to be sold after such expiry and the directors of the Company may allot equity securities and/or sell equity securities held as treasury shares in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

Notice of Annual General Meeting (continued)

Authority to repurchase ordinary shares

9. That the Company be and is hereby generally and unconditionally authorised in accordance with section 701 of the Act to make one or more market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 25 pence each in the capital of the Company (“Shares”), provided that:
   (a) the maximum aggregate number of Shares authorised to be purchased is 4,294,667 (representing approximately 10% of the issued share capital of the Company at the date of the notice convening the meeting at which this resolution is proposed);
   (b) the minimum price (exclusive of expenses) which may be paid for a Share is 25 pence;
   (c) the maximum price (exclusive of expenses) which may be paid for a Share is an amount equal to the greater of (i) 105% of the average of the middle market quotations for a Share for the five business days immediately preceding the day on which that Share is purchased and (ii) the higher of the price of the last independent trade and the highest then current independent bid for any number of the Shares on the Alternative Investment Market of the London Stock Exchange;
   (d) the authority hereby conferred shall expire at the conclusion of the annual general meeting of the Company to be held in 2020 or, if earlier, on the expiry of 15 months from the date of passing of this resolution unless such authority is renewed prior to such time; and
   (e) the Company may make one or more contracts to purchase Shares under this authority before the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority, and may make a purchase of Shares in pursuance of any such contract.

Registered Office

K3 Business Technology Group plc
Baltimore House
50 Kansas Avenue
Manchester M50 2GL

17 April 2019

By order of the Board

K Curry
Company Secretary

Explanatory Notes to the Resolutions proposed in the Notice of Annual General Meeting

Please refer to notes 8 to 22 relating to entitlement to attend and vote at the meeting and the appointment of proxies.

1. Resolution 1 – The Directors are required to present to shareholders at the annual general meeting the Annual Report and Accounts for the financial year ended 30 November 2018 together with the Director's and Auditor's reports on such accounts.
2. Resolutions 2 and 3 – In compliance with Article 22.5 of the Company's current articles of association any non-executive director who has held office for nine years or more shall retire at each annual general meeting. Accordingly Mr P J Claesson will retire at the 2019 annual general meeting. In addition, in compliance with Article 22.5 one-third of the remaining Directors (rounded down to the nearest whole number) are required to retire at the 2019 annual general meeting. Accordingly, Mr J P Manley will also retire at the 2019 annual general meeting. Both Mr P J Claesson and Mr J P Manley will offer themselves for re-election as a Director at the 2019 annual general meeting and they are recommended by the Board for re-election. Mr P J Claesson was originally appointed as a non-executive director of the Company in March 2001. Mr J P Manley was originally appointed as a non-executive director of the Company in December 2015. Biographical details of Mr P J Claesson and Mr J P Manley are set out on page 23 to the financial statements.
3. Resolutions 4 and 5 – The Company is required at each general meeting at which accounts are presented to appoint auditors to hold office until the next such meeting. BDO LLP have indicated their willingness to continue in office. Accordingly, Resolution 4 reappoints BDO LLP as the Auditor of the Company and Resolution 5 authorises the Directors to fix their remuneration.
4. Resolution 6 – Members are being asked to approve a final dividend of 1.54 pence for each ordinary share of 25 pence in the capital of the Company in respect of the financial year ended 30 November 2018. If approved by the shareholders of the Company, the dividend will be paid on 14 June 2019 to all holders of ordinary shares on the register of members at the close of business on 17 May 2019. The payment of a dividend requires approval of the shareholders and that approval is sought in Resolution 6.
5. Resolution 7 would empower the directors to allot shares for any reason in accordance with Section 551 of the Act up to an aggregate nominal amount of £3,578,889 representing approximately one-third of the issued share capital of the Company at the date of the notice of annual general meeting. This resolution complies with the Investment Association Share Capital Management Guidelines issued in July 2016. As at close of business on 17 April 2019 the Company did not hold any treasury shares. The authority granted by this resolution will expire five years from the date of the resolution or if earlier, on the conclusion of next year's annual general meeting.

Notice of Annual General Meeting (continued)

6. Resolution 8 would empower the directors pursuant to the authority to allot granted by resolution 7 to allot equity securities (as defined by section 560 of the Act) for cash other than to existing shareholders pro rata to their existing holdings. Such power would be limited to the situations referred to in sub-paragraphs 8.1 and 8.2 of that resolution. Sub-paragraph 8.1 refers to rights issues and similar issues, where difficulties arise in offering relevant securities to certain overseas shareholders or where fractional entitlements arise. Sub-paragraph 8.2 permits allotments for cash (other than rights issues or similar) of ordinary shares up to an aggregate nominal amount of £536,833 representing approximately one-twentieth of the issued ordinary share capital of the Company at the date of the notice of annual general meeting. The resolution is proposed so as to give the directors greater flexibility to take advantage of business opportunities as they arise. The directors have no present intention of exercising the authority. The power granted by this resolution will expire five years from the date of the resolution, or if earlier on the conclusion of next year's annual general meeting.

   This resolution is in line with guidance issued by the Investment Association and the Pre-Emption Group Statement of Principles (as updated in March 2015).

7. Resolution 9 seeks authority for the Company to make market purchases of its own ordinary shares and is proposed as a special resolution. If passed, the resolution gives authority for the Company to purchase up to 4,294,667 of its ordinary shares, representing approximately 10 per cent of the Company's issued ordinary share capital (excluding treasury shares) as at the date of the notice of annual general meeting. The resolution specifies the minimum and maximum prices which may be paid for any ordinary shares purchased under this authority. The authority will expire on the earlier of the Company's 2020 annual general meeting and the date 15 months after the resolution.

   The directors will only exercise the authority to purchase ordinary shares where they consider that such purchases will be in the best interests of shareholders generally and will result in an increase in earnings per ordinary share.

   The Company may either cancel any shares it purchases under this authority or transfer them into treasury (and subsequently sell or transfer them out of treasury or cancel them).

Notes to the Notice of Annual General Meeting

Entitlement to attend and vote

8. On a show of hands every shareholder present in person has one vote and on a poll every shareholder has one vote for each share held by him. The necessary quorum at this meeting is two members present in person or by proxy and entitled to vote upon the business to be transacted.
9. The Company specifies that only those members registered on the Company's register of members at:
   - close of business on 20 May 2019; or,
   - if this Meeting is adjourned, at close of business on the day two days prior to the adjourned meeting,

   shall be entitled to attend and vote at the Meeting. Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

Issued shares and total voting rights

10. As at close of business on 17 April 2019, the Company's issued share capital comprised 42,946,665 ordinary shares of 25 pence each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at close of business on 17 April 2019 is 42,946,665.

Documents on display

11. The following documents will be available for inspection at Baltimore House, 50 Kansas Avenue, Manchester M50 2GL from the date of the notice of the annual general meeting until the time of the Meeting and at the office of the Company's nominated advisor finnCap at 60 New Broad Street, London EC2M 1JJ for at least 15 minutes prior to the Meeting and during the Meeting:
    - Copies of the service contracts of executive directors of the Company.
    - Copies of the letters of appointment of the non-executive directors of the Company.

Appointment of proxies

12. If you are a member of the Company at the time set out in note 9 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
13. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
14. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy please complete new proxy forms for each proxy appointed and list the details of each proxy on a separate photocopied form. Further copies of the proxy form may be obtained by photocopying the proxy form. Please indicate in the box next to the proxy's name the number of shares in relation to which he/she is authorised to act as your proxy. Failure to specify the number of shares to which a proxy appointment relates or specifying a number in excess of those held by the Member will result in the proxy appointment being invalid. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned in the same envelope.

Notice of Annual General Meeting (continued)

15. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

    Members can

    - Appoint a proxy or proxies and give proxy instructions by returning the enclosed pay form by post (see note 16).
    - Register their proxy appointment electronically (see note 17).
    - If a CREST member registers their proxy appointment by utilising the CREST electronic proxy appointment service (see note 18).

Appointment of proxy using hard copy proxy form

16. The notes to the proxy form explain how to direct your proxy to vote on each resolution or withhold their vote.

    To appoint a proxy using the proxy form, the form must be:

    - completed and signed;
    - sent to Link Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU or delivered to Link Asset Services at The Registry, 34 Beckenham Road, Beckenham Road, Kent BR3 4TU; and
    - received by Link Asset Services no later than 10.30 am on 20 May 2019.

    In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

    Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

Proxy voting using the Registrar's share portal

17. You may also submit your proxy vote electronically using the Share Portal service at www.signalshares.com. If not already registered for the Share Portal, you will need your Investor Code as shown on a recent dividend tax voucher or recent share certificate. For an electronic proxy vote to be valid, your appointment must be received by no later than 10.30 am on 20 May 2019.

CREST proxy voting (uncertificated shareholders)

18. (a) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

    (b) In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited (formerly CRESTCo's) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuers' agent (ID RA10) by the latest time for receipt of proxy appointments specified in this notice or, in the event of an adjourned meeting, 48 hours before the adjourned meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the registrars are able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Appointment of proxy by joint members

19. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

Notice of Annual General Meeting (continued)

Changing proxy instructions

20. To change your proxy instructions simply submit a new proxy appointment using the method set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

    Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Link Asset Services on 0871 664 0300. Calls cost 12p per minute plus your phone company's access charge. If you are outside the United Kingdom, please call +44 371 664 0300. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 9.00 am – 5.30 pm, Monday to Friday excluding public holidays in England and Wales.

    If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence. If the Company is unable to determine which of more than one valid proxy appointment was deposited or delivered last in time, none of them shall be treated as valid in respect of the share(s) to which they relate.

Termination of proxy appointments

21. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Link Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

    The revocation notice must be received by Link Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU no later than 10.30 am on 20 May 2019.

    Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.

Corporate representatives

22. A corporation which is a shareholder can appoint one or more representatives who may exercise, on its behalf, all its powers as a shareholder provided that no more than one corporate representative exercises power over the same share.

Information for shareholders

Dividend mandates

If you wish to have dividends paid directly into a bank or building society account, you should contact our registrar, Link Asset Services, on 0871 664 0300. Calls cost 12p per minute plus your phone company's access charge. If you are outside the United Kingdom, please call +44 371 664 0300. Calls outside the United Kingdom will be charged at the applicable international rate. (Lines are open between 9.00 am – 5.30 pm, Monday to Friday excluding public holidays in England and Wales). Alternatively, if you have internet access, you can access the shareholder portal at www.signalshares.com where you can set up or amend a dividend mandate. This method of payment removes the risk of delay or loss of dividend cheques in the post and ensures your account is credited on the due date.

Enquiring about your shareholding

If you want to ask, or need information, about your shareholding, please contact our registrar, Link Asset Services, on 0871 664 0300. Calls cost 12p per minute plus your phone company's access charge. If you are outside the United Kingdom, please call +44 371 664 0300. Calls outside the United Kingdom will be charged at the applicable international rate. (Lines are open between 9.00 am – 5.30 pm, Monday to Friday excluding public holidays in England and Wales). Alternatively, if you have internet access, you can access the shareholder portal at www.signalshares.com where you can, amongst other things, view details of your shareholding, set up or amend a dividend mandate and update your address details.

Electronic communications

You can elect to receive shareholder communications electronically by writing to our registrar, Link Asset Services, FREEPOST SAS, 34 BECKENHAM ROAD, BR3 9ZA. Alternatively, if you have internet access, you can access the shareholder portal at www.signalshares.com where you can elect to receive shareholder communications electronically. This will save on printing and distribution costs, creating environmental benefits. When you register, you will be sent a notification to say when shareholder communications are available on our website and you will be provided with a link to that information.

Company Information

Registered Office

Baltimore House
50 Kansas Avenue
Manchester M50 2GL

Company Website

www.k3btg.com

Directors

A Valdimarsson
RD Price
S Darling (Chairman)
PJ Claesson (non-executive)
JP Manley (non-executive)
PG Morland (non-executive)

Company Secretary

K J Curry

Country of Incorporation of Parent Company

England and Wales

Company Number

2641001

Legal Form

Public limited company

Advisors

Legal advisors to the Group

Squire Patton Boggs LLP
No1 Spinningfields
1 Hardman Square
Manchester M3 3EB

DWF LLP
1 Scott Place
2 Hardman Street
Manchester M3 3AA

Nominated Advisor

finnCap Limited
Cardinal Place
60 New Broad Street
London EC2M 1JJ

Auditors

BDO LLP
3 Hardman Street
Spinningfields
Manchester M3 3AT

Bankers

Barclays Bank plc
1st Floor
3 Hardman Street
Spinningfields
Manchester M3 3HF

HSBC Bank plc
4 Hardman Square
Spinningfields
Manchester M3 3EB

Registrars

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Financial PR

KTZ Communications
No.1 Cornhill
London EC3V 3ND

K3 Business Technology Group plc
Baltimore House, 50 Kansas Avenue, Manchester M50 2GL
www.k3btg.com