K3 Business Technology Group plc

Annual Report and Financial Statements for the 17 month period ended 30 November 2017

Registered number: 02641001

k3 business technology

World Class Software. World Class Service.

Contents

Officers and Advisers

Directors:	A Valdimarsson	RD Price
	S Darling (Chairman)	PJ Claesson (non-executive)
	JP Manley (non-executive)	PG Morland (non-executive)
Company secretary:	KJ Curry	
Registered office:	Baltimore House, 50 Kansas Avenue, Manchester M50 2GL	
Country of incorporation of parent company:	England and Wales	
Company number:	2641001	
Legal form:	Public limited company	
Auditors:	BDO LLP, 3 Hardman Street, Spinningfields, Manchester M3 3AT	
Solicitors:	Squire Patton Boggs LLP, Trinity Court, 16 John Dalton Street, Manchester M60 8HS	
	DWF LLP, 1 Scott Place, 2 Hardman Street, Manchester M3 3AA	
Nominated Advisor:	finnCap Limited, Cardinal Place, 60 New Broad Street, London EC2M 1JJ	
Bankers:	Barclays Bank plc, 1st Floor, 3 Hardman Street, Spinningfields, Manchester M3 3HF	
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AIM: KBT

k3btg.com

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K3 Business Technology Group plc

K3 is a leading provider of integrated business solutions encompassing Enterprise Resource Planning (ERP) software, Customer Relationship Management (CRM) software, Point Solutions and hosting and managed services to the supply chain sector.

Our customers are Retailers, Manufacturers and Distributors who are looking for global, brand leading business solutions from a specialist provider who is dedicated to their market sector.

More information about our business can be found at **www.k3btg.com**

Repositioned for profitable growth

Summary

- A period of significant change – Group's structure simplified to create more integrated and streamlined operations, cost base reduced, and Intellectual Property (IP) strategy refocused
- K3 is now significantly better positioned for long-term revenue growth, higher quality earnings and improved cash generation
- Accounting reference date and year end changed to 30 November (from 30 June)

Operational Highlights

- Enterprise-related activities suffered from high value contract tenders not closing; encouraging upturn in contract closures towards the period end and in Q1 through strategic alliance with System Integrators
- Core SME-related activities performed well across supply chain markets
- Global Accounts continued to benefit from expansion of the IKEA franchisee network
- Good progress with own IP product, 'Imagine' (previously 'NextGen'), K3's cloud-native, system-agnostic offering
- Cost base significantly reduced – savings of £5.0m p.a.

All comparative figures for 2016 refer to the 12 months to 30 June 2016

Financial Highlights

- Revenue for the 17 months of £118.2m (12 months to 30 June 2016: £89.2m):
  - recurring revenue at 48.7% of total (2016: 46.7%)
  - own IP revenue at 19.8% of total (2016: 13.9%)
- Gross margin of 51.6% (2016: 54.4%)
- Exceptional costs of £8.9m (net) (2016: £1.0m) – £4.5m of which is non-cash. Exceptional costs principally reflected organisational and management changes across the Group and an impairment of development costs (non-cash)
- Adjusted loss from operations*1 of £1.6m (2016: adjusted profit*1 of £9.5m) / Reported loss from operations of £14.8m (2016: profit of £5.2m)
- Adjusted loss before tax*1 of £3.0m (2016: adjusted profit before tax*1 of £8.8m) / Reported loss before tax of £16.1m (2016: profit of £4.5m)
- Adjusted loss per share*2 of 7.7p (2016: adjusted earnings per share*2 23.5p) / Reported loss per share of 35.3p (2016: earnings per share of 12.6p)
- Fund raising in July 2017 secured £7.75m net. Net debt reduced to £4.3m at 30 November 2017 (30 June 2017: £15.6m and 30 June 2016: £8.9m)
- Proposed final (and total) dividend for the period of 1.4p per share

Prospects

- Current trading is encouraging, especially with own IP product sales
- Board expects financial and operational progress to continue over FY2018

*See note 29 on page 86 for further details

At a Glance

K3 is a business technology innovator realizing results for our customers through the power and expertise of our people, our products and our global partner ecosystem. We service close to 4,000 customers across Manufacturing, Distribution and Retail, including the Fashion, Visitor Attractions and Hospitality verticals.

As the foundation, K3 offers market leading Enterprise Resource Planning (ERP) solutions from Microsoft, Syspro and Sage combined with our own intellectual property (IP) that provides specialised vertical functionality for automating and managing the supply chain processes. K3 has a large and loyal customer base for which it manages mission critical systems. This provides high levels of recurring revenues and growth opportunities by continuing to provide leading-edge applications that helps them stay agile and competitive.

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.

ax is fashion

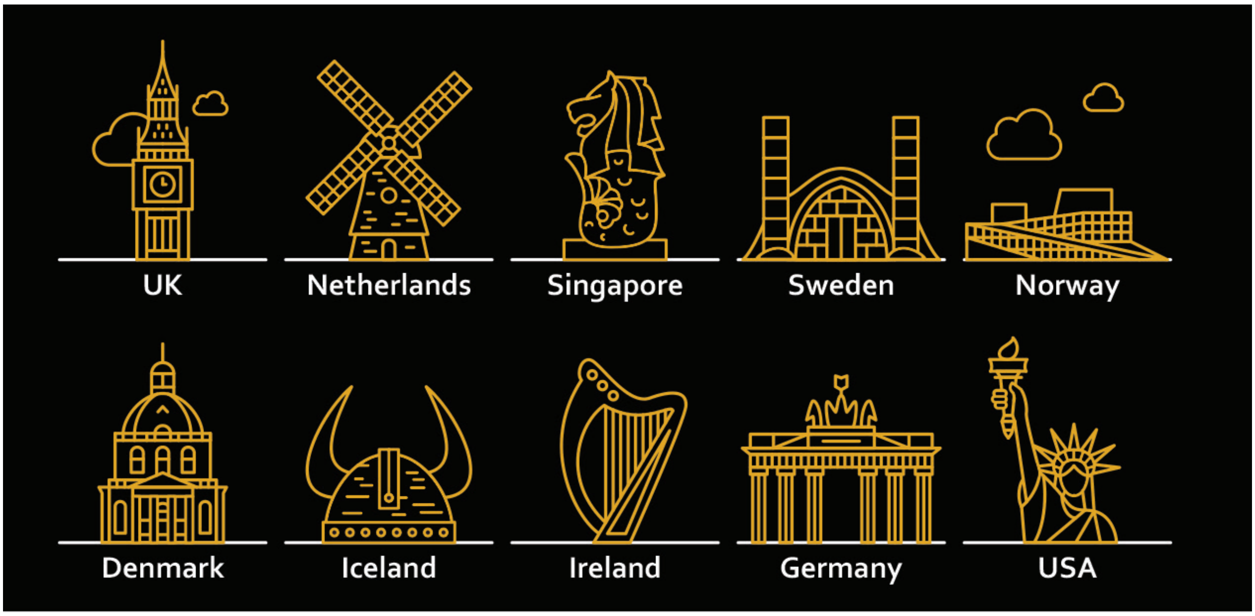
pebblestone fashion

dataswitch

imagine

orchard

realize



WHERE WE ARE

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.

Chairman's Statement

> "K3 is now substantially better positioned for long-term revenue growth, higher quality earnings and improved cash generation"

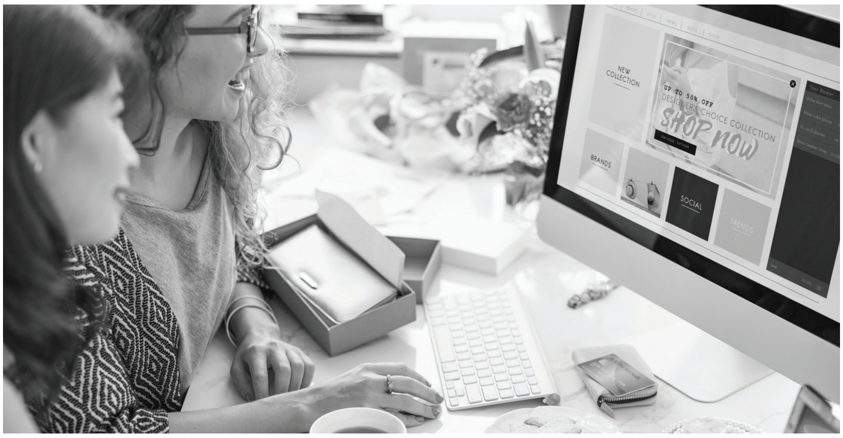
Overview

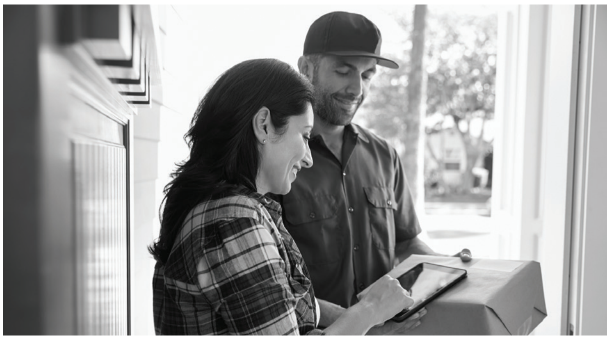
K3 has undergone significant change over the last 18 months. We have reshaped the Group including the leadership team, creating a simpler, more integrated and streamlined structure, and have removed substantial costs. We have also redefined our growth strategy, IP development roadmap, and are improving our customer delivery capability. In addition, we completed a share placing and open offer to qualifying shareholders. While these initiatives have involved substantial one-off costs, as well as internal cultural change, we are encouraged by the progress made to date and the opportunities ahead.

We see scope for further operational improvements but believe that K3 is now substantially better positioned for long-term revenue growth, higher quality earnings and improved cash generation.

Market Positioning

K3 is a leading provider of mission-critical Enterprise Resource Planning ("ERP") and other business solutions to customers across the supply chain, including retailers, manufacturers and distributors. We support c.3,700 customers predominantly based in the UK, but also in Europe, the Far East and the USA. We deploy our business solutions, which are mainly built on Microsoft, Sage and SYSPRO solutions, both directly to customers and through channel partners. Once installed, our solutions generate high levels of recurring revenues through annual software maintenance renewals, support contracts and hosting.





Strategic Refocusing and Organisational Changes

Building upon these foundations, during the period under review, we began to implement significant organisational changes to the business, and strategically refocused K3's growth plans.

A core element of our growth strategy is to increase revenues from own intellectual property ("IP"). Our IP is embedded within specific third party ERP solutions, including Microsoft and SYSPRO's, to provide sector specific functionality. It differentiates our solutions, underpins stronger customer relationships, and generates higher margins and recurring revenues. While we will continue to build on this model, an important part of extending our software roadmap is the growth of our own stand-alone 'point' solutions, and in particular, our cloud-native delivery platform, 'Imagine', and our cloud-native applications, which have been specifically developed to perform in the cloud.

As we previously reported, 'Imagine' is an exciting 'next generation' delivery platform, which enables us to embrace fully the opportunities that the increasing shift to the cloud brings, and places us at the forefront of cloud-native development. What is especially relevant is that it is system agnostic, capable of swift integration with any IT infrastructure a customer may already have. Customers therefore do not need to replace core systems, unlike traditional models. We have developed a cloud-native suite of solutions that is built for our platform and provides highly advanced functionality. The whole offering therefore enables customers to adopt innovative solutions and applications rapidly and flexibly. It also offers them a faster return-on-investment and extends the life of their previous IT investments. We intend to develop additional applications for Imagine in order to broaden the scope and target market of our existing solutions set, and view its growth potential very positively.

Strategic Report

In reviewing our market approach for our Enterprise-related software offering, ax|is fashion, (a K3 own IP add-on to a Microsoft core ERP product), we are renewing our focus on building strategic relationships with System Integrators ("SI"). These relationships enable us to capture more efficiently the sales potential of this market-leading product. SI's will provide implementation and support services while we retain IP-related income streams and provide industry specific expertise. Helped by this increased focus on SIs, we are pleased to report that we saw significantly improved sales momentum for ax|is fashion towards the end of the reporting period and an encouraging number of contracts have closed since then.

As previously reported, we undertook a review of the Group's resources as part of our process of simplifying and integrating the Group's operations. This review was completed in December 2017, and we have subsequently combined our Microsoft Dynamics businesses (AX, NAV and CRM) into a single practice. This should also enhance our customer service capability.

Other changes that resulted from our review included the integration of all software development and own IP management functions into a single Group-level IP unit. We also created a single team to support sales of our Software-as-a-Service ("SaaS") offering, as well as a single support team for SaaS.

We are confident that these initiatives will improve both the sales process and operational efficiencies.

We have materially reduced our cost base over the period, delivering savings in excess of £5.0m on an annualised basis. Over 2018, we plan to add resource selectively to support sales demand.

Financial Results

These results cover the 17-month trading period to 30 November 2017. This extended period reflects the transition to the new accounting reference date of 30 November from 30 June. As we previously reported, given K3's key selling periods of December and June, the change of date will enable the Board to provide shareholders with a more informed view of the Company's trading outlook when reporting full year and half year results.

K3's results for the period are an adjusted loss from operations*[1] of £1.67m (2016: adjusted profit from operations*[1] of £9.50m). We incurred significant charges in the period, which related to our comprehensive review and reorganisation programme, and they included: £4.73m of exceptional reorganisation costs (2016: £1.05m), £4.54m of exceptional impairment of development costs (2016: £nil), and £3.93m of amortisation of acquired intangibles (2016: £2.73m). After these and other charges, the loss from operations was £14.78m (2016: profit from operations of £5.23m). The exceptional reorganisation costs will deliver savings of £5.0m on an annualised basis and the impairment of development costs was taken against products that are no longer core to the Group's strategy. The adjusted loss per share*[2] was 7.7p (2016: adjusted earnings per share*[2] of 23.5p), and the basic loss per share was 35.3p (2016: earnings per share of 12.6p).

The major factors influencing the outcome for the period are discussed in the Operational Review and include market disruption, caused by the industry's shift away from 'on-premise' technology to cloud-based delivery, and a softening in end-markets. Gross margins were adversely impacted by both the significant reduction in software licence sales, which are typically higher margin, and excess resource capacity in services and implementation.

"The exceptional reorganisation costs will deliver savings of £5.0m on an annualised basis"

*See note 29 on page 86 for further details

"Cash generation is a major focus and we are making good progress in improving working capital"

Balance Sheet and Focus on Cash Generation

Cash generation is a major focus and we are making good progress in improving working capital, primarily by reducing debtor days and accrued income. Reflecting our initiatives to improve cash generation, as well as the July 2017 fund raising, net debt has been significantly reduced and stood at £4.3m at 30 November 2017. This compared to net debt of £15.6m at 30 June 2017 (30 June 2016: £8.9m).

Our placing and open offer to qualifying shareholders, completed in July 2017, raised a total of £7.75m net, with an additional £0.66m invested in K3 through an exercise of warrants and a debt-to-equity conversion of £0.64m.

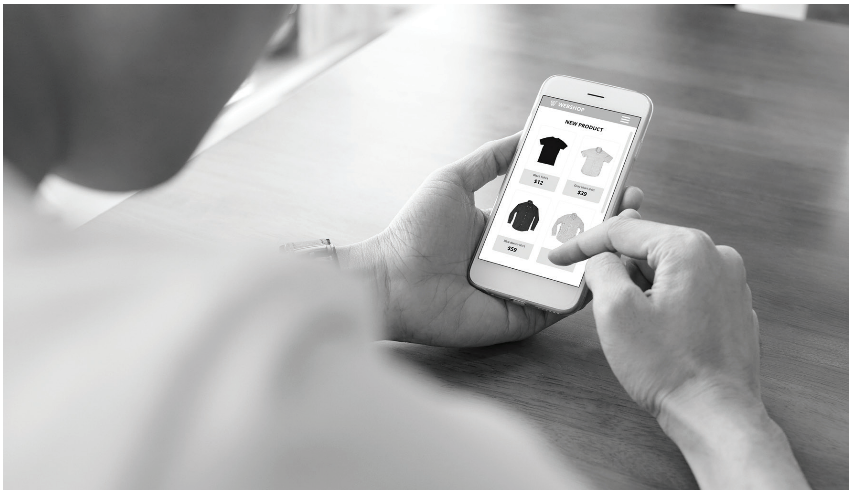
Dividend

The Board is pleased to propose a final (and total) dividend for the financial period of 1.4p per share. This dividend will become payable, subject to shareholder approval, on the 15 June 2018 to shareholders on the register on 18 May 2018.

K3's Annual General Meeting will be held on 30 May 2018 at 10.30am at the Group's offices at Baltimore House, 50 Kansas Avenue, Manchester, M50 2GL.

Board Changes

There have been a number of Board changes over the 17 months to 30 November 2017. In October 2016, Adalsteinn Valdimarsson assumed the role of Chief Executive Officer, having joined K3 as a Non-Executive Director in July 2016. Robert Price, who joined K3 as Chief Financial Officer in October 2016 (in a non-Board capacity), was appointed to the Board as Finance Director in July 2017. David Bolton, previously Chairman, and Lars-Olof Norell, previously Non-Executive Director, both retired from the Company. I was appointed to the Board in April 2017 and became interim Chairman in July 2017, becoming permanent Chairman in December 2017.



Staff

On behalf of the Board, I would like to thank all K3's employees for their hard work and commitment during this period of change. It has been tremendous and our skilled teams remain the foundation on which the Company will continue to develop and grow.

Outlook

K3 has undergone significant change and is focused on continuing to improve its performance. While there is still work to be done in implementing our growth initiatives, we believe that the Group is now better positioned to drive own IP sales and recurring income, which currently stands at nearly half the Group's total revenues.

The Group's revenue profile is changing as the move away from 'on-premise' solutions accelerates and customers increasingly adopt consumption-based models. In the short term, this will decrease the Group's rate of revenue growth but the long term effect is highly beneficial, with revenue flows becoming more predictable and the customer relationship expected to deepen and broaden.

Trading since the period end has been encouraging, especially with our own IP product sales. In particular, three ax|is deals were signed in the first quarter of the new financial year compared to seven in the 17 months to November 2017, and our cloud-native Imagine offering is seeing encouraging traction. More widely, we view prospects for our solutions offerings positively, underpinned by the steps we have taken to improve the Group's operational performance.

We remain confident about prospects for continuing progress over the year ahead. We also highlight the bias in the Group's earnings, which is now weighted to the second half of the financial year. This corresponds to the timing of annual software licence and support renewals in our SYSPRO operations.

S Darling
Chairman
26 March 2018

All comparative figures for 2016 refer to the 12 months to 30 June 2016

Strategy and Objectives

The Board believes that K3 has the potential to build on its current position as a leading supplier of SME and mid-tier business system solutions, with a particular emphasis on our own Intellectual Property of ERP add-ons and point solutions. The Board's main objectives are to:

- achieve growth in our own IP;
- create shareholder value through increases in adjusted earnings per share;
- grow recurring income levels; and
- achieve progressive increases in the dividend.

Cautionary Statement

This Strategic Report has been prepared for shareholders to provide them with additional information to assess the company's strategies and the potential for those strategies to succeed. It should be noted that the Strategic Report contains certain forward looking statements. These statements are made by the directors in good faith, based on the information available to them up to the time of the approval of this report. Accordingly, all these statements should be treated with caution, due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward looking information.

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.

	17 months ended 30 November 2017	Year ended 30 June 2016
Revenue (£'000)	**118,176**	89,175
Recurring revenue (£'000)	**57,573**	41,613
Percentage of recurring revenue	**48.7%**	46.7%
Gross margin percentage	**51.6%**	54.4%
Adjusted (loss)/profit from operations (£'000)[*1]	**(1,666)**	9,501
Adjusted EPS (pence)[*2]	**(7.7p)**	23.5p

Revenue increased by 32% driven by the extended period and full year impact of acquisitions. However, after taking into account the extended period, revenues were lower than for the prior year. Part of the reason for the loss was the disruption caused by the gear-shift in how technology is being delivered, with the model changing from 'on-premise' technology to cloud-based delivery. Alongside this is the associated move to the consumption/subscription model, away from large up-front software licence payments. This disruption caused a significant lengthening in customers' decision-making processes for large deals. However, we also experienced a general softening in end-markets.

The gross margin increased to £60.98m (2016: £48.54m), also driven by the extended period and full year impact of acquisitions. The gross margin percentage was down 2.8% as a result of the change in the sales mix compared to the previous year.

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.

*See note 29 on page 86 for further details

Operational Review

Reflecting our decision to create a simpler, more integrated approach to sales and support, as well as our objective to drive own IP sales, K3's operational results are now presented under the following two segments:

	Revenue		Gross profit		Adjusted profit	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Own IP*[*3]	**23.4**	12.4	**15.0**	8.4	**0.2**	2.7
Supply chain solutions & managed services[*4]	**94.8**	76.8	**46.0**	40.2	**(0.1)**	7.6
Head office					**(1.7)**	(0.8)
Total	**118.2**	89.2	**61.0**	48.6	**(1.6)**	9.5

	2017	2016
Gross margin	**51.6%**	54.4%
Recurring revenue: as a percentage of total revenue	**48.7%**	46.7%
Own IP revenues: as a percentage of total revenue	**19.8%**	13.9%
Own IP gross margin: as a percentage of total gross profit	**24.6%**	17.2%

*Own IP revenues 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.

Recurring revenue as a percentage of the Group's total revenues over the 17 months to 30 November 2017 increased to 48.7% (2016: 46.7%). Encouragingly, revenue from our own IP accounted for 19.8% of K3's total revenues and rose sharply from 13.9% in 2016. Own IP gross margin accounted for 24.6% of the Group's total gross margin, up by 7.4 percentage points from 17.2% in 2016.

*See note 29 on page 86 for further details

Supply Chain Solutions & Managed Services

Revenue 2017

£94.8m

Recurring revenues as a proportion of total revenues improved

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	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 %	2016 %
Software licences	**10.4**	13.3	**5.6**	8.3	**54.0%**	62.2%
Services	**34.7**	23.1	**8.8**	7.2	**25.3%**	31.0%
Recurring*	**45.4**	35.9	**30.5**	23.6	**67.0%**	65.8%
Hardware and other	**4.3**	4.5	**1.1**	1.1	**26.7%**	24.7%
Total	**94.8**	76.8	**46.0**	40.2	**48.4%**	52.3%

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

	2017	2016
Adjusted (loss)/profit from operations*4 (£m)	**(0.1)**	7.6
Recurring revenue as % of total revenues	**47.9%**	46.7%
Customer adds (like-for-like)	**87**	160

*See note 29 on page 86 for further details

K3's financial performance over the period was adversely affected by a number of high value contract tenders in the Enterprise space not closing as expected. Part of the reason for this was the disruption caused by the gear-shift in how technology is being delivered, with the model changing from 'on-premise' technology to cloud-based delivery. Alongside this is the associated move to the consumption/subscription model, away from large up-front software licence payments. This disruption caused a significant lengthening in customers' decision-making processes for large deals. However, we also experienced a general softening in end-markets. The sharp drop in software licence revenues reflects the unexpected shortfall in sales. Gross margins were doubly hit, not only by the effect of a lower proportion of higher margin software licence sales in the mix, but also excess resource capacity in services and implementation. Recurring revenue was adversely impacted by the shortfall in sales. However, recurring revenues as a proportion of total revenues, which provides core stability to the business, improved.

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 well. With the continuing expansion of the IKEA franchisee network, we anticipate a high level of activity here.

The SYSPRO business generates strong cash flows and delivered good results. Customer renewals of software licences continued to be high, at 98% (2016: 98%). Sage X3 continued to grow and we are now recruiting talent from abroad, given the shortage in the UK for delivery resource. As we previously reported, we restructured Business Solutions to focus on the Microsoft Dynamics/Navision SME space and that unit is now seeing an improvement in its profitability, which will be accelerated with the creation of a single Microsoft Dynamics practice.

We previously highlighted that the move towards cloud-based consumption licensing has positive long-term implications for the Group. This is because 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 (typically paid upfront, at the commencement of a relationship). However, this shift will affect the Group's rate of reported revenue growth since income from cloud/consumption-based contracts is recognised over longer periods. The pace of uptake of consumption-based contracts has increased over the period, especially in the Microsoft Dynamics space where we are now seeing the majority of new contracts signed on this basis.

"The SYSPRO business generates strong cash flows and delivered good results"

SYSPRO™
Simplifying your Success

Own IP

Revenue 2017

£23.4m

Total revenue from own IP benefited from contributions from two acquisitions

K3 has developed in-house, or acquired the IP rights to, software products, which the Company sells on a standalone basis or as part of its integrated suite of solutions. In addition K3's core ERP solutions are typically enhanced and enriched by our own IP for specific industry segments. This gives us our solutions a competitive advantage and differentiation.

	Revenue		Gross profit		Gross margin	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 %	2016 %
Software licences	**2.9**	2.9	**2.6**	2.7	**88.4%**	92.9%
Services	**3.4**	2.6	**1.3**	1.0	**38.2%**	36.4%
Recurring*	**12.1**	5.8	**9.2**	4.4	**76.0%**	76.9%
Hardware and other	**5.0**	1.1	**1.9**	0.3	**38.4%**	25.2%
Total	**23.4**	12.4	**15.0**	8.4	**64.1%**	67.7%

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

	2017	2016
Adjusted profit from operations*3 (£m)	**0.2**	2.7
Recurring revenue as % of total revenues	**52.0%**	46.2%
Customer adds (like-for-like)	**340**	38

ax is fashion

pebblestone fashion

imagine

*See note 29 on page 86 for further details

Total revenue from own IP over the 17 month period amounted to £23.4m (2016: £12.4m), with the period also benefiting from contributions from two acquisitions, Merac, acquired in July 2016 and DdD Retail, which was added in April 2016. These acquisitions contributed a combined £10.1m to own IP revenues over this period, including £5.2m of recurring revenues. As well as bringing additional valuable, wholly-owned IP, both acquisitions have added new customer bases. Recurring revenues from own IP as a proportion of total revenues increased by 5.7%. Gross margins for own IP were slightly lower than last year due to the lower proportion of revenue coming from software sales on which the gross margin is highest.

Sales of Pebblestone, our leading business software for the mid-market fashion industry, which we also sell through channel partners, were particularly strong. As previously highlighted, sales of ax|is fashion, which are typically large contracts, suffered from the softness in the Enterprise space and customers taking longer to deliberate between cloud or ‘on-premise’ technology. However ax|is fashion deal closure improved significantly towards the end of the reporting period and a number of large contracts were secured including with Jack Wolfskin, Lifestyle Sports and Eton Shirts. Two of these contracts were delivered through our channel partners. We have continued to see good deal closure since the period end, with three ax|is contracts signed, including SanMar in the USA, and the pipeline for ax|is remains encouraging.

The development of Imagine, our cloud-native, ERP agnostic platform has been an important step for us. The platform enables us to integrate leading-edge ‘module’ solutions into customers’ existing infrastructure swiftly and cost-effectively. In this way, we can 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 we intend to develop further functionally-rich modules to broaden the scope of our offering. We expect the Imagine platform to become a cornerstone of our IP strategy and, in total, we now have circa 13 customers live on Imagine.

Central Costs

Central costs include directors’ costs, human resources, accounting and legal personnel, and the costs associated with running a PLC, including financing. Costs are stated net of recovery of elements recharged to operating units. Central costs*5 for the 17 month period amounted to £1.7m (2016: £0.8m), with the significant rise reflecting our centralisation programme.

Outlook

We remain focused on improving the Group’s performance and in particular driving own IP revenues and are confident of continuing progress. We are encouraged by the progress made by own IP business units and the recent deals closed in ax|is fashion. We are now seeing stronger migration by customers to cloud-based solutions from ‘on-premise’ systems, and, while this represents an adjustment for the business in the near term, it will enhance our customer relationships and contribute high quality revenue streams.

Adalsteinn Valdimarsson
Chief Executive Officer

*See note 29 on page 86 for further details

Financial Review

Trading results

Revenue for the 17 month period to 30 November 2017 was £118.2m compared to £89.2m for the 12 months to 30 June 2016, an increase of 32% driven by the extended period and full year impact of acquisitions. However, after taking into account the extended period, revenues were lower than for the prior year on a pro rata basis, partly due to the change from ‘on-premise’ technology to cloud-based delivery and also the associated move to the consumption/subscription model, away from large up-front software licence payments. We also experienced a general softening in end-markets.

The change in mix toward more product sales, particularly of our own IP business units, is the strategic intent of the business and evidenced by the percentage revenue from own business units at 19.8% (2016: 13.9%). The Group registered an adjusted loss from operations[*1] of £1.7m for the 17 months to 30 November 2017 (2016 profit: £9.5m) as the new management team brought down the cost base and re-aligned the business to a new operating model fit for the new consumption based world. Loss from operations was £14.8m (2016: profit of £5.2m).

Exceptional reorganisation costs were £4.7m (2016: £1.0m), related to organisational and management changes across the Group to streamline the organisation and centralise product and support functions. These changes will deliver cost savings of £5.0m on an annualised basis. In addition, an exceptional impairment charge against development costs of £4.5m was made associated with our resource review which identified certain products which are no longer core to the Group’s strategy. The amortisation of acquired intangible assets was £3.9m (2016: £2.7m). Finance costs were £1.4m (2016: £0.7m). The resulting loss for the period was £13.4m (2016: profit of £4.1m).

Earnings per share and dividends

Adjusted loss per share[*2] was 7.7p (2016: adjusted earnings per share: 23.5p). Loss per share was 35.3p (2016: earnings per share: 12.6p).

The directors propose to pay a dividend of 1.4p per share (2016: 1.75p).

Taxation

There was a tax credit for the period of £2.8m (2016: charge of £0.4m) comprising a credit of £0.6m (2016: charge of £0.8m) of current taxation and a credit of £2.2m (2016: £0.4m) of deferred taxation, of which £0.9m (2016: £0.5m) related to the amortisation of intangible assets. The credit for current taxation includes an adjustment in respect of prior periods of £0.2m (2016: £0.03m). The deferred tax credit includes £0.3m 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 £1.5m for which the recoverability is uncertain and for which the credit to the income statement would have been £0.3m. The effective tax rate was 17% (2016: 9%), which is lower than the standard rate of corporation tax in the UK of 19.53% (2016: 20%) due to the inclusion of profits from overseas subsidiaries which are taxed at lower rates. The effective tax rate is determined as the tax expense/(credit) divided by the accounting profit/(loss) before tax. The effective tax rate excluding the impact of the change in the rate of deferred tax is 16% for both periods.

Balance sheet

During the period, K3 acquired Merac Limited which resulted in an increase in goodwill and other intangible assets. These balances were also affected by the finalisation of the value of intangible asset of DdD Retail acquired in April 2016 which had previously been carried at provisional amounts. Together, these acquisitions resulted in increases to goodwill of £1.3m and to other intangible assets of £0.7m. Additions to development costs were £6.2m compared to £4.6m in the previous period, which reflects the longer financial period of 17 months. Despite the additions to other intangible assets including development costs, the value at 30 November 2017 is £5.9m lower than at 30 June 2016 due to the amortisation of acquired intangibles of £3.9m and of development costs of £5.0m reflecting the longer financial period, and the impairment charge against development costs of £4.5m.

Both trade receivables and trade payables are lower than at 30 June 2016 reflecting a tighter approach to working capital management.

Cash flow and net debt

The net debt position at 30 November 2017 was £4.3m (2016: £8.9m) and with a new facility agreement signed in October 2016. In July 2017 we raised a net of £7.8m from an equity offer, as well as an exercise of warrants of £0.7m and debt-to-equity conversion of £0.6m.

Despite high levels of restructuring costs and a low adjusted profit from operations[*1], significant working capital improvements were made so that the Group’s net cash outflow in the period was £0.9m (2016: inflow £0.8m). The Group’s cashflow from operations in the period was £5.9m compared to £5.5m in the previous year.

Robert Price
Chief Financial Officer

All comparative figures for 2016 refer to the 12 months to 30 June 2016

*See note 29 on page 86 for further details

Principal Risks and Uncertainties

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 page 24. 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 Imagine and add-ons such as ax|is 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 retail, distribution and manufacturing sectors, primarily 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 specialists 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.

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 7 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. High risk projects are monitored at Divisional board level, meetings of which are attended by main Board executive directors.

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.

Acquisition History

During the period ended 30 November 2017, we acquired:

- Merac Limited, the author of electronic point-of-sale and management system for the visitor attractions and leisure sector, covering ticketing, hospitality and retail.

We continue to look for selective opportunities that will add additional or complementary products, IP and skills, together with customer bases that we can grow through our managed services and cloud capability.

This Strategic Report is signed on behalf of the Board

Adalsteinn Valdimarsson
Director
26 March 2018

Corporate Governance

The 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. The directors have sought to apply certain provisions of the UK Corporate Governance Code in so far as they consider it appropriate having regard to the size and nature of the group.

The Board

The group is headed by an effective board which meets on a monthly basis. All meetings in the period were attended by all the directors, except that Mr D Bolton was unable to attend the meeting in May 2017. It is supplied in a timely manner with information of a quality to enable it to discharge its duties. 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;
- approval of the appointment or termination of advisors to the group;
- the purchase or sale of any business or subsidiary;
- any new borrowings, facilities and related guarantees;
- any asset purchase or lease, hire purchase facility or rental agreement over prescribed authority limits;
- any donation to a political party, or any charitable donation exceeding £250.

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 each of the committees, their members and activities during the period are covered separately within this report.

During the period the Board comprised the Chairman, two executives (following the appointment of Mr RD Price on 5 July 2017) and three non-executive directors. Details of the Board are included on page 30. 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.

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.

Nominations Committee

During the year the Nominations Committee comprised the Chairman (Mr L-O Norell until his resignation on 31 May 2017 and then by Mr DJ Bolton until 5 July 2017 and then by Mr S Darling) and one of the non-executive directors, Mr PJ Claesson, until April 2017 when all non-executive directors became members of the committee. The Nominations Committee was chaired by the Chairman. Meetings are arranged as necessary and two meetings were held during the period. 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. Its terms of reference are available upon request and are placed on the company's website.

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.

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.

All directors are subject to election by shareholders at the first opportunity after their appointment. In accordance with the Articles of Association, all directors are required to retire by rotation and shall be eligible for re-election. The terms and conditions of appointment of the non-executive director are available for inspection upon request.

Remuneration Committee

During the period the Remuneration Committee composition changed from the Chairman (Mr L-O Norell until his resignation on 31 May 2017 and then by Mr DJ Bolton until 5 July 2017 and then by Mr S Darling) and one of the non-executive directors, Mr PJ Claesson to being chaired by Mr P Morland and including all non-executive directors. It 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 on an ad hoc basis and met at least once during the period and the meetings were attended by all members of the committee. The terms of reference are available upon request and are placed on the company's website.

Accountability and audit

Financial reporting

The Board recognises its responsibility to present a balanced and understandable assessment of the group's position and prospects, both within its half year and annual financial statements and in other price-sensitive public reports. The statement of the directors' responsibility in preparing the financial statements is made on page 28.

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. A new three-year syndicated facility agreement was signed in October 2016 for a revolving loan facility of up to £20m and, in July 2017, the Group raised a net of £7.8m from an equity offer, as well as an exercise of warrants of £0.7m and debt-to-equity conversion of £0.6m. For these reasons the directors continue to adopt the going concern basis in preparing the financial statements.

Internal control

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 principle business risks and the actions to mitigate the risks are included in the Strategic Report on pages 19 and 20. Details of operational risks are included below.

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 26 March 2018. 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

The Audit Committee comprised the Chairman (Mr L-O Norell until his resignation on 31 May 2017 and then by Mr DJ Bolton until 5 July 2017), and three non-executive directors, Mr PJ Claesson, Mr PG Morland and MR JP Manley. The Audit Committee was chaired by the Chairman until the appointment of Mr S Darling on 3 April 2017 who has chaired the committee since that date. The committee met three times during the period. 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 Chief Executive, Chief Financial Officer and external auditors attend meetings of the Audit Committee by invitation. 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. Its terms of reference are available upon request and are placed on the company's website.

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.

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. At each AGM the Chairman advises shareholders of the proxy voting details on each of the resolutions which is dealt with on a show of hands.

Auditors' remuneration

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

	17 months ended 30 November 2017 £'000	Year ended 30 June 2016 £'000
Audit services		
• Statutory audit of the company	**25**	25
• Statutory audit of the subsidiaries	**163**	151
Further assurance services:		
Tax services		
• Advisory services	**4**	–
• Overseas tax advice	**49**	57
Other services		
• Other services	**4**	2
	245	235

During the period, the auditors provided non-audit services in relation to advice on payroll taxes and VAT in the UK and 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.

Remuneration Report

Remuneration

The salaries 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.

	17 months ended 30 November 2017					Year ended 30 June 2016
	Fees/basic salary £	Taxable benefits £	Annual bonuses £	Pension contributions £	Total £	Total £
Chairman						
L-O Norell	46,861	–	–	–	46,861	30,000
S Darling	20,000	–	–	400	20,400	–
Executive						
DJ Bolton	182,039	2,660	50,000	–	234,699	307,151
A Valdimarsson	457,250	–	–	36,225	493,475	–
RD Price	162,603	–	–	16,260	178,863	–
Non-executive						
PJ Claesson	21,250	–	–	–	21,250	15,000
PJ Cookson	–	–	–	–	–	6,630
PG Morland	28,333	–	–	567	28,900	20,400
JP Manley	52,515	–	–	–	52,515	11,232
Aggregate emoluments	970,851	2,660	50,000	53,452	1,076,963	390,413

Included within the fees/basic salary amount for Mr L-O Norell is £19,361 (year ended 30 June 2016: £12,000) for consultancy services in relation to the future strategy of the group's product's and markets and for Mr JP Manley £24,617 (year ended 30 June 2016: £nil) in relation to consultancy on the own IP positioning and development and for Mr A Valdimarsson £95,000 (year ended 30 June 2016: £nil) 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 has a 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' indemnity cover

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

Directors holding office

The directors who held office during the period ended 30 November 2017 were:

L-O Norell	(resigned 31 May 2017)
S Darling	(appointed 3 April 2017)
DJ Bolton	(resigned 5 July 2017)
PJ Claesson	
JP Manley	
PG Morland	
RD Price	(appointed 5 July 2017)
A Valdimarsson	

Directors' share options and warrants

Mr PJ Claesson is interested 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 2017 was 167.5p and the range during the period was 144.5p to 359.0p.

There are no options outstanding or held by any of the directors.

Directors' Report

Dividends

The directors propose a net dividend of 1.4p per share (2016: 1.75p). A final dividend relating to the year ended 30 June 2016 of 1.75p, amounting to £630,000, was paid during the period. No interim dividend was paid during either period.

Directors

The directors who served during the period were as follows:

DJ Bolton	(resigned 5 July 2017)
PJ Claesson	
S Darling	(appointed 3 April 2017)
JP Manley	
PG Morland	
L-O Norell	(resigned 31 May 2017)
R D Price	(appointed 5 July 2017)
A Valdimarsson	

Mr PJ Claesson retires by rotation and offers himself for re-election.

Statement of directors' responsibilities for the financial statements

The directors are responsible for preparing 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.

Financial instruments risks

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

Substantial shareholdings

On 26 March 2018, 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	9,895,405	23.0%
Liontrust Asset Management	5,048,732	11.8%
Hargreave Hale	5,019,572	11.7%
Richard Griffiths	4,875,536	11.4%
PJ Claesson	4,859,790	11.3%

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 monthly 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.

Events after the reporting date

These are detailed in note 27 to the consolidated financial statements.

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.

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

A Valdimarsson
Director
26 March 2018

Baltimore House
50 Kansas Avenue
Manchester
M50 2GL

Board of Directors

Stuart Darling (Chairman) age 54

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 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 48

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 67

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 50

Robert was appointed to the Board on 5 July 2017 having joined the Group as CFO in October 2016. He has almost 20 years’ experience in senior finance roles in technology and supply chain and as worked extensively in international markets. He was previously CFO of the London fintech start up, ipgaoo, 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 64

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 57

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.

The K3 Business

Cloud-enabled, mission critical Business Software

Subscription, hybrid, on-premise

50+ channel partners

Core ERP Offering based on Microsoft, SYSPRO & Sage IT

c.3,700 "sticky" customers

For Supply Chain Sector
Retailers
Manufacturers
& Distributors

Own IP Products
Add value, are platform agnostic, enhance margins, drive sales & customer retention

Independent Auditors' Report to the Shareholders 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 period ended 30 November 2017 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity, the company balance sheet, the 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 2017 and of the group's loss for the period 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 of 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 parent company and the group 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.

Use of our report

This report is made solely to the 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 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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

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 recognised up front in full where performance obligations have been fulfilled, 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.

Revenue by steam for period to 30 November 2017 is as follows:

	£m
Software	13.3
Services	38.1
Recurring	57.6
Other	9.2
Total	118.2

Refer to note 5 of the financial statements for disclosure.

How We Addressed the Key Audit Matter in the Audit

- We have reviewed the policies adopted by the Group in relation to revenue recognition and have confirmed, through a review of a sample of contracts, how these policies have been adopted practically.
- Our review included consideration of the treatment of overruns where consultancy days were over and above the amount specified in the contract, the dates the licenses were delivered and the delivery of in-house software.
- Our review also considered the ability to "un-bundle" contracts which include an element of both consultancy, license and support.
- We have reviewed the revenue recognised on any multi-year deals with reference to the terms of the contracts and the fulfilment of obligations by all parties to the contract.
- We have reviewed a sample of contracts to understand the contractual obligations, to understand the deliverables within the contract and whether the entities have fulfilled the requirements of the contract and earned the right to consideration where revenue has been recognised.
- We have reviewed cut-off at the period end in detail and considered revenue recognised after date on material contracts to ensure this is in line with the group's accounting policy.

Development costs

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.

Development costs at 30 November 2017 have a net book value of £9.8m (30 June 2016: £12.8m).

Refer to note 11 of the financial statements for disclosure.

How We Addressed the Key Audit Matter in the Audit

- We have reviewed the amounts capitalised in the period as prepared by management and agreed a sample 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 considered the brought forward development costs to ensure that they remain supported by future cashflows.
- We have reviewed the appropriateness of the impairment of development costs based on future cashflows.
- We have reviewed the appropriateness of the amortisation period 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

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.

Goodwill at 30 November 2017 has a net book value of £51.0m (30 June 2016: £48.8m).

Other intangibles, including development costs, have a net book value of £20.5m (30 June 2016: £26.4m).

Refer to note 11 of the financial statements for disclosure.

How We Addressed the Key Audit Matter in the Audit

- We have verified the integrity of the calculations data prepared by management in the impairment review of goodwill and intangibles.
- 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 2017 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	**£590,000 (2016: £625,000)**
Basis for materiality	0.5% of revenue (2016: 7.25% of a weighted average of 3 years of adjusted profits)
Rationale for the benchmark adopted	As the group made an adjusted loss in the current year it is not practicable to use the same benchmark as in the prior year. Revenue is the most stable and relevant alternative measure and 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 £410,000 (2016: £445,000), representing 70% of materiality.

For each component in the group audit we allocated a planning materiality lower than our overall group planning materiality and used £165,000 for overseas entities and £245,000 for UK entities with a similar restriction of 70% for performance materiality.

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 £14,000 (2016: £10,000). 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 principal operating locations being the United Kingdom, Netherlands, Denmark and Ireland. The operations in the United Kingdom and Netherlands were subject to a full scope audit.

Together with the parent company and its group consolidation, which was also subject to a full scope audit, these locations represent the principal business units of the group and account for 100% of the group's revenue.

Whilst materiality for the financial statements of a whole was £500k, each component of the group was audited to a lower level of materiality.

Audits of the components were performed at a materiality level calculated by reference to a proportion of group materiality appropriate to the relative scale of the business concerned.

The Netherlands operations form 20% of group turnover. As part of our audit strategy, the senior member of the audit team visited Netherlands during the audit. We communicated with the Netherlands component audit team, timed to enable us to be involved during planning and the risk assessment process and to consider key matters arising from the component audit. During our visit, we attended key meetings with component management and auditors, and reviewed component auditor work papers.

The remaining components of the group were considered non-significant (Denmark form 4% and Ireland 1% of Group turnover) and these components were principally subject to limited scope procedures, together with additional substantive testing over certain audit risk areas.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, 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 period 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 28), 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.

Julien Rye (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Manchester
26 March 2018

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

Consolidated Income Statement
for the period ended 30 November 2017

	Notes	17 months ended 30 November 2017 £'000	Year ended 30 June 2016 £'000
Revenue	2	**118,176**	89,175
Cost of sales		**(57,197)**	(40,636)
Gross profit		**60,979**	48,539
Administrative expenses		**(75,762)**	(43,310)
Adjusted (loss)/profit from operations		**(1,666)**	9,501
Amortisation of acquired intangibles	11	**(3,930)**	(2,734)
Acquisition costs	3	**(308)**	(492)
Exceptional reorganisation costs	3	**(4,731)**	(1,046)
Exceptional impairment of development costs	3	**(4,541)**	–
Release of contingent consideration	3	**393**	–
(Loss)/profit from operations	3	**(14,783)**	5,229
Finance expense	6	**(1,360)**	(701)
(Loss)/profit before taxation		**(16,143)**	4,528
Tax credit/(expense)	7	**2,773**	(425)
(Loss)/profit for the period		**(13,370)**	4,103

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

(Loss)/Earnings Per Share

		17 months ended 30 November 2017	Year ended 30 June 2016
Basic	9	**(35.3)p**	12.6p
Diluted	9	**(35.3)p**	12.3p

The notes on pages 42 to 86 form part of these financial statements.

Consolidated Statement of Comprehensive Income
for the period ended 30 November 2017

	17 months ended 30 November 2017 £'000	Year ended 30 June 2016 £'000
(Loss)/profit for the period	**(13,370)**	4,103
Other comprehensive income		
Exchange differences on translation of foreign operations	**1,110**	3,073
Other comprehensive income	**1,110**	3,073
Total comprehensive (expense)/income for the period	**(12,260)**	7,176

All of the total comprehensive (expense)/income 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.

Registered number: 2641001

Consolidated Statement of Financial Position
as at 30 November 2017

	Notes	30 November 2017 £'000	30 June 2016 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**2,479**	2,389
Goodwill	11/12	**51,019**	48,793
Other intangible assets	11	**20,539**	26,369
Deferred tax assets	18	**1,281**	423
Available-for-sale investments		**98**	98
Total non-current assets		**75,416**	78,072
Current assets			
Trade and other receivables	14	**30,429**	40,923
Cash and cash equivalents		**1,941**	2,772
Total current assets		**32,370**	43,695
Total assets		**107,786**	121,767
LIABILITIES			
Non-current liabilities			
Long-term borrowings	16	**6,170**	8,272
Deferred tax liabilities	18	**2,524**	3,753
Total non-current liabilities		**8,694**	12,025
Current liabilities			
Trade and other payables	15	**29,249**	32,824
Current tax liabilities		**127**	132
Short-term borrowings	16	**59**	3,376
Total current liabilities		**29,435**	36,332
Total liabilities		**38,129**	48,357
EQUITY			
Share capital	19	**10,737**	9,000
Share premium account	20	**28,897**	21,586
Other reserves	20	**10,448**	10,448
Translation reserve	20	**2,186**	1,076
Retained earnings	20	**17,389**	31,300
Total equity attributable to equity holders of the parent		**69,657**	73,410
Total equity and liabilities		**107,786**	121,767

The financial statements on pages 37 to 86 were approved and authorised for issue by the Board of Directors on 26 March 2018 and were signed on its behalf by:

RD Price
Director

The notes on pages 42 to 86 form part of these financial statements.

Overview Strategic Report Governance Financial Statements Other

Consolidated Statement of Cash Flows
for the period ended 30 November 2017

	Notes	17 months ended 30 November 2017 £'000	Year ended 30 June 2016 £'000
Cash flows from operating activities			
(Loss)/profit for the period		**(13,370)**	4,103
Adjustments for:			
Share-based payments charge		**67**	28
Depreciation of property, plant and equipment		**1,373**	971
Amortisation and impairment of intangible assets and development expenditure		**13,481**	5,077
Loss on sale of property, plant and equipment		**–**	4
Finance expense		**1,360**	701
Tax (credit)/expense		**(2,773)**	425
Decrease/(increase) in trade and other receivables		**10,022**	(5,977)
(Decrease)/increase in trade and other payables		**(4,206)**	170
Cash generated from operations	28	**5,954**	5,502
Finance expense paid		**(1,237)**	(783)
Income taxes paid		**356**	(688)
Net cash from operating activities		**5,073**	4,031
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	28	**(989)**	(7,401)
Development expenditure capitalised		**(6,158)**	(4,642)
Purchase of property, plant and equipment		**(1,307)**	(916)
Net cash used in investing activities		**(8,454)**	(12,959)
Cash flows from financing activities			
Net proceeds from issue of share capital		**8,408**	13,175
Proceeds from long-term borrowings		**5,715**	–
Payment of long-term borrowings		**(10,885)**	(2,928)
Payment of finance lease liabilities		**(77)**	(12)
Dividends paid		**(630)**	(477)
Net cash from financing activities		**2,531**	9,758
Net change in cash and cash equivalents		**(850)**	830
Cash and cash equivalents at start of period	28	**2,772**	1,895
Exchange gains on cash and cash equivalents		**19**	47
Cash and cash equivalents at end of period	28	**1,941**	2,772

The notes on pages 42 to 86 form part of these financial statements.

Consolidated Statement of Changes in Equity
for the period ended 30 November 2017

	Share capital £'000	Share premium £'000	Other reserves £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
At 30 June 2015	7,949	9,462	10,448	(1,997)	27,633	53,495
Changes in equity for year ended 30 June 2016						
Profit for the year	–	–	–	–	4,103	4,103
Other comprehensive income for the year	–	–	–	3,073	–	3,073
Total comprehensive income	–	–	–	3,073	4,103	7,176
Share-based payment credit	–	–	–	–	28	28
Options exercised	28	107	–	–	–	135
Issue of new shares	1,023	12,017	–	–	–	13,040
Movement in own shares held	–	–	–	–	13	13
Dividends to equity holders	–	–	–	–	(477)	(477)
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 to equity holders	–	–	–	–	(630)	(630)
At 30 November 2017	10,737	28,897	10,448	2,186	17,389	69,657

Notes forming part of the Financial Statements
for the period ended 30 November 2017

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 87 to 96.

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.

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' is mandatory for the Group from 1 December 2018 with early adoption permitted. The Group commenced an initial project to assess the effect of the adoption of IFRS 15 in the latter half of 2017. As this project progressed the complexities of IFRS 15 became apparent, leading to the need to perform a more detailed analysis of 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 also includes determining whether customers have a right to use or a right to access the software. There are some contracts where revenue may need to be recognised differently under IFRS 15 than under existing IFRS and these areas include the following:

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

Work is still ongoing to fully quantify the impact on revenue recognition for these contracts. The Group has tentatively taken the decision 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. The Group anticipates that further information on the effect of the adoption of IFRS 15 will be made during the coming year and to consider whether the Group will adopt the standard earlier than is mandatory.

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 standard was endorsed by the EU in November 2017. 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 an interest expense which will result in a

1 Accounting policies for the group financial statements (continued)

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. 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 £7.3m at 30 November 2017 (see note 21).

IFRS 9 'Financial instruments' is effective for the Group from 1 December 2018 with early adoption permitted. It was endorsed by the EU in December 2016. 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. 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 is still developing its model for calculating the ECL and until it has been finalised it is not possible to quantify the effects of this part of the standard. It is likely to lead to an increase in the £1.46m provision currently recognised.

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.

Notes forming part of the Financial Statements (continued)
for the period ended 30 November 2017

1 Accounting policies for the group financial statements (continued)

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 and a suitable discount rate in order to calculate present value. 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 is 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. Expenditure is only capitalised when the investment appraisal process has assessed that the product is likely to benefit the Group in the future.

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.

1 Accounting policies for the group financial statements (continued)

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.

Notes forming part of the Financial Statements (continued)
for the period ended 30 November 2017

1 Accounting policies for the group financial statements (continued)

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
- Motor vehicles — Four 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

1 Accounting policies for the group financial statements (continued)

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. 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 reorganisation costs. An impairment loss recognised for goodwill is not reversed.

Notes forming part of the Financial Statements (continued)
for the period ended 30 November 2017

1 Accounting policies for the group financial statements (continued)

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.

1 Accounting policies for the group financial statements (continued)

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.

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

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.

Notes forming part of the Financial Statements (continued)
for the period ended 30 November 2017

2 Revenue

	17 months ended 30 November 2017 £'000	Year ended 30 June 2016 £'000
The group's revenue comprises:		
Software licence revenue	13,304	16,235
Services revenue	38,074	25,745
Recurring revenue*	57,573	41,613
Hardware and other revenue	9,225	5,582
Revenue	118,176	89,175

*From software maintenance renewals, support contracts and hosting and managed services.

3 (Loss)/profit from operations

	17 months ended 30 November 2017 £'000	Year ended 30 June 2016 £'000
This has been arrived at after charging/(crediting):		
Staff costs (see note 4)	64,885	40,296
Depreciation of property, plant and equipment	1,373	971
Amortisation of acquired intangible assets	3,930	2,734
Amortisation of development costs	5,010	2,343
Exceptional impairment of development costs (see below)	4,541	–
Acquisition costs (see below)	308	492
Exceptional reorganisation costs (see below)	4,731	1,046
Release of contingent consideration (see below)	393	–
Foreign exchange differences	34	(26)
Operating lease expenses		
– Plant and machinery	2,062	1,877
– Property	2,010	1,151
Loss on disposal of fixed assets	–	4

As previously reported, K3 has 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, but which will deliver cost savings of £5.0m on an annualised basis. The reorganisation costs in the prior year of £1.05m related to reorganisational and management changes particularly in the retail division (now part of supply chain solutions and managed services). Following a review of development costs, the costs relating to certain products that are no longer core to the Group's strategy have been written down to £nil at a cost of £4.54m (year ended 30 June 2016: £nil). This impairment charge has no cash impact. The Group incurred costs in relation to acquiring new businesses of £0.31m (year ended 30 June 2016: £0.49m) (see notes 24 and 25). Contingent consideration not required to be paid of £0.39m (year ended 30 June 2016: £nil) was released (see note 25).

Fees paid to the company's auditors are disclosed in the Corporate Governance statement on page 25.

Notes forming part of the Financial Statements (continued)
for the period ended 30 November 2017

4 Staff costs

	17 months ended 30 November 2017 £'000	Year ended 30 June 2016 £'000
Staff costs (including directors) comprise:		
Wages and salaries	53,245	36,399
Short-term non-monetary benefits	3,000	1,989
Defined contribution pension cost	2,458	1,579
Share-based payment expense (see note 23)	67	28
Employers national insurance contributions and similar taxes	6,115	3,931
	64,885	43,926

Of the above staff costs, £4.28m (year ended 30 June 2016: £3.63m) has been capitalised within development costs (see note 11).

	17 months ended 30 November 2017 Number	Year ended 30 June 2016 Number
The average number of employees during the period was:		
Consultants and programmers	556	554
Sales and distribution	77	82
Administration	132	126
	765	762

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 the inside front cover and the divisional directors.

	17 months ended 30 November 2017 £'000	Year ended 30 June 2016 £'000
Key management personnel remuneration consists of:		
Remuneration	2,440	1,672
Compensation for loss of office	1,472	–
Company contributions to defined contribution pension schemes	138	183
Share-based payment expense (note 23)	–	–
Employers national insurance contributions and similar taxes	317	231
	4,367	2,086

4 Staff costs (continued)

	17 months ended 30 November 2017 £'000	Year ended 30 June 2016 £'000
Directors' remuneration consists of:		
Emoluments	1,023	390
Contributions to personal pension schemes	53	–
	1,076	390

	17 months ended 30 November 2017 £'000	Year ended 30 June 2016 £'000
Remuneration in respect of the highest paid director:		
Aggregate emoluments	457	307
Pension contributions	36	–
	493	307

There were four directors in defined contribution pension schemes (year ended 30 June 2016: none).

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 note 4.

Notes forming part of the Financial Statements (continued)

for the period ended 30 November 2017

5 Segment information

As noted in the Chairman's statement, K3 has undergone significant change during the period and a core element of our growth strategy is to increase revenues from our own intellectual property ("IP"). This is important to us since own IP sales typically underpin stronger customer relationships, differentiate us from our competitors and generate higher margins and recurring revenue. All software product development and own IP management functions are now integrated into a single Group-level IP unit. Therefore, the operating segments have been re-defined to reflect the focus between Own IP units within the Group and 3rd party IP and reseller units. The comparatives for the year ended 30 June 2016 have been restated on the same basis.

The Head Office segment comprises head office and other centrally incurred costs which are recharged to the units through a central management charge.

The activities and products and services of the operating segments are detailed in the Strategic Report on pages 13 to 17.

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 divisional 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 and exceptional income.

5 Segment information (continued)

The segment results for the period ended 30 November 2017 and for the year ended 30 June 2016, reconciled to profit before taxation as included in the consolidated income statement, are as follows:

	17 months ended 30 November 2017			
	Own IP £'000	Supply chain solutions and managed services £'000	Head office £'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)
Administrative expenses	(12,257)	(39,487)	(4,519)	(56,263)
Divisional operating profit/(loss)	705	2,168	(4,539)	(1,666)
Management charges	(499)	(2,308)	2,807	–
Adjusted profit/(loss) from operations	206	(140)	(1,732)	(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
Profit/(loss) from operations	(3,069)	(8,118)	(3,596)	(14,783)
Finance expense	(203)	(15)	(1,142)	(1,360)
Profit/(loss) before tax	(3,272)	(8,133)	(4,738)	(16,143)

Notes forming part of the Financial Statements (continued)
for the period ended 30 November 2017

5 Segment information (continued)

	Year ended 30 June 2016			
	Own IP £'000	Supply chain solutions and managed services £'000	Head office £'000	Total £'000
Total segment revenue	14,451	76,865	–	91,316
Inter-segment revenue	(2,082)	(59)	–	(2,141)
Software licence revenue	2,961	13,274	–	16,235
Services revenue	2,600	23,145	–	25,745
Recurring revenue	5,718	35,895	–	41,613
Hardware and other revenue	1,090	4,492	–	5,582
External revenue	12,369	76,806	–	89,175
Cost of sales	(3,998)	(36,638)	–	(40,636)
Gross profit	8,371	40,168	–	48,539
Depreciation	(58)	(901)	(13)	(972)
Amortisation of development costs	(614)	(1,727)	–	(2,341)
Administrative expenses	(4,649)	(28,281)	(2,795)	(35,725)
Divisional operating profit/(loss)	3,050	9,259	(2,808)	9,501
Management charges	(379)	(1,601)	1,980	–
Adjusted profit/(loss) from operations	2,671	7,658	(828)	9,501
Amortisation of acquired intangibles	(437)	(2,297)	–	(2,734)
Acquisition costs	(292)	–	(200)	(492)
Exceptional reorganisation costs	(16)	(918)	(112)	(1,046)
Profit/(loss) from operations	1,926	4,443	(1,140)	5,229
Finance expense	(6)	5	(700)	(701)
Profit/(loss) before tax	1,920	4,448	(1,840)	4,528

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 39. 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.

5 Segment information (continued)

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	
	17 months ended 30 November 2017 £'000	Year ended 30 June 2016 £'000	30 November 2017 £'000	30 June 2016 £'000
United Kingdom	79,767	69,046	48,316	50,914
Netherlands	12,584	7,653	12,375	12,512
Ireland	4,153	2,427	5,848	5,766
Rest of Europe	12,886	5,064	8,821	8,821
Rest of World	8,786	4,985	56	59
	118,176	89,175	75,416	78,072

6 Finance income and expense

	17 months ended 30 November 2017 £'000	Year ended 30 June 2016 £'000
Finance expense		
Bank borrowings	1,236	577
On related party balances	55	55
Other	69	69
Net finance expense	1,360	701

Notes forming part of the Financial Statements (continued)
for the period ended 30 November 2017

7 Tax expense

	17 months ended 30 November 2017 £'000	£'000	Year ended 30 June 2016 £'000	£'000
Current tax (credit)/expense				
UK corporation tax and income tax of overseas operations on (losses)/profits for the period	(388)		866	
Adjustment in respect of prior periods	(176)		(25)	
		(564)		841
Deferred tax income				
Origination and reversal of temporary differences	(2,046)		(94)	
Effect of change in rate of deferred tax	(163)		(322)	
		(2,209)		(416)
Total tax (credit)/expense in current period		(2,773)		425

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 (losses)/profits for the period are as follows:

	17 months ended 30 November 2017 £'000	Year ended 30 June 2016 £'000
(Loss)/profit before tax	(16,141)	4,528
Expected tax charges based on the standard rate of corporation tax in the UK of 19.53% (2016: 20%)	(3,152)	906
Expenses not deductible for tax purposes	(188)	(61)
Effect of tax reliefs	–	–
Utilisation of losses	(320)	(5)
Losses not recognised (see note 18)	1,249	–
Different tax rates applied in overseas jurisdictions	222	(68)
Effect of change in rate for deferred tax	(163)	–
Adjustment for over provision in prior periods	(421)	(347)
Total tax (credit)/expense in current period	(2,773)	425

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

	17 months ended 30 November 2017 £'000	Year ended 30 June 2016 £'000
Final dividend of 1.75p (2016: 1.5p) per ordinary share proposed and paid during the period relating to the previous period's results	630	477

A dividend in respect of the period ended 30 November 2017 of 1.4p per share, amounting to a total dividend of £601,000 is to be proposed at the annual general meeting on 30 May 2018. 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 (loss)/profit for the period and the following numbers of shares:

	30 November 2017 Number of shares	30 June 2016 Number of shares
Denominator		
Weighted average number of shares used in basic EPS	37,893,951	32,439,624
Effects of:		
Employee share options and warrants	–	798,049
Weighted average number of shares used in diluted EPS	37,893,951	33,237,673

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 period.

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 (losses)/profits and the above number of shares.

	17 months ended 30 November 2017			Year ended 30 June 2016		
	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)/earnings per share	(13,370)	(35.3)	(35.3)	4,103	12.6	12.3
Add back:						
Amortisation of acquired intangibles (net of tax)	3,037	8.0	8.0	2,190	6.8	6.6
Acquisition costs (net of tax)	308	0.8	0.8	492	1.5	1.5
Exceptional reorganisation costs (net of tax)	3,832	10.1	10.1	837	2.6	2.5
Exceptional impairment charge (net of tax)	3,678	9.7	9.7	–	–	–
Release of contingent consideration (net of tax)	(393)	(1.0)	(1.0)	–	–	–
Adjusted (L)/EPS	(2,908)	(7.7)	(7.7)	7,622	23.5	22.9

Notes forming part of the Financial Statements (continued)
for the period ended 30 November 2017

10 Property, plant and equipment

	Long leasehold land and buildings £'000	Leasehold improvements £'000	Plant, fixtures and equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 30 June 2015	750	419	4,568	32	5,769
On acquisitions	–	–	16	–	16
Additions	–	–	987	–	987
Disposals	–	–	(464)	(38)	(502)
Effect of movements in foreign exchange rate	–	–	186	6	192
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
Accumulated depreciation					
At 30 June 2015	82	266	3,088	17	3,453
Depreciation charge	10	48	909	4	971
Disposals	–	–	(449)	(24)	(473)
Effect of movements in foreign exchange rate	–	–	119	3	122
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
Net book value					
At 30 June 2015	668	153	1,480	15	2,316
At 30 June 2016	658	105	1,626	–	2,389
At 30 November 2017	643	32	1,804	–	2,479

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.

10 Property, plant and equipment (continued)

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

	30 November 2017 £'000	30 June 2016 £'000
Plant, fixtures and equipment	85	54

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 2015	43,541	16,573	20,312	10,489	973	91,888
Additions	–	4,642	–	–	–	4,642
Acquired through business combinations	3,519	133	1,977	–	2,560	8,189
Effect of movements in foreign exchange rate	1,733	1,108	779	68	241	3,929
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

Notes forming part of the Financial Statements (continued)
for the period ended 30 November 2017

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 2015	–	7,010	10,105	9,796	630	27,541
Amortisation charge	–	2,343	1,935	693	106	5,077
Effect of movements in foreign exchange rate	–	322	430	68	48	868
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
Net book value						
At 30 June 2015	43,541	9,563	10,207	693	343	64,347
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

During the period, certain development costs have been written down to nil at a cost of £4.54m (year ended 30 June 2016: £nil). This is 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 10 years, for distribution agreements is 0 years and for intellectual property rights is between 0 and 7 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 30 November 2017 £'000	30 June 2016 £'000
Walton	1,555	1,555
Syspro	13,680	13,680
Hosting and managed services	2,905	2,905
Business Solutions	3,591	3,591
Retail	6,460	6,460
Dynamics International	9,541	8,995
IP	410	385
Sage	4,556	4,556
Retail Systems Group (RSG) (including Merac)	1,707	1,220
Unisoft	872	816
Integrated Business Solutions (IBS)	770	770
DdD Retail (see note 25)	4,972	3,860
	51,019	48,793

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 management for the next five years. The forecasts assume higher growth rates in years 2 and 3 of 5-20% (year ended 30 June 2016: 0-20%) with more conservative growth rates in years 4 and 5 of between 2% and 5% (year ended 30 June 2016: 2-5%) with exception of the IP, Walton and IBS CGUs. Growth rates for the IP CGU of 58% in year 2 and 33% in year 3 have been applied reflecting the Board's positive view of growth in our own IP (year ended 30 June 2016: 65% in year 2 and 56% in year 3). The Walton and IBS CGUs relates to small systems and a gradual attrition of income is expected, and an attrition rate of 5% has been applied (year ended 30 June 2016: 5%). The most recent financial forecasts have been prepared on the assumption that gross margins will be consistent with those generated historically and that overheads are in line with any changes in the level of revenues forecast. The growth rates are based on industry growth rates, management'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").

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

Notes forming part of the Financial Statements (continued)
for the period ended 30 November 2017

12 Goodwill and impairment (continued)

For the majority of CGUs no reasonably possible changes to the assumptions used in the impairment test would give rise to an impairment. For two CGUs, Business Solutions and Sage, the forecast show good headroom although if performance and annual cash generated falls continuously short by 10% or more of the forecast cash generated there would be an impairment. However, the Board have plans in place to exceed forecasts.

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	UK	100%
K3 Business Technology Group Trustees Company Limited	UK	100%
K3 CRM Limited	UK	100%
K3 FDS Limited	UK	100%
K3 Retail Solutions 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 ehf	Iceland	100%
FashionCloudSoftware.com, LLC	USA	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, K3 Partner Network (International) 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.

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 ehf	Austurstræt 12, 101 Reykjavik , Iceland
FashionCloudSoftware.com, LLC	33S 6th st., Suite 4200, Minneapolis MN 55402, USA
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

Notes forming part of the Financial Statements (continued)
for the period ended 30 November 2017

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%
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 (see note below)	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%

The trade and assets of Merac Limited, acquired on 1 July 2016, were transferred to its parent company, Retail Systems Group Limited, on 1 April 2017 and the company ceased to trade.

14 Trade and other receivables

	30 November 2017 £'000	30 June 2016 £'000
Trade receivables	18,038	21,134
Less: provision for impairment of trade receivables	(1,460)	(1,330)
Trade receivables – net	16,578	19,804
Current taxes	1,007	678
Other receivables	507	1,982
Accrued income	9,891	15,466
Prepayments	2,446	2,993
	30,429	40,923

The fair value of trade and other receivables approximates to book value at 30 November 2017 and 30 June 2016.

Of the above, trade receivables of £0.03m (30 June 2016: £0.04m) and accrued income of £4.80m (30 June 2016: £4.56m) 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 £1.46m (30 June 2016: £1.33m).

Notes forming part of the Financial Statements (continued)
for the period ended 30 November 2017

14 Trade and other receivables (continued)

As at 30 November 2017 trade receivables of £3.15m (30 June 2016: £4.47m) 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:

	30 November 2017 £'000	30 June 2016 £'000
Up to 3 months overdue	750	1,005
3 to 6 months overdue	1,182	2,148
6 to 12 months overdue	572	624
Over 12 months overdue	645	692
	3,149	4,469

As at 30 November 2017 trade receivables of £1.46m (30 June 2016: £1.33m) 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.

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

	30 November 2017 £'000	30 June 2016 £'000
Pound Sterling	20,436	31,774
Euro	9,400	8,561
Other	593	588
	30,429	40,923

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:

	30 November 2017 £'000	30 June 2016 £'000
At beginning of period	1,330	543
On business acquisitions	–	81
Provided during the period	1,721	940
Utilised during the period	(1,498)	(183)
Unused amounts released	(93)	(51)
At end of period	1,460	1,330

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.

15 Trade and other payables – current

	30 November 2017 £'000	30 June 2016 £'000
Trade payables	4,739	8,192
Other payables	594	713
Accruals	8,818	9,548
Total financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost	14,151	18,453
Contingent consideration (see note 17)	–	912
Deferred consideration	–	25
Other tax and social security taxes	3,961	4,266
Deferred revenue	11,137	9,168
	29,249	32,824

The fair value of contingent consideration was based on the present value of cash flows.

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 2017 and 30 June 2016.

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

	30 November 2017 £'000	30 June 2016 £'000
Up to 3 months	12,737	16,913
3 to 6 months	395	1,144
6 to 12 months	1,019	396
	14,151	18,453

Notes forming part of the Financial Statements (continued)
for the period ended 30 November 2017

16 Loans and borrowings

	30 November 2017 £'000	30 June 2016 £'000
Non-current		
Bank loans (secured)	6,124	8,234
Finance lease creditors (note 21)	46	38
	6,170	8,272
Current		
Bank loans (secured)	–	2,718
Finance lease creditors (note 21)	59	18
Loans from related parties (note 26)	–	640
	59	3,376
Total borrowings	6,229	11,648

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% over LIBOR	2019	See below
Finance lease creditors (note 21)	GBP	0.7%	2019	Secured

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

Maturity analysis of loans and borrowings:

	30 November 2017 £'000	30 June 2016 £'000
In less than one year	62	3,590
In more than one year but not more than two years	6,409	8,311
In more than two years but not more than five years	16	–
	6,487	11,901

16 Loans and borrowings (continued)

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 2017 of £13.63m (30 June 2016: £7.50m) 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:

	30 November 2017 £'000	30 June 2016 £'000
Pound Sterling	2,354	3,355
Euro	3,875	8,293
	6,229	11,648

17 Financial instruments

Risk management

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

- 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.

Notes forming part of the Financial Statements (continued)
for the period ended 30 November 2017

17 Financial instruments (continued)

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 £0.11m (year ended 30 June 2016: £0.06m). The loans from related parties of £0.64m were converted into equity during the period (year ended 30 June 2016: £0.64m). The fixed rate applicable on finance leases is 0.7% and on the loans from related parties was 8.5%.

Bank debt totalling £6.12m (30 June 2016: £10.95m) 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.

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 and the group's forecasts indicate that the group will remain within the set parameters.

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

17 Financial instruments (continued)

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.

	30 November 2017 £'000	30 June 2016 £'000
Total equity	69,657	73,410
Less: amounts in translation reserve	(2,186)	(1,076)
	67,471	72,334

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 0.6% movement in the interest rate to be reasonably possible as at the reporting date. The annualised effect of a 0.6% 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 6% movement in the Euro rate to be reasonably possible as at the reporting date. The effect of a 6% 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 period ended 30 November 2017

17 Financial instruments (continued)

Financial instruments by category

The carrying value of the Group's financial instruments (together with non-financial assets/liabilities for reconciling purposes) are analysed as follows:

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
Non-financial instruments	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)
Contingent consideration	15	–	–	–	–	–
Deferred consideration	15	–	–	–	–	–
Other non-derivative financial liabilities	15	–	–	(9,412)	–	(9,412)
Total liabilities		–	–	(20,380)	–	(20,380)
Net assets		28,917	98	(20,380)	–	8,635

17 Financial instruments (continued)

Financial instruments by category (continued)

As at 30 June 2016

	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	19,804	–	–	–	19,804
Other non-derivative financial assets	14	1,982	–	–	–	1,982
Non-financial instruments	14	15,466	–	–	–	15,466
Cash and cash equivalents		2,772	–	–	–	2,772
Total assets		40,024	98	–	–	40,122
Liabilities						
Borrowings:						
Current	16	–	–	(3,376)	–	(3,376)
Non-current	16	–	–	(8,272)	–	(8,272)
Trade and other payables:						
Trade payables	15	–	–	(8,192)	–	(8,192)
Contingent consideration	15	–	–	–	(912)	(912)
Deferred consideration		–	–	(25)	–	(25)
Other non-derivative financial liabilities	15	–	–	(10,262)	–	(10,262)
Total liabilities		–	–	(30,127)	(912)	(31,039)
Net assets		40,024	98	(30,127)	(912)	9,083

Notes forming part of the Financial Statements (continued)

for the period ended 30 November 2017

17 Financial instruments (continued)

Financial instruments measured at fair value

The only financial instrument that is measured subsequent to initial recognition at fair value is contingent consideration at 30 June 2016 amounting to £0.91m. There are no such financial instruments at 30 November 2017. IFRS 7 requires that these be grouped into Levels 1 to 3 based on the degree to which the fair value is observable and the contingent consideration was Level 3.

Level 3 fair value measurements:

	Contingent consideration	
	30 November 2017 £'000	30 June 2016 £'000
Opening balance	(912)	(75)
Payments	519	56
Released	–	19
On acquisition of subsidiary	–	(912)
Gain in income statement	393	–
Closing balance	–	(912)

18 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19% (30 June 2016: 20%).

The movement on net deferred tax is as shown below:

	30 November 2017 £'000	30 June 2016 £'000
At 30 June 2016	(3,330)	(2,701)
Credit to income statement	2,209	416
On business combinations	(154)	(858)
Effect of movements in foreign exchange rates	32	(187)
At 30 November 2017	(1,243)	(3,330)

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.

18 Deferred tax (continued)

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 2015	166	529	41	736
Charge (credit) to income statement	(22)	(274)	–	(296)
On business combinations	–	63	–	63
Effect of movements in foreign exchange rates	–	(80)	–	(80)
At 30 June 2016	144	238	41	423
Charge (credit) to income statement	124	622	–	746
On business combinations	–	–	–	–
Effect of movements in foreign exchange rates	–	112	–	112
At 30 November 2017	268	972	41	1,281

There are unrecognised deferred tax assets in relation to losses for which the recoverability is uncertain of £1.45m. Deferred tax assets on business combinations relate to those arising on fair value adjustments.

Deferred tax liabilities

	Other temporary differences £'000	Business combinations £'000	Total gross liabilities £'000
At 30 June 2015	(1,158)	(2,279)	(3,437)
On business combinations	–	(921)	(921)
Credit to income statement	168	544	712
Effect of movements in foreign exchange rates	–	(107)	(107)
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)

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

No deferred tax has been provided on temporary differences of £1.64m (30 June 2016: £2.08m) relating to the unremitted earnings of foreign subsidiaries.

Notes forming part of the Financial Statements (continued)
for the period ended 30 November 2017

19 Share capital

	Issued and fully paid			
	30 November 2017		30 June 2016	
	Number	£'000	Number	£'000
Ordinary shares of 25p each				
At beginning of the period	35,999,201	9,000	31,794,497	7,949
New shares issued	5,790,322	1,448	4,090,909	1,023
Warrants exercised	700,000	175	–	–
Shareholder loan converted to equity	457,142	114	–	–
Employee share options exercised	–	–	113,795	28
At end of the period	42,946,665	10,737	35,999,201	9,000

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

5,790,322 (year ended 30 June 2016: 4,090,909) ordinary shares having a nominal value of £1.45m (year ended 30 June 2016: £1.02m) were allotted during the period in respect of a placing to strengthen the Group's balance sheet and provide additional working capital. The placing during the year ended 30 June 2016 was to fund the acquisition of Retail Support International ApS ("DdD Retail"). The aggregate consideration received was £8.11m (year ended 30 June 2016: £13.5m).

700,000 ordinary shares having a nominal value of £0.18m were allotted during the period following the exercise of warrants (see below). The aggregate consideration received was £0.66m. No warrants were exercised during the year ended 30 June 2016.

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

113,795 ordinary shares having a nominal value of £0.03m were allotted during the year ended 30 June 2016 under the terms of the Company's employee share option schemes which are described in note 23. The aggregate consideration received was £0.14m. No ordinary shares were allocated under the schemes during the period ended 30 November 2017.

19 Share capital (continued)

	30 November 2017 Number	30 June 2016 Number
Own shares held	83,726	117,064

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 period ended 30 November 2017). None of these options have been exercised during either period.

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 period ended 30 November 2017

21 Leases

Finance leases

The group leases a small proportion of its office equipment and motor vehicles (net carrying value £0.09m). 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:

	30 November 2017		
	Minimum lease payments £'000	Interest £'000	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

	30 June 2016		
	Minimum lease payments £'000	Interest £'000	Present value £'000
Not later than one year	22	(4)	18
Later than one year and not later than five years	42	(4)	38
	64	(8)	56

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

	30 November 2017 £'000	30 June 2016 £'000
Current liabilities	59	38
Non-current liabilities	46	18
	105	56

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:

	30 November 2017 £'000	30 June 2016 £'000
Not later than one year	1,970	2,157
Later than one year and not later than five years	4,742	2,785
Later than five years	599	650
	7,311	5,592

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 period to 30 November 2017 are £2.46m (year ended 30 June 2016: £1.56m).

23 Share-based payments

As disclosed in note 19, K3 Business Technology Group plc operates an equity-settled share-based remuneration scheme for employees: an Executive Share Option Scheme 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 target growth in adjusted earnings per share, i.e. adjusted for amortisation of acquired intangibles, cost of share-based payments and exceptional items and with the tax charge being 30% of the operating profit so adjusted. 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.

	30 November 2017		30 June 2016	
	Weighted average exercise price (pence)	Options (number)	Weighted average exercise price (pence)	Options (number)
Outstanding at beginning of the period	295.50	217,497	118.80	131,080
Granted during the period	–	–	295.50	217,497
Exercised during the period	–	–	118.80	(113,795)
Lapsed during the period	–	(75,786)	–	(17,285)
Outstanding at the end of the period	295.50	141,711	295.50	217,497

The exercise price of options outstanding at the end of the period was 295.5p (30 June 2016: 295.5p) and their weighted average contractual life was 3.85 years (30 June 2016: 3.85 years).

	17 months ended 30 November 2017 £'000	Year ended 30 June 2016 £'000
The share-based remuneration expense (note 4) comprises:		
Equity-settled schemes	67	28

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

Notes forming part of the Financial Statements (continued)
for the period ended 30 November 2017

24 Acquisitions

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. These have been updated from the provisional fair values included in events after the balance sheet date in the financial statements at 30 June 2016 as, during the measurement period of twelve months following the date of acquisition, the value of intangible assets has been reassessed (an increase of £0.55m), together with the consequent impact on the deferred tax liabilities (an increase of £0.11m).

	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.

In the period to 30 November 2017 Merac contributed £1.29m revenue and £0.37m to the group's profit, which is on an annualised basis as the acquisition was on the first day of the financial period.

25 Acquisitions of the prior period

Retail Support International ApS ("DdD Retail")

On 29 April 2016 the group acquired 100% of the issued share capital of Retail Support International Aps, known as DdD Retail. DdD Retail provides a proprietary combined point of sale ("PoS") software/hardware solution, focusing on the fashion retail industry. The initial consideration was €8.6m (£6.7m) satisfied on completion in cash. Based on managements' best estimate at the date of acquisition, contingent consideration of €1.1m (£0.9m) was payable. The final amount paid in May 2017 was €0.60m (£0.47m) with the excess of £0.39m released to the income statement and included in exceptional income.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below. These have been updated from the provisional fair values included in the financial statements at 30 June 2016 as, during the measurement period of twelve months following the date of acquisition, the value of intangible assets has been reassessed (a reduction of €0.62m (£0.48m), together with the consequent impact on the deferred tax liabilities (a reduction of €0.12m (£0.10m). In addition a liability of €0.54m (£0.48m) has been recognised which had not previously been identified in the provisional values.

	Fair value £'000
Assets	
Tangible fixed assets	15
Other intangible assets	4,185
Trade receivables	667
Other current assets	205
Cash and cash equivalents	345
Liabilities	
Trade and other payables	(1,435)
Deferred tax liabilities	(824)
Net assets	3,158
Consideration	
Initial cash consideration	6,721
Contingent cash consideration	863
	7,584
Goodwill	4,426
Acquisition costs to be charged to the income statement	292
Net cash outflow arising on acquisition	
Cash consideration	6,721
Contingent consideration paid	470
Less cash and cash equivalent balances acquired	(345)
	6,846

The cash consideration of €0.10m (£0.08m) was refunded during the period by the sellers due to an adjustment regarding working capital at the date of acquisition and €0.45m (£0.39m) of the contingent consideration was repaid to the company from the amount paid into escrow at the date of acquisition.

The intangible assets recognised in the adjustments relate to customer relationships and IP. £0.70m 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.

Notes forming part of the Financial Statements (continued)

for the period ended 30 November 2017

26 Related party transactions

Details of directors and key management compensation are given in the Remuneration Report on pages 26 and 27 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:

Included within other loans due to related parties at 30 June 2016 were loans of £0.64m from CA Fastigheter AB, a company connected with Mr PJ Claesson, a director of the Company. No repayments have been made during the current or previous period and interest was charged at 8.5% per annum. The loan was converted into 457,142 ordinary shares on 4 July 2017. 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.

27 Events after the reporting date

In March 2018 the Board announced a proposed dividend of 1.4p per share to shareholders on the record on 18 May 2018. Subject to shareholder approval at the forthcoming annual general meeting the dividend will be paid on 15 June 2018.

28 Notes to the cash flow statement

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:

	17 months ended 30 November 2017 £'000	Year ended 30 June 2016 £'000
Cash generated from operating activities	5,954	5,502
Add:		
Exceptional reorganisation costs	4,731	1,046
Acquisition costs	308	300
Release of contingent consideration	(393)	–
Adjusted cash generated from operations	10,600	6,848

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

	17 months ended 30 November 2017 £'000	Year ended 30 June 2016 £'000
Initial consideration	(1,506)	(6,802)
Cash balances acquired	324	345
Contingent consideration repaid from/(paid into) escrow	393	(863)
Contingent and deferred consideration	(200)	(81)
	(989)	(7,401)

Cash and cash equivalents comprise:

	30 November 2017 £'000	30 June 2016 £'000
Cash available on demand	1,941	2,772

Notes forming part of the Financial Statements (continued)

for the period ended 30 November 2017

29 Notes to the Strategic Report

*1 Group adjusted loss from operations is calculated before amortisation of acquired intangibles of £3.93m (2016: £2.73m), exceptional reorganisation costs of £4.73m (2016: £1.05m), exceptional impairment of development costs of £4.54m (2016: £nil), acquisition costs of £0.31m (2016: £0.49m) and release of contingent consideration of £0.39m (2016: £nil).

*2 Group adjusted loss per share is calculated before amortisation of acquired intangibles (net of tax) of £3.04m (2016: £2.19m), exceptional reorganisation costs (net of tax) of £3.83m (2016: £0.84m), exceptional impairment of development costs £3.68m (2016: £nil), acquisition costs (net of tax) of £0.31m (2016: £0.49m) and release of contingent consideration (net of tax) of £0.39m (2016: £nil).

*3 Own IP adjusted profit from operations is calculated before amortisation of acquired intangibles of £1.83m (2016: £0.44m), exceptional reorganisation costs of £0.25m (2016: £0.02m), exceptional impairment of development costs of £1.59m (2016: £nil), acquisition costs of £nil (2016: £0.29m), and release of contingent consideration of £0.39m (2016: £nil).

*4 Supply Chain Solutions & Managed Services adjusted loss from operations is calculated before amortisation of acquired intangibles of £2.10m (2016: £2.30m), exceptional reorganisation costs of £2.93m (2016: £0.92m), and exceptional impairment of development costs of £2.95m (2016: £nil).

*5 Head office costs are calculated before exceptional reorganisation costs of £1.56m (2016: £0.11m) and acquisition costs of £0.31m (2016: £0.20m).

Company Balance Sheet
as at 30 November 2017

Registered number: 2641001

	Notes	30 November 2017 £'000	30 June 2016 £'000
Fixed assets			
Tangible assets	4	387	52
Investments	5	40,755	40,755
		41,142	40,807
Current assets			
Debtors	6	44,684	30,075
Cash at bank and in hand		1,491	1
		46,175	30,076
Creditors: Amounts falling due within one year	7	(13,656)	(5,937)
Net current assets		32,519	24,139
Total assets less current liabilities		73,661	64,946
Creditors: Amounts falling due after more than one year	8	(6,124)	(8,234)
Provisions for liabilities and charges	9	–	–
Net assets		67,537	56,712
Capital and reserves			
Called-up share capital	10	10,737	9,000
Share premium account		28,897	21,586
Other reserve		10,324	10,324
Profit and loss account		17,579	15,802
Equity shareholders' funds		67,537	56,712

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 £2,318,000 (year ended 30 June 2016: £1,068,000).

The financial statements on pages 87 to 96 were approved and authorised for issue by the board of directors on 26 March 2018 and signed on its behalf by:

RD Price
Director

The notes on pages 89 to 96 form part of these financial statements.

Company Statement of Changes in Equity
for the period ended 30 November 2017

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
At 30 June 2015	7,949	9,462	10,324	15,170	42,905
Changes in equity for year ended 30 June 2016					
Profit for the year	–	–	–	1,068	1,068
Total comprehensive income	–	–	–	1,068	1,068
Share-based payment credit	–	–	–	28	28
Options exercised	28	107	–	–	135
Issues of new shares	1,023	12,017	–	–	13,040
Movement in own shares held	–	–	–	13	13
Dividends paid to equity holders	–	–	–	(477)	(477)
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

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 83,726 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 was £137,000.

Notes forming part of the Company Financial Statements
for the period ended 30 November 2017

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 42 to 49. They have all been applied consistently throughout the current period and the preceding year.

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 and derivative financial instruments at fair value through profit or loss. 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.

Notes forming part of the Company Financial Statements (continued)
for the period ended 30 November 2017

2 Staff numbers

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

	17 months ended 30 November 2017 Number	Year ended 30 June 2016 Number
Consultants and programmers	–	–
Sales and distribution	–	–
Administration	17	15
	17	15

Their aggregate remuneration comprised:

	17 months ended 30 November 2017 £'000	Year ended 30 June 2016 £'000
Wages and salaries	3,051	1,860
Social security costs	349	175
Other pension costs (see note 12)	233	70
Share-based payment costs	67	28
Short term non-monetary benefits	243	150
	3,943	2,283

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 26 and 27.

4 Tangible fixed assets

	Plant, office equipment and fixtures £'000
Cost	
At 1 July 2016	107
Additions	355
Disposals	(33)
At 30 November 2017	429
Depreciation	
At 1 July 2016	55
Charge for the period	20
Disposals	(33)
At 30 November 2017	42
Net book value	
At 30 November 2017	387
At 30 June 2016	52

Notes forming part of the Company Financial Statements (continued)
for the period ended 30 November 2017

5 Fixed asset investments

	30 November 2017 £'000	30 June 2016 £'000
Subsidiary undertakings	40,755	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 investments £'000	Loans £'000	Total £'000
Cost			
At 1 July 2016 and 30 November 2017	16,731	24,722	41,453
Amounts written off			
At 1 July 2016 and 30 November 2017	698	–	698
Net book value			
At 30 November 2017	16,033	24,722	40,755
At 30 June 2016	16,033	24,722	40,755

Loans of £24,722,000 due from subsidiary undertakings are considered to be permanent equity.

6 Debtors

	30 November 2017 £'000	30 June 2016 £'000
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	43,790	28,306
Other debtors	327	765
Corporation tax	507	783
Deferred tax (see note 9)	25	21
Prepayments and accrued income	35	199
	44,684	30,075

Interest is charged on amount owed by subsidiary undertakings at 3.8% which is deemed to be a market rate.

7 Creditors: Amounts falling due within one year

	30 November 2017 £'000	30 June 2016 £'000
Bank loans and overdrafts	–	2,741
Other loans due to related parties (note 13)	–	640
Trade creditors	269	97
Amounts owed to subsidiary undertakings	12,392	1,582
Taxation and social security	45	51
Other creditors	472	379
Accruals	478	447
	13,656	5,937

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 3.8% which is deemed to be a market rate.

Notes forming part of the Company Financial Statements (continued)
for the period ended 30 November 2017

8 Creditors: Amounts falling due after more than one year

	30 November 2017 £'000	30 June 2016 £'000
Bank loans	6,124	8,234

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

	30 November 2017 £'000	30 June 2016 £'000
Bank overdrafts		
On demand or within one year	–	23
Bank loans		
Between one and two years	6,124	8,234
Between two and five years	–	–
	6,124	8,234
On demand or within one year	–	2,718
	6,124	10,952
Other loans due to related parties		
On demand or within one year	–	640

9 Deferred taxation

	30 November 2017 £'000	30 June 2016 £'000
Accelerated capital allowances	(3)	(9)
Other timing differences	28	30
Deferred tax asset	25	21

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

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

	Accelerated capital allowances £'000	Other timing differences £'000	Total £'000
At 1 July 2016	(9)	30	21
Charged to profit and loss	6	(2)	4
At 30 November 2017	(3)	28	25

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 period ended 30 November 2017

10 Called-up share capital

	30 November 2017 £'000	30 June 2016 £'000
Allotted, called-up and fully-paid		
42,946,665 ordinary shares of 25p each (2016: 35,999,201)	10,737	9,000

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: an Executive Share Option Scheme 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 period amounted to £233,000 (year ended 30 June 2016: £70,000).

13 Related party transactions

Related party transactions are disclosed in note 26 to the consolidated financial statements. There were no other transactions with related parties during the period.

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 £6,124,000.

Unaudited Five Year Summary

	17 months ended 30 November 2017 £'000	2016 £'000	12 months ended 30 June 2015 £'000	2014 £'000	2013 £'000
Revenue	118,176	89,175	83,427	71,950	63,513
Adjusted (loss)/profit from operations*1	(1,666)	9,501	8,151	7,301	5,094
(Loss)/profit from operations	(14,783)	5,229	4,805	2,590	1,185
(Loss)/profit before tax	(16,143)	4,528	3,879	1,885	462
(Loss)/profit after tax	(13,370)	4,103	3,443	2,560	1,242
Adjusted basic (loss)/earnings per share*2 (pence)	(7.7)	23.5	19.4	18.6	14.0
Basic (loss)/earnings per share (pence)	(35.3)	12.6	10.9	8.2	4.3
Cash and cash equivalents	1,941	2,772	1,895	(2,997)	(833)
Gross debt*3	6,229	11,648	13,974	14,275	14,083
Net debt*4	4,288	8,876	12,079	13,628	13,811
Adjusted cashflow from operations*5	10,600	6,848	9,911	7,074	8,659
Net cashflow from operations	5,954	5,502	9,600	5,352	8,022

*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 28 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 Company's offices at Baltimore House, 50 Kansas Avenue, Manchester M50 2GL on Wednesday 30 May 2018 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 9 will be proposed as ordinary resolutions and resolutions 10 and 11 will be proposed as special resolutions.

Ordinary Business

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 period ended 30 November 2017.
2. To re-elect Mr PJ Claesson as a director of the Company in accordance with Article 96 of the articles of association.
3. To elect Mr S Darling as a director of the Company, who was appointed by the Board since the last annual general meeting.
4. To elect Mr RD Price as a director of the Company, who was appointed by the Board since the last annual general meeting.
5. 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.
6. To authorise the directors of the Company to determine the auditor's remuneration.
7. To declare a final dividend for the period ended 30 November 2017 of 1.4p per ordinary share of 25 pence each in the issued share capital of the Company.
8. 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.

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

Disapplication of pre-emption rights

9. That subject to and conditional on the passing of resolution 8 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 8 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:

9.1 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

9.2 otherwise than pursuant to sub-paragraph 9.1 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)

Special Business

Authority to Repurchase Ordinary Shares

10. 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 2019 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.

Adoption of new Articles of Association

11. That the articles of association in the form produced at the meeting and initialled by the Chairman of the meeting for the purposes of identification be adopted as the new articles of association of the Company in substitution for, and to the exclusion of, the existing articles of association.

Registered Office

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

Dated 26 April 2018

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 11 to 25 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 period ended 30 November 2017 together with the Director's and Auditor's reports on such accounts.
2. Resolution 2 – In compliance with Article 95 of the Company's current articles of association one-third of the Directors are required to retire at the 2018 annual general meeting. Accordingly, Mr PJ Claesson will retire at the 2018 annual general meeting. He will offer himself for re-election as a Director at the 2018 annual general meeting and he is recommended by the Board for re-election. Mr PJ Claesson was originally appointed as a non-executive director of the Company in March 2001. Biographical details of Mr PJ Claesson are set out on page 30 to the financial statements.
3. Resolution 3 – In compliance with Article 94 of the Company's current articles of association any Director appointed since the previous annual general meeting shall hold office only until the next following annual general meeting, and shall then be eligible for election. Mr S Darling was appointed by the Board as a non-executive director of the Company on 3 April 2017 and subsequently appointed as Interim Chairman in July 2017 and permanent chairman in December 2017. Biographical details of Mr S Darling are set out on page 30 to the financial statements.
4. Resolution 4 – In compliance with Article 94 of the Company's current articles of association any Director appointed since the previous annual general meeting shall hold office only until the next following annual general meeting, and shall then be eligible for election. Mr RD Price was appointed by the Board as a director of the Company on 5 July 2017. Biographical details of Mr RD Price are set out on page 30 to the financial statements.
5. Resolutions 5 and 6 – 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 5 reappoints BDO LLP as the Auditor of the Company and Resolution 6 authorises the Directors to fix their remuneration.
6. Resolution 7 – Members are being asked to approve a final dividend of 1.4 pence for each ordinary share of 25 pence in the capital of the Company in respect of the financial period ended 30 November 2017. If approved by the shareholders of the Company, the dividend will be paid on 15 June 2018 to all holders of ordinary shares on the register of members at the close of business on 18 May 2018. The payment of a dividend requires approval of the shareholders and that approval is sought in Resolution 7.
7. Resolution 8 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 26 April 2018 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)

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

8. Resolution 9 would empower the directors pursuant to the authority to allot granted by resolution 8 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 9.1 and 9.2 of that resolution. Sub-paragraph 9.1 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 9.2 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).

9. Resolution 10 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 2019 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).

10. Resolution 11 proposes the adoption of new articles of association in substitution for the Company's existing articles of association. The differences between the new and current articles of association primarily reflect the provisions of the Act. The Board have reviewed the Company's current articles of association and in light of the full implementation of the Act have, as a result, decided to adopt a new set of articles of association (the "New Articles").

    An explanation of the main differences between the New Articles and the current articles is set out in Appendix I of this document. Other changes, which are of a minor, technical or clarifying nature have not been noted in Appendix I.

    A copy of the Company's existing articles of association and the New Articles will be available for inspection during normal business hours (excluding Saturdays, Sundays and bank holidays) at the Company's registered office from the date of this notice of meeting until the close of the meeting. The proposed New Articles will also be available for inspection at the annual general meeting at least 15 minutes prior to the start of the meeting and up until the close of the meeting.

Notes to the Notice of Annual General Meeting

Entitlement to attend and vote

11. 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.

12. The Company specifies that only those members registered on the Company's register of members at:
    - close of business on 28 May 2018; 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.

Issues shares and total voting rights

13. As at close of business on 26 April 2018, 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 26 April 2018 is 42,946,665.

Documents on display

14. 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 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.
    - A copy of the proposed New Articles, together with a copy of the existing articles of association of the Company.

Appointment of proxies

15. If you are a member of the Company at the time set out in note 12 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.

16. 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.

Notice of Annual General Meeting (continued)

Notes to the Notice of Annual General Meeting (continued)

17. 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.

18. 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 19).
    - Register their proxy appointment electronically (see note 20).
    - If a CREST member register their proxy appointment by utilising the CREST electronic proxy appointment service (see note 21).

Appointment of proxy using hard copy proxy form

19. 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 28 May 2018.

    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

20. 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 28 May 2018.

Notes to the Notice of Annual General Meeting (continued)

CREST proxy voting (uncertificated shareholders)

21. (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

22. 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)

Notes to the Notice of Annual General Meeting (continued)

Changing proxy instructions

23. 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

24. 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 28 May 2018.

    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

25. 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.

Appendix I

EXPLANATORY NOTES OF THE PRINCIPAL DIFFERENCES BETWEEN THE PROPOSED NEW ARTICLES OF ASSOCIATION AND THE COMPANY'S CURRENT ARTICLES OF ASSOCIATION

The Company's objects

The provisions regulating the operations of the Company are currently set out in the Company's memorandum and articles of association. The Company's memorandum contains, among other things, an objects clause which sets out the scope of the activities the Company is authorised to undertake. This is drafted to give a wide scope.

The Companies Act 2006 (the "Act") significantly reduces the constitutional significance of a company's memorandum. The Act provides that the memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the company. Under the Act the majority of the previous provisions of the memorandum, most notably the objects clause, are deemed to be a part of the company's articles of association.

Furthermore the Act states that, unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have an objects clause. For this reason the Company is proposing to remove its objects clause (together with all other provisions of its memorandum which, by virtue of the Act, are treated as forming part of the Company's articles of association). This will be achieved by the adoption of the New Articles which contain no such provisions other than a statement regarding the limited liability of shareholders (see Article 2.1).

Authorised share capital and unissued shares

The Act removed the concept of authorised share capital. As with the objects clause, the statement of authorised share capital previously contained in a company's memorandum of association is deemed to be a provision of the company's articles of association (and takes effect as setting out the maximum number of shares that may be allotted by the company). The adoption of the New Articles will have the effect of removing this provision.

Authority to purchase own shares, consolidate and sub-divide shares, and reduce share capital (Former Articles 43 to 47)

Under the Companies Act 1985, a company required specific enabling provisions in its articles to purchase its own shares, to consolidate or sub-divide its shares and to reduce its share capital or other distributable reserves as well as shareholder authority to undertake the relevant action. Such provisions are included in the current Articles. Under the Act, a company only requires shareholder authority to do any of these things and it is no longer necessary for the articles to contain enabling provisions. Accordingly, the relevant enabling provisions have been removed in the New Articles.

Uncertificated Shares (Article 7)

The Uncertificated Securities Regulations 2001 provide that issuers may allow securities issued by them to be held in uncertificated form and transferred by means of a computer-based system (referred to in the Regulations as a "relevant system"). Amendments have been made to the New Articles to reflect that shares can be held in uncertificated form (see Articles 7 and 19).

Notice of Annual General Meeting (continued)

Appendix I (continued)

Electronic shareholder communication and participation

The Companies Act 2006, as amended by the Companies (Shareholders' Rights) Regulations 2009, contains additional provisions relating to electronic shareholder communication and participation. Some minor amendments have been made in accordance with best practice in light of these (see Article 15).

Remuneration of Directors (Former Article 103)

The articles dealing with the remuneration of the Directors have been amended to reflect that the Directors (other than any Director who for the time being holds an executive office or employment with the Company or a subsidiary of the Company) shall not receive in aggregate more than £200,000 per annum to increase annually by an amount equal to any increase in the UK retail price index ("RPI") (see Article 21).

Borrowing Powers (Former Article 80)

The articles dealing with the borrowing powers of the Company have been amended to reflect that Directors shall restrict the borrowings of the Company and its subsidiary undertakings to a borrowing limited to two times the aggregate of the Company's paid up share capital and reserves (adjusted as may be necessary in respect of any variation in the paid up share capital or reserves of the Company since the date of its latest audited balance sheet) in respect of all other borrowings, save where sanctioned by an ordinary resolution of the Company in general meeting (see Article 29).

Directors' interests (Article 31)

The articles dealing with directors' conflicts of interest have been amended in line with market practice. Under the New Articles certain conflicts of interest do not need to be authorised. Generally, the nature and extent of any conflict of interest must be disclosed before it can be authorised or before it is permitted without being authorised but the New Articles provide for some situations in which disclosure is not required where knowledge can be presumed and disclosure is unlikely to be necessary.

General

Generally, the opportunity has been taken to bring some clearer language into the New Articles and in some areas to conform the language of the New Articles with that used in the model articles for public companies.

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.

K3 Business Technology Group plc
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