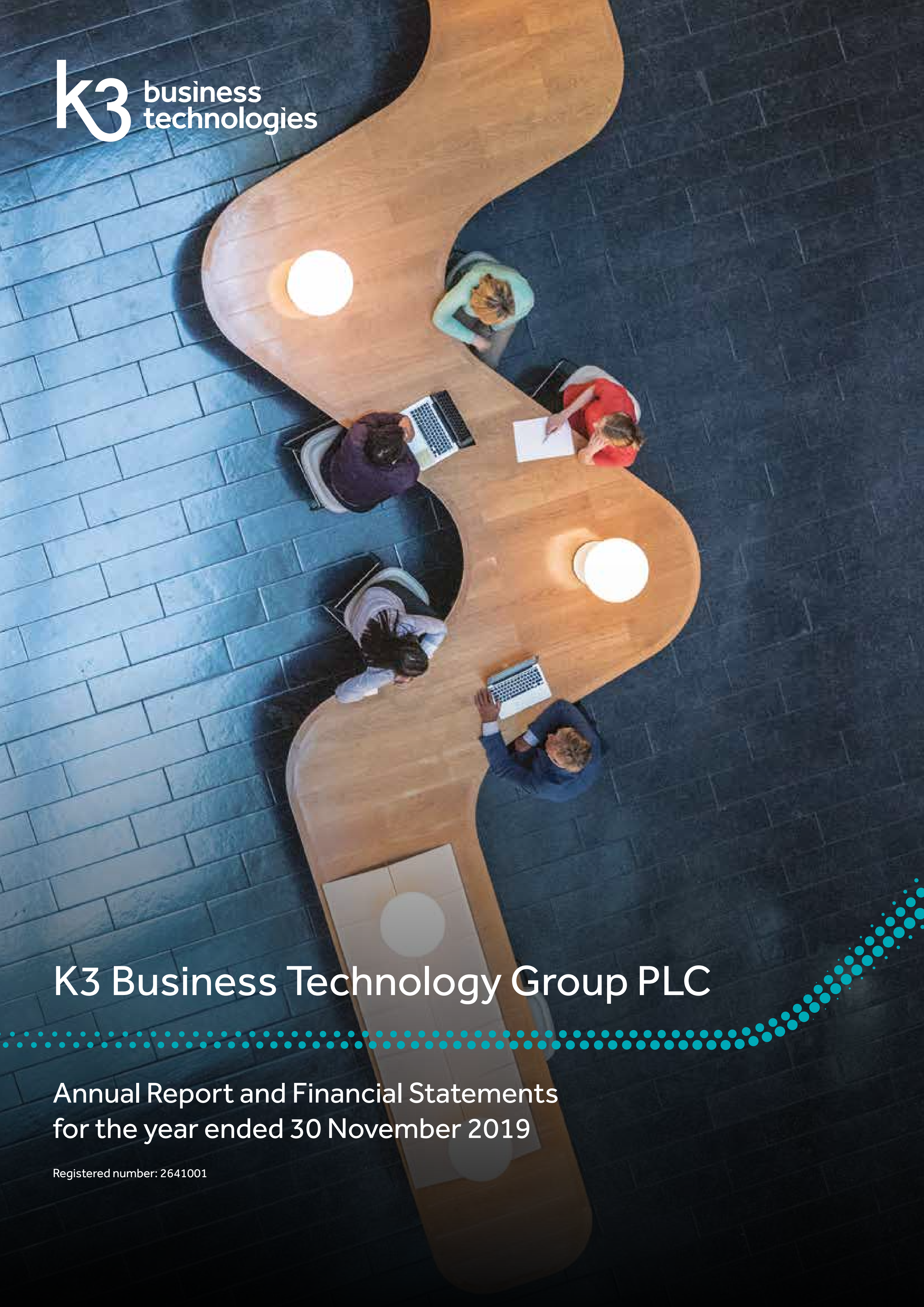

k3 business technologies

K3 Business Technology Group PLC

Annual Report and Financial Statements for the year ended 30 November 2019

Registered number: 2641001

K3 Business Technology Group plc

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

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

AIM: KBT

k3btg.com

FSC MIX FSC® C144589

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K3 Business Technology Group plc Company Registration No. 2641001

Overview

Highlights

Summary

- Results were impacted by weak trading conditions and expected high margin licence orders not coming through
- Post year end, additional funds of £6.0m were raised and the loss-making UK Dynamics practice (which generated £21m of revenues and an operating loss of £3m in the year) was placed into administration
- Results include £12.2m impairment charge relating to UK Dynamics
- The Board believes that Group has the operations and financial capacity to weather the coronavirus crisis and view prospects positively beyond the current period of uncertainty

Financial

	12 months to 30 November 2019	12 months to 30 November 2018
Revenue	£78.4m	£83.3m
– recurring revenue as a % of total*5	66.7%	60.1%
– annual contracted revenues as a % of total*4	69.5%	63.5%
– own IP revenue as a % of total	26.6%	28.7%
Gross margin	51.1%	52.7%
Adjusted EBITDA*9	£7.2m	£8.1m
Adjusted profit from operations*1	£1.8m	£4.6m
Reported (loss)/profit from operations	£(13.7)m	£0.7m
Adjusted profit before tax*2	£0.9m	£4.0m
Reported (loss)/profit before tax	£(14.5)m	£0.0m
Adjusted (loss)/earnings per share*3	(6.6)p	6.8p
Reported earnings per share	(36.1)p	(1.1)p
Net cash generated from operating activities	£5.5m	£7.8m
Net debt*6	£(2.4)m	£0.6m

- High level of recurring income, £52.2m including contracted revenues (2018: £50.0m)
- Margin from own IP product sales was 74.2% against 42.1% from third party product sales
- Reported loss before tax is after an impairment charge of £12.2m
- Cash balances (net of overdraft) at 30 June 2020 of £8.9m and historically strong cash inflows in H2 from licence fee and maintenance contract renewals

**See note 31 on page 107 for further details*

Operational

- Cornerstone own IP products are gaining traction:
  - K3|imagine generated first full year revenue of £0.3m and secured £0.6m of contracts. Post year end, £0.8m of contracts were signed and current new business pipeline for FY2020 is £4m and a further £10m in FY2021
  - K3|dataswitch in second year as a stand-alone product generated £0.7m of revenue
  - Global endorsement from Microsoft for K3Ifashion as the recommended fashion and apparel 'bolt-on' product for Dynamics365F&O
- SYSPRO business continued to generate strong cash flows and delivered good results
- Global Accounts unit grew strongly with further expansion in Far East
- Further organisational simplification; Group is now structurally more efficient

Coronavirus

- The Board's priority is the welfare and safety of staff and partners and to safely navigate the current crisis
- Measures have been put in place to conserve cash and reduce costs, including furlough, tax deferral schemes and further efficiency programmes

Current Trading

- Board believes that the Group is financially and operationally positioned to navigate the current coronavirus crisis
- £6m of additional funding in April 2020 from shareholder loans and increased bank facilities
- Under-performing UK Dynamics practice was placed into administration in April 2020
- Weaker trading condition in retail sector
- IKEA franchisee customer base is performing well and ahead of expectations
- K3|fashion deals continue to close with 6 in FY2020 to date totalling £1.0m
- Maintenance and Support revenues excluding UK Dynamics are in line with expectations

Adalsteinn Valdimarsson, Chief Executive Officer of K3, commented:

"Results show the impact of certain expected high-margin orders not coming through as well as weaker trading conditions. Nonetheless, over the year, we continued to make progress with our own-IP product offering, building out our cornerstone products, K3|imagine and K3|dataswitch, and seeing a first full year's contribution from K3|imagine. K3|fashion, our product aimed at large enterprises, was also named by Microsoft as its recommended Dynamics 'bolt-on' for fashion and apparel globally.

"The global coronavirus pandemic has now overtaken events and the Company's priority is the welfare of its employees and supporting customers and partners during the disruption. The Board has taken swift action to conserve cash and reduce costs, and has also improved the Company's liquidity by securing additional cash funding of £6.0m through loans from major shareholders and Barclays Bank.

"While it was a difficult decision in April to place the loss-making UK Dynamics subsidiary into administration, this now leaves the Group wholly focused on its core profitable business units.

"We are confident that K3 has the financial and operational capacity to weather the current challenges created by the coronavirus pandemic and we remain positive about K3's growth prospects beyond the crisis. We have a stable cash generative business and believe that our own IP products can create significant value."

At a Glance

K3 is a leading provider of mission-critical software solutions based on own IP and third party solutions. Our customer base is large, comprising around 3,400 companies in the UK, in Europe, the Far East and the USA. Once installed, our solutions typically generate high levels of recurring revenues through annual software licence renewals, support contracts and hosting, and customer relationships are very long, something we promote through high service levels. This also creates the opportunity for us to upgrade and offer additional products and solutions.

Own IP

K3's own IP is a cornerstone of the business and differentiates us in the market. It 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 K3|imagine – a cloud-native, ERP agnostic platform and library of scalable apps that easily integrate into any existing infrastructure. This is a key enabler for our strategic future growth in the rapidly changing business applications landscape and enables us to design and develop relevant and value-adding solutions for our customers.

Our Customers

MAKE

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

MOVE

- OPTIMISE MY WAREHOUSE OPERATIONS
- CUSTOMISED REPLENISHMENT

SELL

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

Our Solutions

k3 business technologies

SOFTWARE

OWN PRODUCTS

AND/OR

OWN PRODUCTS

3RD PARTY

+ PROFESSIONAL SERVICES

+ HOSTING & MANAGED SERVICES

INSIGHT
CONTROL
AGILITY
PRODUCTIVITY

Routes to Market

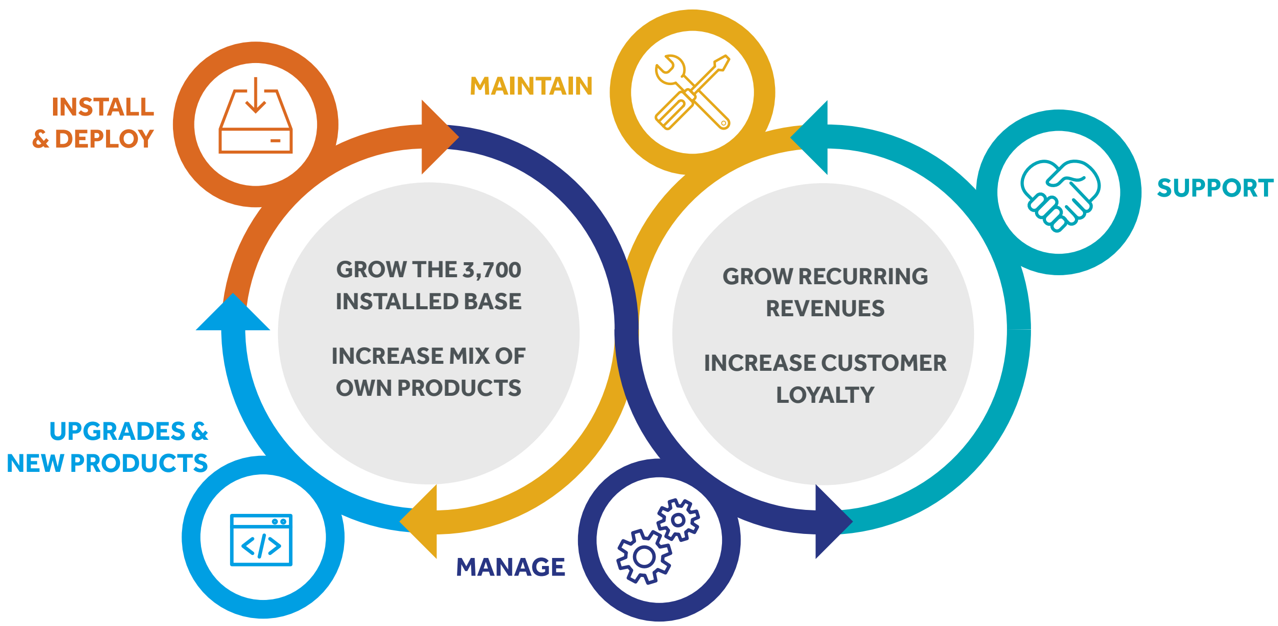
In the UK & Ireland we provide end-to-end solutions and services for customers in supply chain driven industries. This includes the ERP platforms from Microsoft, SYSPRO and Sage, as well as 3rd party applications for specific verticals in combination with our own IP. We offer our customers the choice 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 implementation and support services.

Our Revenue Streams



SOFTWARE
HARDWARE
PROFESSIONAL SERVICES

SUPPORT
MAINTENANCE
MANAGED SERVICES

Strategic Report

Chairman's and Chief Executive's Statement

Overview

Results for the year show the impact of weaker trading conditions, with customers generally more cautious about expenditure decisions. Specifically, as we reported in October 2019, several customer orders that we were expecting, including a major new contract and follow-on software licences, did not come through, and in addition a large customer entered administration. The majority of this lost revenue opportunity was for products based on our own intellectual property ("IP"), where blended margins are close to 75% (compared with third-party product sales where blended margins are about 42%), although services income was also affected.

Total revenue was 5.8% down year-on-year at £78.4m (2018: £83.3), adjusted EBITDA was £7.2m (2018: £8.1m) and adjusted profit from operations *1 decreased to £1.8m (2019: £4.6m), showing the effect of the shortfall in own IP sales, the weak performance of the UK Dynamics practice and the adoption of IFRS 16, which increased depreciation charges. The adoption of IFRS 15 increased revenue by £0.3m, which had been partially recognised in 2018.

*See note 31 on page 107 for further details

While these results were disappointing, we made progress operationally and with product development. During the year, we further streamlined our organisational model. This will help to generate efficiencies, strengthen sales and improve the customer experience. We also continued to invest in increasing the sales of our own IP, focusing in particular on K3|imagine, our cutting-edge, cloud-native product launched at the end of the last financial year. We see K3|imagine as a cornerstone product for the Group as we increase own IP sales within our overall offering.

In the second half of the year, Microsoft named K3|fashion as its recommended solution for the fashion and apparel market globally. This endorsement is a valuable validation of our solution, which while based on Microsoft technology is powered by K3 IP. It should also assist with sales through our global channel partner network.

In light of UK Dynamic's performance and our strategic focus on own IP product sales, in early 2020, we commenced a process to review options for our loss-making UK Dynamics reseller subsidiary, including the potential sale of the business. The subsidiary generated an adjusted operating loss of £3.0m and turnover of £21.0m in the year under review and it was determined the Group could no longer support these losses. An impairment charge was taken on the assets and, on the 21 April 2020, the Directors of K3 Business Technologies Ltd (the UK Dynamics reseller subsidiary) put the company into administration. While this was a difficult decision to take, it has left K3 with a clear focus on growing its profitable core business units, especially our flagship K3|imagine product.

At the same time, events in the new financial year have been subsequently overtaken by the spread of the coronavirus across the globe. National governments' measures to contain its spread, including 'lockdowns', have caused considerable economic and social disruption. We reacted swiftly to take action to ensure the welfare of our employees, and to conserve cash and manage the Group through the crisis as prudently as possible. In April 2020, we raised an additional £6.0m of cash and, having completed a series of assessments, we believe that K3 has adequate resources to navigate current uncertainties. Further comment on this is provided in this report.

Financial Results

Group revenue for the year ended 30 November 2019 totalled £78.4m (2018: £83.3m). K3 IP generated approximately 26% of this total at £20.9m, down 13% on the prior year (2018: £23.9m), mainly reflecting the reduced level of major new contracts wins/software licence orders. Third-party product sales, which made up the balance, were 3% down year-on-year at £57.5m (2018: £59.4m). The adoption of IFRS 15 increased revenue by £0.3m, which had been partially recognised in 2018. The adoption of IFRS 9 resulted in a reduction of net assets at 1 December 2018 of £0.8m.

Recurring revenue continued to increase up 4% to £52.2m (2018: £50.0m), representing 67% of Group revenue (2018: 60%). Including software term contracts recognised in the year, the Group's base of annual contracted revenue comprised 69% of Group revenue (2018: 64%).

Revenue from non-UK markets comprised 46% of total Group revenue (2018: 44.0%) and we expect it to grow, mainly driven by the own IP sales, including via our channel partner network, and from our Global Accounts unit. K3's revenue exposure to the UK high street fashion and apparel market is £5.4m (2018: £7.2m) equivalent to 6.9% of total revenue (2018: 8.6%). The vast majority of this relates to the UK Dynamics business, which is no longer part of the Group.

Group gross profit reduced by 9% to £40.0m (2018: £43.8m), with the contribution from K3 IP down 9% at £15.5m (2018: £17.0m) and third-party products down 10% to £24.2m (2018: £26.9m). K3 IP blended gross margin increased to 74.1% (2018: 71.4%), reflecting the mix of products sold. Third-party products blended gross margin reduced to 42.0% (2018: 45.3%). As a result, the overall Group margin reduced to 51.1% (2018: 52.7%) with the main reasons for the reduction being lower revenue recognition on K3|fashion deals and reduced Services utilisation and chargeability in a soft UK market.

After overheads of £38.2m (2018: £39.2m), adjusted profit from operations[*1] decreased to £1.8m (2018: £4.6m). This decline was driven by lower sales caused by Brexit softness and slippage on some new own IP deals. The adoption of the IFRS 16 in the year meant that £0.3m of cost classified as overheads in FY2018 was classified as interest in FY2019, and FY2019 included £1.7m of depreciation. For comparison purposes if IFRS 16 had not been adopted in 2019 adjusted operating profit would have been £2.1m with an operating lease charge of £1.9m after adjusting for depreciation of £1.7m.

After exceptional reorganisation costs of £0.5m (2018: £1.4m), amortisation of acquired intangibles of £2.5m (2018: £2.5m), impairment of £12.2m (2018: £nil), a customer settlement provision of £0.4m (2018: £nil) and a share-based payment credit of £0.1m (2018: charge £0.1m), the loss from operations was £(13.7)m (2018: profit from operations of £0.7m). The share-based payment charge related to the share options granted during the current and prior financial years, and as the amount can fluctuate significantly from year to year, the Board considers it useful to adjust for it.

Adjusted loss per share[*3] was (6.6)p (2018: adjusted earnings per share[*3] of 6.8p as restated), and the basic loss per share was (36.1)p (2018: loss per share of 1.1p).

Balance Sheet and Cash Generation

As expected, at the end of the financial year, net debt stood at £2.4m (30 November 2018: net debt of £0.6m) driven by lower EBITDA and increased development expenditure on K3|imagine. As at 30 June 2020, Net Bank Debt was £3.9m comprising £12.7m of cash, £3.8m of overdraft and £12.8m of drawn facilities.

The UK Dynamics subsidiary was impaired by £12.2m across intangibles and non-current assets. Net working capital was £(4.3)m (2018: £(1.4)m) driven by lower multi-year deals, better credit management and lower revenue.

The adoption of IFRS 16 in the year has impacted comparability with 2018. The adoption has increased "cash generated from operations" by £1.7m due to the depreciation add back and increased cash outflows of "cash flows from financing activities" by £1.5m. In 2018 all operating leases outflows were included in "cash generated from operating activities".

In August 2019, we extended our banking facilities to March 2021 and in the new financial year, in April 2020, we raised £6.0m of additional funding.

See note 31 on page 107 for further details

Dividend and AGM

Given the impact of the coronavirus crisis, the Board believes it is prudent to suspend dividends until there is more certainty.

K3's Annual General Meeting was held on 29 May 2020 at 10.30am at Baltimore House, 50 Kansas Avenue, Manchester M50 2GL. In line with Government guidance, shareholders were not permitted to attend the AGM in person this year.

Business Model and Operational Progress

Business Model

A core element of our growth strategy is to increase revenues from our own IP, which will drive both Group margins and recurring revenues. We have created 'stand-alone' products, including our flagship suite, K3|imagine, and K3|dataswitch, which integrates our products into any IT infrastructure. We have also embedded our own IP within specific third-party ERP solutions, including Microsoft. As part of a third-party product, our IP enriches the existing solution and enables us to tailor it for specific market sectors. In doing so, we are able to strongly differentiate our offering in the marketplace, and create stronger customer relationships. Whilst the majority of our sales are direct, through our sales teams, we also sell through channel partners. These indirect sales have the potential to be a major profit driver for the Group and are a key focus for future growth.

Operational Progress

During the year we brought the various Business Development, Customer Experience and Service Delivery teams operating across the Group into three central functions. This model has created efficiencies but, more importantly, it has established a more effective structure from which to sell our products, both to new customers and to our existing 3,700-strong customer base. It also enables us to better manage our Global Services delivery resource.

During the year, we added additional solutions to the K3|imagine platform, our class-leading, cloud native product. These point solutions include apps such as our mobilePOS solution, as well as Self-Serve Kiosks, Store Companion and Order Ready Boards. We also provide customers with access to the K3|imagine platform itself for their own bespoke apps. All these propositions are offered on a Software-as-a-Service ("SaaS") basis i.e. on a consumption model.

Unlike traditional solutions, the K3|imagine platform and our point solutions can be quickly and easily integrated into any IT infrastructure using our K3|dataswitch integration suite. Customers therefore do not need to replace their core systems, and can readily upgrade their technology, adopting the latest solutions and applications. They also benefit from a faster return-on-investment as well as extending the life of previous IT investments. We plan to develop new applications for K3|imagine, working in conjunction with customers, and will be using proven routes-to-markets to develop sales in new geographies.

Over the year, we sold K3|imagine to existing customers in our Global Accounts business, European unit and in our UK ERP solutions business. Customers purchased access to the platform as well as point solutions, including Mobile Goods Flow, Store Companion, Self-Serve Kiosks and Order Ready Boards.

K3|dataswitch, our integration services product, which completed its second year as a 'standalone' product, is now a cornerstone solution. It also supports K3|imagine, enabling it to be system agnostic. We launched a Cloud-based version of K3|dataswitch during the year and see an exciting opportunity to grow sales significantly.

K3|fashion, which is targeted at retail enterprises, added seven customers over the year, a significant uplift on the prior year, with the majority of these sales coming through our channel partners. All the contracts signed were on a subscription basis (term contracts) with payment spread over the term of the contract. This compares to the historic model of 'on-premise' solutions and a perpetual licence for which there was a large upfront payment. As previously reported, some large K3|fashion contracts that were in negotiation did not conclude as expected. However, Microsoft's global endorsement of the product in the second half of the year as the recommended Dynamics365F&O 'bolt-on' for fashion & apparel globally has raised the profile of our solution, benefiting the new business pipeline.

Our Sage practice strengthened significantly over the year. We are now a platinum developer partner and are providing the endorsed Sage 200 hosting product to the entire UK Sage base. In addition, after the year end, K3|dataswitch has been listed on Sage Additions, the Sage ISV platform, as an approved integration suite for Sage 200 globally.

We continued to expand in Asia, and the office in Kuala Lumpur, Malaysia, which opened in 2018, now comprises a team of 25. We anticipate ongoing good growth in the Far East, especially at our Global Accounts operation.

Staff

On behalf of the Board, we extend our thanks to all our staff for their hard work over the year. We have talented and motivated individuals and teams, and their dedication and drive are much appreciated.

Brexit

The Board continues to assess the risk from the UK's departure from European Union membership, and currently does not believe that it will have a material impact on the operations of the Group. As previously stated, this view reflects the 'in-country' nature of software implementations and the fact that software deployment does not have physical logistics challenges. We continue to be mindful of the negotiations during the "transition period" and their impact on the lengthening decision cycles for UK customers. However much of the Group's growth is focused on international markets and there is potential opportunity arising from any increased IT requirement from our Eire customers. The Group's consolidated reported earnings are denominated in sterling, and therefore will be affected by any currency movements.

Post Year End Events

As reported on 1 April 2020, we secured £6.0m of additional funding through loans from Barclays and two major shareholders, Kestrel Partners LLP ("Kestrel") and Johan Claesson, also a Non-executive Director. The cash funding has strengthened the Group's liquidity position during this period of unprecedented disruption caused by the coronavirus pandemic.

In April 2020 having taken independent advice, the difficult decision was taken to place the underperforming UK Dynamics subsidiary, a reseller of Microsoft Dynamics, into administration. The subsidiary generated an operating loss in excess of £3.0m on turnover of £21.0m in the financial year under review, and it became clear that further significant negative EBITDA and cash outflows would be produced in the 2020 financial year. Following administration, the operational assets were sold to three buyers within three weeks.

The Group now follows an indirect model via partners for K3|fashion and K3|pebblestone distribution in the UK, as we currently do in all other markets globally. Whilst the subsidiary has now entered administration, it should be noted there is no adverse effect on the Group's Microsoft Dynamics practices outside the UK. Management is now fully focused on growing the Group's core profitable business units and accelerating the transition towards its own IP, in particular the new flagship K3|imagine product.

The impact on the business from the coronavirus is a non-adjusting post balance sheet event and therefore was not considered in the impairment review. The coronavirus has had an impact on trading after the year end.

Coronavirus Pandemic

The coronavirus pandemic has created global economic and social disruption. During these unprecedented times, K3 is continually reviewing the existing and potential impact of the pandemic on our employees, the Group, our customers, partner businesses, and wider stakeholder groups.

We have been able to shift to a home-based working environment depending on the local geographic office advice and we are using on-line collaboration tools to facilitate work across a number of different locations. Whilst customer site visits have been restricted we are operating normal remote support levels.

The Group has modelled a variety of coronavirus scenarios in order to assess their potential financial impact over the coming months. We have modelled scenarios that crossover different geographic territories and our revenue streams and implemented actions that mitigate our short term cost and cash outflows, including furlough and tax deferrals schemes, whilst ensuring we have a long term sustainable business.

On an assumption that we have six months of soft trading from March to August 2020, we expect a reduction in new sales of around 90% in our mainland Europe territory. In the UK, we have anticipated software sales to be 70% lower. Our Global Accounts business, which has a Far East bias, appears to be through the worst given that those countries were impacted earlier, and customers are still moving ahead with projects, and we therefore expect a low level of impact. We expect a 75% reduction in Services revenue for UK ERP projects due to delayed projects and/or fewer on-site implementations, with a corresponding reduction in service delivery staff. Channel and partner software sales are anticipated to be 30% down.

We anticipate Maintenance and Support revenue to be resilient but expect some degree of bad debt and delayed payments.

Overheads are expected to reduce by £4.7m following the entry into administration of the UK Dynamics business and a further £3.3m reduction in overheads is expected as a result of a number of measures put in place in response to coronavirus and continuing efficiency initiatives including utilisation of government job retention schemes such as furlough and unpaid leave programmes.

Following the £6.0m fundraising in April 2020, by way of a shareholder loan and additional Bank facilities, as at 30 June 2020 cash balances were at £12.7m less overdraft of £3.8m with fully drawn bank facilities of £12.8m. Based on the assumptions above and assuming bank facilities remain fully drawn, cash balances (net of overdrafts) are expected to reach a low point of £6.0m in September 2020 before the seasonal fourth quarter maintenance and support renewals are received. In order for the Group to experience liquidity issues, Group maintenance and support revenues would need to reduce by 50%, which given their contracted nature is thought to be highly unlikely. Our current bank facilities agreement expires in 31 March 2021.

Outlook

K3|imagine has exciting potential to be a material driver of margins and recurring income. In the first half of the new financial year, we have closed £0.8m of K3|imagine contracts, with good demand for all modules, especially Self-Serve. The pipeline of potential new business for this product is now worth £4m in FY2020 and £10m in FY2021, building on the £0.6m of total sales secured in FY2019.

Six K3|fashion orders have also been signed since the financial year end, and our channel partner pipeline is strong. Performance elsewhere is in line with management expectations, including Global Accounts, which is continuing to grow well.

As we have highlighted before, K3's revenue profile is changing, reflecting the shift towards 'consumption-based' models, away from 'on-premise' solutions. This will flatten the Group's growth profile as revenues are spread over a longer term, rather than paid upfront under the traditional model. However, it also gives us increased revenue visibility and typically promotes longer customer relationships. We expect this trend to accelerate.

The traditional seasonality between the two halves of the financial year is expected to continue, with earnings and cash flows stronger in the second half due to the timing of a large proportion of software licence and maintenance contract renewals.

Despite these challenging times, and the uncertainty caused by the coronavirus, the Board remains positive about the future. Despite the material uncertainty of the existing banking facilities expiring in March 2021, the Board is confident that the business will be in a position to obtain any necessary funding to support its working capital requirements. A stronger platform is now in place, with the loss-making UK Dynamics business no longer part of the Group and additional funding secured. The Group has a stable cash generative core business with a high proportion of own IP and generates a high level of recurring revenues. Sales of our own IP remains our major focus and success here has the potential to drive significant earnings growth and recurring revenues. We continue to remain confident that K3|imagine will create significant value.

We look forward to announcing our interim results and providing shareholders with more information on current trading.

J Manley
Chairman
24 July 2020

Operational Review

The Group's focus is on growing own IP sales and, with improved reporting systems, we have taken the decision to restate the segmentation analysis from Own IP units and Supply Chain Solutions units to own IP product revenue and third-party product revenue. During the year, the Group moved to a functional model and the overhead base should therefore be viewed as a single overhead base not linked to specific units or products. Due to selling of our own IP across the business units, this has increased the percentage of K3 IP revenue as a proportion of total revenue compared to the revenue of own IP units as a proportion of total revenue.

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

	Revenue		Gross Profit		Overheads (excluding exceptional items)		Adjusted Profit from Operations	
	2019 £m	2018 restated £m	2019 £m	2018 restated £m	2019 £m	2018 restated £m	2019 £m	2018 restated £m
K3 IP	20.9	23.9	15.5	16.9	–	–	–	–
Third-party products	57.5	59.4	24.2	27.0	–	–	–	–
Central*12	–	–	0.3	–	(38.2)	(39.3)	–	–
Total	**78.4**	83.3	**40.0**	43.9	**(38.2)**	(39.3)	**1.8**	4.6

	2019	2018
Annual contracted revenues*4	£54.4m	£52.9m
Recurring revenues*5	£52.1m	£50.0m
Gross margin	51.1%	52.7%
Annual contracted revenues as a percentage of total revenue	69.5%	63.5%
Recurring revenue as a percentage of total revenue	66.7%	60.1%
Own IP revenues as a percentage of total revenue*8	26.6%	28.7%
Own IP gross profit as a percentage of total gross profit	38.6%	38.7%

The Group generated £78.4m of revenue in the financial year (2018: £83.3m). Recurring income accounted for 66.7% of the total revenue (2018: 60.1%), which increases to 69.5% when annual contracted revenues are included (2018: 63.5%). Own IP generated £20.9m of revenue (2018: £23.9m), making up 26.6% of total revenue (2018: 28.7%). The adoption of IFRS 15 increased revenue by £0.3m which had been partially recognised in 2018.

Group gross profit for the financial year was £40.0m, a 9% reduction year-on-year (2018: £43.9m). K3 IP contributed £15.5m (2018: £16.9m) or 38.6% of the total gross profit (2018: 38.7%). Gross margin in FY2019 of £0.3m from overheads related to the charging of customers from the R&D team.

*See note 31 on page 107 for further details

Third-party Product Sales

K3's 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.

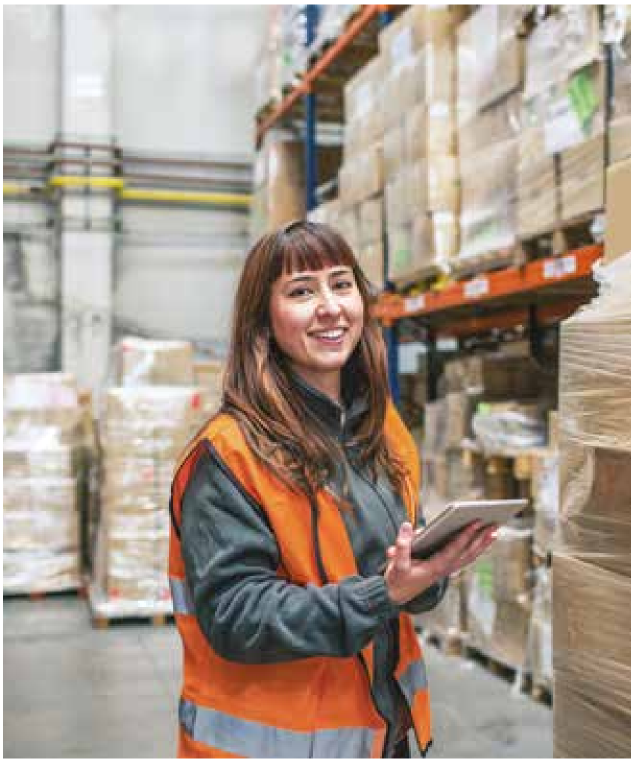
	Revenue (£m)		Gross Profit (£m)		Gross Margin	
	2019	2018 restated	2019	2018 restated	2019	2018 restated
Software licences	5.5	4.4	2.9	2.2	51.5%	50.0%
Services*11	25.0	27.0	4.3	6.9	17.2%	25.7%
Maintenance and support*10	26.0	25.8	16.9	17.1	65.1%	66.1%
Hardware and other	1.0	2.3	0.1	0.8	9.5%	31.9%
Total	**57.5**	59.1	**24.2**	27.0	**42.0%**	45.3%

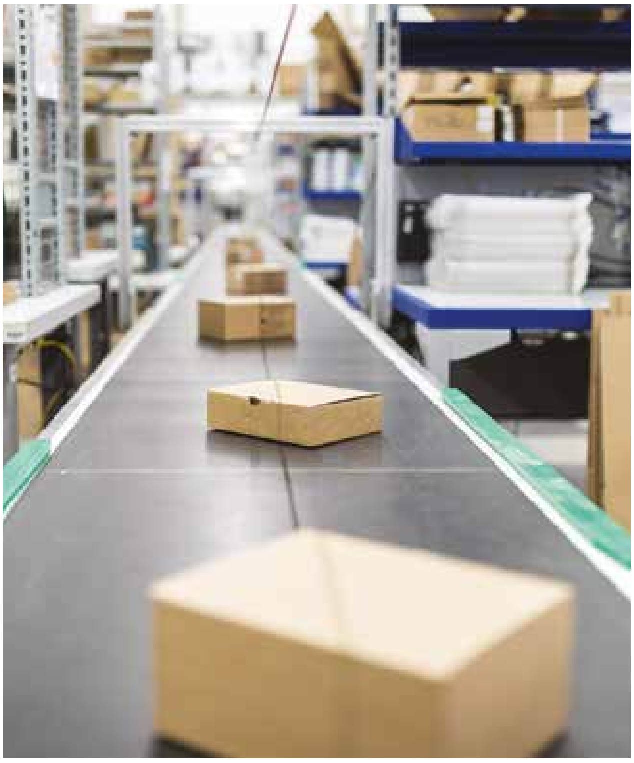
Third-party product sales were 3% lower year-on-year at £57.5m (2018: £59.4m), and gross margin decreased to 42.0% (2018: 45.3 %). While our Global Accounts business continued to grow, our UK services business was soft, not helped by Brexit uncertainty.

Our Global Accounts business, which includes our relationship with Inter IKEA Systems B.V. (the owner and franchisor of the IKEA Concept) and the IKEA Concept franchisees, performed strongly, as expected. The main driver of this growth was the expansion in store numbers and the appointment of new franchisees. We are now seeing franchisees expand stores into South and Central America. Our Kuala Lumpur office in Malaysia, which opened in 2018 to better service growth, has expanded to a team of 25 people. We are continuing to extend sales of our own IP into the Global Accounts customer base and have secured sales for K3|imagine warehouse solution, Mobile Goods Flow and K3|dataswitch.

> "Our Kuala Lumpur office in Malaysia, which opened in 2018 to better service growth, has expanded to a team of 25 people.

*See note 31 on page 107 for further details





The SYSPRO business continued to generate strong cash flows and delivered good results. Customer renewals of software licences remained high at 98% (2018: 98%). Sage activities generated good adjusted operating profits and K3 became a Sage platinum developer partner.

Within the Microsoft Dynamics space, we are experiencing a gear-shift in how technology is being delivered, with the model changing from 'on-premise' technology to cloud-based delivery and the associated move to the consumption/subscription pricing model, away from large up-front software licence payments. During the year we saw two large implementations in the UK and Eire start on K3 sourced CSP D365F&O licences. These will migrate to full licence purchase when the solution is ready for roll-out (although with new partners following the exit of the UK Dynamics practice). We continue to see the trend of third-party cloud-based solutions becoming more standardised thus creating additional opportunities for our products, including K3|fashion and K3|pebblestone. Cloud-based solutions are also less complex to implement. The move towards cloud-based consumption licensing has positive long-term implications for the Group. The lifetime value of customer relationships under this new model has the potential to be significantly higher compared to the traditional model of perpetual software licences (typically paid upfront at the start of a relationship). However, the shift will affect the Group's rate of reported revenue growth, since income from cloud/consumption-based contracts is recognised over longer periods. We also report consumption-based income as recurring revenue as opposed to software revenue under the perpetual software licence model.

K3 IP

K3's IP is used in three ways:

- it is embedded into third party solutions to add extra functionality and produce a richer overall solution for K3's target markets; and
- it powers our ERP agnostic/device agnostic cloud native platform with strong integration engines
- it powers, stand-alone point solutions and apps

K3|fashion and K3|pebblestone are examples of products based on third-party solutions that are enriched with K3 IP. Both these products are based on Microsoft Dynamics solutions.

Products that are solely K3-authored include K3|dataswitch, 'DdD' and K3Iimagine. K3's strategy is to increase the proportion of own IP sales.

	Revenue (£m)		Gross Profit (£m)		Gross Margin (£m)	
	2019	2018 restated	2019	2018 restated	2019	2018 restated
Software licences	3.2	5.2	3.2	4.5	98.1%	86.6%
Services*[11]	0.9	2.0	0.8	1.1	85.1%	57.1%
Maintenance and support*[10]	15.0	14.5	10.9	10.5	73.1%	72.3%
Hardware and other	1.8	2.2	0.6	0.9	31.9%	39.3%
Total	**20.9**	23.9	**15.5**	17.0	**74.1%**	71.1%

Total revenue from own IP over the year amounted to £20.9m (2018: £23.9m), with gross margins at 74.1% (2018: 71.1%). Gross profit was £15.5m (2018: £17.0m) down 8.8% compared to the prior year, reflecting the slippage and smaller initial orders of K3|fashion contracts.

Seven major 'K3Ifashion' contracts were secured over the financial year, increasing the active customer base by 30%, although we had originally expected some further large deals to be signed. Three of the deals closed were purchases of the initial licences needed to start up implementation projects, with the full purchase of licences anticipated in 2020. An existing customer SanMar, a leading US-based supplier of apparel and accessories, renewed its K3|fashion licences.

After the financial year end, a further six K3|fashion deals were closed including the full purchase of licences after initial purchases in 2019.

Our channel partner strategy is a key driver of K3|fashion sales, and the product is often part of a wider tender based on Dynamics365F&O with K3|fashion's functionality a key element in end customers choosing Dynamics365F&O. In the second half of 2019, Microsoft recommended K3|fashion as its preferred 'bolt-on' for the global fashion and apparel vertical. We expect this to bring more opportunities in the future.

Sales of K3Ipebblestone, our leading business software for the mid-market fashion industry, which we also sell through channel partners, continued to be strong.

See note 31 on page 107 for further details

K3|dataswitch, which is our integration suite, is in its second year of trading as a stand-alone product. Revenue increased by 45% to £0.7m. The technology also forms the integration layer of our K3|imagine suite, linking it to any IT infrastructure. We believe K3|dataswitch has a large addressable market and we are investing resource to maximise the opportunity. After the year end, K3|dataswitch was listed on Sage Additions, the Sage ISV platform, as an approved integration suite for Sage 200 globally.

The K3|imagine platform and modules are important strategic products for us. The platform enables us to integrate our leading-edge 'module' solutions into any existing IT infrastructure swiftly and cost-effectively. It therefore enables us to bring product innovation and the full power of the cloud to customers in a commercially attractive way. Our first suite of modules for K3|imagine were based around our retail offerings, and K3|imagine mPOS is currently being rolled out in mainland Europe. Our portfolio of imagine solutions for the supply chain sector has now been expanded and includes Mobile Goods Flow, Store Companion, Self-Serve Kiosks and Order Ready Boards. K3|imagine revenue in 2019 was £0.3m and since then we have signed £0.8m of additional contracts.

As expected, our Point of Sale product, DdD, showed a net decline in anticipation of the build of K3|imagine. So POS units performed well in part due to revenue recognition spreading revenue over time as a cloud SaaS offering. Customers operating these products will be offered migration to the more advanced K3|imagine retail suite.

Overheads

Following the organisation changes, Group overheads now include sales and marketing, customer support teams, and central support teams such as human resources, internal IT, and accounting. Total adjusted overheads/support costs were lower than the prior year at £38.2m (2018: £39.3m), reflecting progress in internal efficiencies whilst still investing in sales and software development. However the adoption of the IFRS 16 in the year meant that £0.3m of cost classified as overheads in FY2018 was classified as interest in FY2019, and FY2019 included £1.7m of depreciation. Under IAS 17 in FY2019 £2.0m of operating leases would have been classified in Overheads. Overheads also included a material bad debt charge of £0.5m from a large retail customer. After the UK Dynamics re-seller business was put into administration, overheads have reduced.

Outlook

The technical capability of our products is excellent, and we remain especially excited about long term growth prospects for K3|imagine and K3|dataswitch. The volume and quality of K3Ifashion's new business pipeline is also encouraging, and the growth of Global Accounts activities is set to continue.

We therefore remain confident of improving the Group's performance over the new financial year.

As noted in the Chairman's report, we remain focused on the challenges created by coronavirus and believe we have adequate financial resources to weather the storm.

Adalsteinn Valdimarsson
Chief Executive Officer

Financial Review

Trading Results

Revenue for the year ended 30 November 2019 was £78.4m (2018: £83.3m) and gross profit was £40.0m (2018: £43.9m) with gross margins of 51.1% and 52.7% respectively. The adoption of IFRS 15 increased revenue by £0.3m, which had been partially recognised in 2018.

The Group registered an adjusted profit from operations[*1] of £1.8m (2018: adjusted profit[*1] of £4.6m). The loss from operations was £(13.7)m (2018: profit of £0.7m).

During the year, the Group incurred exceptional reorganisation costs of £0.5m (2018: £1.4m). The costs in 2018 related largely to the consolidation of our UK Microsoft Dynamics operations. The Group also impaired assets for the UK Dynamics practice of £12.2m (2018: £nil). The amortisation of acquired intangible assets was £2.5m (2018: £2.5m). Also included is a one-off customer settlement provision of £0.4m (2018: £nil). Finance costs were £0.9m (2018: £0.7m) with the increase driven by IFRS 16 interest. The credit for share options is £0.1m (2018: charge £0.1m). This has been shown separately as the Board considers it useful to highlight to shareholders since the amount can fluctuate significantly. After tax, the resulting loss for the year was £(15.4)m (2018: loss of £(0.5)m).

During the year the Group adopted IFRS 15, IFRS 16 and IFRS 9. We have adopted the modified retrospective approach for implementation and results are not directly comparable with prior years. The impact of IFRS 16 was to increase non-current assets, liabilities and depreciation charges. IFRS 9 increased our bad debt provision. The IFRS 15 impact is detailed in the notes to the accounts.

Earnings per Share and Dividends

Adjusted loss per share[*4] was 6.6p (2018: earning per share of 6.8p). Loss per share was 36p (2018: loss per share of 1.1p). No dividend will be declared for the year ended 30 November 2019.

Taxation

There was a tax charge for the year of £0.9m (2018: of £0.5m) comprising a charge of £0.6m (2018: £1.2m) for current taxation and a charge of £0.3m (2018: £0.7m credit) for deferred taxation, of which £0.3m (2018: £0.6m) related to the amortisation of intangible assets.

The large loss before taxation was driven by the large impairment charge which is non-tax deductible. The Group's tax rate is sensitive to the geographical mix of its profits and losses and with the growth of the non UK business, overseas tax is increasing. The effective tax rate for the year is -6.7%. The effective tax rate is determined as the tax expense/(credit) divided by the accounting profit/(loss) before tax.

See note 31 on page 107 for further details

Balance Sheet

Following an impairment review of the UK Dynamics practice, an impairment charge of £12.2m was generated including £10.1m of goodwill. This business was subsequently exited post year end via an administration process.

Following the adoption of IFRS 16 the non-current assets have increased by £4.1m net book value at 30th November 2019, following the recognition of right-of-use assets, being £5.8m of additions in the year and a depreciation charge in the year of £1.7m. Borrowings related to IFRS 16 adoption also increased by £3.9m.

Additions to development costs were £4.1m compared to £2.6m in 2018, driven by the focus on development of K3|imagine. Amortisation of development costs was £2.9m (2018: £2.6m). The amortisation charge on acquired intangible assets was £2.5m (2018: £2.5m).

Trade and Other Receivables were £20.7m (2018: £27.0m) with £6.3m reduction being driven by the reduced level of multi-year deals, better credit control and reduced revenue. Trade and Other Payables were also lower than at 30 November 2018 by a combined amount of £3m. Net Working Capital balances were £(4.7)m (2018: £1.4m) driven by the reduction in Trade & Other Receivables.

Cash Flow and Net Debt

The Net Debt[*6] position at 30 November 2019 was £(2.4)m (2018 restated: £0.6m) with a reduction in cash & overdraft to £3.8m (2018: £6.9m).

The Net Cash from Operating Activities was £5.5m (2018: £7.8m) with a swing in £2.8m in working capital and of the inclusion of £1.7m of depreciation relating to right-of-use assets following adoption of IFRS 16. In addition, operating lease payments of £2.6m were deducted from operating cashflows in 2018 but are included within financing outflows in relation to the lease liability and interest in 2019. The result is that operating cashflow on a comparable basis has significantly reduced on the prior year. The net change in working capital from Trade and other receivables and Trade and Other Payables was £0.3m outflow (2018: inflow £1.8m). The Trade and Other Receivables were driven by inflows from Contract Assets (Accrued Income) relating to the invoicing and collection of contracted commitments. The decrease in Trade and Other Payables was driven by reduced accruals and contract liabilities with lower revenue than 2018 and the liabilities associated contract assets reducing.

Investing activities increased to £4.1m (2018: £2.6m) with the focus on the development of the K3|imagine platform. The purchase of property, plant and equipment also included IT equipment to run managed services.

During August 2019 the Group extended its Banking Facility agreement with Barclays to 31 March 2021 and in April 2020 increased the facility from £10m to £13m. Bank borrowings were £6.3m (2018: £7.5m) and are included in long term liabilities. The Facilities include a monthly draw down and a multi-currency overdraft facility.

Prior Period Restatments

As explained in note 29, the 2018 consolidated statement of financial position has been restated to present overdrafts of £2,724,000, which were previously included in cash and cash equivalents, within liabilities due within 1 year. This restatement has not impacted the previously reported profits, net current assets or net assets. An adjustment of £433,000 has also been made to the 2018 company statement of financial position in respect of the same.

Robert Price
Chief Financial Officer

**See note 31 on page 107 for further details*

Risk Management

There are a number of potential risks and uncertainties, which could have a material impact on the Group's performance and could cause actual results to differ materially from expected and historical results. The Group's risk management policies and procedures to deal with operational risk are included in the Corporate Governance report on pages 24 to 28. The principal business risks which the Group faces can be categorised as follows:

Strategic

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

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

Business Environment

The Group's customer base is mainly in the United Kingdom and Europe. The environment in which the Group offers its products and services is, therefore, dependent on the economic and other circumstances affecting these business sectors including competitor behaviour. Over the years we have developed a creative, innovative, competitive culture and a reputation for advanced functionality and product quality. The Group has made significant investment in its library of IP which protects the business from competition and increases the barrier to entry in our specialist markets. This has enabled the Group to build high levels of predictable income from its existing customer base, both in the UK and in its overseas markets. The Group's exposures to mainstream UK Retail High Street is not high and the Group is mitigating exposure by growing more internationally and investing in our new K3|imagine offering is focused on faster return on investment for customers and a SaaS offering.

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

Relationships

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

Delivery

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

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

Financial

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

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

Coronavirus

The Group has managed the impact of coronavirus on employees, customers and the financial resources. Employees transitioned easily to remote working and offices were closed according to local conditions and advice in each country. The Group raised additional financing in April 2020 to ensure adequate liquidity exists for year ending 30 November 2020, allowing for reduced revenue and potential higher bad debts. Various governmental schemes were taken advantage of including furlough of staff and delayed tax payments. Further information is detailed in the Chairman and Chief Executive's statement and in note 1 of the financial statements.

This Strategic Report is signed on behalf of the Board

Adalsteinn Valdimarsson
Director
24 July 2020

Governance

Board of Directors

Jonathan Paul Manley (Non-executive) age 66 (Acting Chairman)

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. Previously Jonathan was IT Director for Harrods Ltd where he was leading its IT transformation. 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. Following the resignation of Stuart Darling as Chairman, Jonathan agreed to serve as Acting Chairman until a new appointment is made.

Adalsteinn Valdimarsson (Chief Executive Officer) age 50

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. 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 69

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 52

Robert was appointed to the Board on 5 July 2017 having joined the Group as CFO in October 2016. He has more than 20 years' experience in senior finance roles in technology and supply chain and has worked extensively in international markets. He was previously CFO of a pan European fintech start up 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.

Stuart Darling (Non-executive – now retired) age 56

Stuart was appointed a non-executive director on 3 April 2017 and became Chairman in December 2017, having been Interim Chairman since July 2017. He is an FCA and has extensive senior level financial and commercial experience in the technology sector and with growing companies. He is currently CFO of Physiolab Technologies Limited which develops and sells repair and recovery products that aid recovery and rehabilitation of soft tissue injuries. He was previously Chief Financial Officer of Wifinity Ltd, a wireless network internet provider; CFO of YASA Motors Ltd, a supplier of customer and off-the-shelf e-motors and controllers to automotive customers; and, for 10 years, was CFO of Amino Technologies PLC, the global provider of digital TV entertainment and cloud solutions to network operators. He was Chairman of the Audit Committee. Stuart notified the board of his decision to resign his position on 5 February 2020 and he resigned as Chairman with immediate effect and continued to serve on the board until the AGM.

Paul Gilmer Morland (Non-executive – now retired) age 59

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. Paul notified the board of his decision to resign his position on 5 February 2020, but continued to serve on the board until the AGM.

Oliver Scott (Non-executive) age 53

Oliver joined the board as a Non-executive Director in February 2020. Oliver is a partner of Kestrel Partners LLP, a business he co-founded in 2009 and which specialises in investing in smaller quoted technology companies. Prior to this, he spent over 20 years advising smaller quoted and unquoted companies, latterly as a Director of KBC Peel Hunt Corporate Finance. Oliver has acted as Kestrel's representative on the Boards of various of its investee companies. He is currently a non-executive Director of ULS Technology PLC and was previously a non-executive Director of IQGeo Group plc, IDOX PLC and KBC Advanced Technologies plc prior to its takeover by Yokogawa.

Corporate Governance Statement

Introduction from K3's Chairman

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

Pursuant to the AIM Rules, in 2018 K3 adopted the Quoted Companies Alliance's (QCA) Corporate Governance Code ("the Code") being the most appropriate recognised corporate governance code having regard to the size and nature of the K3 Group. In the financial year to 30 November 2019, K3 continued to apply the Code.

K3 has reviewed and considered where and how we apply each of the principles of the Code, and we set out an explanation of this on our website at https://www.k3btg.com/investor-centre/corporate-governance/corporate-governance-code-disclosures.

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

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

Board Composition

During the period the Board comprised the Chairman (Mr S Darling), two executive directors (Mr A Valdimarsson and Mr RD Price) and three Non-executive Directors (Mr PG Morland, Mr PJ Claesson and Mr JP Manley). Subsequent to 30 November 2019, there have been changes to Board composition with Mr S Darling and Mr PG Morland resigning their positions with effect from the AGM and Mr O Scott having been appointed on 14 February 2020. Mr S Darling also ceased his role as Chairman with effect from 5 February 2020, and was replaced by Mr J Manley, as acting Chairman. Biographical details of the Board are included on page 23. The composition of the Board is designed to provide an appropriate balance of Group, industry and general commercial experience and is reviewed as required to ensure that it remains appropriate to the nature of the Group's activities. Board skills are kept up to date both independently by directors and by board-wide updates and knowledge sharing.

The roles of the Chairman and Chief Executive are distinct. The office of Chairman is currently held by acting Chairman Mr J Manley (succeeding Mr S Darling on 5 February 2020) and the office of Chief Executive is held by Mr A Valdimarsson.

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

During the period, the Company had three independent non-executive directors (Mr PG Morland, Mr S Darling and Mr JP Manley), as recommended by the QCA Code. Mr JP Manley provided additional consultancy services for the Company for which he is paid a fee, in addition to his role as Non-executive Director, but this is not regarded as compromising his independence. Mr PJ Claesson (Non-executive Director) is a significant shareholder and has been on the board for over 9 years and would therefore more likely not be regarded as independent in accordance with the Code. Mr O Scott (who was appointed a Non-executive Director after the relevant period in February 2020) is a founding partner of another significant shareholder, Kestrel Partners LLP, and, accordingly, Mr O Scott would also likely not be regarded as independent in accordance with the Code.

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

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

Operation of the Board

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

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

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

Board Meetings and Effectiveness

The Board met on 12 occasions during the financial period. Directors are expected to attend all meetings, and to dedicate sufficient time to the Group's business and affairs so as to enable them to discharge their duties. Board (and committee) meeting attendance during the financial period was as set out below. In light of circumstances, the members of the nominations committee determined that no formal meetings of the nominations committee were required to be held during the financial period.

Director	Board (12)	Remuneration (2)	Audit (3)
S Darling	12	2	3
JP Manley	12	2	3
PG Morland	10	2	3
RD Price	12	n/a	n/a
A Valdimarsson	12	n/a	n/a
PJ Claesson	9	2	3

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

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

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

The Board has established an annual process of Board performance review the first of which was carried out in February 2020. This has superseded what was previously a more informal evaluation approach. The new review process assists the board in identifying any structural, procedural and/or individual development needs by reference to clear objectives and the results will inform improvement activities.

Board Committees

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

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

Nominations Committee

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

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

Remuneration Committee

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

Audit Committee

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

Corporate Culture and Ethical Values

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

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

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

Relations with Shareholders

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

The Board considers the AGM to be an important opportunity to communicate with shareholders and encourages their participation. The company despatches the notice of AGM, with explanatory notes describing items of special business, at least 21 days before the meeting. All shareholders have the opportunity, formally or informally, to put questions to the company's AGMs. All directors attend the AGM and the Chairman of the Audit, Remuneration and Nominations Committees is available to answer questions from shareholders.

The Company has also recently commenced, and plans to continue, a programme of investor presentations, to enhance investor engagement with management, and to elicit feedback.

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

These include notices of, as well as results of, the AGM together with prior years' annual reports.

Internal Control and Risk Management

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

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

The responsibility for managing risks on a day to day basis lies with the CEO and Senior Management Team. The principal business risks and the actions to mitigate the risks are included in the Strategic Report on pages 19 to 21. Details of operational risks are included below. A description of the risk management adopted by the Board to address the risks highlighted, and in order to deliver on its strategy, is set out below and on pages 29 and 30.

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. It has been regularly reviewed by the Board.

The Board and Senior Management Team are committed to managing the key risks which face 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; and
- group reporting instructions and procedures including delegation of authority and authorisation levels, segregation of duties and other control procedures, and standardised accounting policies.

Audit Committee Report

Audit Committee Composition

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

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

Audit Committee Role and Duties

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

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

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

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

External Auditor and Audit Process

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

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

Auditors' Remuneration

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

	Year ended 30 November 2019 £000	Year ended 30 November 2018 £000
Audit services		
• Statutory audit of the company	25	25
• Statutory audit of the subsidiaries	141	93
Further assurance services:		
Tax services		
• Advisory services	–	–
• Overseas tax advice	–	3
Other services		
• Other services	6	1
	172	122

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

Risk Management and Compliance

The Audit Committee has reviewed both the Company's risk management and internal controls (reference on page 29), and the Company's policies on key compliance matters, such as anti-bribery and whistleblowing, and is satisfied that current control systems and policies are operating effectively.

Remuneration Committee Report

Remuneration Committee Composition

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

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

Remuneration Committee Role and Duties

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

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

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

- the approval of the award of share options under the Group's long-term incentive plan for senior management and employees; and
- Review and consideration of executive director remuneration.

Directors' Remuneration

Set out below is a summary of the total gross remuneration of directors who served during the financial period to 30 November 2019.

	Year ended 30 November 2019					Year ended 30 November 2018
	Fees/ basic salary £	Taxable benefits £	Annual bonuses £	Pension contributions £	Total £	Total £
Chairman						
S Darling	55,000	–	–	2,383	57,383	52,217
Executive						
A Valdimarsson	300,000	9,000	–	30,000	339,000	339,000
RD Price	170,000	9,233	–	17,000	196,233	190,500
Non-executive						
PJ Claesson	25,000	–	–	–	25,000	23,333
PG Morland	30,000	–	–	1,300	31,300	29,100
JP Manley	49,250	–	–	–	49,250	71,218
Aggregate emoluments	629,250	18,233	–	50,683	698,166	705,368

Included within the fees/basic salary amount for Mr JP Manley was £19,250 (2018: £42,884) in relation to consultancy on the own IP positioning and development and for management of internal systems.

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

Directors' Pension Entitlements

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

Directors' Share Options and Warrants

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

Company	Number of warrants	Exercise price
CA Fastigheter AB	400,000	123.5p
CA Fastigheter AB	600,000	25p

Clients of Kestrel Partners LLP (in which Mr O Scott is a partner) have interests in 600,000 warrants for 25p ordinary shares, exercisable at a price of £0.25 per ordinary share. Both these warrants and the CA Fastigheter AB 600,000 warrants were associated with the April 2020 shareholder loan issue.

The market price of the ordinary shares at 30 November 2019 was 155p and the range during the year was 155p to 237.5p.

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

1,390,000 options ("LTIP Options") were granted to Mr A Valdimarsson and Mr RD Price during the year ended 30 November 2018 under the terms of a new K3 Long Term Incentive Plan (the "LTIP"). They are exercisable at a price of 25p per share, being nominal value. The LTIP Options vest in three tranches, as set out below, based on the achievement of certain hurdles relating to the adjusted operating profit ("AOP", being operating profits prior to any share based payment charges) of the Group for each of the two years to 30 November 2019 and, in respect of the last tranche, a further criteria based on the Company's share price during the 30 days immediately following the announcement of K3's results for the year ended 30 November 2020 (the "Price Vesting Criteria") and the Adjusted Profit per share for the year ending 30 November 2020.

The performance measures relate to the three years to 30 November 2020. The proportion of each award vesting upon delivery are set out in note 20 to the financial statements.

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

Name of Director	1 December 2018	Granted	Exercised	Lapsed	30 November 2019
A Valdimarsson	840,000	–	–	–	840,000
RD Price	550,000	–	–	–	550,000

All options are exercisable at a price of 25p.

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 30 November 2019. The corporate governance statement on pages 24 to 28 also forms part of the Directors' report.

Review of Business

The Chairman's and Chief Executive's statement on pages 6 to 11 and the Operational Review on pages 12 to 16 provide a review of the business, the Group's trading for the year ended 30 November 2019, key performance indicators and an indication of future developments.

Research and Development

During the year, the Group carried out development work of which £4.1m (2018: £2.63m) was capitalised. Development related to the Group's own IP including the K3|imagine platform.

Result and Dividend

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

The Group's results for the year are set out in the Consolidated Income Statement on page 46. The Company has applied FRS 101: Reduced Disclosure Framework to the Company accounts for the year ended 30 November 2019.

The directors do not propose a dividend (2018: 1.54p per share). A final dividend relating to the year ended 30 November 2018 of 1.54p, amounting to £0.66m, was paid during the year. No interim dividend was paid during either period.

Directors

The directors who served during the year were as follows:

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

Subsequent to 30 November 2019, there have been changes to Board composition with Mr S Darling and Mr PG Morland having resigned with effect from the AGM and Mr O Scott having been appointed. In accordance with the Company's current Articles of Association, Mr O Scott also resigned, offered himself for re-election and was reappointed.

Mr PJ Claesson and Mr A Valdimarsson also retired by rotation and offered themselves for re-election and were re-appointed.

Directors' Interest

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

	As at 30 November 2019 Number of shares	As at 30 November 2018 Number of shares
PJ Claesson	9,828,923	5,087,697
S Darling	14,286	14,286
JP Manley	20,680	20,680
RD Price	54,728	50,000
A Valdimarsson	71,429	71,429

Mr A Valdimarsson acquired an additional 30,000 ordinary shares in the company on 14 February 2020.

Kestrel Partners LLP (in which Mr O Scott is a partner) is interested in 10,354,591 shares.

Financial Instruments Risks

Details of financial instruments risks are included in note 18 to the financial statements.

Substantial Shareholdings

The company had been notified of the following interests in the ordinary share capital of the company at 31 May 2020.

Name of holder	Number	Percentage held
Kestrel Partners	10,033,198	24.06%
PJ Claesson	9,828,923	22.89%
Canaccord Genuity	5,994,785	13.96%
Liontrust Asset Management	4,727,635	11.01%
Richard Griffiths	4,529,464	10.55%

Disabled Employees

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

Employee Consultation

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

Directors' Indemnity Cover

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

Going Concern

After making enquiries, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group's current syndicated facility agreement expires March 2021 and the current coronavirus disruption continues to impact on global operations and markets.

At 30 November 2019, the Group had incurred a loss of £15.4m, resulting in negative retained earnings of £2.6m, and had suffered a cash outflow of £3.5m. Much of the trading loss has arisen due to one off charges to profit and loss as the directors continue to focus the business on profit making operations.

Since the year end the disruption arising from COVID-19 has introduced additional uncertainty in respect of making predictions for future trading and operations. The Group has modelled a variety of coronavirus scenarios in order to assess their potential financial impact over the coming months. The Directors have modelled scenarios that crossover different geographic territories and our revenue streams and implemented actions that mitigate our short term cost and cash outflows, including furlough and tax deferrals schemes, whilst ensuring we have a long term sustainable business.

While the Directors have concluded that these circumstances represent a material uncertainty, additional loan funding has been secured since the year end to ease immediate operating cash flow pressures. These facilities are due for renewal in March 2021 and the Group does not currently have the funds to repay these. Additional funding or asset disposals could be initiated as required and the directors believe that appropriate refinancing of the existing debt is possible when the renewal date falls due. Therefore, after making enquiries and considering the uncertainties as described above, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going basis of accounting in preparing this financial information.

Events after the Reporting Date

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

Auditors

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

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

By order of the Board

Baltimore House
50 Kansas Avenue
Manchester
M50 2GL

A Valdimarsson
Director
24 July 2020

Statement of Directors' Responsibilities

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

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

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

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

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

Website Publication

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

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Financial Statements

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

Opinion

We have audited the financial statements of K3 Business Technology Group Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 November 2019 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the parent company balance sheet, the consolidated statement of cash flows, the consolidated and parent company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies.

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

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 November 2019 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Material uncertainty related to going concern

We draw attention to note 1 to the financial statements, which indicates the directors consideration over going concern, in particular the potential impact of the COVID-19 pandemic on the ability to obtain new bank facilities when the current facilities expire in March 2021. As stated in note 1, these events or conditions, along with other matters as set out in note 1, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Due to the level of uncertainty, and the additional impact of COVID-19, and the significant assumptions required to be made by management in considering going concern a significant audit risk has been identified since the planning stage of the audit, and accordingly, going concern has been considered to be a key audit matter.

In respect of this key audit matter we carried out the following procedures:

- Obtained an understanding of the required financing facilities, including the nature of the facilities, repayment terms, covenants and attached conditions;
- We have considered the historic success of management to raise funds through bank facilities or shareholders;
- Assessed the facility headroom calculations on both a base case scenario and the directors' reverse stress test as a result of the ongoing COVID-19 pandemic;
- Challenged the appropriateness of management's assessment of going concern by testing the mechanical accuracy, assessing historical forecasting accuracy, understanding management's consideration of downside sensitivity and the impact on facilities and covenants;
- Reviewed any mitigating actions and cost savings that have been proposed by management;
- Considered the consistency of management's forecasts with other areas of the audit, such as impairment models; and
- Considered the adequacy of the disclosures in the financial statements against the requirements of the accounting standards.

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. In addition to going concern reported above, the following key audit matters were identified:

Revenue recognition	How we addressed the key audit matter in the audit
The group adopted IFRS 15 Revenue from Contracts with Customers ('IFRS 15') from 1 December 2018. The group has a number of different revenue streams, each of which has a different revenue recognition policy which increases the complexity of the implementation of IFRS 15. 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. In view of the judgements required to be made by management in this area we have determined that revenue recognition is a significant risk in the audit and hence a key audit matter. Refer to note 1 of the financial statements for disclosure.	• We reviewed and discussed the management prepared memo on how they have implemented IFRS 15 in the year and the impact it had on the revenue recognition for each stream and specific complex contracts. We considered whether the accounting treatment was in accordance with IFRS 15 for each revenue stream. • We tested a sample of large revenue contracts, across the group, to assess whether the revenue had been correctly recognised in line with IFRS 15 and the revenue recognition policy. We examined each agreement in our sample to understand the contractual obligations, to understand the distinct 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 tested a sample of multi-year deals with reference to the terms of the contracts and the fulfilment of obligations by all parties to the contract. • We confirmed appropriate cut-off had been applied at the year end for each revenue stream by testing a sample of supporting documentation. • We tested a sample of deferred and accrued income balances, agreeing to supporting documentation around the year end to check that these amounts have been recognised in the appropriate period. • We tested a sample of debtors and accrued income balances to post year end cash (and invoice) to confirm their existence. **Key observations:** We consider the judgements that management have made are reasonable in respect of the adoption of IFRS 15 and revenue recognition. In particular where the performance obligations are distinct and recognised at the right point in time.

Development costs	How we addressed the key audit matter in the audit
All development expenditure that meets the criteria within International Accounting Standard 38 'Intangible assets' must be capitalised as an asset and amortised over the assets useful economic life from the date the asset is available for use. Management are also required to consider the carrying value of all capitalised development costs, including those capitalised in previous periods, both with reference to the future cash flows expected to be generated from the assets and the reasonableness of the amortisation period assigned to the asset. Refer to notes 1 and 12 of the financial statements for disclosure.	• We have agreed a sample of development costs capitalised by management to supporting documentation such as timecards, external invoices, etc. • For each project for which development expenditure has been capitalised we have obtained supporting evidence in relation to the future revenue to be generated from the development expenditure, including contracts evidencing sales of the software development undertaken. • We have tested a sample of the brought forward development costs to check that they remain supported by future cashflows. • We have reviewed the appropriateness of the impairment of development costs based on future cashflows. • We have considered the appropriateness of the amortisation period by comparison to market averages and a review of net book values supported by future cashflows. **Key observations:** We consider that management have appropriately capitalised directly attributable relevant costs and assessed the economic return of the projects.

Carrying value of intangibles and goodwill	How we addressed the key audit matter in the audit
Management are required to review the carrying value of goodwill and test it annually for impairment. Management exercise significant judgement in determining the underlying assumptions used in the impairment review; the assumptions include the discount rate used, the allocation of assets to cash generating units (CGU) and the future cash flows attributed to each CGU. Refer to notes 1, 12 and 13 of the financial statements for disclosure.	• We have challenged the calculations prepared by management in the impairment review, specifically the discount rate. • We have assessed the reasonableness of the assumptions underlying management's assessment of goodwill, including the pipeline and cashflow forecasts for each CGU. • We have consulted with our valuation specialists to review the appropriateness of the discount rate.

Carrying value of intangibles and goodwill (continued)	How we addressed the key audit matter in the audit (continued)
	• We have performed sensitivity analysis for all CGUs on the discount rate and reductions in cashflow forecast. We have compared actual results for year ended 30 November 2019 to the forecast results for FY2020 to identify CGUs with ambitious growth. Those identified have been challenged further. • We have considered and specifically assessed the carrying value of the Group's other intangible assets, specifically the growth rates and amortisation periods adopted. **Key observations:** We consider the assumptions supporting the cash flows of each CGU to be appropriately identified and reasonable.

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	**£395,000 (2018: £416,000)**
Basis for materiality	0.5% of revenue (2018: 0.5% of revenue)
Rationale for the benchmark adopted	Revenue is the most stable and relevant measure, the percentage determined was considered appropriate for a listed entity.

In considering individual account balances and classes of transactions we apply a lower level of materiality (performance materiality) in order to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality. Performance materiality was set at £276,500 (2018: £291,200), representing 70% of materiality.

Component materiality ranged from £282,000 to £186,000 (2018: £312,000 to £143,000). Parent company materiality was £186,000 (2018: £143,000). Performance materiality was set at 70% for components and the parent company.

We agreed with the audit committee that we would report to them all individual audit differences identified during the course of our audit in excess of £11,850 (2018: £13,500). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

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

Our group audit scope focused on the group's significant components, which are located in the UK and Netherlands, all of which were audited by BDO LLP.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts and transactions in the financial statements, our Group audit scope focused on the Group's significant components: the parent company, K3 Business Technologies Limited and K3 Business Solutions BV. Together with the subsidiaries located in Ireland (which were also subject to full audit scope) and the insignificant components subject to limited scope procedures these components account for 83% of the Group's revenue and 91% of the Group's net assets.

Other information

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

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

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Use of our report

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

Julien Rye (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Manchester, UK
24 July 2020

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

Consolidated income statement

for the year ended 30 November 2019

	Notes	Year ended 30 November 2019 £'000	Year ended 30 November 2018 £'000
Revenue	2	**78,412**	83,335
Cost of sales		**(38,376)**	(39,446)
Gross profit		**40,036**	43,889
Administrative expenses		**(52,826)**	(42,128)
Impairment losses on financial assets	3	**(870)**	(1,077)
Adjusted profit from operations		**1,831**	4,649
Amortisation of acquired intangibles	12	**(2,482)**	(2,507)
Exceptional impairment of Dynamics UK	12	**(12,188)**	–
Exceptional reorganisation costs	3	**(524)**	(1,355)
Exceptional customer settlement provision	16	**(400)**	–
Share-based payment credit/(charge)	3	**103**	(103)
(Loss)/Profit from operations	3	**(13,660)**	684
Finance expense	6	**(856)**	(667)
(Loss)/Profit before taxation		**(14,516)**	17
Tax expense	7	**(931)**	(505)
Loss for the year		**(15,447)**	(488)

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

(Loss) per share

		Year ended 30 November 2019	Year ended 30 November 2018
Basic	9	**(36.0)p**	(1.1)p
Undiluted	9	**(36.0)p**	(1.1)p

The notes on pages 51 to 107 form part of these financial statements.

Consolidated statement of comprehensive income

for the year ended 30 November 2019

	Year ended 30 November 2019 £'000	Year ended 30 November 2018 £'000
Loss for the year	**(15,447)**	(488)
Other comprehensive income		
Exchange differences on translation of foreign operations	**(928)**	300
Other comprehensive income	**(928)**	300
Total comprehensive expense for the year	**(16,375)**	(188)

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

The notes on pages 51 to 107 form part of these financial statements.

Consolidated statement of financial position

as at 30 November 2019

Registered number: 2641001

	Notes	2019 £'000	2018 restated (refer to note 29) £'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**2,107**	2,326
Right-of-use assets	11	**4,058**	–
Goodwill	12/13	**40,467**	51,187
Other intangible assets	12	**14,422**	18,184
Deferred tax assets	19	**825**	1,307
Available-for-sale investments		**–**	98
Total non-current assets		**61,879**	73,102
Current assets			
Trade and other receivables	15	**20,746**	27,006
Cash and cash equivalents		**8,226**	9,638
Total current assets		**28,972**	36,644
Total assets		**90,851**	109,746
LIABILITIES			
Non-current liabilities			
Lease liabilities	22	**2,507**	–
Obligations under finance leases	22	**–**	15
Borrowings	17	**6,262**	–
Provisions	30	**294**	–
Deferred tax liabilities	19	**1,115**	1,814
Total non-current liabilities		**10,178**	1,829
Current liabilities			
Trade and other payables	16	**25,008**	28,428
Current tax liabilities		**493**	279
Lease liabilities	22	**1,410**	–
Obligations under finance leases	22	**–**	32
Borrowings	17	**4,385**	10,209
Provisions	30	**120**	–
Total current liabilities		**31,416**	38,948
Total liabilities		**41,594**	40,777
EQUITY			
Share capital	20	**10,737**	10,737
Share premium account	21	**28,897**	28,897
Other reserves	21	**10,448**	10,448
Translation reserve	21	**1,558**	2,486
Retained earnings	21	**(2,383)**	16,401
Total equity attributable to equity holders of the parent		**49,257**	68,969
Total equity and liabilities		**90,851**	109,746

The financial statements on pages 46 to 107 were approved and authorised for issue by the Board of Directors on 24 July 2020 and were signed on its behalf by:

RD Price
Director

The notes on pages 51 to 107 form part of these financial statements.

Consolidated statement of cash flows

for the year ended 30 November 2019

	Notes	Year ended 30 November 2019 £'000	Year ended 30 November 2018 £'000
Cash flows from operating activities			
Loss for the period		**(15,447)**	(488)
Adjustments for:			
Finance expense	6	**856**	667
Tax expense	7	**931**	505
Depreciation of property, plant and equipment	10	**794**	885
Impairment loss on property, plant and equipment	10	**73**	–
Depreciation of right-of-use assets	11	**1,737**	–
Amortisation of intangible assets and development expenditure	12	**5,377**	5,091
Impairment of intangible assets	12	**12,062**	–
Impairment of investments		**98**	–
Loss on sale of property, plant and equipment	10	**–**	22
Share-based payments credit/(charge)	25	**(103)**	103
Increase in provisions	30	**414**	–
Decrease in trade and other receivables		**3,629**	2,697
Decrease in trade and other payables		**(4,348)**	(853)
Cash generated from operations	28	**6,073**	8,629
Finance expense paid		**(385)**	(662)
Income taxes		**(191)**	(151)
Net cash from operating activities		**5,497**	7,816
Cash flows from investing activities			
Development expenditure capitalised	12	**(4,080)**	(2,627)
Purchase of property, plant and equipment	10	**(666)**	(748)
Net cash used in investing activities		**(4,746)**	(3,375)
Cash flows from financing activities			
Proceeds from loans and borrowings		**4,500**	1,204
Repayment of loans and borrowings		**(5,750)**	–
Repayment of lease liabilities		**(1,505)**	–
Payments of obligations under finance leases		**–**	(58)
Interest paid on lease liabilities		**(347)**	–
Dividends paid	8	**(661)**	(601)
Net cash from financing activities		**(3,763)**	545
Net change in cash and cash equivalents		**(3,012)**	4,986
Cash and cash equivalents at start of year	28	**6,914**	1,941
Exchange gains/(losses) on cash and cash equivalents		**(61)**	(13)
Cash and cash equivalents at end of year	28	**3,841**	6,914

The notes on pages 51 to 107 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 30 November 2019

	Notes	Share capital £'000	Share premium £'000	Other reserves £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
At 30 November 2017		10,737	28,897	10,448	2,186	17,389	69,657
Changes in equity for year ended 30 November 2018							
Loss for the year		–	–	–	–	(488)	(488)
Other comprehensive income for the year		–	–	–	300	–	300
Total comprehensive income/(expense)		–	–	–	300	(488)	(188)
Share-based payment credit		–	–	–	–	103	103
Movement in own shares held		–	–	–	–	(2)	(2)
Dividends paid to equity holders		–	–	–	–	(601)	(601)
At 30 November 2018		10,737	28,897	10,448	2,486	16,401	68,969
Effect of adoption of IFRS 15	1	–	–	–	–	(1,804)	(1,804)
Effect of adoption of IFRS 9	1	–	–	–	–	(769)	(769)
At 1 December 2018 as restated		10,737	28,897	10,448	2,486	13,828	66,396
Changes in equity for year ended 30 November 2019							
Loss for the year		–	–	–	–	(15,447)	(15,447)
Other comprehensive income for the year		–	–	–	(928)	–	(928)
Total comprehensive income/(expense)		–	–	–	(928)	(15,447)	(16,375)
Share based reversal		–	–	–	–	(103)	(103)
Dividends paid to equity holders	8	–	–	–	–	(661)	(661)
At 30 November 2019		10,737	28,897	10,448	1,558	(2,383)	49,257

Other components of equity reflects deferred tax profit taken to profit.

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 66,739 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 2019 was £103,445 (2018: £180,000).

The notes on pages 51 to 107 form part of these financial statements.

Notes forming part of the financial statements

for the year ended 30 November 2019

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 110 to 116.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

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 unless the Group has exercised any exemptions arising following the adoption of new or revised IFRSs allowing the Group to not restate the comparative information.

The financial statements are presented in Sterling and in round thousands.

Going concern

At 30 November 2019, the Group had incurred a loss of £15.5m, resulting in negative retained earnings of £2.4m, and had suffered a cash outflow of £3m. Much of the trading loss has arisen due to one off charges to profit and loss as the directors continue to focus the business on profit making operations.

Since the year end the disruption arising from COVID-19 has introduced additional uncertainty in respect of making predictions for future trading and operations. The Group has modelled a variety of coronavirus scenarios in order to assess their potential financial impact over the coming months. The Directors have modelled scenarios that crossover different geographic territories and our revenue streams and implemented actions that mitigate our short term cost and cash outflows, including furlough and tax deferrals schemes, whilst ensuring we have a long term sustainable business.

While the Directors have concluded that these circumstances represent a material uncertainty, additional loan funding has been secured since the year end to ease immediate operating cash flow pressures. These facilities are due for renewal in March 2021 and the group does not currently have the funds to repay these. Additional funding or asset disposals could be initiated as required and the directors believe that appropriate refinancing of the existing debt is possible when the renewal date falls due. Therefore, after making enquiries and considering the uncertainties as described above, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going basis of accounting in preparing this financial information.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2019

Adoption of new and revised standards

New accounting standards adopted by the Group

The following IFRS have been adopted by the Group for the first time in these financial statements:

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' is effective for accounting periods beginning on or after 1 January 2018 and, therefore, the transition to IFRS 15 for the Group has been implemented from 1 December 2018. IFRS 15 sets out the requirements for recognising revenue with customers and the related disclosure requirements. The standard requires entities to apportion revenue earned from contracts to performance obligations on a relative stand-alone basis, based on a five-step model.

Application of this guidance will depend on the facts and circumstances present in a contract with a customer and will require the exercise of judgment.

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

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

Having reviewed the Group's contracts covering each of the above, it has been concluded that revenue recognised in three areas previously recorded under IAS 18 are inconsistent with the treatment required under IFRS 15.

These three areas have the impact of deferring revenue previously recognised in 2018 and earlier into 2019 and beyond.

These three contractual areas with their impact on opening reserves are:

- a right to access SaaS POS product which the Group controlled under IFRS 15 which is recognised overtime; £804,000. Under IFRS 15 based on the terms of these contracts and the rights the customer has that software, maintenance and support revenue is not considered to be distinct from each other. This differs to the accounting treatment under IAS 18 where each revenue stream were considered to be separately identifiable. The group retains control of the asset throughout the period and the software is not available to purchase separately from the maintenance and support services. There are considered to be significant performance obligations of the Group throughout the life of the contract which ensure that the customer has access to all updates/enhancements of the software without which the software would not be fit for purpose. Therefore under IFRS 15 all revenue is recognised over time rather than previously at a point in time under IAS 18;
- a multi year complex product build and deployment contract for a single customer which included variable consideration under IFRS 15; £960,000. The contract for these services included a clause where there was a possibility of a refund if the customer did not ultimately accept the product. Under IAS 18 the group considered that they had provided the services, had earned the right to consideration and settlement was probable therefore revenue was recognised for these services. However, due to the fact that there was variable consideration in the contract, under IFRS 15 as it was not considered highly probable that a significant reversal of revenue would not occur, it is appropriate to defer the revenue relating to the variable consideration until the uncertainty around the refund was resolved; and
- own IP for which the customer controlled under IFRS 15 but for which K3 has an ongoing performance obligation; £409,000. Under IFRS 15, there is considered to be a distinct performance obligation for upgrades and enhancements that was previously included in the software sale. This is considered to be a distinct performance obligation for which the revenue will be deferred and recognised over time. Under IAS 18 this was not considered to be distinct and as such was recognised at a point in time (sale of the software).

Effect of adoption of IFRS 15 at 1 December 2018

The following balances were restated as at 1 December 2018 due to the implementation of IFRS 15. The impact on these balances are as follows:

	£'000
Retained income	(1,804)
Contract assets	(1,213)
Contract liabilities	(960)
Deferred tax assets	369

Had the Group continued to report in accordance with IAS 18 for the year ended 30 November 2019, it would have reported the following amounts in these financial statements:

	As reported under IFRS 15 £'000	Effect £'000	As would have been reported £'000
Revenue	78,412	(338)	78,074
Loss for the year	(15,447)	(963)	(16,410)
Contract assets/Accrued income	3,955	1,213	5,168

The Group will continue to review the terms of significant new contracts to consider whether there are situations where there are significant customisation and installation obligations or where other performance obligations are distinct that may affect the timing of the recognition of revenue.

The adoption of IFRS 15 has also resulted in changes to the disclosures in the Annual Report. The key changes are as follows:

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

IFRS 9 'Financial instruments'

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

The Group assesses the expected credit loss on 3 segments of customers: large retailers, small retailers and POS systems and manufacturing customers with decreasing level of credit loss percentages. The opening expected credit loss allowance at 1 December 2018 was £2,001,000 and at 30 November 2019 £1,889,000 with the increase driven by the exposure to large retailers under the adoption of IFRS 9. Financial assets as at 1 December 2018 have decreased by £926,000 and increased the deferred tax asset by £157,000 due to an increase in the Expected Credit Loss.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2019

The Group has adopted the 'simplified approach' permitted under the standard to its trade receivables and contract assets, i.e. accrued income, as these do not contain a significant financing component under IFRS 15 (i.e. are generally due within 12 months). A provision matrix has been determined based on historical loss rates adjusted for forward looking information. The impact on transition on retained earnings is detailed below. Although the classification of financial instruments has changed, they continue to be measured at amortised cost.

The table below provides details of the classification and measurement of financial assets and liabilities under IAS 39 and IFRS 9 at 1 December 2018, date of initial application after taking account the impact of IFRS 15 as described above.

IFRS 9	Original IAS 39 measurement category	Revised IFRS 9 measurement category	IAS 39 carrying amount £'000	IFRS 9 carrying amount £'000
Financial assets				
Trade receivables, other receivables, cash and cash equivalents	Loans and receivables (amortised cost)	Financial assets at amortised cost	30,017	29,091

IFRS 16 'Leases'

IFRS 16 'Leases' was issued on 13 January 2016 and is mandatory for the Group from 1 December 2019 with early adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. IFRS 16 replaced IAS 17 Leases and IFRIC 4 determining whether an arrangement contains a lease.

The Group has opted to adopt the standard early and, therefore, the transition to IFRS 16 for the Group has been from 1 December 2018. 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. On adoption of IFRS 16, the Group has recognised within the balance sheet a right-of-use asset and lease liability for all applicable leases, and within the income statement rent expense has been replaced by depreciation and interest expense which has resulted in a decrease in administrative expenses and an increase in finance expenses.

As a lessee, the Group previously classified as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases. However the Group has elected not to recognise right-of-use assets and lease liabilities for leases with less than 12 months or less and are using the low value exemption.

The average discount rate applied to all leases on transition is 6%, where there was an outstanding accrued or prepaid cost this has been deducted or added to the cost of the right-of-use asset.

In summary on adoption of IFRS 16, the Group has recognised right-of-use assets and lease liabilities as follows:

Classification under IAS 17	Right-of-use assets	Lease liabilities
Operating leases	Office space: Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments, subject to the practical expedients noted above.	Measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions. The weighted average rate applied was 6%.
Finance leases	Measured based on carrying values for the lease assets and liabilities immediately before the date of initial application (i.e. carrying values brought forward, unadjusted).	

Adopting the new standard has also impacted a number of statutory measures such as profit from operations and cash generated from operations.

The group has applied the modified retrospective approach, with recognition of transitional adjustments on the date of initial application (1 December 2018). The revised requirements are thus not reflected in the prior year financial statements, and there has been no restatement of comparatives, rather these changes have been processed at the date of the initial application (1 December 2018). There was no change in the opening equity balances resulting from the change.

Practical Expedients Utilised:

The group applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics
- Reliance on previous assessments on whether leases are onerous as opposed to preparing an impairment review under IAS 36 as of the date of initial application
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2019

The following table presents the impact of adopting IFRS 16 on the statement of financial position as at 1 December 2018:

	Adjustments	30 November 2018 As originally presented £'000	IFRS 16 £'000	1 December 2018 £'000
Assets				
PPE	a)	2,326	(47)	2,279
Right-of-use assets		–	4,770	4,770
Liabilities				
Obligations under finance lease	b)	47	(47)	–
Lease liabilities		–	4,770	4,770
Equity				
Retained earnings		–	–	–

a) IFRS 16 introduces a new category of assets, right-of-use assets, representing the asset value of those assets held under leases. In addition any items of PPE held under finance leases, were also reclassified to right-of-use assets from PPE.

b) IFRS 16 introduces a new category of liabilities, lease liabilities, representing the liability value of the leases entered into by the group. As a result of implementing IFRS 16 and finance lease liabilities were reclassified.

The following table shows the operating lease commitments disclosed applying IAS 17 at 30 November 2018, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the statement of financial position at the date of initial application.

	1 December 2018 £'000
Minimum operating lease commitment at 30 November 2018	5,910
Add: Omitted operating lease commitments as at 30 November 2018	190
Undiscounted lease payments	6,100
Less: effect of discounting using the incremental borrowing rate	(1,377)
Lease liabilities for leases classified as operating type under IAS 17	4,723
Plus: leases previously classified as finance type under IAS 17	47
Lease liability as at 1 December 2018	4,770

Other new and amended standards and interpretations issued by the IASB did not impact the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies.

Impact of adoption of IFRS standards in the year on Opening Reserves

The cumulative impact on retained earnings of adopting the new accounting standards is shown below:

Retained Earnings Adjustments

IFRS 15, IFRS 16 and IFRS 9 impact on retained earnings	2018 £'000
At 30 November 2018 (as originally stated)	16,401
Adjustment to retained earnings on adoption of IRFS 15	(1,804)
Adjustment to retained earnings on adoption of IRFS 9	(769)
Total adjustment	(2,573)
Retained earnings as at 1 December 2018 as restated	13,828

New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective and, in some cases, had not yet been adopted by the EU:

IFRS 17	Insurance Contracts
IFRS 10 and IAS 28 (amendments)	Sale of Contribution of Assets between and Investor and it Associate or Joint Venture
Amendments to IFRS 3	Definition of a business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Amendments to IAS 1 and IAS 8	Definition of material
Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 November each year. The company controls an investee if all three of the following elements are present:

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

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

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

Business combinations

All business combinations are accounted for by applying the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 and IAS 19 respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date (see below); and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 are measured in accordance with that Standard.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2019

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held interests (including joint operations) in the acquired entity are remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Goodwill

Goodwill is initially recognised and measured as set out above.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's subsidiaries or cash-generating units (or groups of cash-generating units) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

Revenue recognition

Adoption of IFRS 15, interpretation and application by K3 revenue stream

The Group contracts for products and services in a variety of contractual forms and deployment methods which impact IFRS 15 revenue recognition. These include:

- Reselling of 3rd party products for which following contracting the Group has no continuing performance obligations for software and the customer controls the software. These are usually perpetual licences with customer on premise installations. Since the Group is reselling these all already functional products, services are unbundled. Customers can also choose to take maintenance and support for these products or indeed obtain services, support and maintenance from different suppliers.
- K3 own software IP (Intellectual Property) that adds incremental vertical functionality and bolts onto Microsoft Dynamics products and that is either sold directly to customer or via a channel partner. K3 does not control the software after the contract and issue of access code, which is contemporaneous. There is an ongoing performance obligation to maintain the product to ensure the functionality continues to bolt onto Microsoft Dynamics products.
- K3 own IP on products for which K3 controls and has ongoing performance obligations. These products are typically SaaS (Software as a Service) based subscription products which include a right to access as the customer continuously consumes functionality. The product offer is a typical bundle of software access, maintenance and support. The contracts typically have a low level of services.

Software revenue

Software licences for 3rd party products are recognised at a point in time, on contract and issue of the initial licence key which is contemporaneous.

K3 bolt on own IP is recognised at a point in time, on contract and issue of the licence key which is contemporaneous.

K3 own IP which is SaaS based is recognised over time and not in software but rather in maintenance and support for the purposes of revenue disaggregation disclosures. Revenue is recognised over time as K3 controls the product, the licence is not distinct and the customer continually receives benefits.

Services revenues

Services revenues for the Group are heavily biased to the implementation of 3rd party ERP solutions. Services are usually linked to implementation and set up rather than product functionality build. Services are contracted for on a time and materials basis, the customer takes ownership of the work delivered and revenue is recognized as it is performed.

Hardware:

Hardware is peripheral to a number of contract implementations, the revenue is recognised when the customer takes control of the asset on delivery.

Maintenance and Support:

Maintenance refers to the maintenance of the products and ensuring a right to upgrade whilst Support refers to ongoing customer support including for example help desk access.

3rd party products maintenance is provided by the product's author K3 has no performance obligation and this is sold through K3 for a margin. Revenue is recognised for the term of the contract at a point in time when the contract is signed. Support of 3rd party products is provided by K3 over time over the term of the contract.

K3 bolt on own IP is typically re-sold via channel partners who provide support. K3 has an ongoing performance obligation for the maintenance of the product and recognises a portion of revenue associated with that over time.

K3 own IP SaaS/subscription based is typically a bundled offer of maintenance and support which are both performance obligations for K3 and revenue is recognised over time.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2019

Allocation of transaction price:

Transaction price is measured based on the consideration specified in a contract with a customer and, where applicable, the best estimate of any consideration related to modifications to the contract which has yet to be agreed. Any amounts expected to be paid to the customer, such as penalties for late delivery, are deducted from the consideration. Where a transaction price has to be allocated between multiple performance obligations, this is generally achieved through allocating a proportion of total price against each using either standard list sales prices or an estimated costs methodology.

Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

Policies applicable from 1 December 2018

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Policies applicable prior to 1 December 2018

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2019

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

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

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

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

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

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

Dividends

Dividends are recognised when paid.

Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss.

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 recognised 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

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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

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.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2019

Impairment of property, plant and equipment and intangible assets excluding goodwill

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with an indefinite useful life are tested for impairment at least annually and whenever there is an indication at the end of a reporting period that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss to the extent that it eliminates the impairment loss which has been recognised for the asset in prior years.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. All of the group's debt instruments are measured subsequently at amortised cost.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

The Group recognises a loss allowance for expected credit losses on trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2019

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(1) The financial instrument has a low risk of default,

(2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and

(3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability.

Equity instruments

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Restructurings

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Restoration provisions

Provisions for the costs to restore leased assets to their original condition, as required by the terms and conditions of the lease, are recognised when the obligation is incurred, either at the commencement date or as a consequence of having used the underlying asset during a particular period of the lease, at the directors' best estimate of the expenditure that would be required to restore the assets. Estimates are regularly reviewed and adjusted as appropriate for new circumstances.

Employee share ownership plans

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

Share-based payments

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

The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the group's estimate of the number of shares that will eventually vest. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the amount that eventually vest. Market vesting conditions are factored into the fair value of the options and warrants granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The group no longer feels that the conditions will be met for the options to vest and as such the charge in year end of 30 November 2018 of £103,000 has been reversed in the year end 30 November 2019.

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.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2019

Cash and cash equivalents

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

Foreign currency translation

The presentational currency is sterling.

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

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

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

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

Critical accounting estimates and judgements

In applying the Group's accounting policies above the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The directors are of the opinion that there are no significant judgements to be disclosed except those over going concern which are disclosed in detail in the basis of preparation accounting policy in note 1.

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

Impairment of goodwill and other intangibles

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires an entity to estimate the future cash flows expected to arise from the cash generating unit. It also requires judgement as to a suitable discount rate in order to calculate present value, i.e. the directors' current best estimate of the weighted average cost of capital ("WACC"). Other intangibles are assessed annually for impairment as well as when triggers of impairment arise. An impairment review has been performed at the reporting date. More details including carrying values are included in note 13.

Capitalised development expenditure and subsequent amortisation

Where such expenditure meets the relevant criteria, the group is required to capitalise development expenditure. In order to assess whether the criteria are met the Board is required to make estimates in relation to likely income generation and financial and technical viability of the relevant development projects and the period over which the group is likely to benefit from such expenditure. Development projects are subject to an investment appraisal process with the product managers to assess the status of the development and the expected commercial opportunities. Development costs are assessed for impairment which requires an estimation of the future expected revenues to be generated from each product. This methodology, which is similar to that used to assess any impairment of goodwill, is discussed further in note 13. Expenditure is only capitalised when the investment appraisal process has assessed that the product is likely to benefit the Group in the future. More details including carrying values are included in note 12.

Calculation of loss allowance

When measuring expected credit losses the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring Expected Credit Losses (ECL). Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

If the ECL rates on trade receivables between 61 and 90 days past due had been 50 per cent higher as of November 2019, the loss allowance on trade receivables would have been £149,000 (2018: £300,000) higher.

If the ECL rates on trade receivables between 31 and 60 days past due had been 50 per cent higher as of November 2019, the loss allowance on trade receivables would have been £17,000 (2018: £18,000) higher.

Calculation of incremental borrowing rate and lease term in respect of IFRS 16

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the group's incremental borrowing rate on commencement of the lease is used. The group's incremental borrowing rate is calculated by reference to borrowing rates applicable to the group's other borrowings/financial liabilities and then adjusted for the specifics of the lease and asset. For every 0.5% increase in the incremental borrowing rate the right-of-use asset and lease liability recognised would increase by approximately £300,000, conversely an equivalent reduction in the incremental borrowing rate would decrease the right-of-use asset and liability by approximately £300,000.

Lease term is ordinarily calculated by reference to the contractual terms of the group's leases. Management may change their estimates in respect of the term of any lease if the probability of an extension or termination option, within the lease contract, being exercised changes. As a result of any change in estimate of the lease term the group adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. An equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss. Further details are provided in note 22.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2019

2. Revenue

	Year ended 30 November 2019 £'000	Year ended 30 November 2018 £'000
The group's revenue comprises:		
Software licence revenue	8,820	9,619
Services revenue*	25,900	28,987
Maintenance and support**	40,936	40,291
Hardware and other revenue	2,756	4,438
Revenue	78,412	83,335

*from installation, integration and software development services

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

3. Profit/(loss) from operations

	Notes	Year ended 30 November 2019 £'000	Year ended 30 November 2018 £'000
This has been arrived at after charging/(crediting):			
Staff costs	4	39,366	43,208
Depreciation of property, plant and equipment	10	794	885
Loss on disposal of fixed assets	10	–	22
Depreciation of right-of-use assets	11	1,737	–
Amortisation of acquired intangible assets	12	2,482	2,507
Amortisation of development costs	12	2,895	2,584
Exceptional impairment of Dynamics UK	13	12,188	–
Exceptional reorganisation costs (see below)		524	1,355
Exceptional customer settlement provisions		400	–
Loss allowance on trade receivables		870	1,077
Operating lease expenses			
– Plant and machinery		–	905
– Property		–	1,691
Audit fees:			
– Audit services		166	118
– Non-audit services		6	4

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

During the year the Group continued to achieve operating efficiencies, following on from the reorganisation programme of previous years. The total reorganisation costs, predominantly redundancy were £0.52m.

During the prior year, the Group carried out a programme to combine its UK Microsoft Dynamics businesses in addition to continuing the reorganisation programme commenced during the previous period and incurred reorganisation costs, predominantly redundancy costs, of £1.36m.

During the year, the income for share options was £0.1m. An exceptional charge has been recognised in relation to the likely settlement for a customer dispute for products and services delivered in previous years.

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

4. Staff costs

	Year ended 30 November 2019 £'000	Year ended 30 November 2018 £'000
Staff costs (including directors) comprise:		
Wages and salaries	33,154	36,472
Short-term non-monetary benefits	72	1,092
Defined contribution pension cost	2,263	1,847
Share-based payment (credit)/expense (see note 25)	(103)	103
Employers national insurance contributions and similar taxes	3,980	3,694
	39,366	43,208

Of the above staff costs, £3.5m (2018: £2.42m) has been capitalised within development costs (see note 12).

The average number of employees during the year was:

	Year ended 30 November 2019 Number	Year ended 30 November 2018 Number
Consultants and programmers	511	506
Sales and distribution	81	80
Administration	98	101
	690	687

Notes forming part of the financial statements (continued)

for the year ended 30 November 2019

4. Staff costs (continued)

Directors and key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the group, including the Directors of the company listed on page 23 and the divisional directors.

	Year ended 30 November 2019 £'000	Year ended 30 November 2018 £'000
Key management personnel remuneration consists of:		
Remuneration	1,402	1,321
Company contributions to defined contribution pension schemes	113	99
Share-based payment expense (note 25)	–	87
Employers national insurance contributions and similar taxes	110	141
	1,625	1,648

No share options were exercised during the year, hence there were no gains on exercise of share options (30 November 2018: £nil).

Included in the totals above is directors' remuneration:

	Year ended 30 November 2019 £'000	Year ended 30 November 2018 £'000
Directors' remuneration consists of:		
Emoluments	647	656
Contributions to personal pension schemes	51	49
Total per remuneration report (page 31)	698	705
Employers national insurance contributions and similar taxes	35	84
	733	789

	Year ended 30 November 2019 £'000	Year ended 30 November 2018 £'000
Remuneration in respect of the highest paid director:		
Aggregate emoluments	309	309
Pension contributions	30	30
	339	339

There were 4 directors in defined contribution pension schemes (2018: 4).

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

5. Segment information

During the past two financial years the group has moved to a more streamlined organisation with management resource focused on working across the group in a more unified manner to increase the focus on the level of our own IP sales. As a result of the change of focus internally segmental reporting for sales has been restated based on product sales and gross margin compared to previous years' reporting when revenue, gross margin and overheads were reported along business unit lines. Reporting is now based on product K3 own, IP and 3rd party revenue and gross margin. Overheads and administrative expenses are included as a central costs given resource works across both K3 own IP and 3rd party products.

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

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

The CODM (Chief Operating Decision Maker, the Board) primarily assesses the performance of the operating segments based on product revenue, gross margin and group adjusted profit from operations.

The segment results for the year ended 30 November 2019 and for the year ended 30 November 2018, reconciled to Adjusted Profit from Operations.

	Year ended 30 November 2019			
	K3 own IP products £'000	3rd party products £'000	Central costs £'000	Total £'000
Total segment revenue	24,161	64,841	–	89,002
Less inter-segment revenue	(3,284)	(7,306)	–	(10,590)
Software licence revenue	3,246	5,574	–	8,820
Services revenue	939	24,961	–	25,900
Maintenance and support	14,938	25,998	–	40,936
Hardware and other revenue	1,754	1,002	–	2,756
External revenue	20,877	57,535	–	78,412
Cost of sales	(5,411)	(33,351)	386	(38,376)
Gross profit	15,466	24,184	386	40,036
Administrative expenses	–	–	(38,205)	(38,205)
Adjusted operating profit/(loss) from operations	–	–	–	1,831

Notes forming part of the financial statements (continued)

for the year ended 30 November 2019

5. Segment information (continued)

	Year ended 30 November 2018 (restated) K3 own IP products £'000	3rd party products £'000	Central costs £'000	Total £'000
Total segment revenue	28,698	64,423	–	93,121
Less inter-segment revenue	(4,836)	(4,950)	–	(9,786)
Software licence revenue	5,174	4,445	–	9,619
Services revenue	2,029	26,958	–	28,987
Maintenance and support	14,491	25,800	–	40,291
Hardware and other revenue	2,168	2,270	–	4,438
External revenue	23,862	59,473	–	83,335
Cost of sales	(6,899)	(32,547)	–	(39,446)
Gross profit	16,963	26,926	–	43,889
Administrative expenses	–	–	(39,240)	(39,240)
Adjusted operating profit/(loss) from operations	–	–	–	4,649

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

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

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

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

External revenue by end customer geography

	External revenue Year ended 30 November 2019 £'000	External revenue Year ended 30 November 2018 £'000	Non-current assets 2019 £'000	Non-current assets 2018 £'000
United Kingdom	42,208	46,567	32,023	46,292
Netherlands	12,050	12,784	5,336	12,200
Ireland	3,539	2,892	16,490	6,402
Rest of Europe	11,022	12,120	7,976	8,168
Middle East	3,076	3,236	–	–
Asia	3,936	3,344	52	37
USA	1,598	1,656	1	3
Rest of World	982	736	–	–
	78,412	83,335	61,879	73,102
% of non-UK revenue	46%	44%		

5. Segment information (continued)

External revenue by market

	2019 UK high street fashion £'000	Other UK £'000	Non UK £'000	Total £'000
Software licence revenue	773	3,856	4,191	8,820
Services revenue	2,479	7,930	15,491	25,900
Maintenance and support	2,096	23,630	15,210	40,936
Hardware and other revenue	51	1,004	1,701	2,756
Total	5,399	36,420	36,593	78,412

External revenue by business unit geography

	2019 Software licensing £'000	Services revenue £'000	Maintenance and support revenue £'000	Hardware and other revenue £'000	Total £'000
United Kingdom	4,628	10,409	25,725	1,056	41,818
Netherlands	673	6,979	4,645	144	12,441
Ireland	1,012	465	2,063	–	3,540
Rest of Europe	1,404	2,645	5,416	1,556	11,021
Middle East	153	2,053	869	–	3,075
Asia	212	2,602	1,122	–	3,936
USA	628	193	778	–	1,599
Rest of World	110	554	318	–	982
	8,820	25,900	40,936	2,756	78,412

External revenue by revenue recognition category

	2019 Software licensing £'000	Services revenue £'000	Maintenance and support revenue £'000	Hardware and other revenue £'000	Total £'000
Goods transferred at a point in time	8,820	–	–	2,756	11,576
Services transferred at a point in time	–	25,900	12,999	–	38,899
Services transferred over time	–	–	27,937	–	27,937
Total	8,820	25,900	40,936	2,756	78,412

Revenue to be recognised in the future, related to agreed performance obligations that are unsatisfied or partially satisfied as at 30 November 2019, was as follows:

	2020 £'000	2021 £'000	Later £'000	Total £'000
Software licence revenue	–	–	–	–
Services revenue	243	–	–	243
Maintenance and support	8,928	–	–	8,928
Hardware and other revenue	504	–	–	504
	9,676	–	–	9,676

Notes forming part of the financial statements (continued)

for the year ended 30 November 2019

5. Segment information (continued)

External revenue by market

	2018 UK high street fashion £'000	Other UK £'000	Non UK £'000	Total £'000
Software licence revenue	669	2,036	6,914	9,619
Services revenue	4,026	9,703	15,258	28,987
Maintenance and support	2,459	24,051	13,781	40,291
Hardware and other revenue	39	2,281	2,118	4,438
Total	7,193	38,071	38,071	83,335

External revenue by business unit geography

	2018 Software licensing £'000	Services revenue £'000	Maintenance and support revenue £'000	Hardware and other revenue £'000	Total £'000
United Kingdom	2,705	13,729	26,510	2,321	45,265
Netherlands	1,025	6,976	3,767	226	11,994
Ireland	1,531	535	2,083	4	4,153
Rest of Europe	2,416	2,745	5,235	1,887	12,283
Middle East	225	1,879	717	–	2,821
Asia	319	2,383	930	–	3,632
USA	1,204	229	772	–	2,205
Rest of World	194	511	277	–	982
	9,619	28,987	40,291	4,438	83,335

External revenue by revenue recognition category

	2018 Software licensing £'000	Services revenue £'000	Maintenance and support revenue £'000	Hardware and other revenue £'000	Total £'000
Goods transferred at a point in time	9,619	–	–	4,438	14,057
Services transferred at a point in time	–	28,987	12,142	–	41,129
Services transferred over time	–	–	28,149	–	28,149
Total	9,619	28,987	40,291	4,438	83,335

Revenue to be recognised in the future, related to agreed performance obligations that are unsatisfied or partially satisfied as at 30 November 2018, was as follows:

	2019 £'000	2020 £'000	Later £'000	Total £'000
Software licence revenue	–	–	–	–
Services revenue	772	–	–	772
Maintenance and support	8,939	–	–	8,939
Hardware and other revenue	807	–	–	807
	10,519	–	–	10,519

5. Segment information (continued)

Revenue recognised and included within contract assets can be reconciled as follows:

	2019 £'000
At 1 December	8,617
Impact of IFRS 15	(1,213)
Restated at 1 December	7,404
Transfers in the period from contract assets to trade receivables	(6,207)
Excess of revenue recognised over cash (or rights to cash) being recognised during the period	2,758
At 30 November	3,955

Revenue recognised and included within contract liabilities can be reconciled as follows:

	2019 £'000
At 1 December	10,520
Impact of IFRS 15	960
Restated at 1 December	11,480
Amounts included in contract liabilities that was recognised as revenue during the period	(11,480)
Cash received in advance of performance and not recognised as revenue during the period	9,677
At 30 November	9,677

Notes forming part of the financial statements (continued)

for the year ended 30 November 2019

6. Finance income and expense

	Year ended 30 November 2019 £'000	Year ended 30 November 2018 £'000
Finance expense		
Bank borrowings	317	754
Interest expense on lease liabilities	347	–
Interest on obligations under finance leases	–	4
Other finance costs	192	(91)
Net finance expense	856	667

7. Tax expense

	Year ended 30 November 2019		Year ended 30 November 2018	
	£'000	£'000	£'000	£'000
Current tax expense/(credit)				
Income tax of overseas operations on profits/(losses) for the period	532		472	
Adjustment in respect of prior periods	92		745	
		624		1,217
Deferred tax income				
Origination and reversal of temporary differences	307		(629)	
Effect of change in rate of deferred tax	–		(83)	
		307		(712)
Total tax expense/(credit) in current year		931		505

In November 2019, the Prime Minister announced that he intended to cancel the future reduction in corporation tax rate from 19% to 17% which was due to be effective from 1 April 2020. This was announced in the Budget on 11 March 2020 and was substantially enacted on 17 March 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

7. Tax expense (continued)

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

	Year ended 30 November 2019 £'000	%	Year ended 30 November 2018 £'000	%
(Loss)/profit before tax	(14,532)		17	
Expected tax charges based on the standard rate of corporation tax	(2,761)	19.0%	3	17.6%
Expenses not deductible for tax purposes	2,611		(64)	
Movement in losses not recognised (see note 18)	809		(331)	
Different tax rates applied in overseas jurisdictions	88		191	
Effect of change in rate for deferred tax	78		(83)	
Adjustment for under provision in prior periods	106		789	
Total tax expense in current period	931	6.4%	505	2,970%

Deferred tax recognised directly in equity was £596,000 credit (2018: £nil). Current tax recognised in equity was £nil (2018: £15,000).

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

8. Dividends

	Year ended 30 November 2019 £'000	Year ended 30 November 2018 £'000
Final dividend of 1.54p (2018: 1.4p) per ordinary share proposed and paid during the period relating to the previous period's results	661	601

No dividend in respect of the year ended 30 November 2019 will be proposed.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2019

9. (Loss)/earnings per share

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

	2019 Number of shares	2018 Number of shares
Denominator		
Weighted average number of shares used in basic EPS	42,871,000	42,871,000
Weighted average number of shares used in diluted EPS	42,871,000	42,871,000

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

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

	Year ended 30 November 2019			Year ended 30 November 2018 (restated)		
	Earnings £'000	Per share amount Basic p	Per share amount Diluted p	Earnings £'000	Per share amount Basic p	Per share amount Diluted p
Numerator						
Loss per share	(15,447)	(36.0)	(36.0)	(488)	(1.1)	(1.1)
Add back:						
Amortisation of acquired intangibles (net of tax recognised)	2,061	4.8	4.8	1,952	4.6	4.6
Exceptional reorganisation costs (net of tax recognised)	424	1.0	1.0	1,355	3.2	3.2
Exceptional impairment costs (net of tax recognised)	9,872	23.0	23.0	–	–	–
Exceptional settlement provision (net of tax recognised)	324	0.8	0.8	–	–	–
Share-based payment charge (net of tax recognised)	(103)	(0.2)	(0.2)	103	0.1	0.1
Adjusted (LPS)/EPS	(2,869)	(6.6)	(6.6)	2,922	6.8	6.8

10. Property, plant and equipment

	Long leasehold land and buildings £'000	Leasehold improvements £'000	Plant, fixtures and equipment £'000	Total £'000
Cost				
At 30 November 2017	750	419	6,672	7,841
Additions	–	–	748	748
Disposals	–	(372)	(488)	(860)
Effect of movements in foreign exchange rate	–	–	20	20
At 30 November 2018	750	47	6,952	7,749
Additions	–	–	666	666
Effect of movements in foreign exchange rate	–	–	(92)	(92)
At 30 November 2019	750	47	7,526	8,323
Accumulated depreciation				
At 30 November 2017	107	387	4,868	5,362
Depreciation charge	10	23	852	885
Disposals	–	(363)	(475)	(838)
Effect of movements in foreign exchange rate	–	–	14	14
At 30 November 2018	117	47	5,259	5,423
Depreciation charge	10	–	784	794
Impairment loss	–	–	73	73
Effect of movements in foreign exchange rate	–	–	(74)	(74)
At 30 November 2019	127	47	6,042	6,216
Net book value				
At 30 November 2017	643	32	1,804	2,479
At 30 November 2018	633	–	1,693	2,326
At 30 November 2019	623	–	1,484	2,107

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

The impairment relates to the Dynamics UK division which is further explained in note 12.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2019

11. Leases

Right-of-use assets

	Buildings £'000	Equipment and motor vehicles £'000	Total £'000
Cost			
At 1 December 2018	3,798	972	4,770
Additions	610	415	1,025
At 30 November 2019	4,408	1,387	5,795
Accumulated depreciation			
At 1 December 2018	–	–	–
Depreciation charge	1,208	529	1,737
At 30 November 2019	1,208	529	1,737
Net book value			
At 30 November 2019	3,200	858	4,058

The Group leases several assets including buildings, motor vehicles and equipment. The average lease term is 2.1 years (2018: 2.2 years).

The Group's obligations are secured by the lessors' title to the leased assets for such leases.

Approximately one tenth of the leases for property, plant and equipment expired in the current financial year. The expired contracts were replaced by new leases for identical underlying assets. This resulted in additions to right-of-use assets of £0.6 million in 2019. The maturity analysis of lease liabilities is presented in note 22.

Amounts recognised in profit and loss

	30 November 2019 £'000
Depreciation expense on right-of-use assets	1,737
Interest expense on lease liabilities	347

12. 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 November 2017	51,019	20,630	24,011	10,557	4,278	110,495
Additions	–	2,627	–	–	–	2,627
Effect of movements in foreign exchange rate	168	76	88	–	32	364
At 30 November 2018	51,187	23,333	24,099	10,557	4,310	113,486
Additions	–	4,080	–	–	–	4,080
Effect of movements in foreign exchange rate	(669)	–	(230)	–	(128)	(1,027)
At 30 November 2019	50,518	27,413	23,869	10,557	4,182	116,539
Accumulated amortisation						
At 30 November 2017	–	10,857	15,962	10,557	1,561	38,937
Amortisation charge	–	2,584	1,980	–	527	5,091
Effect of movements in foreign exchange rate	–	7	67	–	13	87
At 30 November 2018	–	13,448	18,009	10,557	2,101	44,115
Amortisation charge	–	2,895	1,955	–	527	5,377
Impairment	10,051	1,356	655	–	–	12,062
Effect of movements in foreign exchange rate	–	339	(172)	–	(71)	96
At 30 November 2019	10,051	18,038	20,447	10,557	2,557	61,650
Net book value						
At 30 November 2017	51,019	9,773	8,049	–	2,717	71,558
At 30 November 2018	51,187	9,885	6,090	–	2,209	69,371
At 30 November 2019	40,467	9,375	3,422	–	1,625	54,889

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 6 years, for contractual and non-contractual customer relationships is between 0 and 8 years and for intellectual property rights is between 0 and 4 years. The impairment of Development costs relates to assets held in UK Dynamics.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2019

13. 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 2019 £'000	2018 £'000
Walton	1,555	1,555
Syspro	13,680	13,680
Hosting and managed services	2,905	2,905
Dynamics UK	–	10,051
Dynamics International	9,247	9,650
IP	396	413
Sage	4,556	4,556
Retail Systems Group (RSG) (including Merac)	1,707	1,707
Unisoft	839	876
Integrated Business Solutions (IBS)	770	770
DdD Retail	4,812	5,024
	40,467	51,187

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

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

The basis of the assumptions used is as follows:

- management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the business. The growth rates are based on management forecasts for the markets in which each CGU operates.
- the group prepares pre-tax cash flow forecasts derived from the most recent financial forecasts approved by the Board for the next five years with key assumptions by CGU as follows:
    - o The Walton relates to small systems and a gradual attrition of revenue is expected, and an attrition rate of 2% has been applied.
    - o Syspro growth rates of 2.5% for services and maintenance reflecting the price increases and 10% of software growth.
    - o Hosting and Managed services growth of 5%-10% relates to growth in hosting and increased demand for GDPR and security services.
    - o Dynamics UK which starts from a loss making position for the year end November 2019 together with assumed negative growth rates due to the challenging UK retail market and customer attrition and as a result requires a full impairment to the Goodwill of £10.1m and other assets of the CGU, the total value of impairment being £12.2m.
    - o Dynamics International shows services revenue growth of 20% – 5% with support and maintenance growing 5% and term contract software growth of 50% – 20% from a low base.

13. Goodwill and impairment (continued)

  - IP growth rates are strong driven by K3|imagine growth rates of 100% to 20% over the 5 years from a low base.
  - Sage shows 2% growth rates over the 5 years.
  - Retail Systems Group inc Merac shows growth of 5% to 10% over the 5 years driven by expansion of the K3|imagine retail suite and associated revenue.
  - Unisoft and DdD show a 5% growth driven by expansion of the K3|imagine retail suite and associated revenue.
  - The IBS CGU also relates to small systems and is forecast to have no growth during the next 5 years.
  - The most recent financial forecasts have been prepared on the assumption that gross margins will be consistent with those generated historically (taking into account the change in the sales mix, in particular the shift towards "consumption-based" models) and that overheads are in line with any changes in the level of revenues forecast adjusted for the reorganisation benefit.
  - The growth rates are based on industry growth rates, the Board's view of the observable markets as well as historical and estimated requirement by customers for the products and services.
- the rate used to discount the forecast pre-tax cash flows is 13.6% and represents the directors' current best estimate of the weighted average cost of capital ("WACC"). The directors consider that there are no material differences in the WACC for different CGUs.

For the majority of the CGUs no reasonable change to the assumptions used in the impairment test would give rise to an impairment. For Sage and IBS with the lowest headroom, the Sage the forecasts would annually decline by 1% without changing the cost base nor the annual inflation. IBS revenue would have to annually decline by 10% for there to be an impairment.

The impairment of UK Dynamics at £12.2m is a material item. The impairment was based on a value in use base in which goodwill, intangible and property, plant and equipment were fully written off. Working capital balances remained unimpaired as the business continued to trade and these assets had a realizable value. The value in use exercise highlighted that the assets of the CGU were unlikely to be recoverable due to the key factors such as: the company continued to incur losses throughout the financial year despite a significant restructure in prior year; significant contracts were not successfully converted as anticipated; a challenging UK retail market; and customer attrition. This assessment compounded with the impact of COVID-19 has lead to the company been put in to administration post year end.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2019

14. Subsidiaries

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

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

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

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

Details of movements in investments are recorded in note 5 of the company financial statements.

14. Subsidiaries (continued)

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

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

Notes forming part of the financial statements (continued)

for the year ended 30 November 2019

14. Subsidiaries (continued)

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

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

15. Trade and other receivables

	2019 £'000	2018 £'000
Trade receivables	16,407	16,445
Loss allowance	(1,889)	(1,075)
Trade receivables – net	14,518	15,370
Current taxes	–	91
Other receivables	186	231
Contract assets	3,955	8,617
Prepayments and stock	2,087	2,697
	20,746	27,006

As at 1 December 2017, trade receivables from contracts with customers amounted to £18.0m (net of loss allowance of £1.5m).

The fair value of trade and other receivables approximates to book value at 30 November 2019 and 30 November 2018.

Of the above, trade receivables of £nil (2018: £nil) and contract assets of £1.89m (2018: £2.97m) 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 at the period end 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.

The average credit period on sales is 30 days. No interest is charged on outstanding trade receivables.

The group always measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2019

15. Trade and other receivables (continued)

The following table details the risk profile of trade receivables and Contract Asset based on the group's provision matrix. As the group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Group's different customer segments.

Trade receivables and contracts assets receivables – days past due

30 November 2019	Not past due £'000	<30 £'000	31-60 £'000	61-90 £'000	>90days £'000	Total £'000
Expected credit loss rate	1.7%	2.3%	3.0%	5.0%	78.2%	9.3%
Estimated total gross carrying amount at default	12,894	3,790	1,131	602	1,945	20,362
Lifetime ECL	(217)	(88)	(33)	(30)	(1,521)	(1,889)
						18,473

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

	2019 £'000	2018 £'000
Pound sterling	11,171	17,036
Euro	8,584	8,709
Other	991	1,261
	20,746	27,006

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

15. Trade and other receivables (continued)

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

	2019 £'000	2018 £'000
At beginning of year	1,075	1,460
Prior year adjustment arising from IFRS 9 implementation	926	–
Restated brought forward balance	2,001	1,460
Provided during the period	870	1,077
Utilised during the period	(690)	(1,335)
Unused amounts released	(292)	(127)
At end of year	1,889	1,075

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

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

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

Notes forming part of the financial statements (continued)

for the year ended 30 November 2019

16. Trade and other payables

	2019 £'000	2018 £'000
Trade payables	4,645	5,163
Other payables	1,630	903
Accruals	5,016	6,945
Total financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost	11,291	13,011
Other tax and social security taxes	4,040	4,897
Contract liabilities	9,677	10,520
	25,008	28,428

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 60 days. Thereafter, interest is charged on the outstanding balances at various interest rates. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

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 2019 and 30 November 2018.

17. Borrowings

	2019 £'000	2018 restated (refer to note 29) £'000
Non-current		
Bank loans (secured)	6,262	–
	6,262	–
Current		
Bank overdrafts (secured)	4,385	2,724
Bank loans (secured)	–	7,485
	4,385	10,209
Total borrowings	10,647	10,209

The Group's bank overdrafts are secured by cross guarantees and debentures (fixed and floating charges over the assets of all the Group companies). The Group's bankers have a formal right of set-off and provides a net overdraft facility across the Group of £2,000,000 (2018: £2,000,000) as an allocation of the overall funding facility. In April 2020, the overdraft allocation was reduced to £250,000 of the total £13m facility.

17. Borrowings (continued)

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

	Currency	Nominal rate%	Year of maturity	Security
Secured bank loan	GBP	2.1% – 6.00 % over LIBOR	2021	See below

During August 2019 the Group extended its Banking Facility agreement with Barclays to 31 March 2021 (further details are included in note 27). Bank borrowings were £6.3m (2018: short term liabilities £7.5m) are included in long term liabilities. The Facilities include a monthly draw down and a multi-currency overdraft facility.

Maturity analysis of borrowings:

	2019 £'000	2018 restated (refer to note 29) £'000
In less than one year	4,385	10,209
In more than one year but not more than two years	6,262	–
	10,647	10,209

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 Banking facilities available at 30 November 2019 of £3.7m (2018: £12.4m) for which all conditions have been met. It is a revolving loan facility on which interest is charged at a floating rate linked to LIBOR. For the purposes of reporting fair value is equivalent to the carrying value of the borrowings.

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

	2019 £'000	2018 restated (refer to note 29) £'000
Pound sterling	5,931	5,453
Euro	4,716	4,756
	10,647	10,209

Post year end, in April 2020, the group increased its banking facility by £3m and raised a further £3m from a shareholder loan. The bank facility is expected to reduce in October 2020.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2019

18. Financial instruments

Risk management

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

- Market risk
- Liquidity risk
- Credit risk

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

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

Principal financial instruments

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

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

Market risk

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

Fair value and cash flow interest rate risk

The group has fixed interest loans in respect of leases with a net book value of £4.06m. The fixed rate applicable on lease liabilities is 6%.

Bank debt totalling £6.3m (2018: £7.5m) 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.

18. Financial instruments (continued)

Liquidity risk

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

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

The principal terms of the group's borrowings are set out in note 17.

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 15.

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.

	2019 £'000	2018 £'000
Total equity	49,257	68,969
Less: amounts in translation reserve	(1,558)	(2,486)
	47,699	66,483

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 that interest rates are likely to remain low and unlikely to increase. A small increase of 0.1% movement in the interest rate could be reasonably possible as at the reporting date and would cause additional annual interest charges of £10,000, assuming the Banking Facility is fully drawn.

The group's foreign exchange risk is dependent on the movement in the Euro to sterling exchange rate. The directors consider a 3% movement in the Euro rate to be reasonably possible as at the reporting date. The effect of a 3% strengthening or weakening in the Euro against sterling at the balance sheet date on the Euro denominated debt would be immaterial.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2019

18. Financial instruments (continued)

Financial instruments by category

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

As at 30 November 2019

	Notes	Amortised cost £'000	At FVTPL £'000	Total £'000
Assets				
Trade and other receivables:				
Trade receivables	15	14,518	–	14,518
Other non-derivative financial assets	15	186	–	186
Contract assets	15	3,955	–	3,955
Cash and cash equivalents	28	8,226	–	8,226
Total assets		26,885	–	26,885
Liabilities				
Borrowings:				
Current	22	(5,795)	–	(5,795)
Non-current	17	(8,769)	–	(8,769)
Trade and other payables:				
Trade payables	16	(4,645)	–	(4,565)
Other non-derivative financial liabilities	16	(6,646)	–	(6,646)
Total liabilities		(25,855)	–	(25,855)
		1,030	–	1,030

18. Financial instruments (continued)

Financial instruments by category (continued)

As at 30 November 2018

	Notes	Loans and receivables £'000	Available-for-sale £'000	Amortised cost £'000	At FVTPL £'000	Total £'000
Assets						
Available-for-sale		–	98	–	–	98
Trade and other receivables:						
Trade receivables	15	15,370	–	–	–	15,370
Other non-derivative financial assets	15	231	–	–	–	231
Contract assets	15	8,617	–	–	–	8,617
Cash and cash equivalents	28	9,638	–	–	–	9,638
Total assets		33,856	98	–	–	33,954
Liabilities						
Borrowings:						
Current	17/22	–	–	(10,241)	–	(10,241)
Non-current	22	–	–	(15)	–	(15)
Trade and other payables:						
Trade payables	16	–	–	(5,163)	–	(5,163)
Other non-derivative financial liabilities	16	–	–	(7,848)	–	(7,848)
Total liabilities		–	–	(23,267)	–	(20,543)
		33,856	98	(23,267)	–	10,687

Financial instruments measured at fair value

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

Notes forming part of the financial statements (continued)

for the year ended 30 November 2019

19. Deferred tax

Recognised deferred tax assets and liabilities and attributable to the following:

	Assets		Liabilities		Net	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Plant and equipment	265	392	–	–	265	392
Other temporary differences	519	874	–	(280)	519	594
Business combinations	41	41	(1,115)	(1,534)	(1,074)	(1,493)
Deferred tax assets/(liabilities)	825	1,307	(1,115)	(1,814)	(290)	(507)

Movement in deferred tax during the year

	1 December 2018 £'000	Recognised in income £'000	Recognised in equity £'000	30 November 2019 £'000
Plant and equipment	392	(127)	–	265
Other temporary differences	594	(601)	526	519
Business combinations	(1,493)	419	–	(1,074)
Deferred tax assets/(liabilities)	(507)	(309)	526	(290)

The Group have not recognised a deferred tax asset on £1.9m (2018: £0.39m) of tax losses and short term timing differences carried forward due to uncertainties over recovery.

Deferred tax of £526,000 was recognised in equity due to the implementation of IFRS 9 and 15 in the year.

No deferred tax liability is recognised on temporary differences of £nil (2018: £2.19m) relating to the unremitted earnings of overseas subsidiaries as the Group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future.

20. Share capital

	Issued and fully paid			
	2019		2018	
	Number	£'000	Number	£'000
Ordinary shares of 25p each				
At beginning of the year	42,946,665	10,737	42,946,665	10,737
At end of the year	42,946,665	10,737	42,946,665	10,737

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

20. Share capital (continued)

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

	2019 Number	2018 Number
Own shares held	66,739	75,665

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.

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.

217,497 options were under the SAYE 2016 scheme (no options granted during the either the year ended 30 November 2019 or the year ended 30 November 2018). None of these options have been exercised during either period.

2,890,000 options ("LTIP Options") were granted during the year ended 30 November 2018, with a further 350,000 being granted during the year ended 30 November 2019 under the terms of a new K3 Long Term Incentive Plan (the "LTIP"). They are exercisable at a price of 25p per share, being nominal value. The LTIP Options vest in three tranches, as set out below, based on the achievement of certain hurdles relating to the adjusted operating profit ("AOP", as defined in the option agreements as being operating profits prior to any share based payment charges) of the Group for each of the two years to 30 November 2019 and, in respect of the last tranche, a further criteria based on the Company's share price during the 30 days immediately following the announcement of K3's results for the year ended 30 November 2020 (the "Price Vesting Criteria") and the Adjusted Profit per share for the year ending 30 November 2020. The model and key assumptions used in the valuation of the share-based payment are disclosed in note 25.

Notes forming part of the financial statements (continued)

for the year ended 30 November 2019

20. Share capital (continued)

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

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

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

21. 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.

22. Lease liabilities

	30 November 2019 £'000
Analysed as:	
Non-current	2,507
Current	1,410
	3,917

	30 November 2019 £'000
Maturity analysis:	
Year 1	1,410
Years 2 to 5	2,007
Onwards	500
	3,917

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

All lease obligations are denominated in Sterling, Euros, Singapore Dollars or Icelandic Krona.

	Minimum lease payments 30 November 2018 £'000
Amounts payable under finance leases:	
Within one year	33
In the second to fifth years inclusive	18
After five years	–
	51
Less: future finances charges	(4)
Present value of lease obligations	47

	Present value of minimum lease payments 30 November 2018 £'000
Amounts payable under finance leases:	
Within one year	32
In the second to fifth years inclusive	15
After five years	–
Present value of lease obligations	47
Analysed as:	
Non-current	15
Current	32
	47

Notes forming part of the financial statements (continued)

for the year ended 30 November 2019

22. Lease liabilities (continued)

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 2 years. For the year ended 30 November 2018, the average effective borrowing rate was 3 per cent. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in Sterling, Euros, Singapore Dollars or Icelandic Krona.

The fair value of the Group's lease obligations as at 30 November 2018 is estimated to be £44,000 using a 6 per cent discount rate based on the Group's calculated discount rate.

The Group's obligations under finance leases are secured by the lessors' rights over the leased assets disclosed in note 11.

23. Operating lease arrangements

	2018 £'000
Minimum lease payments under operating leases recognised as an expense in the year	2,596

At the reporting date, the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018 £'000
Within one year	2,214
In the second to fifth years inclusive	3,032
After five years	664
	5,910

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.

24. Retirement benefits

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

Pension costs for defined contribution schemes in the year to 30 November 2019 are £2.26m (2018: £1.85m).

25. Share-based payments

As disclosed in note 20, K3 Business Technology Group plc operates an equity-settled share-based remuneration scheme for employees: the K3 Long Term Incentive Plan ("LTIP") for certain senior management including executive directors. Under the scheme there are two types of share options: those where the options vest based on the achievement of a share price target and those where the options vest on the achievement of adjusted operating profit or adjusted earnings per share, i.e. adjusted for amortisation of acquired intangibles, cost of share-based payments and exceptional items. All options are subject to the employee having completed three years' service from the date of grant. The group also operates a Save As You Earn ("SAYE") scheme for employees.

	2019		2018	
	Weighted average exercise price Pence	Options Number	Weighted average exercise price Pence	Options Number
Outstanding at beginning of the year	35.4	3,005,522	295.5	141,711
Granted during the year	25.0	350,000	25.0	2,890,000
Exercised during the year	–	–	–	–
Lapsed during the year	25.0	(100,000)	295.5	(26,189)
Outstanding at the end of the year	34.6	3,255,522	35.4	3,005,522

The exercise price of options outstanding at the end of the year was 25p under the LTIP scheme and 295.5p under the SAYE scheme (2018: 25p under the LTIP scheme and 295.5p under the SAYE scheme) and their weighted average contractual life was 8.46 years (30 November 2018: 9.76 years).

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

The weighted average fair value of options granted during the year was 0.0p, 2018, 87.6p.

The options granted during the previous year were valued using a trinomial lattice model, the Hoadley Options model. The weighted average share price at the date of grant was 174.9p; the exercise price was 25p; and the weighted average contractual life was 10 years. The weighted average expected volatility was 33.8%; the weighted average expected dividend growth was 7%; and the weighted average risk-free rate was 0.97%.

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

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

	Year ended 30 November 2019 £'000	Year ended 30 November 2018 £'000
Equity-settled schemes	(103)	103

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 year ended 30 November 2019

26. Related party transactions

Details of directors and key management compensation are given in the Remuneration Report on pages 31 to 33 and note 4. Included within the fees/ basic salary amount for Mr JP Manley was £19,250 (2018: £42,884) in relation to consultancy on the own IP positioning and development and for management of internal systems. The balance owed to JP Manley at 30 November 2019 was £12,000 (2018:£nil).

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:

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.

27. Events after the reporting date

The impact on the business from the coronavirus is a non-adjusting post balance sheet event and therefore was not considered in the impairment review. The coronavirus disruption has had an impact on trading after the year end and as a result the directors have performed a re-assessment (but not adjustment) of the carrying value of the reported assets and liabilities for the following key impacts:

- expected delay in cash collection;
- potential increase in bad debts;
- possible delays in signing new contracts; and
- changes to treasury management.

Any permanent negative effect on trading would have a bearing on the value in use calculations used for the impairment of goodwill and intangible assets. At this time we do not consider there to be any adjustments required to balances as at 30 November 2019.

On the 21st April 2020, K3 Business Technologies Ltd, the UK based subsidiary of the K3 Group was placed into administration. The company for the year end 30 November 2019 had revenue of £22m and an Adjusted Operating Loss in excess of £3.0m.

During April 2020 the group secured £6.0m of loans from Barclays and its two major shareholders, Kestrel Partners LLP ("Kestrel") and Johan Claesson, also a non-executive director. The cash funding will strengthen the Group's liquidity position during this period of unprecedented disruption caused by the Coronavirus pandemic.

Barclays has extended its existing loan facilities to K3 by £3.0m to a maximum of £13.0m in total. The terms of the loan facilities, including their duration, are similar to the existing facilities, which expire on 31 March 2021.

Kestrel (which has appointed Oliver Scott to the Board as its non-executive director representative) and Johan Claesson (together "the Lenders") are providing an unsecured term loan of £3.0m until 30 June 2021 ("Shareholder Loan"). The Shareholder Loan is split equally between the two Lenders. Mr Claesson will provide his part of the loan via his associated company, CA Fastigheter AB and Kestrel's loan is provided via its discretionary clients.

The main terms of the Shareholder Loan are as follows:

- unsecured and subordinated to all indebtedness with Barclays;
- 8.0% annual coupon, with interest rolling up on a quarterly basis; and
- 1 warrant issued for every £2.50 of Shareholder Loan. Warrants are over ordinary shares of 25p each are transferrable, have a 10 year duration and a strike price of 25p.

28. Notes to the cash flow statement

Cash and cash equivalents

	2019 £'000	2018 restated (refer to note 29) £'000
Cash and bank balances available on demand	8,226	9,638
Bank overdrafts	(4,385)	(2,724)
	3,841	6,914

Cash and cash equivalents comprise cash and bank balances available on demand. The carrying amount of these assets is approximately equal to their fair value. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated reporting position as shown above.

Non-cash transactions

Additions to buildings, motor vehicles and equipment during the year amounting to £611,000 were financed by new leases.

Change in liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

			Non-cash changes	
	1 December 2017 £'000	Financing cash flows £'000	Other changes £'000	30 November 2018 £'000
Bank loans (note 17)	6,124	1,204	157	7,485
Finance leases (note 22)	105	(58)	–	47
Total liabilities from financing activities	6,229	1,146	157	7,532

			Non-cash changes			
	1 December 2018 £'000	Financing cash flows £'000	IFRS 16 impact £'000	New leases £'000	Other changes £'000	30 November 2018 £'000
Bank loans (note 17)	7,485	(1,250)	–	–	27	6,262
Finance leases (note 22)	47	–	(47)	–	–	–
Lease liabilities (note 22)	–	(1,505)	4,817	611	(6)	3,917
Total liabilities from financing activities	7,532	(2,755)	4,770	611	21	10,179

Notes forming part of the financial statements (continued)

for the year ended 30 November 2019

28. Notes to the cash flow statement (continued)

Adjusted cash generated from operations

Cash flows from operations include acquisition costs, exceptional costs and exceptional income. The adjusted cash generated from operations has been computed because the directors consider it more useful to shareholders and investors in assessing the underlying operating cash flow of the Group. The adjusted cash generated from operations is calculated as follows:

	Year ended 30 November 2019 £'000	Year ended 30 November 2018 £'000
Cash generated from operating activities	6,073	8,629
Add:		
Exceptional reorganisation costs	524	1,355
Adjusted cash generated from operations	6,597	9,984

29. Prior period restatement

At 30 November 2018 cash and cash equivalents in the consolidated statement of financial position, as originally presented, included bank overdrafts of £2,724,000. Detailed consideration of the evidence supporting this treatment has concluded that the conditions for this net presentation were not met and the error has been corrected within the comparatives, reclassifying the overdrafts to current liabilities. The restated cash and cash equivalents, after this reclassification is £9,638,000.

The correction of these errors has not had any impact on previously reported profits, net current assets or net assets.

30. Provisions

In the current year a dilapidation provision totalling £414,000 has been recognised which is equivalent to the balance stated at year end. The provision is split between current and non-current liabilities as follows: current liabilities £120,000 and non-current liabilities £294,000.

31. Notes to the strategic report

*1 Group adjusted profit from operations is calculated before amortisation of acquired intangibles of £2.48m (2018: £2.51m), exceptional reorganisation costs of £0.52m (2018: £1.36m), exceptional impairment of development costs of £12.2m (2018: £nil), acquisition costs of £nil (2018: £nil), exceptional customer settlement provisions of £0.4m (2018: £nil), share-based payment credit of £0.1m (2018: £0.1m) and release of contingent consideration of £nil (2018: £nil).

*2 Group adjusted profit before tax is calculated before amortisation of acquired intangibles of £2.48m (2018: £2.51m), exceptional reorganisation costs of £0.52m (2018: £1.36m), exceptional impairment of development costs of £12.2m (2018: £nil), acquisition costs of £nil (2018: £nil), exceptional customer settlement provisions of £0.4m (2018: £nil), share-based payment credit of £0.1m (2018: £0.1m) and release of contingent consideration of £nil (2018: £nil).

*3 Group adjusted earnings/(loss) per share is calculated before amortisation of acquired intangibles (net of tax) of £2.1m (2018: £1.95m), exceptional reorganisation costs (net of tax) of £0.4m (2018: £1.36m), exceptional impairment of development costs (net of tax) £9.9m (2018: £nil), acquisition costs (net of tax) of £nil (2018: £nil), exceptional customer settlement provisions of £0.4m (2018: £nil), share-based payment credit (net of tax) of £0.1m (2018: £0.1m) and release of contingent consideration (net of tax) of £nil (2018: £nil). The adjusted EPS/(LPS) for the year ended 30 November 2019 and 2018 has been amended to reflect that there was no tax charge or credit recognised in the period on either the exceptional reorganisation costs or on the exceptional impairment charge. The calculation has been amended to reflect the actual tax charge or credit directly allocable rather than on an effective tax rate as previously determined as the directors consider this to be a fairer representation.

*4 Annual contracted Value includes software term agreements.

*5 Includes contracted support and maintenance including hosting and long term services revenues with a frame agreement greater than 2 years.

*6 Net Debt comprises Bank Loans and Overdrafts less Cash and cash equivalents.

*7 Net Working Capital comprises Trade and other Receivables less Trade and other Payables.

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

*9 Adjusted EBITDA comprises Adjusted Profit from Operations £1.8m (2018: £4.6m) plus Amortisation of Development costs £2.9m (2081: £2.6m) and depreciation of property, plant and equipment and right-of-use assets £2.5m (2018: £0.9m).

*10 Maintenance & support comprises software maintenance renewals, support contracts, hosting & managed services.

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

*12 Overheads before exceptional items, impairment of acquired intangibles, Foreign exchange.

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Company balance sheet

as at 30 November 2019

Registered number: 2641001

	Notes	2019 £'000	2018 restated (refer to note 16) £'000
Fixed assets			
Tangible assets	5	459	419
Investments	6	41,251	45,751
		41,710	46,170
Current assets			
Debtors	7	18,254	37,772
Cash at bank and in hand		–	541
Deferred tax	10	31	67
		18,285	38,380
Creditors: Amounts falling due within one year	8	(11,677)	(15,107)
Net current assets		6,608	23,273
Creditors: Amounts falling due after more than one year	9	(6,262)	–
Net assets		42,056	69,443
Capital and reserves			
Called-up share capital	11	10,737	10,737
Share premium account		28,897	28,897
Other reserve		10,324	10,324
Profit and loss account		(7,902)	19,485
Equity shareholders' funds		42,056	69,443

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 loss for the year dealt with in the financial statements of the parent company was £26,623,000 (2018: Profit £2,406,000).

The financial statements on pages 108 to 116 were approved and authorised for issue by the Board of Directors on 24 July 2020 and signed on its behalf by:

RD Price
Director

The notes on pages 110 to 116 form part of these financial statements.

Company statement of changes in equity

as at 30 November 2019

	Share capital £'000	Share premium £'000	Other reserve £'000	Retained earnings £'000	Total equity £'000
At 30 November 2017	10,737	28,897	10,324	17,579	67,537
Changes in equity for year ended 30 November 2018					
Profit for the period	–	–	–	2,406	2,406
Total comprehensive income	–	–	–	2,406	2,406
Share-based payment	–	–	–	103	103
Movement in own shares held	–	–	–	(2)	(2)
Dividends paid to equity holders	–	–	–	(601)	(601)
At 30 November 2018	10,737	28,897	10,324	19,485	69,443
Changes in equity for year ended 30 November 2019					
Loss for the year	–	–	–	(26,623)	(26,623)
Total comprehensive expense	–	–	–	(26,623)	(26,623)
Share-based payment	–	–	–	(103)	(103)
Dividends paid to equity holders	–	–	–	(661)	(661)
At 30 November 2019	10,737	28,897	10,324	(7,902)	42,056

Of the above reserves, the directors only consider the profit and loss account to be distributable. The dividends paid in the year were voted and approved when the company had sufficient distributable reserves based on published accounts at the time.

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 66,739 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 2019 was £103,445 (2018: £180,000).

Notes forming part of the company financial statements

for the year ended 30 November 2019

1. Accounting policies for the company financial statements

The principal accounting policies are summarised below where they differ from those in the consolidated financial statements on pages 51 to 69. They have all been applied consistently throughout the current year and the preceding period.

Basis of accounting

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

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

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

- The cash flow statement and related notes
- Capital management disclosures
- The effects of new 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.

Financial instruments

Financial assets and financial liabilities are recognised in the company's statement of financial position when the company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Intercompany loans are subsequently measured at amortised cost. Interest income is recognised using the effective interest method.

The carrying amount of financial assets and liabilities that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. For financial assets and liabilities measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss.

2. Profit/(loss) from operations

	Notes	Year ended 30 November 2019 £'000	Year ended 30 November 2018 £'000
This has been arrived at after charging/(crediting):			
Staff costs	3	2,577	2,185
Depreciation of property, plant and equipment	5	128	93
Exceptional impairment of Dynamics UK		25,550	–
Exceptional reorganisation costs		20	84
Foreign exchange differences		335	2

3. Staff numbers

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

	Year ended 30 November 2019 Number	Year ended 30 November 2018 Number
Administration	35	19

Their aggregate remuneration comprised:

	Year ended 30 November 2019 £'000	Year ended 30 November 2018 £'000
Wages and salaries	2,125	1,577
Social security costs	242	187
Other pension costs (see note 13)	167	158
Share-based payment costs	(103)	103
Short term non-monetary benefits	146	160
	2,577	2,185

4. Directors' remuneration, interests and transactions

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

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

Notes forming part of the company financial statements (continued)

for the year ended 30 November 2019

5. Tangible fixed assets

	Plant, office equipment and fixtures £'000
Cost	
At 1 December 2017	429
Additions	125
At 1 December 2018	554
Additions	168
At 30 November 2019	722
Depreciation	
At 1 December 2017	42
Charge for the year	93
At 1 December 2018	135
Charge for the year	128
At 30 November 2019	263
Net book value	
At 30 November 2019	459
At 30 November 2018	419
At 30 November 2017	387

6. Fixed asset investments

	2019 £'000	2018 £'000
Subsidiary undertakings	41,251	45,751

Subsidiary undertakings

The trading subsidiaries of K3 Business Technology Group plc are disclosed in note 14 to the consolidated financial statements.

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

	Cost of investment £'000	Total £'000
Cost		
At 1 December 2018	45,751	45,751
Additions	2,500	2,500
Impairments	(7,000)	(7,000)
At 30 November 2019	41,251	41,251
Net book value		
At 30 November 2019	41,251	41,251
At 30 November 2018	45,751	45,751

Additions in the year represent the capital contribution to the subsidiary K3 Business Technologies limited. The impairment related to the impairment of K3 Business Technologies Ltd, the UK Dynamics unit details of which are included in note 13 of the group accounts previous.

Under section 479A of the Companies Act 2006 the Group's subsidiaries, listed below, are claiming exemption from audit. The parent undertaking, K3 Business Technology Group plc, registered number 02641001, guarantees all outstanding liabilities to which each subsidiary is subject at the end of the financial year (being the year ended 30 November 2019 for each company listed below). The guarantee is enforceable against the parent undertaking by any person to whom the subsidiary undertaking is liable in respect of those liabilities.

Colne Investments Limited	03563989
K3 BTG Limited	06338304
K3 Systems Support Limited	08497112
Retail Systems Group Limited	01763900

Notes forming part of the company financial statements (continued)

for the year ended 30 November 2019

7. Debtors

	2019 £'000	2018 £'000
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	17,902	36,977
Other debtors	24	374
Corporation tax	–	317
Taxation and social security	119	–
Prepayments and accrued income	209	104
	18,254	37,772

Interest is charged on amount owed by subsidiary undertakings at 4.25% (2018: 4.25%) which is deemed to be a market rate. The company impaired £18,550,000 on the inter company receivables from K3 Business Technologies Limited and Colne Investments Limited.

8. Creditors: Amounts falling due within one year

	2019 £'000	2018 restated (refer to note 16) £'000
Bank loans and overdrafts	890	7,918
Trade creditors	308	163
Amounts owed to subsidiary undertakings	9,628	6,066
Taxation and social security	–	129
Other creditors	417	384
Accruals	434	447
	11,677	15,107

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

Interest is charged on amount owed to subsidiary undertakings at 4.25% (2018: 4.25%) which is deemed to be a market rate.

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

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

	2019 £'000	2018 £'000
Bank loans (secured)	6,262	–
Bank loans		
On demand or within one year	–	7,918
Between one and two years	6,262	–
	6,262	7,918

10. Deferred taxation

	2019 £'000	2018 £'000
Accelerated capital allowances	(9)	15
Other timing differences	40	52
Deferred tax asset	31	67

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

	Accelerated capital allowances £'000	Other timing differences £'000	Total £'000
At 1 December 2018	15	52	67
Charged to profit and loss	(24)	(12)	(36)
At 30 November 2019	(9)	40	31

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

Notes forming part of the company financial statements (continued)

for the year ended 30 November 2019

11. Called-up share capital

	2019 £'000	2018 £'000
Allotted, called-up and fully-paid		
42,946,665 ordinary shares of 25p each (2018: 42,946,665)	10,737	10,737

See note 20 to the consolidated financial statements for details of the movements in called-up share capital and of outstanding warrants.

12. Share-based payment

K3 Business Technology Group plc operates an equity-settled share-based remuneration scheme for employees: the K3 Long Term Incentive Plan ("LTIP") for certain senior management including executive directors, and a Save As You Earn (SAYE) scheme for employees. See note 25 to the consolidated financial statements for details regarding share-based payments.

13. Pension arrangements

The company operates a defined contribution scheme and also makes contributions to personal pension schemes of certain senior employees and directors for which the total pension cost charge for the year amounted to £167,000 (2018: £158,000).

14. 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 year.

15. Contingent liability

The company has entered into a cross-guarantee with fellow group undertakings in relation to liabilities with Barclays Bank plc. At the period end the liabilities covered by this guarantee totalled £6,262,000.

16. Prior period restatement

At 30 November 2018 cash and cash equivalents in the company statement of financial position, as originally presented, included bank overdrafts of £433,000. Detailed consideration of the evidence supporting this treatment has concluded that the conditions for this net presentation were not met and the error has been corrected within the comparatives, reclassifying the overdrafts to current liabilities. The restated cash and cash equivalents, after this reclassification is £541,000.

The correction of these errors has not had any impact on previously reported profits, net current assets or net assets.

Unaudited five year summary

	Year ended 30 November 2019 £'000	Year ended 30 November 2018 £'000	17 months ended 30 November 2017 £'000	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Revenue	78,412	83,335	118,176	89,175	83,427
Adjusted profit/(loss) from operations*1	1,831	4,649	(1,666)	9,501	8,151
(Loss)/profit from operations	(13,660)	789	(14,783)	5,229	4,805
(Loss)/profit before tax	(14,516)	17	(16,143)	4,528	3,879
(Loss)/profit after tax	(15,447)	(488)	(13,370)	4,103	3,443
Adjusted basic (loss)/earnings per share*2 (pence)					
(2017 as restated)	(6.6)	6.8	(3.0)	23.5	19.4
Basic (loss)/earnings per share (pence)	(36.0)	(1.1)	(35.3)	12.6	10.9
Cash and cash equivalents	3,841	6,914	1,941	2,772	1,895
Gross debt*3	6,262	7,532	6,229	11,648	13,974
Net debt*4	2,421	618	4,288	8,876	12,079
Adjusted cashflow from operations*5	6,597	9,984	10,600	6,848	9,911
Net cashflow from operations	6,073	8,629	5,954	5,502	9,600

*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 excluding IFRS 16 creditors and loans from related parties.

*4 Net debt is gross Bank 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 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 GENERAL MEETING

Notice is hereby given that a general meeting of the Company will be held at the Company's offices at Baltimore House, 50 Kansas Avenue, Manchester M50 2GL on Friday 28 August 2020 at 10.30 am at which the following business will be transacted.

You will be asked to consider and vote on the resolutions below which will be proposed as ordinary resolutions.

Ordinary resolutions

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

1. To receive, consider and adopt the directors' and auditors' reports and the financial statements for the year ended 30 November 2019.
2. 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 general meeting at which financial statements are laid before the Company.
3. To authorise the directors of the Company to determine the auditors' remuneration.

Registered Office

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

5 August 2020

By order of the Board

K Curry
Company Secretary

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

Please refer to notes 3 to 16 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 a general meeting the Annual Report and Accounts for the financial year ended 30 November 2019 together with the Director's and Auditor's reports on such accounts.
2. Resolutions 2 and 3 – 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 2 reappoints BDO LLP as the Auditor of the Company and Resolution 3 authorises the Directors to fix their remuneration.

Notes to the Notice of General Meeting

Entitlement to attend and vote

3. 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.
4. The Company specifies that only those members registered on the Company's register of members at:
   - close of business on 26 August 2020; or
   - if this Meeting is adjourned, at close of business on the day two days prior to the adjourned meeting,

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

Issued shares and total voting rights

5. As at close of business on the date of the notice of general meeting, 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 the date of the notice of general meeting is 42,946,665.

Appointment of proxies

6. If you are a member of the Company at the time set out in note 4 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
7. 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 Chair 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 Chair) and give your instructions directly to them.
8. 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 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 selecting the box provided if the proxy instruction is one of multiple instructions being given.

Notice of General Meeting (continued)

9. 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

   - Register their proxy appointment electronically (see note 10).
   - If a CREST member registers their proxy appointment by utilising the CREST electronic proxy appointment service (see note 11).
   - Request a hard copy form of proxy directly from the registrars, Link Asset Services on Tel: 0371 664 0300 (see note 12).

Proxy voting using the Registrar's share portal

10. 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 26 August 2020.

CREST proxy voting (uncertificated shareholders)

11. (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 using hard copy proxy form

12. 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, Kent BR3 4TU (multiple forms should be returned in the same envelope); and
    - received by Link Asset Services no later than 10.30 am on 26 August 2020.

    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.

    Calls to Link Asset Services are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales.

Appointment of proxy by joint members

13. 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).

Changing proxy instructions

14. 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 0371 664 0300. Calls to Link Asset Services are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09.00 – 17.30, 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.

Notice of General Meeting (continued)

Termination of proxy appointments

15. 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 26 August 2020.

    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

16. 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.
17. Notwithstanding the information contained in notes 1 to 16 above and the rights of shareholders set out in the Act and the Company's articles of association, the Directors' strong recommendation is that shareholders do not attend the general meeting in person and, instead, submit proxy votes appointing the Chair of the general meeting as your proxy as set out in this notice of general meeting. Moreover, the Directors would like to reiterate that, if any shareholder (or other proxy appointed by a shareholder other than the Chair of general meeting) does, nonetheless, travel to attend the meeting in person, it is highly likely that they will be denied access to it based on the prevailing circumstances and, as a result, will not be able to participate in the business to be transacted at the general meeting.

Information for shareholders

Enquiring about your shareholding

If you want to ask, or need information, about your shareholding, please contact our registrar, Link Asset Services, on 0371 664 0300. Calls to Link Asset Services are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales. Alternatively, if you have internet access, you can access the shareholder portal at www.signalshares.com where you can, amongst other things, view details of your shareholding, set up or amend a dividend mandate and update your address details.

Electronic communications

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

Company Information

Registered Office

Baltimore House
50 Kansas Avenue
Manchester M50 2GL

Company Website

www.k3btg.com

Directors

A Valdimarsson
RD Price
PJ Claesson (non-executive)
JP Manley (Acting Chairman)
O Scott (non-executive)

Company Secretary

KJ Curry

Country of Incorporation of Parent Company

England and Wales

Company Number

2641001

Legal Form

Public limited company

Advisors

Legal advisors to the Group

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

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

Nominated Advisor

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

Auditors

BDO LLP
3 Hardman Street
Spinningfields
Manchester M3 3AT

Accountants

Beever and Struthers
St George's House
215-219 Chester Road
Manchester M15 4JE

Bankers

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

Registrars

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

Financial PR

KTZ Communications
No.1 Cornhill
London EC3V 3ND

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