K3 Business Technology Group PLC Annual Report and Financial Statements for the year ended 30 November 2021

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Contents

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Highlights

Financial

2021 data represents 12 months to 30 November 2021 and 2020 data 12 months to 30 November 2020

Revenue
£45.3m
2020: £43.8m

2021	£45.3m
2020	£43.8m

Gross Profit
£26.8m
2020: £26.8m

2021	£26.8m
2020	£26.8m

Adjusted EBITDA[*1]
£4.4m
2020: £4.0m

2021	£4.4m
2020	£4.0m

	12 months to 30 November 2021	12 months to 30 November 2020
Revenue	£45.3m	£43.8m
Recurring or predictable revenue[*2]	75.0%	77.0%
K3 Products revenue (note 5)	£16.3m	£15.9m
K3 Products revenue as percentage of total revenue[*3]	36.1%	36.2%
K3 Products gross profit (note 5)	£12.2m	£12.6m
K3 Products gross profit as a percentage of total gross profit[*4]	45.6%	46.8%
Gross margin	59.3%	61.3%
Adjusted EBITDA[*1]	£4.4m	£4.0m
Loss before tax from continuing operations, including exceptional impairments[**]	£(7.8)m	£(20.8)m
Operating continuing cash flow normalised for Government coronavirus support	£3.2m	£4.1m
Net debt[*5]	£9.0m	£(1.9)m
Reported gain/(loss) per share	8.0p	(49.3)p
Adjusted (loss)/earnings per share for Continuing Activities[*6]	(13.6)p	(3.2)p
Gain/(loss) from disposal of Discontinued Activities[***]	£11.9m	£0.0m

- Revenue from continuing activities up 3% to £45.3m (2020: £43.8m)
  - recurring or predictable revenue[*2] of £33.9m (2020: £33.7m)
  - strategic fashion products (within K3 Products) revenue up 16% to £5.0m (2020: £4.3m)
  - Third Party Solutions revenue of £28.9m (2020: £27.9m)
- Gross profit from Continuing Activities constant at £26.8m (2020: £26.8m)
  - strategic fashion products (within K3 Products) contributed £3.6m (2020: £3.2m)
  - Third Party Solutions contributed £14.6m (2020: £14.2m)
- Support/admin costs down by 2% to £22.3m (2020: £22.7m)
- Capitalised development down by £2.2m (48%) to £2.3m
- Adjusted EBITDA up 8% to £4.4m (2020: £4.0m)
- Loss before taxation from Continuing Activities £(7.8)m (2020: £20.8m)
- Gain/(loss) after taxation from Discontinued Activities £12.3m profit (2020: loss £0.3m)
- Adjusted EPS loss (13.6)p (2020: loss (3.2)p) / Reported EPS profit 8.0p (2020: loss (49.3)p
- Net cash at 30 November 2021 of £9.0m (2020: net debt of £1.9m)

[*]See note 28 for further details of the alternative performance measures.
[**]Exceptional impairments (all non-cash items) totalling £1.4m (2020: £16.8m), which related to DdD, RSG and Walton. (See note 3 and 15).
[***]Discontinued Activities relate to Sage and Starcom Technologies Limited (see note 11 for further details).

Operational

- New growth strategy established following appointment of Marco Vergani as CEO in March 2021
  - very good growth opportunities identified across all core activities
  - strong focus on fashion, apparel and related large retail brands, and the significant opportunity in Sustainability (supply chain traceability), Omnichannel and Business Insights
- Operations reorganised and new appointments made in line with growth plans
- Disposal of two non-core businesses, Starcom Managed Services unit and Sage business
  - strengthened balance sheet and supported business refocusing
- Significant growth in key market of strategic fashion and apparel IP with 16% increase in revenue; reflected major new customer wins and increased licence sales to existing customers
- Non-core legacy point of sales products remain in managed decline
- Third Party Solutions:
  - High level of renewal of SYSPRO software licences and support and maintenance contracts, 98% (2020: 97%). Strong order book for 2022, with increase in average size of new orders
  - Global Accounts continued to expand; roll-out of stores for Inter IKEA Concept franchisees in the Far East and in Central and South America is ongoing
- Post-period acquisition of Sustainability-focused software developer, ViJi, adds strategically important IP

Tom Crawford, Chairman of K3 Business Technology Group plc, said:

“This has been a transformational year for K3. Under our new CEO, Marco Vergani, we have established a clear and focused growth strategy, and made substantial organisational changes, including two disposals, which support our growth objectives. We have also simplified the way we present the business by creating two clear divisions of K3 Products and Third Party Solutions. The Group is now financially stronger and better placed to take advantage of the significant market opportunities we have identified across our core areas of activity.”

“Our post year end acquisition of Sustainability-focused software developer ViJi is a signal of our ambitions to extend our existing solutions to address the exciting new opportunities we have identified.“

“The Board is very pleased with the progress that has been has made, and the new financial year has started in line with our expectations.”

K3 at a Glance

K3 is a leading provider of business-critical software solutions focused on fashion and apparel brands. The Group has circa 2,700 customer installations across the UK, Europe, the Far East, and USA. Solutions comprise both wholly authored K3 Products and Third Party Solutions that are enriched with K3 owned software.

The Group typically has long relationships with customers and generates a high level of predictable revenue. This includes revenue from annual software licence renewals, maintenance and support contracts and framework service agreements.

Following the arrival of Marco Vergani as CEO, a new purpose and vision for the Group has been articulated to “Transform Retail for Good”. Our suite of K3 Products offer unique end-to-end capabilities particularly for fashion, design and apparel brands and retailers.

We present the business of the Group in two clear divisions:
K3 Products and Third Party Solutions.

K3 Products

Core to our purpose is K3’s portfolio of solutions within K3 Products, with both direct and indirect routes to market, including:

K3|fashion: K3|fashion is our concept-to-consumer solution, embedded in Microsoft Dynamics 365 for Finance and Operations, and further enhanced to meet the unique and exacting needs of fashion and apparel enterprises. It is a tailored environment in which businesses can gain insight and control over all processes and channels to market.

K3 Fashion

K3|pebblestone: has similar functionalities to K3|fashion, but is built on Microsoft Dynamics Business Central and is more tuned towards smaller size brands and retailers. It is available in both on-premises and cloud SaaS versions.

K3 Pebblestone

K3|imagine: is a cloud-native, unified commerce headless platform which enables brands and retailers to run their physical stores and omnichannel business in a modern SaaS, ERP agnostic, microservices based architecture. K3|imagine includes K3|dataswitch, a real-time orchestration solution which allows K3|imagine to fully synchronise with other legacy applications and ERP solutions, thus unlocking new ways to sell by integrating effectively with the pre-existing client application environment and legacy systems.

K3 Imagine

K3|ViJi: a suite of solutions to support the traceability, certification and sustainability of the fashion supply chain. The ViJi product was brought into the K3 portfolio as part of K3’s recent acquisition of the French based business, ViJi SAS, and is core to our vision to help the fashion and apparel industry to become more sustainable.

K3 ViJi

Third Party Solutions

In addition, K3's portfolio includes leading industry and vertical ERP solutions including:

Global Accounts: is our relationship with Inter IKEA Systems B.V. (the owner and franchisor of the IKEA concept) and the Inter IKEA Concept franchisees. The backbone of our activity is the development of the core IKEA solution for franchisees and supporting franchisees with the IT infrastructure, integration and system enhancement that underpins all IKEA franchisee stores and back-office solutions.

SYSPRO: providing Syspro based software, services and maintenance and support to the UK manufacturing vertical.

Market Size and Potential for Fashion Retail

Market Context Overview

2021 has been a year where digital transformation has accelerated throughout all industries, including retail, which has suffered in 2020 by protracted periods of closure due to Covid.

Such digital transformation has created, in 2021 and for the foreseeable future, a robust demand for solutions which give clients the ability to manage their processes more efficiently and with an integrated end-to-end view of their consumers, whether they shop instore or online. We have also seen significant demand for our Microsoft Dynamics-based "Concept to Consumer" solutions that provide better management of centralised processes and allow clients to replace old, on-premise legacy systems with more modern, effective and intuitive cloud based SaaS solutions. The end result is increased data security, lower maintenance and operational costs, and a more agile and effective organisation.

Spending on enterprise software and solutions continues to grow globally as businesses of all kinds adopt cloud infrastructures and software as a service solutions for driving interoperability and efficiency.

K3 Market Position

K3's suite of fashion products provide our clients with the ability to be agile and to effectively manage their end to end processes and deploy solutions that deliver strong omnichannel, business insights and sustainability capabilities. Our strong retail and store heritage, combined with our K3|imagine platform, means we are extremely well positioned to help retailers adopt unified commerce strategies that combine their stores' capabilities and processes with digital retailing and offer operational excellence.

With our strong, modern and modular suite of products, we serve mid-size enterprise clients who want innovative and modular cloud-based solutions, without the risk of replacing their entire application environment or managing the complexity of integrating and maintaining a high number of different applications and technologies.

K3's portfolio of solutions is designed to capitalise on this growth opportunity with our fundamental cloud infrastructure, flexible headless commercial architecture, and our strong understanding of market trends and our customers' evolving needs.

Case Studies

K3 Products

Polarn O. Pyret

Polarn O. Pyret, a children's clothing brand based in Sweden, was looking to transition from legacy system AX4 (under former ownership) to a new dedicated solution to help support its operations and enable an easier workflow for organising and designing products.

Ultimately, Polarn O. Pyret chose K3|fashion that enhances Microsoft Dynamics 365 Supply Chain Management and Commerce as its new ERP solution to support its digital transformation project and replace AX4. The move was supported by the Microsoft account team and CGI as a partner.

"We made the decision to go with K3|fashion due to the seamless integration with Dynamics 365," said Charlotta Brandstedt, IT Manager at Polarn O. Pyret. "We're looking forward to working more closely with K3 and developing functionality around Product Lifecycle Management and Sustainability to further support our operations."

K3 Products

The Courtauld Gallery

The Courtauld works to advance how we see and understand the visual arts, as an internationally renowned centre for the teaching, research of art history and a major public gallery. Founded by collectors and philanthropists in the 1930s, the organisation has been at the forefront of the study of art ever since, through advanced research and conservation practice, innovative teaching, the renowned collection and inspiring exhibitions of its gallery, and engaging and accessible activities, education and events.

The Courtauld had been closed for the last 3 years as part of a major capital project "Courtauld Connects" to refurbish the gallery and commercial spaces. As part of this, a brand-new solution was required to bring together both the physical and online commercial environments, and push the boundaries of what was possible.

K3|imagine brought together multiple solutions, into a better connected, integrated and data rich environment with the primary goal to deliver a world class customer journey and visitor experience. K3|imagine has allowed The Courtauld to start on an almost paperless journey, streamlining processes and procedures as well as allowing for data flow between both physical and online retail environments.

Rocket Medical

Rocket Medical, based in Watford, leveraged K3 Syspro to help it adapt to changing market demands. The company manufactures medical tools and devices which are exported to 40 countries across the globe. Rocket Medical has embraced automation in response to increased pressure to conform with regulation and further boost productivity.

By integrating K3 Syspro and its full suite of modules, Rocket Medical enhanced operational performance, sped up processes, and gained greater insight into all areas of the company while automating mundane tasks to free up employees' time to focus on more meaningful work.

Third Party Solutions

Ikano Retail (An IKEA retailer)

Ikano Retail operates IKEA stores and IKEA-anchored shopping centres in Malaysia, Singapore, Thailand, Mexico and the Philippines. The relationship between K3 and Ikano Retail has been a long-standing one – resulting in a steady partnership that has led to successes for both parties – with K3 providing the core store ERP solutions based on Microsoft Dynamics and implementation services. K3 has also assisted Ikano in further operational efficiency improvements with K3 products such as warehousing scanning solutions.

According to Koen Besteman, Chief Digital Officer at Ikano Retail, the ingredient to these successes is the unconditional commitment between K3 and Ikano Retail. The relationship has grown through the pandemic where, despite being remote, the organisations came closer together. K3's dedication, perseverance and creativity ultimately supported Ikano Retail to open the world's largest IKEA store in the Philippines. Thanks to the collaboration between both teams, the store opened without a K3 employee needing to set foot in the Philippines.

"When we think about K3, we think about its commitment and drive to deliver and how happy we are with the relationship with the team," said Koen. "When it comes down to it, K3 is always there to help us become more tech-enabled as we launch a new store or help."

"We needed to bring everything together into one system to allow us to work more effectively," said Mark Cooper, IT Manager at Rocket Medical. "We operate in a heavily regulated industry and it was essential that our operations were properly integrated.

"K3 Syspro's modules addressed the needs of the business and offered the right product, the right people and the right fit."

Chairman's Statement

Overview

I am very pleased to present the Group's annual results after my first full year as Chairman, having joined K3 at the end of October 2020. It has been a strategically significant year for the business, with a number of decisive decisions and actions taken, which set the Group on a firm course for future growth.

Marco Vergani, who was appointed Chief Executive Officer on 30 March 2021, has led a thorough re-evaluation of market strategy and operations. Together with the Board and senior management team, he has established a clear growth plan for K3's future development, including a roadmap for product development. He has also reallocated investment and made significant organisational changes that have strengthened the business and reduced costs.

The sale of our Starcom and Sage businesses during the year have not only allowed us to significantly strengthen our balance sheet but have also have reduced business complexity, prompting us to present the Group in a simpler way with just two divisions: K3 Products and Third Party Solutions.

As well as this, I am pleased to report that, in a challenging market, the Group's trading performance has remained resilient. Group revenue from continuing activities increased by 3% to £45.3m (2020: £43.6m), and adjusted EBITDA rose by 8% to £4.4m (2020: £4.0m). We benefited from a strong end to the financial year, signing both new customers and renewals in the fashion and apparel sectors, core target markets for us. In addition, our manufacturing software solution renewals, which are strongly weighted to the final quarter of the financial year, remained very high, reflecting our depth of expertise and close customer relationships.

As a result of our actions, the Group is significantly better positioned, with a clear strategy and commercial goals. In January 2022, we made a strategically significant acquisition, ViJi, which has delivered valuable IP in Sustainability and specifically supply chain transparency, in line with our growth strategy.

Financial Results

Revenue from continuing operations for the 12 months ended 30 November 2021 was up 3% year-on-year to £45.3m (2020: £43.8m). Recurring or predictable revenue accounted for 74.8% of total revenue at £33.9m (2020: 77.2%), with SaaS, maintenance and support contracts contributing £19.8m (2020: £20.3m) and strategic products of £2.6m (2020: £2.2m).

Group gross profit for the year was constant at £26.8m (2020: £26.8m), and gross margin was 59.2% (2020: 61.0%), which mainly reflected a change in the contribution from services.

Support/administrative expenses net of capitalised development cost reduced by 2% to £22.3m (2020: £22.7m), with a further reduction of £2.2m in capitalised development, as a result of streamlining operations. Adjusted EBITDA[*1] from Continuing Activities was up 8% to £4.4m (2020: £4.0m), aided by a reduction and redeployment of overhead resource. The loss before tax from Continuing Activities was £7.8m (2020: £20.9m) with 2020 including £16.8m of exceptional impairments.

The balance sheet has been transformed and is significantly stronger than a year ago. Net cash at 30 November 2021 amounted to £9.0m (31 November 2020: net debt of £1.9m), and Operating cashflow from Continuing Activities normalised for Government coronavirus support was £3.2m (2020: £4.1m).

Growth Strategy

After an in-depth analysis of K3's offering, expertise, domain strengths and market opportunities, we have developed a new strategic growth plan for the Group. It continues to focus on product-led, high-margin recurring revenue, as previously, but is now more tightly focused on certain target markets and sales execution.

We see significant growth opportunities across all the Group's strategic products and third party solution activities over the next few years, with some areas offering greater commercial rewards, which we will reflect in our ongoing capital allocation plans. Growth in fashion, apparel, and related large retail brands is a particular focus for us. We already offer a powerful set of solutions to the fashion, apparel and designer sectors, which support core business processes, and believe there is a significant opportunity to assist brands in the key areas of Sustainability, Omnichannel and Business Insights.

We see opportunities to increase sales in other market segments, including manufacturing and distribution, where we have well-established third party-based software solutions, capable of serving larger projects. Recurring revenue from these Third Party Solutions contribute significantly to the Group's profitability and cash flows, and are important contributors to investment in strategic software product development. Our Global Accounts activity, which is specialist services led, also has good growth potential well into the medium term internationally, and provides cross-selling opportunities for K3 Product.

K3's sector expertise and ERP heritage is being leveraged to pursue the growth opportunities we have identified, and our cloud-native K3|imagine technology platform is a strategically important element. It is micro-service and API driven, in a 'headless' agnostic architecture with strong in-built integration capabilities. It therefore plays a key role in the easy adoption of our solutions.

We continue to support our legacy solutions, comprising mostly point-of-sale ("POS") products. However, we expect to see revenue from these POS solutions continue to decrease year-on-year.

We have significantly re-shaped the business this year. We disposed of two non-core businesses, selling Starcom (managed services) in February 2021 and our Sage reseller business in September 2021. This has streamlined K3, leaving it tightly focused on core solutions and chosen markets. It has also significantly strengthened the Group's year-end balance sheet, eliminating net debt.

Following these disposals, we have reorganised the Group into two primary segments, K3 Products, comprising solutions based on significant K3 intellectual property ("IP"), and Third Party Solutions, which includes our SYSPRO and Global Accounts activities.

People

In a challenging year, with the coronavirus pandemic still overshadowing work and personal life, our staff have shown great adaptability and dedication. They have innovated to overcome obstacles created by the pandemic situation, and we would like to thank them for their commitment and hard work during the year.

There were three Board changes in the financial year. In March 2021, as previously mentioned, Marco Vergani joined as Chief Executive Officer, and in September 2021, Per Johan Claesson, Non-executive Director retired from the Board, with Gabrielle Hase joining as Non-executive Director in his place. We also made a number of new senior executive appointments in the year. This has brought additional expertise, commercial drive and domain knowledge into the Group, and has strengthened our leadership teams.

Marco has over 30 years' experience in the technology industry and has worked in leadership roles in commercial sales across the UK, Europe, US and Asia. He has extensive experience of retail, fashion and direct-to-consumer sectors with a long and successful career at IBM.

Gabrielle Hase is a senior-level specialist in global ecommerce and has significant experience in advising on omnichannel growth strategies and digital transformation, in particular for fashion retailers.

We would like to reiterate our thanks to Per Johan Claesson, who retired from the Board after twenty years of service. He has been a very strong supporter of the business and made a considerable contribution over many years.

In addition, Jonathan Manley has decided not to stand for re-election at the AGM in May this year. Jonathan, who joined the Board in December 2015, plans to spend more time in the US, and felt the 2022 AGM was an appropriate time to retire from the Board. Jonathan has provided valuable support to the Group during his tenure, and we also reiterate our thanks to him. We will be commencing a recruitment process to appoint an independent non-executive director as successor to Jonathan.

Summary and Outlook

The Group has been significantly transformed this year. It is now financially and operationally stronger, with a clear growth strategy and stronger balance sheet.

Our focus is on growth cash generation and recurring income. The Group already generates substantial recurring income, but we intend to move more strongly towards SaaS-based revenues, in particular by driving the growth of our strategic products. Current SaaS, maintenance and support revenue generated by K3 totals approximately £20m, including a proportion generated by legacy products under managed decline. Third Party Solutions delivers highly visible and predictable income under framework contracts, worth approximately an additional £14m per annum.

We believe there is a substantial opportunity to exploit our existing expertise in the fashion, apparel and retail markets by expanding our offering to address unmet needs in Supply Chain Sustainability, Omnichannel and Business Insights. Brands are increasing their focus on Sustainability, prioritising environmental and ethical considerations concerns, and seeking greater transparency over their supply chains. Legislation is also driving a requirement for greater supply chain traceability. In addition, digital and physical sales channels typically require greater integration and unification, and next-generation analytics is another burgeoning area.

Our recent acquisition of ViJi, a software developer with innovative and proven Sustainability software solutions aiding fashion retailers, is an exciting development, and will help to accelerate our offering in this area.

K3 has made significant progress over the financial year, and a clear growth plan is now in place. We are continuing with initiatives to improve the operations. In an inflationary environment with some resourcing issues, we are also managing costs carefully.

Third Party Solutions is experiencing encouraging demand, and has secured contracts with larger UK manufacturing customers, and the expansion of IKEA franchisee stores in Asia and Latin America is continuing in line with schedules.

K3 Products is seeing positive signs of increased activity, with new clients signed and additional software licences taken by existing fashion customers. Its market position has been strengthened by K3's inclusion as an Independent Software Vendor (ISV) within the newly announced Microsoft Retail Cloud. Non-strategic products are being managed in line with expectations.

Cash balances are at planned levels and further supported by an extension to banking facilities, secured in this first quarter. The Board expects to make further progress with growth initiatives.

T Crawford
Chairman
4 April 2022

Chief Executive Officer's Review

Introduction

My priority on joining K3 in March 2021 was to conduct a thorough review of the Group. This included reviewing its markets, solutions, product portfolio, sales strategies and organisational structure. As a result of this exercise, we have established a new purpose, vision and growth strategy for K3. We have also made operational changes that support our new commercial objectives, including streamlining operations, upgrading certain systems and recruiting additional talent.

Retail Sector

The retail industry, particularly the fashion, design and apparel sectors, is experiencing fundamental transformation. Certain megatrends, including 'Unified Consumer Experience', 'Digitalisation', 'Personalisation', and 'Omnichannel' retailing, are at the forefront. They are driving changes in the way brands and retailers sell to and engage with customers. Retailers are working hard to enable consumers to choose products and make purchases in the most convenient way and to establish closer customer relationships and reinforce their brand values.

In addition, there are a number of even more profound trends, based on new and emerging societal priorities and values, which are altering consumer purchasing habits. A greater emphasis on environmental and ethical concerns is evident. Younger generations, in particular, are attracted to a digital experience of brands and increasingly model their tastes and preferences on the basis of social influence exercised via social media. Consumer lifestyle changes, including those driven by the coronavirus pandemic, are also shifting consumers' purchasing patterns and behaviours.

Understanding consumer motivation and behaviour remains a fundamental objective for all brands. However traditional classifications of consumers – by age, income, culture – are being superseded by more sophisticated AI-driven personalisation techniques. Nonetheless, while AI enables retailers to identify and leverage some consumer patterns, it still does not accurately predict individual behaviours, trends, and patterns or easily identify changes in the emotional dynamics between consumers and brands.

Traditional retailers, particularly in non-grocery industries – the so-called "horizontal" retailers – are adapting their models, image and branding as they react to these market trends. On the opposite side, "vertical" retailers, including direct-to-consumer brands, are growing. These include manufacturers and distributors now selling directly to the consumer, as well as online retailers, whose models provide greater commercial agility than traditional retailers.

Overall, the retail sector is contending with the need to micro-segment and to effect strategic and operational change more rapidly. Fashion retailers and direct-to-consumer brands are now seeking to shorten their supply lead times in order to be able to offer more frequent collections as well as to adapt more rapidly to sales trends. For example, pricing and promotion changes have to be executed more often and consumer data collected and analysed more frequently. These requirements are driving closer supply chain collaboration and, where possible, virtualisation.

While these changed dynamics constitute challenges for many consumer brands and retailers, they have also created fertile ground for new and existing brands, who have a clear understanding of the power of technology and digital channels to strengthen their reputation, image and market positioning, engage with consumers globally, and amplify sales.

A New Vision

We have identified compelling growth opportunities across all our core activities, with particularly exciting opportunities in fashion and apparel and related large retail and direct-to-consumer brands.

K3 Products – Strategic Focus on Fashion & Apparel

K3 has a deep knowledge and experience of retail businesses, rooted in its delivery of Enterprise Resource Planning ("ERP") and Point of Sales ("POS") solutions.

We have significant expertise across all the core "Concept-to-Consumer" processes, which include product design, manufacturing, supply and returns, as well as all the intermediate steps. We also have a strong understanding of the challenges facing our customers and their changing priorities as a result of new technologies, new regulation, and changing consumer behaviour. The ongoing digital transformation affecting the sector is, in particular, driving a requirement for solutions that enable strong supply chain collaboration, a smarter and more integrated sales experience, as well as a shift to data led cloud-based Software as a Service ("SaaS") solutions.

We believe that we have a particular opportunity to capitalise on our existing position and reputation in the fashion and apparel and related large retail markets. This includes brands that have an ambition to develop their direct-to-consumer sales.

We have encapsulated our new purpose and vision, with the phrase, 'Transform retail for good'. The two key ideas of 'transformation' and 'good' summarise the direction of travel we are taking i.e. in providing solutions that will support necessary innovation and adaptation in core business processes, including in relation to environmental and ethical priorities.

The key growth areas we are focusing on are:

- **Sustainability** – especially supply chain traceability, as further evidenced by the March 2022 EU strategy for sustainable and circular textiles;
- **Omnichannel and 'unified inventory'** – in particular creating a seamless shopping experience for consumers as they engage digitally and physically with brands, from the discovery stage to checkout and returns; and
- **Business Insight** – enabling brands to extract actionable intelligence from the data collected through our products to optimise inventory, maximise profitability, reduce wastage and inefficiencies, and engage with consumers in a more personalised way.

We believe that we have a unique opportunity to closely integrate our ERP solutions, K3|fashion and K3|pebblestone, which are based on Microsoft, with K3|imagine, our 'headless' cloud commerce platform (which integrates readily with any IT infrastructure) so as to provide a comprehensive suite of solutions capable of supporting customer needs in these critical areas of their business.

We believe that this will provide us with a highly differentiated and compelling offering to mid-size enterprise fashion and apparel clients that need to replace old legacy systems and/or want to embrace modern and agile ways of supporting their core business processes, managing their sales and enhancing their engagement and brand with consumers. We also envisage a 'land and expand' strategy, where we win new clients with a particular product and then cross-sell other products, which offer broader end-to-end capabilities, optimisation and streamlined operations.

The recent acquisition of ViJi, the sustainability-focused software developer with a compelling suite of products addressing supply chain transparency, allows us to extend the existing Sustainability capabilities already provided by our fashion ERP solutions. Supply chain transparency is a burgeoning area that is increasingly regulated, and demand for end-to-end solutions is growing rapidly.

Third Party Solutions

SYSPRO

There is an increasing demand for digital transformation, smart manufacture and direct machine integration, as SYSPRO customers move away from first generation, monolithic ERPs or fragmented legacy applications, which are typically poorly integrated or siloed. This provides a significant growth opportunity for us, and we plan to expand our presence in the UK market. Our focus is on serving and delivering larger-scale implementations and transformation for customers in growth sectors.

We are also continuing to invest in our relationship with SYSPRO and in new software development that enriches the SYSPRO offering with our own modules, capabilities and add-ons. These include 'CAD integration', 'warehouse management', 'shop floor labour control' and 'Making Tax Digital'. We also have an unrivalled unified, end-to-end support service that underpins our offering.

Global Accounts

Our Global Accounts business includes our relationship with Inter IKEA Systems B.V. (the owner and franchisor of the IKEA concept) and the Inter IKEA Concept franchisees. The backbone of our activity is the development of the core IKEA solution for franchisees and supporting franchisees with the IT infrastructure, integration and system enhancement that underpins all IKEA franchisee stores and back-office solutions.

Developing and delivering additional complementary new solutions, such as our 'Mobile Goods Flow' and 'Self-ordering Kiosk' applications, are important additional support functions that keep our relationships strong and K3 as the vendor of choice.

The continuing expansion of the IKEA Concept and stores into new territories is well-established. We expect further growth in new store openings in Latin America as well as additional expansion in Asia and Middle East.

Restructuring

Alongside this refocusing, we have restructured K3, selling two non-core businesses in the year, Starcom, the Managed Services unit, and the Sage reseller practice. This has significantly strengthened the Group's financial position, generating total cash proceeds of £16.2m.

Following these disposals, and in line with our growth plans, we now report on two segments, K3 Products and Third Party Solutions, alongside central support costs as previously.

Organisational and Operational Changes

We made a number of changes to the organisation of the Group, reallocating resource and reporting lines and making some new appointments to align the business more effectively. In particular, we focused on the Group's commercial functions.

We allocated additional resource to our strategic partnerships, which include Microsoft and channel partners responsible for reselling our fashion offerings. Our relationship with Microsoft remains close, and K3 has been nominated as part of Microsoft Retail Cloud, which is an important recognition of our products in the fashion and apparel sector. We also strengthened the new sales team for North America, which supports our 'go-to-market' resource with Microsoft in this important region. We have sought to improve client support, increase cross-selling and upselling, and strengthen delivery processes and knowledge management practices.

Review of Performance

K3 Products

K3 Products are those software products and solutions that are powered by our own IP. K3 Products comprise:

- Strategic products focused on the fashion and apparel markets, including K3|fashion, K3|imagine retail solutions and K3|pebblestone;
- solutions for the visitor attraction market, integration products and manufacture solutions; and
- stand-alone point solutions, mainly our legacy point-of-sale ("POS") products.

	2021 £m	2020* £m
Revenue	**16.3**	15.9
Gross profit	**12.2**	12.6
Gross margin	**74.9%**	79.3%
Underlying support/admin costs	**(12.2)**	(14.1)
EBITDA pre capitalised development	**(0.0)**	(1.5)
Capitalised development costs	**2.3**	4.1
Adjusted EBITDA	**2.3**	2.6

**restated*

Total revenue increased by 3% to £16.3m (2020: £15.9m), with very good growth in the fashion and apparel markets where revenue increased by 16% year-on-year. As expected, the revenue contribution from legacy POS business continued to decline, partially offsetting growth elsewhere. This also impacted gross profit and gross margin, although gross margin remained high at 74.9%. We reduced underlying administration and support costs, and EBITDA before capitalised development costs improved by £1.5m to a breakeven position, with a more focused deployment of development resource. Adjusted EBITDA was £2.3m (2020: £2.6m).

New orders for fashion and apparel product increased, with £3.1m of contracts closed for K3|fashion and K3|pebblestone (2020: £2.2m) after a strong end to the financial year. New orders included a number of new customers wins, as well as increased licence sales to existing customers. New customers included a Swedish clothing brand for children, a German e-commerce fashion and homeware brand, and a Scandinavian designer brand.

We remain confident about prospects for our fashion products, which are sold primarily via selected Microsoft business partners. Microsoft's global endorsement as its recommended 'add-on' solution for the fashion and apparel vertical continues to underline the quality of our products.

We believe that there are very good growth opportunities in the USA for our fashion products, and we have increased our sales resource there to three executives (2020: 1). We have also strengthened our channel partner management team, bringing in new talent to help drive channel sales.

Own-IP solutions for visitor attractions, integration products and manufacture solutions performed in line with management expectations. The UK visitor attractions segment was heavily hit by the coronavirus pandemic but, with the lifting of restrictions during the summer, has been recovering strongly. We have significantly upgraded our offering, with an enhanced reservation engine and improved online ticketing capability, and are planning to release shortly a refreshed user-interface.

After the financial year end, in January 2022, we made a strategic purchase of intellectual property, acquiring ViJi, an innovative French software developer. ViJi is wholly focused on enabling fashion retailers to trace and authenticate more easily the environmental and social credentials of their supply chains. It has developed fully scalable software solutions, covering the collection, verification and renewal of supplier certifications, as well as a consumer-facing component that enables fashion retailers to provide ethical and environmental information on their products.

ViJi's exciting new products are entirely complementary to K3's existing offering and align with our plans to create a suite of products that address sustainability and in particular supply chain transparency. We will integrate the solutions with the sustainability features in our fashion products. As forthcoming sustainability-related legislation comes into effect both in Europe and the USA, we believe that our solutions will be well-positioned for the fashion and apparel markets.

Third Party Solutions

Third Party Solutions comprises our SYSPRO and Global Accounts units, which both resell third party solutions. These are typically 'on-premise', and revenues are generated from implementation, software licence renewals, and ongoing maintenance and support contracts.

	2021 £m	2020* £m
Revenue	**28.9**	27.9
Gross profit	**14.6**	14.2
Gross margin	**50.4%**	51.1%
Underlying support/admin costs	**(6.6)**	(6.8)
EBITDA pre capitalised development	**8.0**	7.4
Capitalised development costs	**0.0**	0.1
Adjusted EBITDA	**8.0**	7.5

**restated*

Total revenue increased by 4% to £28.9m (2020: £27.9m) and adjusted EBITDA increased by 7% to £8.0m (2020: £7.5m).

Our UK manufacturing customer base, which largely comprises SYSPRO customers, delivered a resilient performance in the pandemic environment, with customers proceeding with new software installations. We secured a good level of new SYSPRO business in the year, and were successful in targeting larger, more complex projects. As a result, the average size of new orders has increased significantly, and we have a strong services order book for 2022. We plan to increase our resource to support the opportunities we have created.

Software licence and maintenance and support contract renewals across the SYSPRO customer base remained very high at c.98% (2020: 97%). Most of these renewals take place in the final quarter of the financial year, and generate substantial cash inflows.

Internationally, our Third Party Solutions business mainly comprises Global Accounts and, in particular, the Inter IKEA Concept franchisee network, and this business performed well. We are supporting a significant expansion of IKEA franchisee stores in Central and South America. Reflecting this, we increased our Far East off-shoring resource earlier in the year, which caused a reduction in our services gross margin. Activity levels are expected to remain high over the new financial year, and we have plans to substantially increase the size of our delivery teams for Global Accounts. While there has been a shortage of available skilled resources, we expect the situation to normalise over the year. We were also pleased to support Global Account customers with some of our new K3 applications, including 'Mobile Goods Flow' and the integration of our 'Self-ordering Kiosk' application into IKEA store restaurants.

Central Costs

Central Support costs include our central IT, finance, legal, HR, insurance, marketing and PLC costs, which are not allocated to revenue generation. These decreased slightly to £5.9m from £6.1m in 2020 following some efficiency drives.

Summary

It has been a transformational year for K3. We have taken major steps forward in repositioning the business for long-term, sustainable profitable growth and cash generation. We believe that we are establishing an organisation that is more commercially-driven and customer-focused, as well as more agile. Our emphasis is on ensuring that the business is "market-product-price-fit" driven and provides an excellent customer service. We have clearly defined growth plans for the future and have identified very good growth opportunities across our fashion and apparel activities and in our SYSPRO and Global Accounts operations.

Marco Vergani
Chief Executive Officer
4 April 2022

Financial Review

Overview

These financial statements are for the financial year ended 31 November 2021.

It should be noted that the comparatives for the prior financial year consolidated income statement have been restated. This followed the classification of the Sage practice as a discontinued activity after its disposal in September 2021. The Starcom Managed Services unit, which was disposed of in February 2021, was already classified as an asset held for sale as at 30 November 2020 and presented within discontinued operations. The 2020 comparatives have therefore been restated to present Sage as part of the discontinued operations in order to provide comparability.

The Group's reported segments are now 'K3 Products' and 'Third Party Solutions', with central support costs reported separately as previously. This aligns segmental reporting with the Group's growth strategy and the disposals of the Sage and Starcom businesses.

The Directors consider the key performance indicators by which they measure the performance of the Group by division to be:

- revenue;
- recurring or predictable revenue*2;
- gross profit;
- gross margin; and
- adjusted EBITDA.

The Group's results for the year end to 30 November 2021, together with comparatives for the same period in 2020, are summarised in the tables below. K3's intellectual property as a percentage of total gross profit is also highlighted below.

Continuing Activities	Revenue	
	2021 £m	2020* £m
Revenue	**45.3**	43.8
– recurring or predictable revenue*2	**33.9**	33.7
– Strategic SaaS, maintenance, and support	**2.6**	2.2
Gross profit	**26.8**	26.8
Gross margin	**59.2%**	61.3%
Underlying support/admin costs	**(24.7)**	(26.9)
Capitalised development costs	**2.3**	4.2
Adjusted EBITDA	**4.4**	4.0

**restated*

	2021	2020
K3 Products gross profit as a percentage of total gross profit*4	**45.6%**	46.9%

K3 generated revenue of £45.3m, which was 3% ahead of the prior financial year. This growth was slightly offset by the expected decline in revenue from legacy product.

The key metric of adjusted earnings before interest, tax, depreciation, amortisation and exceptional items ("EBITDA") increased by 8% to £4.4m (2020: £4.0m), with Gross Profit flat on 2020 and a reduction in underlying support/admin costs. Gross margins reduced to 59.2%, (2020: 61.3%) due to upfront investment in Third Party Solution Services teams.

Administrative Expenses

	2021 £m	2020* £m
Support/administration costs net of capitalised development costs	**22.3**	22.7
Depreciation & amortisation	**6.8**	4.4
Amortisation of acquired intangibles	**0.5**	1.5
Exceptional costs impairment & reorganisation	**3.1**	17.8
Share-based payments	**0.4**	0.0
Total	**33.1**	46.4

**restated*

Support/administration costs net of capitalised development costs*7 reduced by 2% to £22.3m (2020: £22.7m). This followed a decision to reduce non-revenue generating resource and redirect this investment in new customer-facing staff.

Depreciation and amortisation costs increased in line with a change in amortisation period for capitalised development costs from five–seven years to three years. Exceptional costs in 2021 related to the funding of redundancy costs to support the reduction in support/administration costs and onerous contracts following the Starcom disposal. The significantly higher exceptional costs in 2020 included the impairment of goodwill and capitalised development costs of £16.8m.

Discontinued Activities

On the 28 February 2021, the Group disposed of its Starcom Managed Services unit for £13.3m. The unit had already been classified as an 'available for sale' asset as at 30 November 2020 and had been accounted for in discontinued activities in 2020 reported results.

Starcom's total external revenue for the three months to 28 February 2021 was £2.3m (12 months to 30 November 2020: £9.5m) and it generated a profit before taxation of £9.5m (12 months to 30 November 2020: £1.1m) including profit on disposal of £9.3m.

On 1 October 2021, the Group disposed of its Sage business for £1.5m. This business generated external revenue for the 10 months to 30 September 2021 of £4.0m and a profit before tax of £2.6m including the £2.6m gain on the sale of trade and negative net assets (12 months to 30 November 2020: revenues of £5.1m and loss before tax of £0.1m).

In April 2020, the UK Dynamics subsidiary was put into administration. The subsidiary has no reported results for 2021. It showed a loss after tax of £3.4m in 2020 results.

Earnings Per Share

Reported gain per share was 8.0p (2020: loss 49.3p). The Group's adjusted loss per share for Continuing Activities was[*6] (13.6)p (2020: adjusted loss per share[*6] 42.4p).

Dividends

No dividend will be declared for the year ended 30 November 2021 (2020: nil).

Taxation

	2021 £m	2020 £m
Net VAT	**2.8**	3.3
Corporation tax	**0.8**	0.5
Employer social security contributions	**3.2**	3.2
Total	**6.8**	7.0
% of revenue	**15.0%**	14.1%

Employer social security contribution amounted to £3.2m (2020: £3.2m) reflecting the number of people in the Group. Aggregated corporation tax charges, employee taxes and net VAT totalled £6.6m (2020: £7.0m).

During the previous financial year, we received governmental support during the early part of the coronavirus pandemic. We deferred £2.7m of PAYE and VAT payments as at 30 November 2020, which we subsequently repaid in full by 30 November 2021.

There was a corporation tax charge for the financial year of £0.8m (2020: £0.3m credit). This comprised a charge for current taxation of £0.6m (2020: £0.3m) relating to the non UK businesses and a charge for deferred taxation of £0.2m (2020: £0.6m benefit).

Balance Sheet

The Balance Sheet has altered significantly since last year following the disposal of two units and the associated pay down of Bank Facilities and the conversion to equity of the £3m shareholder loans. The Starcom business was disposed of in 2021, however, its assets and associated liabilities had already been classified as held for sale as at 30 November 2020, with Starcom's net asset value at that date standing at £3.3m. The Sage business was also disposed of during 2021, and this consequently reduced non-current assets by £nil, current assets by £0.2m and current liabilities by £0.8m.

A sharper focus on product development cost spend meant additions to development costs were £2.3m compared to £4.5m in 2020, with 90% of this invested in development of fashion and apparel products. Following a review of the Group's accounting policies and the resultant decision to reduce the amortisation period to three years from five to seven years, amortisation of development costs increased to £5.1m (2020: £2.5m).

Within working capital, Trade and other receivables amounted to £10.6m (2020: £10.6m) with K3 maintaining ownership of the Sage receivables following the disposal and with the increase on last year driven by an increase of services revenue. Trade and other payables totalled £14.4m (2020: £18.0m) with 2020 including £2.7m relating to governmental tax deferrals schemes).

The Group's net cash*5 position has significantly strengthened. At the financial year end, it stood at £9.0m (2020: net debt of £1.9m). This material improvement was underpinned by the disposal proceeds of Starcom (£13.3m) and Sage (£1.5m), as well as the conversion to equity of the £3.0m shareholder loan.

After the financial year end, the Group's facilities agreement with Barclays was extended for another year until the next renewal review in March 2023.

Cash Flow

Cash generated from Operations was £0.9m (2020: £8.6m) for the Group which included both Discontinued Activities and Government coronavirus support programmes in which the Group delayed payments in FY20 and paid them in FY21. The table beneath shows the normalisation for the Government coronavirus support payments and for Discontinued operations. Operating cash flow from Continuing Activities normalised for Government coronavirus support is £3.2m (2020: £4.1m), the main difference driven by some slower moving sales ledger balances in FY21, which are now unwinding. The FY20 exceptional income of £2.5m was associated with the Dynamics administration.

	2021 £m	2020 £m
Net cash from operating activities	**0.9**	8.6
Total		
– Add back Sage outflows	**0.2**	0.2
– Add back Starcom inflows	**(0.6)**	(1.1)
– Add back Dynamics outflow	**–**	1.6
Government coronavirus tax support paid/(deferred)	**2.7**	(2.7)
Exceptional income	**–**	(2.5)
Operating cash flow from Continuing Activities normalised for Government coronavirus support	**3.2**	4.1

Income taxes paid increased to £1.4m (2020: £0.4m) due to increasing taxable profits being made in non UK tax regimes.

Investing Activities included the disposal proceeds of the Starcom and Sage businesses of £13.3m and £1.5m respectively. A sharper focus on the development cost base reduced the amount of capitalised development expenditure capitalised £2.3m (2020: £4.5m).

Within Financing Activities, following the high level of Starcom and Sage disposal proceeds, these funds were used to pay down the Bank Facilities of £6.8m. In addition, Net Debt was reduced by the non cash debt to equity conversion of the £3m shareholder loan. Interest expenses paid also increased despite the lower debt levels due to £0.6m interest costs associated with the shareholder loan conversion.

Robert Price
Chief Financial Officer
4 April 2022

Section 172 Statement

The K3 Board considers it has made decisions in a way that, in good faith, would be most likely to promote the success of the Group for the benefit of its members as a whole, having regard to the factors set out in section 172 of the Companies Act 2006.

The table below sets out some examples of how the Directors have exercised this duty:

<table>
<tr><th>Stakeholder</th><th>This financial year</th></tr>
<tr><td>Shareholders

Continued support from shareholders is crucial to our success. In return for their support, we aim to create value by increasing the performance of the Group and providing sustainable shareholder returns.

The Group proactively engages in dialogue with shareholders. The Chief Executive Officer and Chief Financial Officer regularly meet with institutional shareholders and analysts, including after the announcement of full-year and half-year results.</td><td>The Board has continued to consult with key shareholders on the strategic direction of the Group.

In line with the Group's long-term strategy, in 2021 the Group disposed of two non-core business units:

• In February 2021, the Group sold Starcom Technologies Limited, the Group's managed services provider, to Node4 Limited; and

• In October 2021, the Group sold its Sage reseller business to Pinnacle Online.

The disposals strengthened the Group's balance sheet and enables the Group to focus on its core strategy.

In March 2021, the Company consulted with key shareholders in relation to the continued financing of the Group, which resulted in the conversion to equity of £3.0m shareholder loans from two key shareholders.

In addition, the Group appointed a new CEO during the financial year. Marco Vergani, who was appointed Chief Executive Officer on 30 March 2021, has led a thorough re-evaluation of market strategy and operations. Together with the Board and senior management team, he has established a clear growth plan for K3's future development, including product development and resource allocation.</td></tr>
</table>

Stakeholder	This financial year
Employees K3 recognises the importance of our talented and important teams across the organisation and several initiatives have been put in place throughout the last financial year to improve the employee experience.	The annual K3 People Survey – which aims to understand how our people feel about the organisation and identify areas of improvement – had its third run during October 2021. The results provided the Board with deeper insight into which areas to focus on to improve life at K3 for our people.
Customers and Business Partners Customer satisfaction is of critical importance to K3. As well as allocating dedicated K3 account managers for the larger relationships, sizeable or complex customer projects also have executive sponsors within the group, where senior managers are appointed to oversee key customer projects; to ensure sufficient customer engagement at the correct level within the K3 Group. The Group also runs customer forums to feedback on, and in to, product roadmap; to ensure strategic product management and development to meet long term customer needs, market trends and requirements. The Group also supplies and deploys its own software solutions through its international network of reselling and implementation partners, which forms an important element of the Group's route-to-market strategy.	During the financial year, the Group's Customer Success organisation commenced an NPS survey process (which is intended to be carried out twice a year, in future) to gauge customer temperature across the existing customer base and establish where quick changes and improvements need to be made. In response to customer feedback, the Group is also running a focussed campaign to establish where there are segments of the existing customer base that are suitable candidates for migration from legacy software to the Group's new offerings. In addition, and following customer and market consultation, the Group has also focused on the bringing to market of its sustainability and supply chain traceability solution to supplement its existing powerful set of solutions for the fashion and apparel sectors. Challenges and new regulation around sustainability and traceability in supply chains appears a key theme for the Group's customer base and prospects in this sector.
Suppliers With part of the Group a reseller of software, including Microsoft and Syspro, K3's relationships with strategic software partners are important to the success of the business.	During the financial period, the Group, in respect of its K3|fashion and K3|pebblestone products, maintained its position as a member of the Microsoft Inner Circle, which recognises K3 as a leading Microsoft partner. Additionally, K3 was subsequently named (in January 2022) as a launch partner for Microsoft's Cloud for Retail program.

Board of Directors

Tom Crawford Non-executive Chairman (age 53)

Tom was appointed Non-executive Chairman on 28 October 2020. He has over 20 years of main market listed small cap software business experience and a successful track record of developing and growing international product-based software businesses. Until January 2020, Tom was Chief Executive Officer of London based Aptitude Software Group Plc, the global financial management software company, having previously led the expansion of the business into North America and Asia Pacific with a dominant position in new market verticals.

Gabrielle Hase Non-executive (age 54)

Gabrielle is a senior level specialist in global ecommerce with significant experience in advising on omnichannel growth strategies and digital transformation, in particular for fashion retailers. She is founder director of Soleberry Advisory Limited, which provides digital commerce advisory services to fashion and other consumer retailers, and has worked with leading brands, advising on all aspects of ecommerce, mobile commerce, direct marketing strategy and strategic brand management. Clients have included Sweaty Betty, Browns Fashion, The Fragrance Shop, Moonpig.com, Hobbs, and TK Maxx. She also mentors start-up companies and is a featured speaker at conferences such as Retail Week Live, eCommerce Futures, and eCommerce UK.

Gabrielle is currently a Non-executive Director of: UltraCommerce, a business-to-business ecommerce platform; Tate Enterprises, the commercial division of Tate Galleries; Planks Clothing, the global skiwear apparel brand; and All Together, the pro bono advisory firm for CEOs. Gabrielle holds an MBA from The Wharton School at The University of Pennsylvania and a BSc in Information Systems from Boston College.

Jonathan Paul Manley Non-executive (age 68)

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.

Jonathan retires by rotation at the 2022 AGM and, with plans to spend more time in the US, has decided not to offer himself for re-election. Jonathan will therefore resign from the Board at the 2022 AGM.

Robert David Price Chief Financial Officer (age 54)

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.

Oliver Scott Non-executive (age 54)

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.

Marco Vergani Chief Executive Officer (age 58)

Marco was appointed CEO and elected to the Board on 30 March 2021. Marco has over 30 years' experience in technology, principally in commercial sales, including in the UK, Europe, the Far East, and USA. He has wide sector experience, which includes retail, consumer, and e-commerce. A major part of his career was spent at IBM, the multi-national technology company, where he ran the Retail Store Solutions Division in Europe, Middle East, and Africa prior to joining the IBM Business Process Outsourcing division where he was promoted to Vice President of Sales for Europe. In 2014, he joined Digital River, the US-based global e-commerce, payments, and marketing services company becoming their Senior Vice President, Global Sales and Account Management. More recently, he was Chief Operating Officer at Qubit, the venture capitalist-backed personalisation technology company.

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 30 November 2021. The corporate governance statement on pages 33 to 37 also forms part of the Directors' report.

Review of Business

The Chairman and Chief Executive's statements on pages 10 to 21 provides a review of the business, the growth strategies, the Group's trading for the year ended 30 November 2021 and an indication of future developments.

Research and Development

During the year, the Group carried out development work of which £2.3m (2020: £4.5m) was capitalised. Development related to the Group's own products within the K3 Products business segment.

Result and Dividend

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

The Group's results for the year are set out in the Consolidated Income Statement on page 65. The Company has applied FRS 101: Reduced Disclosure Framework to the Company accounts for the year ended 30 November 2021.

The directors do not propose a dividend (2020: 0p per share). No interim dividend was paid during either period.

Directors

The directors who served during the year were as follows:

T Crawford	
RD Price	
O Scott	
JP Manley	
M Vergani	(from 30 March 2021)
G Hase	(from 6 September 2021)
A Valdimarsson	(resigned 4 March 2021)
PJ Claesson	(resigned 6 September 2021)

JP Manley retires by rotation at the 2022 AGM and has elected not to offer himself for re-election.

In accordance with the Company's current Articles of Association, G Hase will resign and offer herself for re-election at the AGM, and O Scott retires by rotation and offers himself for re-election.

Financial Instruments Risks

Details of financial instruments risks are included in note 19 to the financial statements.

Directors' Interest

Directors (who served during the financial year) interests in the company's shares:

	As at 30 November 2021 Number of shares	As at 30 November 2020 Number of shares
PJ Claesson	10,721,780	9,828,923
T Crawford	28,112	nil
M Vergani	5,000	nil
RD Price	60,154	60,154
JP Manley	47,940	47,940
A Valdimarsson	41,429	101,429
O Scott	11,143,729	10,421,191
G Hase	2,500	nil

Mr O Scott's interest in shares is by virtue of his position as a partner in Kestrel Partners LLP. Mr A Valdimarsson resigned as a director of the Company on 4 March 2021 and Mr PJ Claesson resigned with effect from 6 September 2021.

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	300,000	25p
Johannes Plan Fastigheter AB	300,000	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. These warrants, and the CA Fastigheter AB/Johannes Plan Fastigheter AB 600,000 warrants, were granted in connection with the April 2020 shareholder loans. These shareholder loans were subsequently converted to ordinary shares in the Company in March 2021.

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 and facilities are 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

The Group closely reviews its funding position throughout the year, including monitoring compliance with covenants and available facilities to ensure it has sufficient headroom to fund operations. The Group has extended its current Banking Facilities arrangements with its long term bank, Barclays, for a further year to 31 March 2023.

The capital structure of the Group has materially strengthened in the last financial year with the disposal of the Starcom and Sage businesses for a combined £16.2m and the conversion of £3.0m shareholder loans to equity. The Group therefore ended the year on 30 November 2021 with a Net Cash position of £9.0m compared to a Net Debt position of £1.9m the previous year end.

The Group has prepared a cashflow forecast for a period of at least 12 months from the date of approval of the financial statements which show that the Group will have reasonably significant headroom and be in compliance with covenants. The forecast has undergone sensitivity analysis and stress testing and the Directors have concluded that there is no reasonably worst-case scenario that is likely which would mean the Group would run out of cash or breach covenants.

The Directors therefore have a reasonable expectation that there are no material uncertainties that cast significant doubt about the Group's ability to continue in operation and meet its liabilities as they fall due for the foreseeable future, being a period of at least 12 months from the date of approval of the financial statements. For these reasons the financial statements have been prepared on a going concern basis.

Events After The Reporting Date

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

Auditors

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

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

By order of the Board

T Crawford
Director
4 April 2022

Baltimore House
50 Kansas Avenue
Manchester M50 2GL

Corporate Governance Statement

K3 adopts the Quoted Companies Alliance's (QCA) Corporate Governance Code ("the Code") being, in the view of the Board, the most appropriate recognised corporate governance code having regard to the size and nature of the K3 Group.

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 potential, strategy, business model and delivery against its strategic objectives. I am also a member of each Board committee.

We have reviewed and considered where and how we apply each of the ten (10) principles of the Code, and we set out an explanation of this on our website at: https://www.k3btg.com/investor-centre/corporate-governance/ , and below.

QCA Code Principle	K3 Application
1. Establish a strategy and business model which promote long-term value for shareholders	The Board is responsible for determining the potential and main aims of the Company and agreeing a strategy to achieve those aims. The Board is also responsible for monitoring progress against the Company's strategic and financial goals and for allocating investment or initiating any corrective measures. The strategic report on pages 10 to 27 sets out the Board's strategy and business model to promote long-term value for shareholders.
2. Seek to understand and meet shareholder needs and expectations	K3 seeks to maintain good communication with shareholders. The executive Directors make presentations to institutional shareholders covering interim and full year results. The views of major shareholders are also obtained through direct face-to-face contact and analysts' or brokers' briefings. The Company also arranges investor presentations from time to time, to enhance investor engagement with management, and to elicit feedback. All shareholders also have the opportunity, formally or informally, to put questions to the Company's AGM.
3. Take into account wider stakeholder and social responsibilities and their implications for long-term success	See Section 172 statement on pages 26 to 27.

QCA Code Principle	K3 Application
4. Embed effective risk management, considering both opportunities and threats, throughout the organisation	The Board recognises the importance of maintaining an effective system of internal control which is appropriate in relation to the scope, size, nature and risk of the Group's activities. The responsibility for managing risks on a day-to-day basis lies with the CEO and Senior Leadership Team. The principal business risks and the actions to mitigate the risks are included on pages 46 to 50. The key elements which enable the Board to review the effectiveness of the system of internal controls are: • 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 business plan; • the regular review of the Group's performance compared with plan and forecasts; • pre and post investment appraisal of K3 product development investment; and • group reporting instructions and procedures including delegation of authority and authorisation levels, segregation of duties and other control procedures, and standardised accounting policies.
5. Maintain the board as a well-functioning, balanced team led by the chair	The Board comprises the non-executive Chairman, two executive directors and three non-executive Directors. Biographical details of the Board are included on pages 28 to 29. The roles of the Chairman and Chief Executive are distinct. All non-executive directors have written terms of appointment and are paid a fixed fee for their office which is not performance or incentive based. The only exception to this is the Chairman's participation in the K3 LTIP, details of which are set out at pages 40 to 41, but this is not regarded as compromising his independence. The Company currently has three independent non-executive directors (T Crawford, G Hase and JP Manley), as recommended by the QCA Code. Mr O Scott is a founding partner of another significant shareholder, Kestrel Partners LLP, and, accordingly, Mr O Scott would 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.

QCA Code Principle	K3 Application

Board Meetings and Effectiveness

The Board is supplied with information to enable it to discharge its duties, which includes a regular monthly Board pack including updates from the executive management team and detailed financial information measured against plan or forecast.

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

Board Meetings

The Board met on 14 occasions during the financial period. Directors are expected to attend all meetings, and to dedicate sufficient time to the Group's business and affairs to enable them to discharge their duties. Board (and committee) meeting attendance during the financial period was as set out below.

Director	Board (14)	Remuneration (2)	Audit (2)	Nomination (2)
T Crawford	14	1	2	2
JP Manley	12	2	1	2
O Scott	11	2	2	2
RD Price	14	n/a	n/a	n/a
A Valdimarsson	3	n/a	n/a	n/a
PJ Claesson	7	1	1	2
M Vergani	6	n/a	n/a	n/a
G Hase	3	n/a	n/a	n/a

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/.

All four non-executive directors are members of each committee.

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QCA Code Principle	K3 Application
6. Ensure that between them the directors have the necessary up-to-date experience, skills, and capabilities	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. Biographical details of the Board (including relevant skills and experience) are included on pages 28 to 29. Recommendations for appointments to the Board are the responsibility of the Nominations Committee. The Directors also have access to the Company's Nominated Adviser and Company Secretary, for support in the furtherance of their duties.
7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement	The Board has established an annual process of Board performance review, once per calendar year, the most recent of which was carried out in September 2021. The 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.
8. Promote a corporate culture that is based on ethical values and behaviours	The Group seeks to carry out its business with the highest standards of integrity, based on sound ethical values, and its corporate culture seeks to reflect this premise. The Board maintains oversight of this through engagement and 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 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. The Group has recently commenced a review of its environmental, social and governance standards and policies, with a view to making improvements where possible. Further updates will be available following completion of this review.

QCA Code Principle	K3 Application
9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the board	The Board has responsibility for promoting the success of the Company and for the strategic leadership of the Group, with day-to-day management of the business of the Group the responsibility of the executive directors and Senior Leadership Team. The Chairman of the Board is responsible for running the Board, and has overall responsibility for corporate governance, but with the support of the other Directors and the Company Secretary. Shareholder relations are primarily managed by the CEO and CFO. 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 Leadership Team reporting to him. The types of decisions which are to be taken by the Board are: • approval of the financial statements 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.
10. Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	The Company communicates regularly with shareholders, as further described in relation to Code Principle 2 above. The Company maintains RNS details on its website at: https://www.k3btg.com/investor-centre/regulatory-news/. These include notices, as well as results, of the most recent AGM, together with prior years' annual reports.

T Crawford
Chairman
4 April 2022

Remuneration Committee Report

Remuneration Committee Report

Oliver Scott was appointed as Chair of the Remuneration Committee on his appointment as a Director on 14 February 2020. The other members of the committee are Tom Crawford, Gabrielle Hase and Jonathan Manley. The Committee formally met twice during the financial year.

The Group's remuneration policies and the application of these policies to the Board during the financial year are set out in the sections below.

Remuneration Policy

The policy of the Group is to set levels of remuneration to attract, retain and motivate Executive Directors and other key senior staff. The packages are designed to be competitive in value to those offered at similar sized public companies in related sectors. It is the Board's policy to align the long-term interests of Executive Directors with those of our shareholders in the granting of options and other equity awards. The components of the Executive Directors' remuneration packages are currently a basic salary, bonus, money purchase pension contributions and benefits in kind. The bonus elements are dependent on the Executive Directors achieving performance criteria set out by the Remuneration Committee. In addition, the Group operates a Long-term Incentive Plan for Executive Directors and other key senior staff.

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

- the award of options under the existing Long-Term Incentive Plan; 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 2021.

	Fees/ basic salary £	Fees/ basic salary waived £	Taxable benefits £	Bonuses £	Pension contribution £	Total £	Year ended 30 November 2020 £
Chairman							
T Crawford	125,000	-	-	-	-	**125,000**	**45,984**
Executive							
A Valdimarsson***	75,000	–	2,250	–	7,500	**84,750**	**315,257**
M Vergani****	206,250	–	–	–	10,312	**216,562**	**–**
RD Price	170,000	–	10,429	30,000	17,000	**227,429**	**182,108**
Non-Executive							
PJ Claesson*	19,129	–	–	–	–	**19,129**	**12,500**
G Hase**	16,835	–	–	–	–	**16,835**	**–**
JP Manley	51,583	–	–	–	–	**51,583**	**46,042**
O Scott	30,000	–	–	–	–	**30,000**	**11,379**
Total emoluments	693,797	–	12,679	30,000	34,813	**771,288**	**648,670**

*PJ Claesson retired from the Board with effect from 6 September 2021.
**G Hase was appointed with effect from 6 September 2021.
***A Valdimarsson ceased being a Director with effect from 4 March 2021, and the remuneration stated above is to that date.
****M Vergani was appointed to the Board with effect from 30 March 2021.

Included within the fees/basic salary amount for T Crawford was £nil (2020: £41,068) in relation to consultancy services to evaluate the K3 strategy and provide advice and support to the CEO on execution and commercialisation.

Included within the fees/basic salary amount for G Hase was £9,676 (2020: £nil) in relation to consultancy services to evaluate the K3 digital strategy.

Included within the fees/basic salary amount for Mr JP Manley was £13,250 (2020: £nil) in relation to consultancy on the K3 product positioning and development and for management of internal systems.

The executive directors have service contracts providing 6 months' notice.

Directors' Pension Entitlements

The Company makes contributions to defined contribution schemes for Mr RD Price and Mr M Vergani. Pension contributions are capped at 10% of basic salary.

Directors' Share Options

Various changes were made to the Group's Long-term Incentive Plan and two types of option award were granted during the financial year. These comprised Market Priced Options and Nominal Priced Options.

Market Priced Options

Market Priced Options may be granted annually subject to the achievement of performance targets set by the Remuneration Committee. The value of any awards granted are intended to be between 50% – 100% of an individual's basic salary. The exercise price of Market Priced Options is determined by the prevailing price of the Company's shares on the day before the date of grant and any vesting conditions are set by the Remuneration Committee at the time of the annual award.

During the financial year, the Remuneration Committee awarded 40,000 Market Priced Options with an exercise price of 204p to Mr RD Price.

The vesting of these 2021 Market Priced Options is subject to the achievement of certain prescribed levels of incremental annual recurring revenue between 1 December 2020 and 30 November 2024 with vesting occurring proportionately as between 25% and 100% of the award. No vesting will be permitted unless the lowest threshold (corresponding to 25% vesting) is achieved.

Subject to meeting the above performance targets, the 2021 Market Priced Options may be exercised following vesting and until the seventh anniversary of the original date of grant, at which point they will lapse.

Nominal Priced Options

Nominal Priced Options are not granted annually, but are granted on an occasional basis at the determination of the Remuneration Committee. The exercise price of Nominal Priced Options is 25p, being nominal value of the Company's shares.

All current Nominal Priced Options granted to date are subject to performance conditions based on the achievement of certain 60 day Volume Weighted Average Price ('VWAP') thresholds of the Company's shares, measured between the third and fourth anniversary of the date of option grant. The 60 day VWAP measurement will be applied to any consecutive 60 trading days during the 12 month testing period.

The performance targets and associated vesting of the Nominal Priced Options are:

- 25% vest at VWAP of 200p;
- 50% vest at VWAP of 225p; and
- 100% vest at VWAP of 250p,

with a straight line vesting between these thresholds.

Subject to meeting the above performance targets, all Nominal Priced Options granted to date may be exercised as follows:

- 50% on or after the fourth anniversary of the date of grant
- 50% on or after the fifth anniversary of the date of grant.

Nominal Priced Options granted to date will remain exercisable until the seventh anniversary of the original date of grant, at which point they will lapse.

During the financial year, 550,000 Nominal Priced Options were granted to Mr M Vergani (500,000 options) and Mr T Crawford (50,000 options). In the financial year, the Company also amended the terms of the 300,000 Nominal Priced Options granted to Mr T Crawford on 12 November 2020 to align the periods for measurement of the performance condition and vesting with the 2021 Nominal Priced Options, and Nominal Priced Options granted after the financial year end were similarly aligned.

Details of All Options Held by the Directors

Details of the options are as follows:

Name of Director	1 December 2020	Granted	Exercised	Lapsed	30 November 2021
A Valdimarsson	500,000	–	–	–	500,000*
RD Price	300,000	40,000	–	–	340,000
T Crawford	300,000	50,000	–	–	350,000
M Vergani	–	500,000	–	–	500,000

*expected to lapse during 2022 financial year.

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.

All options are exercisable at a price of 25p, other than the 40,000 Market Priced Options granted to Mr RD Price during the financial year, which are exercisable at 204p.

The market price of the ordinary shares at 30 November 2021 was 175.50p and the range during the year was 105p to 217p.

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

Directors' 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	300,000	25p
Johannes Plan Fastigheter AB	300,000	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.

Warrants exercisable at 25p held by (i) clients of Kestrel Partners LLP and (ii) CA Fastigheter AB and Johannes Plan Fastigheter AB, were granted in connection with the April 2020 shareholder loans. These shareholder loans were subsequently converted to ordinary shares in the Company in April 2021.

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 in accordance with international accounting standard in conformity with the requirements of the Companies Act 2006. 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 international accounting standard in conformity with the requirements of the Companies Act 2006, 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.

ESG Scorecard

Sustainability at K3

K3's mission is to transform retail for good, leading the agenda so that our partners and customers accelerate toward their ethical priorities and responsibilities. To further realise our purpose, in 2021, we undertook a strategic repositioning to deliver solutions that enable sustainable practices within retail and the Fashion and Apparel industry. To support our ambition, we made a strategically significant acquisition of the French based ViJi, a SaaS solution that enables supply chain transparency.

As advocates who are passionate about enabling sustainable practices in the industry, we have turned this focus within K3 too, with an objective to promote ethical responsibility and sustainable practices across the Group. To reinforce our commitment, K3 will use the BCorp assessment for certification to provide a framework to support our transformation and to track our achievement. Our core internal focus areas for being a sustainable business are People, Environment and Privacy & Security.

People

A critical priority for K3 building a team of expert talent. Our people focus has been centred around creating a community where people are empowered and engaged in our mission and vision for the future.

We continue to monitor and track people engagement through annual surveys (and quarterly eNPS tracking), to identify focus areas to improve the people experience at K3. A reshaped leadership team provide strategic repositioning and clarity in product vision and our uniqueness in the market, working closely with their teams to identify skills to support successful realisation of our strategy and expand our internal expertise in sustainability and retail.

During the financial year K3 appointed its first female Board member, female representation is 40% at a wider leadership level, and 30% across the Group. K3 has also invested in raising awareness of diversity and inclusion through 'Be Inspired' sessions which open discussions across the business on important diversity topics. This is subsequently supported by the initiation of the Together Network, where our teams support the embedding of diverse practices.

Through the K3 social club we have supported our people in donating to causes of importance to them through regular recognition and social activities across the group. To date, we have supported World Cancer Research Fund, War Child, Médecins Sans Frontières and others, bolstering our commitment to local and global communities, in addition to initiatives to support the wellbeing of people and embed a community culture.

Environment

With sustainability at the core of our business strategy we recognised the need to review our own practices and impacts on the environment.

Energy Scorecard

The below disclosures are made in accordance with Streamlined Energy & Carbon Reporting guidelines. The GHG Protocol Corporate Accounting and Reporting standard and the 2019 UK Government Environmental Reporting Guidelines and we have used the 2021 UK Governments Conversion Factors for Company Reporting.

We have measured our scope 1 and 2 emissions and included scope 3 emissions related to employee use of their own vehicles, where they claim mileage allowance (grey fleet). Although we are not regulated to include global emissions, to provide a more complete emissions statement, we have reported on our UK and Netherlands operations which account for 77.8 % of our headcount as a voluntary measure.

The energy consumption for serviced offices, which do not have sub-meters, has been calculated using the kWh/m^2 of a similar sized office.

The intensity ratio chosen was tCO_2e per £ million turnover. This was chosen as it was deemed to be the best metric which could be constantly used over time and would best reflect changes in our energy consumption, but also reflect changes in our operations.

	2020			2021		
	UK	Netherlands	Total	UK	Netherlands	**Total**
Consumption in metric tonnes CO_2e						
Gas (scope 1)	60.5	8.9	69.4	45.7	8.9	54.6
Electricity (scope 2)	55.7	79.4	135.1	30.5	78.6	109.1
Employee use of own vehicle (scope 3)	145.5	–	145.5	14.11	–	14.11
Total consumption in metric tonnes CO_2e	**261.7**	**88.3**	**350.0**	**90.31**	**87.5**	**177.81**
Total energy used in kwh	1,158,758	247,255	1,406,013	453,826	244,274	698,100
Tonnes CO_2e per £m of turnover	13.0	3.7		5.8	3.5	

The K3 real estate footprint has been reduced by 10%* and moving to smaller managed serviced offices has seen an overall reduction in energy consumption. The future ways of working will see a continued reduction in office space which encourages flexible working, hotdesking and creative meeting spaces. We anticipate a move toward hybrid working models which will also see further reductions in energy consumption, office consumables and services.

Future office spaces will aim to partner with sustainable building owners holding energy efficiency credentials such as LEED (Leadership in Energy and Environmental Design) and BREEAM (Building Research Establishment's Environmental Assessment Method) working collaboratively to achieve joint sustainable targets.

K3 has in addition reduced the fleet size by 15%*, with the number of electric/hybrid vehicles rising to 23% of the total fleet. The largest impact on lowering emissions for this period was the reduction in business mileage, primarily due to Covid and associated company wide travel restrictions. We have since reviewed our travel policies to focus on reducing travel emissions, both reducing the number of journeys our people make and also looking for less carbon-intensive ways of working. Travelling only where necessary, encouraging both internal and client-facing teams to make better use of technology-based alternatives that support collaborative working from different locations and encourage our people, once they've considered the need to travel, to use our internal systems to book travel, so we can improve our management information, risk management and costs.

*excluding impact due to disposals and acquisitions which gives an overall reduction in property footprint of 18% and fleet reduction of 34%.

Privacy and Security

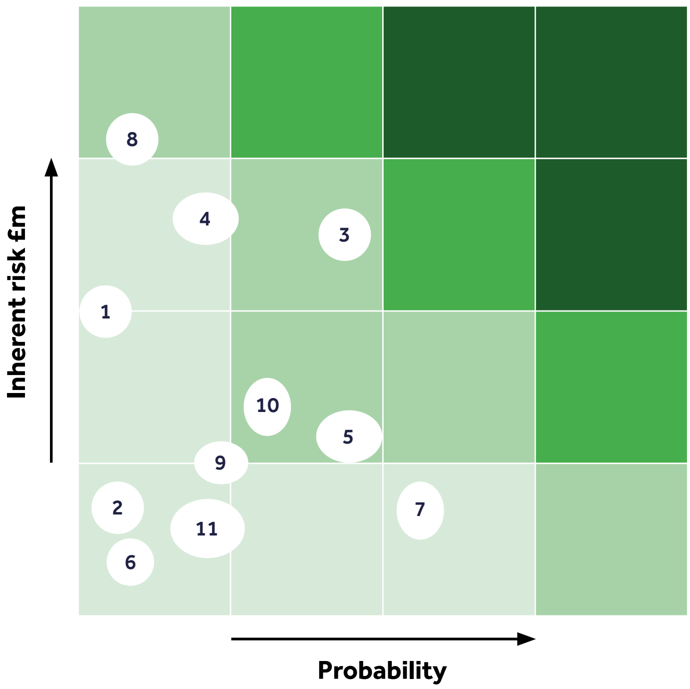
The Unity Programme launched during the financial year to 30 November 2021 will drive critical process improvement for K3 that will see new systems introduced to support people and customer interactions and introduce enhancements to our data management policies.

We have renewed our policies around customer systems access and provided GDPR training to our teams to ensure K3 is both knowledgeable and compliant. We recognise that digital security is a growing concern in the cyber-space and have therefore introduced a Chief Information Officer into the business with future plans to hire additional technical resources.

Risk Management

The Board is responsible for risk management of the Group with the principal business risks which the Group faces categorised as follows:

Principal risks
FY21



1. Coronavirus
2. Liquidity and Banking Facilities
3. Group strategies and product management
4. Supplier Relationships
5. Employees
6. Credit risk
7. Currency risk
8. Customer relationships
9. Cyber security
10. Cost of maintaining Legacy Products
11. Customer Project Management

Description	Mitigation	Change
Coronavirus The Coronavirus pandemic continues to have an impact on the Group's markets, customer base, projects and staff. Customer projects are being prioritised and some deferred, access to customer and prospect sites has been restricted and our staff have had to work remotely thus impacting sales, project implementation and physical customer meetings.	The Group's customer base is geographically and vertically diverse and delivers a portfolio benefit to the Group with some verticals or geographies performing well whilst others suffer. The Group has a high level of recurring or predictable revenue which reduces revenue volatility and helps the Group plan appropriately for the business. From the very start of the coronavirus pandemic the Group transitioned seamlessly to remote working and in this second pandemic year the Group's new business, account management and implementations have been run remotely.	Down
Liquidity and Banking Facilities The Group has a Bank Facilities Agreement which requires it to meet certain covenants throughout the term of the agreement. The Group's business model, operations and forecasts indicate that the Group will remain within the set parameters.	The Group ensures it has the funds to meet its obligations or commitments under the Facilities Agreement 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 Group has extended its current Banking arrangements to 31 March 2023 and has a materially lower level of indebtedness following the disposal of the Starcom and Sage business units in 2021 and receipt of the associated cash proceeds.	Down
Group Strategies and Product Management The Group has invested a significant amount of funds in its products, including in the new K3|imagine technology platform and its retail suite application. The risk is that the Group is unable to commercialise that investment with appropriate market product fit, customer engagement, product stability or pricing.	The Group re-evaluated market strategy during 2021 and now ensures that strategy, technology, product and business development is market led, and market informed, going forwards with focus on the strategically chosen fashion and apparel vertical. The Group assesses the investment needed for each product at each point in its natural product lifecycle with regard to ROI. There is consistent leverage of the K3|imagine technology platform across the strategic product portfolio and resourcing is regularly reviewed and compared to addressable markets, product roadmaps, pipeline, deal closure and market needs. Pricing for new products is regularly assessed against internal and external benchmarks.	Flat

Description	Mitigation	Change
Supplier Relationships The Group benefits from several close commercial relationships with key suppliers and software partners. Damage to or loss of these relationships could have a direct and detrimental effect on the Group's results. The international nature of the Group also means the supplier base carries a geo-political risk.	The key Group supplier and software partners relationships are secured by commercial agreements and management participate in regular product, service, market and strategy reviews with key suppliers and software partners. Relationships with alternative suppliers are maintained and activity can be diversified and moved.	Up
Employees As a global software house, the Group is committed to attracting and retaining talent across the globe without which we would not be able to operate as effectively. Given increased retention challenges in the employment market more generally and with remote home working, the search for talent has become more global and competitive.	The Group seeks to access global talent and has expanded its talent catchment area with the opening of the Kuala Lumpur office. Competitive remuneration is offered together with the ability to participate in a bonus scheme. Long-term incentive plans are in place to retain key executive talent and the Group has strong purpose, communication and values that are important to staff.	Up
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 Group's leverage, relationships, customer financial position and the current economic environment. The Coronavirus pandemic has had only a minor impact on credit risk.	The Group operates a centralised credit management function and assesses credit risk on an individual customer basis and with standardised contract terms. The Group's shift to SaaS based products will structurally reduce the amounts on the sales ledger, and therefore credit risk as customers move to smaller, more regular payments, with the Group controlling the right to access and use the software. Currently, the Group's larger third party solution customers are generally financially stable and K3 has good leverage by providing mission critical systems.	Flat

Description	Mitigation	Change
Currency Risk The Group's currency risk is primarily attributable to its trade receivables where certain customers are billed in Euros, and other currencies, which are not the reporting currency of the Group company. Whilst future cash generation is expected to be predominantly in EUR cash absorption is predominantly in GBP. There is a risk that changes in foreign exchange rates could impact reported results and incur foreign exchange costs.	Where possible currency and exchange risk is hedged by amounts payable in those currencies. The Group's banking facilities allow for a blend of debt in EUR or GBP. The Group has introduced hedging strategies.	Up
Customer Relationships The Group has a single customer ecosystem (including franchisees) which accounts for circa 45% of revenue. Damage to this customer relationship, or loss of revenue, would have a significant and detrimental impact on the Group's financial performance.	Although represented by a single ecosystem, the customer, projects, and franchisees are spread across numerous territories, contracts and individual business orders around the world, mitigating the risk by this portfolio effect. The systems supplied by K3 are mission critical for the customer and franchisees. If the customer were to re-platform this would be a lengthy and costly process for the ecosystem, which reduces the risk of this happening in the short to medium term. K3 has a two year rolling contract with the lead customer, providing K3 with revenue stability. The customer and franchisees have been resilient in the face of disruption caused by the Coronavirus pandemic.	Up

Description	Mitigation	Change
Cyber Security There is an increasing growth in cyber terrorism. K3 may be at risk of a successful cyber-attack which could impact the availability of internal systems and data and/or customer systems and data. A successful cyber-attack may also carry the risk of ransom demands and increased costs to recover systems or data.	The Group has dedicated cyber security resource and has a programme of training and IT infrastructure improvement projects. Key security policies and incident response protocols have been established. The Group also has disaster recovery plans and conducts key failover tests on an annual basis.	Flat
Cost of Maintaining Legacy Products There is a risk that some legacy products become increasingly costly to support as a result of having to maintain legacy operating systems and sourcing increasingly scarce resource.	The Group has a programme to manage customer expectations, transition to new products where possible and re-balance the age demographic of such employees.	Up
Customer Project Management The Group implements projects which are customer critical and can be long term. The risk of project failure could impact K3's reputation and cash collection.	The Group has invested in Service Delivery leadership, new tooling and methods to support project management. Regular project management reporting, with action, is held and the profile of projects continues to reduce in risk as the Group moves to more standardised SaaS solutions.	Flat

Audit Committee Report

Audit Committee Composition

During the financial period, the Audit Committee was chaired by Mr O Scott and included the other non-executive directors. The CEO, CFO 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.

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 AGM.

Auditors’ Remuneration

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

	Year ended 30 November 2021 £000	Year ended 30 November 2020 £000
Audit services		
• Statutory audit of the company	17	25
• Statutory audit of the subsidiaries	155	146
Further assurance services:		
Tax services	–	–
Advisory services	–	–
Overseas tax advice	–	–
Other services	56	23
	228	194

During the period, the auditors’ overseas member firms provided non-audit services in relation to tax advice and company secretarial support to certain overseas subsidiaries. The UK audit firm did not provide any non-audit services. 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 pages 46 to 50), 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.

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

Opinion on the financial statements

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 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- 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.

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 2021 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity, the parent company balance sheet, the 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 UK adopted international accounting standards. 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).

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Reviewed and challenged the going concern paper prepared by management by verifying the numerical inputs, accuracy of the calculations and obtaining evidence to support management's decisions. We performed procedures to check the reasonableness of the forecasts. These procedures included performing inquiries with the management, analytical review of the forecasted numbers, and comparison of actual results vs forecasts where applicable;
- Evaluated the appropriateness of the assumptions utilised by management in assessing the Group and company's ability to continue as a going concern by comparing to previous periods and actual results achieved to date. The key assumptions included assessing the timings of future cash receipts from customers, assessing expected sales growth, headroom of available cash and compliance with covenants.
- We checked compliance with financial covenants, by recalculating the financial figures required to be met as per the terms in the financing agreement, and checking these are in line with the specified covenants.
- Reviewed the forecasts prepared to 31 March 2023 and stress tests to understand the available headroom. We have challenged the assumptions within the stress test scenarios to understand the headroom impact of reductions in revenue, EBITDA and profit/loss, and any delays in receipts of cash from customers.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Coverage[1]	73% (2020: 89%) of Group loss before tax 83% (2020: 81%) of Group continuing revenue 72% (2020: 90%) of Group total assets		
Key audit matters		2021	2020
	Revenue recognition	✓	✓
	Development costs	✓	✓
	Carrying value of Intangibles and Goodwill	✓	✓
Materiality	*Group financial statements as a whole* £386,000 (2020: £381,000) based on 0.85% (2020: 0.8%) of revenue		

1 These are areas which have been subject to a full scope audit by the group engagement team.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

Our group audit scope focused on the group's significant components. In assessing the risk of material misstatement to the Group consolidated financial statements, and to ensure we had adequate quantitative coverage of significant accounts and transactions in the financial statements, we considered the parent company, K3 Business Solutions BV, K3 Syspro Limited and K3 Business Technologies Ireland Limited as the significant components of the Group. The Group audit team performed full scope audit on these significant components.

Other than this, we brought in scope two non-significant components K3 Denmark DdD and Software Solutions BV, in order to achieve a higher audit coverage. For K3 Denmark DdD, we used the help of a member firm in Denmark, who performed a full scope audit of the component. For Software Solutions BV limited audit procedures were performed by the Group audit team.

The remaining components of the Group were considered non-significant and these components were principally subject to analytical review procedures by the Group audit team.

Our involvement with component auditors

For the work performed by component auditors, we determined the level of involvement needed in order to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the Group financial statements as a whole. Our involvement with component auditors included the following:

The Responsible Individual and senior members of the Group audit team were involved at all stages of the audit process, directing the planning and risk assessment work, providing group instructions, joining in virtual meetings with the component audit team and reviewing the work performed by the component audit team.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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) that 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.

Key Audit Matter		How the scope of our audit addressed the key audit matter
Revenue recognition Note 1, 2 and 5	The group has a number of different revenue streams, each of which has a different revenue recognition policy which increases the complexity of the application of the accounting standards. 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 judgement 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 also a key audit matter. Refer to note 1 of the financial statements for details in relation to revenue recognition accounting policies.	• In order to address the complexity of the application of the accounting standards, we considered and discussed the management prepared memo on how the business has continued to implement IFRS 15 in the year including application to new contracts and revenue streams. We considered whether the accounting treatment was in accordance with IFRS 15 for each revenue stream, in order to check the timing and accuracy of the revenue recorded. • We tested a sample of revenue contracts, including all significant new contracts across the group, to assess whether the revenue had been correctly recognised in line with IFRS 15 and the Group's revenue recognition policy. For each significant new contract in our sample we examined the agreement 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. This procedure was performed, in order to check that the revenue from any new contracts has been recorded in line with the agreed treatment as per IFRS 15.

Key Audit Matter		How the scope of our audit addressed the key audit matter
		• We tested a sample of revenue transactions around the year end by agreeing to supporting documentation to assess whether revenue has been recognised in the appropriate accounting period. • We tested a sample of cost of sales balances to assess whether the related revenue has been correctly recognised in the period. • We agreed a sample of deferred and accrued income balances to supporting documentation such as license delivery, employee timecards and maintenance purchase invoice, to check that these amounts have been recognised in the appropriate period. • We agreed a sample of debtors and accrued income balances to post year end cash, invoice and to evidence of the services having been delivered to check their occurrence. • We tested a sample of revenue recognised in the year across all streams to supporting documentation, being licence delivery details, timecard, as well as cash receipt for services such as support to check their occurrence. **Key observations:** We consider the judgements that management have made are reasonable in respect of revenue recognition.

	Key Audit Matter	How the scope of our audit addressed the key audit matter
Development costs Note 1 and 14	All development expenditure that meets the criteria set out in the accounting standards must be capitalised as an asset and amortised over the assets useful economic life from the date the asset is available for use. Management is 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 assets. We considered this to be a key audit matter due to the volume of expenditure in this area and the judgement involved in determining whether the criteria outlined above has been met.	• 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 cash flows. • We have reviewed the appropriateness of the impairment of development costs based on future cash flows, particularly having regard to the change in strategic and market focus and expectation for future sales. • We have considered the appropriateness of the amortisation period by comparison to market averages and a review of net book values supported by future cash flows. **Key observations:** We consider that the judgements made by management in capitalising development costs and considering impairment of these costs are reasonable.

Key Audit Matter		How the scope of our audit addressed the key audit matter
Carrying value of Intangibles and Goodwill Note 1 and 14	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. We considered this to be a key audit matter due to the significant element of judgement involved in this assessment and the changes in the strategic focus of the business going forward have resulted in substantial impairment charges, in recent periods, against goodwill and intangibles.	• We have challenged the calculations prepared by management in the impairment review. • We assessed the triggers for the required impairments and reviewed the strategic decisions made by management during the year in particular arising from the decision in the forecast period to cease investing in certain legacy products. • We have consulted with our internal valuation specialists to review the appropriateness of the discount rate applied. • We have assessed the reasonableness of the assumptions underlying management's assessment of goodwill, including the pipeline and cashflow forecasts for each CGU. • We considered whether managements CGU's were appropriate based on the planned future operation of the business. • We have compared actual results for year ended 30 November 2021 to the forecast results for FY 2022 and beyond. • We have performed sensitivity analysis for all CGUs on the discount rate and cashflow forecast. • We reviewed the disclosures in the financial statements for compliance with accounting standards requirements. **Key observations:** We consider the assumptions made by management in assessing the carrying value of intangibles and goodwill to be reasonable.

OVERVIEW STRATEGIC REPORT GOVERNANCE FINANCIAL STATEMENTS OTHER

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

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

	Group Financial Statements		Parent Company Financial Statements	
	2021 £	2020 £	2021 £	2020 £
Materiality	386,000	381,000	200,000	155,000
Basis for determining materiality	0.85% of revenue. Small increase reflects the reduced risk profile of the business following changes in the year.	0.8% of revenue.	52% group materiality.	41% group materiality.
Rationale for the benchmark applied	Revenue is the most stable and relevant measure for the users of the financial statements.	Revenue is the most stable and relevant measure for the users of the financial statements.	Calculated as a percentage of Group materiality for Group reporting purposes given the assessment of aggregation risk.	Calculated as a percentage of Group materiality for Group reporting purposes given the assessment of aggregation risk.
Performance materiality	270,000	266,700	140,000	108,500
Basis for determining performance materiality	Performance materiality was set at 70% for components and the parent company. This has been based on management's attitude to post adjustments in prior years and low level of adjustments raised in prior years.	Performance materiality was set at 70% for components and the parent company. This has been based on management's attitude to post adjustments in prior years and low level of adjustments raised in prior years.	Performance materiality was set at 70% for components and the parent company. This has been based on management's attitude to post adjustments in prior years and low level of adjustments raised in prior years.	Performance materiality was set at 70% for components and the parent company. This has been based on management's attitude to post adjustments in prior years and low level of adjustments raised in prior years.

Component materiality

Component materiality ranged from £90,000 to £220,000. Component materiality was calculated using the relevant benchmark (revenue/total assets) based on our risk assessment analysis performed at group level. In the audit of each component, we further applied performance materiality levels of 70% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £11,500 (2020: £11,430). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

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

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	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. In the light of the knowledge and understanding of the Group and 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.

Matters on which we are required to report by exception	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 by the Parent Company, 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 Statement of Directors' Responsibilities, 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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We obtained an understanding of the legal and regulatory framework applicable to the Group and Parent Company and the sector in which it operates. We considered the significant laws and regulations to be the applicable accounting framework, the UK Companies Act 2006, Value Added Tax Act 1994, Income Tax Act 2007 and those that relate to the payment of employees.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries, management bias in accounting estimates and inappropriate revenue recognition. Our audit procedures included, but were not limited to:

- Agreement of the financial statement disclosures to underlying supporting documentation;
- Challenging assumptions and judgements made by management in their significant accounting estimates, such as depreciation, trade receivables impairment provisioning and impairment of assets including goodwill and intangibles;
- Identifying and testing journal entries, in particular any journal entries posted with specific keywords and least used accounts;
- Inquiries with management and Directors, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Review of Board and Committee minutes; and
- Obtaining an understanding of the control environment in monitoring compliance with laws and regulations.

For K3 Denmark DdD, the procedures to address the above risks were performed by the component audit team (BDO Denmark).

We communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available 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.

Mark Langford (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Leeds, UK
4 April 2022

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 2021

	Notes	Year ended 30 November 2021 £'000	Year ended 30 November 2020 (restated^) £'000
Revenue	2	45,267	43,762
Cost of sales		(18,432)	(16,926)
Gross profit		26,835	26,836
Administrative expenses		(33,106)	(46,435)
Impairment losses on financial assets	3	(118)	(62)
Adjusted EBITDA	29	4,357	4,034
Depreciation and amortisation	12/13/14	(6,797)	(4,446)
Amortisation of acquired intangibles	14	(518)	(1,471)
Exceptional impairment	15	(1,421)	(16,855)
Exceptional reorganisation costs	3	(1,570)	(902)
Share-based payment charge	10	(440)	(20)
(Loss)/profit from operations	3	(6,389)	(19,660)
Finance expense	6	(1,433)	(1,193)
Loss before taxation from continuing operations		(7,822)	(20,853)
Tax expense	7	(939)	(22)
Loss after taxation from continuing operations		(8,761)	(20,875)
Loss after taxation from discontinued operations	11	12,292	(255)
Profit/(loss) for the year		**3,531**	**(21,130)**

^The 2020 results have been restated to present Sage within the discontinued operations. See note 11 for further details.

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

Gain/(loss) per share

		Year ended 30 November 2021	Year ended 30 November 2020 (restated)
Basic and diluted	9	**8.0p**	(49.3)p
Basic and undiluted from Continuing operations	9	**(19.9)p**	(48.8)p

The notes on pages 70 to 125 form part of these financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 30 November 2021

	Year ended 30 November 2021 £'000	Year ended 30 November 2020 (restated) £'000
Profit/(loss) for the year	**3,531**	**(21,130)**
Other comprehensive (loss)/income		
Exchange differences on translation of foreign operations	(1,085)	1,065
Other comprehensive (loss)	(1,085)	1,065
Total comprehensive expense/(loss) for the year	**2,446**	**(20,065)**

All the total comprehensive expense is attributable to equity holders of the parent. All 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/(loss) had a tax impact.

The notes on pages 70 to 125 form part of these financial statements.

Consolidated Statement of Financial Position

as at 30 November 2021

Registered number: 2641001

	Notes	2021 £'000	2020 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	1,551	1,866
Right-of-use assets	13	1,709	2,719
Goodwill	14/15	24,772	26,132
Other intangible assets	14	6,648	10,271
Deferred tax assets	21	1,010	935
Total non-current assets		**35,690**	**41,923**
Current assets			
Stock		467	452
Trade and other receivables	16	10,605	10,616
Cash and cash equivalents		9,146	9,306
Assets in disposal groups classified as held for sale	11	–	6,899
Total current assets		**20,218**	**27,273**
Total assets		**55,908**	**69,196**
LIABILITIES			
Non-current liabilities			
Lease liabilities	22	135	1,735
Provisions	20	1,129	416
Deferred tax liabilities	21	1,288	889
Total non-current liabilities		**2,552**	**3,040**
Current liabilities			
Trade and other payables	17	14,456	18,018
Current tax liabilities		509	1,274
Lease liabilities	22	1,623	925
Borrowings	18	113	12,443
Provisions	20	854	9
Liabilities directly associated with assets classified as held for sale	11	–	3,572
Total current liabilities		**17,555**	**36,241**
Total liabilities		**20,107**	**39,281**
EQUITY			
Share capital	23	11,183	10,737
Share premium account		31,451	28,897
Other reserves		11,151	11,151
Translation reserve		1,538	2,623
Retained earnings		(19,522)	(23,493)
Total equity attributable to equity holders of the parent		**35,801**	**29,915**
Total equity and liabilities		**55,908**	**69,196**

The financial statements on pages 65 to 125 were approved and authorised for issue by the Board of Directors on 4 April 2022 and were signed on its behalf by:

RD Price
Director

The notes on pages 70 to 125 form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 30 November 2021

	Notes	Year ended 30 November 2021 £'000	Year ended 30 November 2020 £'000
Cash flows from operating activities			
Profit/(loss) for the period		3,531	(21,130)
Adjustments for:			
Finance expense		1,448	1,137
Tax expense/(credit)	7	829	(284)
Depreciation of property, plant and equipment	12	591	730
Depreciation of right-of-use assets	13	963	1,727
Amortisation of intangible assets and development expenditure	14	5,639	4,247
Impairment of intangible assets	14	1,421	16,855
Loss on sale of property, plant and equipment		466	254
Share-based payments credit	10	440	20
(Profit)/loss on disposal of discontinued operations	11	(11,893)	957
Increase in provisions	20	1,558	71
(Increase)/decrease in trade and other receivables		(242)	6,680
Decrease in trade and other payables		(3,896)	(2,668)
Cash generated from operations		855	8,596
Income taxes paid		(1,362)	(364)
Net cash from operating activities		(507)	8,232
Cash flows from investing activities			
Development expenditure capitalised	14	(3,024)	(4,516)
Proceeds from disposal of operations net of cash balances in disposal unit		14,763	–
Purchase of property, plant and equipment	12/13	(623)	(713)
Net cash generated from/(used in) investing activities		11,116	(5,229)
Cash flows from financing activities			
Proceeds from loans and borrowings		4,800	9,950
Repayment of loans and borrowings		(11,571)	(6,468)
Repayment of lease liabilities		(1,187)	(1,841)
Interest paid on lease liabilities		(202)	(308)
Finance expense paid		(673)	(590)
Net cash from financing activities		(8,833)	743
Net change in cash and cash equivalents		**1,776**	3,746
Cash and cash equivalents at start of year	28	7,566	3,841
Exchange losses on cash and cash equivalents		(309)	(21)
Cash and cash equivalents at end of year	28	**9,033**	7,566

The notes on pages 70 to 125 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 30 November 2021

	Share capital £'000	Share premium £'000	Other reserves £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
At 30 November 2019	**10,737**	**28,897**	**10,448**	**1,558**	**(2,383)**	**49,257**
Changes in equity for year ended 30 November 2020						
Loss for the year	–	–	–	–	(21,130)	**(21,130)**
Other comprehensive income for the year	–	–	–	1,065	–	**1,065**
Total comprehensive income/(expense)	–	–	–	1,065	(21,130)	**(20,065)**
Share-based payment	–	–	–	–	20	**20**
Issue of warrants	–	–	703	–	–	**703**
At 30 November 2020	**10,737**	**28,897**	**11,151**	**2,623**	**(23,493)**	**29,915**
Changes in equity for year ended 30 November 2021						
Profit for the year	–	–	–	–	3,531	**3,531**
Other comprehensive loss for the year	–	–	–	(1,085)	–	**(1,085)**
Total comprehensive income/(expense)	–	–	–	(1,085)	3,531	**2,446**
Share-based payment	–	–	–	–	440	**440**
Issue of shares	446	2,554	–	–	–	**3,000**
At 30 November 2021	**11,183**	**31,451**	**11,151**	**1,538**	**(19,522)**	**35,801**

Within the Share Capital reserve there are own shares held by a wholly owned subsidiary, K3 Business Technology Group Trustees Company Limited, as trustee of the group's employee share ownership plan. Own shares represent 26,809 (2020: 47,067) shares held under an employee share ownership plan which will be issued to the employees when they choose to withdraw them. The market value of these shares as at 30 November 2021 was £47,050 (2020: £55,304).

The notes on pages 70 to 125 form part of these financial statements.

Notes forming part of the Financial Statements

for the year ended 30 November 2021

1. Accounting policies for the group financial statements

Statement of compliance

These group financial statements have been prepared in accordance with UK endorsed IFRS in conformity with the requirements of the Companies Act 2006 ("IFRS"). The company financial statements have been prepared in accordance with Financial Reporting Standard 101, Reduced Disclosure Framework ("FRS101"); these are presented on pages 126 to 135.

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

The Group closely reviews its funding position throughout the year, including monitoring compliance with covenants and available facilities to ensure it has sufficient headroom to fund operations. The Group has extended its current Banking Facilities arrangements with its long term Bank, Barclays, for a further year to 31 March 2023.

The capital structure of the Group has materially changed in the last year with the disposal of the Starcom and Sage businesses for a combined £16.2m and the conversion of a £3.0m shareholder loans to equity. The Group therefore ended the year ended 30 November 2021 with a Net Cash position of £9.0m compared to a Net Debt position of £1.9m the previous year end.

The Group has prepared cashflow forecast for a period of at least 12 months from the date of approval of the financial statements which show that the Group will have reasonably significant headroom and be in compliance with covenants. The forecast has undergone sensitivity analysis and stress testing and the Directors have concluded that there is no reasonably worst-case scenario that is likely which would mean the group would run out of cash or breach covenants.

The Directors therefore have a reasonable expectation that there are no material uncertainties that cast significant doubt about the Group's ability to continue in operation and meet its liabilities as they fall due for the foreseeable future, being a period of at least 12 months from the date of approval of the financial statements. For these reasons the financial statements have been prepared on a going concern basis.

Adoption of new and revised standards

New accounting standards, interpretations and amendments have been adopted by the Group

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

IAS 8:30 The effect of the initial application of an IFRS on the entity's accounting policies.

New accounting standards, interpretations and amendments not yet effective

IAS 8:30 When an entity has not applied a new IFRS that has been issued but is not yet effective, disclose

(a) this fact; and

(b) known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application.

IAS 8:31 In complying with IAS 8:30, consider disclosing:

(a) the title of the new IFRS;

(b) the nature of the impending change or changes in accounting policy;

(c) the date by which application of the IFRS is required;

(d) the date at which it plans to apply the IFRS initially; and

(e) either:

(i) a discussion of the impact expected; or

(ii) if that impact is not known or reasonably estimable, that fact.

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.

Notes forming part of the Financial Statements continued

for the year ended 30 November 2021

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.

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.

Business combinations continued

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 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 based on 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.

Notes forming part of the Financial Statements continued

for the year ended 30 November 2021

Revenue recognition

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

K3 own products 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 are linked to implementation and set up of K3 own and 3rd party products, 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 recognised 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.

Revenue recognition continued

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 and support are 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 software 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 SaaS/subscription products and usually hosted by K3 and typically a bundled offer of maintenance and support is provided to customers which are both performance obligations for K3 and revenue is recognised over time.

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 must 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 cost methodology.

Leases

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.

Notes forming part of the Financial Statements continued

for the year ended 30 November 2021

Leases continued

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.

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the group can 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.

Notes forming part of the Financial Statements continued

for the year ended 30 November 2021

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 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 and third-party costs 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. During the year given the speed of change in the technology space, the amortisation useful economic life was revised down from 5 to 7 years to 2 to 3 years. The amortisation expense is included within administrative expenses in the consolidated income statement. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment 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.

Notes forming part of the Financial Statements continued

for the year ended 30 November 2021

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.

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.

Financial assets continued

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 considered 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.

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 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, considering legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Notes forming part of the Financial Statements continued

for the year ended 30 November 2021

Financial liabilities

All financial liabilities are measured initially 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.

Restructuring

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.

Provisions continued

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 plan

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 considered 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. Where group no longer feels that the conditions will be met for the options to vest any charge is subsequently reversed.

Warrants

Warrants issued which will be settled by the Group's own equity, and not by cash or another financial asset, are classified as equity instruments. The warrants are measured at fair value at the date of grant and initially recognised in equity. The fair value determined at the grant date is expensed as a finance costs on a straight-line basis over the term of the loan.

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 2021

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 15.

Critical accounting estimates and judgements continued

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 15. 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 15.

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 rates on trade receivables between 61 and 90 days past due had been 50 per cent higher as of November 2021, the loss allowance on trade receivables would have been £16k (2020: £2k) higher.

If the ECL rates on trade receivables between 31 and 60 days past due had been 50 per cent higher as of November 2021, the loss allowance on trade receivables would have been £4k (2020: £11k) 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 13.

Notes forming part of the Financial Statements continued

for the year ended 30 November 2021

Prior period restatements

On 20 September 2021, the Group announced the trade and asset sale of its Sage business CGU to Pinnacle Computing (Support) Limited. On 26 February 2021, the Group announced that it had completed a share sale of Starcom Technologies Limited. Starcom Technologies Limited had been classified as a disposal group held for sale at 30 November 2020 and presented as a discontinued operation. The 2020 comparatives have therefore been restated to present Sage as part of the discontinued operations in order to provide comparability. The prior period restatement is explained in note 11.

One further presentational adjustment was made in the statement of financial position, to the 2020 comparatives, to reflect a correction to the IFRS15 treatment of certain Trade Receivable/Contract Liability (Deferred Income) balances. The impact of this was to remove £1.1m of Trade Receivables and Contract Liability balances as these balances related to invoices raised in advance for work performed after 30 November 2020. There was no impact on Profit/Loss, Net Assets or Cashflows. This is further explained in notes 16 and 17 below.

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognises expenses for the related costs for which the grants are intended to compensate.

2. Revenue

	2021 £'000	2020 restated £'000
The group's revenue comprises:		
Software licence revenue	6,642	5,200
Services revenue*	17,325	16,719
Maintenance & support**	19,867	20,331
Hardware and other revenue	1,433	1,512
Revenue	**45,267**	**43,762**

*from installation, integration and software development services

**from software maintenance renewals, support contracts and software as a service ("SaaS").

3. Loss from operations

	Notes	2021 £'000	2020 restated £'000
This has been arrived at after charging/(crediting):			
Staff costs	4	25,667	24,534
Government Furlough Scheme Grant		–	(229)
Depreciation of property, plant and equipment	12	591	730
(Profit)/loss on disposal of fixed assets	12	–	(30)
Depreciation of right-of-use assets	13	963	1,727
Amortisation of acquired intangible assets	14	577	1,791
Amortisation of development costs	14	5,062	2,456
Exceptional impairment of goodwill and intangibles[1]	14/15	1,421	16,855
Exceptional reorganisation costs[2]		1,570	934
Loss allowance on trade receivables		(118)	(122)
Audit fees:			
– Audit services		172	171
– Non-audit services		56	37

1 The exceptional impairments arise from the value in use assessment as set out in notes 14 and 15.

2 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 £1.6m (2020: £0.9m).

4. Staff costs

	2021 £'000	2020 restated £'000
Staff costs (including directors) comprise:		
Wages and salaries	21,791	20,503
Short-term non-monetary benefits	64	60
Defined contribution pension cost	1,315	1,562
Employers national insurance contributions and similar taxes	2,497	2,409
	25,667	**24,534**

In addition Share-based payments were charged of £440k (2020: £20k).

Of the above staff costs £2.3m (2020: £4.5m) has been capitalised within development costs (see note 12).

The average number of employees in continuing operations during the year was:

	2021 Number	2020 restated Number
Consultants and programmers	300	318
Sales and distribution	48	53
Administration	60	58
	408	**429**

Notes forming part of the Financial Statements continued

for the year ended 30 November 2021

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 pages 28 and 29 and the divisional directors.

	2021 £'000	2020 £'000
Key management personnel remuneration consists of:		
Remuneration	1,150	1,614
Company contributions to defined contribution pension schemes	53	76
Share-based payment expense (note 10)	423	20
Employers' national insurance contributions and similar taxes	128	101
	1,754	1,811

Included in the totals above is directors' remuneration:

	2021 £'000	2020 £'000
Directors' remuneration consists of:		
Emoluments	736	604
Contributions to personal pension schemes	35	45
Total per remuneration report (page 39)	771	649
Share-based payments	302	12
Employers' national insurance contributions and similar taxes	75	31
	1,148	692

	2021 £'000	2020 £'000
Remuneration in respect of the highest paid director:		
Aggregate emoluments	210	287
Share-based payments	70	6
Pension contributions	17	28
	297	321

There were 3 directors in defined contribution pension schemes (2020: 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

We have restated the 2020 segment information to remove the discontinued activities of Sage, to be presented as discontinued alongside those of UK Dynamics and Starcom which were shown as discontinued in 2020. The group operates a streamlined organisation with management resource and central services focused on working across the group in a more unified manner to increase the strategic focus on the level of our own product sales. Reporting is based on product split between K3 own products and Third Party reseller activities across revenue and gross margin. This has changed from the prior year reported disclosures which was based on three segments of K3 own IP, Global Accounts and Third Party Products. We have now merged Global Accounts and Third Party Products into Third Party Solutions. Overheads and administrative expenses are included as a central cost given resource works across these three segments. The activities and products and services of the operating segments are detailed in the Strategic Report on pages 14 to 21.

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 EBITDA[*1]. The segment results for the year ended 30 November 2021 and for the year ended 30 November 2020, reconciled to loss for the year.

Notes forming part of the Financial Statements continued

for the year ended 30 November 2021

5. Segment information continued

	Notes	K3 Products £'000	Third Party Solutions £'000	Central Costs £'000	Total £'000
		Year ended 30 November 2021			
Total segment revenue		21,216	31,401	–	52,617
Less: Inter-segment revenue		(4,887)	(2,463)	–	(7,350)
Software licence revenue		3,678	2,963	–	6,642
Services revenue		1,310	16,014	–	17,325
Maintenance & support		10,000	9,868	–	19,867
Hardware and other revenue		1,341	93	–	1,433
External revenue		**16,329**	**28,938**	**–**	**45,267**
Cost of sales		(4,091)	(14,341)	–	(18,432)
Gross profit		**12,238**	**14,597**	**–**	**26,835**
Gross margin		74.9%	50.4%	–	59.3%
Underlying administrative expenses*7		(9,922)	(6,629)	(5,927)	(22,478)
Adjusted EBITDA*1 from continuing operations		**2,316**	**7,968**	**(5,927)**	**4,357**
Depreciation and amortisation		–	–	(6,797)	(6,797)
Amortisation of acquired intangibles		–	–	(518)	(518)
Exceptional impairment		–	–	(1,421)	(1,421)
Exceptional reorganisation costs		–	–	(1,605)	(1,605)
Acquisition gains		–	–	35	35
Share-based payment charge		–	–	(440)	(440)
Profit/(loss) from operations		**2,316**	**7,968**	**(16,673)**	**(6,389)**
Finance expense		–	–	(1,433)	(1,433)
Profit/(loss) before tax and discontinued operations		**2,316**	**7,968**	**(18,106)**	**(7,822)**
Tax expense		–	–	(939)	(939)
Profit from discontinued operations	11	–	–	12,292	12,292
Profit/(loss) for the year		**2,316**	**7,968**	**(6,753)**	**3,531**

5. Segment information continued

	Year ended 30 November 2020 (restated^)			
	K3 Products £'000	Third Party Solutions £'000	Central Costs £'000	Total £'000
Total segment revenue	20,001	30,984	–	50,985
Less: Inter-segment revenue	(4,143)	(3,080)	–	(7,224)
Software licence revenue	3,303	1,896	–	5,200
Services revenue	1,184	15,535	–	16,719
Maintenance & support	10,031	10,301	–	20,331
Hardware and other revenue	1,340	172	–	1,512
External revenue	**15,858**	**27,904**	**–**	**43,762**
Cost of sales	(3,282)	(13,644)	–	(16,926)
Gross profit	**12,576**	**14,260**	**–**	**26,836**
Gross margin	79.3%	51.1%	–	61.3%
Underlying administrative expenses*7	(9,972)	(6,741)	(6,089)	(22,802)
Adjusted EBITDA*1 from continuing operations	**2,604**	**7,519**	**(6,089)**	**4,034**
Depreciation and amortisation	–	–	(4,446)	(4,446)
Amortisation of acquired intangibles	–	–	(1,471)	(1,471)
Exceptional impairment	–	–	(16,855)	(16,855)
Exceptional reorganisation costs	–	–	(902)	(902)
Share-based payment charge/(credit)	–	–	(20)	(20)
Profit/(loss) from operations	**2,604**	**7,519**	**(29,783)**	**(19,660)**
Finance expense	–	–	(1,193)	(1,193)
Profit/(loss) before tax and discontinued operations	**2,604**	**7,519**	**(30,976)**	**(20,853)**
Tax expense	–	–	(22)	(22)
Loss from discontinued operations	–	–	(255)	(255)
Profit/(loss) for the year	**2,604**	**7,519**	**(31,253)**	**(21,130)**

^The 2020 segmentation has been restated to present Sage as discontinued operations alongside those of UK Dynamics and Starcom which were shown as discontinued operations in 2020 (see note 11 for further details) and to present the results based on the product segments of K3 Products and Third-party reseller products.

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 67. 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 has one customer relationship which accounts for 43% (2020: 41%) of external Group revenue.

Notes forming part of the Financial Statements continued

for the year ended 30 November 2021

5. Segment information continued

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		Non-current assets	
	Year ended 30 November 2021 £'000	Year ended 30 November 2020 £'000	2021 £'000	2020 (restated) £'000
United Kingdom	15,648	14,347	30,606	31,142
Netherlands	7,978	9,170	180	420
Ireland	1,157	1,250	5,941	10,861
Rest of Europe	7,575	9,676	(1,570)	(318)
Middle East	1,887	1,641	–	–
Asia	7,494	4,503	304	274
USA	506	1,005	19	19
Rest of World	3,020	2,171	–	–
	45,267	43,762	**35,480**	43,399
% of non-UK revenue	65%	67%		

External revenue by business unit geography

External revenue by market

2021	UK £'000	Non-UK £'000	Total £'000
Software licence revenue	1,734	4,908	**6,642**
Services revenue	2,648	14,676	**17,324**
Maintenance & support	10,664	9,204	**19,867**
Hardware and other revenue	628	806	**1,433**
Total	**15,674**	**29,593**	**45,267**

External revenue by business unit geography

2021	Software Licensing £'000	Services Revenue £'000	Maintenance & Support Revenue £'000	Hardware & Other Revenue £'000	Total £'000
United Kingdom	1,596	2,783	10,623	627	**15,629**
Netherlands	4,389	14,149	6,069	57	**24,664**
Ireland	107	176	569	50	**902**
Rest of Europe	550	216	2,607	700	**4,072**
Total	**6,642**	**17,324**	**19,867**	**1,433**	**45,267**

5. Segment information continued

External revenue by revenue recognition category

2021	Software Licensing £'000	Services Revenue £'000	Maintenance & Support Revenue £'000	Hardware & Other Revenue £'000	Total £'000
Goods transferred at a point in time	6,642	–	–	1,432	**8,074**
Services transferred at a point in time	–	17,324	9,880	2	**27,206**
Services transferred over time	–	–	9,987	–	**9,987**
Total	**6,642**	**17,324**	**19,867**	**1,433**	**45,267**

Revenue to be recognised in the future, related to agreed performance obligations that are unsatisfied or partially satisfied as at 30 November 2021, was as follows:

	2022 £'000	2023 £'000	Later £'000	Total £'000
Software licence revenue	328	–	–	328
Services revenue	93	–	–	93
Maintenance & support	4,073	–	–	4,073
Hardware and other revenue	4	–	–	4
Total	**4,499**	**–**	**–**	**4,499**

External revenue by market

2020	UK £'000	Non-UK £'000	Total £'000
Software licence revenue	1,833	3,367	5,200
Services revenue	2,044	14,675	16,719
Maintenance & support	9,913	10,418	20,331
Hardware and other revenue	370	1,142	1,512
Total	14,160	29,602	43,762

External revenue by business unit geography

2020	Software Licensing £'000	Services Revenue £'000	Maintenance & Support Revenue £'000	Hardware & Other Revenue £'000	Total £'000
United Kingdom	2,089	2,168	10,562	417	15,238
Netherlands	2,781	14,248	6,480	112	23,621
Ireland	55	141	260	71	528
Rest of Europe	274	161	3,029	912	4,376
Total	5,200	16,719	20,331	1,512	43,762

Notes forming part of the Financial Statements continued

for the year ended 30 November 2021

5. Segment information continued

External revenue by revenue recognition category

2020	Software Licensing £'000	Services Revenue £'000	Maintenance & Support Revenue £'000	Hardware & Other Revenue £'000	Total £'000
Goods transferred at a point in time	5,200	–	–	1,512	6,712
Services transferred at a point in time	–	16,558	5,718	–	22,276
Services transferred over time	–	161	14,613	–	14,774
Total	5,200	16,719	20,331	1,512	43,762

Revenue to be recognised in the future, related to agreed performance obligations that are unsatisfied or partially satisfied as at 30 November 2020, was as follows:

	2021 £'000	2022 £'000	Later £'000	Total £'000
Software licence revenue	226	226	324	776
Services revenue	321	–	–	321
Maintenance & support	5,066	–	–	5,066
Hardware and other revenue	333	–	–	333
Total	5,946	226	324	6,496

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

	2021 £'000
At 1 December 2020	3,220
Transfers in the period from contract assets to trade receivables	(3,220)
Excess of revenue recognised over cash (or rights to cash) being recognised during the period	3,077
At 30 November 2021	**3,077**

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

	2021 £'000
At 1 December 2020	5,369
Amounts included in contract liabilities that was recognised as revenue during the period	(5,369)
Cash received in advance of performance and not recognised as revenue during the period	3,364
At 30 November 2021	**3,364**

6. Finance income and expense

	2021 £'000	2020 restated £'000
Finance expense		
Bank borrowings	105	356
Interest expense on lease liabilities	3	272
Finance charges for warrants	328	375
Other finance costs	997	190
Net finance expense	**1,433**	**1,193**

Other financial costs increased with the interest changes for the conversion of the Shareholder Loans to Equity.

7. Tax expense/(charge)

	2021 £'000	2020 restated £'000
Current tax expense/(credit)		
Income tax of overseas operations on profits/(losses) for the period	676	397
Adjustment in respect of prior periods	(80)	(59)
Total current tax expense	596	338
Deferred tax (credit)/expense		
Origination and reversal of temporary differences	233	(622)
Total deferred tax expense/(credit)	233	(622)
Total tax expense/(credit) in the current year	**829**	(284)
Income tax expense/(credit) attributable to continuing operations	939	22
Income tax (credit) attributable to discontinued operations	(110)	(306)
	829	(284)

The March 2021 Budget announced an increase to the main rate of corporation tax to 25% from April 2023 and this rate was enacted on 10 June 2021. Deferred tax balances as at 30 November 2021 have been measured at 25%.

Notes forming part of the Financial Statements continued

for the year ended 30 November 2021

7. Tax expense/(charge) 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:

	2021 £'000	%	2020 restated £'000	%
Loss before taxation from continuing operations	(7,822)		(20,853)	
Profit before taxation from discontinued operations (note 11)	12,182		1,149	
Profit/(loss) before tax	4,360		(19,704)	
Expected tax charge/(credit) based on the standard rate of corporation tax	828	19.0	(3,744)	19.0
Effects of:				
Items not deductible for tax purposes	504		3,161	
Non-taxable gain on disposal of shares	(2,274)		–	
Adjustment to tax charge in respect of prior periods	(180)		(226)	
Differences between overseas tax rates	571		110	
Group relief not paid for	154		–	
Super-deduction	(11)		–	
Movements in temporary differences not recognised	1,184		435	
Effect of deferred tax rate difference	54		(40)	
Total tax expense/(credit) in current period	**829**	**39.4**	(304)	19.0

Deferred tax recognised directly in equity was £nil (2020: £nil). Current tax recognised in equity was £nil (2020: £nil). 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

No dividend in respect of the year ended 30 November 2021 will be proposed (2020: nil).

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:

	2021 Number of shares	2020 Number of shares
Denominator		
Weighted average number of shares used in basic and diluted EPS	44,090,074	42,899,598

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.

	Basic and diluted	
	2021 £'000	2020 £'000
Loss after tax from continuing operations	(8,761)	(20,875)
Profit/(loss) after taxation from discontinued operations	12,292	(255)
Profit/(loss) attributable to ordinary equity holders of the parent for basic and diluted earnings per share	3,531	(21,130)

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.

	Basic and diluted before Other items	
	2021 £'000	2020 £'000
Loss after tax from continuing operations	(8,761)	(20,875)
Add back other items:		
Amortisation of acquired intangibles	518	1,471
Exceptional reorganisation costs	1,605	902
Exceptional impairment costs	1,421	16,855
Share-based payment charge	440	20
Tax charge related to other items	(1,207)	255
(Loss)/profit attributable to ordinary equity holders of the parent for basic and diluted earnings from continuing operations before other items	**(5,984)**	(1,372)

	2021 Pence	2020 restated Pence
Profit/(loss) per share		
Basic and diluted earnings/(loss) per share	8.0	(49.3)
Basic and diluted earnings/(loss) per share from continuing operations	(19.9)	(48.8)
Basic and diluted earnings/(loss) per share from discontinued operations	27.9	(0.5)
Adjusted earnings per share		
Basic and diluted earnings/(loss) per share from continuing operations before other items	(13.6)	(3.2)

Notes forming part of the Financial Statements continued

for the year ended 30 November 2021

10. Share-based payments

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.

Market Priced Options

Market Priced Options may be granted annually subject to the achievement of performance targets set by the Remuneration Committee. The value of any awards granted are intended to be between 50% - 100% of an individual's basic salary. The exercise price of Market Priced Options is determined by the prevailing price of the Company's shares on the day before the date of grant and any vesting conditions are set by the Remuneration Committee at the time of the annual award.

During the financial year, the Remuneration Committee awarded 200,000 Market Priced Options with an exercise price of 204p to certain Persons Discharging Managerial Responsibilities ("PDMRs") and employees of the Group.

The vesting of these 2021 Market Priced Options is subject to the achievement of certain prescribed levels of incremental annual recurring revenue between 1 December 2020 and 30 November 2024 with vesting occurring proportionately as between 25% and 100% of the award. No vesting will be permitted unless the lowest threshold (corresponding to 25% vesting) is achieved.

Subject to meeting the above performance targets, the 2021 Market Priced Options may be exercised following vesting and until the seventh anniversary of the original date of grant, at which point they will lapse.

Nominal Priced Options/LTIP Options

Nominal Priced Options are not granted annually, but are granted on an occasional basis at the determination of the Remuneration Committee. The exercise price of Nominal Priced Options is 25p, being nominal value of the Company's shares.

All current Nominal Priced Options granted to date are subject to performance conditions based on the achievement of certain 60 day Volume Weighted Average Price ('VWAP') thresholds of the Company's shares, measured between the third and fourth anniversary of the date of option grant. The 60 day VWAP measurement will be applied to any consecutive 60 trading days during the 12 month testing period.

The performance targets and associated vesting of the Nominal Priced Options are:

- 25% vest at VWAP of 200p;
- 50% vest at VWAP of 225p; and
- 100% vest at VWAP of 250p,

with a straight line vesting between these thresholds.

Subject to meeting the above performance targets, all Nominal Priced Options granted to date may be exercised as follows:

- 50% on or after the fourth anniversary of the date of grant
- 50% on or after the fifth anniversary of the date of grant.

Nominal Priced Options granted to date will remain exercisable until the seventh anniversary of the original date of grant, at which point they will lapse.

10. Share-based payments continued

During the financial year, 550,000 Nominal Priced Options were granted to Mr M Vergani (500,000 options) and Mr T Crawford (50,000 options). In the financial year, the Company also amended the terms of the 300,000 Nominal Priced Options granted to Mr T Crawford on 12 November 2020 to align the periods for measurement of the performance condition and vesting with the 2021 Nominal Priced Options, and Nominal Priced Options granted after the financial year end were similarly aligned.

As at 30 November 2021, 175,000 of the original 1,800,000 Nominal Priced Options granted during November 2020 had lapsed without being exercised, leaving an aggregate of 2,175,000 Nominal Priced Options in issue at the end of the financial year.

Post Year End Options

On 9 February 2022, the Remuneration Committee issued a further 175,000 Nominal Priced Options and 80,000 Market Priced Options to certain PDMRs.

SAYE

As at 30 November 2021, all options granted under the Group's Save As You Earn ("SAYE") scheme for employees had lapsed without being exercised.

	2021		2020	
	Weighted average exercise price Pence	Options Number	Weighted average exercise price Pence	Options Number
Outstanding at beginning of the year	25.0	1,829,539	34.6	3,255,522
Granted during the year	72.7	750,000	25.0	1,800,000
Lapsed during the year	57.7	(204,539)	34.6	(3,225,983)
Outstanding at the end of the year	40.1	2,375,000	25.0	1,829,539

Of the above share options outstanding at the end of the year nil (2020: nil) are exercisable at 31 December 2021. No options had vested or were exercisable at the end of either period. The options outstanding at 31 December 2021 had a weighted average price of LTIP:25p, Market Priced Options:204p (2020: LTIP 25p, SAYE 295.5p) and their weighted average contractual life was 6.64 years (2020 6.95 years). In the year nil (2020: nil) options were exercised.

The fair value per option is:

	Fair value per option
13 November 2020 award	82p
30 March 2021 award	148p
18 March 2021	2p

Notes forming part of the Financial Statements continued

for the year ended 30 November 2021

10. Share-based payments continued

The assumptions used in the models used to calculate the fair value of the LTIP options granted in the year are as follows:

	2020 LTIP award (13 November 2020)
Share price (on date of official grant)	114p
Exercise price	25p
Expected volatility	2.39%
Actual life	4 years
Risk free rate	-0.69%
Dividend yield	1.40%
Model used	Black Scholes
Expected percentage options exercised versus granted at date of grants	100%

	2021 LTIP award (30 March 2021)
Share price (on date of official grant)	174p
Exercise price	25p
Expected volatility	2.42%
Actual life	4 years
Risk free rate	-0.64%
Dividend yield	0.00%
Model used	Black Scholes
Expected percentage options exercised versus granted at date of grants	100%

	2021 Market Priced award (18 June 2021)
Share price (on date of official grant)	204p
Exercise price	204p
Expected volatility	2.41%
Actual life	3.8 years
Risk free rate	-2.02%
Dividend yield	0.00%
Model used	Black Scholes
Expected percentage options exercised versus granted at date of grants	100%

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

	2021 £'000	2020 £'000
Equity-settled schemes	440	20

On 30 March 2021, the Remuneration Committee granted 550,000 new options to certain Persons Discharging Managerial Responsibilities ("PDMRs") for which a charge of £2.9k has been recognised in 2021.

On 18 June 2021, the Remuneration Committee granted 200,000 new options to certain Persons Discharging Managerial Responsibilities ("PDMRs") and other employees of the Group for which a charge of nil has been recognised in 2021.

The Group did not enter into any share-based payment transactions with parties, other than employees, during the current or previous period other than warrants issued as part of the shareholder loans received (see note 24).

11. Discontinued operations

On 26 February 2021 the Group announced that a sale of the Starcom business for consideration of £14.7m had been approved and completed. Starcom had already been classified as a discontinued operation in the prior year as it represented a major line of business for the Group.

The post tax gain on disposal of the Starcom business was determined as follows:

	2021 £'000	2020 £'000
Cash consideration received	14,474	–
Total consideration received	**14,747**	–
Cash disposed of	(1,375)	–
Net cash inflow on disposal of discontinued operations	**13,372**	–
Net assets disposed (other than cash)		
Property, plant and equipment	(199)	–
Intangibles	(3,015)	–
Right-of-use asset	(454)	–
Trade and other receivables	(2,404)	–
Trade and other payables	1,958	–
	(4,114)	–
Pre-tax gain on disposal of discontinued operations	9,258	–
Related tax expense	–	–
Gain on disposal of discontinued operations	**9,258**	–

Trade and other payables includes an onerous contract provision of £1,125k relating to higher than market pricing on the 3 year post completion service agreement with the buyer.

The results of the Starcom business for the year are presented below:

	2021 £'000	2020 restated £'000
Total revenue	2,309	10,229
Less inter-segment revenue	–	(710)
External revenue	(2,309)	9,519
Cost of sales	(845)	(3,966)
Gross profit	1,464	5,553
Administrative expenses	(1,011)	(3,998)
Impairment losses on financial assets	–	(25)
Amortisation of acquired intangibles	(107)	(322)
Profit from operations	346	1,208
Profit on disposal	9,258	–
Finance credit/(expense)	9	(73)
Profit before taxation from discontinued operations	**9,613**	1,135
Tax credit including on gain on asset held for sale	110	22
Profit for the year from discontinued operations	**9,723**	1,157

Notes forming part of the Financial Statements continued

for the year ended 30 November 2021

11. Discontinued operations continued

	2021 Pence	2020 restated Pence
Basic and diluted profit per share from discontinued operations	22.0	2.7

The major classes of assets and liabilities of the Starcom business classified as held for sale as at 30 November 2021 are as follows:

	2021 £'000	2020 £'000
Property, plant and equipment	–	237
Right-of-use assets	–	332
Goodwill	–	2,373
Other intangible assets	–	690
Deferred tax assets	–	136
Trade and other receivables	–	1,871
Cash and cash equivalents	–	1,260
Assets classified as held for sale	**–**	**6,899**
Trade and other payables	–	(3,196)
Provisions	–	(60)
Lease liabilities	–	(316)
Liabilities directly associated with assets classified as held for sale	**–**	**(3,572)**
Net assets directly associated with disposal group	**–**	**3,327**

The net cashflows incurred by Starcom are as follows:

	2021 £'000	2020 £'000
Operating	628	1,096
Investing	(129)	(155)
Financing	(157)	(133)
Net cash inflow	**342**	808

On the 20 September 2021, the Group disposed of the customers and employees of its Sage business to Pinnacle Computing (Support) Ltd for £1.68m.

Formal completion occurred in early October 2021, following a TUPE consultation process in respect of the transfer to Pinnacle of the employees, and the disposal consideration was subject to a downward adjustment of £0.2m in respect of restructuring costs that Pinnacle undertook immediately following completion. The Group maintained ownership of the sales ledger at Completion which was £0.1m at the 30 November 2021.

11. Discontinued operations continued

The post tax gain on disposal of the Sage business was determined as follows:

	2021 £'000	2020 £'000
Cash consideration received	1,475	–
Total consideration received	**1,475**	–
Cash disposed of	–	–
Net cash inflow on disposal of discontinued operations	**1,475**	
Net assets disposed (other than cash)		
Trade and other receivables	682	–
Trade and other payables	478	–
	1,160	–
Pre-tax gain on disposal of discontinued operations	2,635	–
Related tax expense	–	–
Gain on disposal of discontinued operations	**2,635**	–

Trade and other payables includes the release of working capital accruals no longer payable following the disposal of the business.

The results of the Sage business for the year are presented below:

	2021 £'000	2020 £'000
External revenue	4,011	5,057
Cost of sales	(2,437)	(3,184)
Gross profit	1,574	1,873
Administrative expenses	(1,641)	(1,967)
Impairment losses on financial assets	31	(60)
Profit from operations	(36)	(154)
Profit on disposal	2,629	–
Finance (expense)/credit	(24)	69
Profit after taxation from discontinued operations	2,569	(85)
Tax credit/(charge) including on gain on asset held for sale	–	14
Profit/(loss) for the year from discontinued operations	**2,569**	**(71)**

	2021 Pence	2020 Pence
Basic and diluted profit per share from discontinued operations	5.8	0.2

The amounts included in the consolidated cashflows related to the Sage business are as follows:

	2021 £'000	2020 £'000
Operating	(230)	(197)
Investing	1,475	–
Financing	(24)	69
Net cash inflow/(outflow)	1,221	(128)

Notes forming part of the Financial Statements continued

for the year ended 30 November 2021

12. Property, plant and equipment

	Long leasehold land and buildings £'000	Leasehold improvements £'000	Plant, fixtures and equipment £'000	Total £'000
Cost				
At 30 November 2019	750	47	7,526	8,323
Additions	–	–	712	712
Disposals	–	–	(1,186)	(1,186)
Reclassified as held for sale	–	–	(1,648)	(1,648)
Effect of movements in foreign exchange rate	–	–	95	95
At 30 November 2020	750	47	5,499	6,296
Additions	–	–	305	305
Disposals	–	–	(98)	(98)
Effect of movements in foreign exchange rate	–	–	(107)	(107)
At 30 November 2021	**750**	**47**	**5,599**	**6,396**
Accumulated depreciation				
At 30 November 2019	127	47	6,042	6,216
Depreciation charge	10	–	720	730
Disposals	–	–	(1,183)	(1,183)
Reclassified as held for sale	–	–	(1,412)	(1,412)
Effect of movements in foreign exchange rate	–	–	79	79
At 30 November 2020	137	47	4,246	4,430
Depreciation charge	10	–	581	591
Disposals	–	–	(95)	(95)
Effect of movements in foreign exchange rate	–	–	(81)	(81)
At 30 November 2021	**147**	**47**	**4,651**	**4,845**
Net book value				
At 30 November 2019	623	–	1,484	2,107
At 30 November 2020	613	–	1,253	1,866
At 30 November 2021	**603**	**–**	**948**	**1,551**

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.

13. Right-of-use assets

	Buildings £'000	Equipment and motor vehicles £'000	Total £'000
Cost			
At 1 December 2019	4,408	1,387	5,795
Additions	300	693	993
Disposals	(280)	(36)	(316)
Reclassified as held for sale	(550)	(217)	(767)
Effect of movements in foreign exchange rate	(46)	(47)	(93)
At 30 November 2020	3,832	1,780	5,612
Additions	22	297	318
Disposals	(669)	(38)	(707)
Effect of movements in foreign exchange rate	65	(1)	64
At 30 November 2021	**3,250**	**2,038**	**5,288**
Accumulated depreciation			
At 1 December 2019	1,208	529	1,737
Depreciation charge	1,028	605	1,632
Disposals	(47)	(20)	(67)
Reclassified as held for sale	(270)	(165)	(435)
Effect of movements in foreign exchange rate	13	13	26
At 30 November 2020	1,932	962	2,893
Depreciation charge	566	397	963
Disposals	(233)	(11)	(244)
Effect of movements in foreign exchange rate	(34)	–	(33)
At 30 November 2021	**2,231**	**1,348**	**3,579**
Net book value			
At 30 November 2020	1,901	818	2,719
At 30 November 2021	**1,019**	**690**	**1,709**

The Group leases several assets including buildings, motor vehicles and equipment.

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

Amounts recognised in profit and loss

	2021 £'000	2020 £'000
Depreciation expense on right-of-use assets	963	1,632
Interest expense on lease liabilities	202	308

Notes forming part of the Financial Statements continued

for the year ended 30 November 2021

14. 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 2019	50,518	27,413	23,869	10,557	4,182	**116,539**
Additions	–	4,516	–	–	–	**4,516**
Disposals	(10,051)	–	–	–	–	**(10,051)**
Reclassified as held for sale	(2,373)	–	(1,734)	–	–	**(4,107)**
Effect of movements in foreign exchange rate	797	21	298	202	153	**1,472**
At 30 November 2020	38,891	31,950	22,433	10,759	4,335	**108,369**
Additions	–	3,024	–	–	–	**3,024**
Disposals	(4,690)	(8,808)	(3,283)	–	(384)	**(17,165)**
Effect of movements in foreign exchange rate	(503)	(1,170)	(110)	(113)	–	**(1,896)**
At 30 November 2021	**33,699**	**24,996**	**19,040**	**10,646**	**3,951**	**92,331**
Accumulated amortisation						
At 30 November 2019	10,051	18,038	20,447	10,557	2,557	**61,650**
Amortisation charge	–	2,456	1,296	–	495	**4,247**
Disposals	(10,051)	–	–	–	–	**(10,051)**
Reclassified as held for sale	–	–	(1,044)	–	–	**(1,044)**
Impairment	12,759	2,585	356	–	1,155	**16,856**
Effect of movements in foreign exchange rate	–	(235)	246	202	96	**308**
At 30 November 2020	12,759	22,845	21,300	10,759	4,303	**71,966**
Amortisation charge	–	5,062	545	–	32	**5,639**
Disposals	(4,690)	(8,808)	(3,283)	–	(384)	**(17,165)**
Impairment	857	–	564	–	–	**1,421**
Effect of movements in foreign exchange rate	–	(752)	(85)	(113)	–	**(950)**
At 30 November 2021	**8,926**	**18,347**	**19,041**	**10,646**	**3,951**	**60,911**
Net book value						
At 30 November 2019	40,467	9,375	3,422	–	1,625	54,889
At 30 November 220	26,132	9,105	1,132	–	33	36,403
At 30 November 2021	**24,772**	**6,648**	**–**	**–**	**–**	**31,420**

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 3 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. During the year given the speed of change in the technology space, the amortisation useful economic life for Development Costs was revised down from 5 to 7 years to 2 to 3 years with effect from 1 December 2020.

In 2021 there has been £nil impairment of Development Costs relating to older technology assets held by our Growth IP CGU (2020 £2.6m).

15. 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.

The carrying value of goodwill in respect of all CGUs is set out below. These are fully supported by either value in use calculations in the year or the fair value less cost to sell for CGUs held for sale.

	Goodwill carrying amount 2021 £'000	2020 £'000
Global Accounts	9,227	9,729
Integrated Business Solutions (IBS)	771	771
SSL and Starcom	–	400
Syspro	13,677	13,677
Walton	1,097	1,555
	24,772	**26,132**

The Group tests goodwill and the associated intangible assets and property, plant, and equipment of CGUs annually for impairment, or more frequently if there are indications that an impairment may be required.

The recoverable amounts of the remaining CGUs are determined from value in use calculations. The key assumptions for these calculations are discount rates, sales growth, gross margin, and admin expense growth rates. The assumptions for these calculations reflect the current economic environment. The discount rate represents the current market assessment of the risks specific to the Group, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from the weighted average cost of capital (WACC). Other assumptions used are based on external data and management's best estimates.

For all the CGUs where the recoverable amount is determined from value in use, the Group performs impairment reviews by forecasting cash flows based upon the Board 3-year plan starting in the 2021, which anticipates sales, gross margin and admin cost growth based on management's best estimates. A projection of sales and cash flows based upon a blended inflation rate (1.5%) is then made for a further two years.

The pre-tax cash flow forecasts used the following key assumptions:

- DdD Retail, IBS, Unisoft and Walton – these CGUs relate to older products and the forecasts for DdD Retail have a year-on-year attrition of revenue by 10% in FY22 and FY23 as the Group's decision to cease investing in these products with a plan to transitioning customers, wherever possible, to the K3|imagine platform. From FY24 we are assuming no revenue from these legacy products with a plan to migrate to the K3|imagine platform.
- Syspro – growth rates of 21.4% to 13.2% over the next three years.
- RSG – revenue decline rates decreasing from (35.7%) to (7.5%) over the next three years.
- K3 products – as this is where the Group's strategy is focused, strong growth rates of 123% to 58% over the next three years from a low base.
- Global Accounts – revenue growing by 47.3% over the 5-year forecast period with gross margin maintained at current performance.

The rate used to discount the forecast pre-tax cash flows is 13.4% (2020: 12.1%) and represents the Directors' current best estimates of the weighted average cost of capital ("WACC"). The Directors consider that there are no material differences in the WACC for different CGUs.

Notes forming part of the Financial Statements continued

for the year ended 30 November 2021

15. Goodwill and impairment continued

Having calculated the value in use, the following impairments, against goodwill and other intangible assets, have been recognised along with any remaining headroom:

	Goodwill £'000	Other intangibles £'000	Development costs £'000	Total £'000	(Impairment)/ Headroom £'000
Global Accounts/IKEA	9,200	–	14	**9,214**	72,909
Integrated Business Solutions (IBS)	800	–	–	**800**	324
Syspro	13,700	–	546	**14,246**	8,081
Walton	1,072	–	4	**1,076**	–
	24,772	–	564	**25,336**	81,314

The impairments have been recognised in the reportable segments as follows, relating to DdD, RSG and Walton:

		Impairment		
	Goodwill £'000	Other intangibles £'000	Development costs £'000	Total £'000
K3 Products	(857)	(564)	–	**(1,421)**
Global Accounts	–	–	–	**–**
Third Party Products	–	–	–	**–**
	(857)	(564)	–	**(1,421)**

16. Trade and other receivables

	2021 £'000	2020 restated £'000
Trade receivables	7,407	7,141
Loss allowance	(852)	(1,329)
Trade receivables – net	6,555	5,812
Current taxes	–	–
Other receivables	122	177
Contract assets	3,077	3,220
Prepayments	851	1,407
	10,605	10,616

The fair value of trade and other receivables approximates to book value at 30 November 2021 and 30 November 2020.

As noted in the accounting policies for Prior Period restatement, 2020 has been restated for an adjustment of £1,127k with a corresponding adjustment in Contract Liabilities.

Of the above, trade receivables of £nil (2020: £nil) and contract assets of £0.8m (2020: £1.8m) are 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.2700 customers at the period end spread across various industries, although predominantly in the retail, manufacturing, and distribution sectors. The Group has one customer relationship that accounts for over 45% of total Group revenue but the relationships is spread across different territories and markets. The group assesses the credit rating for new customers to minimise the credit risk.

16. Trade and other receivables continued

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

The Group measures the loss allowance for trade receivables at an amount equal to the 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 bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier.

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

	2021 £'000	2020 restated £'000
Pound sterling	1,696	1,669
Euro	8,107	8,154
Other	803	794
	10,605	10,616

The following table details the risk profile of trade receivables and contract assets 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.

30 November 2021	Trade receivables and contract assets receivables – days past due					
	Not past due £'000	<30 £'000	31-60 £'000	61-90 £'000	>90 days £'000	Total £'000
Expected credit loss rate	0.9%	0.6%	1.3%	1.9%	2.06%	5.3%
Estimated total gross carrying amount at default	6,208	1,268	931	481	1,596	10,484
Specific provision	–	–	–	–	(723)	(723)
Lifetime expected credit loss	(69)	(7)	(12)	(9)	(32)	(129)
						9,632
					Trade receivables – net	6,555
					Contract assets	3,077
					Total	**9,632**

Notes forming part of the Financial Statements continued

for the year ended 30 November 2021

16. Trade and other receivables continued

30 November 2020	Trade receivables and contract assets receivables – days past due					
	Not past due £'000	<30 £'000	31-60 £'000	61-90 £'000	>90 days £'000	Total £'000
Expected credit loss rate	0.3%	0.8%	2.6%	2.4%	2.5%	11.6%
Estimated total gross carrying amount at default	6,033	1,749	829	169	1,582	10,361
Specific provision	–	–	–	–	(1,228)	(1,228)
Lifetime expected credit loss	(21)	(14)	(22)	(4)	(40)	(101)
						9,032
					Trade receivables – net	5,812
					Contract assets	3,220
					Total	**9,032**

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

	2021 £'000	2020 £'000
At beginning of year	1,329	1,889
Provided during the period	87	149
Utilised during the period	(564)	(398)
Unused amounts released	–	(311)
At end of year	**852**	**1,329**

The movement on the provision for impaired receivables and contract assets 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.

17. Trade and other payables

	2021 £'000	2020 restated £'000
Trade payables	2,330	2,376
Other payables	704	1,222
Accruals	5,354	4,269
Total financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost	**8,388**	**7,867**
Other tax and social security taxes	2,704	4,782
Contract liabilities	3,364	5,369
	14,456	**18,018**

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. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

As noted in the accounting policies for Prior Period restatement, 2020 has been restated for an adjustment of £1,127k with a corresponding adjustment in Trade Receivables.

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 2021 and 30 November 2020.

18. Borrowings

	2021 £'000	2020 £'000
Non-current		
Bank loans (secured)	–	–
	–	–
Current		
Bank overdrafts (secured)	113	3,000
Bank loans (secured)	–	6,771
Shareholder loans (unsecured)	–	2,672
	113	12,443
Total borrowings	**113**	12,443

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 to set-off and provide a net overdraft facility across the Group of £250,000 (2020: £250,000).

During April 2020 the group secured £3.0m of loans from its two major shareholders, Kestrel Partners LLP ("Kestrel") and Johan Claesson, who was also a non-executive director until 6 September 2021. Kestrel and Johan Claesson (together "the Lenders") provided an unsecured term loan of £3.0m until 30 June 2021 ("Shareholder Loan"). The Shareholder Loan was split equally between the two Lenders. Mr Claesson provided his part of the loan via his associated company, CA Fastigheter AB and Kestrel's loan was provided via its discretionary clients. The Shareholder Loan was fully converted to shares on 7 April 2021 and no amounts were owed at the year end.

Notes forming part of the Financial Statements continued

for the year ended 30 November 2021

18. 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	3.65% over SONIA	2022	See below

Bank borrowings of £nil are included in short term liabilities (2020: £6.8m). The Facilities include a monthly draw down and a multi-currency overdraft facility. Shareholder loans of £nil (2020: £3.0m) are included in short term liabilities.

Maturity analysis of borrowings:

	2021 £'000	2020 £'000
In less than one year	113	12,443
In more than one year but not more than two years	–	–
	113	12,443

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 2021 of £3.5m (2020: £6.2m) for which all conditions have been met. It is a revolving loan facility on which interest is charged at a floating rate linked to SONIA (2020: LIBOR). For the purposes of reporting, fair value is equivalent to the carrying value of the borrowings. Post year end, the banking facility agreement has been extended until 31 March 2023.

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

	2021 £'000	2020 £'000
Pound sterling	42	8,621
Euro	71	3,822
	113	12,443

19. 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.

19. Financial instruments continued

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.

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 is £nil (2020: £6.8m) and held under floating rates linked to quarterly SONIA (2020: LIBOR). Shareholder loans totalling £3.0m were converted to shares during the period.

Foreign currency risk

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

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

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

Liquidity risk

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

The group maintains a syndicated revolving loan facility with 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 18.

Notes forming part of the Financial Statements continued

for the year ended 30 November 2021

19. Financial instruments continued

Credit risk

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

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

Further details, including quantitative information, are included in note 16.

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.

	2021 £'000	2020 £'000
Total equity	35,801	29,915
Less: amounts in translation reserve	(1,538)	(2,623)
	34,263	27,292

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 £35k, assuming the Banking Facility is fully drawn for an entire year.

The group's foreign exchange risk is dependent on the movement in the Euro to sterling exchange rate. The directors consider a 3 cent movement in the Euro GBP rate to be reasonably possible as at the reporting date. The effect of a 3 cent strengthening or weakening in the Euro against sterling at the balance sheet date on the Euro denominated £1m overdraft would be c £21k.

19. Financial instruments continued

Financial instruments by category

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

As at 30 November 2021	Notes	Amortised cost £'000	At FVTPL £'000	Total £'000
Assets				
Trade and other receivables:				
Trade receivables	16	6,555	–	6,555
Other non-derivative financial assets	16	122	–	122
Contract assets	16	3,077	–	3,077
Cash and cash equivalents		9,146	–	9,146
Total assets		18,900	–	18,900
Liabilities				
Borrowings:				
Current	18/22	(1,736)	–	(1,736)
Non-current	18/22	(135)	–	(135)
Trade and other payables:				
Trade payables	17	(2,330)	–	(2,330)
Other non-derivative financial liabilities	17	(6,058)	–	(6,058)
Total liabilities		(10,259)	–	(10,259)
Net		8,641	**–**	**8,641**

Notes forming part of the Financial Statements continued

for the year ended 30 November 2021

19. Financial instruments continued

Financial instruments by category continued

As at 30 November 2020	Notes	Amortised cost £'000	At FVTPL £'000	Total restatedl £'000
Assets				
Trade and other receivables:				
Trade receivables	16	5,812	–	5,812
Other non-derivative financial assets	16	177	–	177
Contract assets	16	3,220	–	3,220
Cash and cash equivalents		9,306	–	9,306
Assets classified as held for sale		3,131	–	3,331
Total assets		21,646	–	21,646
Liabilities				
Borrowings:				
Current	18/22	(13,368)	–	(13,368)
Non-current	18/22	(1,735)	–	(1,735)
Trade and other payables:				
Trade payables	17	(2,376)	–	(2,376)
Other non-derivative financial liabilities	17	(5,491)	–	(5,491)
Liabilities directly associated with assets classified as held for sale		(3,195)	–	(3,195)
Total liabilities		(26,165)	–	(26,165)
Net		(4,519)	–	(4,519)

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.

20. Provision

	Dilapidations £'000	Onerous contracts £'000	Deferred consideration £'000	Total £'000
At 30 November 2020	425	–	–	425
Additions	–	971	1,125	2,096
Paid in the year	–	(202)	(281)	(483)
Interest	25	–	–	25
Transfer from Current to Non-Current	–	–	–	–
Disposed	(80)	–	–	(80)
At 30 November 2021	**370**	**769**	**844**	**1,983**
Split as:				
Current	137	342	375	854
Non-Current	232	428	469	1,129
At 30 November 2021	**369**	**770**	**844**	**1,983**

The Onerous contract provision relates to commitments undertaken for the post completion services agreement with the Buyer of Starcom for activity no longer in the Group. The deferred consideration provision relates to above market pricing included in the post completion services agreement with the Buyer of Starcom. The non-current element of these provisions will be utilised evenly until the end of February 2024.

21. Deferred tax

The net deferred tax asset/liability at the end of the year is analysed as follows:

	2021 £'000	2020 £'000
Deferred tax assets		
Continuing operations	1,010	935
Disposal group held for sale (note 11)	–	136
Deferred tax liabilities		
Continuing operations	(1,288)	(889)
	(278)	182

Notes forming part of the Financial Statements continued

for the year ended 30 November 2021

21. Deferred tax continued

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

	Assets		Liabilities		Net	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Plant and equipment	148	536	(3)	–	145	536
Other temporary differences	806	492	(1,285)	–	(479)	492
Business combinations	56	43	–	(889)	56	(846)
Deferred tax assets/(liabilities)	**1,010**	**1,071**	**(1,288)**	**(889)**	**(278)**	**182**

Movement in deferred tax during the year

	1 December 2021 £'000	Recognised in income £'000	Disposal £'000	30 November 2021 £'000
Plant and equipment	536	(391)	–	145
Other temporary differences	492	(742)	(228)	(479)
Business combinations	(846)	902	–	56
Deferred tax assets/(liabilities)	**182**	**(231)**	**(228)**	**(278)**

The Group have not recognised a deferred tax asset on £2.8m (2020: £1.5m) of tax losses and intangible fixed asset timing differences carried forward due to uncertainties over recovery.

No deferred tax liability is recognised on temporary differences of £23k (2020: £15k) relating to the unremitted earnings of overseas subsidiaries as the Group can control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future.

22. Lease liabilities

	2021 £'000	2020 £'000
Analysed as:		
Non-current	135	1,735
Current	1,623	925
	1,758	2,660

	2021 £'000	2020 £'000
Maturity analysis		
Year 1	1,623	925
Years 2 to 5	135	1,235
Onwards	–	500
	1,758	2,660

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. Lease obligations are denominated in Sterling, Euros, Singapore Dollars.

23. Share capital

	Issued and fully paid 2021 Number	2021 £'000	2020 Number	2020 £'000
Ordinary shares of 25p each				
At beginning of the year	42,946,665	10,737	42,946,665	10,737
Issued during the year	1,785,714	446	–	–
At end of the year	44,732,379	11,183	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.

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

	2021 Number	2020 Number
Own shares held	26,809	47,067

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.

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.

1,200,000 warrants for ordinary shares of 25p were issued on 31 March 2020 following the receipt by the Group of £3,000,000 in shareholders loans. The warrants are split as follows:

CA Fastigheter AB	300,000
Johannes Plan Fastigheter AB	300,000
Kestrel Partners LLP discretionary clients	600,000

The warrants are over ordinary shares of 25p, are transferrable with a strike price of 25p and expire on 31 March 2030. At 30 November 2021 none of these warrants had been exercised however under IFRS2 the warrants generated a finance expense of £328k (2020: £375k) see note 6. On 7 April 2021 the £3,000,000 Shareholder Loan was converted to equity with the issue of 1,785,714 nominal shares.

At 30 November 2021 all SAYE options have lapsed (2020: 29,539 options).

Notes forming part of the Financial Statements continued

for the year ended 30 November 2021

23. Share capital continued

LTIP

As set out in note 10, 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.

As at 30 November 2021, an aggregate of 2,375,000 LTIP options over ordinary shares in the Company remained in issue.

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 2021 are £1.57m (2020: £2.24m) of which £0.25m (2020: £0.68m) has been recognised within discontinued operations.

25. Related party transactions

Details of directors and key management compensation are given in the Remuneration Report on pages 38 to 41.

Included within the fees/basic salary amount for T Crawford was £nil (2020: £41,068) in relation to consultancy services to evaluate the K3 strategy and provide advice and support to the CEO on execution and commercialisation. The balance owed to T Crawford at 30 November 2021 was £nil (2020: £nil).

Included within the fees/basic salary amount for G Hase was £9,676 (2020: £nil) in relation to consultancy services to evaluate the K3 digital strategy. The balance owed to G Hase at 30 November 2021 was £nil (2020: £nil).

Included within the fees/ basic salary amount for Mr JP Manley was £13,250 (2020: £nil) in relation to consultancy on the K3 product positioning and development and for management of internal systems. The balance owed to JP Manley at 30 November 2021 was £nil (2020: £nil).

Non-Executive Director fees due to Mr O Scott are paid to Kestrel Partners, where O Scott is a founding partner. Fees paid to Kestrel in the year were £46.7k (2019: £12k) and the balance owed to Kestrel at 30 November 2020 was £nil (2020: £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:

25. Related party transactions continued

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.

On 31 March 2020 the group secured £3.0m of loans from its two major shareholders, Kestrel Partners LLP and Johan Claesson, who was also a non-executive director until 6 September 2021. Kestrel and Johan Claesson originally provided an unsecured term loan of £3.0m until 30 June 2021 ("Shareholder Loan"). The Shareholder Loan was split equally between the two Lenders. Mr Claesson provided his part of the loan via his associated company, CA Fastigheter AB and Kestrel's loan was provided via its discretionary clients.

1,200,000 warrants for ordinary shares of 25p were issued on 31 March 2020 following the receipt by the Group of the £3,000,000 in shareholders loans. The warrants were split as follows:

- CA Fastigheter AB 600,000
- Kestrel Partners LLP discretionary clients 600,000

All 1,200,000 warrants remain outstanding and are exercisable until 31 March 2030. On 9 June 2021, 300,000 of the CA Fastigheter AB warrants were transferred to Johannes Plan Fastigheter AB (a company also controlled by Mr Claesson).

On 30 March 2021, as part of the process of extending the Group's bank facilities, K3 agreed to fully convert the £3.0m of Shareholder Loans into ordinary shares of 25p each ("Ordinary Shares").

The main terms of the conversion of the Shareholder Loans were as follows:

- conversion at a price of £1.68 per Ordinary Share (being the prevailing bid-price on 26 March 2021);
- upon conversion of the Shareholder Loans CA Fastigheter AB and discretionary clients of Kestrel received 892,857 Ordinary Shares each (1,785,714 Ordinary Shares in aggregate);
- payment of accrued interest and conversion costs amounting to an aggregate amount of £552,064 paid by the Company to the Lenders in cash on or around the date of conversion; and
- the warrants over 1.2m Ordinary Shares granted to the Lenders at the date of the Shareholder Loans were not exercised and will remain in place.

The Loan Conversion increased the Company's issued share capital by 1,785,714 new Ordinary Shares, representing 4.16% of the Company's issued share capital.

Notes forming part of the Financial Statements continued

for the year ended 30 November 2021

26. Events after the reporting date

On the 11th February 2022 the Group agreed an extension to its Current Revolving Credit Facility with Barclays for £3.5m until 31 March 2023.

On the 27th January 2022, K3 acquired the French sustainability start up, ViJi SAS. ViJi's products enable brands to trace and authenticate more easily and reliably the environmental and social credentials of their supply chains. This includes the collection, verification and renewals of supplier certifications. The software also has a consumer-facing component, enabling the digital communication of information on the ethical history of items, including materials, manufacturing processes and sustainability.

ViJi generated revenue of 0.03m EUR and an EBITDA loss of 0.24m EUR in the year ended 31 December 2021. Its net assets at that date stood at 0.1m EUR. The acquisition has been agreed for an initial cash consideration of 0.35m EUR in the first year, with further cash consideration, capped at 0.7m EUR, due over the next two years, dependent on the attainment of annual recurring revenue performance targets. An estimate of the allocation of intangible assets is £0.1m of contracted customer relationships and £0.2m goodwill.

On 9 February 2022, the Group granted a further 80,000 Market Priced Share Options and a further 175,000 new Nominal Priced Options to certain PDMRs. Note 10 sets out the terms of those options.

Jonathan Manley (non-executive director) retires by rotation at the 2022 AGM and, with plans to spend more time in the US, has decided not to offer himself for re-election. Jonathan will therefore resign from the Board at the 2022 AGM.

27. Notes to the cash flow statement

Cash and cash equivalents

	2021 £'000	2020 £'000
Cash and bank balances available on demand	9,146	9,306
Bank overdrafts	(113)	(3,000)
Cash at bank and on hand – Held for Sale	–	1,260
	9,033	7,566

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 £318k (2020: £900k) were financed by new leases. In March 2021 the Group converted a £3m shareholder loan to equity.

28. Notes to the strategic report

*1 Adjusted EBITDA – is the loss from continuing activities adjusted to exclude depreciation and amortisation of development costs, amortisation of acquired intangibles, exception impairment costs, exceptional reorganisation costs, exceptional customer settlement provisions and share-based charges.

*2 Recurring or predictable revenue – Contracted support, maintenance and services revenues with a frame agreement of 2 years or more, as % of total revenue.

*3 K3 Product revenue as a percentage of total Group revenue.

*4 K3 products gross profit as a percentage of total gross profit.

*5 Net debt comprises Bank Loans, Shareholder Loans and Overdrafts less Cash and cash equivalents, including Cash and cash equivalents held for sale. It excludes any liabilities associated with Right-of-Use Assets under IFRS16.

*6 Adjusted loss/earnings per share – basic loss per share from continuing operations adjusted to exclude amortisation of acquired intangibles, exceptional impairment costs, exceptional reorganisation costs, and share-based charges net of the related tax charge.

*7 Underlying support/admin costs – administrative expenses adjusted to exclude depreciation and amortisation of development costs, amortisation of acquired intangibles, exceptional impairment costs exceptional reorganisation costs and share-based charges.

Notes forming part of the Financial Statements continued

for the year ended 30 November 2021

29. 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 Technology Group Trustees Company Limited	UK	100%
K3 FDS Limited	UK	100%
K3 Syspro Limited	UK	100%
K3 Systems Support Limited	UK	100%
Retail Systems Group 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 GmbH	Germany	100%
Detalj Data i Sverige AB	Sweden	100%

The principal activity of all the above subsidiary undertakings is the supply of computer software and consultancy except for the following: K3 Business Technology Group Trustees Company Limited which is the trustee for the group's employee share ownership plan.

Details of movements in investments are recorded in note 6 of the company financial statements.

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 office for all the Dutch companies is Gildeweg 9b, 2632 BD Nootdorp, The Netherlands. The registered offices for the other overseas subsidiaries are:

K3 Business Solutions Pte Limited	133 New Bridge Road, #10-09 Chinatown Point, Singapore 059413
K3 Business Solutions SDN BHD	No. 256b, Jalan Bandar 12, taman Melawati, 53100 Kuala Lumpur, Wilayah Persekutuan, 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	Stensarmen 4, 3112 Tonsberg, Norway
DdD Retail Germany GmbH	Weilstrasse 41, 89143 Balubeuren, Germany
Detalj Data i Sverige AB	Postbox 1088, 262 21 Angelholm, Sweden

29. 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
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 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%
Retail Technology Limited	UK	100%
Sense Enterprise Solutions Limited	UK	100%
K3 Holdings BV	Netherlands	100%
Retail Support International ApS	Denmark	100%

Company Balance Sheet

as at 30 November 2021

Registered number: 2641001

	Notes	2021 £'000	2020 £'000
Fixed assets			
Tangible assets	5	514	563
Intangible assets		195	–
Investments	6	30,042	29,348
		30,751	29,911
Current assets			
Debtors	7	20,174	18,851
Cash at bank and in hand		3,784	351
Deferred tax	9	33	98
		23,991	19,300
Creditors: Amounts falling due within one year	8	(6,937)	(21,512)
Provisions	11	(717)	–
Net current assets		16,337	(2,212)
Creditors: Amounts falling due after more than one year	9	–	–
Provisions	11	(896)	–
Net assets		46,192	27,699
Capital and reserves			
Called-up share capital	12	11,183	10,737
Share premium account		31,450	28,897
Other reserve		11,027	11,027
Profit and loss account		(7,468)	(22,962)
Equity shareholders' funds		46,192	27,699

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

The profit for the year dealt with in the financial statements of the parent company was £15,054,000 (2020: £15,040,000 loss).

The financial statements on pages 126 to 135 were approved and authorised for issue by the board of directors on 4 April 2022 and signed on its behalf by:

RD Price
Director

The notes on pages 128 to 135 form part of these financial statements.

Company Statement of Changes in Equity

as at 30 November 2021

	Share capital £'000	Share premium £'000	Other reserve £'000	Retained earnings £'000	Total equity £'000
At 30 November 2019	10,737	28,897	10,324	(7,902)	42,056
Changes in equity for year ended 30 November 2020					
Loss for the year	–	–	–	(15,040)	(15,040)
Total comprehensive income	–	–	–	(15,040)	(15,040)
Share-based payment	–	–	–	(20)	(20)
Issue of warrants	–	–	703	–	703
At 30 November 2020	10,737	28,897	11,027	(22,962)	27,699
Changes in equity for year ended 30 November 2020					
Profit for the year	–	(1)	–	15,054	15,053
Total comprehensive income	–	(1)	–	15,054	15,053
Share-based payment	–	–	–	440	440
Issue of shares	446	2,554	–	–	3,000
At 30 November 2021	11,183	31,450	11,027	(7,468)	46,192

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

Within the Share Capital reserve there are own shares held by a wholly owned subsidiary, K3 Business Technology Group Trustees Company Limited, as trustee of the group's employee share ownership plan. Own shares represent 26,809 (2020: 47,067) shares held under an employee share ownership plan which will be issued to the employees when they choose to withdraw them. The market value of these shares as at 30 November 2021 was £47,050 (2020: £55,304).

The notes on pages 128 to 135 form part of these financial statements.

Notes forming part of the Company Financial Statements

for the year ended 30 November 2021

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 70 to 125. 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	2021 £'000	2020 £'000
This has been arrived at after charging/(crediting):			
Staff costs	3	4,737	4,306
Depreciation of property, plant and equipment	5	236	174
Exceptional impairment of intercompany receivables		5,408	–
Exceptional impairment of investment in RSG		–	598
Exceptional impairment of investment in FDS		–	10,339
Exceptional impairment of investment in K3 Holdings BV		–	967
Gain on disposal of Starcom business		(12,250)	–
Exceptional reorganisation costs		2,533	(1,950)
Foreign exchange (income)/costs		500	(237)

3. Staff numbers

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

	2021 Number	2020 Number
Consultants and programmers	33	22
Sales and distribution	15	8
Administration	36	25
	84	55

Their aggregate remuneration comprised:

	2021 £'000	2020 £'000
Wages and salaries	3,931	3,417
Social security costs	424	425
Other pension costs (note 13)	275	343
Short term non-monetary benefits	107	121
	4,737	4,306

In addition Share Based payments were charged of £440k (2020: £20k).

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 38 to 41.

Notes forming part of the Company Financial Statements continued

for the year ended 30 November 2021

5. Tangible fixed assets

	Plant, office equipment and fixtures £'000
Cost	
At 1 December 2019	722
Additions	278
At 1 December 2020	1,000
Additions	187
At 30 November 2021	1,187
Depreciation	
At 1 December 2019	263
Depreciation charge	174
At 1 December 2020	437
Depreciation charge	236
At 30 November 2021	673
Net book value	
At 30 November 2021	514
At 30 November 2020	563
At 30 November 2019	459

6. Fixed asset investments

	2021 £'000	2020 £'000
Subsidiary undertakings	30,042	29,348

The trading subsidiaries of K3 Business Technology Group plc are disclosed in note 29 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 2019	41,251	41,251
Impairments	(11,903)	(11,903)
At 30 November 2020	29,348	29,348
Sale of subsidiary	(1,906)	(1,906)
Investment in subsidiary	2,600	2,600
At 30 November 2021	30,042	30,042
Net book value		
At 30 November 2021	30,042	30,042
At 30 November 2020	29,348	29,348
At 30 November 2019	41,251	41,251

The impairment relates to the impairment of various business units' details of which can be found in note 15 of the consolidated financial statements.

The decrease in the current year relates to the disposal of the Starcom business. The increase in the current year relates to the loan to share conversion in K3 Retail Ireland.

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 2021 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 2021

7. Debtors

	2021 £'000	2020 £'000
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	19,839	18,271
Trade debtors	15	63
Other debtors	–	4
Prepayments	320	513
	20,174	18,851

Interest is charged on amount owed by subsidiary undertakings at 3.65% (2020: 3.75%) which is deemed to be a market rate. The Company impaired £5,408k on the intercompany receivables from RSG, DdD Denmark, and SSBV (2020: £nil).

8. Creditors: Amounts falling due within one year

	2021 £'000	2020 £'000
Bank loans (secured)	–	6,771
Shareholder loans (unsecured) (see note 18 in the Group financial statements)	–	2,672
Bank loans and overdrafts	–	787
Trade creditors	840	315
Amounts owed to subsidiary undertakings	4,226	8,777
Taxation and social security	72	962
Other creditors	190	276
Accruals	1,609	952
	6,937	21,512

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

Interest is charged on amount owed to subsidiary undertakings at 3.65% (2020: 3.75%) which is deemed to be a market rate.

The accruals balance includes Corporation Tax creditor £720k, bonus accrual £487k, and legal and professional fee accruals £247k.

9. Deferred taxation

	2021 £'000	2020 £'000
Accelerated capital allowances	25	74
Other timing differences	8	24
Deferred tax asset	33	98

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

	Accelerated capital allowances £'000	Other timing differences £'000	Total £'000
At 1 December 2020	74	24	98
Prior year adjustment	(40)	–	(40)
Charged to profit and loss	(9)	(16)	(25)
At 30 November 2021	25	8	33

The Company has not recognised £356k of deferred tax on losses of £1,873k (2020 adjusted: £390k on losses of £2,055k). 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 2021

10. Discontinued operations

On 26 February 2021 the Company disposed of the Starcom business for consideration of £14.7m.

The post tax gain on disposal of the Starcom business was determined as follows:

	2021 £'000	2020 £'000
Cash consideration received	14,474	–
Total consideration received	**14,747**	–
Cash disposed of	(1,375)	–
Net cash inflow on disposal of discontinued operations	**13,372**	–
Net assets disposed (other than cash)		
Trade and other receivables	(1,122)	–
	(1,122)	–
Pre-tax gain on disposal of discontinued operations	12,250	–
Related tax expense	–	–
Gain on disposal of discontinued operations	**12,250**	–

Trade and other receivables includes the disposal of the investment in the Starcom business.

11. Provisions

	Onerous contracts £'000	Deferred consideration £'000	Total £'000
At 30 November 2020	–	–	–
Additions	971	1,125	2,096
Paid in the year	(202)	(281)	(483)
Interest	–	–	–
Transfer from Current to Non-Current	–	–	–
Disposed	–	–	–
At 30 November 2021	**769**	**844**	**1,613**
Split as:			
Current	342	375	717
Non-Current	427	469	896
At 30 November 2021	**769**	**844**	**1,613**

The Onerous contract provision relates to commitments undertaken for the post completion services agreement with the Buyer of Starcom for activity no longer in the Company. The deferred consideration provision relates to above market pricing included in the post completion services agreement with the Buyer of Starcom. The non-current element of these provisions will be utilised evenly until the end of February 2024.

12. Called-up share capital

	2021 £'000	2020 £'000
Allotted, called-up and fully-paid		
44,732,379 ordinary shares of 25p each (2020: 42,946,665)	11,183	10,737

See note 23 to the consolidated financial statements for details of the movements in called-up share capital and of outstanding warrants.

13. 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. See note 10 to the consolidated financial statements for details regarding share-based payments.

14. Pension arrangements

The Company operates a defined contribution scheme and makes contributions to personal pension schemes of certain senior employees and directors for which the total pension cost charge for the year amounted to £275,000 (2020: £343,000).

15. Related party transactions

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

16. 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 the guarantee totalled £nil (2020: £9,771,000) of which £nil (2020: £7,558,000) is included within the Company's accounts.

17. Events after the reporting date

See note 26 in the Group notes to the accounts.

Notice of Annual General Meeting

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

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

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

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the annual general meeting of the Company will be held at the Company's offices at Baltimore House, 50 Kansas Avenue, Manchester M50 2GL on Thursday 19 May 2022 at 10:30 am at which the following business will be transacted.

You will be asked to consider and vote on the resolutions below. Resolutions 1 to 6 will be proposed as ordinary resolutions and resolutions 7 to 8 will be proposed as special resolutions.

Ordinary resolutions

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

1. To receive, consider and adopt the annual accounts for the period ended 30 November 2021, together with the directors' and auditors' reports on those accounts.
2. To re-elect O Scott as a director of the Company in accordance with Articles 22.5 and 22.6 of the articles of association.
3. To elect G Hase as a director of the Company (in accordance with Articles 22.5 and 22.6 of the articles of association) who was appointed by the Board since the last annual general meeting.
4. To re-appoint BDO LLP as auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which financial statements are laid before the Company.
5. To authorise the directors of the Company to determine the auditor's remuneration.
6. That the directors of the Company be and they are generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the "Act"), to exercise all powers of the Company to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company ("Rights") up to an aggregate nominal amount of £3,727,698 provided that this authority shall unless previously revoked, renewed or varied by the Company in general meeting expire five years from the date of this resolution or if earlier, the date of the next annual general meeting of the Company, save that the Company may before such expiry make an offer or agreement which would or might require shares to be allotted or Rights to be granted after such expiry and the directors of the Company may allot shares or grant Rights in pursuance of such an offer or agreement as if the authority conferred hereby had not expired. This authority is in substitution for all previous unexercised authorities conferred upon the directors pursuant to section 551 of the Act, but without prejudice to the allotment of any shares or the grant of any Rights already made or to be made pursuant to such authorities.

Special resolutions

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

Disapplication of pre-emption rights

7. That subject to and conditional on the passing of resolution 6 above, the directors of the Company be and they are empowered pursuant to section 570 and 573 of the Act to allot equity securities (as defined in section 560(1) of the Act) for cash pursuant to the authority conferred by resolution 6 above and/or to sell ordinary shares held by the Company as treasury shares as if section 561(1) of the Act did not apply to such allotment, provided that this power shall be limited to:

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

7.2 the allotment of equity securities or sale of treasury shares (otherwise than pursuant to sub-paragraph 7.1 above) up to an aggregate nominal amount of £559,155;

and, unless previously renewed, revoked or varied by the Company in general meeting, the authority granted by this resolution shall expire on 19 August 2023, or if earlier the date of the next annual general meeting of the Company, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted or equity securities held as treasury shares to be sold after such expiry and the directors of the Company may allot equity securities and/or sell equity securities held as treasury shares in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

Notice of Annual General Meeting
continued

Authority to repurchase ordinary shares

8. That the Company be and is hereby generally and unconditionally authorised in accordance with section 701 of the Act to make one or more market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 25 pence each in the capital of the Company ("Shares"), provided that:
   (a) the maximum aggregate number of Shares authorised to be purchased is 4,473,238;
   (b) the minimum price (exclusive of expenses) which may be paid for a Share is 25 pence;
   (c) the maximum price (exclusive of expenses) which may be paid for a Share is an amount equal to the greater of (i) 105% of the average of the middle market quotations for a Share for the five business days immediately preceding the day on which that Share is purchased and (ii) the higher of the price of the last independent trade and the highest then current independent bid for any number of the Shares on the Alternative Investment Market of the London Stock Exchange;
   (d) the authority hereby conferred shall expire at the conclusion of the annual general meeting of the Company to be held in 2023 or, if earlier, on the expiry of 15 months from the date of passing of this resolution unless such authority is renewed prior to such time; and
   (e) the Company may make one or more contracts to purchase Shares under this authority before the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority, and may make a purchase of Shares in pursuance of any such contract.

Registered Office

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

22 April 2022

By order of the Board

K Curry
Company Secretary

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

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

1. Resolution 1 – The Directors are required to present to shareholders at the annual general meeting the Annual Report and Accounts for the financial year ended 30 November 2021 together with the Director's and Auditor's reports on such accounts.
2. Resolution 2 – JP Manley resigns from the board with effect from the date of the annual general meeting and is therefore not available for re-election. In compliance with Article 22.5, one-third of the remaining Directors (rounded down to the nearest whole) are required to retire at the 2022 annual general meeting. Accordingly, O Scott will retire at the 2022 annual general meeting and offers himself for re-election as a director and he is recommended by the Board for re-election. O Scott was originally appointed as a director of the Company in February 2020. Biographical details of O Scott are available on the Company's website at https://www.k3btg.com/aim-rule-26/the-board/.
3. Resolution 3 – In compliance with Article 22.5 of the Company's current articles of association any director appointed by the board since the previous annual general meeting shall retire at the annual general meeting of the Company next following appointment. G Hase was appointed by the Board as a director of the Company in September 2021 and accordingly will retire and offer herself for re-election as a director at the 2022 annual general meeting and she is recommended by the Board for re-election. Biographical details of G Hase are available on the Company's website at https://www.k3btg.com/aim-rule-26/the-board/.
4. Resolutions 4 and 5 – The Company is required at each general meeting at which accounts are presented to appoint auditors to hold office until the next such meeting. BDO LLP have indicated their willingness to continue in office. Accordingly, Resolution 4 reappoints BDO LLP as the Auditor of the Company and Resolution 5 authorises the Directors to fix their remuneration.
5. Resolution 6 would empower the directors to allot shares for any reason in accordance with Section 551 of the Act up to an aggregate nominal amount of £3,727,698 representing approximately one-third of the issued share capital of the Company at the date of the notice of annual general meeting. This resolution complies with the Investment Association Share Capital Management Guidelines issued in July 2016. As at close of business on the date of the notice of annual general meeting the Company did not hold any treasury shares. The authority granted by this resolution will expire five years from the date of the resolution or if earlier, on the conclusion of next year's annual general meeting.

Notice of Annual General Meeting
continued

6. Resolution 7 (proposed as a special resolution) would empower the directors pursuant to the authority to allot granted by resolution 6 to allot equity securities (as defined by section 560 of the Act) for cash or sell treasury shares other than to existing shareholders pro rata to their existing holdings. Such power would be limited to the situations referred to in sub-paragraphs 7.1 and 7.2 of that resolution. Sub-paragraph 7.1 refers to rights issues and similar issues, where difficulties arise in offering relevant securities to certain overseas shareholders or where fractional entitlements arise. Sub-paragraph 7.2 permits allotments for cash (other than rights issues or similar) of ordinary shares or sale of treasury shares up to an aggregate nominal amount of £559,155 representing approximately one-twentieth of the issued ordinary share capital of the Company at the date of the notice of annual general meeting. The resolution is proposed so as to give the directors greater flexibility to take advantage of business opportunities as they arise. The directors have no present intention of exercising the authority. The power granted by this resolution will expire on 19 August 2023, or if earlier on the conclusion of next year's annual general meeting.

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

7. Resolution 8 seeks authority for the Company to make market purchases of its own ordinary shares and is proposed as a special resolution. If passed, the resolution gives authority for the Company to purchase up to 4,473,238 of its ordinary shares, representing approximately 10 per cent of the Company's issued ordinary share capital (excluding treasury shares) as at the date of the notice of annual general meeting. The resolution specifies the minimum and maximum prices which may be paid for any ordinary shares purchased under this authority. The authority will expire on the earlier of the Company's 2023 annual general meeting and the date 15 months after the resolution.

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

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

Notes to the Notice of Annual General Meeting

Entitlement to attend and vote

8. On a show of hands every shareholder present in person has one vote and on a poll every shareholder has one vote for each share held by him. The necessary quorum at this meeting is two members present in person or by proxy and entitled to vote upon the business to be transacted.
9. The Company specifies that only those members registered on the Company's register of members at:
   - close of business on 17 May 2022; or,
   - if this Meeting is adjourned, at close of business on the day two days prior to the adjourned meeting (excluding non-business days),

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

Issued shares and total voting rights

10. As at close of business on the date of the notice of annual general meeting, the Company's issued share capital comprised 44,732,379 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 annual general meeting is 44,732,379.

Documents on display

11. The following documents will be available for inspection at Baltimore House, 50 Kansas Avenue, Manchester M50 2GL from the date of the notice of the annual general meeting until the time of the Meeting and for at least 15 minutes prior to the Meeting and during the Meeting:
    - Copies of the service contracts of executive directors of the Company.
    - Copies of the letters of appointment of the non-executive directors of the Company.

Appointment of proxies

12. If you are a member of the Company at the time set out in note 9 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
13. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the 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.
14. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy please complete new proxy forms for each proxy appointed and list the details of each proxy on a separate 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 Annual General Meeting
continued

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

    Members can

    - Register their proxy appointment electronically (see note 16).
    - If a CREST member, register their proxy appointment by utilising the CREST electronic proxy appointment service (see note 17).
    - Request a hard copy form of proxy directly from the registrars, Link Group on Tel: 0371 664 0300 (see note 18).

Proxy voting using the Registrar's share portal

16. 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 17 May 2022.

CREST proxy voting (uncertificated shareholders)

17. (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

18. 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 Group, PXS 1, Link Group, Central Square, 29 Wellington Street, Leeds, LS1 4DL or delivered to Link Group, 10th Floor, Central Square, 29 Wellington Street, Leeds LS1 4DL (multiple forms should be returned in the same envelope); and
    - received by Link Group no later than 10.30 am on 17 May 2022.

    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 Group 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

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

Changing proxy instructions

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

    Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Link Group on 0371 664 0300. Calls to Link Group 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 Annual General Meeting
continued

Termination of proxy appointments

21. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Link Group, PXS 1, Link Group, Central Square, 29 Wellington Street, Leeds, LS1 4DL. 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 Group, PXS 1, Link Group, Central Square, 29 Wellington Street, Leeds, LS1 4DL no later than 10.30 am on 17 May 2022.

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

Corporate representatives

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

Information for Shareholders

Enquiring about your shareholding

If you want to ask, or need information, about your shareholding, please contact our registrar, Link Group, on 0371 664 0300. Calls to Link Group 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 Group, Link Group, Central Square, 29 Wellington Street, Leeds, LS1 4DL. 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. You may not use any electronic address (within the meaning of Section 333(4) of the Companies Act 2006) provided in either this Notice or any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.

Company Information

Registered Office

Baltimore House
50 Kansas Avenue
Manchester M50 2GL

Company Website

www.k3btg.com

Directors

T Crawford (Chairman)
M Vergani
RD Price
G Hase (non-executive)
JP Manley (non-executive)
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

Advisers

Legal advisers 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 Adviser

finnCap Limited
One Bartholomew Close
London EC21A 7BL

Auditors

BDO LLP
3 Hardman Street
Spinningfields
Manchester M3 3AT

Bankers

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

Registrars

Link Group
Unit 10
Central Square
29 Wellington Street
Leeds LS1 4DL

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