K3 Business Technology Group PLC Annual Report and Financial Statements for the year ended 30 November 2023

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Contents

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Highlights

Key Points

Revenue from continuing operations

£43.8m

2022*: £47.2m

Recurring revenue[1]

£24.7m

2022*: £22.4m

Adjusted operating profit/(loss)[1]

£1.3m

2022*: £(0.6)m

*Restated.

	FY 2023	Restated FY 2022
Revenue from continuing operations	**£43.8m**	£47.2m
Gross profit	**£27.1m**	£27.9m
– gross margin	**62%**	59%
Adjusted operating profit/(loss)[1]	**£1.3m**	£(0.6)m
Loss before tax from continuing operations	**£(1.8)m**	£(4.1)m
Net cash	**£8.3m**	£7.1m
Reported loss per share	**(5.4)p**	(9.5)p
Adjusted earnings/(loss) per share for continuing operations	**1.0p**	(4.6)p

Financial

- Stronger financial position, with improved cash generation and tighter cost discipline supporting increased net cash at financial year end of £8.3m (30 November 2022: £7.1m).
- Total revenue decreased by 8% to £43.8m (2022: £47.2m) mainly reflecting lower revenue from Global Accounts. Approx £0.4m (FY2022: £0.3m) of income was not recognised as a result of the new revenue recognition policy for K3 fashion and apparel products (income from new contracts is now recognised over the term of the contract, instead of upfront).
- Total annual recurring revenue ("ARR") increased to £24.7m (2022: £22.4m), including double-digit ARR growth from K3 fashion and apparel products and from the NexSys business unit.
- Encouraging return to profitability with adjusted operating profit of £1.3m (2022: loss of £0.6m).
  - adjusted operating profit/loss metric has replaced adjusted EBITDA as a key performance indicator, being a better proxy for cash generation.
- Benefits of further cost reduction measures implemented in the second half will be felt in FY 2024 and beyond.

1 Refer to note 30 for definitions.

Operational

- Move to new business unit structure at financial year end establishes a better platform for the Group as the Board focuses on driving cash and value.
- K3 Products division – continued strong sales growth from fashion and apparel offering ("Fashion portfolio").
  - Revenue of £13.1m (2022: £12.6m); gross profit of £10.4m (2022: £9.8m), which is after £0.4m of Fashion portfolio revenue not booked (2022: £0.3m), in line with new revenue recognition policy.
  - Gross profit margin of 79% (2022: 78%).
  - Fashion portfolio increased ARR by 28% to £5.8m at period-end, driven by both new customer wins and existing customers expanding their software licences.
  - New dedicated management team at Retail Solutions has delivered benefits.
  - Strategic decision to integrate K3 ViJi capabilities within Fashion portfolio's existing corporate social responsibility functionalities rather than maintain it as stand-alone product.
- Third-party Solutions division – results impacted by downturn in activity at Global Accounts, which offset strong growth in the NexSys business unit.
  - Revenue of £30.7m (2022: £34.7m) and gross profit of £16.7m (2022: £18.1m).
  - Gross profit margin of 55% (2022: 52%) – reflected revenue mix and reduced overheads.
  - NexSys (formerly known as SYSPRO); performed strongly with average deal size increased and a number of large new contracts secured.
  - Global Accounts; significant slowdown in second half; remedial action taken to reduce cost base.

Current Trading and Prospects

- The Board remains focused on the transition to higher quality recurring earnings, as well as cash generation, cost discipline and additional operational simplification, which will help to drive further shareholder value.
- Group trading in the first quarter of the new financial year is in line with budget, and K3 has a stronger balance sheet than in FY22, which should continue to strengthen. While the markets that K3 serves remain challenging, the Board believes that both divisions have good growth opportunities.
- Overall, the Board expects cash generation to continue to improve in FY23 and the Group to deliver a higher adjusted operating profit result.

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

"We made good progress in a number of important areas and achieved some significant financial and strategic milestones against a challenging trading environment. In particular, the Group's balance sheet has strengthened. Our Fashion portfolio performed well and has attractive growth opportunities. Third-party Solutions contended with a slowdown at Global Accounts, however the NexSys operations grew strongly and continues to generate dependable and significant cash flows from software licence and maintenance and support renewals from its large user base.

"The transition to a unit structure will support our drive to generate value for shareholders and we remain disciplined in our focus on cash generation, costs and the shift to higher quality earnings. As we move through the new financial year, we expect K3 to generate increased cash and deliver a further improvement in adjusted operating profit."

K3 at a Glance

K3 is a leading provider of business-critical software solutions focused on fashion and apparel brands and related large retail brands. The Group's solutions comprise a number of applications that it has authored and also third-party products that have been enriched with K3 software.

These solutions provide customers with comprehensive, end-to-end capabilities that enable them to have greater control over their operations and real-time oversight of their businesses. The Group operates through two divisions, K3 Products and Third-party Solutions.

The Group typically has long-standing relationships with its customers, which generate a high level of recurring income. This income arises from annual licenses and renewals of software licenses, maintenance and support contracts.

The Group has approximately 2,400 customer installations across the UK, Europe, the Far East, and USA.

K3 Products

The division provides software products and solutions that are powered by our own IP. They comprise strategic products focused on the fashion and apparel market (the Fashion portfolio), solutions for the visitor attraction market and other stand-alone point-of-sale ("POS") solutions and apps, which are mainly legacy products. Products are sold either directly by the K3 sales teams or indirectly via channel partners.

K3 Fashion

K3 Fashion is the Group's 'Concept-to-Consumer' solution, which is built on Microsoft Dynamics 365 for Finance, Supply Chain and Commerce. It is designed to meet the specific needs of fashion and apparel enterprises and has been endorsed globally by Microsoft as its recommended embedded solution for the fashion sector.

K3 Fashion provides enterprises with the ability to gain insight and control over all their processes and inventory. This spans product planning and design, sourcing raw materials, managing suppliers and manufacturers, sales, including all channels-to-market, logistics, ordering and the tracking of financial transactions.

The product suite is being enhanced with the integration of additional sustainability functionality generated from K3 ViJi solutions. These support traceability, certification and sustainability of the fashion supply chain. The functionality is also being integrated into other K3 solutions.

K3 Pebblestone

K3 Pebblestone is again focused and tailored to the fashion industry and has similar functionalities to K3 Fashion. Built on Microsoft Dynamics Business Central, it is specifically aimed at smaller brands and retailers, and is available in both as an 'on-premises' solution and as a cloud-based SaaS solution.

K3 Retail Solutions

K3 Retail Solutions is a family of products focused on visitor attractions in the UK and integrated mid-market Point-Of-Sale solutions across Northern Europe. The products provide high availability and good value with a path to K3 Imagine as a cloud-native headless retail platform with its Point-Of-Sale application 'head' and omnichannel capability.

Third-party Solutions

The Third-party Solutions division comprises two activities.

NexSys (previously referred to as SYSPRO)

NexSys provides, integrates and supports business software solutions for manufacturers and distributors. It is a SYSPRO elite partner in the UK and has over 40 years' experience of delivering innovative ERP solutions.

NexSys enables its customers to manage and control business-critical information, and take decisions made on accurate and reliable real-time insights. This helps customers to maximise their opportunities by optimising their financial returns, innovating more easily, improving operational efficiencies, and improving their competitive edge.

Global Accounts

Global Accounts includes the Group's relationship with Inter IKEA Systems B.V. (the owner and franchisor of the Inter IKEA concept) and the Inter IKEA concept overseas franchisees. As well as supporting the development of the core IKEA solution for IKEA franchisees, K3 assists IKEA franchisees with their IT infrastructure. This includes help with integrations and system enhancements, which is key to the smooth functioning of franchisees's IKEA stores and back-office solutions.

K3 Products

Strategic fashion & apparel

K3 Fashion

K3 Pebblestone

K3 ViJi

Third-party Solutions

NexSys
Powering business growth

IKEA Master Version

Dynamics 365
Business Central

LS Retail

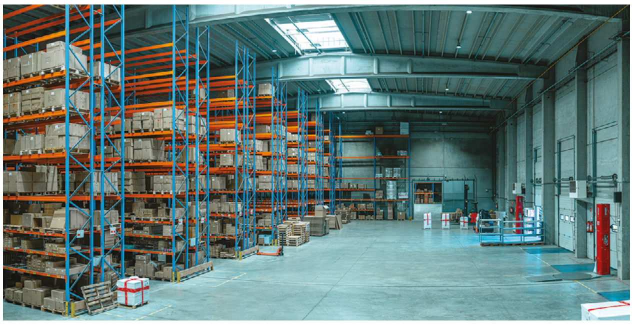
Fashion Retail Market

The overall fashion market is dynamic, and as brands need to keep up with market trends, there is strong and growing demand for digital transformation solutions. Companies that operate in this market recognise that their ability to manage their processes more effectively is critical, and solutions that provide an integrated, end-to-end view, of their design to end-customer process, both instore and digitally, bring significant commercial, operational and financial benefits. There is consequently a widespread need to upgrade old legacy ERP systems with more modern, effective and intuitive cloud-based solutions.

Corporate spend on digital transformation in the Group's target market of fashion and apparel is growing and sophisticated digital engagement with customers, manufacturers and suppliers is perceived as a high priority. Statista, which provides market and consumer data, estimates that global spending on digital transformation in 2022 reached 1.6 trillion U.S. dollars, and this is forecast to increase to 3.4 trillion dollars by 2026. Similarly, McKinsey predicts that fashion companies' investment in technology will double by 2030 to between 3-3.5% of total revenues. Against this background, there is clearly a significant market opportunity for K3.

The Group's Microsoft Dynamics-based 'Concept-to-Consumer' products provide better management of centralised processes and the ability to replace 'on-premise' legacy systems with cloud-based solutions. Through the adoption of these products, K3 customers are able to be more agile and effective organisations, benefitting from increased business insight and data security and lower maintenance and operational costs, while also providing end-customers with an enhanced shopping experience.

Embedded within its Fashion portfolio offering, K3 also has sustainability and traceability functionality for the fashion and apparel industry, which addresses customers' requirements in this area.



K3 Market Position

The Group has a well-established track record in its chosen market segments. It has very strong domain knowledge and a sophisticated understanding of the opportunities and challenges facing fashion and apparel retailers and related large retail brands. As a result, it is well-placed to help retailers adopt unified commerce strategies and to integrate the management and control of all forms of digital sales as well as store sales.

K3's focus is on mid-size enterprise clients, in particular enterprises that wish to adopt the latest cloud-based solutions, without the risks and challenges 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, backed by a strong understanding of market trends and customers' evolving needs, is designed to capitalise on the growth opportunities available.

Case Studies

NexSys – WHS Plastics

Founded in 1933 and operating in a highly competitive global marketplace, WHS Plastics has established itself as a leader at the cutting edge of injection moulding processes. The Group, which is family-owned, is a tier-one supplier to many major motor manufacturers, and supports international companies in a variety of other industries, including electronics, industrial and hygiene products. Following the acquisition of Xandor Plastics in May 2023, WHS Plastics now employs over 1,750 staff.

The Group used Sage 1000 as its ERP solution and, in 2023, made the decision to look for a new system in order to support its continuing growth and development. It chose the latest SYSPRO system, in tandem with a CAD integration facilitated by NexSys Dataswitch.

The new SYSPRO solution from NexSys will be implemented across the Group's nine operating companies and will provide mission-critical support for ongoing growth, innovation and operational and financial efficiency.

"NexSys are assisting WHS Group to implement a solution that will improve our efficiency, reduce costs, enhance product quality and streamline our operations from planning to production and distribution," said Saima Javid of WHS Plastics.

K3 Fashion – Création Gross

Création Gross is a family-owned company that was established in 1925. It operates two pioneering global brands in the menswear vertical.

The Company previously relied on multiple Dynamics 2012 R3 software systems in conjunction with legacy fashion-specific solutions. Its management took the decision to upgrade the Company's systems and to future-proof the organisation. At the heart of its digital transformation journey is the upgrade to D365 F&O and the adoption of a new fashion solution.

Création Gross's decision to choose K3 Fashion was influenced by K3's reputation as a top Microsoft GISV (global independent software vendor), with a deep expertise in the fashion industry and collaboration. Since adopting K3 Fashion, Création Gross has benefited from comprehensive seasonality functionality, as well as the ability to handle efficiently item variants. K3 Fashion has provided the base for Création Gross to extend the solution and dramatically modernise its wholesale channel offering.

"My advice to other fashion companies considering K3? It's a smart move. You're not just buying a solution – you're joining a collective that's shaping the future of fashion technology. Together, we are stronger and with K3, we can push the boundaries of what's possible in our industry," said Tobias Schuhmacher, Head of IT and Organisation at Création Gross.

Global Accounts – Ikano Retail / Falabella

Falabella is a leading South American retailer, with over 565 department stores, supermarkets, regional shopping centres, and home improvement outlets across Latin America. It is also an overseas franchisee of the Inter IKEA Concept.

The relationship between K3 and Falabella is long-standing, with K3 having supported the launch of multiple IKEA stores in Latin American markets.

In 2023, Falabella acquired the IKEA franchise for Colombia and, collaborating with K3, achieved a seamless integration of the global franchise template with its own local preferences. The result was a highly successful launch of the new IKEA store in Bogotá, with approximately 9,000 visitors and 1,920 online orders on the first day of trading day.

Speaking on the launch, Camila Prado Guzman, said: "Thanks to the K3 experts' team and their valuable contribution, we were able to work as one team and accomplish a new Colombia opening with great success!"

Another long-standing K3 relationship is with Ikano Retail, an overseas IKEA franchisee, which manages IKEA stores and shopping centres in Malaysia, Singapore, Thailand, Philippines and Mexico. In 2023, K3 supported the launch of a new store in Bangkok for the retailer, marking another milestone. The new store attracted 20,000 customers on its opening day.

Executive Chairman's Statement

Overview

We made good progress over the year in a number of important areas and, against a challenging trading backdrop, K3 has achieved some significant financial and strategic milestones.

The Group has continued to strengthen its financial position, with improved cash generation raising net cash at the financial year-end to £8.3m from £7.1m This was helped by tightening cost discipline across the Group, as well as further actions to address overheads.

Operationally, we are seeing encouraging progress with our strategic products for the fashion and apparel market ("Fashion portfolio") in the K3 Products division. The Fashion portfolio delivered 28% growth in annualised recurring revenue ("ARR") to £5.8m from £4.5m in the prior year. K3 Fashion, our flagship product, which is globally endorsed by Microsoft, performed particularly strongly and its growth potential remains exciting. In addition a new dedicated management team at the Retail Solutions unit has driven meaningful performance improvements, including higher margins and customer retention.

Within the Third-party Solutions division, the NexSys operation, which makes up 68% of the division's revenues and drives the division's significant cash generation, grew strongly. The unit increased its extensive installed customer base with new larger customer wins, in line with strategy. Importantly, software licence and support and maintenance contract renewals at NexSys remained very high at 98% (2022: 98%) and its net revenue retention was 109%. Against this, Global Accounts, also part of the division, contended with a slowdown in activity. The slowdown, which was apparent in the first half, was sharper in the second half, and we responded with steps to address the resource base.

While overall Group revenue decreased by 8% to £43.8m, the Group significantly improved other key performance measures year-on-year. Total annual recurring software revenue increased to £24.7m from £22.4m last year, with the Fashion portfolio and NexSys both generating double-digit ARR growth. Adjusted operating profit[1] moved from a loss of £0.6m in the prior financial year to a profit of £1.3m. Gross profit margin increased significantly to 62% from 59% in the prior year, and gross margin at both K3 Products and Third-party Solutions divisions was higher year-on-year, at 79% and 55% respectively (2022: 78% and 52%). Net free cash flow is a key performance measure for the Board, and this improved from an outflow of £1.8m in 2022 to an inflow of £1.1m in 2023, which is a £2.9m turnaround.

Looking ahead, we expect further progress in the new financial year as software revenues grow and we maintain a disciplined approach to development allocation and cost base control. Our strategic decision to incorporate the nascent K3 ViJi product capability into our Fashion portfolio products, rather than maintain it as a standalone offering, will help here.

At the K3 Products division, the Fashion portfolio, which is sold via our business partner network, has good growth prospects. The new team at Retail Solutions is confident of lifting net revenue retention, which is now at 103%, and has refined the account management and sales strategy.

At the Third-party Solutions division, we have ambitious targets for NexSys, supported by a good new business pipeline. The slowdown in customer activity at Global Accounts is expected to continue in the short to medium term, but the resource base is now more appropriately sized.

1 Refer to note 30 to the financial statements for definition.

Financial Results

Total revenue for the year ended 30 November 2023 decreased by 8% to £43.8m (2022: £47.2m). On a constant currency basis, total revenue was 7% lower year-on-year. The reduction mainly reflected lower revenue from Global Accounts, whose customers pulled back on expansion and project spend from the levels seen prior to summer 2023. As reported with interim results, the Group's revenue recognition policy for the Fashion portfolio was changed in this financial year. Revenue from fashion product contracts is now recognised over the term of the contract rather than proportionally upfront, after the completion of software installation, and matches revenue to cash collection. The change in policy has reduced revenue by £0.4m (FY2022: £0.3m).

Gross profit was £27.1m (2022: £27.9m), reflecting lower revenue and deferred gross profit of £0.4m from the Fashion portfolio following the implementation of the new revenue recognition policy. Nonetheless, gross margin was higher at 62% (2022: 59%), with both Divisions actively working to improve gross margins.

A key performance measure for the Group previously was adjusted EBITDA. As reported with interim results, we have now replaced this measure with adjusted operating profit/(loss)[1], since the Board believes it is a better proxy for understanding underlying profitability and cash requirements. This has resulted in revised administration expenses, which now include depreciation and amortisation being shown in the comparative 2022 data.

We are pleased to report that the Group has delivered an adjusted operating profit of £1.3m for the financial year compared to a loss in the prior year (2022: loss of £0.6m measured on the same basis). This £1.9m turnaround in performance was supported by higher gross margins and lower costs. It is also after the change in our revenue recognition policy for fashion and apparel software sales.

The table below provides the reconciliation between adjusted operating profit in the financial year and adjusted EBITDA in the prior year.

	FY 2023 £'000	Restated FY 2022 £'000	Change %
Adjusted EBITDA (as previously reported for FY 2022)	**3,497**	5,064	-31%
– depreciation and amortisation	**(2,234)**	(5,383)	-58%
– impact of change in revenue recognition on FY22	**NA**	(280)	NA
Adjusted operating profit/(loss)	**1,263**	(599)	+311%

1 Refer to note 30 to the financial statements for definition.

Amortisation decreased year-on-year due to lower capitalisation of development costs in FY23 and the impact of impairments in FY22.

The reported loss from operations reduced to £1.4m (2022: loss of £3.8m), an improvement of £2.4m. The major factor driving this improvement was a significant reduction in overheads, with £2.7m taken out of the Group's cost base. The reported loss from operations is stated after £4.2m of impairment and reorganisation costs, and historical acquisition credit of £0.3m resulting from reversal of contingent consideration, partly offset by a credit resulting from a £1.1m reversal of share-based payment charges (2022: £2.3m of impairment, reorganisation and acquisition costs, and share-based payment charges of £0.9m).

Reported adjusted administrative expenses decreased by 10% to £25.9m (2022: £28.4m), helped by our tighter focus on costs in the second half, a discipline that continues to yield savings.

The reported loss before tax decreased to £1.8m (2022: loss of £4.1m), a £2.3m advancement. This mainly reflects our actions over the cost base, as stated above. Net finance expenses were £0.4m (2022: £0.3m).

Adjusted earnings per share shows a significant improvement at 1.0p from the prior year (2022: loss of 4.9p). Adjusted gain/(loss) per share excludes exceptional reorganisation costs, exceptional impairment costs, acquisition costs/credit and share-based charges/credit and is net of the related tax credit of £0.2m (2022: charge £1.0m). The reported loss per share, which includes profit from discontinued activities, also improved at 5.4p (2022: 9.5p).

Balance sheet and cash flows

The Group balance sheet remains strong, with cash and cash equivalents of £8.3m (2022: £7.1m) and net cash of £8.3m (2022: £7.1m). K3 has banking facilities with Barclays, which provides for the drawdown of up to £3.0m to support seasonal cash movements. This facility agreement was extended in March 2024 on standard terms for a further two years until March 2026, with optional future renewals. The extension was based on a facility maximum of £2.8m. At 30 November 2023, £nil was drawn down (2022: £nil).

Group cash flow is weighted towards the second half of the financial year. This reflects the significant cash inflows that fall due in this period from annual software licence and maintenance and support contract renewals. A large proportion of these renewals are for NexSys software, where renewals remained very high at 98%, which was in line with prior years, as expected.

Cash inflow from operations increased to £3.5m (2022: £2.4m). Net cash used in investing activities decreased significantly at £1.4m (2022: £2.7m). This resulted from our more disciplined approach to development expenditure as well as actions to simplify the business. The £1.4m included spend on property, plant and equipment of £0.6m (2022: £0.8m), lower development expenditure capitalised at £0.7m (2022: £1.7m) and ViJi acquisition-related outflow of £0.1m (2022: £0.2m).

Growth Strategy

The Board's focus is to generate cash and grow shareholder value. In practice, this means that we are concentrating on the growth of those software products and solutions that are differentiated in their market verticals and provide demonstratable benefits to customers.

The K3 Products division continues to offer the opportunity of significantly higher-margin growth. This reflects the fact that its solutions are based on K3 intellectual property ("IP"). A key focus is the development and growth of our core strategic fashion and apparel products and, in particular, the K3 Fashion product. Microsoft has endorsed K3 Fashion as its 'go to' embedded solution for the fashion and apparel sector. We believe that its growth opportunity is significant and our route-to-market remains our network of business partners. We are now further enhancing our Fashion portfolio with additional sustainability functionality from our ViJi product and are working with Microsoft and our business partners to move fashion brands to our specialist offering in the cloud.

NexSys (formerly K3 SYSPRO), which delivers and supports ERP solutions for manufacturers and distributors in the UK, generates significant recurring revenue and strong predictable cash flows. Our focus with NexSys is to target larger, higher-value projects, as well as moving into attractive adjacent verticals. The Global Accounts business, which also makes up the Third-party Solutions division, is a long-established partner to the overseas franchisees of the Inter IKEA Concept. While the expansion of IKEA stores by franchisees has slowed, leading to a significantly weaker performance, Global Accounts, nonetheless, remains a key support and services partner to this network.

OPERATIONAL REVIEW

The Group's segmental results for the financial year ended 30 November 2023 and comparatives for 2022 are summarised in the tables below. Reporting is divided between the K3 Products division and the Third-party Solutions division. K3 Products encompasses K3's own products and includes strategic fashion and apparel products, for which the revenue recognition change had a one-off impact in this year's results, and Retail Solutions. The Third-party Solutions division consists of NexSys and Global Accounts, and revenues comprise a mix of recurring revenue (from software license renewals, and support and maintenance contracts), and revenues from systems integration and professional services, as well as one-off software licenses.

Year ended 30 November	Revenue (£m)		Gross profit (£m)		Gross margin	
	2023	2022 restated	2023	2022 restated	2023	2022 restated
K3 Products	**13.1**	12.6	**10.4**	9.8	**79%**	78%
Third-party Solutions	**30.7**	34.7	**16.7**	18.1	**55%**	52%
Total	**43.8**	47.2	**27.1**	27.9	**62%**	59%

K3 Products – K3 Fashion portfolio	2023	Year-on-year change
Annualised Recurring Revenue (ARR)	**£5.8m**	+28%

K3 Products

The division provides software products and solutions that are powered by our own IP. They comprise:

- strategic products focused on fashion and apparel markets (the Fashion portfolio);
- solutions for the visitor attraction market; and other stand-alone point-of-sale retail solutions and apps ("Retail Solutions").

	2023 £m	Restated 2022 £m
Revenue	**13.1**	12.6
Gross profit	**10.4**	9.8
Gross margin (%)	**79%**	78%
Adjusted operating loss	**(4.8)**	(6.9)

Our Fashion portfolio, which includes our Microsoft-endorsed flagship product, K3 Fashion, continued to grow strongly, and its annualised recurring revenue increased by 28% over the year to £5.8m. Total divisional revenue increased by 4% to £13.1m (2022: £12.6m). The implementation of the new revenue recognition policy for fashion products meant that £0.4m of revenue was not recognised in the financial year under review, but will be recognised in future years. Similarly, the revenue figure for the 2022 financial year has been restated to take account of the new policy. This resulted in £0.3m of revenue being deferred into future years. The Division's overall performance was also impacted by high development expenditure on K3 ViJi and K3 Imagine. We reviewed the commercial opportunity for both these two products, and have addressed cost base accordingly. Further commentary is below.

Gross profit for the year increased to £10.4m (2022: £9.8m). This figure and the last year's comparative are both stated after the effect of the new revenue recognition policy. Gross margin improved to 79% (2022: 78%). The rise reflected the higher margin revenue mix, together with pricing and actions at Retail Solutions, where the new dedicated management team addressed the cost base and implemented other initiatives.

Sales of our K3 Fashion flagship product were extremely encouraging and mainly drove the 28% rise in total annualised recurring revenue in the Fashion portfolio, with a contribution of £1.2m to incremental ARR in the financial year. A total of five significant new customers were added, and existing customers continued to expand their software license estate with us. As we previously announced, in the first half of the financial year, the business partner network secured the largest global deployment of K3 Fashion to date, with a major global jewellery/watches retailer. This contract is worth c.£1.4m over three years. Other significant signings included: a £1.0m, three-year contract with a Swedish outdoor sports fashion brand; a £0.5m five-year contract with a major Swiss outdoor brand; a five-year contract with a European golf brand. Existing customers took up further software licenses for K3 Fashion, with these including a music mail-order and merchandising retailer and a major wedding apparel designer. Each added an additional £0.2m of annual recurring revenue to the Fashion portfolio.

As these incremental software license orders demonstrate, new customer wins have the potential to grow over time. The typical pathway is for new customers to buy software licenses for centralised functions, including purchasing, catalogue management and pricing management, and then to take up further software licenses as they progressively roll-out our software across their operations in distribution centres and stores.

K3 Fashion continues to be globally endorsed by Microsoft as its recommended embedded solution for the fashion and apparel vertical, and our business partner network remains the main route-to-market for the Fashion portfolio. We continued to invest in supporting our business partner network though our channel partner and centre of excellence team.

The new dedicated management team at Retail Solutions is driving improvements in adjusted operating profit, net revenue retention and customer satisfaction. Net revenue retention is now above 100% and the new business unit leader has refocused account management and sales activities.

We came to a difficult judgement at the end of the financial year, which was to withdraw further investment in our standalone sustainability product for fashion retailers, K3 ViJi, acquired in January 2022. The decision was taken after a strategic and commercial assessment. While the market for sustainability solutions is emerging and evolving legislative drivers will promote greater focus in this area by fashion retailers, we concluded that, in the current, challenging retail environment, the required return on investment within our desired timeframe for a standalone product, was not likely to be met. We are therefore concentrating on integrating K3 ViJi's capabilities within K3 Fashion's existing corporate social responsibility functionalities, and will promote our sustainability offering as features within our existing Fashion portfolio.

Third-party Solutions

Third-party Solutions comprises two units:

- NexSys, which is a high-margin, value-added reseller and systems integrator of SYSPRO ERP enriched with K3 IP and partner modules. Its solutions address the needs of manufacturers and distributors, and are typically 'on-premise'. Revenues are generated from implementations, software license sales (including renewals), and maintenance and support contracts. With over 40 years' experience in providing innovative ERP solutions for its chosen markets, NexSys has a large installed base of UK customers.
- Global Accounts, which provides specialist services and support, predominantly to the Inter IKEA Concept overseas franchisee network.

	2023 £m	Restated 2022 £m
Revenue	**30.7**	34.7
Gross profit	**16.7**	18.1
Gross margin (%)	**55%**	52%
Adjusted operating profit	**8.3**	8.1

The Division's revenue and profit performance was significantly affected by the downturn in activity at Global Accounts, which mainly provides its specialist services to the overseas franchisees of the Inter IKEA Concept. This offset the strong growth at NexSys, which performed very well.

Total revenue was down by 11.5% to £30.7m year-on-year (2022: £34.7m) and gross profit decreased by 8% to £16.7m (2022: £18.1m). However, gross margin increased to 55% (2022: 52%). This improvement reflected the revenue mix, and specifically the higher proportion of software license and maintenance and support income, as well as the actions taken to adjust the Global Accounts resource base.

The beginnings of a slowdown in activity that we reported in the first half at Global Accounts materialised strongly in the second half of financial year. As highlighted with interim results, we have taken remedial action to adjust the contractor resource base in light of more subdued activity, with limited new IKEA store openings. We continue to assist franchisees with our specialist services, focusing on support and developing new ways of working in response to franchisee needs. However, we expect a lower-level of activity in the short to medium term.

The NexSys business (the new name for our K3 SYSPRO operations), which provides business-critical ERP solutions for the UK manufacturing and distribution markets, continued to perform very well. Against the difficult backdrop of higher energy costs for the sector, which prompted some prospects to defer decisions, NexSys secured six major new wins over the financial year, including larger contracts, in line with strategy. New contracts included a c. £0.6m deal with a manufacturer of automotive plastic components, a c. £0.4m win with a bicycle manufacturer, a c. £0.4m order with a leading metal fabricator of trailers and towing parts, and a c.£0.3m agreement with a manufacturer of products for the farming industry. These order values are made up of the first year's software license, the first year's support, and initial services. The services back-log remains healthy, and we are pleased with the new business pipeline.

Central Costs

During the year, we took the decision to devolve greater responsibility and accountability over resource allocation to our Business Unit heads. This related in particular to HR, IT and finance functions. The result has been a significant reduction in overall costs, with Business Units prioritising sales and profitability. The full benefits of this will be more apparent in the new financial year and beyond.

The unallocated Central Support costs that were not allocated to revenue generation and that include our PLC costs, have been determined as £2.2m (2022: £1.8m).

The Board and Staff

On behalf of the Board, I would like to thank all our staff for their hard work and efforts over the year. It has been a challenging year in many respects and our people have responded with great commitment and energy.

The Board's strategy to further simplify operations, more effectively address the opportunities within market sectors, and to drive cash realisation and shareholder value has led to some significant organisational changes during the year and we remain very grateful for everyone's contribution to this as we continue to make progress towards achieving our strategic goals.

On 3 April 2023, Eric Dodd joined the Board as Chief Financial Officer, taking over from Rob Price, the previous Chief Financial Officer. Since joining, Eric has focused rigorously on cash, costs, and further operational simplification. He has also implemented the new revenue recognition policy at the Fashion portfolio.

On 30 October 2023, Marco Vergani stepped down as Chief Executive Officer of the Company, in line with the decentralisation strategy. Accordingly, the Group's business unit heads now report directly to the Board, with each head taking greater responsibility and accountability for their respective operations. We wish Marco well in his future endeavours.

Summary and Prospects

The new business unit structure has established a better platform for the Group, as the Board focuses on driving value for shareholders. It provides clear focus, greater accountability, and further opportunity to reduce historical overhead.

The two divisions, K3 Products and K3 Third-party Solutions, both have growth opportunities while also managing challenges. The growth opportunity with the Fashion portfolio remains clear and will drive high-margin, recurring income, while NexSys will continue to generate significant high-quality cash flows with leading margins. We have responded to the sharp slowdown in activity at Global Accounts, and while we expect trading to remain subdued, we continue to engage closely with IKEA and its overseas franchisees.

K3 has started the new financial year with a stronger balance sheet than at the same point last year. It will also benefit from the cost reduction measures taken in the latter part of 2023 coming through more fully over the course of the current financial year and next year. The Board is pleased to report that Group trading in the first quarter is in line with budget and it remains confident that K3 will continue to improve cash generation and deliver higher adjusted operating profit.

T Crawford
Chairman
25 March 2024

Financial Review

Overview

The Group's reported segments are 'K3 Products' and 'Third-party Solutions', with Central Support costs stated separately, as previously. This aligns segmental reporting with the Group's growth strategy.

Focus on value creation for shareholders

The Board's main focus is on value creation for shareholders. Driving cash generation and growing annual recurring revenues ("ARR") is central to this.

We completed some important steps during the financial year in line with these goals. Late in the second half of the year, we moved in full to a Business Unit structure. Decentralising the business has established a better platform from which to realise value creation for shareholders. It has increased accountability while also driving significant reductions in IT, HR and finance expenditure.

We further tightened our approach to expenditure on new product development activities, which has helped to support a meaningful improvement in cash generation. Specifically, we have allocated expenditure according to where market, pipelines and margins indicated the highest probability of cash returns over the medium term, withdrawing or reducing expenditure elsewhere. We also identified unnecessary cost burdens, such as certain structures and financing arrangements that did not offer tangible benefit to the Company. We are continuing to exit these arrangements and to work on further simplifying the business in order to establish the most appropriate cost base.

Since we believe that the closest metric to understanding cash generation is adjusted operating profit/(loss), we have adopted it as the key measure of the Company's performance. It replaces earnings before interest, tax, depreciation and amortisation ("EBITDA"), which was used previously.

The Group's products for the fashion and apparel market offer the highest-margin, highest growth opportunity, and ARR in the fashion portfolio grew by over 28% in 2023.

Key performance indicators

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

- revenue;
- gross margin;
- gross profit margin;
- adjusted operating profit/(loss);
- free cashflow; and
- annual recurring revenue.

The Group's results for the year end to 30 November 2023, together with comparatives for the same period in 2022, are summarised in the tables below.

Continuing Activities	Revenue 2023 £m	2022* £m
Revenue	**43.8**	47.2
Gross profit	**27.1**	27.9
Gross profit margin	**62%**	59%
Adjusted operating profit/(loss)	**1.3**	(0.6)
Free cashflow	**1.1**	(1.8)
Annual recurring revenue – Fashion	**5.8**	4.5

**restated*

Overall Group revenue decreased by 8% or £3.5m to £43.8m (2022: £47.2m). This was mainly due to a reduction in revenue at the Third-party Solutions division of £3.4m.

We updated the Group's revenue recognition policy for K3 Fashion and K3 Pebblestone contracts in the year under review and now recognise the revenue of a K3 Fashion and K3 Pebblestone contract evenly over its lifetime. This approach makes it easier to manage the business and use benchmarks for activities, including sales & marketing expenditure, customer acquisition costs and customer churn. This will improve business understanding and further support capital allocation and other decision-making processes. The change has also simplified the balance sheet by lowering accrued income and matching revenue recognition more closely to cash collection. For the year under review, the shift to this new revenue recognition policy has reduced revenue and operating profit by £0.4m respectively (FY2022: £0.3m).

ARR from the combination of K3 Fashion and K3 Pebblestone increased by 28% to £5.8m (2022: £4.5m), driven by both new customers and existing customer expansion.

Gross profit decreased by £0.8m or 4% to £27.1m (2022: £27.9m). However, gross profit margin increased by three percentage points to 62%, reflecting the change in sales mix.

Encouragingly, the Group moved to an adjusted operating profit of £1.3m in 2023 from a loss in 2022 (2022: loss of £0.6m). This was driven by lower amortisation and more disciplined overhead expenditure.

Following the Company's transition to a Business Unit structure, impairments of £2.1m (2022: £1.6m) relating to goodwill and capitalised Group-wide IT projects were identified as no longer justifiable. A total of £2.1m in reorganisation costs were incurred (2022: £0.6m) and related primarily to the cost of people leaving the business. There is a credit resulting from historical acquisitions of £0.4m due to reversal contingent consideration obligation The departure of several senior staff members lead to lapses of outstanding share options, which led to a credit of £1.1m (2022: £0.9m debit).

Earnings Per Share

The Group generated adjusted earnings per share of 1.0p from Continuing operations (2022: loss of 4.9p). Reported loss per share, which includes profit from discontinued activities, was 5.4p (2022: loss of 9.5p).

Dividends

No dividend will be declared for the year ended 30 November 2023 (2022: nil).

Taxation

The corporation tax charge for the financial year was £0.5 million (2022: nil charge). This comprised a credit for current taxation of £0.1 million (2022: charge of £0.1m), which related to the non-UK businesses, and a charge for deferred taxation of £0.4 million (2022: credit of £0.1 million).

Balance Sheet

Non-current assets reduced by £3.5m to £28.9m, which reflected a more disciplined approach to the capitalisation of development expenditure and also the impact of impairment of intangible and tangible assets of circa £2.1m.

Current assets decreased by £2.3m to £16.1m (2022: £18.5m). Receivables reduced by £1.9m to £5.4m (2022: £7.3m) due to improved collection procedures and the receivables ageing is excellent, with little unprovided exposure over 60 days. The change in the revenue recognition policy has led to a reduction in 'Contract Assets' and this should remain low in the future. Trade & other payables reduced to £15.9m (2022: £16.9m). We expect this balance to rise as we increase sales of fashion and apparel products, especially K3 Fashion, and we invoice annually and quarterly in advance.

At the financial year end, cash balances stood at £8.3m (30 November 2022: £7.2m). The Group has a bank facility with Barclays, its long-standing bankers, which provides for the draw down of up to £2.8m to support seasonal cash movements. At the year-end, £nil was drawn down (2022: £nil). After the financial year end, the facility agreement was extended for further two years, until March 2026.

Cash Flow

The Group's cash performance continued its improving trend. There were a number of large movements in working capital, the two most significant being the £3.5m reduction in receivables (including stock) and the £1.1m reduction in payables. Net cash inflow from operating activities increased by £1.1m to £3.5m (2022: £2.4m).

The more disciplined capital allocation and the ongoing corporate simplification process have begun to deliver tangible benefits. Both investing expenditure and financing cost have almost halved to £1.4 million and £1.0 million respectively (2022: investing expenditure of £2.7 million and financing cost of £1.4 million). A specific illustration is the 30% reduction in lease liability payments, which mainly related to properties and vehicles, to £0.7 million.

The £1.1 million improvement in operating cashflow together with the £1.3 million reduction in development expenditure and £0.7 million reduction in financing costs combined to deliver a £2.8 million improvement in free cashflow. As a result, the cash outflow in 2022 of £1.7m was converted to a cash inflow of £1.1m in 2023. The Group's closing cash balance at 30 November 2023 was £8.3m (2022: £7.1m).

Eric Dodd
Chief Financial Officer
25 March 2024

ESG Scorecard

Sustainability at K3

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. Our core internal focus areas for being a sustainable business are People, Environment and Privacy & Security.

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. Our products enable sustainable practices within retail and the fashion and apparel industry, via SaaS solutions that enable supply chain transparency.

To promote environmental sustainability in the fashion industry, a robust solution supporting Corporate Social Responsibility (CSR) goals is crucial. This is evidenced in our own IP: K3's CSR module offers comprehensive classifications, certificates, and documentation for products, raw materials, and vendors, empowering businesses to make informed decisions based on ethical and sustainable criteria. In addition, K3 Pebblestone offers robust functionalities for sustainability management within D365 Business Central. This encompasses tools and features designed to help businesses monitor and optimise their environmental impact, promote sustainable practices, track resource usage, manage waste, and comply with regulatory requirements. With K3 Pebblestone, companies can seamlessly integrate sustainability goals and practices into their operations and decision-making processes. Our experts regularly contribute to panels discussing sustainability and good practice across the fashion and retail sector, most recently at the Sustainability Debate in London.

People

A crucial priority for K3, is to create a positive environment for our employees, with pathways for wellbeing and professional development.

In 2023, we extended this via our K3 Culture & Values training sessions. We launched a K3 Global Culture offer, embedding the values of Diverse & Inclusive, Innovative, Curious, Optimistic, Transparent, and Commercial. Employees also undertook training sessions in Communication, Cultural Awareness, Feedback and Management Skills. In addition, the introduction of a new performance process, placed the emphasis on GROW coaching methods, as an alternative to criticism.

We recognise the only way for all of us to remain relevant, innovative and commercial is to empower our employees by providing access to learning opportunities. As a result, learning is an important cornerstone of our culture and employer value proposition. In 2023, we expanded Learning@K3, our online Learning & Development platform, which focuses on our purpose and the development of our people across the world, through equal development opportunities and flexible access, to enrich our employees' skills and knowledge, to stay up to date, and continue growing in their careers.

Employee wellbeing continues to be a key area of focus, as is raising awareness and providing employee training in support of World Mental Health Day, via an introduction to mental health awareness and learning modules on building better mental health. We have held live sessions with experts on recognising the signs of modern-day slavery in your community, with Hope for Justice; gambling and gaming training with YGAM, alcohol awareness with BeeSober, and Inclusion for the Visually Impaired and Blind, both in the community and via technology, via our session Seeing Things Differently. To support wellness at home, we launched live Pilates sessions on Teams twice per week during the summer months. This was followed by a subscription to Live and Pre-recorded Pilates with Habitual Fitness for all employees.

Recognising the value of bringing teams together in the global hybrid workspace, we held social events for global offices. Employees benefited from summer parties, meals out, bowling and even a trip to a theme park.

Environment

With sustainability at the core of our business strategy, we recognised the need to review our own practices and impacts on the environment. We introduced a Laptop Recycling Policy, ensuring IT equipment could be repurposed for family use or to support charities. We continue to support Q·Learning Nepal by providing laptops to Q·Learning Nepal, which provides education to children in rural Nepal.

We have also undertaken a comprehensive review of our technology landscape and have reduced our data centre and offices servers by 60%.

Energy Scorecard

The below disclosures are made in accordance with GHG Protocol Corporate Accounting and Reporting Standard and the 2019 UK Government Environmental Reporting Guidelines. We have used UK Government GHG Conversion Factors for Company Reporting 2023. Gas and electricity emissions for Netherlands use the most recent local conversion factors published by the European Environment Agency.

UK Emissions and Energy Consumption

		2023		2022	
Type	Activity	kWh	tCO2e	kWh	tCO2e
Scope 1	Natural gas	93,099	17.0	88,593	16.2
	Transport***	135,017	30.9		
	Sub-total	**228,116**	**47.9**	**88,593**	**16.2**
Scope 2	Electricity	74,193	15.4	68,035	13.2
	Sub-total	**74,193**	**15.4**	**68,035**	**13.2**
Scope 3	Grey fleet	216,004	52.4	135,359	33.4
	Sub-total	**216,004**	**52.4**	**135,359**	**33.4**
Total gross emissions		**518,313**	**115.7**	**291,987**	**62.7**
£ million turnover			17.0		16.9
tCO_2e per £m			6.81		3.72

Netherlands Emissions and Energy Consumption

		2023		2022	
Type	Activity	kWh	tCO2e	kWh	tCO2e
Scope 1	Natural gas	17,378	3.5	42,561	8.7
	Transport***	263,410	63.9		
	Sub-total	**280,788**	**67.4**	**42,561**	**8.7**
Scope 2	Electricity	92,614	29.7	206,631	68.8
	Sub-total	**92,614**	**29.7**	**206,631**	**68.8**
Scope 3	Grey fleet	57,654	14.0	0	0.0
	Sub-total	**57,654**	**14.0**	**0**	**0.0**
Total gross emissions		**431,056**	**111.2**	**249,192**	**77.5**
£ million turnover			23.7		27.5
tCO_2e per £m			4.70		2.81

Total Emissions and Energy Consumption (UK and NL)

Type	Activity	2023 kWh	2023 tCO2e	2022 kWh	2022 tCO2e
Scope 1	Natural gas	110,476	20.6	131,154	24.8
	Transport***	415,804	98.3		
	Sub-total	**508,903**	**115.4**	**131,154**	**24.8**
Scope 2	Electricity	166,808	45.1	274,666	82.0
	Sub-total	**166,808**	**45.1**	**274,666**	**82.0**
Scope 3	Grey fleet	273,658	66.4	135,359	33.4
	Sub-total	**273,658**	**66.4**	**135,359**	**33.4**
Total gross emissions		**949,368**	**226.9**	**541,179**	**140.2**
£ million turnover			40.7		44.4
tCO_2e per £m			5.58		3.16

***Transport emissions are a new addition in FY2023 which has significantly increased CO2 emissions compared to FY2022.

The UK and NL natural gas and electricity consumption both reduced following the reduction in the office space; the use of company vehicles and own vehicles increased following the return to travel post pandemic.

In addition, this is the first year we are reporting on transport emissions for both UK and NL.

We are proactively reviewing our global real estate with an effort to see a continued reduction in office space which encourages flexible working, hotdesking and creative meeting spaces. We anticipate that the hybrid working models will enable K3 to further reduce our global CO2 emissions.

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.

In addition, K3 is also working towards reducing its fleet size. Where fleet is required, this will be in the form of hybrid/electric vehicles.

We continue to review our policies to focus on reducing travel emissions, both reducing the number of journeys our people make and looking for less carbon-intensive ways of travel. 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 make the bookings, so we can improve our management information, reporting, risk management and costs.

Privacy and Security

We have recently completed a major systems upgrade and released critical process and tooling improvement to support people and customer interactions and introduce enhancements to our data management policies. We continue to upgrade our customer systems access and provide GDPR training to our teams to ensure K3 is both knowledgeable and compliant.

Risk Management

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

FY23 Principal risks

1. Customer relationships
2. Supplier relationships
3. Group strategies and product management
4. Credit risk
5. Cyber security
6. Currency risk
7. Liquidity and banking facilities
8. Employees
9. Cost of maintaining legacy products
10. Customer project management
11. Economic conditions

FY23 Risks and mitigation

Description	Mitigation	Change
Customer Relationships The Group has a single customer ecosystem (including franchisees) which accounts for circa 42% 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 to an extent by this portfolio effect. The systems supplied by the Group are mission critical for the customer and franchisees.	Up
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.	Flat
Group Strategies and Product Management The Group has invested a significant amount of funds in its products. 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-evaluates its market strategy annually and ensures that strategy, technology, pricing, 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.	Flat

Description	Mitigation	Change
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 Group operates a centralised credit management function and assesses credit risk on an individual customer basis and with standardised contract terms. For the Group's SaaS based products, the annual access codes and partner model is considered to structurally reduce the risk by retaining the control over the right to access and use the software. Currently, the Group's larger third-party solution customers are generally financially stable and Group has good leverage in that it provides mission critical systems. However, the economic downturn is expected to increase credit risk.	Up
Cyber Security There is an increasing growth in cyber terrorism. The Group 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

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 matching off amounts payable in those local currencies. The Group's banking facilities allow for a blend of debt in EUR or GBP. The Group has introduced hedging strategies that have reduced currency exposure.	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 re-financed its Banking arrangements to 31 March 2026.	Down
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. 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.	Flat

Description	Mitigation	Change
Cost of Maintaining Legacy Products There is a risk that some legacy products become increasingly costly to support.	The Group has a programme to manage pricing, customer expectations, transition to new products, retention of key resource and to provide extended support packages as products age.	Up
Customer Project Management The Group implements projects which are customer critical and can be long term. The risk of project failure could impact the Group'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 solutions.	Flat
Economic Conditions Demand for the Group's products may be adversely affected if economic and market conditions are unfavourable. Adverse economic conditions worldwide can contribute to slowdowns in the Information Technology spending environment and may impact the Group's business, resulting in reduced demand for its products as a result of decreased spending by clients and increased price competition for the Group's products.	The Group has high levels of recurring revenue, from business critical systems such as ERP, which provides some resilience against the full effects of market deterioration. Additionally, the Group operates in multiple geographic regions and business sectors.	Flat

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:

Stakeholder	This financial year
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 Executive Chairman and Chief Financial Officer regularly meet with institutional shareholders and analysts, including after the announcement of full-year and half-year results.	Continued shareholder consultation is embedded within the Board's activities; the views of major shareholders are obtained through direct face-to-face contact and analysts' or brokers' briefings and through the corporate representation of Kestrel Partners on the Board itself. The Group's executive Directors also make presentations to institutional shareholders covering interim and full year results and investor presentations are broad 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. The Group re-evaluates its market strategy annually and ensures that strategy, technology, product and business development is market led and market informed 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 and protection of shareholder value.

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.	As a global software house, the Group is committed to attracting and retaining talent across the globe through competitive remuneration together with the ability to participate in a bonus scheme, long-term incentive plans (for executive talent) as well as a quarterly peer-recognition process. In addition, the Group has strong purpose, communication channels and values that are important to staff.

Stakeholder	This financial year
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.	The Group carries mindfully the responsibility that comes with the delivery and support of business critical software solutions for its customers. Customer Success teams are embedded within Business Units to listen to the customer base and refine useability, engagement, customer configurations development priorities to support customer ROI.

Stakeholder	This financial year
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.	The Group benefits from several close commercial relationships with key suppliers and software partners with which the management team participate in regular product, service, market and strategy reviews.

Board of Directors

Tom Crawford Executive Chairman (age 55)

Tom was appointed Non-executive Chairman on 28 October 2020 and became Executive Chairman on 27 October 2023. 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. Prior to becoming Executive Chairman Tom was a member of the following committees: (A) Audit Committee (R) Remuneration Committee and (N) Nominations Committee.

Gabrielle Hase Non-executive Director (age 56)

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; and Planks Clothing, the global skiwear apparel brand. Gabrielle holds an MBA from The Wharton School at The University of Pennsylvania and a BSc in Information Systems from Boston College. She is a member of the following committees: (A) Audit Committee (R) Remuneration Committee and (N) Nominations Committee (chair).

Eric Stephen Dodd Chief Financial Officer (age 54)

Eric was appointed to the Board on 3 April 2023. He has extensive experience of the software and technology sector. He was previously Chief Financial Officer of ATTRAQT Group plc, which he joined in 2017. ATTRAQT specialises in omnichannel search, merchandising and personalised product discovery technology for online retailers and brands, mainly in the fashion sector. Before ATTRAQT, Eric was Chief Financial Officer of Iptor Supply Chain Systems UK Limited, a private equity-backed software and services business, and previously Chief Financial Officer at KBC Advanced Technology plc, the software and consultancy provider to the hydrocarbon industry. Eric qualified as a Chartered Accountant with Deloitte, has an MBA from London Business School and a BEng from Loughborough University.

Oliver Scott Non-executive Director (age 56)

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 Redcentric PLC and Gresham Technologies 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. He is a member of the following committees: (A) Audit Committee, (R) Remuneration Committee (chair) and (N) Nominations Committee.

Pernille Fabricius Non-executive Director (age 57)

Pernille was appointed to the board as a non-executive director and chair of the audit committee in July 2022. Pernille has extensive board and senior level financial and commercial experience across a number of sectors, including IT services, and in both internationally listed and private equity backed businesses. She is currently Chief Financial Officer and Executive Vice-president of NNIT A/S, one of Denmark's leading IT and consulting services providers, and a non-executive director of Gabriel Holding A/S, the fabrics manufacturer, and Brødrene Hartmann A/S, a leading packaging manufacturer.

Pernille was previously Managing Director of John Guest Group, a multinational industrial engineering group, which was acquired by Reliance Worldwide Corporation for c£700m, and Group Chief Financial Officer and Chief Operating Officer of TMF Group, the private equity backed, multi-national professional services company, where she oversaw significant M&A and international expansion. Pernille began her career as an accountant at Arthur Andersen in 1988, and holds an MSc. in accounting and an MBA from Copenhagen Business School. She is a member of the following committees: (A) Audit Committee (chair) (R) Remuneration Committee and (N) Nominations Committee.

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 30 November 2023. The corporate governance statement on pages 41 to 45 also forms part of the Directors' report.

Review of Business

The Executive Chairman's statements on pages 9 to 17 provides a review of the business, the strategies, the Group's trading for the year ended 30 November 2023 and an indication of future developments.

Research and Development

During the year, the Group carried out development work of which £0.7m (2022: £1.7m) was capitalised. Development expenditure capitalised on product for external commercialisation was spread evenly across the core strategic products.

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 62. The Company has applied FRS 101: Reduced Disclosure Framework to the financial statements for the year ended 30 November 2023.

The directors do not propose a dividend (2022: 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	(resigned 3 April 2023)
O Scott	
M Vergani	(resigned 27 October 2023)
G Hase	
P Fabricius	
E Dodd	(appointed 3 April 2023)

In accordance with the Company's current Articles of Association, O Scott retires by rotation and offers himself for re-election.

Financial Instruments Risks

Details of financial instruments risks are included in note 21 to the financial statements.

Directors' Interest

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

	As at 30 November 2023 Number of shares	As at 30 November 2022 Number of shares
T Crawford	**61,445**	28,112
M Vergani*	**–**	5,000
RD Price*	**–**	60,154
O Scott	**11,683,904**	11,143,729
G Hase	**2,500**	2,500
P Fabricius	**nil**	nil
E Dodd	**nil**	nil

*M Vergani and RD Price resigned before 30 November 2023, therefore number of shares not disclosed.

Mr O Scott's interest in shares is by virtue of his position as a partner in Kestrel Partners LLP.

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 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 was 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. The model is now one of communication by Business Unit leaders with support from the Executive Chair.

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 two years to 31 March 2026.

The Group therefore ended the year ended 30 November 2023 with a Net Cash position of £8.3m.

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 28 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

E Dodd
Director
25 March 2024

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 9 to 35 sets out the Board's strategy and business model.
2. Seek to understand and meet shareholder needs and expectations	Continued shareholder consultation is embedded within the Board's activities; the views of major shareholders are obtained through direct face-to-face contact and analysts' or brokers' briefings and through the corporate representation of Kestrel Partners on the Board itself. The Group's executive Directors also make presentations to institutional shareholders covering interim and full year results and investor presentations are broad 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. The Group re-evaluates its market strategy annually and ensures that strategy, technology, product and business development is market led and market informed 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 and protection of shareholder value.

QCA Code Principle	K3 Application
3. Take into account wider stakeholder and social responsibilities and their implications for long-term success	See Section 172 statement on pages 32 to 35.
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 Executive Chairman, the CFO and Senior Leadership Team. The principal business risks and the actions to mitigate the risks are included on pages 27 to 31. 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 two executive directors and three non-executive Directors. Biographical details of the Board are included on pages 36 to 37. The roles of the Chairman and Chief Executive were combined on 27 October 2023 as a result of the implementation of a new business unit focused management structure, with the Group's business unit heads reporting directly to the Board. These management changes create new reporting lines and devolve greater responsibility to the leadership teams within the Group's business units, which are separately managed and respectively address different market sectors. It reflects the Board's strategy to further simplify operations, more effectively address the opportunities within market sectors, and to drive shareholder value. 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 Executive Chairman's participation in the K3 LTIP, details of which are set out at page 49, but this is not regarded as compromising his independence.

QCA Code Principle	K3 Application

The Company currently has two independent non-executive directors (G Hase and P Fabricius), 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.

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 11 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 (11)	Remuneration (2)	Audit (2)	Nomination (2)
T Crawford	11	2*	2*	2*
E Dodd	7	n/a	n/a	n/a
O Scott	11	2	2	2
RD Price	3	n/a	n/a	n/a
M Vergani	9	n/a	n/a	n/a
G Hase	11	2	2	2
P Fabricius	10	2	2	2

*The Chairman participated in these meetings in a Non-Executive capacity prior to becoming Executive Chairman.

QCA Code Principle	K3 Application
	Board Committees The Board has established three standing sub-committees to assist in the discharge of corporate governance responsibilities. They are the nominations committee, remuneration committee and audit committee. The roles of the committees and their activities are available at https://www.k3btg.com/investor-centre/corporate-governance/. All three non-executive directors are members of each committee.
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 36 to 37. Recommendations for appointments to the Board are the responsibility of the Nominations Committee. The Directors also have access to the Company's Nominated Adviser, 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 examples of which were in April and October 2023 when Board changes were initiated. The normal annual review process, currently underway in March 2024, assists the board in identifying any structural, procedural or individual development needs by reference to clear review areas and topics.
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, raise any material issues relating to corporate culture and integrity and ethics, including any updates to or non-compliance with key internal ethics policies.

QCA Code Principle	K3 Application
	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.
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 Business Unit heads. 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. Shareholder relations are primarily managed by the Executive Chair 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. 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: http://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
25 March 2024

Remuneration Committee Report

Remuneration Committee Report

Oliver Scott is Chair of the Remuneration Committee. The other members of the committee are Gabrielle Hase and Pernille Fabricius. The Committee formally met once 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;
- employee bonus pot;
- executive director and senior leadership bonus awards; and
- review and consideration of senior leadership team 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 2023.

	Fees/ basic salary £	Taxable benefits £	Bonuses £	Compensation for loss of office Contractual £	Compensation for loss of office Settlement £	Pension contribution £	Year ended 30 November 2023 Total £	Year ended 30 November 2022 Total £
Executive Chairman								
T Crawford	140,000	–	–	–	–	–	**140,000**	125,000
Executive								
E Dodd*	133,966	797	–	–	–	5,896	**140,659**	–
M Vergani**	270,395	1,590	134,125	172,160	114,000	13,599	**705,869**	405,275
RD Price***	90,000	4,500	66,690	98,654	45,000	9,865	**341,709**	256,270
Non-Executive								
G Hase	40,000	–	–	–	–	–	**40,000**	39,167
O Scott	40,000	–	–	–	–	–	**40,000**	32,500
P Fabricius	40,000	–	–	–	–	–	**40,000**	14,086
JP Manley****	–	–	–	–	–	–	**–**	25,917
Aggregate emoluments	754,361	6,887	200,815	270,814	159,000	29,360	**1,421,237**	898,215

*E Dodd was appointed to the Board with effect from 3 April 2023.
**M Vergani retired from the Board with effect from 27 October 2023.
***RD Price retired from the Board with effect from 3 April 2023.
****JP Manley retired from the Board with effect from 19 May 2022.

Included within the fees/basic salary amount for JP Manley was £nil (2022: £14,250) 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 E Dodd. Pension contributions are capped at 5% of basic salary. There is no pension contribution or taxable benefits for the Executive Chairman.

Directors' Share Options

The Group's Long-Term Incentive Plan consists of two types of option award; Market Priced Options and Nominal Priced Options.

Following the transition to a Business Unit structure, the Remuneration Committee is placing lower emphasis on the Group's Long-Term Incentive Plan as a remuneration component for incentivising Executive Directors and other key senior staff.

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 nil (2022: 135,000) Market Priced Options to Mr Vergani and nil (2022: 85,000) Market Priced Options to Mr RD Price (as well as awards to other senior employees). These Market Price Options have an exercise price of nil (2022: 150p).

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, no Nominal Priced Options were granted to members of the Board.

Details of All Options Held by the Directors

Details of the options are as follows:

Name of Director	1 December 2022	Granted	Exercised	Lapsed	30 November 2023
T Crawford	350,000	–	–	–	**350,000**
RD Price	350,000	–	–	(350,000)	**–**
M Vergani	635,000	–	–	(635,000)	**–**
E Dodd	–	–	–	–	**–**

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.

The market price of the ordinary shares at 30 November 2023 was 113.0p and the range during the year was 129.0p to 105.0p.

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

Directors' Warrants

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 clients of Kestrel Partners LLP 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.

Audit Committee Report

Audit Committee Composition

The Audit Committee is chaired by Mrs P Fabricius. Membership included all the non-executive directors. The Executive Chair (previously 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 2023 £000	Year ended 30 November 2022 £000
Audit services		
• Audit of Group	**251**	210
• Audit of Subsidiaries	**23**	20
Further assurance services:		
Other services	**49**	56
	323	286

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 27 to 31), 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 2023 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 2023 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cashflows, the consolidated statement of changes in equity, the company balance sheet, the company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group's 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's 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 the following:

- We reviewed and challenged the going concern paper prepared by management (and approved by the Directors) by assessing the numerical inputs, accuracy of the calculations and the reasonableness of the forecasts. These procedures included performing inquiries with the management and analytical review of the forecasted numbers.
- We evaluated the appropriateness of the assumptions utilised by management in assessing the Group and the Parent company's ability to continue as a going concern, by comparing forecasts to actual results achieved in prior periods, and also the actual results post year end. The key assumptions included assessing expected sales growth and headroom of available cash.
- We reviewed the forecasts prepared to 31 March 2025, including the impact of stress tests, to understand the available headroom. We have challenged the assumptions within the stress test scenarios.

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	81% (2022: 72%) of Group loss before tax 81% (2022: 83%) of Group revenue 85% (2022: 86%) of Group total assets		
Key audit matters		2023	2022
	Revenue recognition	✓	✓
	Carrying value of Intangibles and Goodwill	✓	✓
Materiality	*Group financial statements as a whole* £437,000 (2022: £474,000) based on 1% (2022: 1%) of revenue (rounded).		

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 in the Group's consolidated financial statements, and to ensure we had adequate coverage of significant accounts and transactions in the financial statements, we considered the Parent Company, K3 Business Solutions BV, Nexsys Solutions Limited and K3 Software UK Limited to be the significant components of the Group. In addition, we scoped in K3 Software Solutions BV in order to achieve a higher audit coverage. The Group audit team performed full scope audit on these components.

We have also performed specific procedures to cover the material financial statement line items within K3 Business Technologies Ireland Limited and K3 BTG Limited.

For other non-significant components, the Group audit team performed analytical review procedures to check the reasonableness of any movements noted within these components.

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. Revenue recognition is based on the identification of performance obligations within each contract, and allocating the contract price to each performance obligation in accordance with the requirement of IFRS 15. Further, judgement is applied in assessing the accuracy of the timing of revenue recognition for each performance obligation. Additionally, during the year, management changed the accounting policy for the recognition of revenue from K3 Fashion and Pebblestone contracts in order to correct an error noted in the previous accounting policy. The change in policy resulted in the recognition of this revenue over the period of the contract, rather than recognising revenue at the date of invoicing. Since this change in accounting policy is to correct an error, disclosure and restatement of prior period financial statements is required to show the impact of change in prior periods.	• We obtained and assessed management's memo regarding how the Group has continued to implement IFRS 15 in the year. We considered whether the accounting treatment was in accordance with the requirements of IFRS 15 for each revenue stream. • We tested a sample of revenue contracts, including all significant new contracts across the Group, to assess whether revenue had been recognised in accordance with the requirements of IFRS 15. This included reviewing the identification of performance obligations, and allocation of transaction price to these performance obligations. We also checked as part of our testing, whether the revenue has been recognised at the correct time, based on the delivery of related performance obligations. • For a sample of contracts, we checked whether the entity has fulfilled the performance obligation and earned the right to consideration by reviewing supporting evidence including licence delivery details, timecards, as well as cash receipt for services. • 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.

	Key Audit Matter	How the scope of our audit addressed the key audit matter
	In view of the judgements required to be made by management, we have determined that revenue recognition was one of the most significant assessed risk of material misstatements that we identified and therefore determined to be a key audit matter.	• 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. • For the change in accounting policy for K3 Fashion and Pebblestone contracts, we have reviewed management's paper on the accounting policy and the workings for the restatement calculations. We also reviewed management's assessment regarding whether the accounting policy for other products/contracts are still appropriate. Since the change in accounting policy required a restatement, we have also reviewed the disclosures related to this restatement. **Key observations:** We have not identified any indicator that would suggest that the judgements applied by management in respect of revenue recognition are unreasonable.

Key Audit Matter		How the scope of our audit addressed the key audit matter
Carrying value of Intangibles and Goodwill Note 1, 15 and 16	Management are required to review the carrying value of goodwill and intangibles and test for impairment. Management exercise significant judgement in determining the underlying assumptions used in the impairment review; the assumptions include the discount rate, long term growth rate 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 material impairment charges recognised in recent periods, against goodwill and intangibles.	• We challenged the calculations prepared by management in the impairment review, by checking the reasonableness and accuracy of the key inputs used in the impairment model, including the reasonableness of future cashflows and appropriateness of discount rate. • With the assistance from our internal valuation expert, we reviewed the appropriateness of the discount rate and long term growth rate used in the value in use calculations. • 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 compared actual results for year ended 30 November 2023 to the forecast results for FY 2024 and beyond, in order to assess the reasonableness of management's prepared forecasts. • We have performed sensitivity analysis for all CGUs on the discount rate and cashflow forecast. **Key observations:** We consider the assumptions made by management in assessing the carrying value of intangibles and goodwill to be appropriate.

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	
	2023 £	2022 £	2023 £	2022 £
Materiality	437,000	474,000	386,000	559,000
Basis for determining materiality	1% of revenue.	1% of revenue.	1% of total assets of the Company.	1% of total assets of the Company.
Rationale for the benchmark applied	Revenue is the most stable and relevant measure for the users of the financial statements. It is also a principal consideration for the users of financial statements in assessing the Group's performance.	Revenue is the most stable and relevant measure for the users of the financial statements. It is also a principal consideration for the users of financial statements in assessing the Group's performance.	Total Assets is considered to be the most relevant measure for the Company, as it is mainly acting as a holding company.	Total Assets is considered to be the most relevant measure for the Company, as it is mainly acting as a holding company.

	Group Financial Statements		Parent Company Financial Statements	
	2023 £	2022 £	2023 £	2022 £
Performance materiality	305,900	331,000	270,000	391,300
Basis for determining performance materiality	Performance materiality was set at 70% of materiality.	Performance materiality was set at 70% of materiality.	Performance materiality was set at 70% of materiality.	Performance materiality was set at 70% of materiality.
Rationale for the percentage applied for performance materiality	The level of performance materiality applied was set after having considered a number of factors including our assessment of the Group's overall control environment and the expected total value of known and likely misstatements and the level of transactions in the year.	The level of performance materiality applied was set after having considered a number of factors including our assessment of the Group's overall control environment and the expected total value of known and likely misstatements and the level of transactions in the year.	The level of performance materiality applied was set after having considered a number of factors including our assessment of the Group's overall control environment and the expected total value of known and likely misstatements and the level of transactions in the year.	The level of performance materiality applied was set after having considered a number of factors including our assessment of the Group's overall control environment and the expected total value of known and likely misstatements and the level of transactions in the year.

Component materiality

For the purposes of our Group audit opinion, we set materiality for each significant component of the Group, apart from the Parent Company whose materiality is set out above, based on a percentage of between 20% and 85% (2022: 9% and 58%) of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £87,000 to £372,000 (2022: £43,000 to £275,000). In the audit of each component, we further applied performance materiality levels of 70% (2022: 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 £13,000 (2022:£14,200). 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 and Financial Statements other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. 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 the Parent Company's 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 the 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:

Non-compliance with laws and regulations

Based on:

- Our understanding of the Group and the industry in which it operates;
- Discussion with management and those charged with governance; and
- Obtaining and understanding of the Group's policies and procedures regarding compliance with laws and regulations;

we considered the significant laws and regulations to be the applicable accounting framework, UK tax legislation, and AIM Listing Rules.

The Group is also subject to laws and regulations where the consequence of non-compliance could have a material effect on the amount or disclosures in the financial statements, for example through the imposition of fines or litigations. We identified such laws and regulations to be the EU General Data Protection Regulation (GDPR).

Our procedures in respect of the above included:

- Review of minutes of meeting of those charged with governance for any instances of non-compliance with laws and regulations;
- Review of financial statement disclosures and agreeing to supporting documentation;
- Involvement of tax specialists in the audit; and
- Review of legal expenditure accounts to understand the nature of expenditure incurred.

Fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Enquiry with management and those charged with governance regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Group's policies and procedures relating to:
  - Detecting and responding to the risks of fraud; and
  - Internal controls established to mitigate risks related to fraud.
- Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud;
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud; and
- Considering remuneration incentive schemes and performance targets and the related financial statement areas impacted by these.

Based on our risk assessment, we considered the areas most susceptible to fraud to be posting inappropriate journal entries, management bias in accounting estimates and inappropriate revenue recognition.

Our procedures in respect of the above included:

- Testing a sample of journal entries throughout the year, which met a defined risk criteria, by agreeing to supporting documentation;
- Testing the reasonableness of assumptions and judgements made by management in their significant accounting estimates, such as trade receivables impairment provisioning and impairment of assets including goodwill and intangibles; and
- Agreement of the financial statement disclosures to underlying supporting documentation.

Performing procedures on Revenue Recognition as defined against this KAM earlier in our report.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities 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.

Daniel Wilbourn (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Manchester, UK
26 March 2024

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 2023

	Notes	Year ended 30 November 2023 £'000	Restated Year ended 30 November 2022 £'000
Revenue	2	**43,779**	47,252
Cost of sales		**(16,639)**	(19,382)
Gross profit		**27,140**	27,870
Adjusted administrative expenses		**(25,523)**	(28,367)
Impairment losses on financial assets	3	**(354)**	(102)
Adjusted operating profit/(loss)	30	**1,263**	(599)
Exceptional impairment	3	**(2,070)**	(1,603)
Exceptional reorganisation and acquisition costs	3	**(2,129)**	(595)
Exceptional acquisition/disposal related credit/(costs)	3	**406**	(98)
Share-based payment credit/(charge)	10	**1,126**	(855)
Loss from operations	3	**(1,404)**	(3,750)
Finance expense	6	**(417)**	(338)
Loss before taxation from continuing operations		**(1,821)**	(4,088)
Tax expense	7	**(564)**	(208)
Loss after taxation from continuing operations		**(2,385)**	(4,296)
Profit after taxation from discontinued operations	12	**–**	108
Loss for the year		**(2,385)**	(4,188)

All the (loss)/profit for the year is attributable to equity shareholders of the parent.

Loss per share

	Notes	Year ended 30 November 2023 £'000	Restated Year ended 30 November 2022 £'000
Basic and diluted	9	**(5.4)p**	(9.5)p
Basic and undiluted from Continuing operations	9	**(5.4)p**	(9.8)p

The notes on pages 70 to 123 form part of these financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 30 November 2023

	Year ended 30 November 2023 £'000	Restated Year ended 30 November 2022 £'000
Loss for the year	**(2,385)**	(4,188)
Other comprehensive income		
Exchange differences on translation of foreign operations	**76**	69
Other comprehensive income	**76**	69
Total comprehensive expense for the year	**(2,309)**	(4,119)

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/(expense) had a tax impact.

The notes on pages 70 to 123 form part of these financial statements.

Consolidated Statement of Financial Position

as at 30 November 2023

Registered number: 02641001

	Notes	2023 £'000	Restated 2022 £'000	Restated 2021 £'000
ASSETS				
Non-current assets				
Property, plant and equipment	13	**1,323**	1,766	1,551
Right-of-use assets	14	**1,025**	801	1,709
Goodwill	15	**24,911**	25,022	24,772
Other intangible assets	15	**1,533**	3,394	6,648
Deferred tax assets	23	**77**	1,551	1,636
Total non-current assets		**28,869**	32,534	36,316
Current assets				
Stock		**275**	484	467
Trade and other receivables	17	**7,555**	10,764	8,100
Forward currency contracts	18	**–**	110	–
Cash and short-term deposits		**8,304**	7,113	9,146
Total current assets		**16,135**	18,471	17,713
Total assets		**45,004**	51,005	54,029
LIABILITIES				
Non-current liabilities				
Lease liabilities	24	**37**	79	135
Provisions	22	**105**	179	1,129
Deferred tax liabilities	23	**91**	1,119	1,288
Total non-current liabilities		**233**	1,377	2,552
Current liabilities				
Trade and other payables	19	**15,946**	16,882	14,456
Current tax liabilities		**285**	372	509
Lease liabilities	24	**947**	802	1,623
Borrowings	20	**12**	50	113
Provisions	22	**305**	968	854
Total current liabilities		**17,495**	19,074	17,555
Total liabilities		**17,728**	20,451	20,107
EQUITY				
Share capital	25	**11,183**	11,183	11,183
Share premium account		**31,451**	31,451	31,451
Other reserves		**11,151**	11,151	11,151
Translation reserve		**1,683**	1,607	1,538
Accumulated losses		**(28,192)**	(24,838)	(21,401)
Total equity attributable to equity holders of the parent		**27,276**	30,554	33,922
Total equity and liabilities		**45,004**	51,005	54,029

The financial statements on pages 65 to 123 were approved and authorised for issue by the Board of Directors on 25 March 2024 and were signed on its behalf by:

E Dodd
Director

The notes on pages 70 to 123 form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 30 November 2023

	Notes	Year ended 30 November 2023 £'000	Restated Year ended 30 November 2022 £'000
Cash flows from operating activities			
Loss for the period		**(2,385)**	(4,188)
Adjustments for:			
Finance expense		**417**	336
Tax expense	7	**564**	20
Depreciation of property, plant and equipment	13	**552**	636
Impairment of property, plant and equipment	13	**464**	–
Depreciation of right-of-use assets	14	**591**	981
Amortisation of intangible assets and development expenditure	15	**1,091**	3,767
Impairment of intangible assets (including goodwill)	15	**1,606**	1,603
(Gain)/loss on sale of property, plant and equipment		**11**	10
Share-based payments (credit)/charge	10	**(969)**	751
Net cash flow from provisions		**(740)**	(717)
Net cash flow from stock		**208**	17
Net cash flow from trade and other receivables		**3,319**	(2,774)
Net cash flow from trade and other payables		**(1,104)**	2,380
Cash generated from operations		**3,625**	2,822
Income taxes paid		**(82)**	(395)
Net cash from operating activities		**3,543**	2,427
Cash flows from investing activities			
Development expenditure capitalised	15	**(734)**	(1,725)
Acquisition of a subsidiary, net of cash acquired	11	**(86)**	(178)
Purchase of property, plant and equipment	13	**(588)**	(845)
Net cash used in investing activities		**(1,408)**	(2,748)
Cash flows from financing activities			
Proceeds from loans and borrowings		**3,500**	3,000
Repayment of loans and borrowings		**(3,536)**	(3,111)
Repayment of lease liabilities		**(708)**	(1,073)
Interest paid on lease liabilities		**(126)**	(132)
Finance expense paid		**(163)**	(150)
Net cash from financing activities		**(1,033)**	(1,466)
Net change in cash and cash equivalents		**1,102**	(1,787)
Cash and cash equivalents at start of year	29	**7,113**	9,033
Exchange gain/(losses) on cash and cash equivalents		**89**	(133)
Cash and cash equivalents at end of year	29	**8,304**	7,113

The notes on pages 70 to 123 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 30 November 2023

	Share capital £'000	Share premium £'000	Other reserves £'000	Translation reserve £'000	Restated Accumulated losses £'000	Restated Total equity £'000
At 30 November 2021	**11,183**	**31,451**	**11,151**	**1,538**	**(19,522)**	**35,801**
Prior period restatement	**–**	**–**	**–**	**–**	**(1,879)**	**(1,879)**
At 30 November 2021 – Restated	**11,183**	**31,451**	**11,151**	**1,538**	**(21,40)**	**33,922**
Changes in equity for year ended 30 November 2022						
Loss for the year	–	–	–	–	(4,188)	**(4,188)**
Other comprehensive income for the year	–	–	–	69	–	**69**
Total comprehensive income/(expense)	–	–	–	69	(4,188)	**(4,119)**
Share-based payment	–	–	–	–	751	**751**
At 30 November 2022 – Restated	**11,183**	**31,451**	**11,151**	**1,607**	**(24,838)**	**30,554**
Changes in equity for year ended 30 November 2023						
Loss for the year	–	–	–	–	(2,385)	**(2,385)**
Other comprehensive income for the year	–	–	–	76	–	**76**
Total comprehensive income/(expense)	–	–	–	76	(2,385)	**(2,309)**
Share-based payment	–	–	–	–	(969)	**(969)**
At 30 November 2023	**11,183**	**31,451**	**11,151**	**1,683**	**(28,192)**	**27,276**

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 (2022: 26,809) 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 2023 was £30,294 (2022: £34,181).

The notes on pages 70 to 123 form part of these financial statements.

Notes forming part of the Financial Statements

for the year ended 30 November 2023

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") ("UK Adopted internal accounting standards"). The company financial statements have been prepared in accordance with Financial Reporting Standard 101, Reduced Disclosure Framework ("FRS101"); these are presented on pages 124 to 132.

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 except for change in revenue recognition policy relating certain contracts (see note 32). Also policies have been consistently applied 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 two years to 31 March 2026, on a simplified standard bank terms basis with facility level consistent with 2023.

The capital structure of the Group has materially changed in the last three years 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 2023 with a Net Cash position of £8.3m (2022: £7.1m).

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 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.

1. Accounting policies for the group financial statements continued

Adoption of new and revised standards

The accounting policies adopted are consistent with those of the previous financial year as disclosed in the 2022 Annual Report and Accounts except that the Group changed its accounting policies relating to revenue recognition from certain contracts. See note 31 for detail.

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

The following amendments are effective for the period beginning after 1 December 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41); and
- References to Conceptual Framework (Amendments to IFRS 3).

New accounting standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early.

The following amendments are effective for the period beginning after 1 December 2023:

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).

The following amendments are effective for the period beginning after 1 December 2024:

- IFRS 16 Leases (Amendment – Liability in a Sale and Leaseback)
- IAS 1 Presentation of Financial Statements (Amendment – Classification of Liabilities as Current or Non-current)
- IAS 1 Presentation of Financial Statements (Amendment – Non-current Liabilities with Covenants)

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.

Notes forming part of the Financial Statements continued

for the year ended 30 November 2023

1. Accounting policies for the group financial statements continued

Basis of consolidation continued

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

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

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

Business combinations

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

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

1. Accounting policies for the group financial statements continued

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 2023

1. Accounting policies for the group financial statements continued

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

K3 bolt on own software IP is recognised over time. See note 32 for more details.

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 license 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.

1. Accounting policies for the group financial statements continued

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

K3 bolt on own 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 2023

1. Accounting policies for the group financial statements continued

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.

1. Accounting policies for the group financial statements continued

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the group 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 2023

1. Accounting policies for the group financial statements continued

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.

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

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

1. Accounting policies for the group financial statements continued

Internally generated intangible assets (research and development costs)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from the group's software development is recognised only if all 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. Management estimates the amortisation of useful economic life is 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 2023

1. Accounting policies for the group financial statements continued

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.

1. Accounting policies for the group financial statements continued

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 2023

1. Accounting policies for the group financial statements continued

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.

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.

1. Accounting policies for the group financial statements continued

Provisions continued

Restoration provisions

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

Employee share ownership plans

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

Share-based payments

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

The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the group's estimate of the number of shares that will eventually vest. Non-market vesting conditions are 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.

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.

Notes forming part of the Financial Statements continued

for the year ended 30 November 2023

1. Accounting policies for the group financial statements continued

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.

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.

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. 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.

1. Accounting policies for the group financial statements continued

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.

2. Revenue

	2023 £'000	Restated 2022 £'000
The group's revenue comprises:		
Software licence revenue	**4,652**	5,363
Services revenue*	**15,868**	18,115
Maintenance & support**	**22,606**	22,816
Hardware and other revenue	**653**	958
Revenue	**43,779**	47,252

*from installation, integration and software development services.

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

Notes forming part of the Financial Statements continued

for the year ended 30 November 2023

3. Loss from operations

	Notes	2023 £'000	2022 £'000
This has been arrived at after charging/(crediting):			
Staff costs	4	**22,146**	23,673
Depreciation of property, plant and equipment	13	**552**	636
(Gain)/loss on disposal of fixed assets	13	**(11)**	10
Depreciation of right-of-use assets	14	**591**	981
Amortisation of development costs	16	**1,091**	3,830
Exceptional impairment of goodwill, intangibles and property, plant and equipment*	13/15	**2,070**	1,603
Exceptional reorganisation costs**		**2,129**	595
Exceptional acquisition/disposal related costs/(credit)		**(406)**	98
Impairment losses on financial assets		**354**	102
Audit fees:			
– Audit services – Audit of Group		**251**	210
– Audit services – Audit of Subsidiaries		**23**	20
– Non-audit services		**49**	56

* The exceptional impairments arise from the value in use assessment as set out in notes 13 and 15.

** 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 £2.1 million (2022: £0.6 million).

4. Staff costs

	2023 £'000	2022 £'000
Staff costs (including directors) comprise:		
Wages and salaries	**18,641**	20,039
Short-term non-monetary benefits	**65**	81
Defined contribution pension cost	**1,136**	1,174
Employers' national insurance contributions and similar taxes	**2,304**	2,379
	22,146	23,673

In addition Share-based payments were credited of £1.1 million (2022: charged of £0.8 million).

Of the above staff costs £0.7 million (2022: £1.7 million) has been capitalised within development costs (see note 15).

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

	2023 Number	2022 Number
Consultants and programmers	**239**	255
Sales and distribution	**35**	41
Administration	**48**	51
	322	347

Notes forming part of the Financial Statements continued

for the year ended 30 November 2023

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 36 to 37 and the divisional directors.

	2023 £'000	2022 £'000
Key management personnel remuneration consists of:		
Remuneration (includes contractual and settlement compensation for loss of office)	**1,703**	1,248
Company contributions to defined contribution pension schemes	**43**	48
Employers' national insurance contributions and similar taxes	**204**	165
	1,950	1,461

Share-based payment credit relating to key management personnel remuneration was £0.7 million (2022: expense of £0.7 million).

Included in the totals above is directors' remuneration:

	2023 £'000	2022 £'000
Directors' remuneration consists of:		
Emoluments (includes contractual and settlement compensation for loss of office)	**1,341**	866
Contributions to personal pension schemes	**29**	32
Total per remuneration report (page 47)	**1,370**	898
Employers' national insurance contributions and similar taxes	**157**	113
	1,527	1,011

Share-based payment credit relating to director remuneration was £0.6 million (2022: expense of £0.5 million).

	2023 £'000	2022 £'000
Remuneration in respect of the highest paid director:		
Aggregate emoluments (includes contractual and settlement compensation for loss of office)	**674**	391
Pension contributions	**14**	14
	688	405

There were 3 directors in defined contribution pension schemes (2022: 3). Note that the directors' emoluments include amounts attributed to benefits-in-kind on which directors are assessed for tax purposes. This may differ to the cost to the group of providing those benefits included in this note.

5. Segment information

The 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 ('K3 Products') and Third-party reseller activities ('Third-party Solutions') across revenue and gross margin. Global Accounts and Third Party Products continue to be merged 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 9 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 operating profit/(loss). The segment results for the year ended 30 November 2023 and for the year ended 30 November 2022, reconciled to loss for the year.

		Year ended 30 November 2023			
	Notes	K3 Products £'000	Third-party Solutions £'000	Central Costs £'000	Total £'000
External revenue		**13,085**	**30,694**	**–**	**43,779**
Cost of sales		(2,728)	(13,911)	–	**(16,639)**
Gross profit		**10,357**	**16,783**	**–**	**27,140**
Gross margin		79.15%	54.68%	–	**61.99%**
Adjusted administrative expenses		(15,187)	(8,475)	(2,215)	**(25,877)**
Adjusted operating profit/(loss)		**(4,830)**	**8,308**	**(2,215)**	**1,263**
Exceptional impairment		–	–	(2,070)	**(2,070)**
Exceptional reorganisation costs		–	–	(2,129)	**(2,129)**
Acquisition/disposal credit/(costs)		–	–	406	**406**
Share-based payment credit/(charge)		–	–	1,126	**1,126**
(Loss)/profit from operations		**(4,830)**	**8,308**	**(4,882)**	**(1,404)**
Finance expense		–	–	(417)	**(417)**
(Loss)/profit before tax and discontinued operations		**(4,830)**	**8,308**	**(5,299)**	**(1,821)**
Tax expense		–	–	(564)	**(564)**
Profit/(loss) from discontinued operations	12	–	–	–	**–**
(Loss)/profit for the year		**(4,830)**	**8,308**	**(5,863)**	**(2,385)**

Notes forming part of the Financial Statements continued

for the year ended 30 November 2023

5. Segment information continued

		Year ended 30 November 2022 (restated*)			
	Notes	K3 Products £'000	Third-party Solutions £'000	Central Costs £'000	Total £'000
External revenue		12,588	34,664	–	47,252
Cost of sales		(2,792)	(16,590)	–	(19,382)
Gross profit		9,796	18,074	–	27,870
Gross margin		77.81%	52.14%	–	58.98%
Adjusted administrative expenses		(16,705)	(10,004)	(1,760)	(28,469)
Adjusted operating profit/(loss)		(6,909)	8,070	(1,760)	(599)
Exceptional impairment		–	–	(1,603)	(1,603)
Exceptional reorganisation costs		–	–	(595)	(595)
Acquisition/disposal credit/(costs)		–	–	(98)	(98)
Share-based payment credit/(charge)		–	–	(855)	(855)
(Loss)/profit from operations		(6,909)	8,070	(4,911)	(3,750)
Finance expense		–	–	(338)	(338)
(Loss)/profit before tax and discontinued operations		(6,909)	8,070	(5,249)	(4,088)
Tax expense		–	–	(208)	(208)
Profit/(loss) from discontinued operations	12	–	–	108	108
(Loss)/profit for the year		(6,909)	8,070	(5,349)	(4,188)

**FY2022 restated.*

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. 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 for42% (2022: 46%) of external Group revenue.

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 2023 £'000	Restated Year ended 30 November 2022 £'000	2023 £'000	2022 £'000
United Kingdom	**16,279**	16,323	**21,911**	22,461
Netherlands	**5,762**	6,203	**5,913**	5,749
Ireland	**110**	631	**–**	1,650
Rest of Europe	**8,223**	7,166	**974**	2,323
Middle East	**2,142**	1,807	**–**	–
Asia	**6,200**	8,882	**68**	181
USA	**221**	820	**3**	3
Rest of World	**4,842**	5,420	**–**	–
	43,779	47,252	**28,869**	32,367
% of non-UK revenue	**63%**	65%		

External revenue by business unit geography

	External revenue	
	Year ended 30 November 2023 £'000	Restated Year ended 30 November 2022 £'000
United Kingdom	**16,820**	16,883
Netherlands	**23,657**	27,255
Ireland	**727**	316
Rest of Europe	**2,575**	2,770
Rest of World	**-**	28
	43,779	47,252
% of non-UK revenue	**62%**	65%

Notes forming part of the Financial Statements continued

for the year ended 30 November 2023

5. Segment information continued

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

	2023 £'000
At 1 December 2022 – as previously stated	**5,512**
Amount restated due to change in accounting policy	**(2,785)**
At 1 December 2022 – restated	**2,727**
Transfers in the period from contract assets to trade receivables	**(2,727)**
Excess of revenue recognised over cash (or rights to cash) being recognised during the period	**1,286**
At 30 November 2023	**1,286**

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

	2023 £'000
At 1 December 2022	**5,312**
Amounts included in contract liabilities that was recognised as revenue during the period	**(5,312)**
Cash received in advance of performance and not recognised as revenue during the period	**7,454**
At 30 November 2023	**7,454**

6. Finance expense

	2023 £'000	2022 £'000
Finance expense		
Bank borrowings	**128**	82
Interest expense on lease liabilities	**126**	132
Other finance costs	**163**	124
	417	338

7. Tax expense/(charge)

	2023 £'000	Restated 2022 £'000
Current tax expense/(credit)		
Income tax of overseas operations on profits/(losses) for the period	**597**	203
Adjustment in respect of prior periods	**(479)**	(100)
Total current tax expense	**118**	103
Deferred tax (credit)/expense		
Origination and reversal of temporary differences	**180**	(61)
Effect of changes in tax rate	**–**	10
Adjustments in respect of prior periods	**266**	(32)
Total deferred tax expense/(credit)	**446**	(83)
Total tax expense in the current year	**564**	20
Income tax expense attributable to continuing operations	**564**	208
Income tax (credit) attributable to discontinued operations	**–**	(188)
	564	20

Deferred tax balances as at 30 November 2023 have been measured at 25% (FY2022: 25%).

Notes forming part of the Financial Statements continued

for the year ended 30 November 2023

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:

	2023 £'000	%	2022 £'000	%
Loss before taxation from continuing operations	**(1,821)**		(4,088)	
Loss before taxation from discontinued operations (note 12)	**–**		(80)	
Loss before tax	**(1,821)**		(4,168)	
Expected tax charge/(credit) based on the standard rate of corporation tax	**(419)**	**23.0**	(792)	19.0
Effects of:				
Items not deductible for tax purposes	**(64)**		439	
Income not taxable	**(369)**		(496)	
Adjustment to tax charge in respect of prior periods	**647**		(132)	
Movements in deferred tax not recognised	**531**		1,149	
Differences between overseas tax rates	**125**		(136)	
Effect of deferred tax rate difference	**83**		(12)	
Total tax expense in current period	**564**	**34.6**	20	48.7

Deferred tax recognised directly in equity for FY2023 was £nil (2022: £nil). Current tax recognised in equity for FY2023 was £nil (2022: £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 2023 will be proposed (2022: 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:

	2023 Number of shares	2022 Number of shares
Denominator		
Weighted average number of shares used in basic and diluted EPS	**44,090,074**	44,090,074

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 2023 £'000	Basic and diluted 2022 £'000
Loss after tax from continuing operations	**(2,385)**	(4,296)
Profit after taxation from discontinued operations	**–**	108
(Loss)/profit attributable to ordinary equity holders of the parent for basic and diluted earnings per share	**(2,385)**	(4,188)

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 2023 £'000	Basic and diluted before other items 2022 £'000
Loss after tax from continuing operations	**(2,385)**	(4,296)
Add back other items:		
Exceptional reorganisation costs	**2,129**	595
Exceptional impairment costs	**2,070**	1,603
Share-based payment (credit)/charge	**(1,126)**	855
Acquisition/disposal related (credit)/costs	**(406)**	98
Tax credit/(charge) related to other items	**175**	(1,015)
Profit/(loss) attributable to ordinary equity holders of the parent for basic and diluted earnings from continuing operations before other items	**457**	(2,177)

	2023 Pence	2022 Pence
Profit/(loss) per share		
Basic and diluted earnings/(loss) per share	**(5.4)**	(9.5)
Basic and diluted earnings/(loss) per share from continuing operations	**(5.4)**	(9.8)
Basic and diluted earnings/(loss) per share from discontinued operations	**–**	(0.2)
Adjusted earnings per share		
Basic and diluted earnings/(loss) per share from continuing operations before other items	**1.0**	(4.9)

Notes forming part of the Financial Statements continued

for the year ended 30 November 2023

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 nil (2022: 500,000) Market Priced Options with an exercise price of nil (2022: 150p) and nil (2022: 80,000) Market Priced Options with an exercise price of nil (2022: 204p) to certain Persons Discharging Managerial Responsibilities ("PDMRs") and employees of the Group. Also, nil (2022: 120,000) Market Priced Options lapsed without being exercised, leaving an aggregate of 70,000 (2022: 660,000) Market Priced Options in issue at the end of the financial year.

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.

During the financial year, nil (2022: 350,000) Nominal Priced Options were granted and nil (2022: 850,000) lapsed without being exercised, leaving an aggregate of 437,500 (2022: 1,675,000) Nominal Priced Options in issue at the end of the financial year.

10. Share-based payments continued

SAYE

As at 30 November 2023, all options granted under the Group's Save As You Earn ("SAYE") scheme for employees had lapsed without being exercised.

	2023		2022	
	Weighted average exercise price Pence	Options Number	Weighted average exercise price Pence	Options Number
Outstanding at beginning of the year	**64.0**	**2,335,000**	40.1	2,375,000
Granted during the year	**–**	**–**	107.6	930,000
Lapsed during the year	**70.1**	**(1,827,500)**	47.1	(970,000)
Outstanding at the end of the year	**42.2**	**507,500**	64.0	2,335,000

Of the above share options outstanding at the end of the year nil (2022: nil) are exercisable at 30 November 2023. No options had vested or were exercisable at the end of either period. The options outstanding at 30 November 2023 had a weighted average price of LTIP:25p, Market Priced Options:204p, Market Priced Options:150p, (2022: LTIP:25p, Market Priced Options:204p, Market Priced Options:150p) and their weighted average contractual life was 5.64 years (2022: 6.64 years).

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

	2023 £'000	2022 £'000
Equity-settled schemes	**(1,126)**	855

The credit resulted from lapses of share options.

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 25).

11. Update on acquisitions

On 27 January 2022, the Group acquired 100 per cent of the voting shares of ViJi, for an initial consideration of €0.25 million and paid deferred consideration of €0.1 million, in January 2023. The contingent consideration of €0.7 million, dependent upon the achievement of agreed performance criteria is now not expected to become payable.

Notes forming part of the Financial Statements continued

for the year ended 30 November 2023

12. Discontinued operations

On the 20 September 2021, the Group disposed of the customers and employees of its Sage.

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

	2023 £'000	2022 £'000
External revenue	–	(50)
Cost of sales	–	(1)
Gross profit	–	(51)
Administrative expenses	–	(31)
Impairment losses on financial assets	–	–
Profit from operations	–	(82)
Profit on disposal	–	–
Finance (expense)/credit	–	2
Loss before taxation from discontinued operations	–	(80)
Tax credit	–	188
Loss for the year from discontinued operations	–	108

	2023 Pence	2022 Pence
Basic and diluted profit per share from discontinued operations	–	0.2

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

	2023 £'000	2022 £'000
Operating	–	(67)
Investing	–	–
Financing	–	2
Net cash inflow/(outflow)	–	(65)

13. Property, plant and equipment

	Long leasehold land and buildings £'000	Leasehold improvements £'000	Plant, fixtures and equipment £'000	Total £'000
Cost				
At 30 November 2021	750	47	5,599	6,396
Additions	–	–	845	845
Disposals	–	–	(139)	(139)
Effect of movements in foreign exchange rate	–	–	49	49
At 30 November 2022	750	47	6,354	7,151
Additions	–	–	588	588
Disposals	–	–	(49)	(49)
Effect of movements in foreign exchange rate	–	–	(14)	(14)
At 30 November 2023	**750**	**47**	**6,879**	**7,676**
Accumulated depreciation				
At 30 November 2021	147	47	4,651	4,845
Depreciation charge	10	–	626	636
Disposals	–	–	(130)	(130)
Effect of movements in foreign exchange rate	–	–	34	34
At 30 November 2022	157	47	5,181	5,385
Depreciation charge	10	–	542	552
Disposals	–	–	(39)	(39)
Impairment	–	–	464	464
Effect of movements in foreign exchange rate	–	–	(9)	(9)
At 30 November 2023	**167**	**47**	**6,139**	**6,353**
Net book value				
At 30 November 2021	603	–	948	1,551
At 30 November 2022	593	–	1,173	1,766
At 30 November 2023	**583**	**–**	**740**	**1,323**

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

The impairment of £0.5 million relates to impairment of Unity project. The project was implemented with a view to delivering group wide efficiencies. However, in FY23, a decision was made to not use this model, and therefore the investment in Unity project was not considered recoverable, hence the impairment recorded.

Notes forming part of the Financial Statements continued

for the year ended 30 November 2023

14. Right-of-use assets

	Buildings £'000	Equipment and motor vehicles £'000	Total £'000
Cost			
At 30 November 2021	3,250	2,038	5,288
Additions	103	130	233
Disposals	(636)	(21)	(657)
Effect of movements in foreign exchange rate	2	9	11
At 30 November 2022	2,719	2,156	4,875
Additions	825	–	825
Disposals	–	(129)	(129)
Effect of movements in foreign exchange rate	–	3	3
At 30 November 2023	**3,544**	**2,030**	**5,574**
Accumulated depreciation			
At 30 November 2021	2,231	1,348	3,579
Depreciation charge	634	347	981
Disposals	(465)	(21)	(486)
Effect of movements in foreign exchange rate	–	–	–
At 30 November 2022	2,400	1,674	4,074
Depreciation charge	361	230	591
Disposals	–	(113)	(113)
Effect of movements in foreign exchange rate	–	(3)	(3)
At 30 November 2023	**2,761**	**1,788**	**4,549**
Net book value			
At 30 November 2022	319	482	801
At 30 November 2023	**783**	**242**	**1,025**

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

	2023 £'000	2022 £'000
Depreciation expense on right-of-use assets	**591**	981
Interest expense on lease liabilities	**126**	132

15. 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 2021	33,698	24,996	19,040	10,646	3,951	92,331
Additions	–	1,729	–	–	–	1,729
Relating to an acquisition of subsidiary	102	376	–	–	–	478
Effect of movements in foreign exchange rate	248	347	–	–	–	595
At 30 November 2022	34,048	27,448	19,040	10,646	3,951	95,133
Additions	–	734	–	–	–	734
Disposal	–	(122)	–	–	–	(122)
Effect of movements in foreign exchange rate	(10)	(15)	–	–	–	(25)
At 30 November 2023	**34,038**	**28,045**	**19,040**	**10,646**	**3,951**	**95,720**
Accumulated amortisation						
At 30 November 2021	8,926	18,348	19,040	10,646	3,951	60,911
Amortisation charge	–	3,767	–	–	–	3,767
Impairment	–	1,603	–	–	–	1,603
Effect of movements in foreign exchange rate	100	336	–	–	–	436
At 30 November 2022	9,026	24,054	19,040	10,646	3,951	66,717
Amortisation charge	–	1,091	–	–	–	1,091
Disposal	–	(120)	–	–	–	(120)
Impairment	106	1,500	–	–	–	1,606
Effect of movements in foreign exchange rate	(5)	(13)	–	–	–	(18)
At 30 November 2023	**9,127**	**26,512**	**19,040**	**10,646**	**3,951**	**69,276**
Net book value						
At 30 November 2021	24,772	6,648	–	–	–	31,420
At 30 November 2022	25,022	3,394	–	–	–	28,416
At 30 November 2023	**24,911**	**1,533**	**–**	**–**	**–**	**26,444**

All intangible assets, other than goodwill which has an indefinite life, have a useful economic life of between 3 and 10 years. The useful life of development costs is between 2 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.

In 2023, an impairment of Development costs and Goodwill of £1.4 million by Viji IP CGU was recorded due to forecast performance not in line with management expectation set at the time of acquisition. An impairment of £0.2 million was also recorded relating to Unity project. See note 13 for detail.

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16. 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.

During the year, IBS CGU was merged with that of NexSys CGU as IBS entity merged with NexSys entity to drive operational efficiency.

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 2023 £'000
NexSys and Integrated Business Solutions (IBS)	**14,448**
Global Accounts	**9,366**
Walton & Integrated Business Solutions (IBS)	**1,097**
ViJi	**–**
	24,911

	Goodwill carrying amount 2022 £'000
NexSys (previously "Syspro")	13,677
Global Accounts	9,371
Walton & IBS	1,868
ViJi	106
	25,022

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 Annual Budget starting in the 2024, 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 (5%) is then made for a further four years.

The rate used to discount the forecast pre-tax cash flows is 14.0% (2022: 17.4%) 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.

17. Trade and other receivables

	2023 £'000	Restated 2022 £'000
Trade receivables	**6,042**	8,079
Loss allowance	**(635)**	(784)
Trade receivables – net	**5,407**	7,295
Other receivables	**185**	138
Contract assets	**1,286**	2,727
Prepayments	**677**	604
	7,555	10,764

The fair value of trade and other receivables approximates to book value at 30 November 2023 and 30 November 2022.

Of the above, trade receivables of £nil (2022: £nil) and contract assets of £nil (2022: £nil) 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 more than 1,000 (2022: more than 1,000) 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 42% (2022: 47%) of total Group revenue but the relationship is spread across different territories and markets. The group assesses the credit rating for new customers to minimise the credit risk.

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

The Group 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:

	2023 £'000	Restated 2022 £'000
Pound sterling	**2,101**	2,383
Euro	**5,107**	7,851
Other	**347**	530
	7,555	10,764

Notes forming part of the Financial Statements continued

for the year ended 30 November 2023

17. Trade and other receivables continued

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 2023	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	**0.8%**	**0.9%**	**5.2%**	**0.5%**	**6.7%**	**1.7%**
Estimated total gross carrying amount at default	**4,437**	**1,497**	**462**	**201**	**731**	**7,328**
Specific provision	**–**	**–**	**–**	**–**	**(511)**	**(511)**
Lifetime expected credit loss	**(37)**	**(13)**	**(24)**	**(1)**	**(49)**	**(124)**
						6,693
					Trade receivables – net	**5,407**
					Contract assets	**1,286**
					Total	**6,693**

30 November 2022	Trade receivables and contract assets receivables – days past due Not past due £'000	<30 £'000	31-60 £'000	61-90 £'000	>90 days £'000	Restated Total £'000
Expected credit loss rate	2.5%	1.5%	2.7%	4.5%	2.9%	2.4%
Estimated total gross carrying amount at default	9,254	2,011	1,386	245	695	13,591
Specific provision	–	–	–	–	(455)	(455)
Lifetime expected credit loss	(230)	(31)	(37)	(11)	(20)	(329)
						12,807
					Trade receivables – net	7,295
					Contract assets	2,727
					Total	10,022

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

	2023 £'000	2022 £'000
At beginning of year	**784**	852
Provided during the period	**354**	102
Utilised during the period	**(503)**	(170)
At end of year	**615**	784

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.

18. Forward currency contracts

Financial instruments at fair value through profit and loss

	2023 £'000	2022 £'000
Forward currency contracts	–	110
	–	110

The Group enters into foreign exchange forward contracts with the intention to reduce the foreign exchange risk of expected sales and purchases. These contracts are measured at fair value through profit and loss within administrative expenses. The foreign exchange forward contract balances vary with the level of expected foreign currency costs and changes in the foreign exchange forward rates.

The exchange contracts are being used to reduce the exposure to foreign exchange risk. The terms of these contracts are detailed below:

30 November 2023

Nil

30 November 2022

Buy currency	Sell currency	Nominal value of contract '000	Maturity date	Contract rate
Sterling	Euro	£296	29.12.22	1.1258
Sterling	Euro	£297	30.01.23	1.1226
Sterling	Euro	£297	28.02.23	1.1199
Sterling	Euro	£298	29.03.23	1.1171
Sterling	Euro	£299	28.04.23	1.1143
Sterling	Euro	£300	30.05.23	1.1113
Sterling	Euro	£300	29.06.23	1.1084
Sterling	Euro	£301	31.07.23	1.1056
Sterling	Euro	£302	31.08.23	1.1029
Sterling	Euro	£303	29.09.23	1.1003
Sterling	Euro	£303	30.10.23	1.098
Sterling	Euro	£308	29.11.23	1.0957

Notes forming part of the Financial Statements continued

for the year ended 30 November 2023

19. Trade and other payables

	2023 £'000	2022 £'000
Trade payables	**1,132**	2,823
Other payables	**1,463**	2,202
Accruals	**3,337**	4,041
Total financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost	**5,932**	9,066
Other tax and social security taxes	**2,560**	2,504
Contract liabilities	**7,454**	5,312
	15,946	16,882

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.

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 2023 and 30 November 2022.

20. Borrowings

	2023 £'000	2022 £'000
Current		
Bank overdrafts (secured)	**–**	–
Bank loans	**12**	50
Total borrowings	**12**	50

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 (2022: £250,000).

20. 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	2024	See below

Bank borrowings of £12 thousands are included in short term liabilities (2022: £50 thousands). The Facilities include a monthly draw down and a multi-currency overdraft facility.

Maturity analysis of borrowings:

	2023 £'000	2022 £'000
In less than one year	**12**	50
In more than one year but not more than two years	**–**	–
	12	50

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 2023 of £3.5 million (2022: £3.5 million) 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 (2022: SONIA). 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 2026, with a facility maximum of £2.8 million.

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

	2023 £'000	2022 £'000
Pound sterling	**–**	–
Euro	**12**	50
	12	50

21. Financial instruments

Risk management

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

- Market (and currency) 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.

Notes forming part of the Financial Statements continued

for the year ended 30 November 2023

21. 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;
- Forward currency contracts;
- Trade and other payables; and
- Floating-rate bank loans and overdrafts.

Market (and currency) 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 £1 million (2022: £0.9 million). The fixed rate applicable on lease liabilities is 9% (2022: 6%).

Bank debt is £nil (2022: £0.1 million) and held under floating rates linked to quarterly SONIA (2022: SONIA). Shareholder loans totalling £nil (2022: £nil) 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 20.

21. 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 17.

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.

	2023 £'000	Restated 2022 £'000
Total equity	**27,358**	30,387
Less: amounts in translation reserve	**(1,683)**	(1,607)
	25,675	28,780

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.

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 £3.5k (2022: £3.5k), 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£25k (2022: c £25k).

Notes forming part of the Financial Statements continued

for the year ended 30 November 2023

21. Financial instruments continued

Financial instruments by category

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

As at 30 November 2023	Notes	Amortised cost £'000	At FVTPL £'000	Total £'000
Assets				
Trade and other receivables:				
Trade receivables	17	5,407	–	**5,407**
Other non-derivative financial assets	17	185	–	**185**
Contract assets	17	1,286	–	**1,286**
Forward currency contracts		–	–	**–**
Cash and cash equivalents		8,304	–	**8,304**
Total assets		15,182	–	**15,182**
Liabilities				
Borrowings and lease liabilities:				
Current	20/24	(959)	–	**(959)**
Non-current	20/24	(37)	–	**(37)**
Trade and other payables:				
Trade payables	19	(1,132)	–	**(1,132)**
Other non-derivative financial liabilities	19	(4,800)	–	**(4,800)**
Contract liabilities	19	(7,454)	–	**(7,454)**
Total liabilities		(14,382)	–	**(14,382)**
Net		**800**	**–**	**800**

21. Financial instruments continued

Financial instruments by category continued

As at 30 November 2022 – Restated	Notes	Amortised cost £'000	At FVTPL £'000	Total £'000
Assets				
Trade and other receivables:				
Trade receivables	17	7,295	–	7,295
Other non-derivative financial assets	17	138	–	138
Contract assets	17	5,512	–	5,512
Forward currency contracts		–	110	110
Cash and cash equivalents		7,113	–	7,113
Total assets		20,058	110	20,168
Liabilities				
Borrowings and lease liabilities:				
Current	20/24	(852)	–	(852)
Non-current	20/24	(79)	–	(79)
Trade and other payables:				
Trade payables	19	(2,823)	–	(2,823)
Other non-derivative financial liabilities	19	(6,243)	–	(6,243)
Contract liabilities	19	(5,312)	–	(5,312)
Total liabilities		(15,309)	–	(15,309)
Net		4,749	110	4,859

Financial instruments measured at fair value

Except for forward currency contracts, there were no financial instruments measured subsequent to initial recognition at fair value at the end of either period.

Notes forming part of the Financial Statements continued

for the year ended 30 November 2023

22. Provision

	Dilapidations £'000	Onerous contracts £'000	Deferred consideration £'000	Total £'000
At 30 November 2022	251	427	469	**1,147**
Reversal in the year	(30)	(339)	(371)	**(740)**
Interest	8	–	–	**8**
Effect of movement in foreign exchange rate	–	(2)	(3)	**(5)**
At 30 November 2023	**229**	**86**	**95**	**410**
Split as:				
Current	124	85	95	**305**
Non-Current	105	–	–	**105**
At 30 November 2023	**229**	**85**	**95**	**410**

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.

23. Deferred tax

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

	2023 £'000	2022 £'000
Deferred tax assets		
Continuing operations	**77**	1,551
Deferred tax liabilities		
Continuing operations	**(91)**	(1,119)
	(14)	432

23. Deferred tax continued

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

	Assets		Liabilities		Net	
	2023 £'000	Restated 2022 £'000	2023 £'000	2022 £'000	2023 £'000	Restated 2022 £'000
Plant and equipment	**–**	111	**–**	(1)	**–**	110
Other temporary differences	**–**	1,359	**(91)**	(1,118)	**(91)**	241
Losses	**77**	23	**–**	–	**77**	23
Business combinations	**–**	58	**–**	–	**–**	58
Deferred tax assets/(liabilities)	**77**	1,551	**(91)**	(1,119)	**(14)**	432

Movement in deferred tax during the year

	Restated 1 December 2022 £'000	Recognised in income £'000	Disposal £'000	30 November 2023 £'000
Plant and equipment	110	(110)	–	**–**
Other temporary differences	241	(332)	–	**(91)**
Losses	23	54	–	**77**
Business combinations	58	(58)	–	**–**
Deferred tax assets/(liabilities)	**432**	**(446)**	**–**	**(14)**

The Group have not recognised a deferred tax asset on £3.6m (2022: £1.8m) 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 £31k (2022: £23k) 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.

24. Lease liabilities

	2023 £'000	2022 £'000
Analysed as:		
Non-current	**37**	79
Current	**947**	802
	984	881

	2023 £'000	2022 £'000
Maturity analysis		
Year 1	**947**	802
Years 2 to 5	**37**	79
	984	881

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.

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for the year ended 30 November 2023

25. Share capital

	Issued and fully paid			
	2023		2022	
	Number	£'000	Number	£'000
Ordinary shares of 25p each				
At beginning and end of the year	**44,732,379**	**11,183**	44,732,379	11,183

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.

	2023 Number	2022 Number
Own shares held	**26,809**	26,809

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.

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 2023 none of these warrants had been exercised. 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 2023 (and 30 November 2022) all SAYE options have lapsed.

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 2023, an aggregate of 437,500 (2022: 1,675,000) LTIP options over ordinary shares in the Company remained in issue.

26. 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 2023 are £1.14 million (2022: £1.17 million) of which £nil (2022: £nil) has been recognised within discontinued operations.

27. Related party transactions

Details of directors and key management compensation are given in the Remuneration Report on pages 46 to 49.

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 £40k (2022: £50k) and the balance owed to Kestrel at 30 November 2023 was £nil (2022: £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:

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 2023

28. Events after the reporting date

On the 25 March 2024 the Group agreed an extension to its Current Revolving Credit Facility with Barclays for £2.8m until 31 March 2026.

29. Notes to the cash flow statement

Cash and cash equivalents

	2023 £'000	2022 £'000
Cash and bank balances available on demand	**8,304**	7,113
Bank overdrafts	**–**	–
	8,304	7,113

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 £610k (2022: £233k) were financed by new leases.

30. Notes to the strategic report

*1 Adjusted operating profit/(loss) – is the profit/(loss) from continuing activities adjusted to exclude exceptional impairment costs, exceptional re-organisation cost and exceptional acquisition costs/(income) and share-based payment charges/(credit).

*2 Recurring revenue – contracted support, maintenance and annual license, as % of total revenue.

*3 K3 Products 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 lease liabilities associated with Right-of-use assets under IFRS16.

*6 Adjusted loss/earnings per share – basic profit /(loss) per share from continuing operations adjusted to exclude exceptional impairment costs, exceptional re-organisation cost and exceptional acquisition costs/(income) and share-based payment charges/(credit), net of the related tax charge.

*7 Adjusted administrative expense – administrative expenses adjusted to exclude exceptional impairment costs, exceptional re-organisation cost and exceptional acquisition costs/(income) and share-based payment charges/(credit).

*8 Free cash flow – calculated as delta between cash and cash equivalents balances between two periods, excluding exchange gain/(loss) on cash and cash equivalents.

*9 Net cash – calculated as cash and cash equivalents balances less bank borrowings.

Notes forming part of the Financial Statements continued

for the year ended 30 November 2023

31. 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%
NexSys Solutions Limited	UK	100%
K3 Systems Support Limited	UK	100%
K3 Software UK Limited	UK	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 Software Solutions LLC	USA	100%
DdD Retail A/S	Denmark	100%
DdD Retail Germany GmbH	Germany	100%
Viji SAS	France	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	138 Market Street #24-01 Capita Green Singapore 048946
K3 Business Solutions SDN BHD	No. 256b, Jalan Bandar 12, taman Melawati, 53100 Kuala Lumpur, Wilayah Persekutuan, Malaysia
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 Germany GmbH	Weilstrasse 41, 89143 Blaubeuren, Germany

31. 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%
K3 Business Technologies Ireland Limited	Ireland	100%
K3 FDS Limited	UK	100%
K3 Holdings BV	Netherlands	100%
Retail Support International ApS	Denmark	100%
DdD Retail Norway A/S	Norway	100%
Detalj Data i Sverige AB	Sweden	100%

Notes forming part of the Financial Statements continued

for the year ended 30 November 2023

32. Prior period adjustment

During the year the Company's Directors reviewed the application of IFRS 15 in respect of the Company's Fashion and Pebblestone revenue contracts. As a result of this review the Directors determined that IFRS 15 had been incorrectly applied when accounting for the Company's contracts with customers. The historical application had determined that there were multiple performance obligations within the contracts and revenue were recognised at specified milestones.

However, upon reassessment, it was determined that the contracts should not be segmented and represents single performance obligation. The Directors determined that licenses provided under these contracts are dependent on updates for ongoing functionality, therefore determined to recognise revenue based on time elapsed and thus rateably over the term of the contract.

The misapplication of IFRS 15 in prior periods led to early revenue and cost recognition. The correction of this error affects the financial statements for the years 2020 through 2022. The impact of these adjustments for these periods are detailed below.

The Group has corrected this error from 1 December 2020 which has resulted in adjustments to the amounts recognised in the Consolidated Financial Statements. In accordance with IFRS 8, the Group has restated FY2022. The overall net impact of adjustments was a debit to retained earnings of £1.9 million as at 1 November 2022.

For comparability purposes, the following table gives the impact of the revised accounting policy on the Consolidated Balance Sheet and Consolidated Income Statement for the year ended 30 November 2022 by showing what the results would have been had they been prepared under the previous accounting policies.

32. Prior period adjustment continued

Consolidated Income Statement

	As reported Year ended 30 November 2022 £'000	Adjustments £'000	Restated Year ended 30 November 2022 £'000
Revenue	47,532	(280)	47,252
Cost of sales	(19,382)	–	(19,382)
Gross profit	28,150	(280)	27,870
Administrative expenses	(28,367)	–	(28,367)
Impairment losses on financial assets	(102)	–	(102)
Adjusted operating profit/(loss)	(319)	(280)	(599)
Exceptional impairment	(1,603)	–	(1,603)
Exceptional reorganisation and acquisition costs	(693)	–	(693)
Share-based payment charge	(855)	–	(855)
Loss from operations	(3,470)	(280)	(3,750)
Finance expense	(338)	–	(338)
Loss before taxation from continuing operations	(3,808)	(280)	(4,088)
Tax expense	(278)	70	(208)
Loss after taxation from continuing operations	(4,086)	(210)	(4,296)
Profit after taxation from discontinued operations	108	–	108
Loss for the year	**(3,978)**	**(210)**	**(4,188)**

The adjustment of £0.3 million to revenue is due to change in revenue recognition in FY2023 (see note 32). FY2022 revenue would have been £0.3m lower if the change in accounting policy was applied in FY2022. The tax impact of this adjustment is £0.1 million.

Notes forming part of the Financial Statements continued

for the year ended 30 November 2023

32. Prior period adjustment continued

Consolidated Financial Position

	As reported 2022 £'000	Adjustment 2022 £'000	Restated 2022 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	1,766	–	1,766
Right-of-use assets	801	–	801
Goodwill	25,022	–	25,022
Other intangible assets	3,394	–	3,394
Deferred tax assets	855	696	1,551
Total non-current assets	**31,838**	**696**	**32,534**
Current assets			
Stock	484	–	484
Trade and other receivables	13,549	(2,785)	10,764
Forward currency contracts	110	–	110
Cash and short-term deposits	7,113	–	7,113
Total current assets	**21,256**	**(2,785)**	**18,471**
Total assets	**53,094**	**(2,089)**	**51,005**
LIABILITIES			
Non-current liabilities			
Lease liabilities	79	–	79
Provisions	179	–	179
Deferred tax liabilities	1,119	–	1,119
Total non-current liabilities	**1,377**	**–**	**1,377**
Current liabilities			
Trade and other payables	16,882	–	16,882
Current tax liabilities	372	–	372
Lease liabilities	802	–	802
Borrowings	50	–	50
Provisions	968	–	968
Total current liabilities	**19,074**	–	**19,074**
Total liabilities	**20,451**	**–**	**20,451**
EQUITY			
Share capital	11,183	–	11,183
Share premium account	31,451	–	31,451
Other reserves	11,151	–	11,151
Translation reserve	1,607	–	1,607
Accumulated losses	(22,749)	(2,089)	(24,838)
Total equity attributable to equity holders of the parent	**32,643**	**(2,089)**	**30,554**
Total equity and liabilities	**53,094**	**(2,089)**	**51,005**

32. Prior period adjustment continued

Consolidated Financial Position continued

	As reported 2021 £'000	Adjustment 2021 £'000	Restated 2021 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	1,551	–	1,551
Right-of-use assets	1,709	–	1,709
Goodwill	24,772	–	24,772
Other intangible assets	6,648	–	6,648
Deferred tax assets	1,010	626	1,636
Total non-current assets	**35,690**	**626**	**36,316**
Current assets			
Stock	467	–	467
Trade and other receivables	10,605	(2,505)	8,100
Forward currency contracts	–	–	–
Cash and short-term deposits	9,146	–	9,146
Total current assets	**20,218**	**(2,505)**	**17,713**
Total assets	**55,908**	**(1,879)**	**54,029**
LIABILITIES			
Non-current liabilities			
Lease liabilities	135	–	135
Provisions	1,129	–	1,129
Deferred tax liabilities	1,288	–	1,288
Total non-current liabilities	**2,552**	**–**	**2,552**
Current liabilities			
Trade and other payables	14,456	–	14,456
Current tax liabilities	509	–	509
Lease liabilities	1,623	–	1,623
Borrowings	113	–	113
Provisions	854	–	854
Total current liabilities	**17,555**	–	**17,555**
Total liabilities	**20,107**	**–**	**20,107**
EQUITY			
Share capital	11,183	–	11,183
Share premium account	31,451	–	31,451
Other reserves	11,151	–	11,151
Translation reserve	1,538	–	1,538
Accumulated losses	(19,522)	(1,879)	(21,401)
Total equity attributable to equity holders of the parent	**35,801**	**(1,879)**	**33,922**
Total equity and liabilities	**55,908**	**(1,879)**	**54,029**

Company Balance Sheet

as at 30 November 2023

Registered number: 02641001

	Notes	2023 £'000	2022 £'000
Fixed assets			
Tangible assets	5	**283**	838
Intangible assets		**–**	303
Investments	6	**28,589**	32,436
		28,872	33,577
Current assets			
Debtors	7	**2,638**	24,913
Forward currency contracts		**–**	110
Cash at bank and in hand		**2,419**	1,726
Deferred tax	9	**–**	12
		5,057	26,761
Creditors: Amounts falling due within one year	8	**(3,906)**	(6,461)
Provisions – current	10	**(181)**	(717)
Net current (liabilities)/assets		**970**	19,583
Provisions – non-current	10	**–**	(179)
Net assets		**29,842**	52,981
Capital and reserves			
Called-up share capital	11	**11,183**	11,183
Share premium account		**31,450**	31,450
Other reserve		**11,027**	11,027
Profit and loss account		**(23,818)**	(679)
Equity shareholders' funds		**29,842**	52,981

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

The loss for the year dealt with in the financial statements of the parent company was £22,170,000 (2022: profit for the year £6,038,000).

The financial statements on pages 124 to 132 were approved and authorised for issue by the board of directors on 25 March 2024 and signed on its behalf by:

E Dodd
Director

The notes on pages 126 to 132 form part of these financial statements.

Company Statement of Changes in Equity

as at 30 November 2023

	Share capital £'000	Share premium £'000	Other reserve £'000	Profit and loss account £'000	Total equity £'000
At 30 November 2021	**11,183**	**31,450**	**11,027**	**(7,468)**	**46,192**
Changes in equity for year ended 30 November 2022					
Profit for the year	–	–	–	6,038	**6,038**
Total comprehensive expense	–	–	–	6,038	**6,038**
Share-based payment	–	–	–	751	**751**
At 30 November 2022	**11,183**	**31,450**	**11,027**	**(679)**	**52,981**
Changes in equity for year ended 30 November 2023					
Loss for the year	–	–	–	(22,170)	**(22,170)**
Total comprehensive income	–	–	–	(22,170)	**(22,170)**
Share-based payment	–	–	–	(969)	**(969)**
At 30 November 2023	**11,183**	**31,450**	**11,027**	**(23,818)**	**29,842**

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 (2022: 26,809) 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 2023 was £30,294 (2022: £34,181).

The notes on pages 126 to 132 form part of these financial statements.

Notes forming part of the Company Financial Statements

for the year ended 30 November 2023

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 85. 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	2023 £'000	2022 £'000
This has been arrived at after charging/(crediting):			
Staff costs	3	**2,560**	3,326
Depreciation of property, plant and equipment	5	**431**	381
Exceptional impairment of property, plant and equipment	5	**353**	–
Exceptional reorganisation costs		**514**	–
Exceptional impairment of investment in subsidiaries	6	**3,825**	–
Exceptional impairment of intercompany receivable balance (net)	7	**19,974**	–
Foreign exchange (income)/costs		**(47)**	(273)

3. Staff numbers

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

	2023 Number	2022 Number
Administration	**25**	28
	25	28

Their aggregate remuneration comprised:

	2023 £'000	2022 £'000
Wages and salaries	**2,054**	2,677
Social security costs	**307**	363
Other pension costs (note 13)	**128**	211
Short term non-monetary benefits	**71**	75
	2,560	3,326

In addition Share-based payments were credit of £1.1 million (2022: charged of £0.7 million).

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 46 to 49.

Notes forming part of the Company Financial Statements continued

for the year ended 30 November 2023

5. Tangible fixed assets

	Plant, office equipment and fixtures £'000
Cost	
At 1 December 2021	1,187
Additions	725
Disposals	(30)
At 30 November 2022	1,882
Additions	229
At 30 November 2023	**2,111**
Depreciation	
At 1 December 2021	673
Depreciation charge	381
Disposals	(10)
At 30 November 2022	1,044
Depreciation charge	431
Impairment	353
At 30 November 2023	**1,828**
Net book value	
At 30 November 2023	**283**
At 30 November 2022	838
At 30 November 2021	514

The impairment of £0.3 million relates to impairment of Unity project. The project was implemented with a view to delivering group wide efficiencies. However in FY23, a decision was made to not use this model, and therefore the investment in Unity project was not considered recoverable, hence the impairment recorded.

6. Fixed asset investments

	2023 £'000	2022 £'000
Subsidiary undertakings	**28,589**	32,436

The trading subsidiaries of K3 Business Technology Group plc are disclosed in note 31 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 30 November 2021	30,042	30,042
Investment in subsidiaries	2,394	2,394
At 30 November 2022	32,436	32,436
Impairment	(3,847)	(3,847)
At 30 November 2023	**28,589**	**28,589**
Net book value		
At 30 November 2023	**28,589**	**28,589**
At 30 November 2022	32,436	32,436
At 30 November 2021	30,042	30,042

An impairment of £3.1 million was recorded which resulted from a subsidiary in Ireland which was closed in FY23. Another £0.7 million relates to an impairment of subsidiaries where investment's net book value exceeded recoverable amount due to downward change in future cash flows.

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 2023 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 FDS Limited	02052916
K3 BTG Limited	06338304
K3 Systems Support Limited	08497112
K3 Software UK Limited	01763900
K3 Business Technology Group Trustees Company Limited	04229619
K3 Business Technologies Ireland Limited (FC040299/BR025409)	CRO-334819

Notes forming part of the Company Financial Statements continued

for the year ended 30 November 2023

7. Debtors

	2023 £'000	2022 £'000
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**1,390**	24,529
Trade debtors	**–**	17
Corporation tax receivable	**779**	13
Prepayments	**321**	281
Taxation and social security	**148**	73
	2,638	24,913

Interest is charged on amount owed by subsidiary undertakings at 8.09% (2022: 4.55%) which is deemed to be a market rate. The Company impaired £20 million (2022: £nil) of the intercompany receivables.

As part of the Company's strategy to close its operations in Ireland, a planned £20 million impairment of intercompany receivables was taken.

8. Creditors: Amounts falling due within one year

	2023 £'000	2022 £'000
Trade creditors	**585**	583
Amounts owed to subsidiary undertakings	**2,289**	4,350
Other creditors	**172**	181
Accruals	**861**	1,347
	3,907	6,461

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 8.09% (2022: 4.55%) which is deemed to be a market rate.

9. Deferred taxation

	2023 £'000	2022 £'000
Accelerated capital allowances	–	6
Other timing differences	–	6
Deferred tax asset	–	12

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

	Accelerated capital allowances £'000	Other timing differences £'000	Total £'000
At 1 December 2022	6	6	**12**
Charged to profit and loss	(6)	(6)	**(12)**
At 30 November 2023	–	–	-

The Company has not recognised £nil of deferred tax on losses of £nil (2022: £nil). The deferred tax assets have been recognised to the extent as they are expected to be recoverable against future taxable profits.

10. Provisions

	Onerous contracts £'000	Deferred consideration £'000	Total £'000
At 30 November 2022	427	469	896
Reversal in the year	(339)	(371)	(710)
Effect of movement in foreign exchange rate	(2)	(3)	(5)
At 30 November 2023	**86**	**95**	**181**
Split as:			
Current	86	95	181
At 30 November 2023	**86**	**95**	**181**

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.

Notes forming part of the Company Financial Statements continued

for the year ended 30 November 2023

11. Called-up share capital

	2023 £'000	2022 £'000
Allotted, called-up and fully-paid		
44,732,379 ordinary shares of 25p each (2022: 44,732,379)	**11,183**	11,183

See note 25 to the consolidated financial statements for details of the movements in called-up share capital and of outstanding warrants.

12. Share-based payment

K3 Business Technology Group plc operates an equity-settled share-based remuneration scheme for employees: the K3 Long Term Incentive Plan ("LTIP") for certain senior management including executive directors. See note 10 to the consolidated financial statements for details regarding share-based payments.

13. 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 £128,000 (2022: 211,000).

14. Related party transactions

Related party transactions are disclosed in note 27 to the consolidated financial statements. There were no other transactions with related parties during the year.

15. Contingent liability

The Company has entered into a cross-guarantee with fellow group undertakings in relation to liabilities with Barclays Bank plc. At the period end the liabilities covered by the guarantee totalled £nil (2022: £nil) of which £nil (2022: £nil) is included within the Company's accounts.

16. Events after the reporting date

See note 28 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 offices of Cavendish at One Bartholomew Close, London, EC1A 7BL on 21 May 2024 at 10:00 am at which the following business will be transacted.

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

Ordinary resolutions

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

1. To receive, consider and adopt the annual accounts for the period ended 30 November 2023, 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 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.
4. To authorise the directors of the Company to determine the auditor's remuneration.
5. 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.

Notice of Annual General Meeting
continued

Special resolutions

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

Disapplication of pre-emption rights

6. That subject to and conditional on the passing of resolution 5 above, the directors of the Company be and they are empowered pursuant to section 570 and 573 of the Act to allot equity securities (as defined in section 560(1) of the Act) for cash pursuant to the authority conferred by resolution 7 above 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:

6.1 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

6.2 the allotment of equity securities or sale of treasury shares (otherwise than pursuant to sub-paragraph 8.1 above) up to an aggregate nominal amount of £1,118,309.00;

and, unless previously renewed, revoked or varied by the Company in general meeting, the authority granted by this resolution shall expire on 18 August 2024, 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.

Authority to repurchase ordinary shares

7. 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 2024 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

26 April 2024

By order of the Board

E Dodd
Company Secretary

Notice of Annual General Meeting
continued

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

Please refer to notes 1 to 4 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 2023 together with the Director's and Auditor's reports on such accounts.
2. Resolution 2 – Under Article 22.5 of the Company's current articles of association, one third of the total number of directors (rounded down to the nearest whole) shall retire at each annual general meeting. For the purposes of this calculation, the total number of directors does not include those directors tabled for re-election due to being appointed since the previous annual general meeting or due to being appointed for a period of nine years or more. Accordingly, O Scott shall retire at the 2024 annual general meeting and offer himself for re-election. Their re-election is recommended by the Board. O Scott was originally appointed as a director of the Company in February 2020 and his biographical details are available on the Company's website at https://www.k3btg.com/aim-rule-26/the-board/.
3. Resolutions 3 and 4 – 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 3 reappoints BDO LLP as the Auditor of the Company and Resolution 4 authorises the Directors to fix their remuneration.
4. Resolution 5 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.
5. Resolution 6 (proposed as a special resolution) would empower the directors pursuant to the authority to allot granted by resolution 5 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 6.1 and 6.2. of that resolution. Sub-paragraph 6.1 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 6.2 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 £1,118,309 representing approximately one-tenth 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 17 August 2025, or if earlier on the conclusion of next year's annual general meeting.

6. Resolution 7 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 2025 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).

Notice of Annual General Meeting
continued

Notes to the Notice of Annual General Meeting

Entitlement to attend and vote

1. 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.
2. The Company specifies that only those members registered on the Company's register of members at:
   - close of business on 17 May 2024; 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

3. 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

4. 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; and
   - Copies of the letters of appointment of the non-executive directors of the Company.

Appointment of proxies

5. If you are a member of the Company at the time set out in note 2 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.
6. 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.
7. 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.

8. 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 9).
   - If a CREST member, register their proxy appointment by utilising the CREST electronic proxy appointment service (see note 11).
   - If an institutional investor, you may be able to appoint a proxy electronically via the Proxymity platform (see note 12).
   - Request a hard copy form of proxy directly from the registrars, Link Group on Tel: 0371 664 0300 (see note 13).

Proxy voting using the Link Investor Centre

9. You may also submit your proxy vote electronically using at https://investorcentre.linkgroup.co.uk/Login/Login. If not already registered for Link Investor Centre, 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 10:00 am on 17 May 2024.

Proxy voting via the Link Investor Centre app

10. Link Investor Centre is a free app for smartphone and tablet provided by Link Group (the company's registrar). It allows you to securely manage and monitor your shareholdings in real time, take part in online voting, keep your details up to date, access a range of information including payment history and much more. The app is available to download on both the Apple App Store and Google Play, or by scanning the relevant QR code below. Alternatively, you may access the Link Investor Centre via a web browser at: https://investorcentre.linkgroup.co.uk/Login/Login.

Download on the App Store

GET IT ON Google Play

Notice of Annual General Meeting
continued

CREST proxy voting (uncertificated shareholders)

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

    (b) In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & International 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 & International 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.

12. If you are an institutional investor, you may be able to appoint a proxy electronically via the Proxymity platform, a process which has been agreed by the Company and approved by the Registrar. For further information regarding Proxymity, please go to www.proxymity.io. Your proxy must be lodged by 10:00 am on 17 May 2024 in order to be considered valid or, if the meeting is adjourned, by the time which is 48 hours before the time of the adjourned meeting. Before you can appoint a proxy via this process you will need to have agreed to Proxymity's associated terms and conditions. It is important that you read these carefully as you will be bound by them and they will govern the electronic appointment of your proxy.

Appointment of proxy using hard copy proxy form

13. 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 10:00 am on 17 May 2024.

    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

14. 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

15. 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.

Termination of proxy appointments

16. 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 2024.

    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

17. 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 (Executive Chairman)
E Dodd
G Hase (non-executive)
P Fabricius (non-executive)
O Scott (non-executive)

Company Secretary

E Dodd

Country of Incorporation of Parent Company

England and Wales

Company Number

02641001

Legal Form

Public limited company

Advisers

Legal advisers to the Group

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

Nominated Adviser

Cavendish
One Bartholomew Close
London EC1A 7BL

Company Information continued

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