AIM: KBT
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This announcement contains inside information for the purposes of Article 7 of Regulation 596/2014.

K3 BUSINESS TECHNOLOGY GROUP PLC

("K3" or "the Group" or "the Company")

Provider of mission-critical software (owned and third party), cloud solutions and managed services to the supply chain sector

Final results for the 12 months to 30 November 2018

Key Points

Summary

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

Financial

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

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

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

Operational

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

Adalsteinn Valdimarsson, Chief Executive Officer of K3, commented:

"I am pleased to report that K3 has moved from losses into profit at the operating level, with the transformation strategy initiated two years ago now bearing fruit. Its positive effects are also evident in improved cash generation and significantly reduced net debt at the year end.

"A key part of our growth strategy is increasing sales of products that contain our own IP, and the formal launch of the 'K3 I Imagine' platform was a significant milestone in this plan. It has the potential to be a major driver of profits and recurring revenues for the Group.

"K3 now has a firm platform for ongoing growth and we remain positive about future prospects across the Group. Trading since the end of the financial year has been encouraging, and we expect to see continued momentum over the new financial year."

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Notes:

Note 1 Calculated before amortisation of acquired intangibles of £2.51m (2017: £3.93m), exceptional reorganisation costs of £1.36m (2017: £4.73m), exceptional impairment of development costs of £nil (2017: £4.54m), acquisition costs of £nil (2017: £0.31m), share-based payment charge of £0.10m (2017: £nil) and release of contingent consideration of £nil (2017: £0.39m).

Note 2 Calculated before amortisation of acquired intangibles (net of tax) of £1.95m (2017: £3.04m), exceptional reorganisation costs (net of tax) of £1.36m (2017: £4.73m), exceptional impairment of development costs (net of tax) of £nil (2017: £4.54m), acquisition costs (net of tax) of £nil (2017: £0.31m), share-based payment charge (net of tax) of £0.10m (2017: £nil) and release of contingent consideration (net of tax) of £nil (2017: £0.39m). The adjusted EPS/(LPS) for the 17 months ended 30 November 2017 has been amended to reflect that there was no tax charge or credit recognised in the period on either the exceptional reorganisation costs or on the exceptional impairment charge. The calculation has been amended to reflect the actual tax charge or credit directly allocable rather than on an effective tax rate as previously determined as the directors consider this to be a fairer representation.

Note 3 Net debt is gross debt net of cash and cash equivalents.

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

CHAIRMAN'S AND CHIEF EXECUTIVE'S STATEMENT

Overview

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

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

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

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

Business Model and Performance

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

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

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

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

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

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

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

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

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

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

Financial Results

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

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

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

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

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

Balance Sheet and Cash Generation

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

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

Dividend

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

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

Staff

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

Brexit

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

Outlook

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

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

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

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

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

S Darling
Chairman

Notes:

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

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

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

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

OPERATIONAL REVIEW

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

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

	Revenue		Gross profit		Adjusted Profit	
	2018	2017 17 months	**2018**	2017 17 months	**2018**	2017 17 months
	£m	£m	£m	£m	£m	£m
Own IP*[*4]	17.5	23.4	12.9	15.0	4.2	0.9
Supply Chain Solutions & Managed Services[*5]	65.8	94.8	31.0	46.0	6.5	4.7
Support costs[*6]					(6.1)	(7.2)
Total	**83.3**	118.2	**43.9**	61.0	**4.6**	(1.6)

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

Definitions:

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

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

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

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

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

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

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

The Group has moved from an adjusted loss from operations[*2] of £1.6m for the 17 months to 30 November 2017 to an adjusted profit from operations[*2] of £4.6m for the 12 months to 30 November 2018. This excellent result was driven by the increase in sales of own IP, especially 'K3|fashion', together with services growth and margin expansion in Supply Chain Solutions.

Supply Chain Solutions and Managed Services

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

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

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

	2018	2017
Adjusted profit from operations*4 (£m)	**6.5**	4.7
Recurring revenue as % of total revenues	**47.8%**	47.9%
Customer adds (like-for-like)	**82**	87

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

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

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

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

Own IP

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

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

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

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

	2018	2017 17 months
Adjusted profit from operations*5 (£m)	**4.2**	0.9
Recurring revenue as % of total revenues	**50.6%**	52.0%
Customer adds (like-for-like)	**280**	340

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

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

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

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

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

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

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

Support Costs

Support costs include PLC-related costs, director costs, human resources, internal IT, accounting and legal personnel, as well as Group marketing costs. Costs are stated net of recovery of elements recharged to operating units. Support costs[*6] for the 12-month period amounted to £6.0m (17 months to 30 November 2017: £7.3m).

Outlook

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

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

Adalsteinn Valdimarsson
Chief Executive Officer

Notes

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

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

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

Note: The comparatives for 2017 are for the 17 months ended 30 November 2017.

CONSOLIDATED INCOME STATEMENT
For the year ended 30 November 2018

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

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

	Notes		
(Loss)/earnings per share			
Basic	3	(1.1)p	(35.3)p
Diluted	3	(1.1)p	(35.3)p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 November 2018

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 November 2018

	Notes	2018 £'000	2017 £'000
ASSETS			
Non-current assets			
Property, plant and equipment		**2,326**	2,479
Goodwill		**51,187**	51,019
Other intangible assets		**18,184**	20,539
Deferred tax assets		**1,307**	1,281
Available-for-sale investments		**98**	98
Total non-current assets		**73,102**	75,416
Current assets			
Trade and other receivables		**27,006**	30,429
Cash and cash equivalents		**6,914**	1,941
Total current assets		**33,920**	32,370
Total assets		**107,022**	107,786
LIABILITIES			
Non-current liabilities			
Long-term borrowings	4	**15**	6,170
Deferred tax liabilities		**1,814**	2,524
Total non-current liabilities		**1,829**	8,694
Current liabilities			
Trade and other payables	5	**28,428**	29,249
Current tax liabilities		**279**	127
Short-term borrowings	4	**7,517**	59
Total current liabilities		**36,224**	29,435
Total liabilities		**38,053**	38,129
EQUITY			
Share capital		**10,737**	10,737
Share premium account		**28,897**	28,897
Other reserves		**10,448**	10,448
Translation reserve		**2,486**	2,186
Retained earnings		**16,401**	17,389
Total equity attributable to equity holders of the parent		**68,969**	69,657
Total equity and liabilities		**107,022**	107,786

CONSOLIDATED STATEMENT OF CASHFLOWS
For the year ended 30 November 2018

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 November 2018

	Share capital £'000	Share premium £'000	Other reserve £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
At 30 June 2016	9,000	21,586	10,448	(1,997)	27,633	53,495
Changes in equity for period ended 30 November 2017						
Loss for the period	-	-	-	-	(13,370)	(13,370)
Other comprehensive income for the year	-	-	-	1,110	-	1,110
Total comprehensive income	-	-	-	1,110	(13,370)	(12,260)
Share-based payment credit	-	-	-	-	67	67
Warrants exercised	175	488	-	-	-	663
Conversion of shareholder loan to equity	114	526	-	-	-	640
Issue of new shares	1,448	6,297	-	-	-	7,745
Movement in own shares held	-	-	-	-	22	22
Dividends to equity holders	-	-	-	-	(630)	(630)
At 30 November 2017	10,737	28,897	10,448	2,186	17,389	69,657
Changes in equity for year ended 30 November 2018						
Loss for the period	-	-	-	-	(488)	(488)
Other comprehensive income for the period	-	-	-	300	-	300
Total comprehensive income	-	-	-	300	(488)	(188)
Share-based payment credit	-	-	-	-	103	103
Movement in own shares held	-	-	-	-	(2)	(2)
Dividends to equity holders	-	-	-		(601)	(601)
At 30 November 2018	10,737	28,897	10,448	2,486	16,401	68,969

NOTES

1. Profit/(loss) from operations and exceptional costs

During the year, the Group carried out a programme to combine its UK Microsoft Dynamics businesses in addition to continuing the programme commenced during the previous period, and incurred reorganisation costs, predominantly redundancy costs, of £1.36m. During the previous period, the Group implemented a programme to simplify and more closely integrate the Group's operations. In order to achieve this, significant changes were made which resulted in exceptional reorganisation costs of £4.73m, of which the vast majority were redundancy costs. Also during the prior period, following a review of development costs, the costs relating to certain products that are no longer core to the Group's strategy were written down to £nil at a cost of £4.54m. This impairment charge had no cash impact. Also during the prior period, the Group incurred costs in relation to acquiring new businesses of £0.31m and contingent consideration not required to be paid of £0.39m. During the year the Group granted share options for which the charge for the year was £0.10m.

2. Tax expense

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

3. (Loss)/earnings per share

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

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

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

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

3. (Loss)/earnings per share (continued)

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

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

4. Loans and borrowings

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

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

5. **Trade and other payables – current**

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

6. **Notes to the cash flow statement**

Cash flows from operations include acquisition costs and exceptional reorganisation costs arising as a result of acquisitions during the period. The adjusted cash generated from operations has been computed because the Directors consider it more useful to shareholders and investors in assessing the underlying operating cash flow of the Group. The adjusted cash generated from operations is calculated as follows:

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

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

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

7. The Board recommends the payment of a dividend of 1.54p per share (17 month period ended 30 November 2017: 1.4p) payable on 14 June 2019 to shareholders on the register on 17 May 2019.

8. The financial information set out above does not comprise the Company's statutory accounts. The Annual Report and Financial Statements for the 17-month period ended 30 November 2017 have been filed with the Registrar of Companies. The Independent Auditors' Report on the Annual Report and Financial Statement for 17-month period ended 30 November 2017 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

9. The Independent Auditors' Report on the Annual Report and Financial Statement for the year ended 30 November 2018 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006. These will be delivered to the Registrar of Companies following the annual general meeting.

10. The Group's full statutory financial statements for 30 November 2018 have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) as endorsed by the European Union ("endorsed IFRS") and with those parts of the Companies Act 2006 applicable to companies preparing their accounts under endorsed IFRS. Neither IFRS 15 "Revenue from Contracts with Customers" nor IFRS 9 "Financial Instruments" has been implemented during the year as the mandatory implementation date for the Group is 1 December 2018. The initial impact assessment on both accounting standards is that they will not have a material impact on the financial statements.

11. This preliminary announcement was approved by the Board of Directors on 18 March 2019.

12. The full financial statements will be posted to shareholders on or around 17 April 2019. Further copies will also be available on its website (www.k3btg.com) and from the Company's registered office at Baltimore House, 50 Kansas Avenue, Manchester, M50 2GL from that date.