



# K3 Business Technology Group PLC

Unaudited First Half Yearly Report  
for the six months to 31 May 2018



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# Key Points

## Summary

- Results show a significant recovery in underlying profitability, with the improvement reflecting the benefits of restructuring and a refocused sales strategy

## Financial

- Revenue up 2.6% to £41.4m (2017: £40.3m)
  - high level of recurring revenues at £18.7m (2017: £18.8m)
- Gross profit recovered significantly, up by 14.3% to £21.6m (2017: £18.9m), helped by:
  - substantially increased contributions from services, and software licences, and
  - streamlined operations
 Gross margin improved to 52.2% (2017: 46.8%)
- Adjusted profit from operations<sup>1</sup> of £1.7m (2017: adjusted loss from operations<sup>1</sup> of £3.1m), a £4.8m turnaround. Loss from operations reduced to £0.5m (2017: loss of £5.4m)
- Net debt<sup>2</sup> stood at £8.5m at period end (2017: £18.5m)
- Cash generation and earnings will benefit from the traditionally high levels of software licence/support contracts renewals in Q4

## Operational

- Programme to streamline operations and management structure substantially completed – merger of Microsoft Dynamics practices commenced in H1
- Continued focus on increasing sales and profitability of own IP products, both established and new
  - Imagine, a cutting-edge new offering, was formally launched in H1
- Significant recovery in sales momentum for “ax|is fashion” product in Enterprise sector – seven deals signed in H1 compared with seven in 17 months to 30 November 2017
  - channel partner strategy is bearing fruit, which is also a significant driver for profitability and margin expansion
- Global Accounts continued to perform well – strong visibility on future services work and increased growth opportunities
- SME-related activities performed steadily
- Board remains confident about prospects for the second half of the year, supported by:
  - traditionally high weighting of software licence and support renewals in Q4, with Syspro renewals typically at c.98%
  - healthy new business pipeline

Note 1 Calculated before amortisation of acquired intangibles of £1.3m (2017: £1.4m), exceptional reorganisation costs of £0.7m (2017: £0.8m), and share-based payment charge of £0.2m (2017: nil).

Note 2 Net debt is gross debt net of cash and cash equivalents.

# Joint Report of the Chairman and Chief Executive Officer

"We are pleased to see The Group return to underlying profitability, helped by a marked improvement in gross margins".

## Introduction

We are pleased with the progress K3 has made over the first half, following a period of significant restructuring and internal change as the new management team implemented initiatives to place the Group on a better footing for long-term revenue and profit growth. Results for the first six months of the financial year show the benefits of a tighter, more integrated organisational structure, and our refocused sales and own Intellectual Property ("IP") strategy. In particular, we are pleased to see the Group return to underlying profitability, helped by a marked improvement in gross margins, particularly services and own IP. Operational cash generation continues to improve and, with the seasonally stronger weighting in software licence and support contract renewals in the second half, the Group's cash generation should show further progress by the financial year end.

Overall, the business is in substantially better shape, financially, operationally and strategically, and we view prospects for continuing recovery and growth over the remainder of the financial year positively, supported by a healthy new business pipeline and expected high levels of renewals, with Syspro renewals typically at c. 98%.

**"Adjusted profit from operations<sup>\*1</sup> of £1.7m (2017: loss of £3.1m)"**

## Financial results

Revenue for the six months to 31 May 2018 increased by 2.6% to £41.4m (2017: £40.3m), with recurring income, from software maintenance renewals, support contracts and hosting & managed services, continuing to make up a high percentage of the total, at £18.7m (2017: £18.8m).

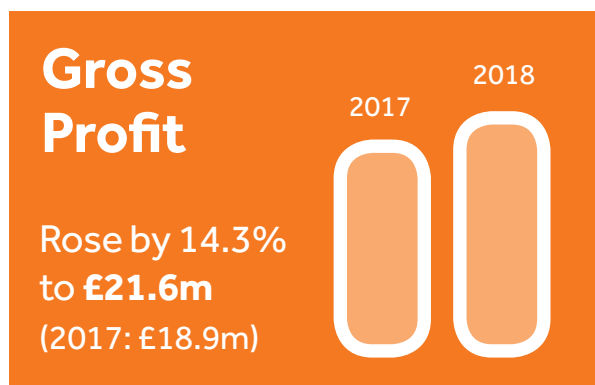
Gross profit rose by 14.3% to £21.6m (2017: £18.9m), with significant increases in contribution from services, and software licences. The proportion of gross profit derived from own IP improved and accounted for 31.5% of the total (2017: 30.7%).

The Group's gross margin shows a substantial recovery, increasing by 5.4 percentage points to 52.2% (2017: 46.8%). This improvement principally reflects the lower cost base, recovery in productivity, and growth in own IP software licences.

Gross margin was higher in software licences and services, and also across recurring and hardware income streams. Gross margin in software licences increased by 12.2 percentage points to 71.7% (2017: 59.5%) and in services rose by 11.1 percentage points to 27.9% (2017: 16.8%). Recurring revenue gross margin improved by 2.3 percentage points to 68.3% (2017: 66.0%).

The recovery in gross margin helped to drive the Group's turnaround in underlying profitability, with K3 moving from losses to an adjusted profit from operations<sup>\*1</sup> of £1.7m (2017: adjusted loss from operations<sup>\*1</sup> of £3.1m), a £4.8m improvement.





After taking into account £0.7m of exceptional costs (2017: £0.8m), which related to the reorganisation programme, an amortisation charge of £1.3m for acquired intangibles (2017: £1.4m) and a share-based payment charge of £0.2m (2017: nil), the loss from operations was £0.5m (2017: loss of £5.4m), which is a year-on-year reduction of £4.9m.

Finance expenses were £0.5m (2017: £0.5m), resulting in an adjusted profit before tax<sup>2</sup> for the period of £1.2m (2017: adjusted loss before tax<sup>2</sup> of £3.6m). The reported loss before tax for the period was £1.0m (2017: loss of £5.8m).

Adjusted earnings per share<sup>3</sup> was 1.4p (2017: adjusted loss per share<sup>3</sup> of 7.8p). Basic loss per share was 2.8p (2017: basic loss per share 12.4p).

#### **Balance sheet and cash flows**

The Group has been focused on improving cash generation and continues to work on reducing working capital balances especially accrued income. K3's cash flow is now in line with management expectations, and the second half of the year is expected to benefit from annual software licence and support renewals, which are heavily weighted towards this period, with Syspro renewal rates typically around 98%.

At 31 May 2018, net debt stood at £8.5m (31 May 2017: £18.5m), with this reduction mainly reflecting the equity placing, warrants exercised and debt-to-equity conversion. (which together reduced net debt by £9.0m in July 2017). However, we are also pleased to highlight £1.1m of

operational cash generation during a 12 month period of restructuring and exceptional costs, as note 5 highlights.

Capitalised development expenditure for the six months was £1.0m (2017: £2.1m), in line with the Group's refocused IP development roadmap. Approximately half of this expenditure was on the Group's Imagine product offering, which was launched in the period.

Cash utilised in operating activities amounted to £2.9m (2017: £1.1m), and reflects a more normal annual seasonality to the cash generation. The comparative results for 2017 were impacted by reorganisation costs, one-offs relating to working capital optimisation, and operating losses.

Depreciation was similar to the prior six months at £0.5m (2017: £0.5m) and amortisation decreased to £2.5m (2017: £3.1m), following the write-downs in the 17 month period ended 30 November 2017.

\*See note 9 on page 19 for further details

## Dividend

The Board intends to maintain a progressive dividend policy, and expects to propose a final (and total) dividend for the year to 30 November 2018.

## Overview of Performance

A key area of focus for the Company is increasing the proportion of sales from our own IP. Sales of own IP software licences lifted to £2.4m (2017: £1.3m), with gross profit from software licences doubling to £2.2m (2017: £1.1m) in the first half against the same period in 2017.

These very encouraging results reflected the benefits of our redefined 'go-to-market' strategies, and in particular our reinvigorated channel partner sales strategy. The trading backdrop in the Enterprise market, which is especially relevant for our "axjis fashion" product, was also better. The uncertainty around cloud-adoption versus traditional 'on-premise' solutions has cleared, and is no longer causing major decision delays. A total of seven deals were closed for "axjis fashion" in the period, mostly through channel partners, which compares with seven deals over the 17 months to 30 November 2017.

We were pleased to formally launch our Imagine platform and the first set of Imagine modules in the first half. The Imagine product is an in-house developed 'cloud-native' offering that enables us to offer cutting-edge applications to customers on a SaaS model. Compellingly, it also allows companies to adopt these new technologies easily and cost effectively, without the need to change existing legacy systems, so providing them with a fast return on their investment. We are mobilising resource from across K3 to leverage technical, market and domain expertise to support the ongoing development of Imagine, and will be launching further modules. We also secured a large customer win for Imagine, signing Ossur, the global leader in non-invasive orthopaedics, including prosthetic limbs. We remain very excited about Imagine's growth potential, both as an upgrade path for existing customers, with older systems, and a growth engine for new customer wins.

The Group's SME-related activities performed steadily across all of our supply chain verticals. As previously announced, we are bringing together our Microsoft Dynamics practices (CRM, AX and NAV) and this process, which started in the first half, is well-advanced.

Our Global Accounts business, which includes our relationship with Inter IKEA Systems B.V. (the owner and franchisor of the IKEA concept, and the largest customer in the Group) and the Inter IKEA Concept franchisees, continued to perform well, contributing to the increase in services income. There is very good visibility in further activity and we have increased our resource in this area to support this growth. We also see significant opportunities for own IP sales, with certain franchisees.

## Outlook

We believe that the changes and initiatives put in place under the new leadership team will continue to underpin the turnaround in K3's performance and growth prospects. The material reduction in the cost base of the business and more streamlined structure supports both profitability and our refocused growth plans. We will also be continuing to look for additional opportunities to increase efficiency.

We expect good growth across the Group, with the ongoing development of channel partner sales, opportunities in Global Accounts and renewed sales momentum. Our IP strategy is showing encouraging results, and growth in own IP software licences should further accelerate, helped by channel partner sales and the commercialisation of Imagine. Opportunities for Imagine are opening as K3 engages with its large installed customer base across many sectors.

There is a traditional weighting of cash flows and profitability towards the fourth quarter of the calendar year, and we expect this to be a feature of this year, driven by software licence and support renewals that are traditionally very high, with Syspro renewals typically at c. 98%. More broadly, we believe that K3 is very well-positioned to make further progress over the second half of the year, and view growth prospects with confidence.

**Stuart Darling**  
Chairman

**Adalsteinn Valdimarsson**  
Chief Executive Officer

9 July 2018

**"These very encouraging results reflected the benefits of our redefined 'go-to-market' strategies"**

# Operational Review

## Overview

The Group's results for the six months to 31 May 2018, together with comparatives for the same period in 2017, are summarised in the table below.

Six months to 31 May	Revenue		Gross profit		Gross margin		Adjusted profit	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 %	2017 %	2018 £m	2017 £m
Supply chain solutions & managed services <sup>4</sup>	<b>32.4</b>	31.2	<b>14.8</b>	13.1	<b>45.7%</b>	41.9%	<b>2.2</b>	(1.4)
Own IP <sup>5</sup>	<b>9.0</b>	9.1	<b>6.8</b>	5.8	<b>75.9%</b>	63.4%	<b>2.5</b>	0.9
Support costs <sup>6</sup>	–	–	–	–	–	–	<b>(3.0)</b>	(2.6)
<b>Total</b>	<b>41.4</b>	40.3	<b>21.6</b>	18.9	<b>52.2%</b>	46.8%	<b>1.7</b>	(3.1)

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

	2018	2017
Gross margin	<b>52.2%</b>	46.8%
Recurring revenue	<b>£18.7m</b>	£18.8m
Recurring revenue as percentage of total revenues	<b>45.2%</b>	46.7%
Own IP gross profit as a percentage of total gross profit	<b>31.5%</b>	30.7%

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

The slight reduction in recurring revenues reflected the revenue mix, with services accounting for a larger proportion of overall sales, largely driven by growth in Global Accounts.



## Gross Margin

Up to **52.2%**  
(2017: 46.8%)



\*See note 9 on page 19 for further details

## "These results show a marked improvement in profitability"

### Supply Chain Solutions & 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 the Microsoft Dynamics suite of software as well as SYSPRO and Sage solutions.

Six months to 31 May	Revenue		Gross profit		Gross margin	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 %	2017 %
Software licences	<b>3.1</b>	4.4	<b>1.7</b>	2.3	<b>54.8%</b>	51.7%
Services	<b>14.0</b>	11.4	<b>3.7</b>	1.7	<b>26.7%</b>	14.6%
Recurring	<b>14.1</b>	14.1	<b>9.1</b>	8.8	<b>64.7%</b>	62.5%
Hardware and other	<b>1.2</b>	1.3	<b>0.3</b>	0.3	<b>20.6%</b>	21.8%
<b>Total</b>	<b>32.4</b>	31.2	<b>14.8</b>	13.1	<b>45.7%</b>	41.9%

*Recurring revenues comprise software maintenance renewals, support contracts, and hosting & managed services.*

	2018	2017
Adjusted profit/(loss) from operations <sup>4</sup> (£m)	<b>2.2</b>	(1.4)
Recurring revenue as % of total revenues	<b>43.4%</b>	45.2%

These results show a marked improvement in profitability, helped by the benefits of restructuring and the efficiency drives implemented over the prior periods, as well as growth and better resource utilisation. Gross profit increased by 13.0% to £14.8m (2017: £13.1m) on revenue up by 3.8% to £32.4m (2017: £31.2m) as we focused on better execution of fewer projects.

Overall gross margins improved by 3.8 percentage points to 45.7% (2017: 41.9%), with services margins showing the most substantial increase, rising by 12.1 percentage points to 26.7% (2017: 14.6%).

Global Accounts, which includes our relationship with Inter IKEA Systems B.V. (the owner and franchisor of the IKEA concept) and the Inter IKEA Concept franchisees, continued to grow, reflecting the ongoing expansion of the IKEA franchisee network and helping to drive services income. We believe that there are some new exciting prospects emerging with certain franchisees, which, if successful, will take the current model into new geographical markets, as well as drive opportunities for own IP product sales. We have opened an office in Kuala Lumpur in order to service more efficiently the Far Eastern growth opportunities we have identified.

Our SME-related activities performed steadily across all our supply chain verticals with good performances in the visitor attraction and hosting and managed services. The SYSPRO business continued to perform well, and the Sage practice signed Manx Telecom Plc as a new Sage X3 customer.

We are well-advanced with the combination of our Microsoft Dynamics practices (CRM, AX and NAV), which started in the period. As previously indicated, combining the different practices will enable us to optimise our resources and service our customers more effectively.



## Own IP

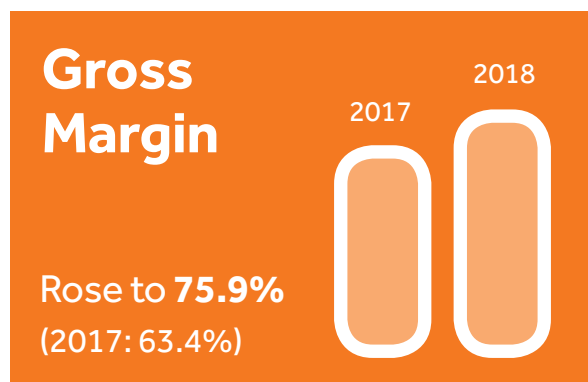
K3's IP portfolio comprises two parts, first, K3-authored software that enriches our established offering mentioned above, based on Microsoft, SYSPRO and Sage. For example, our "ax|is fashion" and Pebblestone products are both based on Microsoft Dynamics's Enterprise Resource Planning ("ERP") solutions, but have been functionally enriched by K3 IP for specific industry segments. Secondly, our own IP portfolio comprises stand-alone solutions. These include DdD Point of Sales, Dataswitch, and the new Imagine platform and modules. These higher margin products can be sold with our other solutions or individually, including into K3's existing large customer base.

Six months to 31 May	Revenue		Gross Profit		Gross Margin	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 %	2017 %
Software licences	<b>2.4</b>	1.3	<b>2.2</b>	1.1	<b>94.0%</b>	86.5%
Services	<b>0.8</b>	1.5	<b>0.4</b>	0.5	<b>49.7%</b>	32.2%
Recurring	<b>4.6</b>	4.7	<b>3.7</b>	3.6	<b>79.0%</b>	76.7%
Hardware and other	<b>1.2</b>	1.6	<b>0.5</b>	0.6	<b>44.1%</b>	35.6%
<b>Total</b>	<b>9.0</b>	9.1	<b>6.8</b>	5.8	<b>75.9%</b>	63.4%

*Recurring revenues comprise software maintenance renewals, support contracts, and hosting & managed services.*

	2018	2017
Adjusted profit from operations <sup>5</sup> (£m)	<b>2.5</b>	0.9
Recurring revenue as % of total revenues	<b>51.8%</b>	51.8%

**"A key area of focus for the Company is increasing the proportion of sales from our own IP"**





Total revenue from own IP over the first half of the financial year amounted to £9.0m (2017: £9.1m), however the revenue mix altered significantly, with revenues from software licences up by 84.6%, and services revenues reducing by 46.7%. This change in the mix drove a 17.2% increase in gross profit to £6.8m (2017: £5.8m) and a 12.5 percentage point improvement in gross margin to 75.9% (2017: 63.4%).

Sales of “axjis fashion” (which is largely targeted at the Enterprise market) and Pebblestone (our leading business software for the mid-market fashion industry) were particularly strong, especially at the half year end for “axjis fashion”. We are also very pleased to highlight the volume of sales achieved through our channel partners.

The strong sales of “axjis fashion” in the period were in stark contrast to the Enterprise market confusion in 2017, and there is now greater sector acceptance of cloud-based models, away from traditional ‘on-premise’ solutions. Seven “axjis fashion” deals were closed in the first half, with new customers including Mole Valley Farmers Ltd, the UK-based rural retailer, Engbers, Germany’s largest shirt manufacturer, Van Bommel, the Dutch shoemaker and SanMar, the US fashion wholesaler. Eton Shirts, an existing K3 customer, also proceeded with a major roll-out of “axjis fashion” across its business. Most of the deployment was cloud-based, and these new sales were predominantly achieved through channel partners.

The pipeline for both “axjis fashion” and Pebblestone continues to look very encouraging.

The development of Imagine, our cloud-native, ERP-agnostic platform has been an important step for us. The platform enables us to integrate leading-edge ‘module’ solutions into customers’ existing infrastructure swiftly and cost-effectively. In this way, we can bring product innovation and the full power of the cloud to customers in a commercially and operationally attractive manner. Our first suite of modules for Imagine are based around our existing retail offerings and we intend to develop further functionally-rich modules to broaden the scope of our product range. We formally launched Imagine to the marketplace in the period, and signed a large contract, with Ossur, which designs and manufactures prosthetic limbs. While Imagine sales are currently a relatively small contributor to sales, we expect the Imagine platform and modules to become a cornerstone of our IP strategy, and are planning to spend 50% of capitalised development on Imagine over the year in order to capture the growth opportunities available to us.

## Support Costs

Support costs<sup>\*6</sup> include the global costs of the Group’s finance, IT, legal and human resource functions, as well as Board and PLC costs. This classification is different from previous reporting and now reflects the centralised management of these resources and costs.

Costs increased slightly as the Group’s infrastructure framework was amended to support a more unified business, including some double-running of costs during this process.

# Consolidated Income Statement

## for the six months ended 31 May 2018

	Notes	Unaudited Six months to 31 May 2018 £'000	Unaudited Six months to 31 May 2017 £'000	Audited 17 months to 30 November 2017 £'000
<b>Revenue</b>		<b>41,407</b>	40,339	118,176
Cost of sales		<b>(19,789)</b>	(21,466)	(57,197)
Gross profit		<b>21,618</b>	18,873	60,979
Administrative expenses		<b>(22,127)</b>	(24,224)	(75,762)
Adjusted profit/(loss) from operations		<b>1,668</b>	(3,055)	(1,666)
Amortisation of acquired intangibles		<b>(1,263)</b>	(1,443)	(3,930)
Acquisition costs		<b>(7)</b>	(9)	(308)
Exceptional reorganisation costs	2	<b>(738)</b>	(844)	(4,731)
Exceptional impairment of development costs		<b>–</b>	–	(4,541)
Release of contingent consideration		<b>–</b>	–	393
Share-based payment charge		<b>(169)</b>	–	–
<b>Loss from operations</b>		<b>(509)</b>	(5,351)	(14,783)
Finance expense		<b>(506)</b>	(498)	(1,360)
Loss before taxation		<b>(1,015)</b>	(5,849)	(16,143)
Tax (expense)/credit	3	<b>(175)</b>	1,395	2,773
Loss for the period		<b>(1,190)</b>	(4,454)	(13,370)
All of the profit/(loss) for the period is attributable to equity holders of the parent.				
<b>(Loss) Per Share</b>	4			
Basic		<b>(2.8)p</b>	(12.4)p	(35.3)p
Diluted		<b>(2.8)p</b>	(12.3)p	(35.3)p

# Consolidated Statement of Comprehensive Income

## for the six months ended 31 May 2018

	Unaudited Six months to 31 May 2018 £'000	Unaudited Six months to 31 May 2017 £'000	Audited 17 months to 30 November 2017 £'000
<b>Loss for the period</b>	<b>(1,190)</b>	<b>(4,454)</b>	<b>(13,370)</b>
<b>Other comprehensive income</b>			
Exchange differences on translation of foreign operations	(10)	419	1,110
<b>Other comprehensive income, net of tax</b>	<b>(10)</b>	<b>419</b>	<b>1,110</b>
<b>Total comprehensive expense for the period</b>	<b>(1,200)</b>	<b>(4,035)</b>	<b>(12,260)</b>

All of the total comprehensive expense for the period is attributable to equity holders of the parent. All of the other comprehensive (expense)/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 31 May 2018

	Notes	Unaudited As at 31 May 2018 £'000	Unaudited As at 31 May 2017 £'000	Audited As at 30 November 2017 £'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment		2,292	2,198	2,479
Goodwill		50,973	50,913	51,019
Other intangible assets		19,031	26,130	20,539
Deferred tax assets		1,277	1,388	1,281
Available-for-sale investments		98	98	98
<b>Total non-current assets</b>		<b>73,671</b>	<b>80,727</b>	<b>75,416</b>
<b>Current assets</b>				
Trade and other receivables		33,642	39,714	30,429
Cash and cash equivalents		1,905	1,987	1,941
<b>Total current assets</b>		<b>35,547</b>	<b>41,701</b>	<b>32,370</b>
<b>Total assets</b>		<b>109,218</b>	<b>122,428</b>	<b>107,786</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Long-term borrowings	5	10,355	19,799	6,170
Deferred tax liabilities		2,275	3,307	2,524
<b>Total non-current liabilities</b>		<b>12,630</b>	<b>23,106</b>	<b>8,694</b>
<b>Current liabilities</b>				
Trade and other payables	6	27,889	32,634	29,249
Current tax liabilities		–	–	127
Short-term borrowings	5	59	698	59
<b>Total current liabilities</b>		<b>27,948</b>	<b>33,332</b>	<b>29,435</b>
<b>Total liabilities</b>		<b>40,578</b>	<b>56,438</b>	<b>38,129</b>
<b>EQUITY</b>				
Share capital		10,737	9,000	10,737
Share premium account		28,897	21,586	28,897
Other reserves		10,448	10,448	10,448
Translation reserve		2,176	1,946	2,186
Retained earnings		16,382	23,010	17,389
<b>Total equity attributable to equity holders of the parent</b>		<b>68,640</b>	<b>65,990</b>	<b>69,657</b>
<b>Total equity and liabilities</b>		<b>109,218</b>	<b>122,428</b>	<b>107,786</b>



# Consolidated Statement of Cash Flows

## for the six months ended 31 May 2018

	Notes	Unaudited Six months to 31 May 2018 £'000	Unaudited Six months to 31 May 2017 £'000	Audited 17 months to 30 November 2017 £'000
<b>Cash flows from operating activities</b>				
Loss for the period		(1,190)	(4,454)	(13,370)
Adjustments for:				
Share based payments charge		169	19	67
Depreciation of property, plant and equipment		450	500	1,373
Amortisation of intangible assets and development expenditure		2,481	3,147	13,481
Finance expense		506	498	1,360
Tax expense		175	(1,395)	(2,773)
(Increase)/decrease in trade and other receivables		(3,248)	3,613	10,022
Decrease in trade and other payables		(1,749)	(2,505)	(4,206)
Cash (utilised in)/generated from operations	7	(2,406)	(577)	5,954
Finance expense paid		(391)	(277)	(1,237)
Income taxes received/(paid)		(133)	(305)	356
Net cash (utilised in)/generated from operating activities		(2,930)	(1,159)	5,073
<b>Cash flows from investing activities</b>				
Acquisition of subsidiaries, net of cash acquired	7	–	(175)	(989)
Development expenditure capitalised		(990)	(2,081)	(6,158)
Purchase of property, plant and equipment		(223)	(366)	(1,307)
Net cash absorbed by investing activities		(1,213)	(2,622)	(8,454)
<b>Cash flows from financing activities</b>				
Net proceeds from issue of share capital		–	–	8,408
Proceeds from long-term borrowings		4,146	2,307	5,715
Payment of long-term borrowings		–	–	(10,885)
Payment of finance lease liabilities		(29)	(26)	(77)
Dividends paid		–	(630)	(630)
Net cash generated from financing activities		4,117	1,651	2,531
<b>Net change in cash and cash equivalents</b>		<b>(26)</b>	<b>(2,130)</b>	<b>(850)</b>
Cash and cash equivalents at start of period		1,941	4,098	2,772
Exchange gains on cash and cash equivalents		(10)	19	19
<b>Cash and cash equivalents at end of period</b>		<b>1,905</b>	<b>1,987</b>	<b>1,941</b>

# Consolidated Statement of Changes in Equity

## for the six months ended 31 May 2018

	Share capital £'000	Share premium £'000	Other reserve £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
<b>At 1 December 2016</b>	9,000	21,586	10,448	1,527	28,055	70,616
<b>Changes in equity for six months ended 31 May 2017</b>						
Loss for the period	—	—	—	—	(4,454)	(4,454)
Other comprehensive income for the period	—	—	—	419	—	419
Total comprehensive income/(expense)	—	—	—	419	(4,454)	(4,035)
Share-based payment credit	—	—	—	—	19	19
Movement in own shares held	—	—	—	—	20	20
Dividends to equity holders	—	—	—	—	(630)	(630)
<b>At 31 May 2017</b>	9,000	21,586	10,448	1,946	23,010	65,990
<b>Changes in equity for six months ended 30 November 2017</b>						
Loss for the period	—	—	—	—	(5,669)	(5,669)
Other comprehensive income for the period	—	—	—	240	—	240
Total comprehensive income/(expense)	—	—	—	240	(5,669)	(5,429)
Share-based payment credit	—	—	—	—	24	24
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	—	—	—	—	24	24
<b>At 30 November 2017</b>	10,737	28,897	10,448	2,186	17,389	69,657
<b>Changes in equity for six months ended 31 May 2018</b>						
Loss for the period	—	—	—	—	(1,190)	(1,190)
Other comprehensive income/(expense) for the period	—	—	—	(10)	—	(10)
Total comprehensive income/(expense)	—	—	—	(10)	(1,190)	(1,200)
Share-based payment credit	—	—	—	—	169	169
Movement in own shares held	—	—	—	—	14	14
<b>At 31 May 2018</b>	10,737	28,897	10,448	2,176	16,382	68,640

# Notes to the Unaudited Interim Statement

## 1 Basis of preparation

As announced in May 2017, the Company has changed of its accounting reference date and financial year-end from 30 June to 30 November.

The consolidated interim financial information has been prepared in accordance with the accounting policies that are expected to be adopted in the Group's full financial statements for the year ending 30 November 2018 which are not expected to be significantly different to those set out in Note 1 of the Group's audited financial statements for the 17 month period ended 30 November 2017. These are based on the recognition and measurement principles of IFRS in issue as adopted by the European Union (EU) and are effective at 30 November 2018 or are expected to be adopted and effective at 30 November 2018. The financial information has not been prepared (and is not required to be prepared) in accordance with IAS 34. The accounting policies have been applied consistently throughout the Group for the purposes of preparation of this financial information.

The financial information in this statement relating to the six months ended 31 May 2018 and the six months ended 31 May 2017 has neither been audited nor reviewed pursuant to guidance issued by the Auditing Practices Board. The financial information for the 17 month period ended 30 November 2017 does not constitute the full statutory accounts for that period. 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 the 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.

IFRS 15 'Revenue from Contracts with Customers' is mandatory for the Group from 1 December 2018 with early adoption permitted. The Group commenced an initial project to assess the effect of the adoption of IFRS 15 in the latter half of 2017 and good progress is being made. The complexities of IFRS 15 require a detailed analysis of the Group's performance obligations under each significant contract in order to assess whether they are distinct and to determine the point in time, or period over which, it is appropriate to recognise revenue. This also includes determining whether customers have a right to use or a right to access the software. There are some contracts where revenue may need to be recognised differently under IFRS 15 than under existing IFRS and these areas include the following:

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

Work is still ongoing to fully quantify the impact on revenue recognition for these contracts. The Group has tentatively taken the decision to apply the cumulative effect method as of the date of initial application with no restatement of comparatives. The cumulative effect of applying the new standard will be recorded as an adjustment to the opening balance of equity (retained earnings) at the date of initial application. The Group anticipates that further information on the effect of the adoption of IFRS 15 will be made during the coming year and to consider whether the Group will adopt the standard earlier than is mandatory.

IFRS 9 'Financial instruments' is mandatory for the Group from 1 December 2018 with early adoption permitted. The standard replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 sets out a new forward looking 'expected credit loss (ECL)' model which replaces the incurred loss model in IAS 39 and applies to, amongst other financial assets and liabilities, trade receivables. The new requirements will lead to the earlier recognition of larger credit losses. Unlike IAS 39, entities will be required to consider forward looking information when measuring ECL. Therefore, a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognised. Therefore, the provision for impairment of trade receivables will take account of the forward looking information. The group is still developing its model for calculating the ECL and until it has been finalised it is not possible to quantify the effects of this part of the standard.

## 2 Loss from operations

During the six month period to 31 May 2018, reorganisation costs of £0.73m have been incurred, most of which are redundancy costs. During the six month period to 31 May 2017, reorganisation costs of £0.84m were incurred relating to the reorganisation programme to create more unified, streamlined operations and reduced cost base.

## 3 Tax expense

	Unaudited Six months to 31 May 2018 £'000	Unaudited Six months to 31 May 2017 £'000	Audited 17 months to 30 November 2017 £'000
<b>Current tax expense/(credit)</b>			
UK corporation tax and income tax of overseas operations on profits/(losses) for the period	<b>183</b>	(181)	(388)
Adjustment in respect of prior periods	<b>230</b>	(125)	(176)
Total current tax expense/(credit)	<b>413</b>	(306)	(564)
<b>Deferred tax income</b>			
Origination and reversal of temporary differences	<b>(238)</b>	(960)	(2,046)
Effect of change in rate of deferred tax	<b>–</b>	(129)	(163)
Total deferred tax income	<b>(238)</b>	(1,089)	(2,209)
Total tax expense/(credit)	<b>175</b>	(1,395)	(2,773)

# Notes to the Unaudited Interim Statement continued

## 4 (Loss)/earnings per share

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

	Unaudited Six months to 31 May 2018 Number of shares	Unaudited Six months to 31 May 2017 Number of shares	Audited 17 months to 30 November 2017 Number of shares
Weighted average number of shares:			
For basic earnings per share	<b>42,871,302</b>	35,905,881	37,893,951
Effects of employee share options and warrants	–	361,371	–
For diluted earnings per share	<b>42,871,302</b>	36,267,252	37,893,951

Adjusted 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 and the above number of shares:

	Unaudited Six months to 31 May 2018			Unaudited Six months to 31 May 2017		
	Earnings	Per share amount basic	Per share amount diluted	Earnings	Per share amount basic	Per share amount diluted
	£'000	p	p	£'000	p	p
(Loss)/earnings per share (eps)	<b>(1,190)</b>	<b>(2.8)</b>	<b>(2.8)</b>	(4,454)	(12.4)	(12.3)
Amortisation of intangibles (net of tax)	<b>1,023</b>	<b>2.4</b>	<b>2.4</b>	970	2.7	2.7
Acquisition costs (net of tax)	<b>7</b>	–	–	9	–	–
Exceptional reorganisation costs (net of tax)	<b>598</b>	<b>1.4</b>	<b>1.4</b>	684	1.9	1.9
Release of contingent consideration (net of tax)	–	–	–	–	–	–
Share-based payment of charge (net of tax)	<b>169</b>	<b>0.4</b>	<b>0.4</b>	–	–	–
Adjusted (I)/eps	<b>607</b>	<b>1.4</b>	<b>1.4</b>	(2,791)	(7.8)	(7.7)

	Audited 17 months to 30 November 2017		
	Earnings	Per share amount basic	Per share amount diluted
	£'000	p	p
(Loss)/earnings per share (eps)	(13,370)	(35.3)	(35.3)
Amortisation of intangibles (net of tax)	3,037	8.0	8.0
Acquisition costs (net of tax)	308	0.8	0.8
Exceptional reorganisation costs (net of tax)	3,832	10.1	10.1
Exceptional impairment charge (net of tax)	3,678	9.7	9.7
Release of contingent consideration (net of tax)	(393)	(1.0)	(1.0)
Share-based payment charge (net of tax)	–	–	–
Adjusted (I)/eps	(2,908)	(7.7)	(7.7)



**5 Loans and borrowings**

	Unaudited As at 31 May 2018 £'000	Unaudited As at 31 May 2017 £'000	Audited As at 30 November 2017 £'000
<b>Non-current</b>			
Bank loans (secured)	<b>10,339</b>	19,725	6,124
Finance lease creditors	<b>16</b>	74	46
	<b>10,355</b>	19,799	6,170
<b>Current</b>			
Finance lease creditors	<b>59</b>	58	59
Loans from related parties	<b>—</b>	640	—
	<b>59</b>	698	59
<b>Total borrowings</b>	<b>10,414</b>	20,497	6,229

The movement in net debt (gross debt less cash and cash equivalents) has been computed as the Directors consider it useful to shareholders and investors. As cash flows are seasonal, it is more useful to present the movement for a 12 month period. The movement in net debt during the 12 months to 31 May 2018 is as follows:

	Unaudited 12 months to 31 May 2018 £'000	Unaudited 12 months to 31 May 2017 £'000
Net debt at 1 June 2017	<b>(18,510)</b>	(11,293)
Operating cash generation	<b>1,105</b>	(3,985)
Interest paid	<b>(731)</b>	(964)
Tax received/(paid)	<b>432</b>	(229)
Net proceeds from issue of shares	<b>8,408</b>	—
Conversion of loan to equity (non-cash)	<b>640</b>	—
Acquisitions	<b>393</b>	(904)
Other movements	<b>(246)</b>	(1,135)
<b>Net debt at 31 May 2018</b>	<b>(8,509)</b>	(18,510)

# Notes to the Unaudited Interim Statement continued

## 6 Trade and other payables

	Unaudited As at 31 May 2018 £'000	Unaudited As at 31 May 2017 £'000	Audited As at 30 November 2017 £'000
Trade payables	<b>5,084</b>	6,006	4,739
Other payables	<b>504</b>	430	594
Accruals	<b>7,341</b>	9,999	8,818
Total financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost	<b>12,929</b>	16,435	14,151
Contingent consideration	—	938	—
Other tax and social security taxes	<b>2,494</b>	3,419	3,961
Deferred revenue	<b>12,466</b>	11,842	11,137
	<b>27,889</b>	32,634	29,249

## 7 Notes to the cash flow statement

Cash generated from operations is stated after exceptional reorganisation costs and acquisition costs. 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:

	Unaudited Six months to 31 May 2018 £'000	Unaudited Six months to 31 May 2017 £'000	Audited 17 months to 30 November 2017 £'000
Cash (utilised in)/generated from operating activities	<b>(2,406)</b>	(577)	5,954
Add:			
Exceptional reorganisation costs	<b>738</b>	844	4,731
Acquisition costs	<b>7</b>	9	308
Release of contingent consideration	—	—	(393)
Adjusted (utilised in)/cash generated from operations	<b>(1,661)</b>	276	10,600

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

	Unaudited Six months to 31 May 2018 £'000	Unaudited Six months to 31 May 2017 £'000	Audited 17 months to 30 November 2017 £'000
Initial consideration	—	—	(1,506)
Cash balances acquired	—	—	324
Contingent consideration (paid into)/repaid from escrow	—	—	393
Contingent and deferred consideration paid	—	(175)	(200)
	—	(175)	(989)

**8** The above information is being sent to shareholders and is available from the Company's website, [www.k3btg.com](http://www.k3btg.com), and from its registered office: Baltimore House, 50 Kansas Avenue, Manchester M50 2GL.

## **9 Notes to the Financial Results**

- <sup>\*1</sup> Group adjusted profit/(loss) from operations is calculated before amortisation of acquired intangibles of £1.3m (2017: £1.4m), exceptional reorganisation costs of £0.7m (2017: £0.8m), and share-based payment charge of £0.2m (2017: nil).
- <sup>\*2</sup> Group adjusted profit/(loss) before tax is calculated before amortisation of acquired intangibles of £1.3m (2017: £1.4m), exceptional reorganisation costs of £0.7m (2017: £0.8m), and share-based payment charge of £0.2m (2017: nil).
- <sup>\*3</sup> Group adjusted earnings/(loss) per share is calculated before amortisation of acquired intangibles (net of tax) of £1.0m (2017: £1.0m), exceptional reorganisation costs (net of tax) of £0.6m (2017: £0.7m), and share-based payment charge (net of tax) of £0.2m (2017: nil).
- <sup>\*4</sup> Supply chain solutions and managed services adjusted profit/(loss) from operations is calculated before amortisation of acquired intangibles of £0.7m (2017: £0.7m) and exceptional reorganisation costs of £0.4m (2017: £0.8m).
- <sup>\*5</sup> Own IP adjusted profit from operations is calculated before amortisation of acquired intangibles of £0.5m (2017: £0.7m) and exceptional reorganisation costs of £0.2m (2017: nil).
- <sup>\*6</sup> Support costs are calculated before exceptional reorganisation costs of £0.1m (2017: £0.1m) and share-based payment charge of £0.2m (2017: nil).







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