AIM: KBT
30 March 2021

K3 BUSINESS TECHNOLOGY GROUP PLC

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

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

Final results for the 12 months to 30 November 2020

Key Points

Financial

	12 months to 30 November 2020	12 months to 30 November 2019
Revenue	£48.8m	£50.1m
Recurring or predictable revenue[2]	76.2%	73.2%
Own IP revenue (Note 2)	£16.1m	£17.9m
Own IP revenue as percentage of total revenue[3]	33.0%	35.7%
Own IP gross profit (Note 2)	£12.2m	£12.6m
Own IP gross profit as a percentage of total gross profit[4]	42.6%	44.0%
Gross margin	58.8%	57.4%
Adjusted EBITDA[1]	£4.0m	£7.1m
Loss before tax from continuing operations, including exceptional impairments*	£(20.9)m	£(0.7)m
Net cash from operating activities	£8.2m	£5.9m
Net Debt*[5]	£(1.9)m	£(2.4)m
Reported loss per share	(49.3)p	(36.0)p
Adjusted earnings per share	(4.8)p	2.6p
Loss from discontinued activities**	£(0.2)m	£(14.3)m

See Note 10 for details of the alternative performance measures
*exceptional impairments (all non-cash items) totalling £16.9m, which related to legacy products, the third-party Sage business and historic capitalised development costs.
*** Discontinued activities relate to UK Dynamics and Starcom Technologies Limited (see note 6 for further details)

Operational

- Own-IP revenue (including K3|fashion and K3|imagine) totalled £16.1m (2019: £17.9m), with gross profit of £12.2m (2019: £12.6m) – coronavirus crisis impacted retail solution sales
- Global Accounts revenue increased to £17.3m (2019: £15.7m); with gross profit up by 20.5% to £7.4m (2019: £6.2m) – reflected ongoing expansion of the IKEA franchisee network
- Third-party product revenue decreased to £15.4m (2019: £16.4), with gross profit at £9.0m (2019: £10.0m) – SYSPRO software and maintenance contracts renewals remained high at 97%
- Loss-making UK Dynamics business placed into administration in April 2020, leaving Group focused on profitable core units

Post-period events and Outlook

- Successful sale of managed service unit, Starcom Technologies Ltd, in February 2021 for £14.7m in cash, significantly strengthening the balance sheet and simplifying the Group.
- Re-evaluating target markets for K3|imagine ensuring optimal return on investment
- Trading so far in new financial year is in line with last financial year
- On 26 March 2021 we successfully agreed an extension to our Revolving Credit Facility with Barclays, with a facility of £3.5m, to March 2022
- Appointment of Marco Vergani as Chief Executive Officer – see separate announcement

Tom Crawford, Chairman of K3, said:

"In the face of unprecedented challenges created by the coronavirus pandemic, I am pleased with the resilience K3 has demonstrated. Our high level of predictable and recurring revenues, as well as our large and diverse customer base, led to robust results at a trading level.

"Implementing our strategy to focus on Own IP and Global Accounts and to cease investing in legacy POS products, we took a number of important strategic decisions in line with our growth strategy. These included placing the loss-making UK Dynamics unit into administration, raising additional funding and, in late February 2021, selling Starcom, our managed services unit, for £14.7m. The Group is now in a significantly stronger financial position and is better placed to drive our Own-IP strategy.

"Following Starcom's sale, Adalsteinn Valdimarsson stepped down as Chief Executive Officer, and I am pleased to welcome Marco Vergani as his successor. He brings significant sector experience and a strong record of driving sales.

"Marco will be leading a re-evaluation of our target markets for K3|imagine, which continues to offer exciting growth potential. We have a strong product offering and look forward to a return to more normal trading conditions as the coronavirus vaccine programme continues and lockdown restrictions are eased."

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CHAIRMAN'S STATEMENT

Overview

This is my first Statement as Chairman, having joined the Group and the Board at the end of October 2020. It has been a challenging year for K3. Nonetheless, some important strategic decisions and actions were taken, and the Group's performance has shown a significant degree of resilience despite the impact of the coronavirus pandemic on a number of areas of operation. Revenue from continuing operations over the financial year decreased by 2.5% to £48.8m (2019: £50.1m), and gross profit decreased slightly to £28.7m (2019: £28.8m). These robust results at a trading level were supported by our high level of predictable revenues and the geographically diverse customer base. However, the Group's reported losses, before discontinued operations, increased to £20.9m (2019: £1.1m) after non-cash impairment and reorganisation charges.

Throughout the pandemic, the safety and welfare of our staff, customers, partners, and suppliers have been priorities. Our staff made a tremendous effort in responding to the challenges we faced, and I am extremely grateful to everyone for the sacrifices they have made and for their hard work and loyalty to the Group.

The transition to working from home, virtual global collaboration and remote customer delivery went smoothly, although trading was affected by the impact of coronavirus-related restrictions on some customers and sub-sectors. We implemented cost saving measures to conserve cash and used government support where appropriate. This included furlough schemes in the UK and Denmark and tax deferral in the UK, amounting to £2.0m of tax, which will unwind in 2021.

As previously reported, in April 2020, having explored other options, the difficult decision was taken to place the loss-making UK Dynamics business into administration. The decision has left the Group focused on its core profitable business units, and the sales route for our K3|fashion and K3|pebblestone products in the UK is now through channel partners – as it is in Europe and international markets.

On 31 March 2020, we raised £6.0m in funding, through a shareholder loan of £3.0m and a £3.0m increase in banking facilities with Barclays. In the first quarter of the new financial year, in late February 2021, we agreed the sale of Starcom Technologies Limited ("Starcom"), our managed services unit, for £14.7m in cash. The sale generated over £10 million of profit on disposal. On 26 March 2021 we successfully agreed an extension to our Revolving Credit Facility with Barclays to March 2022. In addition, we are in advanced discussions with shareholders to convert the £3.0m of shareholder loans to equity in the near future. These actions have placed the Group on a more solid financial footing. These transactions are part of our strategic focus to develop our own IP products, and in particular our K3|imagine platform.

With the sale of Starcom successfully concluded and the Group's balance sheet strengthened, Adalsteinn Valdimarsson stepped down as Chief Executive Officer in early March. We are pleased to announce the appointment of Marco Vergani as his successor. Marco brings significant relevant commercial and industry experience and a strong track record in driving sales growth.

K3 has a good platform on which to move forward, and our growth strategy is focused on developing our own IP products and revenue streams, in particular SaaS revenue from our K3|imagine suite and revenue from our Global Accounts segment. Given the opportunity this presents, and with a new Chief Executive assuming control of the Group in a global environment changed by the pandemic, we are going to re-evaluate market strategy to ensure that we are investing in market segments with attractive, long-term growth opportunities.

Financial Results

Results from continuing activities

Revenue from continuing operations over the financial year totalled £48.8m (2019: £50.1m) with recurring or predictable revenue[2] accounting for 76.2% of the total revenue (2019: 73.2%). The Own IP business segment generated £16.1m of revenue (2019: £17.9m) which is 33.1% of total revenue (2019: 35.7%). Global Accounts (our business supporting Inter IKEA Systems B.V. (the owner and franchisor of the IKEA concept) and the Inter IKEA Concept franchisees) generated £17.3m of revenue (2019: £15.7m), an increase of 9.7%, which is 35.4% of total revenue (2019: 31.4%).

Group gross profit for the financial year was £28.7m (2019: £28.8m), with own IP contributing £12.2m (2019: £12.6m) or 42.6% of the total gross profit (2019: 44.0%). Gross margin increased to 58.8% (2019: 57.4%), driven by our Own IP and Global Accounts businesses.

Underlying support/admin expenses[7] increased by 14.5% to £24.7m (2019: £21.6m) as a result of investment in commercial and product development resource. Adjusted EBITDA[1] from continuing activities decreased to £4.0m (2019: £7.1m). This largely reflects the investment in increased commercial and product resource, lower fashion software sales and the adverse effects of the coronavirus outbreak.

Following impairment and reorganisation costs the loss before tax from continuing activities was £20.9m (2019: £1.1m) as administrative expenses increased to £48.5m (2019: £28.7m). In line with our strategic decision to cease developing legacy products and focus development of our own IP products, we recognised exceptional impairments (all non-cash items) totalling £16.9m, which comprises a £14.3m impairment of goodwill in the third-party Sage business (£4.9m), and legacy products within Own IP (relating to legacy products in the DdD, RSG and Unisoft CGUs) (£9.4m) and an impairment of historic capitalised development costs within our Own IP segment (£2.6m) (2019: £nil).After these items, the resultant loss before tax from continuing activities was £20.9m (2019: £0.2m profit).

Whilst our customer base is resilient and well-diversified, both geographically and by market vertical, the challenges of the pandemic, including lockdown restrictions, created certain impediments to sales and the adoption of new, and developing, K3|imagine solutions.

Reported results including discontinued activities

Discontinued activities relate to the UK Dynamics subsidiary and Starcom Technologies Limited ("Starcom"). UK Dynamics was put into administration on 21 April 2020, and the loss after tax from discontinued activities was £1.0m (2019: £15.2m).

Starcom was held for sale at 30 November 2020. The profit after tax from discontinued activities was £0.8m (2019: £0.9m).

Dividend and AGM

Given the financial position of the Group and ongoing investment in the Own IP strategy, the Board believes it is prudent to maintain the suspension of dividends for the foreseeable future.

K3's Annual General Meeting will be held on Wednesday 19 May 2021 at Baltimore House, 50 Kansas Avenue, Manchester M50 2GL. The meeting will be conducted in line with Government guidance at this time.

Growth Strategy

The Group strategy remains focused on growing own-IP sales, and on developing the commercial opportunity presented by the K3|imagine platform and applications. This strategy has the scope to generate high quality, SaaS revenue and higher margins. To this end, with a new Chief Executive now in place and the global environment changed by the pandemic, we are going to re-evaluate market strategy to ensure that we invest in attractive market segments with long-term growth themes and potential.

The K3|imagine suite is relevant for existing as well as new customers. Its platform and applications, such as self-serve kiosks, enable customers to adopt powerful technology rapidly and easily, and offer attractive returns on investment. The suite provides an upgrade path for existing customers using legacy technology as well as an opportunity to cross-sell into Global Accounts and other customers. Consequently, we made the decision in October 2020 to cease marketing some of our legacy products and start an initiative to promote the phased adoption of the K3|imagine retail suite by point-of-sale customers.

K3|fashion remains an important product for us and Microsoft's global endorsement of it for the fashion and apparel sectors enhances its market appeal. We now sell the product via channel partners across all markets, which include Europe and the US, with partners responsible for implementations. Sales are typically with larger companies and comprise upfront software licence income together with ongoing maintenance income. They tend to be high value although often with longer and more complex sales cycles.

Global Accounts, which is a significant business segment, includes our Inter IKEA Systems B.V. (the owner and franchisor of the IKEA concept) and the Inter IKEA Concept franchisees, is growing well. This reflects the strong relationships we have established, our high service levels, and the ongoing expansion of the IKEA franchisees networks. We have increased investment in resource in the Kuala Lumpur office to support growth, and are in the process of standardising service implementation, which should protect services gross margin. We expect to see this area of operation continue to grow, including within the newer geographies.

In line with our growth strategy, UK Dynamics was put into administration on 21 April 2020 and Starcom Technologies Limited was held for sale at 30 November 2020. As a result, third Party solutions now principally comprises our SYSPRO and Sage products, which we sell in the UK. SYSPRO's core markets are manufacturing, and distribution and our large installed customer base generates significant earnings and cash flows from annual software licence, support, and maintenance renewals. Sage and SYSPRO suffered from sluggish new business impacted by Brexit and the coronavirus pandemic. As the impact of Brexit decreases and we begin to move out of the significant disruption caused by the coronavirus pandemic, the prospects and situation for the SYSPRO business is also beginning to improve.

Board Changes

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

Marco replaces Adalsteinn Valdimarrson who stepped down from the Board and Company in early March 2021. We would like to thank Adalsteinn for his significant contribution to the Group. He successfully led a fundamental restructuring of the Group and refocused its strategic direction. We wish him every success in his new ventures.

Over the year under review, a number of other changes were made to the Board. Oliver Scott joined as Non-Executive Director in February 2020. Oliver is a partner of Kestrel Partners LLP, the independent investment manager, which he co-founded in 2009, having previously spent 20 years advising smaller quoted and unquoted companies, latterly as a director of KBC Peel Hunt Corporate Finance. He is also a non-executive director of ULS Technology PLC. Kestrel is K3's largest shareholder, with a current holding representing 24.3% of the Company's share capital.

In May 2020 Non-Executive Directors Stuart Darling and Paul Morland retired from the Board and at the end of October 2020, I was pleased to join the Group, taking over the role of Chairman from Jonathan Manley (interim Chair). I temporarily assumed the role of Interim Chief Executive Officer in March 2021 ahead of Marco joining the Board. My career to date has been in the global software industry, both in the UK and internationally, including Europe and North America. I also have significant experience in growing and developing product-based software businesses, and was, until January 2020, Chief Executive Officer of Aptitude Software Group Plc, the global financial management software company.

Staff

On behalf of the Board, we extend our thanks to all our staff for their hard work in this unprecedented year. Our teams have shown significant dedication and commitment during this time, and their response to adapting to the new conditions created by the pandemic was outstanding.

Outlook

Trading so far in the new financial year has been in line with the same period last year. In the first quarter of the new financial year ending 30 November 2021, term contracts with a total contract value of £1.5m have been closed in K3|fashion with £0.5m of new contracts signed for K3|imagine. Global Accounts is maintaining momentum and initiatives to promote the migration of key customers on legacy POS solutions to our K3|imagine retail suite are in planning and development. We are re-examining the wider market opportunities for K3|imagine and remain excited about its growth potential.

The Board remains confident in the plans for the future of the Group and the repositioning strategy to focus on own-IP lead growth and SaaS in attractive markets. We look forward to more normal trading conditions as the coronavirus vaccine programme rolls out and pandemic restrictions are eased.

OPERATIONAL AND FINANCIAL REVIEW

The Directors consider the key performance indicators by which they measure the performance of the Group to be turnover, gross profit, gross margin, recurring or predictable revenue[2] and Own IP gross profit as a percentage of total gross profit[4]. The Group's results for the year end to 30 November 2020, together with comparatives for the same period in 2019, are summarised in the tables below. 2019 comparatives have been restated following the classification of UK Dynamics as a discontinued activity (after its administration in April 2020) and Starcom as an asset held for sale as at 30 November 2020.

During the year we have realigned our segmental reporting in line with our growth strategy. With the continuing growth in Global Accounts, we now recognise it as a separate segment and include revenue and costs relating to the Inter IKEA Systems B.V. (the owner and franchisor of the IKEA concept) and the Inter IKEA Concept franchisees. Our segmental analysis provides further information on the Group's performance across key areas of activity; Own IP, Global Accounts and Third-party products (including SYSPRO and Sage).

(£m)	Revenue		Gross profit		Gross margin	
	2020	2019 (restated)	2020	2019 (restated)	2020	2019 (restated)
Own IP	**16.1**	17.9	**12.2**	12.6	**75.8%**	70.7%
Global Accounts	**17.3**	15.7	**7.4**	6.2	**43.0%**	39.1%
Third-party products	**15.4**	16.5	**9.1**	10.0	**58.8%**	60.4%

Total	**48.8**	50.1	**28.7**	28.8	**58.8%**	57.4%

Continuing Activities

	2020	2019
Recurring or predictable revenue[2]	**76.2%**	73.2%
Own IP gross profit as a percentage of total gross profit[4]	**42.6%**	44.0%

Own IP

K3's own-IP includes;

- IP embedded within third-party solutions to add extra functionality and produce a richer overall solution for K3's target markets. These solutions include K3|fashion and K3|pebblestone;
- K3|imagine, our cloud-native platform, solutions, and apps, with our integration engine, K3|dataswitch; and
- other stand-alone point solutions and apps including our legacy point of sale ("POS") products.

Own-IP revenue decreased by 9.7% to £16.1m (2019: £17.9m) gross profit fell to £12.2m (2019: £12.6m), reflecting a product mix that included a greater contribution from K3|fashion sales and lower contribution from POS products. In line with this, gross margin increased to 75.8% (2019: 70.7%).

Despite the challenges that the lockdown restrictions created for the retail sector, £1.4m of contracts were closed for K3|fashion over the financial year (2019: £2.4m). In the first quarter of the new financial year ending 30 November 2021, £1.5m of contracts have been closed with both European and US retailers in line with our sales strategy for this product.

We remain confident about prospects for K3|fashion and its endorsement by Microsoft as its recommended 'add-on' solution for the fashion and apparel sector globally that has given our product additional profile in the market.

Our K3|imagine platform and its applications are provided on a Platform-as-a-Service ("PaaS") and Software-as-a-Solution ("SaaS") basis. Customers bought from across the suite of applications, including self-serve kiosks, point of sale, companion apps, and make tax digital. However, the retail solution sales have been impacted by coronavirus restrictions and poor trading conditions throughout 2020, and this trend has continued into 2021. In total £1.0m of contracts were closed over the year (2019: £0.3m).

As a result of the focus on our K3|imagine platform and its suite of applications we have recognised an impairment of £12.0m within Own IP. This is comprised of an impairment to Goodwill and Other Intangibles of £9.4m relating to the legacy POS products and a £2.6m impairment of legacy development costs.

Global Accounts

Revenue from Global Accounts continued to grow, increasing by 10.1% to £17.3m (2019: £15.7m). Gross profit increased by 19.4% to £7.4m (2019: £6.2m) with gross margin increasing to 43.1% (2019: 39.1%).

This strong performance reflected our ability to support the ongoing expansion of the IKEA franchisee network into new geographies such as South and Central America. The increased activity mainly contributed to services income. The Far East has generally proven to be more resilient to the impact of coronavirus than the West, with Far Eastern customers being impacted for less time. We anticipate continued growth in Global Accounts and have further expanded resource at our Kuala Lumpur office to support this.

Third-party products

Third-party products include our SYSPRO and Sage products, which we resell in the UK. This area of activity was the most badly affected by the coronavirus crisis and Brexit uncertainty as customers in distribution and manufacturing held back from supply chain investments and services projects. We implemented mitigating actions to reduce the impact, including furlough. Revenue decreased by 6.7% to £15.4m (2019: £16.5m) and gross profit reduced by 9.0% to £9.1m (2019: £10.0m). Gross margin was 58.8% (2019: 60.4%).

Our manufacturing customer base, which largely comprises SYSPRO customers, was more resilient to coronavirus although SYSPRO services income was impacted by some customer sites being closed. Encouragingly SYSPRO new business discussions continued throughout the period.

Our retail and distribution customer base, which is more biased to Sage, was more disrupted by coronavirus-related restrictions, and new business opportunities and pipeline remain soft. We do not expect substantial new sales in the future from our Sage business and as a result have recognised a £4.9m impairment of goodwill relating to the Sage business unit.

The second half of the financial year benefited from the high level of software licence and maintenance and support contract renewals from the SYSPRO customer base in this period. This was reflected in the typically strong weighting in earnings and cash generation to the fourth quarter.

Administrative expenses

Underlying Support/Administration costs[7] have increased to £24.7m (2019: £21.6m) reflecting investment in the commercial and product development teams. Total administrative expenses increased to £48.5m (2019: £28.7m). This includes exceptional impairments (all non-cash items) totalling £16.9m, which relate to a £14.3m impairment of goodwill in the third-party Sage business (£4.9m), and legacy products within Own IP (£9.4m) and an impairment of historic capitalised development costs within our Own IP segment (£2.6m) (2019: £nil).

Coronavirus Pandemic and Brexit

The Group responded swiftly to the coronavirus pandemic with employees moving to remote working and offices that remained operational implementing protective measures, in line with government guidance.

Coronavirus lockdown restrictions created challenges for the Group more prominently within the retail and hospitality sectors resulting in reduced contract wins for K3|imagine retail suite and visitor attractions solutions. Our third-party products segment was also impacted as customers in distribution and manufacturing delayed investments in supply chain investments and services projects. In response to these challenges the Group utilised furlough schemes in the UK and Denmark, which reflected specific verticals that were impacted, and staff volunteered temporary salary reductions. The Group also made use of Government tax deferral schemes, with a total of £2.0m of tax deferred at the financial year end.

Additional funding totalling £6.0m was secured in April 2020, when we extended our loan facility with Barclays by £3.0m and raised £3.0m via a shareholder loan.

Brexit impacted our UK operations, especially for third party product sales. However, these units recovered somewhat in the final quarter of the financial year, helped by sales opportunities cultivated during the lockdown in the manufacturing vertical coming through and by the investment in sales resources.

Discontinued Activities – UK Dynamics

On 21 April 2020, the UK Dynamics subsidiary was put into administration. The subsidiary's reported results show a loss before tax of £1.3m (2019: loss of £14.8m). The UK Dynamics business had, despite several restructurings, continued to be cash consumptive, with long deal cycles and high operating costs. Following its administration, we have maintained relationships with UK Dynamics customers using K3 Own IP and now use channel partners as the route to market in the UK for K3|fashion and K3|pebblestone, as we do in non-UK territories.

Discontinued Activities – Starcom Technologies Limited

In September 2020, the Board embarked on a programme to explore options to sell Starcom Technologies Limited ("Starcom"), our managed services unit, since managed services was not seen as a strategic growth area. Starcom was therefore classified as an 'available for sale' asset as at 30 November 2020 and it has been accounted for in discontinued activities.

Starcom's total external revenue for the year ended 30 November 2020 was £9.5m (2019: £9.3m) and the unit generated profit before taxation of £0.8m (2019: £1.0m). In February 2021, the unit was sold for £14.7m including £0.5m of cash on the balance sheet. The management team and staff of Starcom have transferred with the sale of the business together with its 280 customers. Under the terms of a services agreement Starcom will continue to provide K3 and its customers with managed services for at least three years.

Earnings per Share and Dividends

Adjusted loss per share[6] was 4.8p (2019: adjusted profit per share[6] 2.6p). Loss per share was 49.3p (2019: 36.0p).

No dividend will be declared for the year ended 30 November 2020 (2019: nil).

Taxation

There was a tax benefit for the financial year of £0.3m (2019: £0.9m charge) comprising a charge of £0.3m (2019: £0.6m) for current taxation and a benefit of £0.6m (2019: £0.3m charge) for deferred taxation, of which £0.2m (2019: £0.3m) related to the amortisation of intangible assets.

The loss before taxation was driven by the large impairment charge which is non-tax deductible. The Group's tax rate is sensitive to the geographical mix of its profits and losses and with the growth of the non-UK business, overseas tax is increasing. The effective tax rate for the year is 1.3% (2019: (6.4%). The effective tax rate is determined as the tax expense/(credit) divided by the accounting profit/(loss) before tax.

Balance Sheet

As a result of the Group's strategic focus moving away from older POS products and towards the new own IP products, particularly the K3|imagine platform, as well as reduced expectations for future sales in mature business components, an impairment charge of £16.9m was recognised in the year. This consisted of a £12.8m impairment of Goodwill and a £1.5m impairment of IP and Customer Relationships, relating to older POS products and the Sage unit, and a £2.6m impairment of historical development costs.

The assets, and associated liabilities, for Starcom have been classified as held for sale as at 30 November 2020 with a net asset value of £3.3m.

Additions to development costs were £4.5m compared to £4.1m in 2019, driven by the focus on development of K3|imagine. Amortisation of development costs was £2.5m (2019: £2.9m). An impairment loss of £2.6m was recognised against the development costs of older products. The amortisation charge on acquired intangible assets was £1.8m (2019: £2.5m).

Trade and other receivables were £12.2m (2019: £20.7m). Included within the 2019 balance was £5.9m for UK Dynamics, and £1.7m for Starcom. The remaining £0.9m reduction compared to 2019 is due to better credit control management. Trade and other payables were £19.1m (2019: £25.0m). Included within the 2019 balance was £5.1m for UK Dynamics and £3.0m for Starcom, so underlying trade payables have increased by £2.2m, of which HMRC coronavirus deferrals were £2.0m.

The net debt[5] position at 30 November 2020 was £1.9m and comprised £0.8m of bank net cash and a shareholder loan of £2.7m. £0.3m of the total shareholder loan value of £3.0m is recognised in equity as a fair value adjustment for the associated warrants, which were issued alongside the loan, at 30 November 2020. This will be amortised as a finance expense in 2021. Net debt at the same point in 2019 amounted to £2.4m and was entirely bank net debt.

Cash Flow

The net cash from continuing operating activities was £8.2m (2019: £5.8m). The net change in working capital from trade and other receivables and trade and other payables was £4.1m inflow (2019: £0.3m outflow). The main drivers for these movements were the release of balances related to UK Dynamics along with better credit control and invoicing procedures.

Investing activities increased to £5.2m (2019: £4.7m) with the focus on the development of the K3|imagine platform. The purchase of property, plant and equipment also included IT equipment to run managed services and IFRS 16 right to use asset additions.

Consolidated income statement
for the year ended 30 November 2020

	Notes	Year ended 30 November 2020 £'000	Year ended 30 November 2019 (restated^) £'000
Revenue		48,819	50,094
Cost of sales		(20,110)	(21,341)
Gross profit		28,709	28,753
Administrative expenses		(48,402)	(28,799)
Impairment (losses)/gains on financial assets		(122)	115
Adjusted EBITDA[1]		3,965	7,149
Depreciation and amortisation		(4,500)	(4,260)
Amortisation of acquired intangibles		(1,471)	(2,161)
Exceptional Impairment	7	(16,855)	-
Exceptional reorganisation costs		(934)	(362)
Exceptional customer settlement provision		-	(400)
Share-based payment (charge)/credit		(20)	103
(Loss)/profit from operations		(19,815)	69
Finance expense		(1,124)	(776)
(Loss)/profit before taxation from continuing operations		(20,939)	(707)
Tax expense	3	(7)	(424)
Loss after taxation from continuing operations		(20,946)	(1,131)
Loss after taxation from discontinued operations		(184)	(14,316)
Loss for the year		**(21,130)**	**(15,447)**

^ The 2019 results have been restated to present UK Dynamics and Starcom Technologies Limited as discontinued operations. See Note 6 for further details.

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

(Loss) per share	Note	Year ended 30 November 2020	Year ended 30 November 2019
Basic	4	(49.3)p	(36.0)p
Diluted	4	(49.3)p	(36.0)p

Consolidated statement of comprehensive income
for the year ended 30 November 2020

	Year ended 30 November 2020	Year ended 30 November 2019 (restated)
	£'000	£'000
Loss for the year	**(21,130)**	**(15,447)**
Other comprehensive income		
Exchange differences on translation of foreign operations	1,065	(928)
Other comprehensive income	(20,065)	(16,375)
Total comprehensive expense for the year	**(20,065)**	**(16,375)**

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

Consolidated statement of financial position
as at 30 November 2020

	Notes	2020 £'000	2019 £'000
ASSETS			
Non-current assets			
Property, plant and equipment		1,866	2,107
Right-of-use assets		2,719	4,058
Goodwill		26,132	40,467
Other intangible assets		10,271	14,422
Deferred tax assets		935	825
Total non-current assets		**41,923**	**61,879**
Current assets			
Trade and other receivables		12,195	20,746
Cash and cash equivalents		9,306	8,226
Assets classified as held for sale		6,899	-
Total current assets		**28,400**	**28,972**
Total assets		**70,323**	**90,851**
LIABILITIES			
Non-current liabilities			
Lease liabilities		1,735	2,507
Borrowings		-	6,262
Provisions		416	294
Deferred tax liabilities		889	1,115
Total non-current liabilities		**3,040**	**10,178**
Current liabilities			
Trade and other payables		19,145	25,008
Current tax liabilities		1,274	493
Lease liabilities		925	1,410
Borrowings		12,443	4,385
Provisions		9	120
Liabilities directly associated with assets classified as held for sale		3,572	-
Total current liabilities		**37,368**	**31,416**
Total liabilities		**40,408**	**41,594**
EQUITY			
Share capital		10,737	10,737
Share premium account		28,897	28,897
Other reserves		11,151	10,448
Translation reserve		2,623	1,558
Retained earnings		(23,493)	(2,383)
Total equity attributable to equity holders of the parent		**29,915**	**49,257**
Total equity and liabilities		**70,323**	**90,851**

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Consolidated Cash Flow Statement
for the year ended 30 November 2020

	Notes	Year ended 30-Nov 2020 £'000	Year ended 30-Nov 2019 £'000
Cash flows from operating activities			
Loss for the period		(21,130)	(15,447)
Adjustments for:			
Finance expense		1,137	856
Tax expense		(284)	931
Depreciation of property, plant and equipment		730	794
Impairment loss on property, plant and equipment		-	73
Depreciation of right-of-use assets		1,727	1,737
Amortisation of intangible assets and development expenditure		4,247	5,377
Impairment of intangible assets		16,855	12,062
Impairment of investments		-	98
Loss on sale of property, plant and equipment		254	-
Share-based payments credit/ (charge)		20	(103)
Loss on disposal of discontinued operations, net of tax		957	-
Increase in provisions		71	414
Decrease in trade and other receivables		6,680	3,629
Decrease in trade and other payables		(2,668)	(4,348)
Cash generated from operations		8,596	6,073
Income taxes		(364)	(191)
Net cash from operating activities		8,232	5,882
Cash flows from investing activities			
Development expenditure capitalised		(4,516)	(4,080)
Purchase of property, plant and equipment		(713)	(666)
Net cash used in investing activities		(5,229)	(4,746)
Cash flows from financing activities			
Proceeds from loans and borrowings		9,950	4,500
Repayment of loans and borrowings		(6,468)	(5,750)
Repayment of lease liabilities		(1,841)	(1,505)
Interest paid on lease liabilities		(308)	(347)
Finance expense paid		(590)	(385)
Dividends paid		-	(661)
Net cash from financing activities		743	(4,148)
Net change in cash and cash equivalents		3,746	(3,012)
Cash and cash equivalents at start of year		3,841	6,914
Exchange gains /(losses) on cash and cash equivalents		(21)	(61)
Cash and cash equivalents at end of year	9	7,566	3,841

Consolidated statement of Changes in Equity
for the year ended 30 November 2020

	Share capital £'000	Share premium £'000	Other reserves £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
At 30 November 2018	**10,737**	**28,897**	**10,448**	**2,486**	**13,828**	**66,396**
Changes in equity for year ended 30 November 2019						
Loss for the year	-	-	-	-	(15,447)	**(15,447)**
Other comprehensive income for the year	-	-	-	(928)	-	**(928)**
Total comprehensive income/(expense)	-	-	-	(928)	(15,447)	**(16,375)**
Share-based payment reversal	-	-	-	-	(103)	**(103)**
Dividends to equity holders	-	-	-	-	(661)	**(661)**
At 30 November 2019	**10,737**	**28,897**	**10,448**	**1,558**	**(2,383)**	**49,257**
Changes in equity for year ended 30 November 2020						
Loss for the year	-	-	-	-	(21,130)	**(21,130)**
Other comprehensive income for the year	-	-	-	1,065	-	**1,065**
Total comprehensive income/(expense)	-	-	-	1,065	(21,130)	**(20,065)**
Share-based payment expense	-	-	-	-	20	**20**
Issue of warrants	-	-	703	-	-	**703**
At 30 November 2020	**10,737**	**28,897**	**11,151**	**2,623**	**(23,493)**	**29,915**

1 Basis of preparation

Statement of compliance

The Group's financial information has been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

The financial information has been prepared under the historical cost convention except for derivative financial instruments which are stated at their fair value.

Whilst the financial information included in this Preliminary Results Announcement has been prepared in accordance with the recognition and measurement criteria of IFRS, this announcement does not itself contain sufficient information to comply with IFRS.

This statement of Final Results does not constitute the Company's statutory accounts for the years ended 30 November 2020 and 30 November 2019 within the meaning of Section 435 of the Companies Act 2006 but is derived from those statutory accounts.

The Group's statutory accounts for the year ended 30 November 2019 have been filed with the Registrar of Companies, and those for 2020 will be delivered following the Company's Annual General Meeting. The Auditor has reported on the statutory accounts for 2020 and 2019. Their report for 2020 was (i) unqualified, (ii) did not contain any material uncertainties and (iii) did not contain statements under Sections 498 (2) or 498 (3) of the Companies Act 2006 in relation to the financial statements.

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 disruption arising from COVID-19 introduced additional uncertainty for the Group, but the Group was able to raise additional funding in the period, exceeded the forecast models with the Group generating a cash inflow of £3.7m in the year ending 30 November 2020. However, despite the positive cash generation, on 30 November 2020 the Group was in a net current liability position of £9.0m. This was a result of loan facilities of £6.8m due to expire on 31 March 2021 and a shareholder loan of £3.0m due for repayment by 30 June 2021.

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

The forecast has been strengthened by key actions taken by the Board. On 26 February 2021, the Group agreed the sale of Starcom Technologies Limited (“Starcom”), our managed services unit, for £14.7m in cash. The sale generated over £10 million of profit on disposal and following the sale the Group moved into a net cash position. On 26 March 2021 we successfully agreed an extension to our Revolving Credit Facility with Barclays to March 2022 with an option to extend. In addition, we are in advanced discussions with shareholders to convert the £3.0m of shareholder loans to equity in the near future. These actions have put the Group in a net cash position as at 30 March 2021 and significantly reduced the Group’s short-term liabilities.

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

Adoption of new and revised standards

New accounting standards adopted by the Group

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

Amendments to References to the Conceptual Framework in IFRS Standards	The Group has adopted the amendments included in Amendments to References to the Conceptual Framework in IFRS Standards for the first time in the current year. The amendments include consequential amendments to affected Standards so that they refer to the new Framework. Not all amendments, however, update those pronouncements with regard to references to and quotes from the Framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework. The Standards which are amended are IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.
Amendments to IFRS 3 Definition of a business	The Group has adopted the amendments to IFRS 3 for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired. The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after 1 January 2020. This has had no impact for the Group for the year ending 30 November 2020.
Amendments to IAS 1 and IAS 8 Definition of material	The Group has adopted the amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of 'material' or refer to the term ‘material’ to ensure consistency.

2 Segment information

We have restated the 2019 segment information to remove the discontinued activities of UK Dynamics and Starcom Technologies Limited. In addition, we have restated 2019 in order to recognise the new segment, Global Accounts. During the past two financial years the group has moved to a more 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 IP sales. Reporting is based on product K3 own IP, Global Accounts and 3rd party products revenue and gross margin. Overheads and administrative expenses are included as a central cost given resource works across these three segments.

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

The CODM (Chief Operating Decision Maker, the Board) primarily assesses the performance of the operating segments based on product revenue, gross margin and group adjusted EBITDA[1].

The segment results for the year ended 30 November 2020 and for the year ended 30 November 2019, reconciled to loss for the year.

Year ended 30 November 2020

	K3 Own IP £'000	Global Accounts £'000	3rd party products £'000	Central Costs £'000	Total £'000
Total segment revenue	20,100	19,479	16,146	458	56,183
Less Inter-segment revenue	(3,951)	(2,220)	(735)	(458)	(7,364)
Software licence revenue	3,248	718	1798	-	5,764
Services revenue	1,169	13,472	3,180	-	17,821
Maintenance & support	10,308	3,045	10,362	-	23,715
Hardware and other revenue	1,424	24	71	-	1,519
External revenue	**16,149**	**17,259**	**15,411**	**-**	**48,819**
Cost of sales	(3,909)	(9,845)	(6,356)	-	(20,110)
Gross profit	12,240	7,414	9,055	-	28,709
Gross margin	75.8%	43.0%	58.8%	-	58.8%
Underlying administrative expenses[7]	-	-	-	(24,744)	(24,744)
Adjusted EBITDA[1] from continuing operations	12,240	7,414	9,055	(24,744)	3,965
Depreciation and amortisation	-	-	-	(4,500)	(4,500)
Amortisation of acquired intangibles	-	-	-	(1,471)	(1,471)
Exceptional impairment	-	-	-	(16,855)	(16,855)
Exceptional reorganisation costs	-	-	-	(934)	(934)
Exceptional customer settlement provision	-	-	-	-	-
Share-based payment (charge)/credit	-	-	-	(20)	(20)
Loss from operations	12,240	7,414	9,055	(48,524)	(19,815)
Finance expense	-	-	-	(1,124)	(1,124)
Loss before tax and discontinued operations	12,240	7,414	9,055	(49,648)	(20,939)
Tax expense	-	-	-	(7)	(7)
Loss from discontinued operations	-	-	-	(184)	(184)
Loss for the year	12,240	7,414	9,055	(49,839)	(21,130)

Year ended 30 November 2019 *(restated)*

	K3 Own IP £'000	Global Accounts £'000	3rd party products £'000	Central Costs £'000	Total £'000
Total segment revenue	22,335	17,765	19,821	-	59,920
Less Inter-segment revenue	(4,459)	(2,037)	(3,331)	-	(9,827)
Software licence revenue	3,024	707	2,171	-	5,902
Services revenue	1,011	12,786	4,699	-	18,508
Maintenance & support	11,482	2,223	9,496	-	23,201
Hardware and other revenue	2,359	-	124	-	2,483
External revenue	**17,876**	**15,728**	**16,490**	**-**	**50,094**
Cost of sales	(5,233)	(9,574)	(6,534)	-	(21,341)
Gross profit	12,643	6,154	9,956	-	28,753
Gross margin	70.7%	39.1%	60.4%	-	57.4%
Underlying administrative expenses[7]	-	-	-	(21,604)	(21,604)
Adjusted EBITDA[1] from continuing operations	12,643	6,154	9,956	(21,604)	7,149
Depreciation and amortisation	-	-	-	(4,260)	(4,260)
Amortisation of acquired intangibles	-	-	-	(2,161)	(2,161)
Exceptional reorganisation costs	-	-	-	(362)	(362)
Exceptional customer settlement provision	-	-	-	(400)	(400)
Share-based payment (charge)/credit	-	-	-	103	103
Loss from operations	12,643	6,154	9,956	(28,684)	69
Finance expense	-	-	-	(776)	(776)
Loss before tax and discontinued operations	12,643	6,154	9,956	(29,460)	(707)
Tax expense	-	-	-	(424)	(424)
Loss from discontinued operations	-	-	-	(14,316)	(14,316)
Loss for the year	12,643	6,154	9,956	(44,200)	(15,447)

The Group has one customer relationship which accounts for 32% (2019: 30%) of external Group revenue.

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 2020 £000	Year ended 30 November 2019 (restated) £000	2020 £000	2019 £000
United Kingdom	18,980	18,908	30,667	52,693
Netherlands	9,153	9,468	420	918
Ireland	1,245	1,737	10,861	8,243
Rest of Europe	10,110	11,000	(318)	(48)
Middle East	1,641	3,076	-	-
Asia	4,503	3,936	274	52
USA	1,017	1,003	19	21
Rest of World	2,170	966	-	-
	48,819	50,094	41,923	61,879
% of non-UK revenue	61%	62%		

External revenue by Business Unit Geography

2020

External Revenue by Market

	UK £'000	Non-UK £'000	Total £'000
Software Licence Revenue	2,430	3,334	**5,764**
Services Revenue	3,063	14,758	**17,821**
Maintenance & Support	12,781	10,934	**23,715**
Hardware and other Revenue	541	978	**1,519**
Total	**18,815**	**30,004**	**48,819**

External revenue by business unit geography

	Software Licencing £'000	Services Revenue £'000	Maintenance & support Revenue £'000	Hardware & Other Revenue £'000	Total £'000
United Kingdom	2,508	3,300	13,563	424	**19,795**
Netherlands	2,966	13,985	6,589	112	**23,652**
Ireland	16	375	534	71	**996**
Rest of Europe	274	161	3,029	912	**4,376**
	5,764	**17,821**	**23,515**	**1,519**	**48,819**

External Revenue by revenue recognition category

	Software Licencing £'000	Services Revenue £'000	Maintenance & support Revenue £'000	Hardware & Other Revenue £'000	Total £'000
Goods Transferred at a point in time	5,764	-	-	1,519	**7,283**
Services transferred at a point in time	-	17,821	7,881	-	**25,702**
Services transferred over time	-	-	15,834	-	**15,834**
Total	**5,764**	**17,821**	**23,715**	**1,519**	**48,819**

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

	2021	2022	Later	Total
	£'000	£'000	£'000	£'000
Software Licence Revenue	226	226	324	776
Services Revenue	321	-	-	321
Maintenance & Support	5,066	-	-	5,066
Hardware and other Revenue	333	-	-	333
	5,946	**226**	**324**	**6,496**

2019 (restated)

External Revenue by Market

	UK	Non-UK	Total
	£'000	£'000	£'000
Software Licence Revenue	2,406	3,496	**5,902**
Services Revenue	2,921	15,587	**18,508**
Maintenance & Support Revenue	11,063	12,138	**23,201**
Hardware and other Revenue	131	2,352	**2,483**
	16,521	**33,573**	**50,094**

External Revenue by business unit geography

	Software Licencing	Services Revenue	Maintenance & support Revenue	Hardware & Other Revenue	Total
	£'000	£'000	£'000	£'000	£'000
United Kingdom	2,648	2,931	11,605	128	**17,312**
Netherlands	2,715	14,771	8,057	144	**25,687**
Ireland	258	457	1,044	-	**1,759**
Rest of Europe	281	349	2,495	2,211	**5,336**
	5,902	**18,508**	**23,201**	**2,483**	**50,094**

External Revenue by revenue recognition category

	Software Licencing £'000	Services Revenue £'000	Maintenance & support Revenue £'000	Hardware & Other Revenue £'000	Total £'000
Goods Transferred at a point in time	5,902	-	-	2,483	**8,385**
Services transferred at a point in time	-	18,508	2,590	-	**21,098**
Services transferred over time	-	-	20,611	-	**20,611**
Total	**5,902**	**18,508**	**23,201**	**2,483**	**50,094**

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

	2020	2021	Later	Total
	£'000	£'000	£'000	£'000
Software Licence Revenue				
Services Revenue	244	-	-	244
Maintenance & Support	8,928	-	-	8,928
Hardware and other Revenue	505	-	-	505
	9,677	-	-	9,677

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

	2020
	£'000
At 1 December 2019	3,956
Transfers in the period from contract assets to trade receivables	(3,956)
Excess of revenue recognised over cash (or rights to cash) being recognised during the period	3,220
At 30 November 2020	3,220

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

	2020
	£'000
At 1 December 2019	9,677
Amounts included in contract liabilities that was recognised as revenue during the period	(9,677)
Cash received in advance of performance and not recognised as revenue during the period	7,815
Reclassified as held for sale	(1,319)
At 30 November 2020	6,496

3 Tax expense

	2020	2019 (restated)
	£'000	£'000
Current tax expense/(credit)		
Income tax of overseas operations on profits/(losses) for the period	397	532
Adjustment in respect of prior periods	(59)	92
Total current tax expense	338	624
Deferred tax (credit)/expense		
Origination and reversal of temporary differences	(622)	307
	(622)	307
Total tax (credit)/expense in the current year	(284)	931
Income tax expense attributable to continuing operations	7	424
Income tax (credit)/expense attributable to discontinued operations	(291)	507
	(284)	931

The Finance Act 2016 had previously enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020 and accordingly the deferred tax at 30 November 2019 had been calculated at this rate. However, in the March 2020 Budget it was announced that the reduction will not occur, and the Corporation Tax Rate will be held at 19%. The Provisional Collection of Taxes Act was used to substantively enact the revised 19% tax rate on 17 March 2020 and accordingly the deferred tax balances have been re-calculated to 19% at the year end.

The March 2021 Budget announced a further increase to the main rate of corporation tax to 25% from April 2023. This rate has not been substantively enacted at the balance sheet date, as a result deferred tax balances as at 30 November 2020 continue to be measured at 19%. If all the deferred tax was to reverse at the amended 25% rate the impact on the closing DT position would be to increase the net deferred tax asset by £57,000.

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:

	2020 £'000	**%**	**2019 £'000**	**%**
Loss before taxation from continuing operations	(20,939)		202	
Loss before taxation from discontinued operations (note 6)	(475)		(14,718)	
(Loss)/profit before tax	(21,414)		(14,516)	
Expected tax charges based on the standard rate of corporation tax	(4,069)	19.0	(2,758)	19.0
Effects of:				
Items not deductible for tax purposes	3,508		2,611	
Adjustment to tax charge in respect of prior periods	(229)		103	
Differences between overseas tax rates	111		88	
Movements in temporary differences not recognised	435		809	
Effect of deferred tax rate difference	(40)		78	
Total tax (credit)/expense in current period	**(284)**	**1.3**	**931**	**(6.4)**

Deferred tax recognised directly in equity was £nil (2019: £596,000 credit). Current tax recognised in equity was nil (2019: £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.

4 (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:

	2020 Number of shares	**2019 Number of shares**
Denominator		
Weighted average number of shares used in basic and diluted EPS	42,899,598	42,879,926

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 2020	**2019**
Loss after tax from continuing operations	(20,946)	(1,131)
Loss after taxation from discontinued operations	(184)	(14,316)
Loss attributable to ordinary equity holders of the parent for basic and diluted earnings per share	(21,130)	(15,447)

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 2020	2019 (restated)
Loss after tax from continuing operations	(20,946)	(1,131)
Add back Other Items:		
Amortisation of acquired intangibles	1,471	2,161
Exceptional reorganisation costs	934	362
Exceptional impairment costs	16,855	-
Exceptional settlement provision	-	400
SBP charge	20	(103)
Tax charge related to Other Items	(405)	(558)
Loss/(profit) attributable to ordinary equity holders of the parent for basic and diluted earnings per share from continuing operations before other items	(2,071)	1,131

	2020	2019 (restated)
Profit/(loss) per share		
Basic and diluted earnings/(loss) per share	(49.3)	(36.0)
Basic and diluted earnings/(loss) per share from continuing operations	(48.8)	(2.6)
Adjusted earnings per share		
Basic and diluted earnings/(loss) per share from continuing operations before other items	(4.8)	2.6

5 Dividends

	2020 £'000	2019 £'000
Final dividend of 0p (2019: 1.54p) per ordinary share proposed and paid during the period relating to the previous period's results	-	661

No dividend in respect of the year ended 30 November 2020 will be proposed.

6 Discontinued operations

On 21 April 2020, the UK Dynamics subsidiary was put into administration and has been classified as a discontinued operation as it represented a major line of business for the Group. No assets or liabilities relating to UK Dynamics were held by the Group at 30 November 2020.

The results of the UK Dynamics business for the year up to its administration are presented below.

	2020 £'000	2019 £'000
Revenue	3,789	18,974
Cost of sales	(3,533)	(13,351)
Gross profit	256	5,623
Administrative expenses	(1,375)	(7,238)
Impairment losses on financial assets	-	(974)
Loss from operations	(1,119)	(2,589)
Finance income/(expense)	60	(63)
Loss before taxation from discontinued operations before group costs	(1,059)	(2,652)
Impairment of UK Dynamics goodwill and intangibles	-	(12,188)
Cost incurred with the disposal of UK Dynamics	(229)	-
Loss before taxation from discontinued operations	(1,288)	(14,840)
Tax credit/(expense)	269	(381)
Loss for the year from discontinued operations	**(1,019)**	**(15,221)**

	2020	2019
Basic and diluted loss per share from discontinued operations	(2.4)	(35.5)

The net cashflows incurred by UK Dynamics are as follows**:**

	2020 £'000	2019 £'000
Operating	(1,603)	452
Financing	(15)	(5)
Net cash (outflow)/inflow	(1,618)	447

On 26 February 2021 the Group announced that it had completed a sale of the Starcom business for consideration of £14.7m. At 30 November 2020 Starcom is classified as a disposal group held for sale and as a discontinued operation as it represented a major line of business of the Group. The carrying amount of the disposal group is lower than its fair value less costs to sell and therefore no impairment loss is recognised.

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

	2020 £'000	2019 £'000
Total Revenue	10,229	10,025
Less inter-segment revenue	(710)	(681)
External revenue	9,519	9,344
Cost of sales	(3,966)	(3,684)
Gross profit	5,553	5,660
Administrative expenses	(4,320)	(4,280)
Impairment losses on financial assets	(25)	(12)
Amortisation of acquired intangibles	(322)	(322)
Profit from operations	886	1,046
Finance expense	(73)	(15)
Profit after taxation from discontinued operations	813	1,031
Tax expense	22	(126)
Profit for the year from discontinued operations	**835**	**905**

	2020	**2019**
Basic and diluted profit per share from discontinued operations	1.9	2.1

The major classes of assets and liabilities of the Starcom business classified as held for sale as at 30 November 2020 are as follows:

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

The net cashflows incurred by Starcom are as follows:

	2020 £'000	2019 £'000
Operating	1,096	(53)
Investing	(155)	(266)
Financing	(133)	(214)
Net cash inflow/(outflow)	808	(533)

The total loss per share from discontinued activities was:

	2020	2019
Basic and diluted loss per share from discontinued operations	(0.5)	(33.4)

7 Goodwill and impairment

Goodwill acquired in business combinations is allocated at acquisition to the cash generating units ("CGUs") that are expected to benefit from that business combination.

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

	Goodwill carrying amount	
	2020	**2019**
	£'000	**£'000**
DdD Retail	-	4,812
Global Accounts*	9,729	9,247
Integrated Business Solutions (IBS)	771	770
IP	-	396
Retail Systems Group (RSG)	-	1,707
Sage	-	4,556
SSL and Starcom**	400	2,905
Syspro	13,677	13,680
Unisoft	-	839
Walton	1,555	1,555
	26,132	40,467

*In 2019 this CGU was named Dynamics International but following the administration of UK Dynamics, and the strategic focus now on own IP this has been renamed as Global Accounts.
**In 2019 this CGU was named hosting and managed services but has been renames as SSL and Starcom in order to reflect the divestment away from this market.

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 movement within the SSL and Starcom CGU relates wholly to Starcom Technologies Limited. Starcom Technologies Limited is classified as held for sale at 30 November 2020. The carrying value of Goodwill of £2,505k is fully supported by the fair value less costs to sell based on agreed sales proceeds. The fair value measurement is based on agreed enterprise value for the business as per the completed sale on 26 February 2021.

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 incorporate in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from the weighted average cost of capital (WACC). Other assumptions used are based on external data and management's best estimates.

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

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

- DdD Retail, RSG and Walton – these CGUs relate to older products and the forecasts for DdD Retail and RSG have a year-on-year attrition of revenue by 10% in FY22 and FY23 as the Group's decision to cease investing in these products with a plan to transitioning customers, wherever possible, to the K3|imagine platform. Walton has no revenue growth in FY22 and FY23. From FY24 we are assuming no revenue from these legacy products with a plan to migrate to the K3|imagine platform.
- Sage, Syspro, IBS and Unisoft – no revenue growth with gross margin maintained at current rates.
- Own IP – as this is where the Group's strategy is focused, strong growth rates of 124% to 57% over the next three years from a low base.
- Global Accounts – revenue growing .by 43.8% over the 5-year forecast period with gross margin maintained at current performance.

The rate used to discount the forecast pre-tax cash flows is 12.1% (2019: 13.6%) 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.

Having calculated the value in use, the following impairments have been recognised along with any remaining headroom:

				Impairment	**Headroom**
	Goodwill	**Other Intangibles**	**Development Costs**	**Total**	
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
DdD Retail	5,064	1,105	-	**(6,169)**	-
Global Accounts	-	-	-	**-**	43,494
Integrated Business Solutions (IBS)	-	-	-	**-**	225
IP	416	-	2,585	**(3,001)**	90
Retail Systems Group (RSG)	1,707	242	-	**(1,949)**	-
Sage	4,690	164	-	**(4,854)**	-
SSL and Starcom	-	-	-	**-**	-
Syspro	-	-	-	**-**	12,938
Unisoft	882	-	-	**(882)**	-
Walton	-	-	-	**-**	55
	12,759	1,511	2,585	**(16,855)**	56,802

The impairments have been recognised in the reportable segments as follows:

		Impairment		
	Goodwill	**Other Intangibles**	**Development Costs**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Own IP	8,069	1,347	2,585	**(12,001)**
Global Accounts	-	-	-	**-**
Third-party products	4,690	164	-	**(4,854)**
	12,759	1,511	2,585	**(16,855)**

8 Events after the reporting date

On 26 February 2021 K3 announced the sale of its managed services unit, Starcom Technologies Limited ("Starcom"), to Node4 Ltd, the UK-based infrastructure and services company backed by private equity investment firm, Bowmark Capital. The total consideration for the disposal was £14.7 million, including £0.5m cash on the balance sheet, paid entirely in cash on completion. The transaction generated a significant profit on disposal, in excess of £10 million, which will be accounted for as an exceptional contribution to results in the current financial year to 30 November 2021.

On 26 March 2021 we successfully agreed an extension to our Revolving Credit Facility with Barclays, with a facility of £3.5m, to March 2022.

9 Notes to the cash flow statement

Cash and cash equivalents

	2020 £'000	2019 £'000
Cash and bank balances available on demand	9,306	8,226
Bank overdrafts	(3,000)	(4,385)
Cash at bank and on hand – Held for Sale	1,260	-
	7,566	3,841

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 £900k were financed by new leases.

Adjusted cash generated from operations

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

	Year ended 30 November 2020 £'000	Year ended 30 November 2019 £'000
Cash generated from operating activities	8,232	5,882
Add:		
Exceptional reorganisation costs	934	362
Adjusted cash generated from operations	9,166	6,244

10 Non-statutory information

The Group uses a variety of alternative performance measures, which are non-IFRS, to assess the performance of its operations. The Group considers these performance measures to provide useful historical financial information to help investors evaluate the underlying performance of the business.

These measures, as described below, are used to improve the comparability of information between reporting periods and geographical units, to adjust for exceptional items or to adjust for businesses identified as discontinued to provide information on the ongoing activities of the Group. This also reflects how the business is managed and measured on a day-to-day basis.

1 Adjusted EBITDA – is the loss from continuing activities adjusted to exclude depreciation and amortisation of development costs £4.5m (2019: £4.3m), amortisation of acquired intangibles £1.5m (2019: £2.2m), exceptional impairment costs £16.9m (2019: £nil), exceptional reorganisation costs £0.9m (2019: £0.4m), exceptional customer settlement provisions £nil (2019: £0.4m) and share-based charges £0.1m (2019: £0.1m credit).

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

3 Own IP revenue as a percentage of total revenue – Own IP revenue (which includes initial and annual software licences), £16.1m (2019: £17.9m), as a percentage of total Group revenue, £48.8m (2019: £50.1m)

4 Own IP gross profit as a percentage of total gross profit - Own IP gross profit, £12.2m (2019: 12.6m), as a percentage of total Group gross profit, £28.7m (2019: £28.8m)

5 Net debt comprises Bank Loans, Shareholder Loans and Overdrafts less Cash and cash equivalents, including Cash and cash equivalents held for sale.

6 Adjusted loss/earnings per share – basic loss per share from continuing operations adjusted to exclude amortisation of acquired intangibles £1.5m (2019: £2.2m), exceptional impairment costs £16.9m (2019: £nil), exceptional reorganisation costs £0.9m (2019: £0.4m), exceptional customer settlement provisions £nil (2019: £0.4m) and share-based charges £0.1m (2019: £0.1m credit) net of the related tax charge £0.4m (2019: £0.6m).

7 Underlying support/admin costs – administrative expenses adjusted to exclude adjusted to exclude depreciation and amortisation of development costs £4.5m (2019: £4.3m), amortisation of acquired intangibles £1.5m (2019: £2.2m), exceptional impairment costs £16.9m (2019: £nil), exceptional reorganisation costs £0.9m (2019: £0.4m), exceptional customer settlement provisions £nil (2019: £0.4m) and share-based charges £0.1m (2019: £0.1m credit).

11 – Principal risks and uncertainties

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.

The Board recognises its ultimate accountability for maintaining an effective system of internal control which is appropriate in relation to the scope, size, nature and risk within the Group's activities. The responsibility for managing risks on a day-to-day basis lies with the CEO and Senior Leadership Team.

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 IP 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.

The principal business risks and the actions to mitigate the risks are included below:

Description	*Mitigation*	*Change*
Coronavirus Coronavirus has had an impact on the Group's customer base and employees. Access to customers and prospect sites has been restricted impacting project implementation and lengthening deal cycles. Trading results and cash generated were consequently impacted.	The Group's customer base is geographically and vertically diverse and generates a portfolio benefit with some verticals and geographies performing well whilst others suffer. The Group has a high level of recurring and predictable revenue which reduces revenue volatility. At the start of the coronavirus pandemic the Group transitioned seamlessly to remote working, since employees were already skilled in remote cross geography team working. Large projects continued to be deployed well across the globe using remote teams. Additional capital, to give financial flexibility during the pandemic, was raised in April 2020 from existing Lenders and shareholders plus governmental tax deferral schemes were taken advantage of in several jurisdictions.	***Down***
Liquidity and Banking Facilities The Group has a bank Facilities Agreement that requires the Group to meet certain covenants throughout the term of the loans and the Group's forecasts indicate that the Group will remain within the set parameters.	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 been re-financed in March 2021 with a final maturity date of 31 March 2022 and at a lower level of indebtedness following the disposal of Starcom and associated cash proceeds.	***Down***
Group strategies and product management The Group has invested a significant amount of funds in the new K3|imagine platform including its suite of applications and other own IP. The risk is that the Group is unable to commercialise that investment due to market product fit, customer engagement, product stability or pricing. The Group has some legacy products and there is a risk that customers may move away from these.	The Group is re-evaluating market strategy in 2021 and will ensure that strategy, product, and business development is market led and market informed going forwards. The Group assesses the investment needed for each product at each point in its natural product lifecycle regarding ROI. Resourcing is regular reviewed compared to development pipeline, deal closure and market needs. Pricing for new products is regularly assessed against internal and external benchmarks. The Group manages its legacy products with regard to replacement products, pricing and continuing support costs.	***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 key Group supplier and software partners relationships are secured by commercial agreements and management participate in regular product, service, and strategy reviews with key suppliers and software partners.	***Flat***
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 effectively.	The Group seeks to access global talent and has expanded its talent catchment with the opening of the Kuala Lumpur office. Competitive renumeration is offered together with the ability to participate in a global bonus scheme. Long-term incentive plans are in place to retain key executive talent.	***Up***
Credit risk The Group's credit risk is primarily attributable to its trade receivables and accrued income. The amounts presented in the statement of financial position are net of allowances for doubtful debts, estimated by the Group's management based on prior experience and their assessment of the current economic environment. Coronavirus has only had a minor impact on credit risk so far.	The Group operates a centralised credit management function and assesses credit risk on an individual customer basis and with standardised contract terms. The shift to SaaS based products will structurally reduce the amounts on the sales ledger as customers move to smaller more regular payments and with the Group controlling the right to access software.	***Flat***
Currency risk	Where possible the risk is hedged by amounts payable in those currencies.	***Flat***

The Group's currency risk is primarily attributable to its trade receivables where certain customers are billed in Euros, and other currencies, where these are not the functional currency of the Group company. Most employees are paid in EUR or GBP.	The Group's banking facilities allow for a blend in debt in EUR or GBP	
Brexit The Brexit deal agreed between the UK and the EU in December 2020 has given clarity to the future trading arrangements. The previous uncertainty in supply chain rules and governance was impacting customers' appetite to invest in new supply chain solutions. Furthermore, the Group GBP consolidated reported earnings would be impacted by any changes in revaluation of non-GBP earnings caused by currency movements	The Board has assessed the risk from Brexit regulation and does not believe that Brexit will have a material impact on the Group due to the in-country nature of implementations and that software deployment does not have physical logistics challenges. The agreement of a Brexit deal is expected to give the customer base clarity and is expected to open up deal opportunities for UK customers. The Group is able to ensure travel visa compliance by monitoring Euroland to UK travel, however with the increase in remote working, the need for travel has structurally reduced.	***Down***
Customer relationships The Group has a single customer ecosystem (including franchisees) which accounts for over 30% 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 and individual businesses around the world, mitigating the risk caused by geopolitical issues. The systems supplied by K3 are mission critical for the customer and franchisees. If the customer were to re-platform this would be an extremely lengthy and costly process for the ecosystem which reduces the risk of this happening in the short to medium term. K3 has two year rolling contracts with the lead customer providing K3 with revenue stability. The customer and franchisees have shown themselves to be extremely resilient in the face of disruption caused by coronavirus, with revenue increasing year on year.	***Flat***
Cyber security The cyber security landscape risk is increasing with attacks being led by increasingly sophisticated international organisations.	The Group has increased its cyber security resourcing and has a programme of training and IT infrastructure improvement projects. Security policies and incident response protocols are available on the intranet.	***Up***