AIM: KBT
9 July 2019

K3 BUSINESS TECHNOLOGY GROUP PLC
("K3" or "the Group" or "the Company")

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

Interim results
for the six months to 31 May 2019

KEY POINTS

Summary

- Continuing encouraging progress with the transformation programme and own IP focus
- H1 results affected by delayed contract completions, most of which have now been signed
- Balance sheet strengthened with net debt[1] down 33% to £5.7m (31 May 2018: £8.5m)
- Seasonal weighting towards H2 in earnings and cash flows will be more pronounced than usual, as already highlighted
- Confidence in achievement of full year expectations well underpinned by:
  - early H2 order momentum
  - encouraging and high quality near term pipeline
  - H2 software licence and maintenance renewals

Financial

- Total revenue was £38.2m (2018: £41.4m)
  - recurring income contributed 50.0% of the total at £19.2m (2018: £18.7m)
- Gross profit decreased to £19.5m (2018: £21.6m), reflecting the delayed contracts, which impacted services activity and consequently services gross margin
- Adjusted profit from operations[2] was £0.8m (2018: £1.7m)
- Adjusted PBT[2] was £0.4m (2018: £1.2m)/ Reported LBT of £1.0m (2018: loss of £0.5m)
- Adjusted EPS[3] was 0.0p (2018: 1.4p)/ Basic loss per share was 3.7p (2018: loss of 2.8p)
- Net cash position expected by year end, supported by inflows from annual contract renewals

Operational

- Major focus is on increasing sales of K3 Intellectual Property ("IP")
- H1 investment in sales resource to support this initiative
- New, cutting-edge solution set, 'K3 I imagine', has received an encouraging response following its launch in Q4 2018
  - expect a meaningful contribution to revenue in FY19
  - has significant potential across the customer base
  - will drive margin and recurring revenue growth
- 'K3 I fashion' added three new customers although signings were in late Q2
  - follow-on software licences orders are expected in H2
  - enhanced relationship with Microsoft
  - channel partner route-to-market opened in the UK
- Global Accounts continued to progress well, with strong demand in the Far East
- SME-related activities performed steadily
- Scope to extend Managed Services activities across the customer base
- Significant software licence and maintenance renewals to come in H2; renewals typically at c. 98%

Adalsteinn Valdimarsson, Chief Executive Officer of K3, commented:

"K3's transformation programme continues to make good progress, and while first half results are below the same period last year, the Group remains on track to meet market expectations for the full year and to show good year-on-year earnings progression.

"Delays to certain contract signings affected first half results, however we have now largely caught up on the outstanding delays, and the second half includes significant licence and maintenance contract renewals where renewal rates are very high – around 98%. The near-term pipeline also remains encouraging.

"Our growth strategy – based on selling more of our own IP – has the potential to drive earnings and recurring income significantly. 'K3 I imagine', our new, cutting-edge product, is especially exciting, and is relevant for both new and existing customers. We remain very positive about prospects."

Enquiries:

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Notes:

Note 1 Net debt is gross debt net of cash and cash equivalents.

Note 2 Calculated before amortisation of acquired intangibles of £1.2m (2018: £1.3m), exceptional reorganisation costs of £0.3m (2018: £0.7m), and share-based payment charge of £0.3m (2018: £0.2m).

Note 3 Calculated before amortisation of acquired intangibles (net of tax) of £1.0m (2018: £1.0m), exceptional reorganisation costs (net of tax) of £0.2m (2018: £0.6m), and share-based payment charge (net of tax) of £0.3m (2018: £0.2m).

JOINT REPORT OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Introduction

K3 continues to make encouraging progress with its transformation programme, and while first half results are below the same period last year, the Group remains on track to meet current market expectations for the year and to show good year-on-year earnings progression. This view takes into account the closure of three major new contracts and commitments at the end of the period, additional orders that have come through since then, as well as an encouraging near-term new business pipeline. It should also be noted that the Group's earnings are in any case seasonally weighted towards the second half, with a large number of annual software licence and maintenance contracts falling due in the period; renewals rates are very high.

As previously reported, the first half performance was affected by delays in certain contract signings, some of which related to Brexit. This meant that these large contracts closed later than expected, thereby reducing services utilisation and income. However, we have now largely caught up on the outstanding major Supply Chain contract closures and expect further software licence orders to come through from the new customer signings. Aside from these delays, all units performed in line with or above management expectations in the period.

A major focus this year is on developing sales of our new, cutting-edge, cloud-native product, 'K3 I imagine', which was launched at the end of the last financial year. 'K3 I imagine' and its platform and suite of applications form the cornerstone of our growth plans. The product has great potential across K3's existing extensive customer base as well for new customers, and we expect it to make a meaningful contribution to the Group's revenue in the second half, benefiting margin expansion and recurring income. We have strengthened our sales resource accordingly.

Financial Results

Revenue for the six months to 31 May 2019 decreased by 7.0% to £38.2m (2018: £41.4m). Recurring income, which comprises software maintenance renewals, support contracts, SaaS, and hosting & managed services, increased 2.6%, to £19.2m (2018: £18.7m) or 50.0% of total revenue in the period (2018: 45.2%).

Gross profit was 9.7% lower than the same period last year at £19.5m (2018: £21.6m). This principally reflected delayed contract signings, which severely impacted services activity and consequently utilisation and services gross margin. Services gross profit decreased by £1.4m to £2.7m in the period (2018: £4.1m) and gross margin reduced by 7.1 percentage points to 21.8% (2018: 27.9%). Similarly, software licence gross profit reduced by £0.5m to £3.4m (2018: £3.9m) and gross margin was 68.7% (2018: 71.7%).

Gross profit derived from our Intellectual Property ("IP") is a key metric for us since it generates the Group's highest margins, and own IP licence sales are at the core of our growth strategy. Our own IP contributed £6.3m or 32.5% to total gross profit (2018: £6.8m or 31.5%) in the period.

Administrative expenses reduced by 7.1% to £20.5m (2018: £22.1m) as a result of a continuing process of improving efficiencies and cost-saving initiatives.

Adjusted profit from operations was £0.8m (2018: £1.7m), mostly the result of reduced services gross margins.

After taking into account £0.3m of exceptional costs (2018: £0.7m), which related to the reorganisation programme, an amortisation charge of £1.2m for acquired intangibles (2018: £1.3m) and a share-based payment charge of £0.3m (2018: 0.2m), the loss from operations was £1.0m (2018: loss of £0.5m).

Finance expenses were £0.4m (2018: £0.5m), resulting in an adjusted profit before tax*2 for the period of £0.4m (2018: adjusted profit before tax*2 of £1.2m). The reported loss before tax for the period was £1.5m (2018: loss of £1.0m).

Adjusted earnings per share*3 was 0.0p (2018: adjusted earnings per share*3 of 1.4p). Basic loss per share was 3.0p (2018: basic loss per share 2.8p).

Balance sheet and cash flows

Net debt at 31 May 2019 stood at £5.7m (31 May 2018: £8.5m), a 33% reduction. We continue to focus on improving cash generation and this is being supported by better internal processes, improved deal and resource allocation evaluation, as well as incentivisation.

K3's cash flow is now following normal seasonality and, as previously indicated, the second half of the financial year will benefit from annual software licence and support renewals, which are heavily weighted towards this period, with SYSPRO renewal rates typically around 98%.

Capitalised development expenditure for the six months was £1.7m (2018: £1.0m), in line with the Group's refocused IP development roadmap, and 50% of expenditure was on the 'K3 I imagine' product.

Cash utilised in operating activities amounted to £3.0m (2018: £2.9m), and reflects a more normal annual seasonality to cash generation.

Depreciation was similar to the prior six months at £0.4m (2018: £0.5m) and amortisation £2.6m (2018: £2.4m).

The Group's current banking facilities are due for renewal in October 2019. This process is at an advanced stage and we expect the renewal to be successfully concluded in the second half, with terms agreed through to March 2021.

Dividend

As in prior years, the Board expects to propose only a final (and total) dividend for the financial year. This is anticipated to show a year-on year uplift in line with the Board's confidence in K3's future prospects.

Overview of Performance

A key area of focus for the Company is increasing sales from our own IP. 'K3 I imagine', our class-leading platform and solution sets have very exciting potential to drive own IP sales. This is in addition to our more established add-on solutions for Microsoft Dynamics, 'K3 I fashion' and 'K3 I pebblestone' and our ERP agnostic integration platform 'K3 I dataswitch'. These products have been sold to around 500 customers both direct and through our global partner channel.

The 'K3Iimagine' platform and applications are provided on a Platform-as-a-Service ("PaaS") and Software-as-a-Solution ("SaaS") basis. The technology can be deployed agnostically via cloud or via our 'K3 I Cloud' Infrastructure-as-a-Service unit ("IaaS"). We have developed solutions for multiple business processes, including inventory management, Point of Sale ("POS"), pricing & promotion, tax compliance, and bespoke customer solutions, and believe that the ease with which our technology can be integrated and the innovation it supports makes our offering an attractive option for businesses across the supply chain sector.

As well as selling to new customers, 'K3 I imagine' is relevant to our existing installed base of approximately 3,700 customers. We see opportunities to deepen our engagement with customers that use our existing ERP and POS solutions. Almost half of the Group's customer base deploys a K3 authored/supported POS solutions, with many customers using legacy systems. In addition, well over 40% of the total base are ERP customers using SYSPRO, Microsoft or Sage products. The 'K3 I imagine' Retail Suite provides a ready upgrade for POS customers, and over time, we intend to broaden the offering to enhance our overall proposition across the broader customer base.

We are also working on extending our Managed Services and IaaS offerings, including 'K3 I Cloud', across the customer base.

During the first half, we significantly expanded the sales team in order to support these and other initiatives. The early response to the launch of 'K3 I imagine' has been encouraging, with a pilot now in place with a major food and beverage group and our Mobile Goods Flow solution in use in a number of Inter IKEA Concept franchisee stores.

'K3 I fashion' added three more customers in the period, with Brexit causing some disruption. We expect two of these newly-signed customers to ramp-up software licence orders over the remainder of 2019.

In line with the market shift to subscription, customers are tending to purchase software licences in line with their roll-out plans on Microsoft Dynamics 365F&O subscription deployment, and we are seeing a new pattern emerging whereby newly-contracted customers initially purchase a small number of software licences, subsequently stepping up licence order further down the project timeline. This differs from previous large upfront purchases under the traditional model.

Our relationship with Microsoft continues to be very strong, especially in relation to 'K3 I fashion', which is increasingly viewed as a market-leading product for the fashion industry. Our close engagement with Microsoft helps both direct sales and indirect sales through channel partners. In the period, we launched a channel partner model in the UK for 'K3 I fashion', which has extended our IP footprint. A high profile Microsoft Dynamics 365F&O implementation for Fortnum & Mason also went live in the period.

The Global Accounts operation saw good growth and the new office in Kuala Lumpur is working well, and will support continuing growth in the Far East. We have commenced global resource pooling of Dynamics resource especially to facilitate Global Accounts growth.

The Group's SME-related activities performed steadily across all of our supply chain verticals and we are especially pleased at progress within Sage and Managed Services activities.

Outlook

We believe the initiatives put in place during the last two years will continue to underpin K3's performance and growth prospects. We will also look for additional opportunities to increase operational efficiency.

The second half of the financial year has started well, with three 'K3 I fashion' deals expected to close. We are encouraged by customer reaction to 'K3 I imagine' and expect the offering to contribute meaningfully to the Group's results during this financial year. The wider new business pipeline, including for 'K3 I fashion' and Global Accounts remains strong and we expect services utilisation to show a marked improvement in the second half following recent deal closures.

K3's seasonal weighting of cash flows and profitability towards the second half of the financial year will be more exaggerated this year mainly due to anticipated growth in services gross margins. More broadly, we believe that K3 is well-positioned to make further progress with its transformation strategy and we view our growth prospects with confidence.

Stuart Darling	**Adalsteinn Valdimarsson**
Chairman	**Chief Executive Officer**

9 July 2019

OPERATIONAL REVIEW

Overview

The Group's results for the six months to 31 May 2019, together with comparatives for the same period in 2018, are summarised in the table below.

Six months to 31 May	Revenue (£m)		Gross profit (£m)		Gross margin		Adj. profit (£m)	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Supply chain solutions & managed services*4	**30.1**	32.4	**13.2**	14.8	**43.8%**	45.7%	**2.2**	2.2
Own IP*5	**8.1**	9.0	**6.3**	6.8	**78.0%**	75.9%	**1.9**	2.5
Support costs		-		-		-	**(3.3)**	(3.0)
Total	**38.2**	41.4	**19.5**	21.6	**51.1%**	52.2%	**0.8**	1.7

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

	2019	2018
Gross margin	**51.1%**	52.2%
Recurring revenue	**£19.2m**	£18.7m
Recurring revenue as a percentage of total revenue	**50.2%**	45.2%
Own IP gross profit as a percentage of total gross profit	**32.2%**	31.5%

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

The increase in recurring revenues reflected growth in Managed Services and 'K3 I imagine'. The increase in the revenue mix of recurring revenue was driven by growth in recurring revenue and decline in services activity. Own IP revenue was down to £8.1m (2018: £9.0m).

Supply Chain Solutions & Managed Services

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

Six months to 31 May	Revenue (£m)		Gross profit (£m)		Gross margin	
	2019	2018	**2019**	2018	**2019**	2018
Software licences	**3.2**	3.1	**1.8**	1.7	**56.0%**	54.8%
Services	**11.9**	14.0	**2.3**	3.7	**19.0%**	26.7%
Recurring	**14.1**	14.1	**8.8**	9.1	**62.3%**	64.7%
Hardware and other	**0.9**	1.2	**0.3**	0.3	**38.2%**	20.6%
Total	**30.1**	32.4	**13.2**	14.8	**43.8%**	45.7%

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

	2019	2018
Adjusted profit/(loss) from operations*4 (£m)	**2.2**	2.2
Recurring revenue as % of total revenues	**46.8%**	43.4%

Software licenses revenue grew slightly to £3.2m (2018: 3.1m) and gross margin improved to 56.0% (2018: 54.8%). Services revenues were down, the result of delays in the closure of new Microsoft Dynamics deals, and this also resulted in lower services utilisation, with services gross margin decreasing to 19.0% (2018:

26.7%). Several major contracts closed towards the end of H1, including Regatta, the UK-based outdoor clothing supplier, and CreditSafe, the credit agency. We had a notable success with the 'go live' of the Fortnum & Mason Microsoft Dynamics365F&O project, which is a high profile implementation. We also opened up the selling of 'K3 I fashion' in the UK to channel partners in order to expand our IP footprint. We expect services gross margin to increase in the second half as the deals signed at the end of the first half flow into chargeable project work and as we support new 'K3 I fashion' channel partners in the UK. Recurring revenues remained stable on 2018. Gross profit was £13.2m (2018: £14.8m) driven by the services chargeability. Gross margin on hardware increased as a result of the start of a group sourcing initiative.

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. This reflected the ongoing expansion of the IKEA franchisee network into new geographies and the increased activity mainly contributed to services income. The Kuala Lumpur office opened in the second half of 2018, and we have added further resource. Encouragingly, the office generated earlier levels of chargeability than expected. Our initiative to start to increase own IP sales in Global Accounts is bearing fruit, with further sales of 'K3 I dataswitch' and first sales of 'K3 I imagine' warehouse solutions. There is also still more opportunity to deepen relationships within the IKEA ecosystem.

Own IP

K3's IP portfolio comprises two parts, first, K3-authored software that enriches our established third party offerings, specifically Microsoft, SYSPRO and Sage technology. For example, our 'K3 l fashion' and 'K3 I Pebblestone' products are both based on Microsoft Dynamics's Enterprise Resource Planning ("ERP") solutions, and are enriched by K3 IP to suit the needs of specific industry segments. Secondly, we provide solely-authored, stand-alone solutions. These include DdD Point of Sales, Dataswitch, and 'K3 I imagine'. These products can be sold with our other solutions or individually.

	Revenue (£m)		Gross profit (£m)		Gross margin	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Software licences	**1.8**	2.4	**1.6**	**2.2**	**91.5%**	94.0%
Services	**0.5**	0.8	**0.4**	**0.4**	**83.8%**	49.7%
Recurring	**5.1**	4.6	**4.0**	**3.7**	**78.0%**	79.0%
Hardware and other	**0.7**	1.2	**0.3**	**0.5**	**39.6%**	44.1%
Total	**8.1**	9.0	**6.3**	**6.8**	**78.0%**	75.9%

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

	2019	2018
Adjusted profit from operations[*5] (£m)	**1.9**	2.5
Recurring revenue as % of total revenues	**62.8%**	51.8%

While recurring revenues from own IP increased to £5.1m (2018: £4.6m), which reflected the growth of our stand-alone agnostics IP solutions including 'K3 I dataswitch', DdD and 'K3 I imagine', total revenue from own IP reduced to £8.1m (2018: £9.0m). Revenues from software licence sales decreased to £1.8m (2018: £2.4m) with delays to expected deals and follow-on orders as highlighted above. As mentioned, three new customers for 'K3 I fashion' were added in the first half, including Regatta and we expect licence revenue to increase as further orders as roll-outs proceed. The number of customers expanded by 12% in H1 and the pipeline is good and of a high quality. Gross profit trends in software mirrored the revenue due to high margins. Services gross margins increased to revenue from our integrations team.

We expect recurring revenue to continue to grow as we commercialise 'K3 I imagine'. This will also benefit sales of 'K3 I dataswitch', our integration product. 'K3 I imagine' revenue in H1 was £0.3m (2018: nil).

Support Costs

Support costs[*6] include the global costs of the Group's finance, IT, legal and human resource functions, as well as Board and PLC costs. There was a net increase in cost in the period, which arose from investment in IT security only partially set off by further internal efficiencies.

[*1] Group adjusted profit/(loss) from operations is calculated before amortisation of acquired intangibles of £1.2m (2018: £1.3m), exceptional reorganisation costs of £0.3m (2018: £0.7m), and share-based payment charge of £0.3m (2018: £0.2m).

[*2] Group adjusted profit/(loss) before tax is calculated before amortisation of acquired intangibles of £1.2m (2018: £1.3m), exceptional reorganisation costs of £0.3m (2018: £0.7m), and share-based payment charge of £0.3m (2018: £0.2m).

[*3] Group adjusted earnings/(loss) per share is calculated before amortisation of acquired intangibles (net of tax) of £1.0m (2018: £1.0m), exceptional reorganisation costs (net of tax) of £0.2m (2018: £0.6m), and share-based payment charge (net of tax) of £0.3m (2018: £0.2m).

[*4] Supply chain solutions and managed services adjusted profit/(loss) from operations is calculated before amortisation of acquired intangibles of £0.7m (2018: £0.7m) and exceptional reorganisation costs of £0.1m (2018: £0.4m).

[*5] Own IP adjusted profit from operations is calculated before amortisation of acquired intangibles of £0.5m (2018: £0.5m) and exceptional reorganisation costs of £0.2m (2018: £0.2m).

[*6] Support costs are calculated before exceptional reorganisation costs of £nil (2018: £0.1m) and share-based payment charge of £0.3m (2018: £0.2m).

K3 BUSINESS TECHNOLOGY GROUP PLC
CONSOLIDATED INCOME STATEMENT
For the six months ended 31 May 2019

	Notes	**Unaudited Six months to 31 May 2019 £'000**	Unaudited Six months to 31 May 2018 £'000	Audited 12 months to 30 November 2018 £'000
Revenue		**38,212**	41,407	83,335
Cost of sales		**(18,697)**	(19,789)	(39,446)
Gross profit		**19,515**	21,618	43,889
Administrative expenses		**(20,554)**	(22,127)	(43,205)
Adjusted profit/(loss) from operations		**824**	1,668	4,649
Amortisation of acquired intangibles		**(1,238)**	(1,263)	(2,507)
Acquisition costs			(7)	-
Exceptional reorganisation costs	2	**(287)**	(738)	(1,355)
Share-based payment charge		**(338)**	(169)	(103)
Profit /(Loss) from operations		**(1,039)**	(509)	684
Finance expense		**(411)**	(506)	(667)
Loss before taxation		**(1,450)**	(1,015)	17
Tax (expense)/credit	3	**(118)**	(175)	(505)
Loss for the period		**(1,568)**	(1,190)	(488)

All of the loss for the period is attributable to equity holders of the parent.

	Notes			
(Loss) per share	4			
Basic		**(3.0)p**	(2.8)p	(1.1)p
Diluted		**(3.0)p**	(2.8)p	(1.1)p

K3 BUSINESS TECHNOLOGY GROUP PLC
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 31 May 2019

	Unaudited Six months to 31 May 2019 £'000	Unaudited Six months to 31 May 2018 £'000	Audited 12 months to 30 November 2018 £'000
Loss for the period	**(1,568)**	(1,190)	(488)
Other comprehensive income			
Exchange differences on translation of foreign operations	121	(10)	300
Other comprehensive income, net of tax	121	(10)	300
Total comprehensive expense for the period	**(1,447)**	(1,200)	(188)

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.

K3 BUSINESS TECHNOLOGY GROUP PLC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 May 2019

	Notes	**Unaudited As at 31 May 2019 £'000**	Unaudited As at 31 May 2018 £'000	Audited As at 30 November 2018 £'000
ASSETS				
Non-current assets				
Property, plant and equipment		**2,237**	2,292	2,326
Goodwill		**51,086**	50,973	51,187
Other intangible assets		**17,175**	19,031	18,184
Deferred tax assets		**1,304**	1,277	1,307
Available-for-sale investments		**98**	98	98
Total non-current assets		**71,900**	73,671	73,102
Current assets				
Trade and other receivables		**26,427**	33,642	27,006
Cash and cash equivalents		**5,065**	1,905	16,914
Total current assets		**31,492**	35,547	33,920
Total assets		**103,392**	109,218	107,022
LIABILITIES				
Non-current liabilities				
Long-term borrowings	5	**13**	10,355	15
Deferred tax liabilities		**1,592**	2,275	1,814
Total non-current liabilities		**1,605**	12,630	1,829
Current liabilities				
Trade and other payables	6	**24,122**	27,889	28,428
Current tax liabilities		**61**	-	279
Short-term borrowings	5	**10,780**	59	7,517
Total current liabilities		**34,963**	27,948	36,224
Total liabilities		**36,568**	40,578	38,053
EQUITY				
Share capital		**10,737**	10,737	10,737
Share premium account		**28,897**	28,897	28,897
Other reserves		**10,448**	10,448	10,448
Translation reserve		**2,365**	2,176	2,486
Retained earnings		**14,377**	16,382	16,401
Total equity attributable to equity holders of the parent		**66,824**	68,640	68,969
Total equity and liabilities		**103,392**	109,218	107,022

K3 BUSINESS TECHNOLOGY GROUP PLC
CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 31 May 2019

	Notes	**Unaudited Six months to 31 May 2019**	Unaudited Six months to 31 May 2018	Audited 12 months to 30 November 2018
		£'000	£'000	£'000
Cash flows from operating activities				
Loss for the period		**(1,568)**	(1,190)	(488)
Adjustments for:				
Share based payments charge		**338**	169	103
Depreciation of property, plant and equipment		**412**	450	885
Amortisation of intangible assets and development expenditure		**2,631**	2,481	5,091
Loss on sales of property, plant and equipment				22
Finance expense		**441**	506	667
Tax expense		**(146)**	175	505
(Increase)/decrease in trade and other receivables		**(328)**	(3,248)	2,697
Decrease in trade and other payables		**(4,576)**	(1,749)	(853)
Cash (utilised in)/generated from operations	7	**(2,796)**	(2,406)	8,629
Finance expense paid		**(182)**	(391)	(662)
Income taxes received/(paid)		**(54)**	(133)	(151)
Net cash (utilised in)/generated from operating activities		**(3,032)**	(2,930)	7,816
Cash flows from investing activities				
Development expenditure capitalised		**(1,688)**	(990)	(2,627)
Purchase of property, plant and equipment		**(313)**	(223)	(748)
Net cash absorbed by investing activities		**(2,001)**	(1,213)	(3,375)
Cash flows from financing activities				
Proceeds from long-term borrowings		**3,250**	4,146	1,204
Payment of finance lease liabilities		**(30)**	(29)	(58)
Dividends paid			-	(601)
Net cash generated from financing activities		**3,220**	4,117	545
Net change in cash and cash equivalents		**(1,813)**	(26)	4,986
Cash and cash equivalents at start of period		**6,914**	1,941	1,941
Exchange gains on cash and cash equivalents		**(36)**	(10)	(13)
Cash and cash equivalents at end of period		**5,065**	1,905	6,914

K3 BUSINESS TECHNOLOGY GROUP PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 31 May 2019

	Share capital £'000	Share premium £'000	Other reserve £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
At 1 December 2017	10,737	28,897	10,448	2,186	17,389	69,657
Changes in equity for six months ended 31 May 2018						
Profit for the period	-	-	-	-	(1,190)	(1,190)
Other comprehensive income for the period	-	-	-	(10)	-	(10)
Total comprehensive income	-	-	-	(10)	(1,190)	(1,200)
Share-based payment credit	-	-	-	-	169	169
Movement in own shares held	-	-	-	-	14	14
Dividends to equity holders						
At 31 May 2018	10,737	28,897	10,448	2,176	16,382	68,640
Changes in equity for six months ended 30 November 2018						
Loss for the period	-	-	-	-	702	702
Other comprehensive income for the period	-	-	-	310	-	310
Total comprehensive income	-	-	-	310	702	1012
Share-based payment credit	-	-	-	-	(66)	(66)
Warrants exercised	-	-	-	-	-	-
Conversion of shareholder loan to equity	-	-	-	-	-	-
Issue of new shares	-	-	-	-	-	-
Movement in own shares held	-	-	-	-	(16)	(16)
Dividends to equity holders	-	-	-	-	(601)	(601)
At 30 November 2018	10,737	28,897	10,448	2,486	16,401	68,969
Changes in equity for six months ended 31 May 2019						
Loss for the period	-	-	-	-	(1,568)	(1,568)
IFRS adjustments	-	-	-	-	(794)	(794)
Other comprehensive income for the period		-	-	(121)	-	(121)
Total comprehensive income		-	-	(121)	(2,362)	(2,483)
Share-based payment credit		-	-	-	338	338
Movement in own shares held	-	-	-	-	-	-
At 31 May 2019	10,737	28,897	10,448	2,365	14,377	66,824

1. Basis of preparation

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 2019 which are not expected to be significantly different to those set out in Note 1 of the Group's audited financial statements for the 12 month period ended 30 November 2018. 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 2019 or are expected to be adopted and effective at 30 November 2019. 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 2019 and the six months ended 31 May 2018 has neither been audited nor reviewed pursuant to guidance issued by the Auditing Practices Board. The financial information for the 12 month period ended 30 November 2018 does not constitute the full statutory accounts for that period. The Annual Report and Financial Statements for the 12 month period ended 30 November 2018 have been filed with the Registrar of Companies. The Independent Auditors' Report on the Annual Report and Financial Statement for the 12 month period ended 30 November 2018 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

IFRS 15 ‘Revenue from Contracts with Customers’ is mandatory for the Group from 1 December 2018. The Group has completed an assessment of the impact of IFRS15. The complexities of IFRS 15 required 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 included determining whether customers had a right to use or a right to access the software. Some contracts required revenue to be recognised differently under IFRS 15 than under the preceding IFRS and which included the following considerations:

- 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

The Group has 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 standard has been recorded as an adjustment to the opening balance of equity (retained earnings) at the date of 1st December 2018. The adjustment to opening retained earnings with a debit to retained reserves of £0.8m and a credit to accrued income of £0.8m. The adjustment relates to subscription-based cloud hosted software solutions which had been recognised previously at a point in time which is now recognised over time. The impact on the financial results for the 6 months to 31 May 2019 is a credit to revenue and debit to Trade and Other Receivables for £0.2m.

IFRS 9 ‘Financial instruments’ is mandatory for the Group from 1 December 2018. 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. 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 has developed its model for calculating the ECL and the adoption of this standard has not materially impacted the result from the previous standard.

IFRS16 "Leases" is will be applicable to the Group from 1 December 2019 and the Group is in the process of assessing the impact of its adoption. The Group is not yet in a position to quantify the impact of IFRS16 on the Group's reported results or financial position.

2. Loss from operations

During the six month period to 31 May 2019, reorganisation costs of £0.3m have been incurred, most of which are redundancy costs. During the six month period to 31 May 2018, reorganisation costs of £0.7m were incurred relating to the reorganisation programme to create more unified, streamlined operations and a reduced cost base.

3. Tax expense

	Unaudited Six months to 31 May 2019 £'000	Unaudited Six months to 31 May 2018 £'000	Audited 12 months to 30 November 2018 £'000
Current tax expense/(credit)			
UK corporation tax and income tax of overseas operations on profits/(losses) for the period	**336**	183	472
Adjustment in respect of prior periods	**-**	230	745
Total current tax expense/(credit)	**336**	413	1,217
Deferred tax income			
Origination and reversal of temporary differences	**(218)**	(238)	(629)
Effect of change in rate of deferred tax	**-**	-	(83)
Total deferred tax income	**(218)**	(238)	(712)
Total tax expense/(credit)	**118**	175	505

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 2019 Number of Shares	Unaudited Six months to 31 May 2018 Number of Shares	Audited 12 months to 30 November 2018 Number of Shares
Weighted average number of shares:			
For basic earnings per share	42,871,302	42,871,302	42,871,000
Effects of employee share options and warrants	-	-	-
For diluted earnings per share	42,871,302	42,871,302	42,871,000

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

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 2019			Unaudited six months to 31 May 2018		
	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)	**(1,568)**	**(3.7)**	**(3.7)**	(1,190)	(2.8)	(2.8)
Amortisation of intangibles (net of tax)	**1,003**	**2.3**	**2.3**	1,023	2.4	2.4
Acquisition costs (net of tax)				7	-	-
Exceptional reorganisation costs (net of tax)	**233**	**0.5**	**0.5**	598	1.4	1.4
Release of contingent consideration (net of tax)				-	-	-
Share-based payment charge (net of tax)	**338**	**0.8**	**0.8**	169	0.4	0.4
Adjusted eps	**6**	**0.0**	**0.0**	607	1.4	1.4

	Audited 12 months to 30 November 2018		
	Earnings	Per share amount Basic	Per share amount Diluted
	£'000	p	P
(Loss)/earnings per shares (eps)	(488)	(1.1)	(1.1)
Amortisation of intangibles (net of tax)	1,952	4.6	4.6
Acquisition costs (net of tax)	-	-	-
Exceptional reorganisation costs (net of tax)	1,355	3.2	3.2
Exceptional impairment charge (net of tax)	-	-	-
Release of contingent consideration (net of tax)	-	-	-
Share-based payment charge (net of tax)	103	0.1	0.1
Adjusted (l)/eps	2,922	6.8	6.8

5. Loans and borrowings

	Unaudited As at 31 May 2019 £'000	Unaudited As at 31 May 2018 £'000	Audited As at 30 November 2018 £'000
Non-current			
Bank loans (secured)	**-**	10,339	-
Finance lease creditors	**13**	16	15
	13	10,355	15
Current			
Finance lease creditors	**4**	59	32
Bank Loans (secured)	**10,776**	-	7,485
	10,780	59	7,517
Total borrowings	**10,793**	10,414	7,532

6. Trade and other payables

	Unaudited As at 31 May 2019 £'000	Unaudited As at 31 May 2018	Audited As at 30 November 2018 £'000
Trade payables	**4,579**	5,084	5,163
Other payables	**1,031**	504	903
Accruals	**5,239**	7,341	6,945
Total financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost	**10,849**	12,929	13,011
Other tax and social security taxes	**2,739**	2,494	4,897
Deferred revenue	**10,534**	12,466	10,520
	24,122	27,889	28,428

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 2019 £'000	Unaudited Six months to 31 May 2018 £'000	Audited 12 months to 30 November 2018 £'000
Cash (utilised in)/generated from operating activities	**(2,796)**	(2,406)	8,629
Add:			
Exceptional reorganisation costs	**287**	738	1,355
Acquisition costs		7	-
Adjusted (utilised in)/cash generated from operations	**(2,509)**	(1,661)	9,984

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