Company Registration No. 06161823

K3 BUSINESS SOLUTIONS LIMITED

Annual report and financial statements

17 month period ended 30 November 2017

CONTENTS

K3 BUSINESS SOLUTIONS LIMITED

REPORT AND FINANCIAL STATEMENTS 2017

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

A Valdimarsson
R D Price

SECRETARY

S C Kidwell

REGISTERED OFFICE

Baltimore House
50 Kansas Avenue
Manchester
M50 2GL

BUSINESS ADDRESS

Bartley House
Station Road
Hook
Hampshire
RG27 9JF

COMPANY NUMBER

06161823

BANKERS

Barclays Bank plc
Manchester

HSBC Bank plc
Manchester

SOLICITORS

Squire Patton Boggs LLP
Manchester

AUDITORS

BDO LLP
Registered auditors
3 Hardman Street
Spinningfields
Manchester
M3 3AT

DIRECTORS' REPORT

The directors present their annual report on the affairs of the company, together with the audited financial statements, for the 17 month period ended 30 November 2017. The company has changed its financial year end to 30 November from 30 June. These financial statements cover the 17 month period to 30 November 2017 with comparatives for the year ended 30 June 2016. This is in line with the ultimate parent company, K3 Business Technology Group plc, which made the change in order to place shareholders in a better position to assess the group's trading prospects due to the strong seasonal patterns.

PRINCIPAL ACTIVITY

The principal activity of the company continues to be the supply of business management consultancy and the sale and support of accounting and other software.

RESEARCH AND DEVELOPMENT

During the current and preceding year, we did not undertake any research. However, during the period to 30 November 2017 we carried out some development work of which £107,000 (year ended 30 June 2016: £141,219) was capitalised. Development relates to ancillary software which is provided to customers to enhance the functionality of the Microsoft software which forms the basis of our product offering.

DIVIDEND AND TRANSFERS TO RESERVES

The loss for the period after taxation was £1,782,100 (year ended 30 June 2016: £551,113).

The directors do not propose the payment of a final dividend.

EVENTS AFTER THE REPORTING DATE

On 27 April 2018, the company received a capital contribution from its parent company, K3 Retail and Business Solutions Holdco Limited, being a waiver of amounts owed, of £2,000,000. A proforma balance sheet showing the effect of the capital contribution on the balance sheet as if it had been received at that date is shown in note 22.

FIXED ASSETS

Changes in fixed assets during the period are set out in note 9 to the financial statements.

DIRECTORS

The directors who served during the period were as follows:

D J Bolton	(resigned 18 November 2016)
B S Davis	(resigned 17 October 2016)
A Valdimarsson	(appointed 26 October 2016)
R D Price	(appointed 26 October 2016)

DISABLED EMPLOYEES

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

EMPLOYEE CONSULTATION

The group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the group. This is achieved through informal discussions between management and other employees at a local level.

AUDITORS

All of the current directors have taken all of the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO LLP have expressed their willingness to continue in office as auditors.

Approved by the Board of Directors
and signed on behalf of the Board

R D Price
Director

10 May 2018

STRATEGIC REPORT

BUSINESS REVIEW

The company's turnover for the 17 month period was £11.52m (year ended 30 June 2016: £8.01m). Operating loss was £1.80m (year ended 30 June 2016: loss of £0.68m). We experienced a general softening in end-markets having increased overheads and delivery capability to implement the anticipated level of sales. This was subsequently scaled back in the second half of the period resulting in redundancy costs of £0.43m. Software licence revenues remained at £1.3m despite the longer 17 month period reflecting the unexpected shortfall in sales. However, recurring revenues as a proportion of total revenues, which provides core stability to the business, remained relatively stable at 29% compared to 30% for the year ended 30 June 2016.

The company primarily acts as a reseller of Microsoft Dynamics AX and Microsoft Dynamics NAV software which we tailor with our own intellectual property.

RISKS AND UNCERTAINTIES

Whilst we consider our prospects for the year to 30 November 2018 to be positive, all businesses face risks and uncertainties which could have a material impact on the company's performance and could cause results to differ materially from expected and historical results. The directors consider the most significant risks to be the business environment in which we operate, our relationships with our key suppliers and customers, and our ability to continue to meet contractual commitments and customer expectations. There are also financial risks associated with providing credit and cash flow.

Our credit risk is primarily attributable to our trade debtors. The amounts presented in the balance sheet are net of allowances for doubtful debts, estimated by the directors based on prior experience and their assessment of the current economic environment. Credit risk is managed by the group's central management by ensuring that outlays by the group are matched by receipts from customers where possible and by tight control over contractual terms.

We do not have any financial instruments which are exposed to price risk.

Liquidity and cash flow are managed by the group's central management. The group ensures it has sufficient funds to meet its obligations by monitoring cash flow as part of its day-to-day procedures and also, more strategically, to ensure that financing is in place with manageable repayment periods and the appropriate facilities are available to be drawn upon when the need arises.

Interest rate risks are managed by the group's central management. Interest rate risk arises to the extent that the group hold interest rate sensitive assets or is exposed to interest rate sensitive liabilities. The group maintains a balance of fixed and floating rate interest rates on its financing to manage this exposure.

STRATEGIC REPORT

KEY PERFORMANCE INDICATORS

The directors consider the key performance indicators by which they measure the performance of the company to be turnover and operating profit.

Approved by the Board of Directors
and signed on behalf of the Board

R D Price
Director
10 May 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law including FRS101 "reduced disclosure framework"). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Opinion

We have audited the financial statements of K3 Business Solutions Limited ("the Company") for the period ended 30 November 2017 which comprise the profit and loss account, the balance sheet, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 November 2017 and of its loss for the period then ended;

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Director's report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Julien Rye (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Manchester
17 May 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

PROFIT AND LOSS ACCOUNT
Period ended 30 November 2017

	Note	17 months ended 30 November 2017 £	Year ended 30 June 2016 £
TURNOVER	3	11,517,638	8,011,299
Cost of sales		(8,452,042)	(5,028,718)
GROSS PROFIT		3,065,596	2,982,581
Administrative expenses		(4,869,705)	(3,664,953)
OPERATING LOSS	5	(1,804,109)	(682,372)
Interest receivable		-	17,513
Interest payable and similar charges	6	(359,289)	(231,404)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(2,163,398)	(896,263)
Tax on loss on ordinary activities	7	381,298	345,150
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL PERIOD		(1,782,100)	(551,113)

All amounts relate to continuing activities.

There is no other comprehensive income.

The accompanying notes on pages 13 to 27 are an integral part of this profit and loss account.

COMPANY NUMBER: 06161823

BALANCE SHEET
30 November 2017

	Note	30 November 2017 £	30 June 2016 £
FIXED ASSETS			
Intangible fixed assets	8	5,356,059	5,498,133
Tangible fixed assets	9	17,429	33,206
Investments	10	50	50
		5,373,538	5,531,389
CURRENT ASSETS			
Debtors	11	2,928,597	3,763,886
Cash at bank and in hand		2,600	523,966
		2,931,197	4,287,852
CREDITORS: amounts falling due within one year	12	(6,363,790)	(6,062,852)
NET CURRENT LIABILITIES		(3,432,593)	(1,775,000)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,940,945	3,756,389
CREDITORS: amounts falling due after more than one year	13	(3,096,337)	(3,096,337)
PROVISION FOR LIABILITIES AND CHARGES	14	(7,923)	(41,267)
NET (LIABILITIES)/ASSETS		(1,163,315)	618,785
CAPITAL AND RESERVES			
Called up share capital	15	1	1
Profit and loss account	16	(1,163,316)	618,784
SHAREHOLDER'S (DEFICIT)/FUNDS		(1,163,315)	618,785

These financial statements were approved by the Board of Directors and authorised for issue on 10 May 2018.

Signed on behalf of the Board of Directors

R D Price
Director

The accompanying notes on pages 13 to 27 are an integral part of this balance sheet.

STATEMENT OF CHANGES IN EQUITY
Period ended 30 November 2017

	Share capital	Retained earnings	Total
	£	£	£
Changes in equity for the year ended 30 June 2016			
At 30 June 2015	1	1,169,897	1,169,898
Loss for the period	-	(551,113)	(551,113)
At 30 June 2016	1	618,784	618,785
Changes in equity for the period ended 30 November 2017			
Loss for the period	-	(1,782,100)	(1,782,100)
At 30 November 2017	1	(1,163,316)	(1,163,315)

The accompanying notes on pages 13 to 27 are an integral part of this statement of changes in equity.

K3 Business Solutions Limited is a company incorporated in England & Wales under the Companies Act. The address of the registered office is given on page 1 and its principal activities are set out in the Directors' report.

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements and Financial Reporting Standard 101 Reduced Disclosure Framework.

The financial statements are prepared under the historical cost convention. The presentational currency is sterling.

The company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements, as it is itself a wholly owned subsidiary of K3 Business Technology Group plc, a company registered in England and Wales, which has produced group financial statements.

Going concern

At 30 November 2017, the company had net liabilities of £1,163,315 (30 June 2016: net assets of £618,785) of which £7,438,315 (30 June 2016: £6,795,232) was amounts owing to group undertakings and £1,037,952 (30 June 2016: £792,478) was deferred income.

The directors have reviewed the latest trading forecasts and are confident the company will generate trading cash in excess of its liabilities for the foreseeable future. The director of the company have received assurances from K3 Business Technology Group plc that it has no present intention to recall the loan balances of £3,096,337 within the next 12 months.

On this basis, the company's directors have a reasonable expectation that the company will be able to continue for the foreseeable future. Thus, the going concern basis of accounting has been adopted in preparing the annual financial statements.

Disclosure exemptions adopted

In preparing these financial statements the company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore these financial statements do not include:

- certain comparative information as otherwise required by EU endorsed IFRS;
- certain disclosures regarding the company's capital;
- a statement of cash flows;
- the effect of future accounting standards not yet adopted;
- the disclosure of the remuneration of key management personnel; and
- disclosure of related party transactions with other wholly owned members of the group headed by K3 Business Technology Group plc.

In addition, and in accordance with FRS 101 further disclosure exemptions have been adopted because equivalent disclosures are included in the consolidated financial statements of K3 Business Technology Group plc. These financial statements do not include certain disclosures in respect of:

- Financial Instruments (other than certain disclosures required as a result of recording financial instruments at fair value);
- Fair value measurement (other than certain disclosures required as a result of recording financial instruments at fair value).

1. ACCOUNTING POLICIES (CONTINUED)

Judgements and key areas of estimation uncertainty

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires the company's directors to exercise judgment in applying the company's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in note 2.

Turnover

Turnover is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow into the company.

Turnover comprises the value of sales to third party customers of software licences, customised software, hardware and fees derived from installation, consultancy, training, support and managed services. It is stated exclusive of value added tax and net of trade discounts and rebates.

Turnover on the sale of software licences is recognised where there is persuasive evidence of an agreement with a customer (contract and/or binding purchase), delivery of the software has taken place and the customer has the ability to use the software, collectability is probable and the fee is fixed and determinable. Where the company acts as a reseller of third-party software and maintenance contracts, revenue is recognised at the point the customer received the rights to the contract and the company has fulfilled its obligations. Turnover on the sale of customised software, hardware and installation is recognised on delivery to a customer or on completion of contractual milestones. Turnover from training and consultancy is recognised as the contract progresses (services). Turnover from support, hosting and managed services is generally invoiced in advance, termed "deferred revenue", and taken to revenue in equal monthly instalments over the relevant period (recurring revenue). Turnover on the sale of third party licences, and support and maintenance contracts is recognised once the company has fulfilled its obligations.

The company has a number of different revenue streams for which the revenue recognition varies as outlined above. Where there is one contract covering more than one revenue stream, the contract is "unbundled" to recognise the revenue on each stream in accordance with the revenue recognition set out above. Where a contract for consultancy specifies a fixed number of days and these are exceeded, i.e. the contract overruns, the recognition of revenue is adjusted to reflect the number of days to date as a proportion of the total expected number of days.

Taxation

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

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

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

1. ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Goodwill

The company hived up the trade and assets of a subsidiary undertaking into the company at book value on 1 July 2014. This results in an investment in a subsidiary which has no trade and hence provision would normally be made against that investment under UK GAAP. The company has however applied a true and fair override as allowed under the Companies Act 2006 and transferred an amount equal to the accounting impairment from investments to goodwill. The directors feel that this more accurately reflects the fact that in substance there has been no loss of value to the company.

Goodwill is not amortised but is measured at cost less impairment losses. In accordance with FRS 101, goodwill at 1 July 2014 (date of transition to FRS 101) has been frozen at the amounts at that date subject to being tested for impairment at that date. Goodwill is tested for impairment at least annually. The company performs its impairment reviews at the cash-generating unit level. Any impairment is recognised immediately in the profit and loss account and is not subsequently reversed.

Intangible fixed assets

Externally acquired intangible fixed assets (other than goodwill) are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives. The amortisation expense is included within administrative expenses in the profit and loss account. The significant intangibles recognised by the company and their estimated useful economic lives are as follows:

Development costs	3-5 years

Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from the company's software development is recognised only if all of the following conditions are met:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the company is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

The expenditure capitalised represents the cost of direct labour incurred in developing the software product.

1. ACCOUNTING POLICIES (CONTINUED)

Research and development (continued)

Capitalised development costs are amortised on a straight-line basis over their useful lives commencing from the date the asset is available for use. The estimated useful lives for development expenditure are estimated to be in a range of between three and five years. The amortisation expense is included within administrative expenses in the profit and loss account. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Tangible fixed assets

Items of tangible fixed assets are initially recognised at cost. The cost of items of tangible fixed assets is its purchase cost, together with any incidental costs of acquisition. As well as the purchase price, cost includes directly attributable costs of bringing the asset into use.

Depreciation is calculated so as to write off, on a straight-line basis over the expected useful economic lives of the asset concerned, the cost of tangible fixed assets, less estimated residual values, which are adjusted, if appropriate, at each reporting date. The principal economic lives used for this purpose are:

Plant, office equipment and fixtures	20% - 33% p.a.

Provision is made against the carrying value of items of tangible fixed assets where impairment in value is deemed to have occurred.

Impairment charges of fixed assets

Impairment tests on goodwill with indefinite useful economic lives are undertaken at the financial period end. Other fixed assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of its fair value less costs to sell and its value in use (effectively the expected cash to be generated from using the asset in the business)), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the lowest group of assets in which the asset belongs for which there are separable identifiable cash flows that are largely independent of the cash flows from the other assets or groups of assets).

The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Impairment charges are included in administrative expenses in the profit and loss account. An impairment loss recognised for goodwill is not reversed.

Investments

Investments in subsidiaries are held at cost less any provision for losses arising on impairment.

1. ACCOUNTING POLICIES (CONTINUED)

Leases

Leases for which the company assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The amount initially recognised as an asset is the lower of the fair value of the leased asset and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease. The capital element reduces the balance owed to the lessor.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight-line basis over the lease term.

Pension costs

Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account as incurred. The company has no defined benefit arrangements in place.

Foreign currency

Transactions entered into by the company in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are translated at the rates ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the rates ruling at that date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the profit and loss account.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with FRS 101 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The nature of the company's business is such that there can be unpredictable variation and uncertainty regarding its business. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The key sources of estimation that have a significant impact on the carrying value of assets and liabilities are discussed below:

Impairment of goodwill and other intangibles

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires an entity to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. An impairment review has been performed at the reporting date and no impairment has been identified. More details including carrying values are included in note 8.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Capitalised development expenditure and subsequent amortisation

Where such expenditure meets the relevant criteria the company is required to capitalise development expenditure. In order to assess whether the criteria is met the Board is required to make estimates in relation to likely income generation and financial and technical viability of the relevant development projects and the period over which the company is likely to benefit from such expenditure.

Recoverability of accrued income and trade debtors

Determining the recoverability of accrued income (i.e. sales not invoiced as at the period end) and trade debtors requires consideration of the recoverability of the amounts including consideration of the age of the debt and items considered to be in dispute with customers.

3. SEGMENT INFORMATION

Turnover arises from:

	17 months ended 30 November 2017	Year ended 30 June 2016
	£	£
Software licence revenue	1,333,509	1,335,259
Services revenue	6,802,647	3,872,398
Recurring revenue	3,363,692	2,453,417
Hardware and other revenue	17,790	350,225
	11,517,638	8,011,299

The geographical analysis of turnover by customer location is:

	17 months ended 30 November 2017	Year ended 30 June 2016
	£	£
United Kingdom	11,278,577	7,822,887
Ireland	1,600	111,520
Rest of Europe	85,795	71,824
Rest of world	151,666	5,068
	11,517,638	8,011,299

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	17 months ended 30 November 2017	Year ended 30 June 2016
	No.	No.
Average number of persons employed (including directors)		
Programmers and consultants	51	44
Sales and distribution	13	12
Administration	5	4
	69	60

	17 months ended 30 November 2017	Year ended 30 June 2016
Staff costs during the period	£	£
Wages and salaries	6,205,094	3,621,050
Social security costs	752,533	439,867
Short-term non-monetary benefits	79,933	48,029
Pension costs	151,181	89,783
	7,188,741	4,198,729

No directors have received emoluments during either period as these are paid by the ultimate parent company.

5. OPERATING LOSS

	17 months ended 30 November 2017	Year ended 30 June 2016
	£	£
Operating loss is after charging:		
Depreciation		
- Owned assets	28,756	12,120
Amortisation of intangible assets	249,074	149,672
Rentals under operating leases		
- Hire of motor vehicles	63,968	36,016
Foreign exchange losses	38,362	9,136
Auditors' remuneration		
- Audit fees	8,000	9,000

NOTES TO THE FINANCIAL STATEMENTS
Period ended 30 November 2017

6. INTEREST PAYABLE AND SIMILAR CHARGES

	17 months ended 30 November 2017 £	Year ended 30 June 2016 £
Bank overdrafts	2,626	-
Intra-group interest	356,663	231,404
	359,289	231,404

7. TAX ON LOSS ON ORDINARY ACTIVITIES

	17 months ended 30 November 2017 £	Year ended 30 June 2016 £
United Kingdom corporation tax		
Current period	(381,460)	(241,849)
Adjustments in respect of prior periods	33,506	(47,396)
Total current tax credit	(347,954)	(289,245)
Deferred taxation		
Current period	(40,376)	39,831
Adjustments in respect of prior periods	7,032	(95,736)
Total deferred tax credit	(33,344)	(55,905)
Total tax credit	(381,298)	(345,150)

7. TAX ON LOSS ON ORDINARY ACTIVITIES (CONTINUED)

The differences between the total current tax shown and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows:

	17 months ended 30 November 2017 £	Year ended 30 June 2016 £
Loss on ordinary activities before tax	(2,163,398)	(896,263)
Tax on loss on ordinary activities at standard corporation tax in the UK of 19.53% (2016: 20%)	(422,512)	(179,253)
Effects of:		
Expenses not deductible for tax purposes	(8,242)	(22,764)
Losses not recognised in deferred tax asset	11,333	-
Effect of change in rate of deferred tax	(2,415)	-
Adjustments in respect of prior years	40,538	(143,133)
Total tax credit for the period	(381,298)	(345,150)

NOTES TO THE FINANCIAL STATEMENTS
Period ended 30 November 2017

8. INTANGIBLE FIXED ASSETS

	Goodwill	Development costs	Total
	£	£	£
Cost			
At 1 July 2016	5,630,089	1,141,242	6,771,331
Additions	-	107,000	107,000
At 30 November 2017	5,630,089	1,248,242	6,878,331
Accumulated amortisation			
At 1 July 2016	621,202	651,996	1,273,198
Charge for period	-	249,074	249,074
At 30 November 2017	621,202	901,070	1,522,272
Net book value			
At 30 November 2017	5,008,887	347,172	5,356,059
At 30 June 2016	5,008,887	489,246	5,498,133

Goodwill arising on the acquisition of a business in 2009 of £621,202 was being amortised over its useful economic life which the directors considered to be 8 years and was fully amortised prior to the adoption of FRS 101.

Goodwill arising as a result of the hive up of the trade and assets of a subsidiary, K3 AX Limited, into the company on 1 July 2014 at book value amounts to £5,008,887.

The recoverable amount of the goodwill is determined from value in use calculations, derived from the present value of the future cash flows generated. There are a number of assumptions and estimates involved in calculating the present value of the future cash flows including, but not restricted to, the growth rates applied to profit from operations used as the basis of the future cash flows and the discount rate applied to the cash flows to calculate their present value. The forecast show good headroom although if performance and annual cash generated falls continuously short by 10% or more of the forecast cash generated there would be an impairment. However, the directors have plans in place to exceed forecasts. As a result of the impairment testing carried out based on the estimates and assumptions, no impairment provision is considered necessary.

NOTES TO THE FINANCIAL STATEMENTS
Period ended 30 November 2017

9. TANGIBLE FIXED ASSETS

	Plant, office equipment and fixtures
	£
Cost	
At 1 July 2016	63,667
Additions	12,979
At 30 November 2017	76,646
Accumulated depreciation	
At 1 July 2016	30,461
Charge for the period	28,756
At 30 November 2017	59,217
Net book value	
At 30 November 2017	17,429
At 30 June 2016	33,206

10. INVESTMENTS

	£
At 1 July 2016 and at 30 November 2017	50

The company holds investments in the following subsidiary undertakings

Company	**Nature of Business**	**Country of registration**
K3 AX Limited	Dormant	England and Wales
Clarita Support Limited	Dormant	England and Wales

All subsidiary undertakings are wholly owned and the shares consist of ordinary shares only.

The registered address for both subsidiaries is Baltimore House, 50 Kansas Avenue, Manchester M50 2GL.

11. DEBTORS

	30 November 2017 £	30 June 2016 £
Amounts falling due within one year:		
Trade debtors	1,982,503	2,420,317
Amounts owed by group undertakings	84,945	428,098
Corporation tax	381,460	-
Other debtors	6,109	24,126
Prepayments and accrued income	473,580	891,345
	2,928,597	3,763,886

No interest is charged on amounts owed by group undertakings.

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	30 November 2017 £	30 June 2016 £
Trade creditors	461,698	694,042
Amounts owed to group undertakings	4,341,978	3,698,895
Other taxes and social security	227,024	567,051
Other creditors	736	423
Accruals	294,402	309,963
Deferred income	1,037,952	792,478
	6,363,790	6,062,852

Interest is charged on amounts owed by the ultimate parent company of £3,599,907 at 3.8% which is deemed to be a market rate. No interest is charged on other amounts owed to group undertakings. Amounts are due on demand.

13. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	30 November 2017 £	30 June 2016 £
Amounts owed to group undertakings	3,096,337	3,096,337

Maturity analysis of amounts due after more than one year:

	30 November 2017 £	30 June 2016 £
In more than one year but not more than two years	3,096,337	3,096,337

Interest is charged on amounts owed to group undertakings at 3.8% which is deemed to be a market rate.

NOTES TO THE FINANCIAL STATEMENTS
Period ended 30 November 2017

14. PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation

	£
Balance at 1 July 2016	41,267
Movements in the period	(33,344)
Balance at 30 November 2017	7,923

The amounts provided in the financial statements are as follows:

	30 November 2017 £	30 June 2016 £
Capital allowances in advance of depreciation	(11,183)	(6,092)
Other short term timing differences	49,316	90,765
Losses	(30,210)	(43,406)
Total deferred tax liability	7,923	41,267

15. CALLED UP SHARE CAPITAL

	30 November 2017 £	30 June 2016 £
Allotted, called up and fully paid		
1 ordinary shares of £1 each	1	1

16. RESERVES

The following describes the nature and purpose of each reserve within shareholders' equity:

Reserve	*Description and purpose*
Retained earnings	Cumulative net gains and losses recognised in the profit and loss account.

17. PENSION ARRANGEMENTS

The company operates a defined contribution scheme for which the pension cost for the period amounted to £151,181 (year ended 30 June 2016: £89,783). £236 was outstanding at 30 November 2017 (£423 at 30 June 2016) and is included in Other creditors in note 12.

18. FINANCIAL COMMITMENTS

Operating lease commitments

The total future value of minimum lease payments under non-cancellable operating leases is due as follows:

	30 November 2017		30 June 2016	
	Land & buildings	Other	Land & buildings	Other
		£	£	£
Not later than one year	23,392	27,776	-	37,700
Later than one year but not later than five years	143,424	5,988	-	31,382
	166,816	33,764	-	69,082

19. ULTIMATE PARENT COMPANY

The company is a subsidiary undertaking of K3 Business Systems Holdco Limited which is incorporated in Great Britain and registered in England and Wales. The largest and smallest group in which the results of the company are consolidated is that headed by K3 Business Technology Group plc. Copies of the group financial statements are available from Baltimore House, 50 Kansas Avenue, Manchester, M50 2GL.

20. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption conferred by FRS 101 paragraph 8(j) and 8(k) not to disclose key management personnel compensation or transactions and amounts due to and from fellow group companies that are wholly owned by the ultimate parent company, K3 Business Technology Group Plc.

21. CONTINGENT LIABILITY

The company has entered into a cross-guarantee with fellow group undertakings in relation to liabilities with Barclays Bank plc and HSBC Bank plc. At the year end the liabilities covered by this guarantee totalled £6,124,000

22. EVENTS AFTER THE REPORTING DATE

On 8 May 2018, the company received a capital contribution from its parent company, K3 Business Systems Holdco Limited, being a waiver of amounts owed, of £2,000,000.

22. EVENTS AFTER THE REPORTING DATE (CONTINUED)

The proforma balance sheet as at 30 November 2017 reflecting the capital contribution is as follows:

	30 November 2017 £
Fixed assets	
Intangible fixed assets	5,356,059
Tangible fixed assets	17,429
Investments	50
	5,373,538
Current assets	
Debtors	2,928,597
Cash at bank and in hand	2,600
	2,931,197
Creditors: amounts falling due within one year	(4,363,790)
Net current liabilities	(1,432,593)
Total assets less current liabilities	3,940,945
Creditors: amounts falling due after more than one year	(3,096,337)
Provisions for liabilities and charges	(7,923)
Net assets	836,685
Capital and reserves	
Called up share capital	1
Profit and loss account	836,684
Shareholder's funds	836,685