Knights plc

Annual Report and Accounts

30 April 2021

Financial Statements

Contents

Independent Auditor's Report

to the Members of Knights Group Holdings plc

Opinion

We have audited the financial statements of Knights Group Holdings plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 April 2021 which comprise the consolidated statement of comprehensive income, the consolidated and company statement of financial position, the consolidated and company statement of changes in equity, the consolidated and company statement of cash flows and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006. The financial reporting framework that has been applied in the preparation of the parent company financial statements 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 group's and of the parent company's affairs as at 30 April 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements 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 group and the parent 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 as applied to listed entities 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

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included evaluating management's method of assessment, reviewing the forecasts prepared by the Directors, performing sensitivity analysis, comparing the prior year forecast to actual outturn, confirming the terms of the banking facilities available to the group, checking the forecast covenant compliance and headroom available to the group, and considering the adequacy of the disclosures made by the Directors in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's or the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Summary of our audit approach

Key audit matters	**Group** • Valuation and recoverability of amounts recoverable on contracts and impact on revenue recognition • Acquisition accounting, timing of obtaining control and valuation of intangibles assets acquired **Parent Company** • None identified
Materiality	**Group** • Overall materiality: £771,000 (2020: £539,000) • Performance materiality: £578,000 (2020: £404,000) **Parent Company** • Overall materiality: £514,000 (2020: £365,000) • Performance materiality: £385,000 (2020: £273,000)
Scope	Our audit procedures covered 99% of revenue, 99% of net assets and 98% of underlying EBITDA.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the group [and parent company] financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition and contract assets

Key audit matter description	The Group's accounting policy in respect of revenue recognition is set out in note 2.5. Note 4 sets out the critical judgements and estimates applied by the Directors in relation to the valuation of unbilled contingent fee agreements and of amounts recoverable on contracts, which may have a material effect on the amount of revenue recognised in the period, and note 5 to the financial statements gives detail on revenue. There is a risk that revenue could be materially misstated due to recognising revenue in the wrong accounting period, or in the wrong amount. Revenue is materially impacted by changes in the contract assets balance (amounts recoverable on contracts) which is subject to management judgement about recovery rates and provisions. The Group has recognised revenue of £103.2 million in respect of fees billed and accrued in the year, which consists of a large number of relatively low value transactions. Due to the large volume of transactions in the year there is a risk that not all of the matters in the year have been appropriately billed. The Group's contract assets balance at the year end is £28.0 million (see note 22). The contract assets are valued on a line by line (case by case) basis using an estimated recovery rate at the period end. The process of valuing contract assets and, in particular, estimating recovery rates, is judgemental and therefore considered to be a key audit matter.
How the matter was addressed in the audit	**Our response to the key audit matter included:** • assessing management's revenue recognition policy for fixed fee arrangements, unconditional fee-for-service arrangements, and variable or contingent fee arrangements for compliance with IFRS 15 – Revenue from contracts with customers • assessing the reasonableness of the revenue figure in relation to fee-earner numbers and salary costs in comparison to prior financial years • performing data analytics to test the revenue recognised by ensuring that the revenue transaction cycle was completed through to cash receipt or inclusion in trade receivables • comparing the year end work in progress valuation and recovery rates to the prior year for each office, (excluding those acquired in the year) • comparing the expected recovery rate in the prior year valuation of work in progress to the actual amounts recovered for a sample of fee earners during the year • reviewing the work in progress balances at various dates during the year for a sample of fee earners and checking subsequent recovery rates to confirm their period end valuations • period-end cut off testing to ensure that contract assets and revenue had been recognised in the correct accounting period • reviewing the utilisation rates during the year for staff on an office by office basis and enquiring where these appeared to be unusually low, in order to test completeness of the time being recorded to matters • agreeing the recoverability of the balance of unbilled revenue to post year end billing and cash receipts and, where billing has not yet occurred, challenging fee-earners about the expected recovery, confirming unbilled revenue is recorded in the correct period and at the correct amount and is supported by time costs incurred.
Key observations	Based on the work performed, we concluded that revenue is being appropriately recognised in accordance with IFRS 15, and that the estimates used in the valuation of amounts recoverable on contracts are reasonable.

Independent Auditor's Report continued

to the Members of Knights Group Holdings plc

Acquisition accounting and valuation of intangibles assets acquired

Key audit matter description	During the year the group made four acquisitions involving aggregate consideration of £14.7 million, including deferred consideration of £5.1 million as set out in note 20. There are significant intangible assets arising as a result of each acquisition, including goodwill of £8.1 million and customer relationships of £3.7 million (note 19). The determination and allocation of the purchase price, the identification and valuation of the intangible assets arising, and the useful lives of these assets, particularly the customer relationships, involve the exercise of a significant degree of management judgement and is therefore considered to be a key audit matter. Additionally, the date on which control is obtained in each acquisition is a key judgement in assessing the acquisition date (see note 4). The details of acquisitions made in the year are set out in note 20. Notes 2.4 (business combinations), 2.7 (goodwill) and 2.8 (intangible assets other than goodwill) set out the accounting policies in respect of business combinations and note 19 to the financial statements summarised the intangible assets added through acquisitions in the year.
How the matter was addressed in the audit	**Our response to the key audit matter included:** • obtaining copies of purchase documentation for each acquisition and considering which party has control, the percentage acquired, the consideration offered and details of any deferred consideration • reviewing the details of clauses in the heads of terms and the sale and purchase agreements for each acquisition to determine the date on which control passes, and hence determining the date of acquisition i.e. the date control was obtained • agreeing the amounts of consideration to cash amounts paid and the share consideration to share certificates issued and the market price on issue • confirming that the accounting treatment applied for each transaction is in accordance with relevant accounting standards • reviewing and challenging the appropriateness of the assumptions used in the fair value calculations to value the customer relationships and agreeing these to supporting evidence, including the growth rate, customer attrition rate and discount rate applied • considering whether there are any other intangible assets which should be recognised as part of the fair value exercise • reviewing the useful life applied to customer lists and comparing this to historic client retention rates in the acquired businesses, and considering the estimated remaining employment term for fee earners brought in with the acquisition • considering whether fee earners leaving in the period impacted the carrying value of the client relationships recognised in past acquisitions • confirming that the disclosures made in respect of each acquisition are in accordance with the relevant standard.
Key observations	Following discussions with management and adjustments to the treatment of payments to retiring fee earners for restrictive covenants, and detailed consideration of the date on which the Group obtains control of the acquirees, based on the audit work performed we consider the acquisition accounting to have been appropriately applied and that management has identified and valued the acquired intangible assets in accordance with IFRS 3, Business combinations.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. Based on our professional judgement, we determined materiality as follows:

	Group	Parent company
Overall materiality	£771,000 (2020: £539,000)	£514,000 (2020: £365,000)
Basis for determining overall materiality	3% of underlying EBITDA	0.7% of net assets
Rationale for benchmark applied	A key metric used by management and shareholders in assessing performance of the Group is underlying EBITDA, as disclosed in note 36.	The parent company does not trade; its function is to hold investments in the Group's trading entities. As a result, the benchmark for this entity is net assets.
Performance materiality	£578,000 (2020: £404,000)	£385,500 (2020: £273,000)
Basis for determining performance materiality	75% of overall materiality	75% of overall materiality
Reporting of misstatements to the Audit Committee	Misstatements in excess of £38,500 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £25,700 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The group consists of seven components, all of which are based in the UK.

The coverage achieved by our audit procedures was:

	Number of components	Revenue	Net assets	Underlying EBITDA
Full scope audit	3	99%	99%	98%
Specific audit procedures	1	1%	1%	2%
Total	**4**	**100%**	**100%**	**100%**

The remaining three components are not material either individually or in aggregate.

Of the above, for one component specific audit procedures on amounts recoverable on contracts, being the only material balance in that component which carries a significant risk, were undertaken by component auditors.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the 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 group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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 set out on page 62, 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 group's and the parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report continued

to the Members of Knights Group Holdings plc

Auditor's responsibilities for the audit of the financial statements

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.

The extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the group audit engagement team:

- obtained an understanding of the nature of the industry and sector, including the legal and regulatory frameworks that the group and parent company operate in and how the group and parent company are complying with the legal and regulatory frameworks;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

The most significant laws and regulations were determined as follows:

Legislation / Regulation	Additional audit procedures performed by the audit engagement team included:
IFRS and Companies Act 2006	Review of the financial statement disclosures and testing to supporting documentation; and Completion of disclosure checklists to identify areas of non-compliance.
Tax compliance regulations	Inspection of advice received from internal tax advisors; Inspection of correspondence with local tax authorities; Input from a tax specialist was obtained regarding the tax impact of employee share schemes in operation during the year and the impact of transaction costs incurred in acquisitions on the group's tax charge; and Consideration of whether any matter identified during the audit required reporting to an appropriate authority outside the entity.

The areas that we identified as being susceptible to material misstatement due to fraud were:

Risk	Audit procedures performed by the audit engagement team:
Revenue recognition	Our audit procedures in this area are detailed above under key audit matters.
Management override of controls	Testing the appropriateness of journal entries and other adjustments; Assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and Evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Other matters which we are required to address

During the year the provision of an application programming interface, enabling the group to download its periodic VAT details to HMRC in compliance with the Making Tax Digital legislation, was inadvertently provided. This was not a service permitted by the FRC's Revised Ethical Standard 2019. We have reassessed our independence and concluded that it has not been compromised due to the size of the fee totalling £175 for the year, the automated nature of the service, and the fact that it does not impact the Group's accounting and financial reporting systems, or the production of the financial statements. Provision of the service ceased as soon as it was discovered. We have discussed the inadvertent breach with the audit committee, as described in their report on page 59 of the financial statements, who also concluded that our independence was not compromised.

Use of our report

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.

GEOFF WIGHTWICK (Senior Statutory Auditor)

For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
Festival Way
Stoke on Trent
Staffordshire
ST1 5BB

15 July 2021

Consolidated Statement of Comprehensive Income

For the year ended 30 April 2021

	Note	Year ended 30 April 2021 £'000	Year ended 30 April 2020 £'000
Revenue	5	**103,201**	74,254
Other operating income	7	**1,310**	894
Staff costs	8	**(62,707)**	(45,578)
Depreciation and amortisation charges	11	**(7,730)**	(4,276)
Impairment of trade receivables and contract assets		**(223)**	(112)
Other operating charges	12	**(16,173)**	(11,504)
Operating profit before non-underlying charges		**17,678**	13,678
Non-underlying operating costs	13	**(10,288)**	(8,090)
Operating Profit		**7,390**	5,588
Finance costs	14	**(1,881)**	(1,530)
Profit before tax		**5,509**	4,058
Taxation	16	**(2,107)**	(2,238)
Profit and total comprehensive income for the year attributable to equity owners of the parent		**3,402**	1,820

Earnings per share		**Pence**	Pence
Basic earnings per share	17	**4.14**	2.44
Diluted earnings per share	17	**4.09**	2.41

Consolidated Statement of Financial Position

As at 30 April 2021

	Note	30 April 2021 £'000	30 April 2020 £'000
Assets			
Non-current assets			
Intangible assets and goodwill	19	**79,523**	69,135
Property, plant and equipment	21	**9,538**	5,562
Right-of-use assets	21	**40,406**	23,749
		129,467	98,446
Current assets			
Contract assets	22	**28,530**	21,507
Trade and other receivables	23	**31,521**	27,046
Cash and cash equivalents		**4,783**	12,741
		64,834	61,294
Total assets		**194,301**	159,740
Equity and liabilities			
Equity			
Share capital	24	**165**	164
Share premium	25	**68,369**	66,252
Merger reserve	26	**(3,536)**	(3,536)
Retained earnings	26	**17,691**	13,070
Equity attributable to owners of the parent		**82,689**	75,950
Non-current liabilities			
Lease liabilities	37	**39,020**	21,078
Borrowings	27	**23,650**	28,650
Deferred consideration	28	**–**	127
Deferred tax	29	**5,655**	5,429
Provisions	31	**2,998**	–
		71,323	55,284
Current liabilities			
Lease liabilities	37	**3,620**	2,766
Borrowings	27	**414**	–
Trade and other payables	30	**32,303**	20,019
Deferred consideration	28	**1,095**	2,723
Contract liabilities	22	**216**	177
Corporation tax liability		**765**	675
Provisions	31	**1,876**	2,146
		40,289	28,506
Total liabilities		**111,612**	83,790
Total equity and liabilities		**194,301**	159,740

The financial statements were approved by the Board and authorised for issue on 14 July 2021 and are signed on its behalf by:

Kate Lewis
Director

Registered No. 11290101

Consolidated Statement of Changes in Equity

For the year ended 30 April 2021

	Note	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
As at 1 May 2019		147	32,486	(3,536)	12,216	41,313
Profit for the period and total comprehensive income		–	–	–	1,820	1,820
Transactions with owners in their capacity as owners:						
Credit to equity for equity-settled share-based payments	9	–	–	–	789	789
Issue of shares	24, 25	17	33,766	–	–	33,783
Dividends	18	–	–	–	(1,755)	(1,755)
Balance at 30 April 2020		**164**	**66,252**	**(3,536)**	**13,070**	**75,950**
Profit for the period and total comprehensive income		**–**	**–**	**–**	**3,402**	**3,402**
Transactions with owners in their capacity as owners:						
Credit to equity for equity-settled share-based payments	9	**–**	**–**	**–**	**1,219**	**1,219**
Issue of shares	24, 25	**1**	**2,117**			**2,118**
Dividends	18	**–**	**–**	**–**	**–**	**–**
Balance at 30 April 2021		**165**	**68,369**	**(3,536)**	**17,691**	**82,689**

Consolidated Statement of Cash Flows

For the year ended 30 April 2021

	Note	Year ended 30 April 2021 £'000	Year ended 30 April 2020 £'000
Operating activities			
Cash generated from operations	34	**20,378**	13,791
Non-underlying operating costs paid	13	**(4,268)**	(3,398)
Interest received		**461**	328
Tax paid		**(2,125)**	(2,907)
Contingent acquisition payments		**(5,597)**	(1,850)
Net cash from operating activities		**8,849**	5,964
Investing activities			
Acquisition of subsidiaries	20	**(1,195)**	(11,907)
Purchase of intangible fixed assets	19	**(196)**	(26)
Purchase of property, plant and equipment	21	**(4,356)**	(2,501)
Proceeds from sale of property, plant and equipment		**6**	21
Landlord capital contribution		**2,265**	–
Payment of deferred consideration		**(3,171)**	(2,116)
Net cash used in investing activities		**(6,647)**	(16,529)
Financing activities			
Proceeds from issue of share capital		**–**	20,543
Proceeds of new borrowings		**19,000**	44,800
Repayment of borrowings		**(24,000)**	(35,150)
Repayment of debt acquired with subsidiaries	20	**(2,387)**	(7,049)
Repayment of lease liabilities		**(2,564)**	(1,576)
Interest and other finance costs paid		**(1,772)**	(1,411)
Associated lease costs		**(289)**	–
Dividends paid		**–**	(1,755)
Net cash (used in)/ generated from financing activities		**(12,012)**	18,402
Net (decrease)/ increase in cash and cash equivalents		**(9,810)**	7,837
Cash and cash equivalents at the beginning of the period		**12,741**	4,904
Cash and cash equivalents at end of period (net of overdraft £1,852,000)		**2,931**	12,741

Notes to the Consolidated Financial Statements

For the year ended 30 April 2021

1. General Information

Knights Group Holdings plc ("the Company") is a public company limited by shares and is registered, domiciled and incorporated in England.

The Group consists of Knights Group Holdings plc and all of its subsidiaries.

The principal activity and nature of operations of the Group is the provision of legal and professional services. The address of its registered office is:

The Brampton
Newcastle-under-Lyme
Staffordshire
ST5 0QW

2. Accounting policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with IAS in conformity with the requirements of Companies Act 2006.

Applying IFRS requires the Directors to exercise judgement and use certain critical accounting estimates, the judgments and estimates that the Directors deem significant in the preparation of these financial statements are explained in note 4.

The financial statements have been prepared on the historical cost basis unless IFRSs requires an alternative treatment. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Monetary amounts are presented in sterling, being the functional currency of the Group, rounded to the nearest thousand except where otherwise indicated.

The principal accounting policies adopted are set out below. These policies have been consistently applied to all periods presented in the financial statements, unless otherwise stated.

2.2 Going concern

The accounts are prepared on a going concern basis as, at the time of approving the financial statements, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. The Group has a strong trading performance, generates strong operating cashflows and has banking facilities of £40,000,000 available until June 2023. The Group's forecasts show sufficient cash generation and headroom in banking facilities and covenants, in relation to anticipated future requirements to support the Directors' conclusion that the assumption of the going concern basis of accounting in preparing the financial statements is appropriate.

In the period since the pandemic arose and the UK entered lockdown at the end of March 2020, the Group has continued to trade profitably and cash generation at an operating cashflow level has remained strong and in line with expectation. In order to satisfy the validity of the going concern assumption, a number of different trading scenarios have been modelled and reviewed. Some of these scenarios forecast a significantly more negative trading performance than is expected. In all of these scenarios the Group remained profitable and with significant headroom in its cash resources for the 12 months from the date of approval of the accounts.

2.3 Basis of consolidation

The consolidated financial statements incorporate the results of Knights Group Holdings plc and all of its subsidiaries. Subsidiaries results are consolidated in the financial statements from the earlier date that economic benefit is obtained or control commences until the date that control ceases.

On 18 June 2018, the whole of the share capital of Knights 1759 Limited was acquired by the Company via a share for share exchange agreement. The acquisition is outside the scope of IFRS 3 because Knights Group Holdings Limited did not meet the definition of a business. In the absence of specific guidance in IFRS, the Group has selected an appropriate accounting policy using the hierarchy described in paragraphs 10 to 12 of IAS 8, which permits the consideration of other Financial Reporting Standards. The Group has adopted the principles of merger accounting from FRS 102. Accordingly, the consolidated financial statements for the Group have been presented as if Knights 1759 Limited had been owned by Knights Group Holdings plc throughout the preceding period.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the earlier date that control commences until the date that control ceases.

Transactions eliminated on consolidation

All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Where necessary, adjustments are made to the financial information of subsidiaries to bring the accounting policies used into line with those used by the Group.

Audit exemption of subsidiaries

The following subsidiaries are exempt from the requirements of the UK Companies Act 2006 relating to the audit of individual accounts by virtue of s479A of the Act.

Name	Registered number
BrookStreet Des Roches	OC317863
Dakeyne Emms Gilmore Liberson Limited	06850969
ERT Law Limited	09182964
Croftons Solicitors LLP	OC343375
Shulmans LLP	OC348166
ASB Law LLP	OC351354
ASB Aspire LLP	OC327667
OTB Eveling LLP	OC371214
Mundays LLP	OC313856

The outstanding liabilities at 30 April 2021 of the above named subsidiaries have been guaranteed by the Company pursuant to s479A to s479C of the Act. In the opinion of the Directors, the possibility of the guarantee being called upon is remote since the trade, assets and majority of liabilities of these subsidiaries were transferred to Knights Professional Services Limited before 30 April 2021.

2.4 Business combinations

The cost of a business combination is the fair value at the acquisition date, of the assets given, equity instruments issued and liabilities incurred or assumed.

The excess of the cost of a business combination over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recognised as goodwill.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

2.5 Revenue

The Group earns revenue from the provision of legal and professional services. Revenue for these services is recognised over time in the accounting period when services are rendered as the Group has an enforceable right to payment for work performed to date under its client terms of engagement.

Fee arrangements for legal and professional services include fixed fee arrangements, unconditional fee-for-service arrangements ("time and materials"), and variable or contingent fee arrangements.

For fixed fee arrangements, revenue is recognised based on the stage of completion with reference to the actual services provided as a proportion of the total services expected to be provided under the contract. The stage of completion is tracked on a contract-by-contract basis using the hours spent by fee-earners providing the services.

In fee-for-service contracts, revenue is recognised up to the amount of fees that the Group is entitled to bill for services performed to date based on contracted rates.

Under variable or contingent fee arrangements, fees may be earned only in the event of a successful outcome of a client's claim. Fees under these arrangements may be fixed or may be variable based on a specified percentage of damages awarded under a claim.

For variable or contingent fee arrangements management makes a detailed assessment of the amount of revenue expected to be received and the probability of success of each case. Variable consideration is recognised over the duration of the matter only to the extent that it is highly probable that the amount recognised will not be subject to significant reversal when the matter is concluded based on the expected amount recoverable at that point in time. In such circumstances, a level of judgement is required to determine the likelihood of success of a given matter, as well as the estimated amount of fees that will be recovered in respect of the matter. Where the likelihood of success of a contingent fee arrangement is less than highly probable, the value recognised in contract assets is further reduced to reflect this uncertainty.

Certain contingent fee arrangements are undertaken on a partially funded basis. In such arrangements, the funded portion of fees is not contingent on the successful outcome of the litigation and in these instances the revenue is recognised up to the amount of fees that the Group is entitled to bill for services performed to date based on contracted rates. The remaining consideration is variable and conditional on the successful resolution of the litigation. The variable consideration is recognised over the duration of the matter and included in revenue based on expected amount recoverable only to the extent that it is highly probable that the amount recognised will not be subject to significant reversal when the uncertainty is resolved at that point in time.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2021

2. Accounting policies continued

The Group's contracts with clients each comprise of a single distinct performance obligation, being the provision of legal and professional services in relation to a particular matter and the transaction price is therefore allocated to this single performance obligation.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in the Statement of Comprehensive Income in the period in which the circumstances that give rise to the revision become known by management.

The Group has determined that no significant financing component exists in respect of the provision of legal and professional services because the period between when the entity transfers its services to a client and when the client pays for that service will generally be one year or less.

Consideration for services provided under contingent or variable fee arrangements may be paid after a longer period. In these cases, no significant financing component exists because the consideration promised by the customer is variable subject to the occurrence or non-occurrence of a future event that is not substantially within the control of the client or the Group.

A receivable is recognised when a bill has been issued to the client, as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Unbilled revenue is recognised as contract assets. Costs incurred in fulfilling the future performance obligations of a contract are recognised as contract assets if the costs are expected to be recovered.

Contract liabilities are recognised in respect of consideration billed in advance of satisfying the performance obligation under the contract.

Revenue does not include disbursements. Recoverable expenses incurred on client matters that are expected to be recovered and are billed during the period are recognised in other income.

2.6 Taxation

The tax expense represents the sum of the current tax expense and the deferred tax expense. Current tax assets are recognised when the tax paid exceeds the tax payable. Current tax is based on taxable profit for the year. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax liabilities are recognised in respect of all timing differences that exist at the reporting date. Timing differences are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in different periods from their recognition in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that they will be recovered by the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is recognised on differences between the value of assets (other than goodwill) and liabilities recognised in a business combination and the amounts that can be deducted or assessed for tax. The deferred tax recognised is adjusted against goodwill.

Current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities are offset, if and only if, there is a legally enforceable right to set off the amounts and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.7 Intangible assets – Goodwill

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less accumulated impairment losses. Goodwill is tested annually by the Directors for evidence of impairment.

2.8 Intangible assets – Other than goodwill

Intangible assets purchased, other than in a business combination, are recognised when future economic benefits are probable and the cost or value of the asset can be measured reliably.

Intangible assets arising on a business combination, such as customer relationships, are recognised at estimated fair value, except where the asset does not arise from legal or contractual rights, and there is no history or evidence of exchange transactions for the same or similar assets and estimating the assets fair value would depend on immeasurable variables. The fair value represents the Directors' best estimate of future economic benefit to be derived from these assets discounted at an appropriate rate.

Intangible assets are initially recognised at estimated cost (which for intangible assets acquired in a business combination is the fair value at acquisition date) and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets are amortised to the Statement of Comprehensive Income on a straight-line basis over their estimated useful lives, as follows:

Purchased computer software	–	4 years
Customer relationships	–	4-25 years
Restrictive covenants	–	remaining length of covenant
Brand	–	100 years

Purchased computer software is amortised over a period of 4 years, being the minimum period expected to benefit from the asset.

Customer relationships are amortised over a period of 4-25 years being the average length of relationship with key clients for acquired entities.

Restrictive covenants are amortised over the remaining length of covenant.

Brand value is amortised over a period of 100 years based on the Directors' assessment of the future life of the brand. This is supported by a trading history dating back to 1759. Brand value relates to the 'Knights' brand only. Other acquired brands are not recognised as an asset as the acquired entities are rebranded as Knights and the impact of such recognition would not be material.

2.9 Property, plant and equipment

Property, plant and equipment are stated at cost net of depreciation and any provision for impairment.

Depreciation is provided on property, plant and equipment at rates calculated to write each asset down to its estimated residual value over its expected useful life, as follows:

Expenditure on short leasehold property	–	10% on cost
Office equipment	–	25% on cost
Furniture and fittings	–	10% on cost
Motor vehicles	–	25% on cost
Right-of-use assets	–	remaining life of the lease (between 1 and 21 years)

Residual value is calculated on prices prevailing at the reporting date, after estimated costs of disposal, for the asset as if it were at the age and in the condition expected at the end of its useful life.

2.10 Impairment of non-current assets

An assessment is made at each reporting date of whether there are indications that non-current assets may be impaired or that an impairment loss previously recognised has fully or partially reversed. If such indications exist, the Group estimates the recoverable amount of the asset or, for goodwill, the recoverable amount of the cash-generating unit.

Shortfalls between the carrying value of non-current assets and their recoverable amounts, being the higher of fair value less costs to sell and value-in-use, are recognised as impairment losses. All other impairment losses are recognised in the Statement of Comprehensive Income.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Reversals of impairment losses are recognised in the Statement of Comprehensive Income. On reversal of an impairment loss, the depreciation or amortisation is adjusted to allocate the asset's revised carrying amount (less any residual value) over its remaining useful life.

2.11 Professional indemnity provision

In common with comparable practices, the Group is involved in a number of disputes in the ordinary course of business which may give rise to claims. Provision is made in the financial statements, within provisions for all claims where costs are likely to be incurred. This represents the cost of defending and concluding claims and any excesses that may become payable. The Group carries professional indemnity insurance and no separate disclosure is made of the cost of claims covered by insurance as to do so could seriously prejudice the position of the Group.

2.12 Leases

The Group leases offices, equipment and vehicles. Rental contracts are for periods of between 1 and 25 years. Lease terms are negotiated on a lease by lease basis and contain a variety of terms and conditions.

The Group assesses whether a contract is or contains a lease at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (being those assets with a value less than £4,000). For short term and low value leases, the Group recognises the lease payments as an operating expense on a straight line basis over the term of the lease.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term assumed reflects the Group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Lease payments are of both principal and interest included in financing activities in the cash flow.

The lease liability is presented as a separate line in the Consolidated Statement of Financial Position.

Right-of-use assets are recognised at commencement of the lease and initially measured at the amount of the lease liability, plus any incremental costs of obtaining the lease and any lease payments made at or before the leased asset is available for use by the Group.

Subsequent to initial recognition, the lease liability is reduced for payments made and increased to reflect interest on the lease liability (using the effective interest method). The related right-of-use asset is depreciated over the term of the lease or, if shorter, the useful economic life of the leased asset. The lease term shall include the period of an extension option where it is reasonably certain that the option will be exercised. Interest on the lease liability is recognised in the Statement of Comprehensive Income.

An estimate of the costs to be incurred in restoring the leased asset to the condition required under the terms and conditions of the lease is recognised as part of the cost of the right-of-use asset when the Group incurs the obligation for these costs. The costs are incurred at the start of the lease or over the lease term. The provision is measured at the best estimate of the expenditure required to settle the obligation.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2021

2. Accounting policies continued

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

2.13 Retirement benefits

2.13a Defined contribution scheme

The Group operates a defined contribution scheme. The amount charged to the Statement of Comprehensive Income in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accrued expenses or prepayments and other receivables.

2.13b Defined benefit pension scheme

For defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the Statement of Comprehensive Income.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date.

Defined benefit assets are not recognised in the Statement of Financial Position, on the basis that future economic benefits are not available to the Group in the form of a reduction in future contributions or a cash refund.

For the 'With Profit Section' contributions are recognised in Statement of Comprehensive Income in the period to which they relate as there is insufficient information available to use defined benefit accounting. A liability will be recognised based on the agreed share of the Group in the scheme. No asset (2020: liability) has been recognised on the basis that future economic benefits are not available to the Group in the form of a reduction in future contributions or a cash refund.

2.14 Share based payments

The cost of providing share based payments to employees is charged to the Statement of Comprehensive Income over the vesting period of the awards. The cost is based on the fair value of awards at the date of grant of the award using an appropriate valuation model. The amount recognised as an expense will be adjusted to reflect differences between the expected and actual vesting levels. Further details of the schemes are included in note 9.

2.15 Financial instruments

Financial instruments are recognised on the date when the Group becomes a party to the contractual provisions of the instrument. Financial instruments are recognised initially at fair value. Financial instruments are derecognised when the Group is no longer party to the contractual provisions of the instrument.

Financial assets

Contract assets and trade receivables
Contract assets and trade receivables which are receivable within one year are initially measured at fair value. These assets are subsequently measured at amortised cost, being the transaction price less any amounts settled and any impairment losses.

Impairment of financial assets
The Group recognises a loss allowance for expected credit losses ('ECL') on contract assets and trade receivables. The expected credit losses on trade receivables includes specific provisions against known receivables and an estimate using a provision matrix by reference to past experience and an analysis of the debtor's current financial position on the remaining balance. The expected credit losses on contract assets and other receivables is assessed based on historical credit loss experienced on these types of assets adjusted for known foreseeable estimated losses.

Financial liabilities and equity

Financial instruments are classified as liabilities and equity instruments according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Trade and other payables
Trade and other payables due within one year are initially measured at fair value and subsequently measured at amortised cost, being the transaction price less any amounts settled.

Deferred consideration
Deferred consideration is initially recognised at the fair value of the amounts payable and subsequently at amortised cost of the agreed payments in accordance with the agreement. Any interest payable on the balance is reflected in the value of the liability and charged monthly to the Statement of Comprehensive Income as it arises.

Borrowings
Borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowings. Borrowings are subsequently measured at amortised cost using the effective interest method. Interest expense is recognised on the basis of the effective interest method and is included in interest payable and other similar charges.

Derecognition of financial assets and liabilities
A financial asset is derecognised only when the contractual rights to cash flows expire or are settled, or substantially all the risks and rewards of ownership are transferred to another party. A financial liability (or part thereof) is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

3. Accounting developments

New and amended IFRSs that are effective for the future

At the date of these financial statements, there were new and revised IFRSs which were in issue but which were not yet effective and which have not been applied. The principal ones are;

Revised IFRS	Effective date
Amendments to IFRS9, IAS39, IFRS7, IFRS4 and IFRS16	Effective 1 January 2021, endorsed 13 January 2021
Amendments to IFRS4 Insurance Contracts – deferral of IFRS9	Effective 1 January 2021, endorsed 15 December 2020
Amendments to IFRS3 Business Combinations; IAS16 Property, Plant and Equipment, IAS37 Provisions, Contingent Liabilities and Contingent Assets and Annual Improvements 2018 – 2020	Effective 1 January 2022
IFRS 17 : Insurance contracts	1 January 2023
Amendments to IAS1 Presentation of Financial Statements: Classification of Liabilities as Current and Non-current and Classification of Liabilities as Current or Non-current	1 January 2023

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting judgements

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Amounts recoverable on contracts – contingent fee arrangements

A level of judgement is required to determine the likelihood of success of a given matter for contingent fee arrangements. This is determined on a contract-by-contract basis after considering the relevant facts and circumstances surrounding each matter. The valuation exercise is conducted by experienced fee earners with detailed understanding of the cases. The carrying value of contingent fee arrangements at 30 April 2021 was £5,781,000 (2020: £4,114,000).

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2021

4. Critical accounting judgements and key sources of estimation uncertainty continued

IFRS 16

In applying IFRS 16, the Group uses judgement to assess whether the interest rate implicit in the lease is readily determinable. When the interest rate implicit in the lease is not readily determinable, the Group estimates the incremental borrowing rate based on its external borrowings secured against similar assets, adjusted for the term of the lease.

Business combinations

Management make judgements regarding the date of conrol of an acquisition in accordance with IFRS10. The judgement considers the individual legal agreements on each transaction and the date at which the Group starts to exercise control over the activities of the subsidary, usually the date of exchange of contracts. Financial performance of the acquisitions are included in the consolidated group results from the deemed date of control.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty in the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

IFRS 16

The Group makes estimates of the cost of restoring leased assets to their original condition when required to do so under the terms and conditions of the lease. Those estimates are based on the current condition of the leased assets and past experience of restoration costs.

Amounts recoverable on contracts – recoverable amounts

The valuation of amounts recoverable on contracts ("AROC") involves the use of estimates of the likely recovery rate which will be made on the gross value of chargeable time recorded to each matter.

This percentage represents management's best estimate of future value following a line by line review of the matters by fee earners. The estimation process takes into account the progress of the case at the reporting date, the estimated eventual fee payable by the client and the amount of time which will be incurred by fee earners in bringing the matter to a successful conclusion. The amount recognised in AROC at the year end was £28,530,000 (2020: £21,507,000), a 3% change in the estimated recovery of all matters would impact the profit for the period by approximately £982,000 (2020: £990,000).

Accounting for business combinations and valuation of intangibles

Business combinations are accounted for at fair value. The valuation of goodwill and acquired intangibles is calculated separately on each individual acquisition. In attributing value to intangible assets arising on acquisition, management has made certain assumptions in relation to the expected growth rates, profitability, length of key customer relationships and the appropriate weighted average cost of capital ('WACC') and internal rate of return ('IRR').

The value attributable to the intangible assets acquired on acquisitions also impacts the deferred tax provision relating to these items.

The total carrying value of intangibles is £26,544,000 (2020: £24,195,000).

In order to assess the impact of the key assumptions on the values disclosed in the accounts the Directors have applied the following sensitivities to the acquisitions in the current year:

Key assumption	Rate applied in the financial statements	Sensitivity tested	Annual profit impact £'000	Value of intangible assets £'000
Long term growth rate	2%	0%	9	(10)
WACC and IRR	11% – 24%(1)	5%	55	(64)
Length of customer relationships	4-10 years	5 years	(243)	492

(1) each acquisition has been reviewed and, dependent upon the structure of the acquisition, an appropriate WACC or IRR rate has been applied. These sensitivities have been calculated by adjusting the adopted rates as noted above.

Growth rates are estimated based on the current conditions at the date of each acquisition with reference to independent surveys of future growth rates in the legal profession in real, inflation adjusted terms.

The length of customer relationships is estimated by considering the length of time the acquiree has had its significant client relationships up to the date of acquisition and historic customer attrition rates as appropriate.

The Directors consider the resulting valuations used give a reasonable approximation as to the value of the intangibles acquired and that any reasonably possible change in any one of the estimations in isolation would not have a material impact on the financial statements.

The Directors undertake an annual impairment review of goodwill to assess whether the carrying value is still supported by using a discounted cash flow model to derive the value in use of the cash generating unit ('CGU'). Cash flow forecasts are derived from the most recent financial budgets approved by management for the next three years and extrapolated using a terminal value calculation.

The key assumptions for the value in use calculations are those regarding the discount rates and growth rates for the Group's revenues from legal and professional services and the EBITDA margin. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU.

Revenue growth over the three years of the forecast period reflects, for FY22, the current run rate of pre-tax revenue from the Group's existing business and a full year of revenue from acquisitions made during the year ended 30 April 2021, with an element of organic growth in FY22, FY23 and FY24. The long term growth rate of 2% (2020: 2%) is based on UK economic growth forecasts for the legal services market.

The Group has conducted a sensitivity analysis on the impairment test of the CGU value in use. Management considers there is no reasonably plausible scenario under which goodwill would be impaired.

5. Revenue

All revenue is derived from contracts with customers and is recognised over time. As more fully explained in note 6, the Group's legal and professional services business operates as a single business unit so there are no relevant categories into which revenue can be disaggregated.

The transaction price allocated to unsatisfied performance obligations of contracts at 30 April 2021 is not required to be disclosed because it is comprised of contracts that are expected to have a duration of one year or less.

Management information does not distinguish between contingent and non-contingent revenue as contingent fees are not separately identifiable from other fees.

6. Segmental reporting

The Board of Directors, as the chief operating decision-making body, reviews financial information for and makes decisions about the Group's overall legal and professional services business and has identified a single operating segment, that of legal and professional services operating entirely in the UK.

The legal and professional services business operates through a number of different service lines and in different locations; however, management effort is consistently directed to the firm operating as a single segment. No segmental reporting disclosure is therefore provided as all revenue is derived from this single segment.

7. Other operating income

	Year ended 30 April 2021 £'000	Year ended 30 April 2020 £'000
Other income	**912**	495
Bank interest	**398**	399
	1,310	894

8. Staff costs

The average monthly number of employees (including Executive Directors) of the Group was:

	Year ended 30 April 2021 Number	Year ended 30 April 2020 Number
Fee earners	**933**	664
Other employees	**230**	168
	1,163	832

Their aggregate remuneration comprised:

	Year ended 30 April 2021 £'000	Year ended 30 April 2020 £'000
Wages and salaries	**54,927**	40,290
Social security costs	**5,603**	4,244
Other pension costs	**1,848**	2,938
Share based payment charge	**619**	276
Other employment costs	**1,169**	782
Aggregate remuneration of employees	**64,166**	48,530
Redundancy costs analysed as non-underlying costs (note 13)	**(1,459)**	(2,952)
Underlying staff costs in Statement of Comprehensive Income	**62,707**	45,578

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2021

8. Staff costs continued

Directors' remuneration

Companies Act disclosures

The total amounts for Directors' remuneration in accordance with Schedule 5 to the Accounting Regulations were as follows:

	Year ended 30 April 2021 £'000	Year ended 30 April 2020 £'000
Salaries, fees, bonuses and benefits in kind	729	698
Money purchase pension contributions	10	10
	739	708

The number of Directors to whom benefits are accruing under money purchase pension schemes is 2 (2020: 2).

The remuneration of the highest paid Director was:

	Year ended 30 April 2021 £'000	Year ended 30 April 2020 £'000
Salaries, fees, bonuses and benefits in kind	212	231

9. Share-based payments

The Group issues equity-settled share-based payments to its employees. The Group recognised total expenses of £1,219,000 (2020: £789,000) relating to equity-settled share-based payment transactions in the year.

Any charges relating to schemes introduced as one-off schemes as part of the listing are included in non-underlying costs because the Directors view these schemes as a reward to employees for their past performance prior to the IPO. All charges relating to other recurring LTIP or SAYE schemes are included as a normal operating expense.

The following schemes were in place during the period.

Omnibus Plan

The Omnibus Plan is a discretionary share plan, which is administered, and the grant of awards is supervised by, the Remuneration Committee.

Three forms of award are available under the Omnibus Plan, as considered appropriate by the Remuneration Committee, as follows:

a) "Restricted Stock Awards": Awards granted in the form of nil or nominal cost share options, subject to time-based vesting requirements and continued employment within the Group. No performance targets will apply to Restricted Stock Awards.

b) "Performance Share Awards": Awards granted in the form of nil or nominal cost share options, whereby vesting is subject to satisfaction of performance conditions and continued employment within the Group.

c) "Share Options": Awards granted in form of a share option with an exercise price equal to the market value of an Ordinary share at the time of grant, subject to continued employment within the Group. Share Options may or may not be subject to performance conditions.

	Restricted stock awards		Performance share awards	
	Number	Weighted average exercise price Pence	Number	Weighted average exercise price Pence
Outstanding at 1 May 2019	451,845	0.2	63,352	0.2
Granted during the period	129,112	–	142,862	–
Forfeited during the period	(11,104)	–	–	–
Exercised during the period	(28,967)	–	–	–
Outstanding at 30 April 2020	540,886	0.2	206,214	0.2
Exercisable at 30 April 2020	53,819	0.2	–	–
Granted during the period	85,322	0.2	77,410	0.2
Forfeited during the period	(15,278)	–	(39,814)	–
Exercised during the period	(59,119)	–	–	–
Outstanding at 30 April 2021	**551,811**	**0.2**	**243,810**	**0.2**
Exercisable at 30 April 2021	**69,934**	**0.2**	**–**	**–**

The options outstanding at 30 April 2021 had a weighted average exercise price of 0.2p and a weighted average remaining contractual life of 0.9 years. Shares exercised during the year had a weighted average price of 432p.

The following restricted stock awards were granted in the period; 65,214 options were granted on 12 June 2020, and 20,108 options were granted on 1 September 2020. In addition 65,782 of performance share awards were granted on 24 July 2020 and 11,628 on 1 September 2020. The maximum term of any award is 3 years.

The aggregate of the estimated fair values of the options granted on these dates is £661,027. The model used is based on intrinsic values and the inputs are as follows:

	20,979 options 12 June 2020	20,979 options 12 June 2020	23,256 options 12 June 2020	65,782 options 24 July 2020	10,684 options 1 September 2020	21,052 options 1 September 2020	Weighted average
Share price	358p	358p	358p	427p	462p	462p	406p
Exercise price	0.2p	0.2p	0.2p	0.2p	0.2p	0.2p	0.2p
Expected life	0.9 years	1.9 years	2.7 years	3.0 years	2.0 years	3.0 years	2.2 years

Share Incentive Plan ("SIP")

The SIP is an "all employee" scheme under which every eligible employee within the Group was invited to participate. Eligible employees could apply to invest up to £1,800 from pre-tax income in partnership shares; matching shares were awarded on the basis of 2 free matching shares for each partnership share purchased. The matching shares are forfeited if the employee leaves within 3 years of the grant date. The Black-Scholes valuation model was used for this scheme.

	Partnership Shares Number	Matching Shares Number
Outstanding at 1 May 2019	204,173	408,347
Withdrawn during the period	(22,649)	–
Forfeited during the period	–	(45,298)
Outstanding at 30 April 2020	181,524	363,049
Unrestricted at 30 April 2020	–	–
Withdrawn during the period	(66,891)	–
Forfeited during the period	–	(133,782)
Outstanding at 30 April 2021	**114,633**	**229,267**
Unrestricted at 30 April 2021	**–**	**–**

Sharesave Scheme ("SAYE")

This is an HMRC approved scheme and is open to any person that was an employee or officer of the Group at the launch date of each scheme. Under the scheme, members save a fixed amount each month for three years. Subject to remaining in employment by the Group, at the end of the three-year period they are entitled to use these savings to buy shares in the Company at 80% of the market value at launch date.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2021

9. Share-based payments continued

The first scheme was launched in November 2018 and a new SAYE scheme was launched in February 2020.

	SAYE options Number	SAYE options Weighted average exercise price Pence
Outstanding at 1 May 2019	896,435	162
Granted during the period	664,796	361
Forfeited during the period	(188,681)	221
Exercised during the period	(12,361)	162
Outstanding at 30 April 2020	1,360,189	251
Exercisable at 30 April 2020	–	–
Forfeited during the period	(104,557)	350
Exercised during the period	(16,678)	164
Outstanding at 30 April 2021	**1,238,954**	**244**
Exercisable at 30 April 2021	**–**	**–**

The options outstanding at 30 April 2021 had a weighted average exercise price of 244p and a weighted average remaining contractual life of 1.2 years.

November 2018 scheme

The aggregate of the estimated fair values of the options granted in November 2018 is £500,000. The inputs into the Black-Scholes model are as follows:

Exercise price	162p
Expected volatility	39.2%
Expected life	3.1 years
Risk-free rate	1.4%
Expected dividend yield	1.1%

February 2020 scheme

The aggregate of the estimated fair values of the options granted in February 2020 is £1,163,000. The inputs into the Black-Scholes model are as follows:

Exercise price	361p
Expected volatility	34.3%
Expected life	3.1 years
Risk-free rate	1.1%
Expected dividend yield	0.7%

Warrants

Warrants were issued to Numis Securities Limited on Admission in respect of their services and shall be exercisable for a period of five years.

	Warrants Number	Warrants Weighted average exercise price Pence
Outstanding at 30 April 2019	706,897	1.7
Exercised during the period	(706,897)	–
Outstanding at 30 April 2020	–	–
Outstanding at 30 April 2021	**–**	**–**

The warrants were exercised in the prior period and raised £1,230,000.

10. Retirement benefit schemes

The Group operates a defined contribution pension scheme for employees. The total cost charged to income of £1,848,000 (2020: £2,938,000) represents contributions payable to the scheme by the Group. As at 30 April 2021, contributions of £439,000 (2020: £281,000) due in respect of the reporting period had not been paid over to the schemes.

The defined benefit impact is discussed in note 38. There were no charges against income in the year ended 30 April 2021.

11. Depreciation and amortisation charges

	Year ended 30 April 2021 £'000	Year ended 30 April 2020 £'000
Depreciation	**1,309**	858
Depreciation on right-of-use assets	**3,684**	1,909
Amortisation	**2,704**	1,501
Loss on disposal of property, plant and equipment	**33**	8
	7,730	4,276

Depreciation of £43,000 (2020: £86,000) is included in non-underlying operating costs.

12. Other operating charges

	Year ended 30 April 2021 £'000	Year ended 30 April 2020 £'000
Establishment costs	**4,140**	2,335
Short term and low value lease costs	**291**	161
Other overhead expenses	**11,742**	9,008
	16,173	11,504

13. Non-underlying operating costs

	Year ended 30 April 2021 £'000	Year ended 30 April 2020 £'000
Redundancy and reorganisation costs	**1,459**	2,952
Transaction costs	**1,245**	1,406
Onerous short life asset leases	**132**	–
Impairment of right-of-use assets	**635**	126
Loss on disposal	**284**	97
Share based payment charges	**600**	513
Contingent consideration treated as remuneration	**5,933**	2,996
	10,288	8,090

Non-underlying costs cash movement

	Year ended 30 April 2021 £'000	Year ended 30 April 2020 £'000
Non-underlying operating costs	**10,288**	8,090
Contingent consideration shown separately	**(5,933)**	(2,996)
Non cash movements:		
Share based payment charge	**(600)**	(513)
Loss on disposal	**(284)**	(97)
Onerous leases	**(302)**	(111)
Accrual	**1,099**	(975)
	4,268	3,398

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2021

13. Non-underlying operating costs continued

Non-underlying costs relate to redundancy costs to streamline the support function of the Group following acquisitions and in FY21 as a result of reorganisation actions taken in response to the impact of COVID-19, transaction costs in respect of acquisitions, onerous lease costs in respect of acquisitions, disposals of acquired assets and share based payment charges relating to one off share schemes offered to employees as part of the IPO and on acquisitions. None of the above costs relate to the underlying costs of the business.

Contingent consideration is included in non-underlying costs as it represents payments agreed under the terms of the sale and purchase agreements with vendors of certain businesses acquired which are contingent on the continued employment of those individuals with the Group. The payments extend over periods of one to three years and are designed to preserve the value of goodwill and customer relationships acquired in the business combinations. IFRS requires such arrangements to be treated as remuneration and charged to the Statement of Comprehensive Income. The individuals also receive market rate salaries for their work, in line with other similar members of staff in the Group. The contingent earnout payments are significantly in excess of these market salaries and would distort the Group's results if not separately identified.

14. Finance costs

	Year ended 30 April 2021 £'000	Year ended 30 April 2020 £'000
Interest on borrowings	704	628
Interest on leases	1,177	790
Bank arrangement fees	–	71
Interest on deferred consideration	–	41
	1,881	1,530

15. Auditor's remuneration

	Year ended 30 April 2021 £'000	Year ended 30 April 2020 £'000
Fees payable to the parent company's auditor and their associates for the audit of the parent company's annual accounts	29	29
Fees payable to the auditor and their associates for other services to the Group:		
– The audit of the Company's subsidiaries	113	95
Total audit fees	142	124
– Audit-related assurance services	16	21
– Other advisory services	–	3
Total non-audit fees	16	24

For the year ended 30 April 2021 £nil (2020: £5,000) of non-audit costs relating to tax services have been charged to the share premium account in the year.

16. Taxation

	Year ended 30 April 2021 £'000	Year ended 30 April 2020 £'000
Corporation tax:		
Current year	2,852	1,915
Adjustments in respect of prior years	(247)	(20)
	2,605	1,895
Deferred tax:		
Origination and reversal of temporary differences	(498)	343
Tax expense for the year	2,107	2,238

The charge for the period can be reconciled to the Statement of Comprehensive Income as follows:

	Year ended 30 April 2021 £'000	Year ended 30 April 2020 £'000
Profit before tax	5,509	4,058
Tax at the UK corporation tax rate of 19% (2020: 19%)	1,047	771
Expenses that are not deductible in determining taxable profit	1,307	1,487
Adjustment in respect of prior years	(247)	(20)
Tax expense for the year	2,107	2,238

The impact of non-underlying costs on the effective rate of tax is set out below:

	Year ended 30 April 2021			Year ended 30 April 2020		
	Total £'000	Underlying £'000	Non-Underlying £'000	Total £'000	Underlying £'000	Non-Underlying £'000
Profit before tax	5,509	18,419	(12,910)	4,058	13,616	(9,558)
Tax expense	2,107	3,379	(1,272)	(2,238)	(2,910)	672
Effective rate of tax	38%	18%	10%	55%	21%	(7%)

In the budget on 3 March 2021, the UK Government announced an increase in the main UK corporation tax rate from 19% to 25% with effect from 1 April 2023. The change in rate was substantively enacted on 24 May 2021. Deferred tax has been calculated at 19% which was the tax rate substantively enacted at 30 April 2021. The effect of remeasuring deferred tax to 25% would increase recognised deferred tax liabilities at 30 April 2021 to £8,400,000 and increase recognised deferred tax assets at 30 April 2021 to £959,000. The impact of this on the year ended 30 April 2021 would result in a deferred tax charge of £1,287,000.

17. Earnings per share

Basic and diluted earnings per share have been calculated using profit after tax and the weighted average number of Ordinary Shares in issue during the period.

	Year ended 30 April 2021 Number	Year ended 30 April 2020 Number
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	82,189,113	74,675,462
Effect of dilutive potential Ordinary Shares:		
Share options	1,021,132	724,542
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	83,210,245	75,400,004

	£'000	£'000
Profit after tax	3,402	1,820

Earnings per share	Pence	Pence
Basic earnings per share	4.14	2.44
Diluted earnings per share	4.09	2.41

Underlying earnings per share is calculated as an alternative performance measure in note 36.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2021

18. Dividends

	Year ended 30 April 2021 £'000	Year ended 30 April 2020 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 30 April 2021 of 0p per share (2020: 0p per share)	–	931
Interim dividend for the year ended 30 April 2021 of 0p per share (2020: 1.10p per share)	–	824
	–	1,755

For the year ended 30 April 2021 the Board decided not to propose a final dividend.

19. Intangible assets and goodwill

	Goodwill £'000	Brand £'000	Customer relationships and Restrictive Covenants £'000	Purchased computer software £'000	Total £'000
Cost					
As at 1 May 2019	26,607	5,401	15,380	346	47,734
Acquisitions of subsidiaries	13,270	–	11,095	–	24,365
Adjustment in respect of consideration not payable	(199)	–	–	–	(199)
Additions	–	–	–	26	26
As at 30 April 2020	39,678	5,401	26,475	372	71,926
Acquisitions of subsidiaries	7,435	–	3,702	–	11,137
Measurement period adjustments	544	–	118	9	671
Additions	–	–	1,097	196	1,293
As at 30 April 2021	**47,657**	**5,401**	**31,392**	**577**	**85,027**
Amortisation and impairment					
As at 1 May 2019	–	216	907	167	1,290
Amortisation charge	–	54	1,373	74	1,501
As at 30 April 2020	–	270	2,280	241	2,791
Adjustments	–	–	–	9	9
Amortisation charge	–	54	2,568	82	2,704
As at 30 April 2021	**–**	**324**	**4,848**	**332**	**5,504**
Carrying amount					
At 30 April 2021	**47,657**	**5,077**	**26,544**	**245**	**79,523**
At 30 April 2020	39,678	5,131	24,195	131	69,135
At 30 April 2019	26,607	5,185	14,473	179	46,444

The adjustments to goodwill are measurement period adjustments which have not been applied retrospectively as they are considered to be immaterial.

An intangible asset of £1,097,000 was recognised in the year ended 30 April 2021 relating to certain individuals who left the business with restrictive covenants. The agreed terms of the restrictive covenants are deemed to preserve the value of the asset and it is therefore amortised to the Consolidated Statement of Comprehensive Income on a straightline basis in line with the terms of the restrictive covenants.

The carrying amount of goodwill of £47,657,000 (2020: £39,678,000) has been allocated to the single cash generating unit (CGU) present in the business, which is the provision of legal and professional services.

The recoverable amount of the Group's goodwill has been determined by a value in use calculation using a discounted cash flow model. The Group prepared cash flow forecasts derived from the most recent financial budgets approved by management for the next three years and extrapolates cash flow using a terminal value calculation based on an estimated growth rate of 2% (2020: 2%). This rate does not exceed the expected average long-term growth rate for the UK legal services market.

The key assumptions for the value in use calculations are those regarding the discount rates and growth rates for the Group's revenues from legal and professional services and the EBITDA margin. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU.

The rate used to discount the forecast cash flows is 15.1% (2020: 19.4%).

Revenue growth over the three years of the forecast period reflects, for FY22, the current run rate of revenue from the Group's existing business and a full year of revenue from acquisitions made during the year ended 30 April 2021, and an element of organic growth in FY22, FY23 and FY24 through continued recruitment and increases in chargeable hours and recovered rates. The long-term growth rate is based on UK economic growth forecasts for the legal services market.

The Group has conducted a sensitivity analysis on the impairment test of the CGU value in use. Management considers there is no reasonably plausible scenario under which goodwill would be impaired.

20. Acquisitions

Acquisitions summary

During the year the Group has completed three acquisitions and exchanged on one more, the table below summarises the consideration paid and the net cash flow arising on all acquisitions in the period.

	Total £'000
Total identifiable assets and liabilities acquired	7,224
Goodwill	7,435
Total consideration	14,659
Satisfied by:	
Cash (£4.8m yet to pay on Keebles completion)	8,909
Equity instruments (1,246,234 Ordinary Shares of Knights Group Holdings plc) (£3.5m yet to issue on Keebles completion)	5,450
Deferred consideration arrangement	300
Total consideration transferred	14,659
Net cash outflows arising on acquisition:	
Cash consideration (net of cash acquired) (£4.8m yet to pay on Keebles completion)	6,005
Net investing cash outflow arising on acquisition	6,005
Repayment of debt acquired (excluding £0.4m yet to pay on Keebles completion)	2,387
Net financing cash outflow arising on acquisition	2,387

The allocation of fair values is incomplete at the period end and values are provisional. Details for the individual acquisitions are included on the following pages.

The acquisition date in each case is the date of exchange of the sale and purchase agreement, being the date on which control passes and the Group is exposed to variable returns.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2021

20. Acquisitions continued

OTB Eveling LLP ('OTBE')

On 23 November 2020, the Group exchanged contracts to acquire OTBE by purchasing the controlling membership interests of the entity. This acquisition completed on 14 December 2020. OTBE is a law firm which will introduce Knights' existing corporate, employment, dispute resolution and real estate offering to the South West region.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

	Carrying amount £'000	Fair value adjustment £'000	Total £'000
Identifiable assets			
Identifiable intangible assets	–	443	443
Property, plant and equipment	58	–	58
Right-of-use assets	–	201	201
Contract assets	490	(58)	432
Trade and other receivables	375	–	375
Cash and cash equivalents	64	–	64
Liabilities			
Trade and other payables	(202)	(34)	(236)
Lease liabilities	-	(201)	(201)
Borrowings	(255)	–	(255)
Provisions	(20)	(54)	(74)
Deferred tax	–	(84)	(84)
Total identifiable assets and liabilities	510	213	723
Goodwill			683
Total consideration			1,406
Satisfied by:			
Cash			706
Equity instruments (164,336 Ordinary Shares of Knights Group Holdings plc)			700
Total consideration transferred			1,406
Net cash outflow arising on acquisition:			
Cash consideration (net of cash acquired)			642
Repayment of debt			255
Net cash outflow arising on acquisition			897

The goodwill of £683,000 arising from the acquisition represents the assembled workforce. None of the goodwill is expected to be deductible for income tax purposes.

The fair value of the Ordinary Shares issued as part of the consideration was determined on the basis of the volume weighted average share price for the 5 days prior to exchange.

A contingent consideration arrangement was entered into as part of the acquisition. This is contingent on the sellers remaining in employment by the Group so it has been excluded from the consideration and will be recognised in the Statement of Comprehensive Income on a straight-line basis over the 2 year post-acquisition period. The maximum undiscounted amount of all potential future payments under the contingent consideration arrangement is £700,000 and is payable in equal instalments on the first and second anniversary of completion.

OTBE contributed £1,003,000 of revenue to the Group's Statement of Comprehensive Income for the period from 1 November 2020 to 30 April 2021. The profit contributed is not separately identifiable due to the hive-up of its trade and assets being incorporated into Knights Professional Services Limited from 14 December 2020.

The revenue and profit had the acquisition occurred at the beginning of the year is not separately identifiable due to lack of management account information available and the full integration on hive up.

Mundays LLP ('Mundays')

On 21 March 2021, the Group exchanged contracts to acquire Mundays by purchasing the controlling membership interests of the entity. Economic benefit is assumed from 21 March 2021. This acquisition completed on 16 April 2021. Mundays is a law firm which will strengthen Knights' presence in the South East.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

	Carrying amount £'000	Fair value adjustment £'000	Total £'000
Identifiable assets			
Identifiable intangible assets	–	905	905
Property, plant and equipment	795	(9)	786
Right-of-use assets	–	3,159	3,159
Contract assets	753	(117)	636
Trade and other receivables	1,144	(114)	1,030
Cash and cash equivalents	3,051	–	3,051
Liabilities			
Trade and other payables	(1,977)	268	(1,709)
Lease liabilities	–	(3,201)	(3,201)
Borrowings	(2,132)	–	(2,132)
Provisions	(172)	(149)	(321)
Deferred tax	–	(173)	(173)
Total identifiable assets and liabilities	1,462	569	2,031
Goodwill			1,974
Total consideration			4,005
Satisfied by:			
Cash			2,755
Equity instruments (289,908 Ordinary Shares of Knights Group Holdings plc)			1,250
Total consideration transferred			4,005
Net cash outflow arising on acquisition:			
Cash consideration (net of cash acquired)			(296)
Repayment of debt			2,132
Net cash outflow arising on acquisition			1,836

The goodwill of £1,974,000 arising from the acquisition represents the assembled workforce. None of the goodwill is expected to be deductible for income tax purposes.

The fair value of the Ordinary Shares issued as part of the consideration was determined on the basis of the volume weighted average share price for the 5 days prior to exchange.

A contingent consideration arrangement was entered into as part of the acquisition. This is contingent on the sellers remaining in employment by the Group so it has been excluded from the consideration and will be recognised in the Statement of Comprehensive Income on a straight-line basis over the 2 year post acquisition period. The maximum undiscounted amount of all potential future payments under the contingent consideration arrangement is £1,375,000 and is payable on the first and second anniversary of completion, £750,000 and £625,000 retrospectively.

Mundays contributed £956,000 of revenue to the Group's Statement of Comprehensive Income for the period from 22 March 2021 to 30 April 2021. The profit contributed is not separately identifiable due to the hive-up of its trade and assets being incorporated into Knights Professional Services Limited from 16 April 2021.

The revenue and profit had the acquisition occurred at the beginning of the year is not separately identifiable due to lack of management account information available and the full integration on hive up.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2021

20. Acquisitions continued

Housing Law Services LLP ('HLS')

On 31 March 2021 the Group exchanged contracts to acquire specific asset and liabilities of HLS. HLS provides niche housing team that will complement the existing Knights housing services offering. The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

The amounts recognised in respect of the identifiable assets acquired and liabilities are as set out in the table below.

	Carrying amount £'000	Fair value adjustment £'000	Total £'000
Identifiable assets			
Identifiable intangible assets	–	503	503
Contract assets	15	–	15
Trade and other receivables	128	–	128
Cash and cash equivalents	267	–	267
Liabilities			
Trade and other payables	(62)	(9)	(71)
Deferred tax	–	(96)	(96)
Total identifiable assets and liabilities	348	398	746
Goodwill			92
Total consideration			838
Satisfied by:			
Cash			538
Deferred consideration			300
Total consideration transferred			838
Net cash outflow arising on acquisition:			
Cash consideration (net of cash acquired)			271
Net cash outflow arising on acquisition			271

The goodwill of £92,000 arising from the acquisition represents the assembled workforce. None of the goodwill is expected to be deductible for income tax purposes.

HLS contributed £181,000 of revenue to the Group's Statement of Comprehensive Income for the period from 31 March 2021. The profit contributed is not separately identifiable due to the hive-up of its trade and assets being incorporated into Knights Professional Services Limited from 23 April 2021.

The revenue and profit had the acquisition occurred at the beginning of the year is not separately identifiable due to lack of management account information available.

Keebles LLP ('Keebles)

On 30 April 2021, the Group exchanged contracts to acquire Keebles by purchasing the controlling membership interests of the entity. Economic benefit was obtained from 30 April 2021. This acquisition completed on 11 June 2021. Keebles provides entry into Sheffield and complements the Group's existing presence in Nottingham and Leeds.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

	Carrying amount £'000	Fair value adjustment £'000	Total £'000
Identifiable assets			
Identifiable intangible assets	–	1,851	1,851
Property, plant and equipment	398	–	398
Right-of-use assets	–	1,255	1,255
Contract assets	3,114	–	3,114
Trade and other receivables	3,109	(109)	3,000
Cash and cash equivalents	1,374	–	1,374
Liabilities			
Trade and other payables	(2,087)	(640)	(2,727)
Lease liabilities	–	(1,255)	(1,255)
Overdraft	(1,852)	–	(1,852)
Debt	(414)	–	(414)
Provisions	(189)	(480)	(669)
Deferred tax	–	(351)	(351)
Total identifiable assets and liabilities	**3,453**	**271**	**3,724**
Goodwill			4,686
Total consideration			**8,410**
Satisfied by:			
Cash			4,910
Equity instruments (791,990 Ordinary Shares of Knights Group Holdings plc)			3,500
Total consideration transferred			**8,410**
Net cash outflow arising on acquisition:			
Cash consideration (net of cash acquired) (£4.8m yet to pay on Keebles completion)			5,388
Repayment of debt			414
Net cash outflow arising on acquisition			**5,802**

The goodwill of £4,686,000 arising from the acquisition represents the assembled workforce. None of the goodwill is expected to be deductible for income tax purposes.

The fair value of the Ordinary Shares issued as part of the consideration will be determined on the basis of the volume weighted average share price for the 5 days prior to exchange.

A contingent consideration arrangement was entered into as part of the acquisition. This is contingent on the sellers remaining in employment by the Group so it has been excluded from the consideration and will be recognised in the Statement of Comprehensive Income on a straight-line basis over the 2 year post acquisition period. The maximum undiscounted amount of all potential future payments under the contingent consideration arrangement is £3,132,000 and is payable on the first and second anniversary of completion.

A non-refundable deposit of £100,000 was paid on exchange.

The revenue and profit had the acquisition occurred at the beginning of the year is not separately identifiable due to lack of management account information available and the business structure of the acquired entity.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2021

21. Property, plant and equipment

	Expenditure on short leasehold property £'000	Office equipment £'000	Furniture and fittings £'000	Motor vehicles £'000	Right-of-use assets £'000	Total £'000
Cost						
As at 1 May 19	2,006	1,932	1,049	5	19,407	24,399
Acquisitions of subsidiaries	367	586	151	–	4,515	5,619
Additions	1,129	982	12	–	1,822	3,945
Disposals	(1)	(70)	(217)	(5)	–	(293)
As at 30 April 2020	**3,501**	**3,430**	**995**	**–**	**25,744**	**33,670**
Acquisitions of subsidiaries	**566**	**493**	**183**	**–**	**4,615**	**5,857**
Additions	**3,350**	**1,005**	**1**	**–**	**16,385**	**20,741**
Disposals	**(160)**	**(20)**	**(149)**	**–**	**(154)**	**(483)**
Impairment	**–**	**–**	**–**	**–**	**(739)**	**(739)**
Alignment	**618**	**(452)**	**11**	**–**	**–**	**177**
As at 30 April 2021	**7,875**	**4,456**	**1,041**	**–**	**45,851**	**59,223**
Depreciation and impairment						
As at 1 May 2019	406	950	312	5	–	1,673
Depreciation charge	250	494	114	–	1,995	2,853
Eliminated on disposal	–	(4)	(158)	(5)	–	(167)
As at 30 April 2020	**656**	**1,440**	**268**	**–**	**1,995**	**4,359**
Depreciation charge	**446**	**761**	**102**	**–**	**3,727**	**5,036**
Eliminated on disposal	**(25)**	**(3)**	**(24)**	**–**	**(84)**	**(136)**
Impairment	**–**	**–**	**–**	**–**	**(193)**	**(193)**
Alignment	**616**	**(416)**	**13**	**–**	**–**	**213**
As at 30 April 2021	**1,693**	**1,782**	**359**	**–**	**5,445**	**9,279**
Carrying amount						
At 30 April 2021	**6,182**	**2,674**	**682**	**–**	**40,406**	**49,944**
At 30 April 2020	2,845	1,990	727	–	23,749	29,311
At 30 April 2019	1,600	982	737	–	–	3,319

Depreciation of £43,000 (2020: £86,000) and net impairment due to leases being classified as onerous of £546,000 (2020: £nil) is included in non-underlying operating costs.

See note 37 for further details of Right-of-use assets.

22. Contract assets and liabilities

	Contract assets £'000	Trade receivables £'000	Contract liabilities £'000
As at 30 April 2021	**28,530**	**25,951**	**(216)**
As at 30 April 2020	21,507	22,450	(177)

The movement during the year is not separately identifiable.

Contract assets

Contract assets consist of unbilled revenue in respect of legal and professional services performed to date.

Contract assets in respect of fee-for-service and fixed fee arrangements are billed at appropriate intervals, normally on a monthly basis in arrears, in line with the performance of the services. Where such matters remain unbilled at the period end the asset is valued on a contract-by-contract basis at its expected recoverable amount.

The Group undertakes some matters based on contingent fee arrangements. These matters are billed when the claim is successfully settled. For matters ongoing at the period end, each matter is valued based on its specific circumstances. If the matter has agreed funding arrangements in place, then it is valued based on the estimated amount recoverable from the funding depending on the stage of completion of the matter.

If the liability of a matter has been admitted and performance obligations satisfied, such that it is no longer contingent, these matters are valued based on the expected recoverable amount. Due to the complex nature of these matters, they can take a considerable time to be finalised therefore performance obligations may be settled in one period but the matter not billed until a later financial period. The amount of contingent fee work in progress at 30 April 2021 was £5,781,000 (2020: £4,114,000).

If the performance obligations for contingent matters have not been satisfied at the reporting date, these assets are valued on a contract-by-contract basis taking into account the expected recoverable amount and the likelihood of success. Where the likelihood of success of a contingent fee arrangement is less than highly probable, the amount recognised in contract assets is further reduced to reflect this uncertainty.

During the year, contract assets of £4,196,000 (2020: £8,292,000) were acquired in business combinations.

An impairment loss of £30,000 has been recognised in relation to contract assets in the year (2020: £27,000). This is based on the expected credit loss under IFRS 9 of these types of assets. The contract asset loss is estimated at 0.2% (2020: 0.2%) of the balance.

Trade receivables

Trade receivables are recognised when a bill has been issued to the client, as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. Trade receivables also includes disbursements.

Bills are payable within thirty days unless otherwise agreed with the client.

Contract liabilities

When matters are billed in advance or on the basis of a monthly retainer, this is recognised in contract liabilities and released over time when the services are performed.

23. Trade and other receivables

	30 April 2021 £'000	30 April 2020 £'000
Trade receivables	**26,953**	23,003
Impairment provision – Trade receivables	**(1,002)**	(553)
Prepayments and other receivables	**5,570**	4,596
	31,521	27,046

Trade receivables

The average credit period taken on sales is 35 days as at 30 April 2021 (2020: 42 days). No interest is charged on trade receivables. The Group uses appropriate methods to recover all balances once overdue. Once the expectation of recovery is deemed remote a debt may be written off.

The Group measures the loss allowance for trade receivables at an amount equal to lifetime expected credit losses ('ECL'). The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. As the Group's historical credit loss experience does not show significantly different loss patterns for different client segments, the provision for loss allowance is based on past due status.

The following table details the risk profile of trade receivables (excluding disbursements) based on the Group's provision matrix.

30 April 2021	Not past due	31-60 days past due	61-90 days past due	91-120 days past due	>120 days past due	Total
Expected credit loss rate	**0.21%**	**0.22%**	**0.24%**	**1.17%**	**23.20%**	**3.10%**
Estimated total gross carrying amount (£'000)	**12,925**	**3,958**	**1,362**	**827**	**2,696**	**21,768**
Lifetime ECL £'000	**27**	**9**	**3**	**10**	**625**	**674**

In addition to the above on trade receivables a further £328,000 (2020: £90,000) impairment loss has been recognised against disbursement balances. This is based on 100% impairment against all disbursements with no activity on the matter for over 12 months and 0.2% against the remainder of the balance based upon the expected credit loss of this type of asset.

Other receivables

As at 30 April 2021 other receivables includes £nil (2020: £187,000) of consideration paid in advance relating to the acquisition of Cummins Solicitors Limited which is contingent on continued employment over a 2 year period. This was released to the Statement of Comprehensive Income over the 2 year period.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2021

24. Share capital

	Ordinary shares	
	Number	£'000
As at 1 May 2019	73,325,419	147
Changes during the period		
Ordinary shares of 0.2p each issued at share placing	4,761,905	9
Ordinary shares of 0.2p each issued in respect of exercised share options	41,328	1
Ordinary shares of 0.2p each issued in respect of exercised share options equivalent to dividend entitlement	139	–
Ordinary shares of 0.2p each issued in respect of exercised share warrants	706,897	1
Ordinary shares of 0.2p each issued as consideration in the purchase of subsidiaries	3,240,644	6
As at 30 April 2020	**82,076,332**	**164**
Changes during the period		
Ordinary shares of 0.2p each issued in respect of exercised share options	**75,798**	**–**
Ordinary shares of 0.2p each issued in respect of exercised share options equivalent to dividend entitlement	**418**	**–**
Ordinary shares of 0.2p each issued as consideration in the purchase of subsidiaries	**454,244**	**1**
At 30 April 2021 (allotted, called up and fully paid)	**82,606,792**	**165**

25. Share premium

	£'000
As at 1 May 2019	32,486
Premium arising on issue of equity shares	34,475
Expenses of issue of equity shares	(709)
As at 30 April 2020	66,252
Premium arising on issue of equity shares	**2,117**
At 30 April 2021	**68,369**

26. Reserves

	Merger reserve £'000	Retained earnings £'000
As at 1 May 2019	(3,536)	10,158
IFRS 16 impact (note 37)	–	2,058
Profit for the period and total comprehensive income	–	1,820
Credit to equity for equity-settled share-based payments	–	789
Dividends (note 18)	–	(1,755)
Balance at 30 April 2020	(3,536)	13,070
Profit for the period and total comprehensive income	**–**	**3,402**
Credit to equity for equity-settled share-based payments	**–**	**1,219**
Balance at 30 April 2021	**(3,536)**	**17,691**

The merger reserve of £3,536,000 arose on the share for share exchange by Knights 1759 Limited and Knights Professional Services Limited. The reserve is the difference between the nominal value of Knights 1759 Limited share capital and amounts paid to the shareholders as part of the Group reorganisation in October 2016 and the share capital, share premium value and capital redemption of the shares acquired in Knights Professional Services Limited.

Retained Earnings represents cumulative profits and losses of the Group net of distributions to members.

27. Borrowings

	30 April 2021 £'000	30 April 2020 £'000
Secured borrowings at amortised cost:		
Bank loans	**24,064**	28,650
Total borrowings	**24,064**	28,650
Amount due for settlement within 12 months	**414**	–
Amount due for settlement after 12 months	**23,650**	28,650

The above excludes lease liabilities.

All of the Group's borrowings are denominated in sterling.

The Group has a credit facility of £40,000,000 in total (2020: £40,000,000). The facility remains available until 25 June 2023.

The facility is a revolving credit facility and is has the ability to roll on a monthly or quarterly basis and is due for final repayment on 25 June 2023. The facility is secured by a fixed and floating charge over the Group's assets. The facility carries an interest margin above LIBOR of between 1.65% and 2.45% depending on the leverage level. A commitment fee of one third of the applicable margin is payable on the undrawn amounts.

The short term bank loan is secured by a debenture over all of the assets of Keebles LLP. The debenture was released on 14 June 2021.

28. Deferred consideration

	30 April 2021 £'000	30 April 2020 £'000
Non-current liabilities		
Deferred consideration	**–**	127
	–	127
Current liabilities		
Deferred consideration	**1,095**	2,723
	1,095	2,723

Deferred consideration as at 30 April 2021 relates to the acquisitions of Fraser Brown, ASB Law LLP, EGL and Shulmans LLP and is not contingent.

In addition the Group has contingent consideration relating to acquisitions accrued and included within trade and other payables. This is contingent based upon continued employment and is being accrued on a monthly basis in the Statement of Comprehensive Income in accordance with the terms of the agreements. It is expected that employment will continue for the terms of the agreements and, therefore, the contingent consideration will be payable in full.

29. Deferred tax

The following are the major deferred tax liabilities and (assets) recognised by the Group and movements thereon during the current and prior reporting period.

	Accelerated capital allowances £'000	Intangible assets £'000	Share-based payments £'000	IFRS 16 £'000	Total £'000
As at 1 May 2019	201	3,347	(60)	–	3,488
IFRS 16 impact	–	–	–	(299)	(299)
Charge/(credit) for the prior year	(87)	(5)	9	–	(83)
Acquisitions of subsidiaries	–	1,897	–	–	1,897
Charge/(credit) for the year	282	308	(156)	(8)	426
As at 30 April 2020	396	5,547	(207)	(307)	5,429
Acquisitions of subsidiaries	**–**	**704**	**–**	**–**	**704**
Charge/(credit) for the year	**148**	**(411)**	**(242)**	**27**	**(478)**
As at 30 April 2021	**544**	**5,840**	**(449)**	**(280)**	**5,655**

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29. Deferred tax continued

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances after offset for financial reporting purposes:

	30 April 2021 £'000	30 April 2020 £'000
Deferred tax assets	(729)	(514)
Deferred tax liabilities	6,384	5,943
	5,655	5,429

30. Trade and other payables

	30 April 2021 £'000	30 April 2020 £'000
Bank overdraft	1,852	–
Trade payables	3,715	3,033
Other taxation and social security	6,564	6,180
Other payables	2,293	2,817
Accrued consideration	8,310	–
Accruals	9,569	7,989
	32,303	20,019

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 26 days (2020: 25 days). No interest is charged on the trade payables.

The Directors consider that the carrying amount of trade payables approximates to their fair value.

Accrued consideration relates the acquisition of Keebles LLP where contracts were exchanged as at 30 April 2021 but did not formally complete until 11 June 2021.

The bank overdraft is secured by a debenture over all of the assets of Keebles LLP. The debenture was released on 14 June 2021.

31. Provisions

	Dilapidation provision £'000	Onerous contract provision £'000	Professional indemnity provision £'000	Total £'000
As at 1 May 2019	473	435	539	1,447
IFRS 16 reallocation	–	(435)	–	(435)
Acquisitions of subsidiaries	652	–	264	916
Additional provision in the year	546	–	90	636
Utilisation of provision	(123)	–	(295)	(418)
As at 30 April 2020	1,548	–	598	2,146
Acquisitions of subsidiaries	768	–	296	1,064
Additional provision in the year	1,828	133	195	2,156
Utilisation of provision	(145)	(127)	(220)	(492)
As at 30 April 2021	3,999	6	869	4,874

The dilapidations provision relates to the potential rectification of leasehold sites upon expiration of the leases. This has been based on internal estimates of the schedule of works included in the lease.

The onerous contract provision relates to vacant offices where the Group is the lessee. The Group is actively marketing these leases for reassignment. The provision represents the Directors' estimate of the future lease payments and other associated property costs to be paid by the Group prior to reassignment of the leases. The onerous contracts provision also includes contracts acquired via acquisition that are non-cancellable. The provision represents the remaining payments and other associated property costs under the terms of the lease. Future lease payments are offset against the provision.

The professional indemnity provision relates to a number of disputes in the ordinary course of business for all claims where costs are likely to be incurred and represents the cost of defending and concluding claims and any excess that may become payable. The Group carries professional indemnity insurance and no separate disclosure is made of the cost of claims covered by insurance as to do so could seriously prejudice the position of the Group.

32. Financial instruments

Categories of financial instruments

	30 April 2021 £'000	30 April 2020 £'000
Financial assets		
Amortised cost		
Contract assets	28,530	21,507
Trade and other receivables (excluding prepayments)	26,421	23,425
Cash and cash equivalents	4,783	12,741
Financial liabilities		
Amortised cost		
Borrowings	24,064	28,650
Deferred consideration	1,095	2,850
Trade and other payables	25,739	12,872
Leases	42,640	23,844
Fair value		
Trade and other payables	–	967

Financial risk management objectives

The Group's finance function monitors and manages the financial risks relating to the operations of the Group. These risks include market risk (interest rate risk), credit risk, liquidity risk and cash flow interest rate risk.

Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates (see below). Market risk exposures are measured using sensitivity analysis.

There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

Interest rate risk management

The Group is exposed to interest rate risk because the Group borrows funds at floating interest rates. The risk is managed by the Group by keeping the level of borrowings at a manageable level.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for financial instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year.

If interest rates had been 0.5% higher/lower and all other variables were held constant, the Group's profit for the year ended 30 April 2021 would decrease/increase by £120,000 (2020: decrease/increase by £143,000). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in the borrowings of the Group.

Credit risk management

Note 23 details the Group's maximum exposure to credit risk and the measurement bases used to determine expected credit losses.

The risk of bad debts is mitigated by the Group having a policy of performing credit checks or receiving payments on account for new clients when practical and ensuring that the Group's exposure to any individual client is tightly controlled, through credit control policies and procedures.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the financial charges on its debt instruments and repayments of principal. There is a risk that the Group will encounter difficulty in meetings its financial obligations as they fall due or not meet its required covenants. The Group manages this risk and its cash flow requirements through detailed annual and monthly cash flow forecasts. These forecasts are reviewed regularly to ensure that the Group has sufficient working capital to enable it to meet all of its short-term and long-term cash flow needs.

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2021

32. Financial instruments continued

Contractual maturities of financial liabilities

30 April 2021	< 1 year £'000	1-2 years £'000	2-5 years £'000	Total £'000
Borrowings	414	–	23,650	24,064
Deferred consideration	1,095	–	–	1,095
Bank overdraft	1,852	–	–	1,852
Trade and other payables	23,887	–	–	23,887

30 April 2020	< 1 year £'000	1-2 years £'000	2-5 years £'000	Total £'000
Borrowings	–	–	28,650	28,650
Deferred consideration	2,723	127	–	2,850
Trade and other payables	13,839	–	–	13,839

The Group has met its covenant tests during the year.

For lease maturity see note 37.

Capital management

The capital structure of the Group consists of borrowings (as disclosed in note 27) and equity of the Group (comprising issued capital, reserves, and retained earnings as disclosed in the Statement of Changes in Equity).

In managing its capital, the Group's primary objective is to provide a return for its equity shareholders through capital growth and future dividend income. The Group seeks to maintain a gearing ratio that balances risk and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs and objectives.

Gearing ratio

The gearing ratio at the year end is as follows:

	30 April 2021 £'000	30 April 2020 £'000
Borrowings (note 27)	24,064	28,650
Cash and cash equivalents	(4,783)	(12,741)
Bank overdraft	1,852	–
Net debt	21,133	15,909
Equity	82,689	75,950

	%	%
Net debt to equity ratio	26	21

Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in note 2.

33. Capital commitments

As at 30 April 2021 there is a capital commitment of £71,000 (2020: £82,000) in relation to an ongoing office refurbishment.

34. Reconciliation of profit before taxation to net cash generated from operations

	Year ended 30 April 2021 £'000	Year ended 30 April 2020 £'000
Profit before taxation	5,509	4,058
Adjustments for:		
Amortisation	2,704	1,501
Depreciation – property, plant and equipment	1,309	858
Depreciation – right-of-use assets (net of £43,000 (2020: £86,000) included in non-underlying costs)	3,684	1,909
Loss on disposal of equipment (net of £284,000 (2020: £97,000) included in non-underlying costs)	33	8
Contingent consideration expense	5,933	2,996
Non-underlying operating costs	3,755	4,581
Share based payments	1,387	861
Interest income	(398)	(399)
Interest expense	1,881	1,530
Operating cash flows before movements in working capital	25,797	17,903
Increase in contract assets	(2,827)	(2,103)
Increase in trade and other receivables	(135)	(1,186)
Decrease in provisions	(263)	(183)
Increase in contract liabilities	39	57
Decrease in trade and other payables	(2,233)	(697)
Cash generated from operations	20,378	13,791

Adjusted as follows

	Contract assets £'000	Trade and other receivables £'000	Provisions £'000	Contract liabilities £'000	Trade and other payables £'000
Movement per balance sheet	(7,023)	(4,475)	2,728	39	12,284
Acquired	4,196	4,534	(1,064)	–	(5,043)
Measurement period adjustments	–	(125)	(417)	–	(482)
Keebles consideration yet to be paid/issued	–	–	–	–	(8,310)
Dilapidations adjustment	–	–	(1,510)	–	150
One off	–	–	–	–	1,099
Other	–	(69)	–	–	(79)
Overdraft classed as cash and cash equivalent	–	–	–	–	(1,852)
Total	(2,827)	(135)	(263)	39	(2,233)

35. Changes in liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's Consolidated Statement of Cash Flows as cash flows from financing activities.

	Borrowings £'000	Leases £'000
As at 1 May 2020	28,650	23,844
New	19,000	17,049
Acquired	2,801	4,657
Interest (net of £22,000 included in non-underlying)	573	1,199
Disposals	–	(60)
Repayments (net of £308,000 included in non-underlying)	(26,960)	(4,049)
As at 30 April 2021	24,064	42,640

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For the year ended 30 April 2021

36. Alternative performance measures

This Annual Report contains both statutory measures and alternative performance measures. In management's view the underlying performance of the business provides a more meaningful comparison of how the Group's business is managed and measured on a day-to-day basis.

The Group's alternative performance measures and key performance indicators are aligned to the Group's strategy and together are used to measure the performance of the business.

Alternative performance measures are non-GAAP (Generally Accepted Accounting Practice) measures and provide supplementary information to assist with the understanding of the Group's financial results and with the evaluation of operating performance for all the periods presented. Alternative performance measures, however, are not a measure of financial performance under IAS in conformity with the requirements of CA 2006 and should not be considered as a substitute for measures determined in accordance with IAS in conformity with the requirements of CA 2006. As the Group's alternative performance measures are not defined terms under IAS in conformity with the requirements of CA 2006 they may therefore not be comparable with similarly titled measures reported by other companies.

Reconciliations of alternative performance measures to the most directly comparable measures reported in accordance with IAS in conformity with the requirements of CA 2006 are provided below.

a) Underlying EBITDA

Underlying EBITDA is presented as an alternative performance measure to show the underlying operating performance of the Group excluding the effects of depreciation, amortisation and non-underlying items.

	Year ended 30 April 2021 £'000	Year ended 30 April 2020 £'000
Operating profit	7,390	5,588
Depreciation and amortisation charges (note 11)	7,730	4,276
Non-underlying costs (note 13)	10,288	8,090
Underlying EBITDA	**25,408**	17,954

b) Underlying profit before tax (PBT)

Underlying PBT is presented as an alternative performance measure to show the underlying performance of the Group excluding the effects of amortisation of intangible assets and non-underlying items.

	Year ended 30 April 2021 £'000	Year ended 30 April 2020 £'000
Profit before tax	5,509	4,058
Amortisation (adjusted for amortisation on computer software)	2,622	1,427
Non-underlying costs (note 13)	10,288	8,090
Non-recurring finance costs	–	41
Underlying profit before tax	**18,419**	13,616

For the year ended 30 April 2020 non-recurring finance costs relate to exit fees and arrangement fees expensed due to the refinancing of the Group during the year and accrued interest on deferred consideration.

c) Underlying profit after tax (PAT) and underlying earnings per share (EPS)

Underlying PAT and EPS are presented as alternative performance measures to show the underlying performance of the Group excluding the effects of amortisation of intangible assets, share-based payments and non-underlying items.

	Year ended 30 April 2021 £'000	Year ended 30 April 2020 £'000
Profit after tax	3,402	1,820
Amortisation (adjusted for amortisation on computer software)	2,622	1,427
Non-underlying operating costs (note 13)	10,288	8,090
Non-recurring finance costs	–	41
Tax in respect of the above	(1,272)	(672)
Underlying profit after tax	**15,040**	10,706

Underlying earnings per share	Pence	Pence
Basic underlying earnings per share	18.30	14.33
Diluted underlying earnings per share	18.07	14.20

Tax has been calculated at the corporation tax rate 19% (2020: 19%) and deferred tax rate of 19% (2020: 19%).

d) Free cash flow and cash conversion %

Free cash flow measures the Group's underlying cash generation. Cash conversion % measures the Group's conversion of its underlying PAT into free cash flows. Free cash flow is calculated as the total of net cash from operating activities after adjusting for tax paid and the impact of IFRS 16. Cash conversion % is calculated by dividing free cash flow by underlying profit after tax, which is reconciled to profit after tax above.

	Year ended 30 April 2021 £'000	Year ended 30 April 2020 £'000
Cash generated from operations (note 34)	20,378	13,791
Tax paid	(2,125)	(2,907)
Total cash outflow for IFRS16 leases (non underlying)	(3,741)	(2,366)
Free cashflow	**14,512**	8,518
Underlying profit after tax	15,040	10,706
Cash conversion (%)	**96%**	80%

37. Lease liabilities

Incremental borrowing rates applied to individual leases ranged between 1.70% and 6.49%.

	30 April 2021 £'000	30 April 2020 £'000
Right-of-use assets		
Property	39,420	22,649
Equipment	986	1,100
	40,406	23,749
Lease liability		
> 1 year	39,020	21,078
< 1 year	3,620	2,766
	42,640	23,844

The table below shows lease liabilities maturity analysis – contractual undiscounted cash flows at 30 April 2021.

	30 April 2021			30 April 2020		
	Property £'000	Equipment £'000	Total £'000	Property £'000	Equipment £'000	Total £'000
Less than one year	4,594	349	4,943	3,424	565	3,989
One to five years	18,313	709	19,022	11,015	850	11,865
More than five years	24,834	–	24,834	15,099	–	15,099
	47,741	1,058	48,799	29,538	1,415	30,953

The table below shows amounts recognised in the Statement of Comprehensive Income for short term and low value leases as at 30 April 2021:

	30 April 2021			30 April 2020		
	Property £'000	Equipment £'000	Total £'000	Property £'000	Equipment £'000	Total £'000
Expenses relating to short – term leases	244	47	291	143	18	161
	244	47	291	143	18	161

For right-of-use asset depreciation and lease interest charges on leases please see note 11 and 14.

Total lease payments, including short term and low value leases for the year to 30 April 2021 were £4,340,000 (2020: £2,366,000).

Notes to the Consolidated Financial Statements continued

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38. Defined benefit pension schemes

The Stonehams Pension Scheme

The Group operates a defined benefit pension arrangement, the Stonehams Pension Scheme (the "Scheme"). The Scheme provides benefits based on salary and length of service on retirement, leaving service, or death. The following disclosures exclude any allowance for any other pension schemes operated by the Group.

The Scheme was acquired as part of the acquisition of ASB Law where contracts were exchanged on 5 March 2020. Therefore the disclosures below represent the period of ownership from 5 March 2020 to 30 April 2021. The scheme is closed and provides benefits for 43 legacy employees (now pensioners and deferred members).

The Scheme is subject to the Statutory Funding Objective under the Pensions Act 2004. A valuation of the Scheme is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process the Group must agree with the Trustees of the Scheme the contributions to be paid to address any shortfall against the Statutory Funding Objective.

The most recent comprehensive actuarial valuation of the Scheme was carried out as at 31 December 2018. The results of that valuation were updated to 30 April 2021 allowing for cashflows in and out of the Scheme and changes to assumptions over the period.

From January 2020 the Employer started to make annual contributions of £35,000 per annum towards administration expenses. No change in this is expected for the next financial year. Administration expenses from 1 November 2017 to 31 December 2019 have been met directly from the assets of the Scheme. The Group will separately meet the cost of the PPF levy.

The Scheme typically exposes the Group to actuarial risks such as: investment risk, interest rate risk and longevity risk.

Investment risk	The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan assets is below this rate, it will create a plan deficit. Currently assets are invested in very low risk funds, which will reduce volatility. The investment approach is reviewed every three years as part of the valuation process.
Interest risk	There is some hedging in the asset portfolio, but at a low level. A decrease in the bond interest rate will increase the plan liability but this will be partially offset by an increase in the return on the plan's debt investments.
Longevity risk	The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability. The average duration of the Schemes obligations is 16 years.

Explanation of amounts in the financial statements

Actuarial assumptions

Principal actuarial assumptions

	30 April 2021 %	30 April 2020 %
Discount rate	**1.83**	1.58
Retail Prices Index ("RPI") Inflation	**3.53**	2.85
Consumer Price Index ("CPI") Inflation	**2.83**	1.95
Pension increase (LPI 5%)	**3.36**	2.80
Pension increase (LPI 2.5%)	**2.24**	2.03
Post retirement mortality	**90%/100% (m/f) S2PA CMI_2020 projections (with standard smoothing parameter of 7.5) using a long-term improvement rate of 1.0% pa**	90%/100% (m/f) S2PA CMI_2017 projections (with standard smoothing parameter of 7.5) using a long-term improvement rate of 1.0% pa
Commutation	**80% of members are assumed to take the maximum tax free cash possible using current commutation factors**	80% of members are assumed to take the maximum tax free cash possible using current commutation factors
Life expectancy at age 65 of male aged 45	**22.6**	23.6
Life expectancy at age 65 of male aged 65	**24.1**	22.6
Life expectancy at age 65 of female aged 45	**23.5**	25.2
Life expectancy at age 65 of female aged 65	**25.3**	24.1

The average duration of the Schemes obligations is 16 years.

The current asset split is as follows

	Asset allocation at 30 April 2021	Asset allocation at 30 April 2020
Equities and growth assets	**78%**	20%
Bonds, LDI and cash	**22%**	80%

	Value as at 30 April 2021 £'000	Value as at 30 April 2020 £'000
Fair value of assets	**3,255**	3,384
Present value of funded obligations	**(2,791)**	(2,732)
Surplus in scheme	**464**	652
Deferred tax	**–**	–
Net defined benefit surplus after deferred tax	**464**	652

The fair value of the assets can be analysed as follows:

	30 April 2021 £'000	30 April 2020 £'000
Low risk investment funds	**720**	692
Credit Investment funds	**1,673**	1,434
Matching funds	**691**	998
Cash	**171**	260
Fair value of assets	**3,255**	3,384

	30 April 2021 £'000	30 April 2020 £'000
Administration costs	**29**	2
Interest on liabilities	**(10)**	(2)
Total charge to the Statement of Comprehensive Income	**19**	–

Remeasurements over the period since acquisition

	30 April 2021 £'000	30 April 2020 £'000
Loss on assets in excess of interest	**(17)**	(145)
Loss on scheme obligation from assumptions and experience	**(157)**	–
Gain on scheme obligations due to scheme experience	**5**	–
Total remeasurements	**(169)**	(145)

The change in value of assets

	30 April 2021 £'000	30 April 2020 £'000
Fair value of assets	**3,384**	3,534
Interest on assets	**50**	8
Benefits paid	**(133)**	(11)
Administration costs	**(29)**	(2)
Loss on assets in excess of interest	**(17)**	(145)
Fair value of assets	**3,255**	3,384
Actual return on assets	**33**	(137)

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2021

38. Defined benefit pension schemes continued

Change in value of liabilities

	30 April 2021 £'000	30 April 2020 £'000
Value of liabilities	2,732	2,737
Interest cost	40	6
Benefits paid	(133)	(11)
Actuarial gain	152	–
Value of liabilities	2,791	2,732

Sensitivity of the value placed on the liabilities

Approximate effect on liability

	30 April 2021 £'000	30 April 2020 £'000
Discount rate		
Minus 0.50%	229	208
Inflation		
Plus 0.50%	164	161
Life Expectancy		
Plus 1.0 years	113	123

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, inflation rate and mortality. The sensitivity analysis above has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

The With Profits Section of the Cheviot pension

Allocation of liabilities between employers

The With Profits Section was acquired as part of the acquisition of ASB Law where contracts were exchanged on 5 March 2020 and the transaction completed on 17th April 2020.

The Trustee has discretion under the contribution rule on how the cost of providing the benefits of the With Profits Section is allocated between employers. The contribution rule applies until the earlier of the discharge of the employer by the Trustee and the termination of the With Profits Section. The Trustee's current policy is not to discharge employers. Employers therefore remain liable under the contribution rule even if their last member dies or transfers out.

The Trustee has been considering how best to ensure all employers bear an appropriate share of the With Profits Section's obligations whilst ensuring fairness between employers and a practical and transparent methodology for the future.

As discussed at the Employers' Meeting on 5 July 2017, the Trustee has decided to fix the allocation between employers on the basis of the promised benefits just before the Section was re-classified in 2014 (the valuation as at 31 December 2013). The allocation to each employer will be expressed as a percentage of the total Scheme liabilities. The intention is to apply this percentage to any funding, buyout or IFRS deficit in the future to calculate any contribution that may be due or any accounting liability.

The estimated percentage in relation to Knights Professional Services Limited is 0.790%.

This approach enables each employer to calculate the extent of their obligation to the Section on the basis of the funding level at any time. Cheviot will publish funding updates on the website: quarterly, on the scheme funding basis, which includes an allowance for future investment returns; and annually, on an estimated buyout basis, which looks at the position should all benefits be secured with an external provider.

Estimated funding position as at 30 April:

	Scheme funding basis	
	30 April 2021 £'000	30 April 2020 £'000
Total assets	92,200	94,400
Total liabilities excluding expenses	(88,600)	(97,200)
Surplus/(deficit)	3,600	(2,800)
Funding level	104%	97%

Allocation to the Group

The estimated share of the Scheme liabilities is 0.790%.

Over the year to 30 April 2021, the Section's funding position improved from a small deficit to a small surplus.

	30 April 2021 £'000	30 April 2020 £'000
Estimated cost of providing benefits	(700)	(768)
Value of assets	728	746
Resulting surplus/(shortfall)	28	(22)
Funding level	104%	97%

The surplus/deficit has not been recognised as management consider this to be temporary and not material.

The Trustee continues to monitor the funding position.

The Trustee reserves the right to withdraw, replace or amend the policy for the allocation between employers in the future.

39. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its other related parties are disclosed below.

KPV Propco Ltd is a company controlled by Mr DA Beech, a person with significant influence over the Group and a member of key management personnel.

The Group leases a property from KPV Propco Ltd. During the year rents of £376,000 (2020: £367,000) were charged by KPV Propco Ltd to the Group. A FRI lease of The Brampton, Newcastle-under-Lyme was granted for a term of 25 years from and including 24 July 2017 to 24 July 2039 at a current rent of £376,000 per annum (excluding VAT).

The Group received a contribution for repair work in the year from KPV Propco Ltd of £26,000 (2020: £nil). These repairs relates to the building and site and were therefore paid by KPV Propco Ltd.

During the year Knights Professional Services Limited charged KPV Propco Ltd for professional services totalling £126,000 (2020: £98,000).

At 30 April 2021, there was an amount of £3,000 owed to the Group from KPV Propco Ltd (2020: £246,000 owed to KPV Propco Ltd by the Group).

During the year Knights Professional Services Limited provided legal services to the Directors in an individual capacity of £154,000 (2020:£nil). At 30 April 2021, there was an amount of £1,000 (2020: £nil) owed to the Group from the Directors which was subsequently settled in line with normal credit terms offered.

Remuneration of key management personnel

The remuneration of the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*.

	Year ended 30 April 2021 £'000	Year ended 30 April 2020 £'000
Short-term employee benefits and social security costs	1,193	1,174
Pension costs	22	23
Share-based payments	209	181
	1,424	1,378

Key management personnel includes Board members and Directors of the Group and the main trading company Knights Professional Services Limited.

Transactions with directors

Dividends totalling £nil (2020: £787,000) were paid in the year in respect of Ordinary Shares held by the Company's Directors.

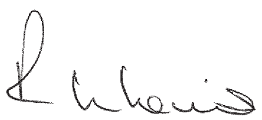
Company Statement of Financial Position

As at 30 April 2021

	Note	30 April 2021 £'000	30 April 2020 £'000
Assets			
Non-current assets			
Investments in subsidiaries	43	**2,363**	1,145
Amounts receivable from subsidiaries	44	**73,210**	69,118
		75,573	70,263
Current assets			
Trade and other receivables		**31**	48
Total assets		**75,604**	70,311
Equity and liabilities			
Equity			
Share capital	45	**165**	164
Share premium	45	**68,369**	66,252
Share based payment reserve	46	**2,364**	1,145
Other reserve	46	**(100)**	(100)
Retained earnings	46	**4,315**	2,565
Equity attributable to owners of the Company		**75,113**	70,026
Current liabilities			
Trade and other payables		**81**	58
Corporation tax liability		**410**	227
Total liabilities		**491**	285
Total equity and liabilities		**75,604**	70,311

Under section 408 of the Companies Act 2006 the company is exempt from the requirement to present its own Statement of Comprehensive Income. The Company reported a profit for the year ended 30 April 2021 of £1,750,000 (2020: £2,957,000).

The financial statements were approved by the Board and authorised for issue on 14 July 2021 and are signed on its behalf by:



Kate Lewis
Director

Registered No. 11290101

Company Statement of Changes in Equity

For the period ended 30 April 2021

	Share capital £'000	Share premium £'000	Share-Based Payments £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 May 2019	147	32,486	356	(100)	1,363	34,252
Profit for the period and total comprehensive income	–	–	–	–	2,957	2,957
Transactions with owners in their capacity as owners:						
Credit to equity for equity-settled share-based payments	–	–	789	–	–	789
Issue of shares	17	33,766	–	–	–	33,783
Dividends paid	–	–	–	–	(1,755)	(1,755)
At 30 April 2020	164	66,252	1,145	(100)	2,565	70,026
Profit for the period and total comprehensive income	**–**	**–**	**–**	**–**	**1,750**	**1,750**
Transactions with owners in their capacity as owners:						
Credit to equity for equity-settled share-based payments	**–**	**–**	**1,219**	**–**	**–**	**1,219**
Issue of shares	**1**	**2,117**	**–**	**–**	**–**	**2,118**
Balance at 30 April 2021	**165**	**68,369**	**2,364**	**(100)**	**4,315**	**75,113**

Notes to the Company Financial Statements

40. Accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the FRC. Accordingly, these financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective and certain related party transactions.

Where required, equivalent disclosures are given in the consolidated financial statements.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in note 2 to the consolidated financial statements except as noted below.

Investments in subsidiaries

Investments in subsidiaries and associates are stated at cost less, where appropriate, provisions for impairment.

On 18 June 2018, the whole of the share capital of Knights 1759 Limited was acquired by the Company via a share for share exchange agreement. This was a Group reorganisation satisfying the criteria of IAS 27:13. The investment cost is measured at £nil because the carrying amount of the equity items shown in the separate financial statements of Knights 1759 Limited was negative at the date of the reorganisation.

Investments in subsidiaries includes capital contributions to subsidiaries as a result of the issue of equity-settled share-based payments to employees of subsidiaries. The accounting policy for share-based payments is set out in note 2.14 to the consolidated financial statements.

41. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 40, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

There are no major accounting judgements or key sources of estimation uncertainty at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of the Company's assets and liabilities within the next financial year.

42. Profit for the year

As permitted by s408 of the Companies Act 2006, no separate Statement of Comprehensive Income is presented in respect of the parent Company. The profit attributable to the Company is disclosed in the footnote to the Company's Statement of Financial Position.

The auditor's remuneration for audit and other services is disclosed in note 15 to the consolidated financial statements.

The average monthly number of employees comprised of the Executive Directors and Non-Executive Directors and was 6 (2020: 6). Their aggregate remuneration borne by the Company was £nil (2020: £nil).

The Directors' emoluments are disclosed in note 8 to the consolidated financial statements.

43. Investments in subsidiaries

	£'000
Cost and net book value	
At 30 April 2019	356
Capital contribution in respect of equity-settled share-based payments	789
At 30 April 2020	1,145
Capital contribution in respect of equity-settled share-based payments	1,219
At 30 April 2021	**2,364**

Further information about share-based payment transactions is provided in note 9 to the consolidated financial statements.

Details of the Company's subsidiaries at 30 April 2021 are as follows:

Name	Place of business and registered office address	Principal activity	Class of shares	Proportion of ownership interest %	Proportion of voting power held %
Knights 1759 Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Holding company	Ordinary	100%*	100%*
Knights Professional Services Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Provision of legal and professional services	Ordinary	100%	100%
Turner Parkinson LLP	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant**	N/A	99.99%	99.99%
Spearing Waite LLP	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant**	N/A	99.99%	99.99%
Darbys Solicitors LLP	Midland House West Way, Botley, Oxford, OX2 0PH	Dormant**	N/A	99.99%	99.99%
Knights Solicitors LLP	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	N/A	100%	100%
Cummins Solicitors Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant**	Ordinary	100%	100%
BrookStreet des Roches LLP	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Business Support Services	N/A	99.99%	99.99%
K&S Secretaries Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
Knights Trustee Company No 1 Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
Knights Trustee Company No 2 Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
K&S Directors Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
Turner Parkinson Nominees Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
K&S (Nominees) Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
K&S (560) Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%***
Charden Enterprises Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%***
Four Below Zero Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%***
Endzin Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%***
DDB Consulting Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%***
Wingelock Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%***
ASB Aspire LLP	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
ASB Law LLP	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
Edward Cursham Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
Patrick Wood Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
Gavin White Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%

Notes to the Company Financial Statements continued

43. Investments in subsidiaries continued

Name	Place of business and registered office address	Principal activity	Class of shares	Proportion of ownership interest %	Proportion of voting power held %
Donald Peel Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
Christopher Barnes Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
Richard Wollacott Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
Thomas Gray Law Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
John Tansur Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
Wendy Hooley Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
Adrian Slater Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
Laura Mackin Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
Anthony J Ogley Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
Erin Vickers Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
Fiona Boswell Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
Clive Day Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
Edward Capes Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
ERT Law Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
Arthur Chapman Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	A Ordinary	100%	100%
Simon Leighton Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	A Ordinary and B Ordinary	100%	100%
Bob Agnew Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	A Ordinary	100%	100%
Croftons Solicitors LLP	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	N/A	100%	100%
Croftons Legal Services Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%
Dakeyne Emms Gilmour Liberson Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	D Ordinary E Ordinary G Ordinary L Ordinary	100%	100%
Shulmans LLP	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	N/A	99.9%	99.9%
SLS Trust Corporation Limited	C/O Shulmans LLP, 10 Wellington Place, Leeds, England, LS1 4AP	Dormant	Ordinary	100%	100%
OTB Eveling LLP*	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	N/A	100%****	100%
Mundays LLP*	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	N/A	100%****	100%
Mundays Trustee Services Limited*	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	N/A	100%	100%
Munday Company Secretaries Limited*	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	N/A	100%	100%
Knights Wealth Management Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	Ordinary	100%	100%

* Held directly by Knights Professional Services Limited.

** The acquired entities were active during the financial year, but are dormant as at 30 April 2021.

*** Legal title held on behalf of nominees.

****Indirect ownership through each of the direct parent companies, being Knights Professional Services Limited and K&S Directors Limited.

44. Amounts receivables from subsidiaries

	30 April 2021 £'000	30 April 2020 £'000
Amounts receivable from subsidiaries	**73,210**	69,118

Amounts receivable from subsidiaries are repayable on demand. Interest is charged at a rate of 3.5% per annum and is payable annually on 30 April each year. Unpaid interest on 30 April each year is added to the principal of the loan.

The balances are considered recoverable from the future cash flows of profitable trading subsidiaries. They are classified as non-current assets because they are not expected to be realised within 12 months of the reporting period.

The Company measures the loss allowance for intra-Group receivables at lifetime expected credit losses ('ECL'). The ECL is estimated using a probability-weighted analysis of all possible outcomes with reference to the debtors' financial position and forecasts of future economic conditions. The resultant estimated ECL is not considered material to the financial statements, therefore the Company has recognised a loss allowance of £nil (2020: £nil) against amounts receivable from subsidiaries.

45. Share capital and share premium account

The movements on these items are disclosed in notes 24 and 25 to the consolidated financial statements.

46. Reserves

The Share-Based Payment Reserve is a non-distributable reserve representing the total credits to equity in respect of equity-settled share-based payment charges recognised as capital contributions within investments.

The Other Reserve arose as a result of applying the requirements of IAS 27:13 to the share-for-share exchange acquisition of Knights 1759 Limited because the total equity of Knights 1759 Limited was less than the nominal value of the shares issued by the Company as consideration.

Retained Earnings represents cumulative profits and losses of the Company net of distributions to members.

Glossary of Terms

Financial Performance Measure

This document contains certain financial measures that are not defined or separately recognised under IFRS. These measures are used by the Board and other users of the accounts to evaluate the Group's underlying trading performance excluding the impact of any non-recurring items and items that do not reflect the underlying day-to-day trading of the Group. These measures are not audited and are not standard measures of financial performance under IFRS. There are no generally accepted principles governing the calculation of these measures and the criteria upon which these measures are based can vary from company to company. Accordingly, these measures should be viewed as supplemental to, not as a substitute for, the financial measures calculated under IFRS.

Underlying EBITDA

Underlying EBITDA is presented as an alternative performance measure to show the underlying operating performance of the Group excluding the effects of depreciation, amortisation, and non-underlying items.

	Year ended 30 April 2021 £'000	Year ended 30 April 2020 £'000
Operating profit	7,390	5,588
Depreciation and amortisation charges	7,730	4,276
Non-underlying costs (note 13)	10,288	8,090
Underlying EBITDA	25,408	17,954

Underlying Profit Before Tax (PBT)

Underlying PBT is presented as an alternative performance measure to show the underlying performance of the Group excluding the effects of amortisation of acquired intangible assets, and non-underlying items.

	Year ended 30 April 2021 £'000	Year ended 30 April 2020 £'000
Profit before tax	5,509	4,058
Amortisation of acquired intangibles	2,622	1,427
Non-underlying costs	10,288	8,090
Effective interest on deferred consideration	-	41
Underlying profit before tax	18,419	13,616

Underlying Operating profit to Underlying Profit Before Tax (PBT)

	Year ended 30 April 2021 £'000	Year ended 30 April 2020 £'000
Operating profit before non-underlying charges	17,678	13,678
Less: Finance costs	(1,881)	(1,489)
Add: Amortisation of acquired intangibles	2,622	1,427
Underlying PBT	18,419	13,616

Non-recurring finance costs

Non recurring finance costs relate to interest on deferred consideration payable as part of the consideration on acquisitions.

	Year ended 30 April 2021 £'000	Year ended 30 April 2020 £'000
Interest on deferred consideration	-	41
Non-recurring finance costs	-	41

Underlying Profit After Tax (PAT) and Underlying Earnings per Share (EPS)

Underlying PAT and underlying EPS are presented as alternative performance measures to show the underlying performance of the Group excluding the effects of amortisation of acquired intangible assets and non-underlying items.

	Year ended 30 April 2021 £'000	Year ended 30 April 2020 £'000
Profit after tax	3,402	1,820
Amortisation of acquired intangibles	2,622	1,427
Non-underlying operating costs	10,288	8,090
Effective interest on deferred consideration	-	41
Tax in respect of the above	(1,272)	(672)
Underlying profit after tax	15,040	10,706
Underlying earnings per share	Pence	Pence
Basic underlying earnings per share	18.30	14.33
Diluted underlying earnings per share	18.07	14.20

Free Cash Flow and Cash Conversion %

Free cash flow measures the Group's underlying cash generation.

Cash conversion % measures the Group's conversion of its underlying PAT into free cash flows. Free cash flow is calculated as the total of net cash from operating activities, tax paid and cash outflows for IFRS 16 leases. Cash conversion % is calculated by dividing free cash flow by underlying profit after tax, which is reconciled to profit after tax above.

	Year ended 30 April 2021 £'000	Year ended 30 April 2020 £'000
Cash generated from operations (note 34)	20,378	13,791
Tax paid	(2,125)	(2,907)
Total cash outflow for IFRS 16 leases	(3,741)	(2,366)
Free cash flow	14,512	8,518
Underlying profit after tax	15,040	10,706
Cash conversion (%)	96%	80%

Working Capital

Working capital is calculated as:

	30 April 2021 £'000	30 April 2020 £'000
Current assets		
Contract assets	28,530	21,507
Trade and other receivables	31,521	27,046
Total current assets	60,051	48,553
Current liabilities		
Trade and other payables	32,303	20,019
Overdraft included in payables	(1,852)	-
Contract liabilities	216	177
Corporation tax liability	765	675
	31,432	20,871
Net working capital	28,619	27,682

Other Definitions

Colleague/Talent Retention/Employee Turnover

Churn is calculated based on the number of qualified fee earners who had been employed by the Group for more than one year. Churn is calculated taking the number of leavers in the above group over the financial year as a percentage of the average number of colleagues for the year. Retention is 100% less the churn rate.

Fee Earner Concentration

This is calculated taking the largest fees allocated to an individual fee earner as a percentage of the total turnover for the year and demonstrates the Group's reliance on the fee earning potential of an individual fee earner.

Client Concentration

On an individual basis this is calculated as the percentage of total turnover for the financial year that arises from fees of the largest client. For the top 10 client concentration calculation this takes the fee income from the 10 largest clients for the year as a percentage of the total turnover for the year.

Client Satisfaction

Net Promoter Score (NPS) measures the loyalty of a client to a company and can be used to gauge client satisfaction. NPS scores are measured with a single question survey and reported with a number from -100 to +100, the higher the score, the higher the client loyalty/satisfaction.

Colleague Satisfaction

Employee Net Promoter Score (ENPS) measures the loyalty of employees to a company and how likely they are to recommend their employer as a place to work, which can also be used to gauge employee satisfaction. ENPS scores are measured with a single question survey and reported with a number from -100 to +100, the higher the score the higher the employee loyalty.

Fee Earners

When referring to the number of fee earners in the Group we include all individuals working in the Group on a mainly fee earning basis. This includes professionals (legal and non-legal) of all levels including paralegals, trainees and legal assistants. When referring to the number of fee earners in the business this will refer to the absolute number of individuals working in the Group. When using the number of fee earners to calculate the average fees or profit per fee earner or the ratio of fee earners to support staff these calculations are based on the number of full-time equivalent (FTE) individuals to reflect that a number of individuals choose to work on a part-time basis.

Non-Fee Earners/Support Staff

This includes all employees that are not fee earning.

Recurring Revenue

This is calculated based on the amount of revenue in a year that reoccurs in the following year from the same clients.

Lock Up

This is calculated as the combined debtor and WIP days as at a point in time. Debtor days are calculated on a count back basis using the gross debtors at the period end and compared with the total fees raised over prior months. WIP (work in progress) days are calculated based on the gross work in progress (excluding that relating to clinical negligence claims) and calculating how many days billing this relates to based on average fees (again excluding clinical negligence fees) per month, for the last 3 months. Lock up excludes the impact of acquisitions in the last quarter of the financial year.

Total Shareholder Return (TSR)

Total shareholder return is calculated as:

Share price at 30 April 2021 £4.450

Share price at listing (£1.450)

Dividend paid in period £0.00

Gain on shares in period £0.875

As a percentage of opening price 24.5%.

Shareholder Information

Directors

DA Beech (appointed 4 April 2018)
KL Lewis (appointed 9 May 2018)
RA King (appointed 1 June 2018)
BS Johal (appointed 1 June 2018)
G Davies (appointed 17 March 2021)
J Pateman (appointed 14 January 2019)

Secretary

L Bridgwood (appointed 1 June 2018)

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Registered number

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Notes

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