Knights plc

Annual Report and Accounts

30 April 2020

A diversified platform for profitable, cash generative growth

Knights plc

Empowering a thriving future.
For our clients, our people and our communities.

We empower our people to deliver outstanding advice that enables our clients to achieve their goals, allowing us all to thrive.

We do this by delivering legal and professional services in a new way - our unique culture, 'one team' approach and commercial mindset enables us to put our clients at the heart of everything we do.

We believe we provide our clients with the best service in the sector, combining the flexibility to service their needs at scale, drawing from our extensive high-quality legal expertise and deep sector specialisms, and the value associated with operating outside London.

We invest in the very best talent and enable the team, through our structure, modernised approach and supporting technology, to focus on understanding our clients' drivers and building strong, longstanding and growing relationships with our clients.

This approach is at the heart of our vision to build the leading, full service legal and professional services business outside London.

Delivered ahead of IPO aspirations

In line with the Group's strategy to accelerate organic growth with carefully targeted acquisitions which enhance or expand the Group's core offering outside London and are considered a strong cultural fit, Knights has grown substantially, surpassing all of the aspirations set out at the time of its IPO in 2018:

	At IPO	Aspirations at IPO for FY 2020	Achieved in FY 2020
Fee earners	350	750	934
Fee earner to support staff ratio	4.5:1	Increase leverage of overheads	4.8:1
Geographical footprint	6 offices	9+ offices	13 offices
Acquisitions	3 (includes TP)	3+ acquisitions	10 acquisitions since IPO

Contents

Financial Highlights

Our innovative approach has driven significant year on year growth, through a mix of double digit organic growth, and selective acquisitions, including six this year.

Revenue
£74.3m
+41% (2019: £53m)

Organic revenue growth rate %
+10%
2019: 15%

Underlying PBT[1]
£13.6m
+45% (2019: £9.4m[1])

Reported PBT[1]
£4.1m
-16.3% (2019: £4.8m[1])

Cash conversion[1]
80%
2019: 131%

Net debt
£15.9m
2019: £14.1m

Underlying EPS[2]
14.33p
2019: 11.31p[1]

Reported EPS
2.44p
2019: 5.27p[1]

Note
1 2019 figures have been updated to reflect the impact of IFRS 16. A full reconciliation is included in the Financial Review on page 42. All movements from 2019 to 2020 have been calculated based on the 2019 IFRS 16 adjusted comparative.
2 The Group reports certain Alternative performance measures (APMs) as management believe these measures provide valuable additional information for the understanding of the underlying trading performance of the business. In particular, adjusted profit measures are used to provide the users of the accounts a clear understanding of the underlying profitability of the business over time. Full definitions and explanations of these measures and reconciliations to the most directly referenceable IFRS line item, are provided in pages 122-124.

At a Glance

Who we are

Knights has grown to be a leading legal and professional services business outside London, with 934 fee earners operating from 13 offices across the UK.

Our team's deep expertise, sector insight and understanding of our clients underpins our reputation as a trusted adviser.

Our high-quality advice enables our clients to make informed decisions to make the most of their opportunities and navigate their challenges.

Our unique culture and early adoption of a corporate structure which underpins our 'one team' approach are key drivers of our competitive advantage. It ensures our professionals are always working in the best interests of our clients and the success of the Group as a whole, rather than focusing on an individual's or an individual team's performance.

Our modern way of working ensures we always deliver on our clients' requirements in the most efficient way possible, delivering value to them without carrying unnecessary cost.

This allows our lawyers to thrive on quality work with quality clients, while professional managers focus on running the business.

What we do

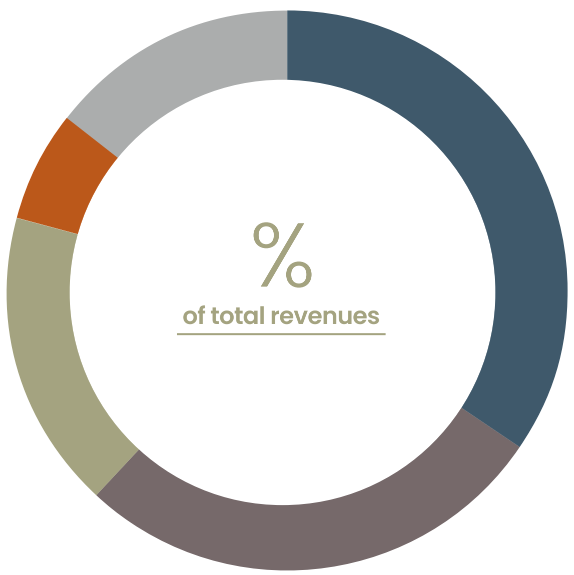
Knights provides a full service offering to corporate clients as well as synergistic services to high net worth individuals, who are typically clients of the Group's corporate and commercial services.

Our extensive expertise has been strengthened further through the recruitment of high-calibre talent and acquisitions during the year.

Sector specialisms

- Agriculture and the food supply chain
- Consumer-facing
- Energy, waste and natural resources
- Financial and professional services
- Healthcare
- Industrials, transport and support services
- Property management and development
- Technology, media and telecommunications

A full suite of services strengthened by sector specialisms and non-legal services



Real Estate
34.6%

Dispute Resolution
27.5%

Corporate
17.2%

Employment
6.3%

Private Client
14.4%

Service Line		Service
Real Estate	All contentious and non-contentious matters across the real estate lifecycle from town planning to asset management.	- Asset management - Business parks - Construction - Development - Mines & minerals - Plot sales - Property litigation - Retail - Town planning
Dispute Resolution	Resolving disputes across the full spectrum of services.	- Arbitration - Litigation - Mediation
Corporate	Advising on all operational activities across a variety of matters and sectors.	- Banking - Commercial - Data protection - Debt recovery - Intellectual property - Mergers, acquisitions and disposals - Restructuring and insolvency - Tax and regulatory
Employment	Providing strategic HR advice on a range of contentious and non-contentious issues across a variety of sectors.	- Litigation/Tribunals - Management training - Reorganisation - Strategic projects - Strategic audits/reports - TUPE
Private Client	Advising on a full range of needs for high net worth individuals and their families.	- Complex family matters - Conveyancing - Landed estates - Tax and trusts - Wills over large estates

Who we work with

We build longstanding relationships with a range of clients from multinational corporations to national corporates and small and medium enterprises.

We have the scale to flexibly deliver high-calibre expertise across a range of services whilst retaining our trusted partner approach, which ensures we really understand our clients' priorities and drivers.

By operating outside London we deliver value to our clients as we support them in achieving their goals.

We are proud to work with a highly diversified client base of over 18,000 businesses and private clients, with no one client accounting for more than 3.5% of revenue.

Where we operate

We are focused on key, attractive markets in the UK outside London, currently operating from 13 offices where we can be close to our client base and build strong local market knowledge and networks.

- Birmingham
- Cheltenham
- Chester
- Crawley
- Leeds
- Leicester
- Maidstone
- Manchester
- Nottingham
- Oxford
- Stoke
- Wilmslow
- York

Investment Case

A strong track record in a highly attractive market.

Experienced operator delivering first class returns

City quality from a competitive cost base

Underlying profit before tax

£13.6m

Read more on pages 42-49

We generally avoid developing a presence in markets dominated by institutional firms. We will however enter these markets where there is an opportunity to acquire an existing business that meets our criteria to deliver accretive value sustainably.

Lower competition in our markets means there is less upward pressure on salaries, allowing us to offer greater value for money for our clients.

Operating outside of major city centres contributes to reduced property costs, and provides a more sustainable work-life balance for our colleagues.

Fee earner to non-fee earner ratio well above market average, aided by the use of technology.

Profitable growth

Lawyers with a commercial mindset

Working capital lockup days*

85

Read more on pages 42-49

Industry leading working capital days facilitated by Knights' culture and training of professionals on client management, supported by technology and actionable analytics.

Fee earners concentrate on client service, while professional managers run the business. Lawyers focus on earning fees with no distractions of running the business, which is operated by an experienced senior leadership team who can act with agility.

Deep client relationships and limited sector and fee earner concentration brings diversity and resilience to our revenue base.

Highly cash generative

A scalable model

Fee earner:
Non-fee earner ratio

4.8:1

Read more on pages 42-49

A fragmented market worth £2.6bn outside London provides a clear market opportunity to grow organically, complemented by carefully targeted acquisitions.

Proven and compelling platform for legal professionals, with lawyers attracted by lack of ownership risk associated with partnership structures, sustainability of commercial success and development opportunities.

Culture and market positioning drives organic recruitment and low churn.

Track record of unlocking value from acquisitions, with systems, processes and culture fully integrated by our expert team in under 2 months.

Investment in operational backbone in 2019 provides bandwidth for future growth, with fixed costs diluted as we grow.

This year we have scaled the business in two existing locations and entered five new locations.

Robust platform for growth

Note
* Excluding acquisitions

Market Opportunity

The UK legal services market is large and growing yet highly fragmented despite the increasing pressures on smaller firms.

A large and growing market outside London

Estimated worth of overall UK legal services market

£33.4bn

2017/2018

Revenue of our addressable market outside London

£2.6bn

per year

Growth rate of our addressable market outside London

3–5%

per year

* **Source:**
Bureau van Dijk, Mintel UK Legal Services Report 2019, The Lawyer UK Top 200 and Top 100 2019.

A fragmented and traditional market

The legal services market in the UK is largely polarised between the major law firms who operate from London and internationally, and are typically focused on the largest UK and international clients and deals, high street law firms focused on consumers, and small to medium sized B2B focused independent law firms, who are often subscale and operate out of a single office regionally, serving businesses typically headquartered outside London. This latter market is our focus.

In our addressable market, there are c.160 firms operating outside London typically having annual revenues of £2m-£60m.

The majority operate under the traditional partnership model, rather than operating as corporate businesses with a clear division between management and fee earners.

Strong market drivers

There are a number of structural market drivers in the UK professional and legal services market, driven by evolving client, regulatory and employee requirements.

Clients are seeking a trusted adviser whose in-depth understanding of their business and their drivers better enables them to achieve their goals. They are becoming more demanding, as they look for value without compromising on quality of service and a firm that can deliver all of their needs at scale, including niche expertise.

The cost of operating is rising due to the investment and expertise required to meet ever-increasing security, compliance and regulatory standards. For instance, increasing requirements for due diligence to 'know your client' so as not to become a conduit for crime, terrorism or money-laundering. Scale is therefore an increasing advantage to support these costs.

Ambitious and forward-looking fee earners are attracted by the opportunity to do high-quality work for exciting clients within a flexible, inclusive, and friendly culture that will enable them to fulfil their career choices, without the need to take on the financial risk associated with partnership. Fee earners typically build trusted and long-lasting relationships with their clients, so that clients often follow them when they move firms.

The market opportunity

These market drivers, together with a clear desire across the sector for a more rewarding working environment, mean that there is a substantial opportunity for Knights to continue to grow its market share from its current level of 3%.

With the benefit of scale and low overheads, Knights is an attractive choice for clients seeking both city quality work and value, and our unique culture provides excellent opportunities for talented lawyers to fulfil their career choices, underpinning our strong momentum in recruitment. We have worked with over 25 clients who sit within the FTSE 100 or have similar market capitalisation.

COVID-19 is only exacerbating the structural market drivers and is likely to accelerate consolidation in the industry, as firms and individuals increasingly look for change.

Knights is well placed to take advantage of this trend with its strong balance sheet, scalable operating platform and reputation for quality work, larger clients, and an attractive culture.

Chairman's Statement

Revenue*

£74.3m

Financial year 2019 £52.7m

Underlying profit before tax*

+45%

Organic revenue growth

10%

Knights has delivered another strong performance as it grew organically and by acquisition, in line with our strategy to build the leading legal and professional services business outside London.

Balbinder ('Bal') Johal
Non-Executive Chairman
21 July 2020

Note
* See Glossary on pages 122-124.

Revenue increased by 41% to £74.3m (2019: £52.7m). This reflected 10% or £5.2m of organic growth, aided by the recruitment of 108 new, high-calibre fee earners. It also includes a £10.5m contribution from the six carefully selected acquisitions made during the year, which substantially broadened our geographical reach and depth of expertise, as well as £5.9m relating to the full year effect of prior year acquisitions.

The Group's ongoing focus on profitable growth enabled us to improve underlying PBT[1] margin to 18.3% (2019: 17.9%), resulting in a 45% increase in underlying profit before tax[2] to £13.6m (2019: £9.4m) and a 27% increase in underlying EPS[3] to 14.33p (2019: 11.31p).

Importantly, this strong performance was achieved whilst substantial investment was also made in the operational backbone of the business, in the first half in particular, with a focus on growing operational leadership, technology and office upgrades, as well as increased automation. This investment is already being leveraged, making possible the significant organic and acquisitive expansion during the year.

This investment, combined with our culture and strong business model, is enabling us to continue to deliver industry-leading working capital management, fee earner productivity and colleague retention, which underpin the building of a sustainable business for the future.

A distinct business model and culture

Having been the first business of our type to corporatise in 2012, Knights is a modernised and well-invested legal services business that operates as one team on a common process, data and technology platform. This enables the team to work together collaboratively and with the agility to efficiently match the right specialist expertise to clients' needs. Since we were already operating in a paperless way, it also meant that the team has been able to transition seamlessly to working from home, with our ability to transact unaffected.

Unlike many legal service providers that focus on the performance of individuals, Knights fosters a highly collegiate culture where we always work in the best interests of our clients and the success of the Group as a whole. Central to this, is that there are no fee earner targets. We take a proactive approach to serve clients as one team, so clients receive the best quality service and value, whilst allowing all of our team to develop and thrive. This unique culture combined with the quality of clients and work, means we are able to attract and retain the highest calibre of legal talent.

A strengthened and diversified platform

Following ongoing recruitment and the acquisitions made since our IPO, we now have over 930 fee earners operating from 13 locations outside London (up from 350 and 6 respectively at IPO). We now serve over 18,000 clients, including over 25 FTSE100 companies (or equivalent by market capitalisation).

The expansion of our geographic reach and client base, with an average matter size of c.£3,000, together with integrating acquisitions into existing locations, has reinforced Knights' resilience, leaving us relatively well placed in the face of current uncertainty. It has also left us even better balanced for the different stages of the economic cycle, having strengthened the depth and breadth of our expertise across our core areas of Real Estate, Dispute Resolution, Corporate, Employment and Private Client.

In this context, our investments during the year are strengthening our competitive advantage in a highly fragmented market through our greater capacity to deliver a broader range of high-quality and good value services closer to our clients, as their trusted partner.

Environmental, social and governance matters

The Board recognises the importance of our role in environmental, social and governance matters ("ESG"). To reinforce the importance our business places on ESG, we have appointed one of Knights' Non-Executive Directors, Jane Pateman, as the Board member responsible for driving our initiatives in this area across the Group. An overview of the Board's approach to ESG is provided on pages 28-38.

Current trading and COVID-19 update

The health and wellbeing of Knights' people has always been the Group's priority and all of our employees have been working from home since 13 March 2020, ahead of the UK government lockdown due to COVID-19.

Our focus on flexible working and business continuity, supported by our previous investments in secure, robust technology have enabled our team to work effectively from home and continue to deliver outstanding client service.

As announced on 26 March, we moved quickly to put in place a number of prudent cost saving measures in relation to the uncertainty created by COVID-19 that do not compromise the prospects of the business in the medium to long-term. This ability to act swiftly demonstrated the benefit of a corporate structure in which the senior leadership was able to act with agility whilst supporting its lawyers to remain focused on delivering value to clients. These measures included stopping or deferring all non-essential capital expenditure, eliminating discretionary spend, reducing Board salaries by 30% and the salaries of all staff earning over £30,000 by 10%, and making staffing reductions to reflect a more prudent approach to resourcing.

These early actions have positioned the Group well for the current market environment, albeit it remains difficult to predict the impact on the activity levels of our clients. As a result, the Board believes it would not be appropriate to provide forward-looking financial guidance to investors and analysts at this time. However, whilst the market remains uncertain, we are encouraged that early signs of a recovery in instructions indicate an initial improvement in market conditions compared with the disruption experienced at the beginning of April.

We remain confident in the Group's resilient business model, with our full service offering and geographic reach supporting a highly diversified revenue and client base, industry leading working capital management, and advantageous market positioning. These strengths, together with a strong management team, will see Knights emerge from the near-term uncertainties in a strong position in its market.

Balance sheet and liquidity

The Group has a strong balance sheet with a conservative gearing level, good liquidity, and is highly cash generative. Having conducted robust stress testing, we are confident that it is in a strong position to trade through this uncertain period and beyond.

Dividend

The Board has decided it is not appropriate to recommend paying a dividend given the recent cost saving measures put in place in relation to COVID-19.

Summary and medium-term outlook

Our resilient business model, combined with a strong financial position and being both well invested and cash generative, provides us with a robust platform from which to build upon Knights' unique proposition in the highly fragmented and often under-invested market for legal services outside London.

The Board is, therefore, confident that our talented team will continue to deliver on our long-term strategy to become the leading legal and professional services business outside London, and that the near term challenges for our industry due to COVID-19 will only accentuate our market opportunity in the medium-term.

Note
[1] See Financial Review on pages 42-49
[2] See Financial Review on pages 42-49
[3] See Financial Review on pages 42-49

Chief Executive's Review

We delivered a year of strong, profitable, cash generative growth and demonstrated progress in line with our strategy to complement organic growth with carefully targeted acquisitions.

David Beech
Chief Executive Officer
21 July 2020

Revenue increase

£74.3m

(2019: £52.7m)

Acquisitions

£10.5m

Contribution to revenue

Underlying PBT* margin

18.3%

(2019: 17.9%)

Note
* See Glossary on pages 122-124.

This was reflected in both clear momentum in the recruitment of high-calibre talent, up 135% on the prior year, which drove organic revenue growth of 10%, and strong contributions from six acquisitions. The acquisitions strengthened our presence in the East Midlands and Greater Manchester, and expanded our footprint into Yorkshire, the South East and Birmingham.

Our investments in operational management, technology and infrastructure, enabled this significant expansion to be executed effectively, with the Group's staff more than tripling since IPO in June 2018 to over 1,100 (or doubling in the last 12 months), and offices expanding from 6 to 13.

The c.400 increase in fee earners and the expansion of our fee earner:support staff ratio to 4.8:1 was significantly ahead of the FY20 aspirations we set out at the time of IPO in June 2018. This has left the Group well placed to take advantage of the £2.6bn addressable market for legal services outside London (source: Bureau van Dijk, Mintel UK Legal Services Report 2019).

Throughout this expansion of the business, we have worked hard to retain and develop the Knights' 'one team' culture which ensures a collaborative approach to providing high-quality services to our clients and development opportunities for all of the Group's talent. In turn, our continued high levels of client and colleague retention are a key pillar of our sustained profitable growth.

During the year, our banks and shareholders demonstrated their support for our strategy through a £40m extended revolving credit facility, agreed in February 2020, and a £20m placing which was completed in March 2020 to primarily fund the Shulmans and ASB acquisitions. These left us in a strong financial position as we entered the more uncertain environment created by COVID-19.

In February 2020, Knights also welcomed a significant milestone as we became a constituent of the FTSE AIM 50 which recognises our rapid growth since IPO.

Driving organic growth

We continued to attract high calibre talent during the year, with the strong momentum in recruitment in the first half continuing into the second half. Overall, 108 new fee earners joined Knights organically during the year, compared with 46 new fee earners in the prior financial year. In addition, 18 senior fee earners who have accepted positions and will be joining us in the current financial year.

A significant proportion of these new recruits join from Top 50 law firms looking to further their careers at Knights, which is testament to our reputation for interesting work for a high-quality client base and the development opportunities we offer the team. Our business model and culture remains a clear differentiator for many who wish to move away from partnerships and/or work in a modern professional services business. They are primarily attracted by the highly collaborative and agile work environment, as well as the reduced financial risks that are associated with a classic partnership model.

We have also continued to invest to increase the scale of our operational backbone and geographical reach through new and improved premises. This investment provides an enhanced working environment for existing team members and also attracts further talent to the business.

Following the appointment of Richard King as Chief Operating Officer in January 2019, we have built a robust operational management and support team to enable our growth. During the year we have recruited 15 operational staff; 6 directors (including an operations director, a recruitment director and two client service directors) and a compliance manager, which has provided the capability to scale up the business effectively.

Alongside building out the operational team, significant investment was made in the Group's IT and communications infrastructure. This investment has underpinned a system that now offers firm-wide information across one platform. The system has supported our increased headcount and the swift integration of acquired businesses. At Knights we are constantly reviewing and adopting new technology where it will improve efficiency or provide insight to enhance our client service.

A great example of where the investment in premises and platform have delivered for the Group is in Manchester and in York.

During the first half of the year, the team in Manchester relocated into new, larger offices where the improved working environment and more central location has enabled us to grow by 79% to 86 fee earners, (including 16 who joined as part of the acquisition of Croftons). Our growth in Manchester has also added momentum to our nearby Wilmslow office which has grown by 33% to 80 fee earners (since April 2018: 56), necessitating additional space.

In the second half of the year, the Group was able to leverage its existing operating platform to enter York with a new office opening, and a team of 15, including 5 partners. We have also invested during the year in expanding our capacity in Oxford, providing capacity for up to 200 fee earners.

Recruited

108

Fee earners including 24 partners

Client satisfaction

+60

>10 years average relationship for top 10 clients

Acquisitions as a platform for organic growth

We continued to build on our strong track record in selecting and integrating high quality acquisitions with a strong cultural fit that either take the Group into new key markets or strengthen Knights' service offering in existing locations.

We have an industry-leading integration methodology that ensures we deliver value throughout our programme of acquisitions. The methodology ensures clear management ownership of individual transactions and puts in place an experienced support team to migrate acquired businesses onto our IT, payroll, billing and cash collection platforms. Rebranding, onboarding clients and teams, migrating to new platforms, enhancing office environments, securing culture carriers, training, and modernising acquired teams' approach to both delivering and being paid for their legal services, have all become very much 'business as usual' tasks for the Group.

As a result of our approach, the Group's prior year acquisitions have all performed well and have provided platforms for further growth in their respective regions during this year.

Strengthening our offering in existing geographies

On 3 February 2020, we completed the acquisition of Croftons Solicitors LLP ('Croftons'), bringing to the Group a specialist housing, regeneration and commercial real estate law firm in Manchester.

Established in the 1840s, Croftons has a strong reputation for a broad spectrum of work and is a trusted adviser to over 50 housing associations, which is typically a very defensive segment of the market with a high proportion of recurring revenues.

Chief Executive's Statement continued

Croftons' 33 fee earners have integrated well within Knights, bolstering the Group's presence in Manchester and Wilmslow and broadening its real estate offering. Initial synergies were all delivered as expected and Croftons continues to perform well.

On 27 March 2020, Knights completed the acquisition of Fraser Brown, bringing to the Group one of Nottingham's largest independent law firms.

Established over 250 years ago, Fraser Brown grew to offer a broad spectrum of commercial and private client legal services to clients across the East Midlands, significantly strengthening the Group's presence and breadth of offering in the region.

Its 81 fee earners have integrated well with the Group's existing team in the East Midlands, with initial synergy savings delivered in line with expectations. We plan to build upon our expanded East Midlands presence by combining our current teams in Derby, Lincoln and Nottingham into new offices in Nottingham, providing critical mass in this important market.

Birmingham acquisitions position us well in the important West Midlands market

We entered Birmingham with the acquisition of EGL on 1 November 2019, bringing to the Group one of the only full service commercial independent law firms in Birmingham and further extending Knights' strength in its existing corporate, dispute resolution, real estate and private client service offering.

The Group subsequently expanded its offering further in Birmingham through the acquisition of ERT Law Limited (ERT), a specialist in commercial litigation, servicing a number of blue-chip and listed companies, on 17 January 2020.

ERT added 24 fee earners to the 28 acquired as part of the EGL acquisition, providing us with a significant and high quality platform from which to grow in the important West Midlands region, which is estimated to have a £250m legal services market (source: Bureau van Dijk, Mintel UK Legal Services Report 2019).

Both acquisitions were a strong cultural fit which enabled them to integrate well and they have performed in line with our expectations following the realisation of synergies.

Establishing the Group in the attractive South East market

On 17 April 2020, Knights completed the acquisition of ASB Law LLP, including ASB Aspire LLP ('ASB'), bringing us an entry into the South East with a leading full service commercial law firm in the region.

ASB is a culturally aligned, commercial law firm offering commercial, corporate finance, dispute resolution and employment advice from offices in Crawley and Maidstone, with 89 fee earners and large corporate relationships.

Its ambitious and innovative team has successfully challenged conventional ways of working in the legal sector despite a limited ability to invest for growth. However, they will benefit from investment as part of a broader Group and we expect that our investments in technology and training will allow the full potential of the business to be realised.

The acquisition of ASB provides a platform for growth in the strategically attractive South East market, which is estimated to be valued at £250m excluding London (source: Bureau van Dijk, Mintel UK Legal Services Report 2019).

ASB has integrated well, with initial synergies realised as anticipated and we expect to be able to continue to grow our presence in this region given ASB's well located base for the recruitment of high-calibre talent, including lawyers who no longer wish to commute to London.

Knights also brings additional expertise, scale and breadth of services to ASB's large corporate relationships (particularly regulatory, tax and intellectual property), whilst we expect to leverage the niche specialisms that ASB brings, e.g. in the aviation sector, across our wider geographical footprint.

Leeds entry provides a strong platform in one of the largest regional markets

On 24 April 2020 we completed the acquisition of Shulmans LLP, providing us with an entry into the Leeds market with a leading independent law firm (source: The Lawyer UK Top 200 2019). Having been founded in 1981, Shulmans brought to the Group one of the longest established independent commercial law firms in Leeds, with 90 commercial fee earners operating from a single office. Its full commercial legal services offering includes corporate, litigation, employment and real estate, which is well matched to Knights' existing specialisms.

Shulmans provides Knights with a platform for growth in one of the largest regional markets for legal services in the UK; the Yorkshire market is estimated at £440m (source: Bureau van Dijk, Mintel UK Legal Services Report 2019). It also brings capacity for material organic growth through recruitment, with capacity to expand to up to 225 fee earners, and further bolt-on acquisitions in the region, in time.

Shulmans also brings access to city relationships for our York office, which we recently established organically and we expect the combination of the two offices in this region to be able to replicate Knights' successful strategy for entering the North West market by opening the Wilmslow office organically in May 2017, followed by the acquisition of Turner Parkinson in Manchester in June 2018 with 44 fee earners. The combination of the two offices generated material organic growth opportunities resulting in circa 166 fee earners across the combined offices today, with the Manchester acquisition adding momentum to recruitment efforts in the nearby Wilmslow office.

We are working towards a similar outcome for Leeds and York.

Shulmans is culturally aligned to Knights but provides an opportunity to modernise a business which has operated under a more traditional model previously. It has now been integrated, with the significant anticipated initial synergies having been realised as we continue to enhance its margins, through the implementation of Knights' operating model.

The acquisition provides a strong platform in this key market for further organic growth through enhanced recruitment, investment in people and technology, client wins and cross selling.

COVID-19 update and medium-term outlook

We are proud of the way in which our people have responded to working from home, as they continue to deliver outstanding service to our clients, without any impact on our ability to transact, and we are planning to continue to work from home until September at the earliest.

We believe our early and prudent actions to manage costs have positioned the Group well to trade through the current environment.

With the benefit of recent acquisitions, we have built upon our resilient business model with a well-balanced, full service offering and highly diversified revenues by client, sector and geography. During lockdown, the benefits of this model were evident, and the integration of recent acquisitions has been ahead of expectations.

Whilst the market remains uncertain, early signs of a recovery in instructions across the Group provides an initial indication that market conditions have started to improve compared with the disruption experienced at the beginning of April.

In the near term, our focus is on further embedding fee earners from recent acquisitions and on recruiting senior fee earners, who typically bring a client following.

We are seeing a high level of quality recruitment opportunities with a strong pipeline of candidates, many of whom come from Top 50 firms, as they consider a move away from traditional partnerships.

Beyond the near term, we anticipate that COVID-19 will only accentuate the recruitment and acquisition opportunities for our resilient, well-invested, diversified and cash generative business in the highly fragmented and often under-invested market for legal services outside London.

We are, therefore, confident that our model and culture will enable us to emerge in a stronger position from this current environment, underpinning the Board's confidence in the Group's medium to long-term success.

Lastly, and most certainly not least, I would like to pass on a sincere thanks to the Board, to the leadership team and to all my colleagues at Knights for their continual hard work, support and fantastic contribution this year in delivering a strong set of results and achieving considerable further strategic progress.

David Beech
Chief Executive Officer
21 July 2020

> **We are proud of the way in which our people have responded to working from home, as they continue to deliver outstanding service to our clients, with no impact on our ability to transact.**
>
> We believe our early and prudent actions to manage costs have positioned the Group well to trade through the current environment."
>
> **David Beech**
> Chief Executive Officer

Business Model

Fuelled by our passion for creating the leading legal and professional services business outside London, our business model enables us to deliver value by executing our four strategic pillars:

1 Grow Organically

2 Strategic Acquisitions

3 Scale the Operation

4 Exploit Technology and Data

Inputs

Clients

Seeking business advice that matters

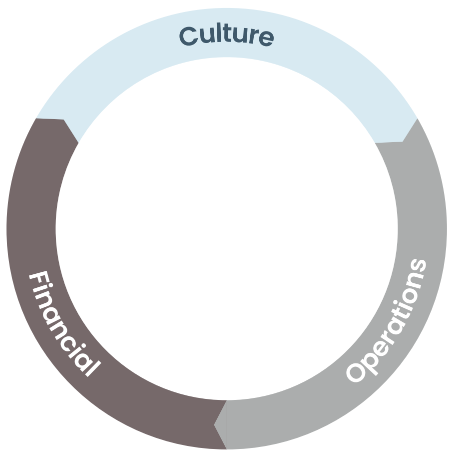
Fee Earners

Seeking opportunities to grow in a supportive environment

Law Firms

Seeking a platform to get to the next stage

Key Strengths



Culture

- **An empowering culture**
  - Unleashing fee earners' talent through our collaborative and friendly, target free environment
  - 'One team' culture, where resources flow quickly to create the right team for the client
  - Entrepreneurial, can-do mindset, where fee earners can be themselves.
- **Trusted advisors to clients**
  - Commercial, business outcome mindset, underpinned with expertise and local knowledge
  - Big enough to deliver, small enough to care
  - Long-term partnering with clients that want the best and respect those that deliver it.

Operations

- **Corporate structure**
  - Separate and strong leadership team, with broad experience beyond the legal sector
  - Enabling fee earners to focus entirely on what they do best, servicing clients
  - Commercial and entrepreneurial approach is embedded in our culture.
- **Efficient and scalable platform**
  - Single technology platform delivers efficiency, speed of service, and makes collaboration easy
  - Flowing work to the right expert or level of experience, to optimise value for clients
  - Rapidly assembling teams to deliver on short lead time or high volume needs of clients.

Financial

- **Cash and capital**
  - Highly cash generative model, supports investment in people, technology and infrastructure
  - Strong balance sheet, aided by industry-leading working capital management
  - Support of the UK's strongest quality growth funds.
- **Acquisition track record**
  - Identifying the right businesses, driven by a strong cultural and strategic fit
  - Integration is 'business as usual', led by an experienced and dedicated team
  - Rapidly unlocking existing and creating new value sustainably.

Creating Value

Delivering value for clients

- We deliver results that matter to our clients as we are led by their goals, and use our commercial mindset, market insight and legal expertise, to deliver optimal business solutions.
- We are trusted advisors, as a result of our understanding of our clients, their experience of our advice, and because of who we are as people.
- We structure our resources to deliver the best solution, underpinned by a high-quality efficient service, enabled by our one team approach and low overheads.

Accelerating career ambitions

- We provide an environment that attracts energetic, commercially minded innovative professionals.
- Our fast growing business, one team approach and drive to change the delivery of professional services, provides outstanding opportunities to flourish.
- Fee earners focus on what they do best and love, servicing clients, without the time and emotional drains of targets, politics and management meetings.

Unlocking value from acquisitions

- We carefully select strategic acquisitions that have a strong cultural fit, with people who share our belief there is a better way to deliver professional services.
- We quickly release value from cost synergies by implementing the Knights operating model.
- We accelerate growth by bringing scale and new expertise to acquired teams to be better able to serve their existing clients, win new ones, and expand their reach to serve existing Knights clients.

Outputs

Clients

+60	**25**	**70%**
NPS	No. of FTSE 100 clients	Growth of clients using more than one service

Employees

95%	**+36**	**108**
Retention	ENPS	New fee earners

Shareholder

14.33p	**39%**	**27%**
Adjusted earnings per share	3 year profit CAGR	TSR

Communities

4	**1.6m**	**9%**
working hours a month per employee available to the community	printed pages saved per year	Energy reduction through use of LED lighting

Principles

One team | Quality | Commercial | Pioneer | Agile | Ambitious

Our Strategy

To build the leading legal and professional services business outside London.

We have made considerable progress in line with this strategy by accelerating organic growth with carefully targeted acquisitions which enhance or expand the Group's core offering and are considered a strong cultural fit.

Strategic pillars	What we did this year		What are our priorities
Grow Organically Read more on pages 20-21	**10%** Organic growth **39%** Joined from Top 50 law firms	**108** Net new fee-earners **17** Fee earners entered York with capacity to grow to 50	• Serving existing and new high-quality clients with more than one service • Develop and promote existing talent and continue to hire high-quality fee earners • Expanding to select new geographies.
Strategic Acquisitions Read more on pages 22-23	**4** Market expansions **425** New fee earners via acquisition	**2** Scale-up existing markets **100%** On track to deliver target cost synergies	• Remain a leading consolidator in the mid-tier UK legal services sector through selective, high-quality acquisitions • Target firms to accelerate growth in existing markets, or those with attractive positions in new geographies and niche specialisms • Continue to realise targeted cost and revenue benefits, then accelerated growth under Knights ownership.
Scale the Operation Read more on pages 24-25	**4.8:1** Fee earner ratio **3** Group operation hubs established	**1** Dedicated integration team created **6** New Directors	• Continue to create economic scale through the Knights platform • Continue to invest to create sufficient capacity ahead of growth • Accelerate how quickly new fee earners master the Knights business model.
Exploit Technology and Data Read more on pages 26-27	**8%** of admin work automated **70%** Growth of clients using more than one service	**3** Acquisitions' IT integrated in parallel **0%** COVID-19 impact on ability to transact	• Expand the capacity and increase the economic scale of our operations backbone • Grow the business through actionable business intelligence • Enhancing service to clients through real time delivery and one team collaborative working.

Strategic Progress

Driving synergistic growth

A presence in the largest city in the region provides Knights' local offices with access to city relationships and boosts recruitment.

Knights successfully entered the legal market in the North West in 2017/2018 through a combination of both organic growth and an acquisition.

The Wilmslow office was opened organically in May 2017 and grew to 56 fee earners before the acquisition of Turner Parkinson in Manchester in June 2018, adding a further 44 fee earners. The combination of the two offices added momentum to recruitment efforts in both offices, with new hires, including many from Top 50 law firms, attracted to the combination of working close to home with the optionality of a city centre presence.

The recent acquisition of Croftons in February 2020 has also boosted our Real Estate services in the region with a new specialism in housing associations and regeneration and is already providing further opportunities for our wider North West team, where Croftons would previously have had to outsource certain work. The benefit of our dual locations in the region was also seen when we integrated Croftons, with some of the team having moved into Manchester whilst some joined the Wilmslow offices, where they didn't need to be in central Manchester.

The resulting organic growth opportunities in the North West have led to a strong recruitment drive which has seen us grow to 166 fee earners across the combined offices today.

Having not placed in the top rankings for the region in previous years, our ranking as the top legal service provider for corporate M&A in the North West in 2019 is testament to Knights' growth in the region in recent years.

This approach to entering a new market is currently being replicated in Yorkshire. Following the organic opening of our York office in February 2020, we announced the acquisition of a leading independent firm Shulmans (Source: The Lawyer UK Top 200, 2019), based in Leeds.

Strengthening our core services

Real Estate

- A growing team of 382 professionals, with new practices established in the Midlands, Yorkshire and the South East, as well as increasing breadth and depth of our offering in the North West
- Built critical mass in our conveyancing and development teams and added to our expertise in remortgaging and housing and regeneration
- Newly instructed by Barrett Homes to advise on planning and broadened our relationship with longstanding client Dunelm.

Dispute Resolution

- Expanded from 126 to 247 fee earners, with a team of new recruits joining us from a Top 50 law firm in Manchester and a strong presence established in Birmingham following the acquisition of litigation specialists ERT
- Delivered property litigation services to a number of notable FTSE 100 retail clients
- Added relationship with Mitchells and Butler and Biffa plc to our already impressive client base which includes two international energy providers, FTSE 100 and Euro 200 companies, shareholders of SMEs, partners and directors of professional firms.

Corporate

- Our 109 strong team now includes a sizeable presence in Birmingham and Leeds, following the acquisitions of EGL and Shulmans
- Advised on a number of high-profile restructuring, insolvency and refinancing matters across the UK, as well as being recognised as the North West's Leading Adviser for deals in Experian's M&A review
- Notable deals include acting for BGF to advise on a reinvestment of £13m to international web hosting business Miss Group.

Employment

- Expanded from 31 to 47 fee earners, with a team of new recruits joining us from a Top 50 law firm in Manchester
- Advising on a number of strategic HR projects following the COVID-19 pandemic
- Added relationships with Moneysupermarket.com and Hertz Europe to our already impressive client base.

Private Client

- A specialist team continue to deliver high-quality services to high net worth individuals and their families
- Advise landed estates clients throughout the UK
- A 149 strong team of fee earners (2019: 81).

Sector specialisms

- Agriculture and the food supply chain
- Consumer-facing
- Energy, waste and natural resources
- Financial and professional services
- Healthcare
- Industrials, transport and support services
- Property management and development
- Technology, media and telecommunications

Knights is very important to us as a partner, representing great value, but also trust and integrity.

When we need to get things done very quickly, Knights will do everything they can to get our projects over the line and, when we deal with complex issues, they will put the right expertise our way to deal with those situations. We hope our longstanding relationship continues a long way into the future."

Ed Gretton
Head of Legal at Hanson

Knights is an integral part of our business – for all intents and purposes, almost our in-house lawyers.

Over the more than ten years we've worked with them, they have been involved in every single acquisition. Knights' team is very approachable and they have depth to their teams across commercial property and litigation, where they are able to bring in additional expertise quickly and in a cost-effective manner. I would describe Knights as commercial, efficient, professional."

Martin Pryce
Fprop plc

Strategy in Action

Grow Organically

We have continued to deliver double-digit organic growth in a growing market.

The key ways in which we delivered on our organic strategy this year were by:

Attracting new talent

39% of the 108 net new recruits this year joined Knights from Top 50 law firms, which is testament to our reputation for interesting work and a high-quality client base as well as the development opportunities and culture on offer. Many of these new colleagues have been attracted by a move from partnerships to a highly collaborative work environment in which they can focus on delivering quality work to their clients unburdened by the financial risks associated with partnership. Our career-supporting culture is not only ensuring we have an exciting recruitment pipeline but, importantly, it is also enabling us to maintain market-leading retention rates.

"Knights operates very differently to the traditional law firm model which is refreshing and makes so much sense.

I was particularly attracted to its strong team culture and ethos that people come first, always. I'm already finding that our team-based approach has connected me to new and exciting clients, with my colleagues actively drawing upon my expertise and introducing me to their contacts. I was delighted to join Knights at an exciting juncture and to have the opportunity to help accelerate the growth trajectory of the team here."

Sally Hulston
Partner, Employment, Wilmslow

Targeting new geographies: York

Knights entered its tenth city in February 2020 with the announcement of a new office opening in York. The move into the Yorkshire region, with an estimated market size of £440m (source: Bureau van Dijk, Mintel UK Legal Services Report 2019), was in line with Knights' strategy to target new geographies that have been identified as suitable for consolidation of the highly fragmented independent law firm space. Led by Jonathan Moore, who has more than 20 years' experience in York's legal services market, the opening of a new office with a team of 16 marked our entry into the region with a full service offering and capacity to support further growth in the city.

"I was attracted to the idea of being part of a new office startup in York because the Knights' culture that is genuinely centred around trust, transparency, teamwork and the development of people is something very different in the legal sector.

Without the pressures of individual or team billing targets and traditional partnership distractions, our primary focus is on delivering a premium client service and that is the perfect foundation upon which to build a new office from a standing start.

The lateral hires we've made from national and international law firms, together with our full legal service capability means that the businesses and individuals of York and North Yorkshire now have a legal services business local to them that can cater for all of their legal requirements - the potential is enormous."

Jonathan Moore
Office Partner, Real Estate, York

Building out our specialisms: Dental

We continue to expand the depth and breadth of our service offering, including with new specialisms. This year, we have expanded our existing specialisms of Healthcare and Employment and recruited talent in other niche areas, including Aviation.

"Having previously worked in a smaller firm specialising in advising dental practices, I joined Knights because it gave me a platform to grow my client offering and work on a greater number and variety of transactions.

The corporate structure at Knights has allowed me to provide a better and fuller service to clients, with its clear separation between management and lawyers allowing me to focus on doing my job as a lawyer, which has enabled me to grow our client base significantly."

Jonathan Tyson
Partner, Corporate, Stoke

Strategy in Action continued

Strategic Acquisitions

Our pipeline of acquisition candidates grew through 2019, as we continued to build upon our reputation as a good owner of acquired businesses.

This is providing a breadth of potential opportunities for Knights to bolt on and integrate businesses in areas that we have identified as suitable for consolidation of the highly fragmented independent law firm sector. During the year we continued to build on our strong track record, successfully completing the acquisitions of a number of firms, with the respective sellers attracted by the opportunities that Knights offers.

Knights plc, Manchester

We have also shown over time that we are able to support the ambitions of the people that join us via acquisition through:

Unleashing the potential of the talented people we acquire

For many of the individuals that join Knights as part of acquired businesses, it offers the opportunity to expand their role, which in turn provides Knights with broader talent across its management team to drive the business forward. For instance, James Sheridan has become one of the Group's Client Services Directors, with responsibility for the North West region and for leading the recent integration of Shulmans, the Group's largest acquisition to date. Since joining the Group in 2018, James has grown our presence in the North West to c.180 fee earners, with Knights providing the financial, operational and cultural platform to allow him to develop his skills and apply them to maximum effect.

"We have significantly developed our North West presence since becoming a part of Knights, with the acquisition enabling me to broaden and deepen my client base much more quickly than I was previously able to within a partnership.

Our team was ranked as #1 for M&A by volume of deals in the North West in 2019, which is a huge testament to our growth. I was also delighted to take on a broader role in developing Knights through leading the integration of Shulmans earlier this year, and believe that coming from a business that was acquired by Knights gave me invaluable experience for ensuring the smooth integration of future acquisitions."

James Sheridan
Client Services Director, Manchester

Benefitting from increased scale

Knights completed the acquisition of ASB Law LLP in April 2020, a firm which had built up strong relationships with a number of large corporates as well as a niche specialism in the aviation industry, amongst others. Following the acquisition by Knights, the business was able to attract work from major clients requiring greater scale and breadth than ASB was previously able to provide due to resource constraints. The scaled-up support offered to clients encompasses the 'one team' approach at Knights, with clients able to draw on an ever-growing network of talented lawyers across a broader range of expertise as part of a larger business.

"Joining Knights has enabled us to engage with our network of contacts on matters they previously thought our firm did not have the capacity to deliver.

In recent months we have built on our strong relationships and attracted some high-profile work – most recently we have provided employment advice and collective consultation support for employees of a large tour operator and airport, which wouldn't have been possible without utilising the wider pool of talented lawyers across Knights. The cultural fit has been great and the opportunities we are already seeing is a hugely exciting motivator for the whole team."

Lyndsey Ratcliffe
Partner, Dispute Resolution, Crawley

Accelerating growth into the wider region

Shortly after its acquisition of Spearing Waite, Knights acquired Leicester-based Cummins Solicitors in January 2019 to bolster its offering in the city. The high-calibre employment specialist allowed Knights to bring a full service offering to Leicester, and the Group has seen significant growth in the Midlands since, increasing the number of fee earners in the region to 213.

"We built a strong reputation as a small independent specialist in the employment sector but felt that further expansion beyond our existing local client base would be difficult without further backing.

In particular, we found it hard to break in to the Birmingham market alone. We had followed Knights' impressive growth story in the region prior to acquisition and were delighted to join a strong and independent group that we knew would help us to fulfil our ambitions to win in the wider market. Since that time, I have helped Knights to expand into Birmingham with the acquisitions of EGL and ERT, giving us a leading position across the region."

Michael Cummins
Client Services Director, Birmingham

Strategy in Action continued

Scale the Operation

During the year, we built operational strength in the business in preparation for anticipated growth.

Significant investment was made during the first half of the year to ensure the Group had the capabilities to harvest future opportunities as they arose throughout the year. This investment in our platform ensures the sustainability of our success into future periods, with operational capacity across our leadership and systems allowing us to continue to benefit from economies of scale.

Our investment in professionals who have built their careers in operations leadership and delivery, together with our systems and office space investments, means we have a sustainable and scalable backbone to support our rapidly growing business.

During the year this has resulted in us doubling fee earner recruitment, automating c.8% of administration work, alongside the successful integration of 6 acquisitions, 3 of which were delivered remotely during the COVID-19 pandemic.

The strength of our operational backbone means we can operate with both excellence and efficiency, as evidenced by our fee to non-fee earner ratio, which increased to 4.8:1 in the period against an industry norm of 1.5-2:1."

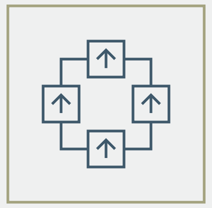
Richard King
Chief Operating Officer

New fee earners:

108

Investments

- **Added 6 Directors to our leadership team**



- **Upgraded technology and infrastructure**

- **Formed specialist integration team**

- **Modernisation of office space**

Successful integration: How we do it

Our tried and tested formula allows us to treat acquisitions as a 'business as usual' task:

Phase 1	Phase 2	Phase 3	Phase 4
Our specialist in-house team manages the M&A and integration process, including due-diligence, finance and HR Acquisitions are selected with cultural fit in mind as full cultural integration is a top priority to ensure retention of key staff Integration workstreams are established before the deal is finalised, with a Client Services Director providing clear senior ownership at every stage of the process.	Planning for the transfer of IT systems begins well in advance and takes place over a weekend, ensuring negligible disruption to the lawyer workflow Split exchange and completion facilitates a smooth and efficient process Rebranding always takes place on completion, with support to ensure continuity of service to clients.	Back office restructured to remove support service inefficiencies, in line with our 4.8:1 fee earner to support staff ratio A structured and ongoing programme of training and one to one support to help new colleagues adapt to Knights' Operating Platform and master our business model.	Continually building value by helping fee earners to adopt Knights' modernised way of working, collaborative culture and commercial mindset, to deliver improved fee earner service quality and efficiency over time Building a business externally by focusing our sales, marketing and recruitment teams to create a strong reputation and develop relationships in the new market.

Initial synergies generally achieved 2 months after completion, releasing significant value from the acquisitions in the short term.

Prior to joining Knights, the Shulmans team didn't have the systems to work seamlessly from home.

Knights' IT team were able to quickly support our entire infrastructure to allow for remote working, an impressive feat and one that was crucial to our ability to weather this crisis. When Knights completed the acquisition, our systems were integrated over the weekend meaning we could continue client work on Monday morning."

Marcus Armstrong
commenting on the recent acquisition of Shulmans

Having full access to the enthusiastic sales, marketing and recruitment professionals of Knights has been a game changer for me.

Knights has supported me to build business in a way that I've not experienced before."

Richard Wilson
commenting on his experience of joining Knights

Knights' results-driven and collaborative culture has proven to be a real motivator for our ambitious team.

With the best-in-class technology we have adopted, as well as the commercial acumen built through training and mentoring, our original team and client base has gone from strength to strength."

Martin Billings
commenting following the acquisition of BrookStreet des Roches in April 2019

Strategy in Action continued

Exploit Technology and Data

We have continued to expand the depth and breadth of our use of technology to develop the scalability and efficiency of our operations, and increasingly, to enhance our services to clients.

Our strong foundation of a fee earner base skilled in using technology, together with a single IT and data platform for the business, has enabled us to continue our progress in expanding the business impact of IT.

Most visible has been our ability to instantly switch to home working with no impact on productivity during the pandemic, the 20% efficiency increase in fee earner to operations staff ratio, and the integration of 6 businesses onto our platform with shut down of all their systems in a matter of weeks after acquisition. Equally, we have made significant progress in using technology to enable fee earners to work more seamlessly and 'real time' with clients.

One platform

Technology | Data | Processes

Scaling our operating backbone

Our single platform is a key strength that we continue to invest in, to sustain our ability to operate as one business as we rapidly grow, create efficiencies at scale, and increase our acquisition integration capacity.

Measures of success

- We have reduced administration work by c.8% through automation of many time intensive transactional processes particularly in Finance and IT. This has been a key contributor to our fee earner to non-fee earner ratio increasing from 4.0:1 to 4.8:1
- Our upgraded acquisition integration capability enables us to manage the transition of multiple acquisitions in parallel, notably delivering three in parallel whilst in COVID-19 lockdown.

Fee earner: non-fee earner ratio

4.8:1

Growing the business

We are increasingly creating value by exploiting rich sources of data and codifying our knowhow, to identify and action opportunities to grow revenue and cash conversion.

- We have increased our success in attracting new clients and growing the number of services existing clients use, by creating a system using algorithms on market and proprietary data, that better identifies prime prospects for our sales team and fee earners to target. This has been a key contributor to us successfully winning 57% additional clients and increasing the number of clients using more than one service by 70%
- Created a system that takes faster action and reduces the effort to deliver timely cash conversion and low bad debt, by automating some steps and creating exception alerts for others, powered by combining payment history data and our best practice.

Acquisitions integrated in parallel

3

Enhancing service to clients

Growing our capability to work more seamlessly, transparently and faster with clients, is a continued focus, with cloud technologies creating many new opportunities.

- Accelerated document signing from hours to minutes by introducing e-signatures, as a result of working with a software provider to enhance our capability to meet the complex legal signoff process needs
- Our existing online collaboration suite proved invaluable during the COVID-19 pandemic. The pandemic and our investment into new capabilities such as shared tasklists and group chat is fueling our clients and ourselves to reimagine how we can work together even more efficiently
- We now offer bespoke interactive client dashboards so clients can get updated progess information faster, with less effort, at anytime, from anywhere.

Growth in clients using more than one service

70%

Additional clients

57%

Efficiency increase in fee earner to operations staff ratio

20%

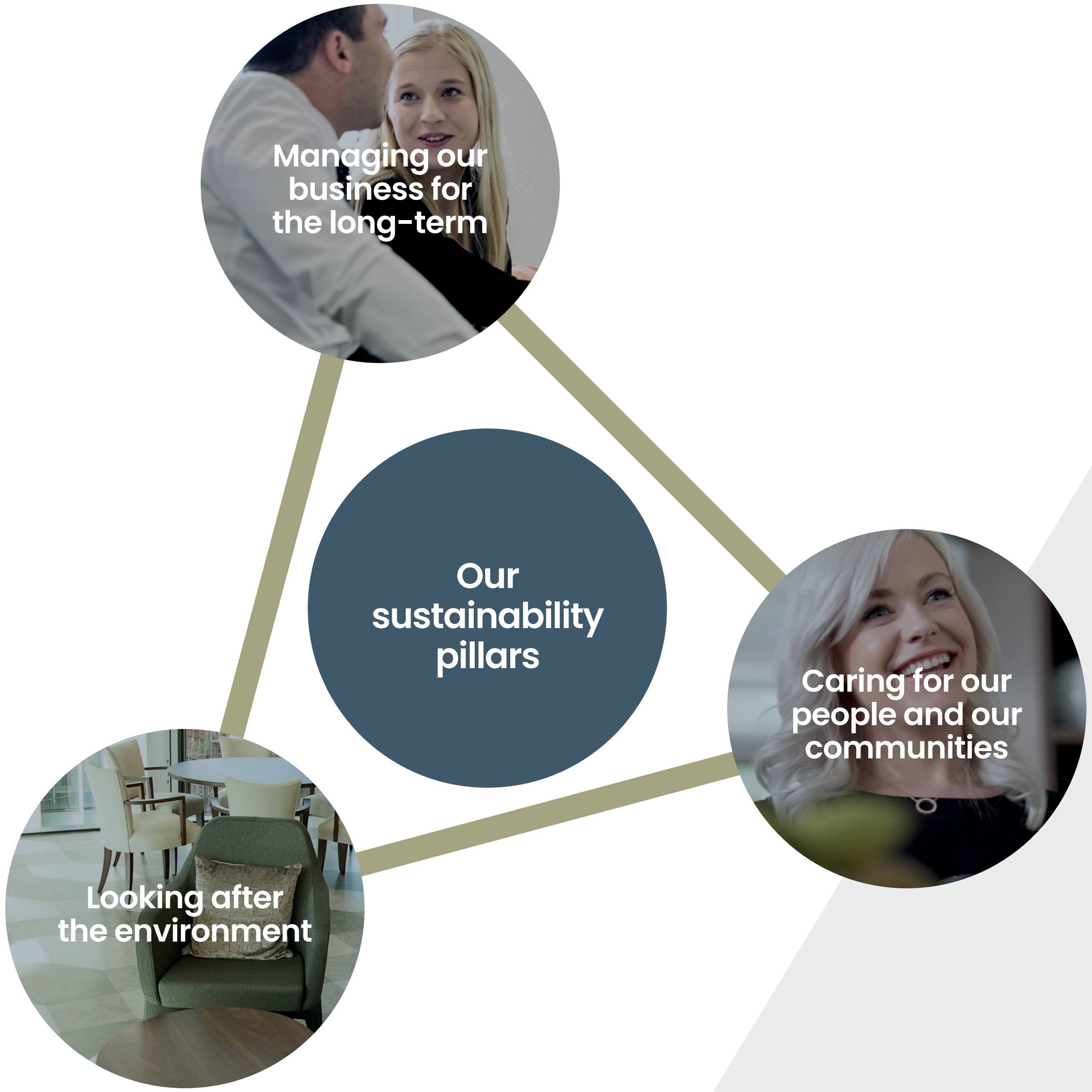
Corporate Sustainability

Building a sustainable business that enables all its stakeholders to thrive.

Knights is committed to building a sustainable business that enables all its stakeholders to thrive: a business that minimises its impact on the environment, looks after its people and communities and operates ethically with the highest levels of governance.

Taken together, these goals form a key part of the Group's overall drive to transform legal services away from the traditional model of working and are critical to its wider investment case.

Knights is proud of the progress it has made in enhancing the sustainability of its operations but wants to go further. This year the Group appointed Jane Pateman as its Board Director with overall responsibility for Environmental, Social and Governance strategy. Jane and the Executive Directors will focus on shaping the Group's strong existing activity into a strategic programme to support Knights in making an increasingly positive impact into 2020 and beyond.



The Group focuses on three key pillars within its sustainability approach:

Managing our business for the long-term

Aiming for the highest standards of corporate behaviour and running its operations with high ethical standards

Read more on page 30

Caring for our people and our communities

Through fostering a diverse, team-based, meritocracy-driven culture and encouraging community contributions

Read more on pages 32-34

Looking after the environment

With a focus on cutting our carbon footprint and paper consumption

Read more on pages 36-38

Key performance indicators

Whilst the Group is continually evolving its measurement of these areas, it currently focuses on the following KPIs to measure the effectiveness of its support of colleagues and the community.

Managing our business for the long-term

Board role and diversity
The Board has an effective blend of financial and public market experience, diversity, skillsets and capabilities with backgrounds in operations, human resources, accounting and finance disciplines across a wide range of industries.

Business ethics
Knights has a rigorous 'Know Your Client' process to ensure that its business is not used as a conduit for the proceeds of crime, terrorism or money-laundering.

Compliance
Fee earning colleagues receive mandatory compliance training during the onboarding process and are required to refresh this every year.

Caring for our people and our communities

Retention
Knights enjoys relatively strong employee retention levels, with less than 5% churn*.

Flexibility
Knights tries to offer a working environment to suit everyone; last year, a total of 24% of colleagues worked flexibly or part time.

Employee ownership
Knights is proud to be able to offer colleagues a stake in the business; as at February 2020 78% of employees are shareholders via the Group's various share plans, meaning they retain a direct interest in its future prospects.

Community
Our aspiration is to deliver four hours per month, per colleague to our communities through the 4OurCommunity programme.

Looking after the environment

Paper consumption
Within the Group's physical office estate, the number one environmental impact is paper consumption, saving 1.6m pages per year.

Energy reduction
There is also an ongoing upgrade of all light bulbs to LED across all our sites which target a reduction in energy use of 9%.

Business travel
The recent impact of COVID-19 has seen many more internal and client business meetings conducted by video conference, a trend that will support stronger client delivery, improved working conditions and staff welfare, and reducing its environmental impact.

Knights is a business where the day job is intrinsically linked to doing the right thing; whether that's developing and empowering colleagues to deliver the best advice, creating a fulfilling and purposeful environment for our people, or holding ourselves to the highest standards of conduct throughout our business operations.

I'm delighted to be overseeing the drive for greater sustainability at Knights, and I'm looking forward to bringing some of my own background to bear in shaping a strategy for 2020 and beyond."

Jane Pateman, Non-Executive Director: Knights plc, Group HR Director: Biffa plc

Note
* See Glossary on pages 122-124

Managing our Business for the Long-Term

Knights runs its operations with the highest standards of corporate governance and conduct. All of this is overseen by a Board of Directors who bring a wide range of relevant skills and experience to bear.

Board role, diversity and independence

The Board guides Knights' approach and is committed to extending its values to all stakeholder groups, including shareholders, clients, employees, governments and regulators, and the communities in which it operates.

Further details of the Board's outreach are detailed in our Section 172 statement on page 39 of this Annual Report.

The Board is comprised of three executive directors, the Non-Executive Chairman, and a further two independent Non-Executive Directors.

The Board believes that the Directors have an effective blend of financial and public market experience, diversity, skillsets and capabilities. Only one member of our Board - CEO, David - has a legal background, with the rest of the Directors bringing broad experience from operations, human resources, accounting and finance disciplines across a wide range of industries.

Board members

6

Business ethics and compliance

Building a culture where the Knights team operates responsibly, sustainably and with integrity is essential to the long-term success as a Group.

The Group is governed by the Solicitors' Regulation Authority and its rigorous approach to conducting its business to the highest standards.

Knights has a rigorous 'Know Your Client' process to ensure that its business is not used as a conduit for the proceeds of crime, terrorism or money-laundering. The Group conducts thorough audits on clients' background before working with them, and its dedicated, independent in-house compliance teams rigorously monitor all work being conducted throughout the business on an ongoing basis.

All fee-earning colleagues receive mandatory compliance training during the onboarding process and are required to refresh this every year.

Anti-Bribery and Corruption
Knights is committed to maintaining the highest standards of ethics and compliance with all relevant laws wherever it does business. The Group does not tolerate any form of bribery or corruption and requires all individuals working for it to comply with anti-bribery and corruption laws and ethical standards.

Whistleblowing
All employees of Knights should feel able to raise concerns about any safety, legal or ethical issues. If they feel unable to report these concerns to a manager, the Group also provides a whistleblowing process, which is detailed on its website.

Modern Slavery
The Group has a zero-tolerance approach to modern slavery anywhere in its supply chain and a full copy of its policy is detailed on its website.

"I joined Knights plc in November 2018 having worked in-house as a senior member of the Ethics & Compliance function at a global energy company and within financial institutions managing compliance and investigations.

I am excited to be part of such a forward thinking and agile team at Knights where risk and compliance is held in high regard and plays a key part in each step the business takes."

Elinor Lloyd
Compliance Director, Knights plc

Caring for our People and Communities

Knights' team-based culture is focused on helping both its colleagues and their communities to thrive.

Knights is a friendly, down-to-earth business with low hierarchy and a culture of respect, collaboration, positivity and transparency.

The Group is proud of its recent employee net promoter score of +36 and believe it reflects a supportive environment that empowers colleagues to be themselves and use their judgement to do what's right for clients, the business and the wider community.

Knights' values are both a key part of its competitive advantage and a route to long-term sustainability. The Group approaches its work in the following areas:

Employee engagement and culture

Knights' culture is a source of immense pride and the Group firmly believes that it's a key differentiator for clients and colleagues alike in a crowded market.

Above all, Knights aims to create a positive environment that empowers colleagues to be themselves, supports them to take responsibility and provides them with a fulfilling role and development opportunities.

The Group has a culture of productivity and encourages a high level of flexible working. Last year it saw 24% of colleagues work part-time, enabling them to choose a work and personal life balance.

The Group's senior management teams maintain regular communications with colleagues and encourage them to share feedback. Senior management have hosted regular calls through the COVID-19 situation, with the CEO holding several 'all hands' meetings with over 80% participation and over 200 questions answered.

Diversity and inclusion

Knights' core ethos is focusing on what people contribute, not their background.

This approach delivers excellent outcomes when it comes to diversity and we believe that these diverse teams make the best long-term decisions and ultimately position businesses for sustainable growth.

The Group has market-leading levels of gender diversity, with 45% of our upper quartile fee earners being female.

Whilst we are proud of our gender diversity, we continue to look at this area more broadly. Our strategy is based on understanding each individual and creating an environment where everyone can thrive. Whilst we don't formally measure it, we subsequently see people from many different socioeconomic, ethnic and religious backgrounds thriving at Knights.

Health and safety/wellbeing

Knights is committed to ensuring the wellbeing and safety of employees in all offices.

Policies and procedures comply with relevant local safety, health and welfare at work legislation, as appropriate. The Group also uses Grade A office space fitted to high standards in order to provide the best working environment.

As Knights acquires other businesses and operates multiple sites with legacy policies, it overlays a single Knights Health and Safety framework that ensures a consistent approach within the organisation.

The Group places significant focus on the wellbeing of its colleagues providing an Employee Assistance Programme and a Helpline where colleagues can speak to a professional about any professional or personal issues. During the COVID-19 lockdown, world renowned performance coach Jamil Qureshi ran group sessions and 1:1s on mindfulness and wellbeing, attended by over 440 employees.

Pay and conditions

Knights' structure enables the Group to maintain fair and appropriate levels of pay throughout the organisation.

Due to the Group's corporate PLC model, colleagues do not have to take on the financial risks associated with a partnership, and the majority of its Board are not lawyers, meaning they retain an external perspective when setting remuneration levels.

The Group also operates various share plans which enables all employees to become shareholders and share in the future success of the Group. Since our IPO, where we launched our first share incentive plan, we have rolled out two ShareSave schemes and also launched a Long-Term Incentive Plan for key non-fee earning roles. Over 75% of employees are currently enrolled in a plan.

Caring for our People and Communities continued

People helping others

Knights believes that people who help other people are more engaged and have deeper perspectives on their community. It's those people who are best placed to drive a business forward in the long-term.

The Group is, therefore, focused on enabling colleagues to support their local communities through its flagship programme 4OurCommunity. This gives colleagues 4 hours of work time per month to spend helping local causes.

The Group believes the programme has a huge impact on the wellbeing of staff and enables them to use their individual skills to best effect.

Community

Our aspiration is to deliver 50,000+ hours to our community through the 4OurCommunity programme.

Hospice of the Good Shepherd in Chester

The Hospice have been working on their grounds for some time, but there was a parcel of land - a steep incline which, crucially, faces on to a number of residents' rooms - that needed to be de-weeded and prepped for seeds to be planted.

Europe Corporate Games 2019

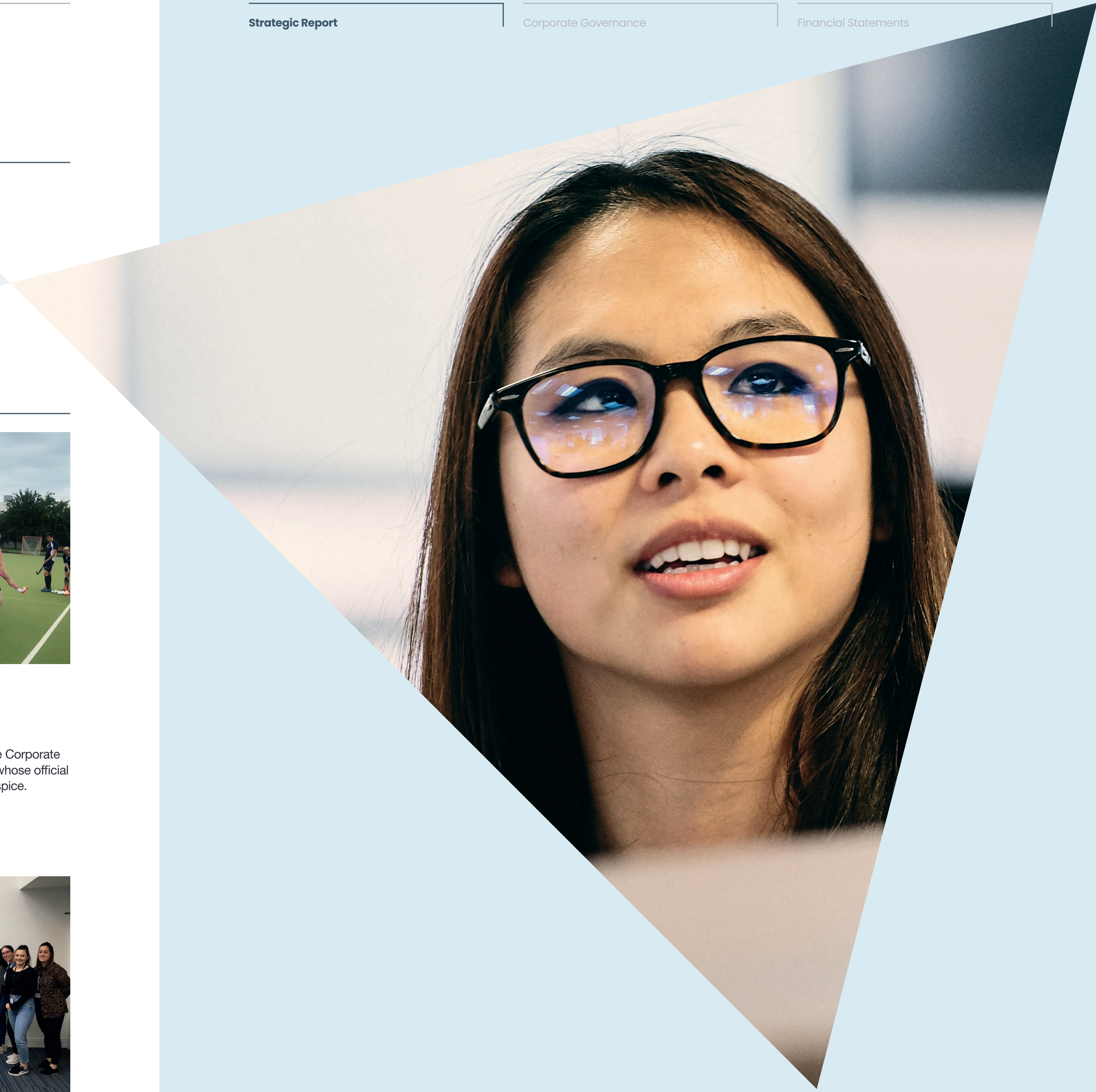
Colleagues took part in the Europe Corporate Games 2019 hosted in Coventry, whose official Charity was Zoë's Place Baby Hospice.

The Trussell Trust/ West Chester Foodbank

Bridie Conboy and Emma Scott from Chester volunteering for The Trussell Trust/ West Cheshire Foodbank at Tesco.

Harvest Festival for Alice Charity in Stoke

Colleagues donated over 100 items of non perishables foods and personal hygiene products for the charity's 'peoples pantry'.



Looking After the Environment

Knights is conscious of its impact on the environment and committed to making positive changes at every level of its business.

In comparison with other sectors, the Group is fortunate that its environmental impact is relatively low, but climate change is a global challenge and every business has to play its part in minimising the footprint of its operations.

Offices

Within the Group's physical office estate, the number one environmental impact is paper consumption, which has traditionally been used heavily in law firms. The Group is also conscious of the impact of other forms of office consumption, including electricity and other consumables.

In recent years, Knights has made significant investments into digital working practices, which is enabling the Group to cut the use of paper across its operations and recently enabled a rapid response to 'work from home' measures imposed during the COVID-19 lockdown.

These investments range from the extensive roll-out of software that enable the creation, review and sharing of information digitally across the organisation to increasing the use of electronic signatures. We have also made positive changes to our storage and transportation policies which are reducing the number of journeys connected to sharing documentation within our business.

The Group has specific targets around the use of paper, which are detailed at the end of this section.

Alongside cutting paper consumption, the Group has several other waste management policies in place which are designed to reduce its carbon footprint.

These initiatives are led by Chief Operating Officer Richard King, who brings significant experience in environmental sustainability from his previous roles, and focus on many other areas of the business, including full recycling in all offices, eliminating the use of single-use water bottles, coffee pods, cups, cutlery and crockery and enhancing energy efficiency, with the ongoing upgrade of all light bulbs to LED across all our sites set to reduce energy consumption by 9.9%.

Outside the office

Outside its office estate, the Group's greatest environmental impact is from travel by employees going to, from and between offices, and to and from clients. The Group therefore aims to encourage and sustain flexible working amongst its employee base, reducing the amount of times people need to travel to, from and between offices to conduct their roles.

This involves investment in digital working practises, including the roll-out of platforms such as Microsoft Teams and Zoom, and training for senior managers across the organisation in how to manage remote working. Where possible, the Group is also entering into sensible, forward-thinking conversations around business travel with our clients, many of whom share similar overall goals.

The recent impact of COVID-19 has seen many more internal and client business meetings conducted by video conference, a trend that will only grow.

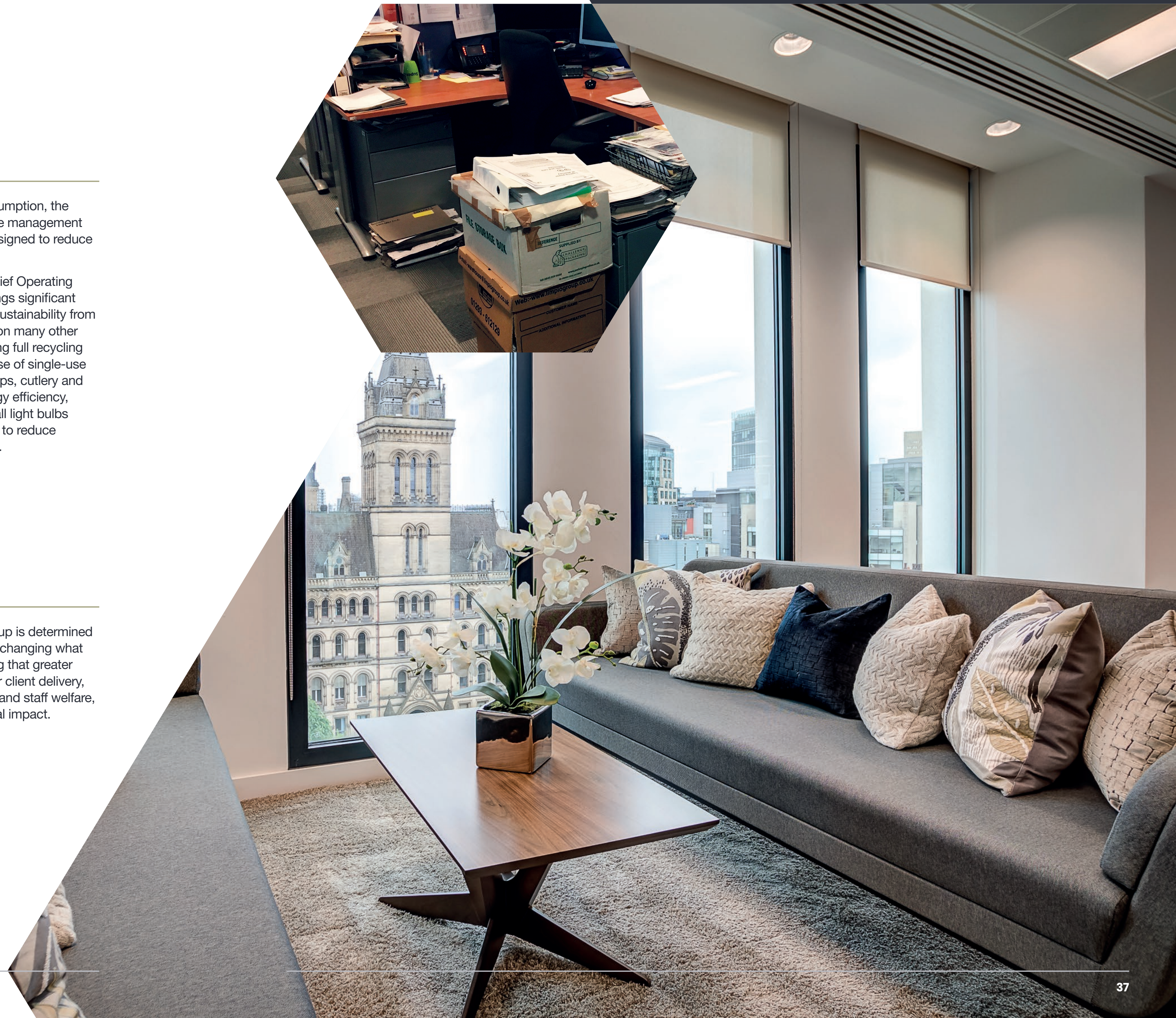
Looking to the future, the Group is determined to continue to be proactive in changing what is a traditional sector, believing that greater flexibility can support stronger client delivery, improved working conditions and staff welfare, and reducing its environmental impact.

Case study

Knights rapidly modernises the businesses it acquires and invests a substantial amount in improving their digital infrastructure.

The Group recently acquired EGL and immediately migrated the business on to the Knights platform from its older systems, digitised all paperwork onto the Knights platform and equipped all fee earners with technology and training on 'paper-lite' ways of working.

The pictures below show the office space before and after it became part of the Knights organisation.



Looking After the Environment continued

SECR

Greenhouse gas emissions (GHG) statement

In line with the Companies Act 2006 (2013 Regulations) and the recently introduced Streamlined Energy and Carbon Reporting (SECR) requirement, Knights plc is disclosing its annual Global Greenhouse Gas (GHG) emissions here. We are required to report the Company's emissions of carbon dioxide equivalence (CO_2e), a CO_2e intensity value, and the consumption of supplied electricity in the UK. The methodologies and processes used to calculate these emissions are also disclosed.

Paper consumption reduction

68%

vs. industry standard

Energy reduction

9%

through use of LED lighting

The table below includes emissions for the combustion of fuel (Scope 1) and purchased electricity (Scope 2) of the premises and other assets owned or operated by Knights plc. Knights plc purchases natural gas for a small number of premises; however measured consumption values are not widely available. As the level of consumption is estimated to be immaterial, these figures are omitted from this report. Going forward, Knights plc aims to improve its collection and reporting of gas consumption and subsequent GHG emissions. Knights plc does not directly own or lease company vehicles; therefore, only Scope 2 emissions are disclosed in this report. All of Knights plc's operations are in the UK, therefore all values below are both Group totals and UK totals. They are, therefore, not separated out as required by SECR regulations for organisations that have an international carbon footprint.

This is the first year of GHG emission reporting for Knights. In future reports, year-over-year data will be disclosed to show performance and progress. Despite only reporting performance data for the first time this year, Knights has made reducing its environmental impact a key focus area of the business. Significant investments into digital working practises has enabled the Group to cut its use of paper while decreasing the need for physical business travel. These investments range from the extensive roll-out of software that enable the creation, review and sharing of information digitally to increasing the use of electronic signatures. Positive changes have also been made to our storage and transportation policies which reduce the number of journeys associated with sharing documentation across our business. The Group has specific targets around the use of paper and has several other waste management and recycling policies in place that are designed to reduce the Group's carbon footprint; these include full recycling in all offices, eliminating the use of single-use water bottles, coffee pods, cups, cutlery and crockery and enhancing energy efficiency. There is also an ongoing upgrade of all light bulbs to LED across all our sites which target a reduction in energy use of 9.9%.

Energy consumption	2020	Unit
Scope 1[1]	0	Kilowatt hours of energy used
Scope 2[2]	378,537	Kilowatt hours of energy used
Total	**378,537**	**Kilowatt hours of energy used**

CO_2e emissions	2020	Unit
Scope 1[1]	0	Tonnes of CO_2e
Scope 2[2]	96.8	Tonnes of CO_2e
Total	**96.8**	**Tonnes of CO_2e**

Carbon intensity	2020	Unit
Reference 1: Area	5,309	Square metres (office area for Group)
Reference 2: Revenue	74 mil	GBP (revenue for Group in 2020)
CO_2e by area	18.23	Kg CO_2e per m^2
CO_2e by revenue	1,308	Kg CO_2e per £GBP million of revenue

1 Scope 1 emissions are traditionally emitted from fuel consumption in either buildings or company leased/owned vehicles. Emissions from personal or privately-hired vehicles used for company business are considered to be Scope 3 (under the GHG protocol) and as such are not included in the 'Operational control' boundary approach adopted by Knights plc (see 'Methodology and scope'). Energy and emissions from the small amount of natural gas consumed are not included in this report, but it is planned that they be included in future years.

2 Scope 2 emissions are derived from electricity consumption at Knights plc's offices. They are a mix of measured electricity consumption and estimated values (see 'Methodology and scope').

Methodology and scope

Carbon Dioxide equivalence (CO_2e) emissions data have been collected, calculated, consolidated and analysed following the GHG Protocol (Corporate Accounting & Reporting Standard) following the 'operational control' approach. Emission factors of supplied electricity for locations were sourced from the UK Government GHG Conversion Factors for Company Reporting (DEFRA agency) – this is the annual average CO_2e emissions of the UK's electricity grid. The boundary for reporting includes assets (in the case of Knights these are offices) that are owned or operated by the organisation. Energy consumption values and their corresponding GHG emissions are a mix of measured data such as electricity bills (approximately 55% of data) and estimated values based on office area size (approximately 45% of data). Data estimation is primarily due to offices being in shared locations where supplied energy is not specifically provided to Knights by the landlord or building manager. Going forward, Knights plc intends to collect more 'measured' energy data and reduce the need for estimations.

Engaging with Stakeholders

The Knights Board recognises that the Group has a number of stakeholders and that it needs to seek and understand their views in order for the Company to enjoy sustainable growth.

This section of the Strategic Report describes how the Directors act in line with Section 172 of the Companies Act 2006, and continue to have regard for:

- the likely consequences of any decision in the long-term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly between members of the Company.

The Board identifies the Group's key stakeholders as shareholders, employees, clients, regulators, suppliers and community participants, and it is committed to effective engagement with these stakeholders ensuring the interests of all stakeholders are given equal importance when making key decisions.

Set out below is a summary of how the Board fulfils these duties in respect of each of their key stakeholders.

Shareholders

The Board regularly engages with shareholders and is committed to an open dialogue and fair and equal treatment of all shareholders. The Chairman meets shareholders without management present and reports to the Board. The Board receives regular updates on shareholder engagement and analyst commentary and receives presentations from corporate brokers on investor perception.

The Knights CEO has a full programme of engagement with shareholders and presents to the Group's largest shareholders, as well as sell-side analysts, following the full and half year results. The CEO and CFO also meet regularly with individual shareholders.

Our Annual General Meeting (AGM) is an important part of effective shareholder communication, with all shareholders having the opportunity to hear from the Company and ask questions. The Board welcomes the opportunity to engage with our shareholders, typically providing a brief update presentation at each AGM and with all Directors available to answer questions.

The Board would, however, welcome greater participation from shareholders, and the current COVID-19 crisis may alter the dynamics of these meetings in the future. The Company is looking at other ways to broaden the participation of all shareholders.

Employees

The Board receives regular updates in relation to employees and, during 2019, conducted a number of Board visits to key offices and received regular updates via one-on-one meetings, Board presentations and via the Executive Directors.

The Group holds annual strategy days and, as the Board is in attendance, it is able to get both formal and informal instant feedback from the Senior Management team.

Regulators

The Board has a clear and robust process for engaging with regulators, as and when appropriate, and monitoring risk registers. The Board conducts regular regulatory compliance reviews, with a dedicated Compliance section in every board pack to analyse client risks.

Through the CEO and CFO, the Board is in contact with the Solicitors Regulation Authority at least once a month and, as an AIM listed company, the Group is in regular contact with our Nominated Advisor and the Financial Conduct Authority.

Clients

Knights takes a proactive approach to communicating with clients and updates are provided to the Board by the Chief Executive Officer. During the year, the Board receives updates from senior management on key client issues via the business reviews.

The CEO and selected members of the Board also meet existing and potential clients at conferences and events (in light of the COVID-19 pandemic these meetings have occurred regularly through video conferencing to maintain our strong relationships). The CEO independently regularly meets with key clients to strengthen relationships.

Suppliers

The Group's procurement policy includes a commitment to sustainable procurement and mitigation against the risk of modern slavery, bribery or corruption anywhere in our supply chain. The Group also aims to conduct itself to the highest standards and pay all invoices promptly. The Board plays a key oversight role in these policies.

Community participants

Knights' Environmental, Sustainability and Governance strategy is focused on adding value to the communities in which we operate and is detailed on pages 28-38 of this report. Detailed updates on this strategy and associated programmes of work are provided to the Board and discussed on its Risk Committee.

Decision making

Acquisitions, refinancing and placing
during the year, the Group acquired six law firms, providing additional scale, additional practice areas and presence in a number of key geographical markets in order to allow it to deliver its strategy to be the leading legal and professional services business outside London. The acquisitions provide enhanced revenue generation which in turn provide returns to shareholders in the longer term and provide enhanced employment opportunities as part of a wider Group. Prior to completing the acquisitions the Board considered the effects that the acquisitions would have on the Group's gearing and creditors in order to ensure that executing the strong pipeline of acquisitions would not adversely impact creditors interests. In considering this the Group agreed to refinance its existing facilities by extending its revolving credit facility with HSBC UK and Allied Irish Bank providing total committed funding of £40m to provide the Group with additional flexibility to further grow its presence across the UK, and raised gross proceeds of £20m through a placing which allows it to maintain a strong balance sheet. See page 22 of this report.

Addressing the impact of COVID-19
As a result of the COVID-19 pandemic and the measures that have been taken by the government to counteract the impact on public safety the Board had to take swift and decisive action to protect the health and well-being of the Group's employees. In considering the needs of the employees the Board took the decision on 13 March 2020 prior to the government lock down to require all employees to work from home. The Board believes that the Group's previous investments in secure, robust systems, infrastructure and technology platforms have enabled teams to work effectively from home and that its investment, along with a strong team culture, has enabled Knights to protect its colleagues without adversely disrupting service levels to clients which in turn maintains both client relationships and in the longer term shareholder returns.

In addition, in order to preserve jobs in light of the rapidly changing economic environment, the Board took the decision to reduce Board members' salaries by 30%, and the salaries of employees earning in excess of £30,000 by 10% with effect from 1 April 2020, in addition to other cost cutting measures in relation to non-essential capital expenditure. These actions have been well received by employees, our funders and our investors.

Non-Financial Report

Described below is how the Group aims to comply with the Non-Financial Reporting Regulation requirements as set out in sections 414CA and 414CB of the Companies Act 2006.

We have set out where information related to these disclosures can be found in our Annual Report, including our business model which is set out on page 14. The principal risks relating to these matters and due diligence undertaken in pursuance of our policies is set out in the Risk Management section of our Annual Report, on pages 50-53 respectively.

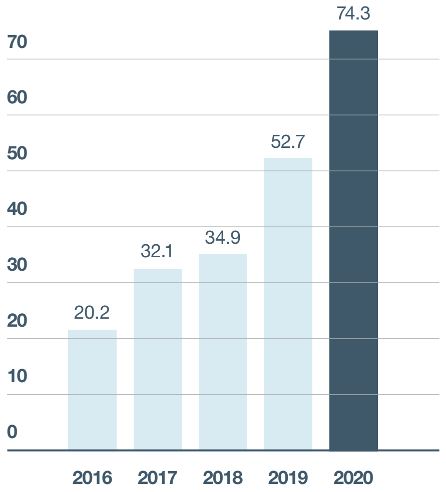
Requirement	Where to find information	Policy overview
Environmental matters	**Looking after the environment** pages 36-38	The Group's materiality assessment has determined that Knights' environmental impact is relatively low. As a people and services business, Knights' key impacts are the consumption of paper and wider energy usage. We recognise the need to minimise our impact and continually measure and monitor the environmental sustainability of its operations and, where possible, sets targets to ensure that it operates with the minimal impact. Knights provides regular environmental and progress updates to employees, clients and other interested stakeholders. A summary of its progress in 2019 is detailed on page 36 and KPIs relating to the Group's streamlined energy and carbon reporting (SECR) is available on page 38.
Employees	**Investment case** pages 4-5 **Chairman's statement** pages 8-9 **Chief Executive's statement** pages 10-13 **Business model** pages 14-15 **Caring for our people and communities** pages 32-34 **Section 172 statement** page 39	As set out in the Investment case, pages 4-5, Chairman's statement, pages 8-9, Chief Executive's statement, pages 10-13 and Business Model, pages 14-15, our employees are an essential component of our business with their health and wellbeing remaining a Group priority. **Health & Safety Policy:** Knights ensure that, so far as is reasonably practicable, the health, safety and welfare of all employees working for the company and other persons who may be affected by its undertakings. The policy of management is to do all that is reasonably practicable to prevent personal injury and damage to property. All employees are informed of their personal responsibilities to take due care of the health and safety of themselves and to ensure that they do not endanger others. Knights ensures continued consultation with the workforce to enable all viewpoints and recommendations to be discussed at regular intervals. The organisation has a systematic approach to identifying hazards, assessing the risks, determining suitable and sufficient control measures and informing employees of the correct procedures needed to maintain a safe working environment. We will provide, so far as is reasonably practicable, safe places and systems of work, safe plant and machinery, safe handling of materials and substances, the provision of adequate safety equipment and ensure that appropriate information, instruction, training and supervision is given. Management are committed to continually measure, monitor and revise an annual plan to ensure that health and safety standards are adequately maintained. The policy is implemented by our Quality, Health and Safety Manager, who recommends any changes to meet new circumstances. **Training:** A wide range of training and development opportunities are available for all employees. Fee-earning colleagues receive mandatory compliance training during the onboarding process and are required to refresh this every year. **Diversity & Inclusion Policy:** Knights is an equal opportunities employer, committed to ensuring the workplace is free from unlawful discrimination, victimisation or harassment on the grounds of age, disabillity, race, sex, sexual orientation, religion or belief. Knights values and is committed to promoting equality and diversity within the workplace by seeking to ensure that all individuals are treated fairly with dignity and respect and by recognising and encouraging individual contribution within the organisation. Knights is committed to ensuring that all its employees and all applicants for employment are protected from unlawful discrimination. Knights does not discriminate against employees. Knights has leading levels of gender diversity for any professional services business and publishes an update of its gender pay gap report on its website. **Conflicts of Interest and Related Parties:** The policy covers our interest conflicts, which states that Knights can never act where there is an own interest conflict with a new or existing client. The SRA Standards and Regulations do not allow a client to waive or consent to a conflict of interests with the business. Fee earners are expected to use their judgment and seek further guidance and approval from Compliance in all cases where there may be a potential conflict. Client conflicts are covered under the SRA Standards and Regulations. Where there is a conflict between new or existing clients, Knights cannot accept/continue instructions unless the affected clients have a substantially common interest or are competing for the same objective. Information conflict and duty conflict are also covered by our policy. Knights provides periodic training on the identification of conflicts of interest and compliance is monitored by the Compliance Officer for Legal Practice, who is responsible for this policy. Policies are reviewed at least annually. **Whistleblowing:** Employees are encouraged to report any serious wrongdoing by the firm or its employees that fall short of its business principles. If they feel unable to report these concerns to a manager, the Group also provides a whistleblowing process, which is detailed on its website and provided to employees. Knights undertakes that no employee who raises bona fide concerns under this Policy will be subjected to any detriment as a result.

Requirement	Where to find information	Policy overview
Social matters	**Caring for our people and communities** pages 32-34	As outlined in Caring for Colleagues and Communities, Knights is actively engaged in its communities through both employment and community activities. Knights' legal services are also aimed at helping local businesses thrive and grow. The Group enables colleagues to support their local communities through its 4OurCommunity programme, where colleagues can spend four hours of work time per month to offer assistance to organisations, such as charities, schools, care homes, food banks and youth centres or any organisation providing a social, educational, voluntary or charitable service to the community. Knights' aspiration is to deliver 50,000+ hours to its communities through the programme.
Respect for human rights	**Managing our Business for the long-term** page 30 **Section 172 statement** page 39	**Modern Slavery:** The Group has a zero-tolerance approach to modern slavery anywhere in its supply chain and a full copy of its policy is detailed on its website. The Group's procurement policy includes a commitment to sustainable procurement and mitigation against the risk of modern slavery, bribery or corruption anywhere in our supply chain. The Group also aims to conduct itself to the highest standards and pay all invoices promptly. The Board plays a key oversight role in these policies.
Anti-corruption and anti-bribery	**Managing our Business for the long-term** page 30 **Section 172 statement** page 39	Knights has a rigorous 'Know Your Client' process to ensure that its business is not used as a conduit for the proceeds of crime, terrorism or money-laundering. The Group conducts thorough audits on clients' background before working with them, and its dedicated, independent in-house compliance teams rigorously monitor all work being conducted throughout the business on an ongoing basis. **Anti-Money Laundering:** Knights ensures its employees are aware of the law and are regularly provided with training in how to recognise and deal with transactions that may be related to money laundering. Knights provides employees with training and a manual to explain its policies and procedures, including reference to its Money Laundering Reporting Officer. Policies apply to all clients and all matters. The firm is required to maintain records of client identification evidence for at least five years from the end of our business relationship with a client. Employee obligations are to carry out "customer due diligence" and to recognise and report suspicious transactions, as well as avoiding tipping off a suspect about a report. **Anti-Bribery and Corruption:** Knights is committed to maintaining the highest standards of ethics and compliance with all relevant laws wherever it does business. The Group does not tolerate any form of bribery or corruption and requires all individuals working for it to comply with anti-bribery and corruption laws and ethical standards. **Whistleblowing:** All employees of Knights should feel able to raise concerns about any safety, legal or ethical issues. If they feel unable to report these concerns to a manager, the Group also provides a whistleblowing process, which is detailed on its website.

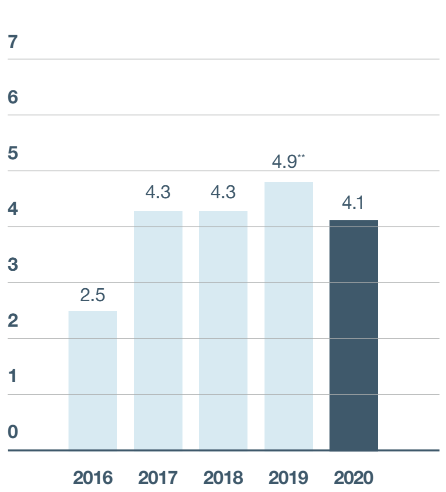
Other relevant policies	Summary
Duties to clients	Knights is committed to providing an excellent level of service to its clients and to acting with integrity in all of its dealings which is fundamental to our business strategy. We will only accept instructions and provide advice where we are able to meet our commitment to client service. Where instructions or advice are outside the expertise or capability of the business, they will be declined. Employees are aware of specific work types which require specific referral to team risk supervisors. We will always consider the most appropriate style of communication bearing in mind the needs and characteristics of the client. A member of the management team is responsible for client care at Knights and reviews this policy at least annually to ensure continued excellence.
Confidentiality	Confidentiality is a fundamental feature of our relationship with our clients. This duty continues beyond the end of the retainer and even after the death of the client. The protection of confidential information is balanced against the duty of disclosure. In practical terms, this means not speaking about clients, their details or their cases outside the office or in situations where they might be overheard. This duty also applies to information about the Knights business itself. Where employees cannot reconcile these two duties the protection of confidential information is paramount. Employees can contact Mark Beech or consult the SRA handbook for further information. Breaches of confidentiality are reportable offences and should be referred to the COLP. Breaches of confidentiality may be treated as a serious disciplinary offence.
Business continuity	Unforeseen events could cause considerable disruption to Knights' normal business activity, the potential impact of which could be long lasting, having an effect on health and safety, reputation, market confidence, operating efficiency and financial security. To this end, Knights' policy is to take measures to protect itself to ensure it is prepared and efficient in responding to such adverse situations. Best practice business risk management principles balance risk with the economics of investing in cost effective loss prevention and minimisation. These principles include the highest regard for the safety and health of employees, clients and the public, the continuation of the highest quality service to our clients and the protection and preservation of property and the environment. This has been amply demonstrated in our response to the COVID-19 crisis.

Financial Review

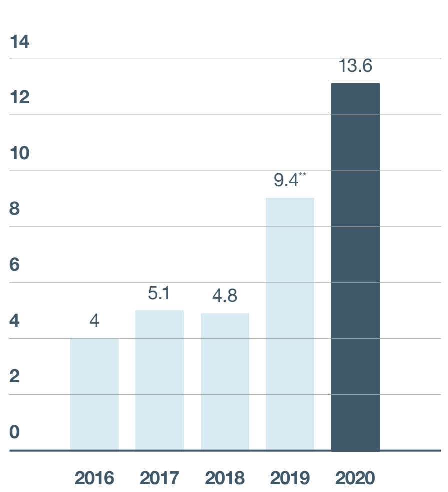
Revenue (£m)



Reported profit before tax (£m)



Underlying profit before tax* (£m)



Adjusted EPS (p)*

2020	14.33
2019	11.31

Average number of fee earners

2020	622
2019	402

Underlying PBT margin*

2020	18.3%
2019	17.9%

Fees per fee earner* (£'000)

2020	119
2019	131

Underlying PBT per fee earner* (£,000)

2020	22
2019	23

Reported EPS

2020	2.44p
2019**	5.27p

Financial results

	2020 £'000	2019** £'000
Revenue	**74,254**	52,662
Staff costs	**(45,578)**	(30,137)
Other underlying costs and charges	**(15,060)**	(13,098)
Underlying profit before tax*	**13,616**	9,427
Amortisation of acquisition related intangibles	**(1,427)**	(693)
Non-recurring finance costs*	**(41)**	(2,038)
One-off costs on acquisitions and IPO*	**(8,090)**	(1,847)
Profit before tax	**4,058**	4,849
EPS	**2.44**	5.27
Adjusted EPS	**14.33**	11.31

I am pleased to report strong performance for the Group in the financial year, despite suffering from the economic impact of the COVID-19 pandemic during April, which historically is the strongest trading month for the Group. We have continued to build on our historic strong track record of growth in both turnover and profitability over the past six years with a further 41% increase in turnover and a 45% increase in Underlying Profit Before Tax (PBT)."

Our continued focus on cash flow has resulted in strong cash conversion of 80% for the year, with net debt being lower than expected, positioning the Group well to deal with the current economic uncertainty from the impacts of the COVID-19 pandemic and to continue with our future growth strategy via recruitment and carefully selected acquisitions.

Revenue

Reported revenue for the period was £74.3m compared with £52.7m in 2019 representing a 41.0% increase.

Of this increase 20%, or £10.5m, was a result of the acquisitions made during the financial year, £5.9m relates to the full year impact of acquisitions made in FY19 with the balance coming from organic revenue growth.

The Group achieved strong organic growth, of £5.2m (10%), which is testament to our commitment to continue to strengthen our core business. The organic growth is primarily a result of the increased fees from individuals recruited in the later part of FY19 and fees generated by the net new recruitment of 108 fee earners during FY20.

2020	£74,254,000
2019	£52,662,000

+41%

Staff Costs

Total staff costs represent 61.4% of revenue compared with 57.2% in 2019.

Fee earner staff costs have increased from 49.6% of turnover to 52.1% of turnover reflecting the investment in fee earners across all levels during the year. As many of our new fee earners joined us during the second half they have been with Knights for less than the six months it would typically take to achieve the full expected fee earning run rate.

As reported in the second half of FY19 we have continued to invest in our support functions in FY20, focusing on increasing the management resource available within the Group to ensure we have a properly structured support team with sufficient bandwidth to guarantee the continued efficient integration of acquisitions.

In addition to the COO appointed in January 2019, this investment has included the appointment of a projects director, a client services director, an operations director, the expansion of our sales team and further investment in the HR, IT and finance support functions.

During the unprecedented period of working from home due to nationwide lockdown we have benefited from previous investments in operational resource and IT as the business was able to continue to operate as normal with no interruption to our ability to transact. We also completed three acquisitions and the related data transfers, onboarding and staff training on Knights' operating systems whilst working remotely, which is testament to the strength of our platform and dedication of our teams.

These investments, together with the costs of the Executive and Non-Executive Directors as discussed in the Remuneration Committee report, has increased our support staff costs from 7.6% of revenue in FY19 to 9.3% of revenue in the current year.

Management anticipates that these costs will now start to be leveraged by the increased fee generating capacity of the business, supported by the fact that, as at the end of the financial year, the fee earning to support staff ratio was at a level of 4.8 fee earners to every one support staff (on a FTE basis) compared with the average of 4.2 during the year.

Total staff costs

61.4%

(2019: 57.2%)

Direct staff costs

52.1%

(2019: 49.6%)

Net fee earner recruits

108

(2019: 46)

Support staff costs

9.3%

(2019: 7.6%)

Investment in support function £,000

850

Note

* See Glossary on pages 122-124

** The 2019 figures have been adjusted to reflect the impact of IFRS 16 as explained on page 124

Financial Review continued

Underlying profit before tax*

During the period we have adopted IFRS 16 in relation to the accounting for lease contracts. As set out in note 37 to the financial statements this has resulted in reduction in profit before tax of £0.5m compared with the level that would have been reported under previous accounting standards. The table below shows the impact of IFRS 16 adoption on the results for the financial year to 30 April 2020 and restates the period to 30 April 2019 for the adoption of IFRS 16 for comparison purposes. All of the commentary below is provided on an IFRS 16 basis in both years, in order to provide a more meaningful comparison.

2020 £13,616,000

2019 £9,427,000

+45%

	IAS 17 April 20 £'000	Change £'000	Reported IFRS 16 April 20 £'000	Reported IAS 17 April 19 £'000	Change £'000	Comparable under IFRS 16 April 19 £'000
Revenue	74,254	-	74,254	52,662	-	52,662
Other operating income	894	-	894	415	-	415
Staff costs	(45,578)	-	(45,578)	(30,137)	-	(30,137)
Depreciation and amortisation charges	(2,281)	(1,995)	(4,276)	(1,473)	(1,316)	(2,789)
Impairment of trade receivables and contract assets	(112)	-	(112)	(439)	-	(439)
Other operating charges	(13,770)	2,266	(11,504)	(11,164)	1,603	(9,561)
Non-underlying costs	(8,090)	-	(8,090)	(1,847)	-	(1,847)
Operating profit	**5,317**	**271**	**5,588**	**8,017**	**287**	**8,304**
Finance costs	(677)	(812)	(1,489)	(738)	(679)	(1,417)
Non-recurring finance costs	(41)	-	(41)	(2,038)	-	(2,038)
Profit before tax	**4,599**	**(541)**	**4,058**	**5,241**	**(392)**	**4,849**
Taxation	(2,239)	-	(2,239)	(1,240)	-	(1,240)
Profit and total comprehensive income for the year attributable to equity owners of the parent	**2,360**	**(541)**	**1,819**	**4,001**	**(392)**	**3,609**
Basic EPS (pence)	3.16		2.44	5.84		5.27
Underlying earnings per share (pence)	14.30		14.33	11.88		11.31
Underlying Profit Before Tax	14,158		13,616	9,819		9,427
Underlying Profit After Tax	11,247		10,706	8,141		7,749

Underlying PBT excludes amortisation of acquired intangibles, non-underlying transaction costs relating to the placing in March 2020 and acquisitions made during the year, restructuring costs as a result of acquisitions and the cost saving exercise undertaken in response to the COVID-19 pandemic and contingent consideration payments required to be reflected through the Statement of Comprehensive Income under IFRS. It also excludes share-based payments for one-off share awards made at IPO and as part of the acquisitions, and the one-off Share Incentive Plan offered to employees as a result of the listing. Any share-based payments charges relating to ongoing SAYE and LTIP schemes are recognised as underlying costs of the Group.

Underlying profit before tax has been calculated as an alternative performance measure in order to provide a more meaningful measure and year on year comparison of the profitability of the underlying business. Underlying profit before tax has increased by 45% compared with the same period last year to £13.6m (2019: £9.4m), representing a margin of 18.3% as compared with 17.9% in the prior year. The improvement in margin is a result of the increase in fee income leveraging general overheads and finance costs in the business which is particularly encouraging given the level of investment in the business. In addition to the investment in fee earning and support staff as discussed above, during the year there has also been investment in other areas of the business in preparation for future organic growth. For example the investment in the increased office premises in Manchester at the start of the financial year has led to an increase in costs of approximately £750k. This investment has allowed organic and acquisitive growth in Manchester during the year with scope for further expansion of up to 70 fee earners in the future, providing opportunity to further leverage overheads and improve profitability over time.

Reported profit before tax

The reported profit before tax for the year has decreased by 16.3% to £4.1m (2019: £4.8m on a comparable IFRS 16 basis). The decrease in reported profit before tax of £0.7m in the year reflects the net impact of increased revenue, the leveraging of overheads of £3.5m, the decrease in non-underlying finance costs of £2m and the increased non-underlying costs of £6.2m.

The significant increase in the non-underlying costs incurred due to the six acquisitions (FY19 four) and restructuring exercise undertaken as a result of the COVID-19 pandemic. The non underlying costs relating to acquisitions include the recognition of some contingent payments on acquisitions and the restructuring costs.

2020 £4,058,000

2019 £4,849,000

–16.3%

Note
* See Glossary on pages 122-124

Earnings per share (EPS)

The weighted average number of shares in 2020 was 74,675,462 (2019: 68,533,094) which gives a basic earnings per share (Basic EPS) for the year of 2.44p (2019: 5.27p). Taking into account the number of share options that the Group has outstanding at the year end gives a diluted EPS of 2.41p (2019: 5.24p).

In order to compare the EPS year on year, the underlying EPS has been calculated showing 14.33p in 2020 compared with 11.31p in the prior year. This measure eliminates the effect of any non-recurring and non-underlying costs on the EPS calculation.

Underlying EPS

2020 14.33p

2019 11.31p

14.33p

Basic EPS

2020 2.44p

2019 5.27p

2.44p

Corporation tax

The Group's tax charge for the year was £2.2m (2019: £1.2m) which was made up of a current corporation tax charge of £1.9m and a deferred tax charge of £0.3m (2019: credit of £0.1m).

The deferred tax charge arises due to the charge on the acquired intangible assets and the increase in the expected future corporation tax rate from 17% to 19%.

The total effective rate of tax is 55% based on reported profits before tax. This has been adversely affected by non-underlying items (largely amortisation of acquired intangible assets and the recognition of contingent consideration on acquisitions against profits) that are not tax deductible. The effective rate of tax on the underlying profits of the business is 21% (see note 16 of the financial statements).

Effective rate of tax

21%

2019: 17%

Dividend

Due to the COVID-19 pandemic and the resultant uncertainty of the effects on the UK economy the board has introduced cost cutting measures across the Group to ensure that the business is in the best possible position given the current uncertainty. Whilst these cost cutting measures are in place, the Board has decided that it would not be appropriate to propose a final dividend for the financial year at this time. As such the total dividend for the year ended 30 April 2020 will be the amount already paid as an interim dividend, being 1.10p per share (2019: 1.87p per share).

Pence per share

1.10p

2019: 1.87p

Balance sheet

The Group adopted IFRS 16 Leases during the period. The table below shows the impact of IFRS 16 adoption on the Balance Sheet as at 30 April 2020 and shows the comparatives as at 30 April 2019 after adoption of IFRS 16 for comparison purposes. As explained in note 3 to the financial statements, the Group adopted the transition method for implementing IFRS 16 which does not require the restatement of comparative figures.

	IAS 17 April 20 £'000	Change £'000	Reported IFRS 16 April 20 £'000	Reported IAS 17 April 19 £'000	Change £'000	Comparable under IFRS 16 April 19 £'000
Goodwill and intangible assets	69,135	-	69,135	46,444	-	46,444
Right of use assets	-	23,749	23,749	-	19,470	19,470
Working capital	27,681	-	27,681	11,762	-	11,762
Other net assets (liabilities)	(2,012)	-	(2,012)	(1,616)	-	(1,616)
Lease liabilities	-	(23,844)	(23,844)	-	(19,018)	(19,018)
	94,804	(95)	94,709	56,590	452	57,042
Cash and cash equivalents	12,741	-	12,741	4,904	-	4,904
Borrowings	(28,650)	-	(28,650)	(19,000)	-	(19,000)
Net debt	**(15,909)**	**-**	**(15,909)**	**(14,096)**	**-**	**(14,096)**
Deferred consideration	(2,850)	-	(2,850)	(3,239)	-	(3,239)
Net assets	**76,045**	**(95)**	**75,950**	**39,255**	**452**	**39,707**

The Group's net assets as at 30 April 2020 increased by £36.2m reflecting the shares issued in relation to acquisitions in the year and the placing in March 2020, and profit net of dividends paid during the year. The working capital as at the end of the year shows a disproportionate increase when compared with the increase in turnover due to the three large acquisitions at the year end, with the full impact of the acquired working capital but only two months of income included in turnover for the year.

Financial Review continued

Goodwill and intangible assets

Included within intangible assets and goodwill is £29.4m of intangible assets, identified on current and prior acquisitions, such as customer relationships, brand and computer software. The balance relates to goodwill of £39.7m arising from acquisitions.

The Board carries out an impairment review of goodwill each year to ensure the carrying value is supportable. Although the Board cannot predict with any certainty the level of future trading of the business given the current economic uncertainty, the value in use of the goodwill was calculated using a number of different scenarios, some of which assumed a considerably worse outcome than is anticipated by the directors. In all instances the future trading of the business was more than sufficient to justify the carrying value of goodwill. Therefore as at 30 April 2020, the Board concluded that the goodwill and intangible assets were not impaired.

£69.1m

2019: £46.4m

Working capital

Lock up days is the primary metric used by the Group to measure the length of time it takes to convert work recorded into cash received. It is calculated as the combined debtor and WIP days for the Group. Management of lock up has continued to be a key focus of the Group over the period as it drives the cash generation necessary to support the growth strategy of the Group. Total lock up days at 30 April 2020 were 105 compared with 93 the previous year.

Management are satisfied with the level of lock up at the year end which remains significantly better than the industry average despite being adversely affected by the acquisitions during the year that had longer lock up profiles when acquired. Excluding the impact of extended lock up on acquisitions during the year, the lock up at 30 April 2020 was 85 days (2019: 88 days).

Average lock up days of acquisitions was 137 days pre-acquisition which has reduced to 130 days at the year end. Due to the proximity of a number of the larger acquisitions to the year end, lock up has not reduced significantly in acquisitions as at 30 April 2020. We anticipate lock up of recent acquisitions to reduce to levels in line with the rest of the Group during the first half of FY21.

The Group's strong control over debtors is reflected in a low level of bad debts. Total bad debt charge for the year has reduced to just 0.2% of turnover (2019: 0.8%).

Lock up days

85 days

2019: 88 days

Excludes the impact of the extended lock up on acquisitions made during the year

Bad debt

0.2% of turnover

2019: 0.8%

Net debt, financing and leverage

The strong cash conversion in the period, together with the funds raised during the Placing in March 2020 have resulted in net debt of £15.9m at the year end which was over £1m better than expectations. This figure represents an increase in net debt from the £14.1m as at April 2019 due to an aggregate cash outlay of £3m relating to consideration for acquisitions made during the period and deferred consideration paid in relation to acquisitions in prior years, net of the £20m proceeds from the placing.

During the year, the Group increased its RCF facility to £40m (split between two banking partners: AIB and HSBC). This increased facility, together with the additional £19.2m funds raised through a placing of shares on 6 March 2020 gives the Group good headroom and positions the Group well to both deal with the economic uncertainty created by the ongoing COVID-19 pandemic to continue its growth strategy into 2021 through continued organic recruitment and carefully selected, culturally aligned aquisitions.

Net debt

£15.9m

2019: £14.1m

Leverage (multiple of adjusted EBITDA)

0.9

2019: 1.2 times

Cash conversion

	2020 £'000	2019 (IFRS 16 adjusted) £'000
Net cash generated from underlying operating activities*	13,791	11,706
Tax paid	(2,907)	(1,076)
Cash outflow for IFRS 16 leases (rental payments excluded from operating activity cash flows under IFRS 16)	(2,366)	-
Free cash flow	8,518	10,630
Underlying profit after tax*	10,706	7,749
Cash conversion	80%	137%

The cash conversion percentage measures the Group's conversion of its underlying profit after tax into free cash flows. Cash conversion of 137% in 2019 was an exceptional result reflecting the cash flow benefit of reducing the lock up in acquired businesses down to a level in line with the rest of the Group.

Cash conversion of 80% in the year to 30 April 2020 reflected the extended lockup in recent acquisitions.

Capital expenditure

During the year the Group has continued to invest in its systems and premises to expand our capacity and ensure our professionals continue to benefit from a high quality working environment, with consistent systems across the Group to aiding integration and supporting our one firm culture.

The total £2.2m invested in capital expenditure (excluding right of use assets capitalised as part of the adoption of IFRS 16) included the following one-off non-recurring significant items required as a result of the acquisitions and continued growth of the Group:

	£m
Refurbishment of new Manchester premises	0.5
Refurbishment of Oxford premises (to expand capacity)	0.3
Refurbishment of additional office space in Wilmslow	0.3
Provision of new / upgraded IT equipment for acquisitions	0.5
Total	**1.6**

Other capital spend in the financial year relates to general investment in IT, communications and infrastructure required for the increase in the number of employees, and to support our programme of rolling IT replacements to ensure our technology is up to date and sufficient to meet the needs of the business.

Due to the current economic uncertainty the Directors wish to monitor the impact on the business closely before committing to significant expenditure. As such, the capital budgets for FY21 have not yet been finalised. Nonetheless, the Group remains committed to ensuring all acquisitions are fully integrated onto Knights' operating system with a comparable high quality working environment.

Following entry into new markets through acquisition, we expect some expenditure on new premises in Nottingham and Birmingham where leases are due to expire in the next financial year. We have also committed to new modern offices in a central Leeds location and we are reviewing the need for investment in Maidstone and Crawley offices before finalising budgets for the year.

Acquisitions

During the year we completed six acquisitions. The table below summarises the net impact of the acquisitions during the year and in FY19 on cash during the current year and in future years. This shows the impact of consideration payable net of any cash in the acquired businesses.

Financial year ended	Cash impact from acquisitions in the year £m	Cash impact from acquisitions in 2019 £m	Total cash impact from acquisitions £m
2020	18.96	3.75	22.71
2021	6.08	2.32	8.40
2022	5.25	0.65	5.90

The above includes estimated contingent consideration charged as remuneration in the Income Statement.

Acquisitions completed during the year were structured with a lower initial cash outlay, altering the balance between cash, shares and deferred or contingent consideration agreed, as confidence in the value of the Group's shares has increased.

The strong cash and lock up management systems in the Group mean that often we generate cash from the balance sheets of acquired businesses.

Tax - Cash flow impact

Corporation tax

In FY20 the Group and Company fell under the large Quarterly Payments regime for corporation tax for the first time. This had the effect of advancing the corporation tax payments such that the full estimated corporation tax for the financial year has been paid during the year rather than only 50% under the prior year's tax regime. The cash impact of these additional tax payments during the year was approximately £1.1m.

VAT

During the COVID-19 pandemic the Group benefitted from the temporary ability to defer VAT payments until June. As at 30 April 2020 this had a positive impact on cash of approximately £0.8m. This deferral of VAT will reverse impacting cash flow in FY21.

Financial Review continued

Key performance indicators

The Group uses a number of key performance indicators (KPIs) to monitor the Group's performance against its strategic objectives. These comprise a number of financial and non-financial measures which are agreed and monitored regularly at Board meetings.

The financial indicators are calculated based on underlying results excluding any one-off transactional and acquisition related costs. The Board is of the opinion that these operational factors are key drivers for the Group's financial success.

Number of fee earners/Fees per fee earner

Top line growth is a product of the number of fee earners employed and the fees per fee earner that they are generating, therefore these are two KPIs that the Board monitors closely on a monthly basis.

The number of full time equivalent fee earners in the Group more than doubled to 865 at the end of the financial year from 426 at the start of the year, which reflected a combination of new recruits and new joiners via acquisition partially offset by the restructuring exercise undertaken as a result of the COVID-19 pandemic.

Overall fees per fee earner of £119k were generated during the year compared with £131k in 2019.

As a business that has always been focused on cash and profits rather than fees, fees per fee earner, although a useful benchmark, needs to be considered alongside other profit based KPIs as the fees per fee earner can vary from period to period based on a range of factors. For instance, in the reporting year:

- As anticipated, the Group's strong recruitment in the financial year reduced the reported fees per fee earner. In the first year of recruitment, due to the necessary training and onboarding processes that take place for all new recruits, it typically takes three to six months for new recruits to achieve their expected run-rate on fee generation.
- During the year the Group continued to invest in paralegal and trainee resource to support the more experienced recruits joining the business and to ensure teams had sufficient resource at all levels. As Knights includes paralegals and trainees as fee earners, this change in mix brings down the average fee per fee earner.
- Acquisitions typically bring a lower fee per fee earner prior to full onboarding.

New recruits during the year generated £71k per recruit and acquisitions during the year generated £119k per fee earner, many of which have only been with the business for less than six months.

From our first acquisition in 2012, management has been more focused on growth in profitability and the cash generation of the business; therefore a more important KPI and area for focus by the Board is the underlying profitability of the business for the year and by fee earner. The key drivers impacting underlying profit before tax for the year are discussed below.

Average full time equivalent fee earners during the year

622

(2019: 402)

Fees per fee earner

£119k

(2019: £131k)

Underlying profit before tax (PBT)

With the adoption of IFRS 16 during the year the Board views the KPI of underlying PBT as a more accurate measure of its performance as this reflects all of the property and lease costs incurred by the Group. The Board believes that it is an important metric for monitoring the profitability of ongoing operations.

Underlying PBT excludes amortisation of acquired intangible assets and one-off transaction costs relating to the placing of shares in March 2020, acquisitions made during the year and restructuring costs as a result of the acquisitions and the cost saving exercise undertaken in response to the COVID-19 pandemic. It also excludes share-based payments for one-off share awards along with contingent consideration payments required to be reflected through the Statement of Comprehensive Income as remuneration under IFRS accounting conventions.

The underlying PBT for 2020 has grown by 39% over the 2019 comparative level. This represents a PBT margin of 18.3% compared with 17.9% in 2019 reflecting the fact that the increased scale of the business is further leveraging the overheads of the business whilst also allowing the Group to invest in new fee earners, support staff and larger premises to provide a stable base for future growth. As a result, underlying PBT per fee earner remained relatively stable at £22,000 per fee earner compared with £23,000 in FY19, despite the additional investment and recruitment in the year.

2020	18.3%
2019	17.9%

+45%

Underlying PBT per fee earner

£22k

(2019: £23k)

Note
* See Glossary on pages 122-124

Fee earner to non-fee earner ratio*

The business model and use of IT systems have been key in enabling the Group to maintain a fee earner to non-fee earner staff ratio that is much higher than the average for the sector. This continues to be one of the key differentiators in our business model enabling the Group to generate such strong margins.

As at 30 April 2020, due to the growth in the business via acquisitions and organic recruitment the Group is operating at a ratio of 4.8 fee earners for every one support staff.

This is despite the investment in support staff during the year and now places the Group in an excellent position to continue to leverage overhead costs in the coming year. However, the Board recognises the importance of ensuring that the support function is always sufficient for the business and that capacity is in place before any significant planned growth. Therefore the Group will accordingly continue to invest in support staff to create the required sustainable base for future growth meaning that this ratio may vary over time dependant on where the Group is in its investment and growth cycle.

4.8

(2019: 4.0)

In summary

The Board is pleased with the growth in fee income and profitability during the year which has been achieved whilst also investing significantly in the strengthening of the management and support staff function as well as organic income growth via recruitment.

The ability of the Group to deliver such strong results is particularly pleasing given the significant impact of COVID-19 in the last month of the financial year. The Group's performance together with the lower than anticipated levels of net debt, due to the Group's excellent cash management, places us in a strong position to continue to grow the business both organically through recruitment, and through selective acquisition opportunities.

Kate Lewis
Chief Financial Officer
21 July 2020

Principal Risks and Uncertainties

The Board is responsible for continually reviewing and assessing the principal risks facing the Group, both from a financial and non financial perspective and to ensure that controls are put in place to ensure the Groups' exposure to these risks is minimised.

Although risks and uncertainties are formally reviewed annually by the Board, they are continually considered by the Board in all business and strategic decisions.

The principal risks are identified as follows but the Board recognises that the nature and scope of risks that the Group is exposed to may change and as such this list is not intended to be exhaustive:

Principal risk	Description	Mitigation
Professional liability and uninsured risks	The Group provides, amongst other things, legal, tax, and town planning services which gives rise to a potential liability for negligence, breach of regulatory duties or other similar third party claims. Such claims have the potential to cause financial loss and could also negatively impact the reputation of the Group which ultimately could adversely affect the financial performance of the Group.	The Group maintains comprehensive professional liability insurance to reduce or mitigate against any financial impact of claims made. Claims are dealt with by a central team to ensure that they are dealt with effectively and in line with the Group's compliance policy. The Compliance team works closely with Insurers and the Regulatory bodies to ensure any risks are minimised. The Directors consider compliance to be of paramount importance and feels that it has appropriate processes in place to ensure compliance. Procedures are continually reviewed and amended to take into account up to date guidelines and advice. The Board consider the Group to have a good claims history.
Regulatory and compliance risk	The legal sector is heavily regulated and as a result, in addition to the normal government guidelines and regulations that a business is subject to, the Group is also regulated by the Solicitors Regulation Authority (SRA) and Information Commissioners Office (ICO). Non-compliance with any regulations could result in reputational damage to the business and may have financial implications.	The Group has a strong Compliance and Regulatory team which ensures compliance with all necessary regulations. External advice is taken if required. The Board is regularly updated on any regulatory developments so that it can ensure these are fully considered in all business and strategic decisions.
	Restrictions imposed by the Legal Services Act 2007 (LSA) Knights Group Holdings Plc is a Licensed Body. The LSA places restrictions on the holding of 'restricted interests' in Licensed Body law firms. This restricts the maximum shareholding that can be held, without prior SRA approval, by a non-lawyer shareholder to 10 percent of the issued share capital. If a non-authorised shareholder were to obtain a shareholding in excess of 10 per cent this would be classed as a criminal offence and the SRA could force divestment or revoke the Licensed Body status of the Group.	The Directors work closely with the SRA to ensure there are no breaches and review shareholding regularly. The Board ensure that advisors and shareholders are aware of this issue.
	Employee misconduct and litigation As a professional services provider, the Group is exposed to the risk that personnel may engage in misconduct or improper use of confidential client information. Such misconduct could damage the Groups' reputation or result in regulatory sanctions and financial damage.	Knights adheres to an Information Security policy that draws on best practice from ISO 270001 and Cyber Essentials plus. This policy is delivered annually to all colleagues and new recruits on induction. The Group takes data protection seriously and has in place robust data protection procedures to ensure it is compliant with GDPR regulations.
Personnel	**Ability to attract and retain personnel** The ability to attract and retain suitably qualified and experienced personnel is critical to the Group's success as they constitute the principal assets and contributors to revenue. There is strong competition in the marketplace for such personnel and any difficulties in attracting and retaining such high quality personnel could impact on the Group's ability to deliver the financial forecasts.	The Group invests heavily in working to attract high quality personnel with organic growth being a key focus for the Board. In the last year the Group has employed a Recruitment Director whose primary focus is ensuring that high quality people with the right culture are identified to join our group. The Group also offers competitive remuneration packages in its current locations, flexible working conditions and a no targets team culture allowing individuals to maximise their job satisfaction and work/life balance. The Group enjoys low staff turnover and the Board strive to continuously engage with its employees to ensure that employees understand the drivers of the business and there is a continuous reinforcement of the transparent and collaborative culture despite the changing working environment as a result of COVID-19 with employees having worked from home since 16th March 2020, with these working practices expected to continue until at least 1 September 2020. Employee contracts include restrictive covenant provisions to protect the business where possible.
	Succession planning and dependence on key personnel The Group's future success and strategy is dependent on the performance and retention of the Executive Directors and senior management team. The loss of a key individual or the inability to expand the senior management team as the business grows could negatively impact the reputational and financial performance of the Group.	During the year the Board has worked hard to expand and strengthen the management team of the Group to ensure the management structure in place is sufficient to support the future growth of the business. In particular in the last year the Client Services team has grown with the introduction of two new directors, a new Operations Director has been recruited and the operations team has been strengthened considerably in order to seek to ensure that the execution and integration of acquisitions and the ongoing focus on organic growth and strengthening the existing business can be maintained with a wider team taking responsibility for these activities.

Principal Risks and Uncertainties continued

Principal risk	Description	Mitigation
Acquisition risk	A key part of the Group's strategy is to expand the business through the acquisition of culturally aligned, earnings enhancing acquisitions. Detailed financial and legal due diligence is carried out however there is the risk that there are unforeseen issues that adversely affect the reputation or forecast financial performance of the Group. If newly acquired businesses are not properly aligned and integrated this could have negative impacts on the rest of the business and cause reputational damage. There is also the financial risk that the acquired business does not perform as expected.	The Group has an experienced in house acquisitions team that undertakes a robust due diligence process with expert external advice being sought where necessary. Warranties and disclosures are obtained from the sellers as appropriate. The Board recognises that cultural integration is critical to the success of every acquisition. During the year the acquisition and integration teams have continued to be strengthened and the full integration plan utilised by the Group is under continuous review and built upon. This ensures that all acquisitions are fully integrated onto the Group's Operating System as soon as possible and a full training programme is delivered to all new colleagues, which can be delivered both remotely and in person so that integration of acquisitions is not compromised despite the business currently working from home in line with government advice. Cultural integration of the new colleagues is key at all stages of the acquisition and integration process and continues to be a focus with continuous reinforcement by the leadership team and the existing employees of the business.
Macro and micro economic environment	Current uncertainty in the market as a result of the global pandemic of COVID-19 which is expected to result in a general economic downturn which may have a negative impact on the financial performance of the Group.	The Board believes its exposure to both macro and micro environmental factors is limited due to there being no reliance on any one practice area, client or professional, and the Group's continuous focus on cash collection resulting in it having good headroom to counteract the impact of the lock down measures taken by the government in March 2020. As announced on 26 March 2020, the Group moved quickly to put in place a number of prudent cost saving and efficiency measures in relation to the uncertainty created by COVID-19, demonstrating the benefit of a corporate structure in which the senior leadership were able to act with agility whilst supporting its lawyers to remain focused on delivering value to clients. The Board believes that the swift actions taken position the Group well to trade through the current environment, which has resulted in a circa 20% decline in instructions. However, the Board is encouraged by early signs that market conditions have stabilised following the particular disruption experienced since early April.
	There are a large number of potential competitors within the legal and professional services market competing for the Group's professionals and clients, any loss of which could impact the financial performance of the Group.	The Group expects that the number of law firms may decrease due to the uncertainty within the market and the traditional partnership structure operated by many law firms resulting in such firms having limited cash resources to counteract any decline in revenue as a result of the lock down measures taken by the government. The Board believes that this positions the Group well to attract talent from potential competitors. The Board also believes by maintaining the high quality work and strong client base, lawyers will continue to be attracted to Knights' business which can be seen by its double digit organic growth in the last year.
Reputation and brand risk	Knights' brand and the reputation of the Group and its professionals are driving factors behind the success of the Group. Anything that damages the Group's brand or reputation could negatively impact the future success of the business.	Management have in place detailed processes to ensure that all work is undertaken in accordance with the Code of Conduct and Professional Ethics. Internal audits take place to identify any areas of non-compliance. An open, candid and non-hierarchical culture is nurtured whereby all colleagues are expected to behave in accordance with the internal processes in place.
	Damage to the Knights' brand could have a detrimental impact reputationally which ultimately could have financial implications for the Group.	The Group takes appropriate steps to protect its intellectual property rights. Corporate profile is a key part of the Boards strategy and external public relations advisers are engaged to assist where necessary.
Information systems and data security	The Group is heavily reliant on its information technology systems for all day to day processes. A major IT system failure or a malicious attack, data breach or virus accidental could impact the ability of the Group to operate having both reputational and financial implications.	The Groups systems are supported by appropriately qualified and experienced individuals and third parties. External expert advice and support is sought when necessary. Critical systems fail over and recovery are regularly tested and no issues have been identified. The Group liaise regularly with their key suppliers to continue to develop and improve the Operating Systems utilised by the Group. Knights' Information Security Awareness training helps colleagues to identify and prevent fraud\misuse of information and this training is regularly updated to ensure that where certain risks are increased as a result of environmental factors (such as cybercrime in light of COVID-19), the business and colleagues are aware of any heightened risk. Beyond training Knights' candid culture and team ethos delivers a supportive high communication environment which ensures colleagues can ask questions and be guided as required.

This strategic report and the information referred to herein was approved on behalf of the board on 21 July 2020.

Kate Lewis
Chief Financial Officer

Corporate Governance

Board of Directors

David Beech
Chief Executive Officer

A corporate lawyer and former manager of a private equity fund, David joined Knights in 2011 with the vision to transform the business into the UK's number one legal and professional services business outside London.

David acquired and remodelled Knights in 2012 with a clear strategy to transform the business into a growth platform. Knights became a pioneer in the UK legal sector being one of the first law firms to secure external funding in 2012 to fully corporatise the business and create a clear separation between ownership/ management and partners.

Richard King
Chief Operating Officer

Richard has extensive experience of transforming operating models, integrating acquisitions and exploiting technology to scale-up and deliver operational efficiency in large enterprises such as Procter & Gamble, Shell and a B2B cloud services start-up (Transora).

Previously, Richard was European Commercial Capabilities Director at Procter & Gamble. He joined Knights as COO in January 2019, overseeing the scale-up of the operating backbone and increased use of technology to improve service quality and operating efficiency.

Kate Lewis
Chief Financial Officer

Kate qualified as a Chartered Accountant and has been a member of the ICAEW since 1996 having trained as an accountant at Dean Statham. Kate spent over 10 years as an Audit Manager at Baker Tilly and KPMG.

Kate joined Knights in 2012 as Finance Director, overseeing the Knights' corporatisation and subsequent refinancing with both Allied Irish Bank and Permira and the IPO in June 2018.

Balbinder (Bal) Johal
Non-Executive Chairman

Bal is CEO of MML Capital Partners, an international private equity firm based in London, New York, Paris and Dublin. Bal has led a number of investments for MML including investments into CSI Ltd, PIE/PSG Group, Banner Group, Arena Group (now plc), Clean Linen & Workwear, Instant Offices, Optionis Group, ParkingEye and The Regard Partnership and worked on others including Vanguard, EiC and Redmill Snack Foods. Bal is a Director on the Board of most of these companies.

Prior to MML, Bal was Investment Director at 3i leading a range of high-profile investments such as SmartStream, Jungle.com, Workplace Systems plc, Telecity, Complete Care and Recognition. Bal started his career as a Management Consultant with Accenture later working as a Financial Analyst at HSBC.

Steve Dolton
Senior Independent Non-Executive Director

Steve qualified as a Chartered Accountant and has been a member of the ICAEW since 1989 having qualified with Grant Thornton. He has spent over 20 years in senior financial roles including CFO of NAHL plc, NSL Services Group, Azzurri Communications, Safety Kleen Europe, Walker Dickson Group and Peek plc (including a 2 year period in Asia as Regional Controller).

He is also currently Chairman of the Go Inspire Group and Total Managed Document Solutions Limited was previously a Non-Executive Director of Oxford United Football Club until its sale in February 2018.

Steve is Chair of the Audit Committee and sits on the Remuneration Committee.

Jane Pateman
Non-Executive Director

Jane brings over 20 years' experience in senior HR roles at listed businesses including Centrica and British Gas, and culminating in her current role as Group HR Director at Biffa plc where she is responsible for developing the People Strategy for approximately 8,000 employees across 4 operating divisions.

Jane has a strong track record in driving business benefits through the development and delivery of human capital strategies. During her 10 years at Biffa, she has provided significant support in delivering solutions during major growth periods, including during its IPO as well as driving people and cultural integration for the multiple acquisitions Biffa has made over the past 5 years.

Jane chairs the Remuneration Committee and has taken responsibility for overseeing the Knights ESG strategy. She also sits on the Audit Committee.

Chairman's Introduction

The Board recognises the importance of high standards of corporate governance as the basis for promoting long-term growth for the benefit of all of the Group's stakeholders.

As Chairman, I am responsible for leading the Board to ensure that it has in place the strategy, people, structure and culture to deliver value to its stakeholders, and for ensuring that the governance arrangements that the Group has in place are proportionate and appropriate for the size and the constitution of the Board and the complexity of the business. In accordance with the AIM rules the Group has elected to comply with the principles set out in the Corporate Governance Code for small and mid-sized companies published by the Quoted Companies Alliance in April 2018 (the **QCA Code**) as the basis of its governance framework.

The underlying principle of the QCA Code is to "ensure the company is managed in an efficient, effective and entrepreneurial manner for the benefit of all shareholders over the longer term". As a Board, we are committed to providing the leadership required to ensure that the culture that is so integral to the success of the business is embedded within the business and work hard to engage with employees and other key stakeholders to ensure that this healthy corporate culture continues to be delivered through open and honest dialogue and we are delighted to set out below how we comply with the QCA Code.

The QCA Corporate Governance Code

The Board has adopted the QCA Code. Set out below is how the Board currently complies with the key principles set out in the code.

	Governance principle	Compliant	Explanation	Further reading
1	Establish a strategy and business model which promotes long-term value for shareholders	✓	Our strategy is to be the leading legal and professional services business outside London and we aim to achieve this through: • organic growth which in particular includes; • attracting new talent (be that individuals or teams) wishing to be part of a progressive legal services business; • roll-out of new offices into target regional locations; • outsourcing from national and international firms; • increasing productivity through better use of IT; • enhanced cross-selling through the addition of new service lines within the existing business; and • acquisitive growth by continuing to acquire legal teams or firms offering geographic expansion into attractive new regional markets for Knights, and to further expand offerings in existing regional locations.	See pages 16-17
2	Seek to understand and meet shareholder needs and expectations	✓	The CEO and CFO communicate regularly with shareholders, investors and analysts, including at our half-yearly and full year results roadshows. The full Board is available at the Annual General Meeting ('AGM') to communicate with shareholders.	www.knightsplc.com/investors/corporate-governance
3	Take into account wider stakeholder and social responsibilities and their implications for long-term success	✓	Aside from our shareholders, our clients, employees, suppliers, and regulators are our most important stakeholders. We engage with these communities via regular communications in our day-to-day activities, and via formal feedback requests. We also understand the importance that we can play in giving back to our communities and our ESG report refers to the role that we play in this regard.	See pages 61-62
4	Embed effective risk management, considering both opportunities and threats, throughout the organisation	✓	The Board considers risk to the business at each Board meeting and via its standing committees: the Audit Committee, Remuneration Committee and Disclosure Committee. Both the Board and senior managers are responsible for reviewing and evaluating risk and the Executive Directors meet at least monthly to review ongoing trading performance, discuss budgets, forecasts and new risks associated with ongoing changing trading.	See pages 50-53
5	Maintain the Board as a well-functioning, balanced team led by the Chair	✓	The Board has three established Committees for Audit and Remuneration and Disclosure. The composition and experience of the Board is reviewed regularly by the Board, with external advice where required as given the size and composition of the Board, the Board does not consider that a Nominations Committee is required.	See pages 60-65
6	Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities	✓	The Board is satisfied that its current composition includes an appropriate balance of skills, experience and capabilities, including experience of the recruitment, people management, technology and funding requirements.	See pages 56-57
7	Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement	✓	The Board regularly considers the effectiveness and relevance of its contributions, any learning and development needs and the level of scrutiny of the Senior Management Team but at this stage has considered that internal review is sufficient given the size of the Board. This will be kept under continuous review.	See page 61
8	Promote a corporate culture that is based on ethical values and behaviours	✓	Being a regulated law firm the Group is focused on progressing a strong ethical corporate culture. The Board implements a policy of equal opportunities in the recruitment and engagement of employees during the course of their employment and recognises the importance of honest and open feedback at all times to facilitate the growth of individuals and teams within the business. The Group prides itself on its culture, and maintaining that culture through consistent engagement with its staff which is integral to the Group's success. The Group achieves this consistent messaging in a number of ways including: regular meetings with team leaders to understand the issues that the staff are facing, all staff calls, particularly during COVID-19 to ensure all staff are fully informed about key developments, and a clear and collaborative management structure which encourages engagement at all levels.	See pages 28-34 and 40-41
9	Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board	✓	The Board is responsible for the Group's overall strategic direction and management and meet regularly to review, formulate and approve the Group's strategy, budgets, corporate actions and oversee the Group's progress towards its goals. The Group has a set of Reserved Matters for approval by the Board has been established and is regularly reviewed given the growth of the business.	See pages 60-61
10	Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	✓	The Group is committed to maintaining good communication and having constructive dialogue with its shareholders. Regular institutional shareholder meetings and PCFM days are held with the Chief Executive Officer and Chief Financial Officer to discuss Company performance, particularly following publication of the Group's interim and full year results. In addition a range of corporate information (including copies of presentations and announcements, and an overview of activities of the Group) is available on the Group's website.	www.knightsplc.com/investors

Corporate Governance Statement

Board composition

The Board comprises six Directors, three of whom are Executive Directors and three of whom are Non-Executive Directors, reflecting a blend of different experiences and backgrounds further details of which are set out on pages 56-57. The Board believes that the composition of the Board brings a desirable range of skills and experience in light of the Group's challenges and opportunities as a public company, while at the same time ensuring that no individual (or a small group of individuals) can dominate the Board's decision-making.

Whilst the Chairman has a considerable length of service and previous interest in the Group, it has been determined that in terms of interest, perspective and judgement he remains independent and is supported by the two additional independent Non-Executive Directors.

Operation of the Board

The Board is responsible for delivering the Group's strategy and for its overall management of the business and meets regularly to review, formulate and approve the Group's strategy, budgets, corporate actions and to constructively challenge the Executive Directors who are responsible for the day-to-day running of the Group. The operation of the Board is documented in a formal schedule of matters reserved for its approval which is reviewed annually to ensure that it remains current in light of changes to legislation, the size and growth of the Group and changes within the sector that the Group operates within.

Directors are expected to attend all meetings of the Board and of the Committees on which they sit, and to devote sufficient time to enable them to fulfill their roles as Directors. In circumstances where Directors are unable to attend any meeting they are provided all papers to be considered at that meeting and can provide any comments in advance of any meeting for consideration by the rest of the Board. The table below details the Directors' attendance at scheduled monthly Board and Committee meetings in the financial year 2019/2020:

Name	Board	Remuneration	Audit
Balbinder Johal	9/10	1/7	-
David Beech	10/10	-	-
Jane Pateman	9/10	7/7	3/3
Kate Lewis	10/10	-	-
Richard King	9/10	-	-
Steve Dolton	10/10	7/7	3/3

* During the year additional meetings were held principally to approve the terms of the acquisitions undertaken within the period, the placing and the refinancing.

In addition to the scheduled meetings the Board holds periodic strategy days to review the strategic priorities and growth opportunities for the business. The next strategy day is expected to be scheduled once the effects of the COVID-19 pandemic are clearer, as the evolving nature of the situation may present additional opportunities in the short and medium-term strategy adopted by the Board.

The Company Secretary supports the Board with compliance and governance matters and ensures that all Directors are aware of their right to have any concerns minuted, to ask questions regarding ongoing governance requirements and to seek independent advice at the Group's expense where appropriate.

Committees

The Group has established an audit committee (the Audit Committee) and a remuneration committee (the Remuneration Committee) with formally delegated duties, authority, and responsibilities, and written terms of reference. These terms of reference are kept under review to ensure that they remain appropriate and compliant with changes to legislation.

Each Committee is comprised of the Non-Executive Directors (excluding the Chair) with Stephen Dolton chairing the Audit Committee and Jane Pateman chairing the Remuneration Committee. Each Committee has unrestricted access to employees of the business or external advisors to meetings, to the extent that they consider it necessary in relation to any specific matter under consideration. Both Committees have sought to utilise external advice with the Remuneration Committee liaising with FIT Remuneration Consultants LLP for the purposes of advising on the terms of the performance share awards granted to certain PDMRs within the business, and the Audit Committee meeting with RSM, the Group's auditors, both with and without the presence of Executive Directors.

The Group has elected not to constitute a dedicated nomination committee, instead retaining such decision-making with the Board as a whole given the size and nature of the Board composition. The Board has used external advisors to introduce any other individuals with skills that the Board believe may be required in delivering its overall strategy and this was how Jane Pateman was identified to act as Non-Executive Director in January 2019.

Remuneration Committee

The Remuneration Committee is responsible for:

- reviewing the performance of the Executive Directors and making recommendations to the Board on matters relating to their employment and remuneration; and
- the granting of share options under the Group's Omnibus Plan or any other share scheme which it may adopt.

Audit Committee

The Audit Committee is responsible for:

- ensuring the financial performance of the Group is properly reported on; and
- monitoring the internal controls of the business.

Each of the Committees meets regularly and at least twice a year and the Chief Financial Officer also attends meetings of the Audit Committee by invitation to discuss any matters of relevance. Details of the reports of the Remuneration Committee and Audit Committee can be found on pages 62-63 and 64-65 respectively of this Report.

The Board has also constituted a disclosure committee (the Disclosure Committee) to enforce the Knights Group's inside information policy and ensure compliance with the Market Abuse Regulation (MAR) and the AIM Rules for Companies in respect of inside information.

Board effectiveness and culture

The Board considers the evaluation of its performance to be an integral part of corporate governance to ensure it has the necessary skills, experience and abilities to fulfil its responsibilities. The internal evaluation process undertaken seeks to identify and address opportunities for improving the performance of the Board and to solicit honest, genuine and constructive feedback. The Board considers the evaluation process is best carried out internally at this stage of the Company's development however this decision shall be kept under review.

In undertaking its internal review process in particular the following matters are reviewed at least annually or more frequently should the need arise:

- the Board's composition in terms of skills, experience and balance;
- the independence of the Non-Executive Directors;
- Board operational effectiveness and decision-making;
- conduct of meetings and effective sharing of information and communication amongst the members of the Board;
- engagement with shareholders and other stakeholders;
- Director contribution; and
- the Board's strategy and its implementation.

The Chairman is responsible for ensuring the process is appropriate for the business' needs, and deals with matters raised throughout such periodic review processes to ensure that constructive feedback is provided and if required external support can be made available in respect of any areas that may require improvement.

The Board carries a breadth of experience in sectors outside of the legal services market with strengths aligned with enhancing Knights' culture. Following the evaluation undertaken during the financial year 2019/2020, the Board is satisfied that it has a good balance of experience and skills allowing for both collaborative working and robust challenge.

Internal controls and risk management

The Group has implemented policies on internal control and corporate governance. These have been prepared in order to ensure that:

- proper business records are maintained and reported on, which might reasonably affect the conduct of the business;
- monitoring procedures for the performance of the Group are presented to the Board at regular intervals;
- budget proposals are submitted to the Board no later than one month before the start of each financial year albeit this policy has been adapted during the COVID-19 pandemic given the evolving impact of the pandemic on the economy;
- accounting policies and practices suitable for the Group's activities are followed in preparing the financial statements;
- the Group is provided with general accounting, administrative and secretarial services as may reasonably be required; and
- interim and annual accounts are prepared and submitted in time to enable the Group to meet statutory filing deadlines.

The Group continues to review its system of internal control to ensure compliance with best practice, whilst also having regard to its size and the resources available. Details of the Group's principal risks and how these are addressed can be found on pages 50-53 of this Report.

As might be expected in a business such as Knights, a key control in the business is the day-to-day supervision by the Executive Directors supported by the senior management team who maintain responsibility for key areas of the operations. The adequacy of the systems for internal controls is also reviewed by the Audit Committee on an annual basis and compliance issues are discussed at each Board meeting in order to ensure that any risks arising in a changing and evolving environment can be mitigated and/or eliminated.

Relations with stakeholders

The Board is aware that the long-term success of the Group is reliant upon its employees, clients, shareholders, suppliers, communities and regulators. As such the Group is committed to building a sustainable business that enables all its stakeholders to thrive: minimising the Group's impact on the environment, looking after employees and communities and operating ethically with the highest levels of governance to ensure that the Group's continued growth in accordance with its strategy reflects its stakeholders needs and expectations as well as those of the Group.

In order to achieve these aims the Group's senior management teams maintain regular communications with colleagues and encourage them to share feedback and to allow the candid flexible culture to thrive. The level of communication with employees has only increased during the COVID-19 situation with senior management hosting regular calls with team leaders, the CEO holding several 'all employees' meetings, during which 75% of the time was dedicated to Q&A and questions being answered candidly in the moment. These sessions had over 80% participation with over 200 questions answered.

The Group also encourages regular feedback from its clients and tracks its net promoter score to indicate the willingness of clients to recommend the Group's services. Based on client responses in the week commencing the Group's net promoter score was out of which is considered above average amongst its peer group. The Group endeavors to ensure that clients are met with regularly to canvas their opinion on the service levels received and to allow them to provide any feedback as to how these relationships and/or services can be improved. The Group has a strong track record of retaining deep client relationships with some of these relationships remaining in place for in excess of 25 years across a number of service lines provided within the Group's business.

The Group's business places a strong reliance on technology and consequently the Group works closely with its practice management system provider to enhance the practice management platform for the benefit of the Group which in turn benefits our suppliers' technology.

The Group maintains regular dialogue with its regulator, the Solicitors Regulatory Authority (SRA) given its acquisitive nature and this constant transparent communication has enabled the Group to deliver 6 acquisitions within the financial year.

The Board is proud of the progress it has made in enhancing the sustainability of its operations and in the current financial year has appointed Jane Pateman as its Director with overall responsibility for Environmental, Social and Governance strategy. Further details of the steps that Knights has taken to ensure it can uphold these principles are detailed on page 29 of this report.

The Executive Directors meet with the institutional shareholders both on an ad hoc basis and on a more structured basis around the publication of the Group's interim and end of year results. General information about the Group is available on the website at www.knightsplc.com but both the Chair and Stephen Dolton as Senior Independent Director are available to discuss any matter any shareholder may wish to raise if required.

Annual General Meeting (AGM)

The AGM of the Group will take place on the 21st September 2020.

Remuneration Committee Report

Dear Shareholder,

I am pleased to present the Directors' Remuneration Report for the year ended 30 April 2020.

The Remuneration Committee comprises me as Chair of the Committee and Steve Dolton is the other current member of the Committee. We are both independent Non-Executive Directors.

The Remuneration Committee continues to consider how best to respond to the uncertainty created by COVID-19. As announced on 26 March 2020, all Board members' salaries have been temporarily reduced by 30% and the salaries of all staff whose salaries are £30,000 or more have been temporarily reduced by 10% (or to £30,000 where the reduction would take them below £30,000) with effect from 1 April 2020.

Jane Pateman Chair of the Remuneration Committee

Responsibilities

The Remuneration Committee reviews the performance of the Executive Directors and makes recommendations to the Board on matters relating to their remuneration and terms of service. The Remuneration Committee also makes recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to any employee share option scheme or equity incentive plans in operation from time to time. During the year this included the grant of options to employees as part of the Group's Save As You Earn ('SAYE') share option scheme for 2020.

The Remuneration Committee meets as and when necessary and met 7 times during the year.

In exercising their role, the Remuneration Committee has regard to the recommendations put forward in the QCA Code and, where appropriate, the QCA Remuneration Committee Guide and associated guidance.

During the year FIT Remuneration Consultants LLP (FIT) provided the Committee with external remuneration advice, including on all aspects of remuneration policy for the Executive Directors. The Remuneration Committee is satisfied that the advice received was objective and independent. FIT is a member of the Remuneration Consultants Group and the voluntary code of conduct of that body is designed to ensure that objective and independent advice is given to Remuneration Committees.

Our performance and link to remuneration

As summarised in the Chairman's Statement on page 8, the Group continued to grow both organically and through targeted acquisitions over the year. The Group performed well with a strong financial performance continuing up until the last month of the financial year where the impact of COVID-19 did result in some disruption to activity.

As disclosed last year an annual bonus arrangement was introduced for Richard King for the 30 April 2020 financial year with a maximum opportunity of 35% of salary based on an underlying EBITDA performance range set at the beginning of the year. The EBITDA for the year was below the threshold range and therefore no annual bonus is payable.

	Minimum threshold	Target	Maximum threshold	Actual
EBITDA (£m)	18.24	19.2	20.2	18.00
% Payable	25%	75%	100%	0%

Kate Lewis was entitled to be issued with a Restricted Stock Award subject to the Group meeting an underlying EBITDA threshold for the 30 April 2020 financial year. Although this performance threshold was met, Ms Lewis requested the award not be made in light of the COVID-19 related cost savings being operated across the Group.

No long-term incentives were granted to Executive Directors or vested during the year.

Executive Director remuneration

Each of the Executive Directors has a service agreement with the Group. Each service contract may be terminated by either party serving six months' written notice. At its discretion, the Group may make a payment in lieu of such notice or place the Executive Director on garden leave. The service contracts also contain provisions for early termination in the event of various scenarios and contain typical restrictive covenants.

The key remuneration components of executive packages are summarised as follows:

Base salary: The salary of an Executive Director will be reviewed annually by the Remuneration Committee without any obligation to increase such salary. The current base salaries are shown below. As noted above these salaries have been temporarily reduced by 30% with effect from 1 April 2020:

- **David Beech:** £250,000 (effective from 1 August 2019). As outlined in the Admission Document, it was recognised that a market-standard salary for an equivalent CEO of an AIM listed company with a similar market capital of the Group is £250,000 ('reference salary') and that this salary would become payable when the Remuneration Committee agreed that it had become appropriate for the Group to do so.

  The Remuneration Committee determined that Group performance warranted the increase to the reference salary.
- **Kate Lewis:** £175,000 (effective from 1 March 2020). The salary of the Chief Financial Officer was increased from £140,000 during the year. The Remuneration Committee recognised that this was a significant increase in percentage terms but was determined to be appropriate considering both performance and external market data.
- **Richard King:** £200,000 (effective from 1st August 2019). The salary of the COO was increased from £175,000 during the year to reflect performance and external market benchmarks.

Pension and benefits: Ancillary benefits include the reimbursement of all reasonable and authorised out of pocket expenses, provision of a private healthcare cover up to £2,000 and 2x salary life cover. The Group also contributes to pension plans or as an additional cash supplement in respect of the Executive Directors at a rate of 3% in line with the automatic enrolment guidelines and which mirrors the contribution across all employees, positioned competitively to the market in which the Group operates.

Annual bonus: A plan was operated for Richard King for the 30 April 2020 financial year with a maximum opportunity of 35% of salary with performance criteria based on profit-based targets as set by the Remuneration Committee. The Remuneration Committee intends to agree a similar plan for the 30 April 2021 financial year with targets to be set once the full implications of COVID-19 are understood.

A discretionary share plan, the Omnibus Plan: Share-based awards may be granted in 3 forms as considered appropriate by the Remuneration Committee:

- **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 conditions will apply to Restricted Stock Awards.
- **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.
- **Share Options:** Awards granted in the 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.

The intention is to grant Performance Share Awards to Richard King and Kate Lewis in July 2020 with EPS performance conditions attached. The Remuneration Committee has determined that the unprecedented COVID-19 circumstances means it will be unable to set robust targets until later in the year and intends to set such EPS targets within 6 months of the date of grant.

Non-Executive Directors

Bal Johal, was appointed Non-Executive Chairman of the Group by letter of appointment dated 1 June 2018. The appointment is subject to re-election at the Annual General Meeting and thereafter is terminable on 3 months' notice by either the Group or Bal. The annual fee payable to the Chairman increased from £50,000 to £60,000 with effect from 1 February 2020.

The other Non-Executive Directors were appointed subject to re-election at the Annual General Meeting and are terminable on one months' notice by either party.

The current fee payable for services as a Non-Executive Director was unchanged throughout the year at £40,000 with an additional £10,000 payable to the senior independent Non-Executive Director with effect from 1 February 2020.

As noted above these fees have been temporarily reduced by 30% with effect from 1 April 2020.

As it is listed on AIM, the Group is not required to provide all of the information included in this Report. However, in the interests of transparency this has been included as a voluntary disclosure. The Report is unaudited.

I do hope that this Report clearly explains our approach to remuneration and enables you to appreciate how it underpins our business growth strategy.

Jane Pateman
Chair of the Remuneration Committee
21 July 2020

Directors' emoluments

	Fees/ basic salary £'000	Benefits £'000	Bonus £'000	LTIP £'000	Pension £'000	2020 Total £'000	2019 Total £'000
Executive Directors							
David Beech	231	-	-	-	-	231	143
Kate Lewis	141	-	-	-	4	145	126
Richard King[1]	189	2	-	-	6	197	83
Non-Executive Directors							
Balbinder Johal	51	-	-	-	-	51	43
Steve Dolton[2]	45	-	-	-	-	45	41
Jane Pateman[3]	39	-	-	-	-	39	13
Aggregate						708	**449**

Note
1 Richard King was appointed a Non-Executive Director of the Group on 1 June 2018 and subsequently appointed Chief Operating Officer on 15 January 2019
2 Steve Dolton was appointed a Non-Executive Director of the Group on 1 June 2018
3 Jane Pateman was appointed a Non-Executive Director of the Group on 15 January 2019

Long-term incentives

	Type of award	Date of grant	Number of shares	Exercise price per share	Fair value at grant	Performance conditions	Vesting date
Kate Lewis	Restricted Stock Award	29 June 2018	241,379	£0.002	350.00[1]	N/A	June 2021
Richard King	Performance Share Award	29 March 2019	63,352	£0.002	183.75[2]	EPS[3]	July 2022

Note
1 Based on IPO price of £1.45
2 Based on 3-day average share price of £2.900482
3 3-year performance period with vesting dependent on adjusted EPS performance in financial year 30 April 2022 EPS. 25% vesting for EPS of 20p and increasing on a straight-line basis to 100% vesting for EPS of 25p

Audit Committee Report

Dear Shareholder,

I am pleased to present the Audit Committee report for the year ended 30 April 2020.

The Audit Committee is responsible for ensuring that the financial performance of the Group is properly reported and reviewed. Its role includes monitoring the integrity of the financial statements (including annual and interim accounts and results announcements), reviewing risk management and internal control systems, reviewing any changes to accounting policies, reviewing and monitoring the extent of the non-audit services undertaken by RSM and overseeing the relationship with them. In addition the Committee has considered the impact of new accounting standards and COVID-19 particularly around Going Concern.

Steve Dalton Chair of the Audit Committee

Members of the Audit Committee and attendance

The Committee consists of two independent Non-Executive Directors: myself (as Chair) and Jane Pateman. Kate Lewis, the Chief Financial Officer and other Executive Directors may attend the Committee meetings by invitation.

The Committee met three times during the period and attendance of the members is shown on page 60 of the Corporate Governance Report. The Committee has also held discussions with RSM, without Executive Directors being present to discuss any issues arising from their audit work. Neither the Group nor its Directors have any relationships that impair the external auditor's independence.

Duties

The main duties of the Audit Committee during the year included:

1 **Monitoring the integrity of financial statements**
The Committee reviewed both the interim and the annual financial statements as well as related results announcements made as part of their disclosure. This process included a review of any judgements made in preparing the results, ensuring sufficient attention was given to matters where significant estimation was involved. This includes revenue recognition, accounting for acquisitions and the use of alternative performance measures which are used to enhance shareholders understanding of the Group's financial performance.

In consideration of the significant accounting judgements used, the Committee reviewed the recommendations of the Chief Financial Officer and received reports from RSM on their findings.

These judgements are as follows:

- **Revenue recognition policy**
  The Group recognises revenue on legal and professional services provided based on the methodology set out in IFRS 15 Revenue from Contracts with Customers. There is estimation involved in establishing the value that will eventually be recovered on all of its contracts.

  Management use the expected outcomes as at the period end to establish the estimated value and compare to historic outcomes to ensure reasonableness. Estimates are updated as work progresses and any changes in revenue recognition as a result of a change in circumstances is recognised in the Statement of Comprehensive Income for that year. In relation to any contingent matters, where the likelihood of success is less than highly probable, the value recognised in contract assets is further reduced to reflect this uncertainty. The Committee considers that the approach adopted by management is prudent and minimises the risk of overstatement of income resulting in future revenue write-offs.

- **Accounting for acquisitions**
  During the year the Group made six acquisitions. Accounting for these acquisitions involves significant judgement to determine the allocation of purchase price, the treatment of deferred consideration, assessment of the requirement for any fair value adjustments, identification and valuation of the intangible assets arising, and estimation of the useful lives of these assets. Having reviewed management's approach and the resulting accounting treatment, the Committee is satisfied that the approach adopted is reasonable and fairly represents the underlying transactions.

- **Use of alternative performance measures**
  The Board uses a number of alternative performance measures to assess business performance. The key driver for revenue is the number of fee earners employed by the Group and as a result the Board uses measures based on underlying profit before tax, fee earner numbers, ratios and fees generated by fee earners. Another key focus for the Board is management of its net debt position. The Board uses cash conversion and lock up days to closely monitor these key drivers of the net debt position.

  The Audit Committee is satisfied that these are appropriate measures to use as they monitor the inputs that underpin the trading and cash performance of the Group. These measures are discussed in more detail in the CFO's Review on pages 42-49.

2 **Risk management and internal controls**
As described on page 39 of the Strategic Report and page 61 of the Corporate Governance Statement, the Board has established a framework of risk management and internal control systems, policies and procedures. The Committee is responsible for reviewing the risk management and internal control framework, ensuring that it operates effectively. The Committee is satisfied that the internal controls currently in place are sufficient and operating effectively for a business of this size.

At present the Group does not have an internal audit function and the Committee believes that in view of the current size and nature of the Group's business, management is able to derive sufficient assurance as to the adequacy and effectiveness of the internal controls and risk management procedures without a formal internal audit function. This will be kept under review as the business evolves.

3 **Changes to accounting policies**
During the year the Group has adopted one new accounting standard namely IFRS 16, Leases. The implementation of this standard involved judgements on the appropriate interest rates to be used.

The Committee has reviewed the implementation of this accounting standard and has reviewed the external auditors assessment on its application.

The Committee is satisfied with the application of IFRS 16 in the financial statements.

The Committee is satisfied that there are no other changes in accounting policies impacting the reported results for the year.

4 **Reviewing the extent of non-audit services provided by RSM**
The Committee monitors the provision of non-audit services by RSM to ensure this has no impact on their independence. A breakdown of the fees between audit and non-audit services is provided in note 15 to the financial statements. The non-audit fees are not significant and relate mainly to independent tax advice.

This work was conducted by individuals independent of the audit team and therefore the Committee are satisfied the provision of these non-audit services does not impact the independence of the audit team.

5 **Overseeing the relationship with RSM**
The Committee considers a number of areas when reviewing the external auditor relationship, namely their performance in discharging the audit, the scope of the audit and terms of engagement, their independence and objectivity and remuneration.

The external auditor prepares a plan for its audit of the full year financial statements which is presented to the Committee before the commencement of the audit.

The plan sets out the scope of the audit, areas of perceived significant risk where work will be focused, the audit timetable and any proposed remuneration. This plan is reviewed and agreed by the Committee in advance of the detailed audit work taking place.

Following its external audit process, RSM presented its findings to the Committee for discussion. No major areas of concern were identified by RSM during the year.

The Committee has confirmed that it is satisfied with the independence, objectivity and effectiveness of RSM UK Audit LLP and has recommended to the Board that the auditors be reappointed. There will be a resolution to reappoint the auditors at the forthcoming AGM.

6 **Application of IFRSs, and new and forthcoming standards**
There are no significant IFRS's yet to be adopted that the Committee expects to be relevant or have a significant impact on the financial statements.

7 **Impact of COVID-19 and Going Concern**
Given the pandemic that arose during the year the Committee has paid particular attention to the disclosures made in the accounts in relation to Going concern. The Committee has reviewed management's approach to assess the potential impact of on the business. The Going concern assessment focuses on the Group's ability to meet its debts as they fall due and being able to operate within its banking facility. The Committee has considered the following:

- The Group's current Revolving Credit Facility of £40m available until June 2023. At the time of writing this has £24m of undrawn availability.
- The mitigating actions and cost cutting exercises already undertaken by management.
- The range of possible scenarios modelled by management and the impact these have on resulting financial forecasts.

The Committee is satisfied that the Group would have sufficient liquidity to meet its liabilities as they fall due and that the disclosures included in the accounts on page 80 on Going Concern and the impact of the COVID-19 pandemic are reasonable.

Steve Dolton
Chair of the Audit Committee
21 July 2020

Directors' Report

The Directors have pleasure in submitting their report and the financial statements of Knights Group Holdings plc.

Principal activities and business review

The principal activity of the Group is that of the provision of legal and professional services. The principal activity of the Company is that of a holding company. The results for the year and the financial position of the Group are disclosed in the detailed financial statements included on pages 71-121. A review of the performance of the business during the year and potential future developments is included in the Chairman's report, CEO's report and the financial review.

Dividends

Due to the COVID-19 pandemic and the resultant uncertainty of the effects on the UK economy the Board has decided that it would not be prudent to propose a final dividend at this time. The decision will be reviewed before the AGM when there is more visibility of the likely economic impact. An interim dividend of 1.10p per share was paid on 16 March 2020.

Future developments

The Board plans to continue to invest in technology, recruitment and acquisitions within both the legal and non-legal sectors to support the Group's strategy of becoming the leading legal and professional services business outside London. Further details of the Group's future strategy can be found in the Strategic Report on pages 16-17.

Post balance sheet events

As at the date of signing the accounts, other than the consideration of the potential impact of the COVID-19 pandemic that is discussed in the Going Concern section, there are no significant Post Balance Sheets Events that require any further disclosure.

Directors and their Interest in the shares of the parent company

The following Directors have held office since 1 May 2019.

Name	Number of shares	%
DA Beech	32,500,000	39.60
KL Lewis	2,820	-
RA King	105,460	0.13
BS Johal	510,000	0.62
S Dolton	74,999	0.09
J Pateman	10,000	0.01

Director's remuneration payable in the year ended 30 April 2020 is set out in the Remuneration Committee Report on pages 62–63.

Substantial shareholdings

As far as the Directors are aware the only notifiable holdings equal to or in excess of 3% of the total issued share capital as at 30 April 2020 were as detailed below:

Name	Number of shares	%
David Beech	32,500,000	39.60
Merian Global Investors	6,965,940	8.49
Canaccord Genuity Wealth Management (inst)	5,186,475	6.32
Kames Capital	3,537,731	4.31
Invesco	2,764,012	3.37

Directors' indemnity provisions

During the period, and up to the date of approval of the financial statements, the Group purchased and maintained Directors and Officers Liability Insurance for all of the Directors and Officers to indemnify them from any losses that may arise in connection with the execution of their duties and responsibilities to the extent permitted by the Companies Act 2006.

Risk management

The Board manages financial risk on an ongoing basis. The key financial risks relating to the Group are discussed in more detail in note 32 to the financial statements.

The Group's other principal risks and uncertainties are outlined in the Strategic Report.

Political donations

The Group has not made any political donations.

Disabled persons

The Group operates an equal opportunities employment policy. The Group will employ disabled persons where they appear to be suitable for a particular vacancy and every effort is made to ensure that all candidates are given full consideration when any vacancies arise within the business. Should any employee become disabled during their employment full training will be provided and relevant adaptations to their working environment made, where possible, to ensure that they can continue their employment within the Group. The Group works with all employees to ensure that their working environment is appropriate and to ensure that all employees are provided with sufficient training, development and support to enable them to develop to their full potential.

Employee consultation

The Group places considerable value on the involvement of its employees in the future success of the Group. Although the overall strategic direction of the Group is managed by the Board, the Group manages its day-to-day operations with the assistance of its central management team. Local supervision is provided in each office by the involvement of office and team leaders who assist in ensuring a common culture and working practice across the Group as a whole.

The management team regularly liaise with all employees to ensure they are fully aware of any key matters that impact the Group. As well as regular informal meetings between management and employees, the Group holds an annual conference where the strategy of the Group is discussed through presentations and open discussion.

Further information on how the Group liaises with employees and includes them in decision-making where relevant and encourages participation in share schemes to enable them to share in the success of the Group is included in the ESG report on page 28-38.

Engaging with stakeholders

The Directors have considered who the key stakeholders in the business are and documented how they engage with each of these groups, noting any key decisions made during the year. Details of this are included within the S172 report on page 39.

Going concern

The Group and Company financial statements have been prepared on a going concern basis as the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group is strongly cash generative and as at the end of the financial year had headroom of over £24m within its current debt facilities.

The Group's forecasts show that the Group has sufficient resources for both current and anticipated cash requirements. In the period since the COVID-19 pandemic broke, the Group has seen a meaningful decline in the number of new instructions. The Group moved quickly to implement a number of cost saving and efficiency measures to make sure it was best placed to deal with the uncertainty arising from the pandemic and continues to monitor the level of new business and costs on a weekly basis.

Although the impact of the pandemic appears to be reducing, the situation is ongoing and the long-term outcome of this and the impact on the wider economy and hence the Group's business and clients is still unknown. This makes it difficult to assess the impact on the Group and Company's future trading with any certainty.

The Directors have therefore modelled a number of scenarios, some of which are much worse than the Directors anticipate the most likely outcome for the Group. Under all circumstances the Group remains profitable and operates within its current available banking facilities with no breach of covenants for the foreseeable future.

Auditor

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware.
- The Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

RSM UK Audit LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

The Directors' Report was approved by the Board of Directors on 21 July 2020 and signed on its behalf by:

K Lewis

Kate Lewis
Chief Financial Officer
21 July 2020

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report and the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. The Directors are required by the AIM Rules of the London Stock Exchange to prepare Group financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') and have elected under company law to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS101 Reduced disclosure Framework.

The Group's financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and the financial performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing each of the Group and Company financial statements, the Directors are required to:

a. select suitable accounting policies and then apply them consistently;

b. make judgements and accounting estimates that are reasonable and prudent;

c. state whether they have been prepared in accordance with IFRSs adopted by the EU; and

d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Knights Group Holdings plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial Statements

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 2020 which comprise the Consolidated Statement of Comprehensive Income, Consolidated and Company Statement of Financial Position, Consolidated and Company Statement of Changes in Equity, Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- 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 SME 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

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Summary of our audit approach

Key audit matters - Group

- Valuation and recoverability of amounts recoverable on contracts and impact on revenue recognition
- Acquisition accounting and valuation of intangibles assets acquired

Key audit matters - Parent Company

- None identified

Materiality - Group

- Overall materiality: £539,000 (2019: £500,000)
- Performance materiality: £404,000 (2019: £250,000)

Materiality - Parent Company

- Overall materiality: £365,000 (2019: £65,000)
- Performance materiality: £273,000 (2019: £32,500)

Scope

Our audit procedures covered 92.6% of revenue, 100% of net assets and 88.8% of profit before tax.

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 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 valuations 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 judgemental decisions by management. The Group has recognised revenue of £74.3million 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 £21.5million (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 current and prior year work in progress recovery rates to the recovery rate achieved for the year ended 30 April 2020 for each office (excluding those acquired in the year)
- comparing recovery rates used to estimate the value of contract assets at a month end during the financial year with subsequent actual recovery rates on bills
- 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 all staff and enquiring where these appeared to be unusually low 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.

Acquisition accounting and valuation of intangible assets acquired

Key audit matter description

Refer to notes 2.4 (business combinations), 2.7 (goodwill) and 2.8 (intangible assets other than goodwill) which set out the accounting policies in respect of business combinations and note 20 to the financial statements which gives details of the acquisitions made in the year.

During the year the Group made six acquisitions involving aggregate consideration of £35.9 million, including deferred consideration of £1.3 million (note 20). There are significant intangible assets arising as a result of each acquisition, including goodwill of £13.3 million and customer relationships of £11.1 million. 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.

Independent Auditor’s Report continued

to the Members of Knights Group Holdings plc

How the matter was addressed in the audit

Our response to the key audit matter included:

- obtaining copies of purchase documentation and considering which party has control, the date of acquisition, the date control was obtained, the percentage acquired, the consideration offered and details of any deferred consideration
- 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
- confirming that the disclosures made in respect of each acquisition are in accordance with the relevant standard.

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	£539,000 (2019: £500,000)	£365,000 (2019: £65,000)
Basis for determining overall materiality	3% of Adjusted EBITDA	0.5% of Net Assets
Rationale for benchmark applied	The key metric used by management and shareholders in assessing performance of the Group is adjusted EBITDA.	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. Materiality in 2019 was calculated using a blend of rates applied to income, profit before tax and gross assets.
Performance materiality	£404,000 (2019: £250,000)	£273,000 (2019: £32,500)
Basis for determining performance materiality	75% of overall materiality	75% of overall materiality
Reporting of misstatements to the Audit Committee	Misstatements in excess of £26,900 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £18,200 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 nine components, all of which are based in the UK.

The coverage achieved by our audit procedures was:

	Number of components	Revenue	Net assets	Profit before tax
Full scope audit	3	92.6%	100%	88.8%
Total	**3**	**92.6%**	**100%**	**88.8%**

Analytical procedures at group level were performed for the remaining six components.

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and 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 68, 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.

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.

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.

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

21 July 2020

Consolidated Statement of Comprehensive Income

For the year ended 30 April 2020

	Note	**Year ended 30 April 2020 £'000**	Year ended 30 April 2019 £'000
Revenue	5	**74,254**	52,662
Other operating income	7	**894**	415
Staff costs	8	**(45,578)**	(30,137)
Depreciation and amortisation charges	11	**(4,276)**	(1,473)
Impairment of trade receivables and contract assets		**(112)**	(439)
Other operating charges	12	**(11,504)**	(11,164)
Operating profit before non underlying charges		**13,678**	9,864
Non-underlying operating costs	13	**(8,090)**	(1,847)
Operating profit		**5,588**	8,017
Finance costs	14	**(1,530)**	(2,776)
Profit before tax		**4,058**	5,241
Taxation	16	**(2,238)**	(1,240)
Profit and total comprehensive income for the year attributable to equity owners of the parent		**1,820**	4,001

Earnings per share		**Pence**	Pence
Basic earnings per share	17	**2.44**	5.84
Diluted earnings per share	17	**2.41**	5.81

Consolidated Statement of Financial Position

As at 30 April 2020

	Note	**30 April 2020 £'000**	30 April 2019 £'000
Assets			
Non-current assets			
Intangible assets and goodwill	19	**69,135**	46,444
Property, plant and equipment	21	**5,562**	3,319
Right-of-use assets	21	**23,749**	–
		98,446	49,763
Current assets			
Contract assets	22	**21,507**	11,112
Trade and other receivables	23	**27,046**	13,671
Cash and cash equivalents		**12,741**	4,904
		61,294	29,687
Total assets		**159,740**	79,450
Equity and liabilities			
Equity			
Share capital	24	**164**	147
Share premium	25	**66,252**	32,486
Merger reserve	26	**(3,536)**	(3,536)
Retained earnings	26	**13,070**	10,158
Equity attributable to owners of the parent		**75,950**	39,255
Non-current liabilities			
Lease liabilities	37	**21,078**	–
Borrowings	27	**28,650**	19,000
Deferred consideration	28	**127**	1,611
Deferred tax	29	**5,429**	3,488
		55,284	24,099
Current liabilities			
Lease liabilities	37	**2,766**	–
Trade and other payables	30	**20,019**	12,105
Deferred consideration	28	**2,723**	1,628
Contract liabilities	22	**177**	120
Corporation tax liability		**675**	796
Provisions	31	**2,146**	1,447
		28,506	16,096
Total liabilities		**83,790**	40,195
Total equity and liabilities		**159,740**	79,450

The financial statements were approved by the Board and authorised for issue on 21 July 2020 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 2020

	Note	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
At 1 May 2018		100	–	(3,536)	6,234	2,798
Profit for the period and total comprehensive income		–	–	–	4,001	4,001
Transactions with owners in their capacity as owners:						
Credit to equity for equity-settled share-based payments	9	–	–	–	356	356
Issue of shares	24, 25	47	32,486	–	–	32,533
Dividends	18	–	–	–	(433)	(433)
Balance at 30 April 2019		**147**	**32,486**	**(3,536)**	**10,158**	**39,255**
IFRS 16 impact	37	**–**	**–**	**–**	**2,058**	**2,058**
As at 1 May 2019 - restated		**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**

Consolidated Statement of Cash Flows

For the year ended 30 April 2020

	Note	**Year ended 30 April 2020 £'000**	Year ended 30 April 2019 (Restated) £'000
Operating activities			
Cash generated from operations	34	**13,791**	11,706
Non-underlying operating costs paid		**(3,398)**	(1,443)
Interest received		**328**	142
Tax paid		**(2,907)**	(1,076)
Net cash from operating activities		**7,814**	9,329
Investing activities			
Acquisition of subsidiaries	20	**(11,907)**	(11,760)
Purchase of intangible fixed assets	19	**(26)**	(90)
Purchase of property, plant and equipment	21	**(2,501)**	(1,214)
Proceeds from sale of property, plant and equipment		**21**	1
Payment of deferred and contingent consideration		**(3,966)**	(1,095)
Net cash used in investing activities		**(18,379)**	(14,158)
Financing activities			
Proceeds from issue of share capital		**20,543**	28,582
Proceeds of new borrowings		**44,800**	14,750
Repayment of borrowings		**(35,150)**	(24,940)
Repayment of debt acquired with subsidiaries	20	**(7,049)**	(8,308)
Repayment of lease liabilities		**(1,576)**	–
Interest and other finance costs paid		**(1,411)**	(2,036)
Dividends paid		**(1,755)**	(433)
Net cash generated from financing activities		**18,402**	7,615
Net increase in cash and cash equivalents		**7,837**	2,786
Cash and cash equivalents at the beginning of the period		**4,904**	2,118
Cash and cash equivalents at end of period		**12,741**	4,904

2019 cashflow restated to show £3,865,000 of cash acquired from subsidiaries as part of investing activities instead of financing activities.

Notes to the Consolidated Financial Statements

For the year ended 30 April 2020

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 Company was incorporated in England as Knights Group Holdings Limited on 4 April 2018 as a private company limited by shares (registered no. 11290101) and subsequently acquired Knights 1759 Limited (the previous parent company in the Group) and its subsidiaries on 18 June 2018 through a share for share exchange. The Company was re-registered as a public limited company on 20 June 2018 and became Knights Group Holdings plc.

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 International Financial Reporting Standards adopted by the European Union (IFRSs).

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, is cash generative 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 has remained strong, but during the initial stages of lockdown there was a meaningful decline in the number of new instructions arising. This decline has levelled out and there are early indications of new instructions beginning to increase. However given the unprecedented nature of the situation and the wider impact on the economic environment it is impossible to forecast the future impact on trading of the Group and Company with any certainty. Therefore 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 the 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
Turner Parkinson LLP	OC312799
Spearing Waite LLP	OC361998
Cummins Solicitors Limited	07403259
BrookStreet Des Roches LLP	OC317863
Dakeyne Emms Gilmore Liberson Limited	06850969
ERT Law Limited	09182964
Croftons Solicitors LLP	OC343375
Fraser Brown	N/A
Shulmans LLP	OC348166
ASB Law LLP	OC351354
ASB Aspire LLP	OC327667

The outstanding liabilities at 30 April 2020 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 2020.

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.

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 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. 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 included in revenue 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.

The Group's contracts with clients each comprise 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.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2020

2. Accounting policies continued

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.

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 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	–	5-25 years
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 5-25 years being the average length of relationship with key clients for acquired entities.

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	–	Useful 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 Provisions

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 3 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 these 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.

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 cost 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.

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.

The following accounting policies were applied to leases in the year ended 30 April 2019:

Where assets are financed by leasing agreements that give rights approximating to ownership ('finance leases'), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor.

Lease payments are treated as consisting of capital and interest elements, and the interest is charged to the Statement of Comprehensive Income in proportion to the remaining balance outstanding.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2020

2. Accounting policies continued

All other leases are 'operating leases' and the annual rentals are charged to the Statement of Comprehensive Income on a straight-line basis over the lease term.

During the year ended 30 April 2019, operating lease rentals of £2,104,000 were charged to other operating charges.

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. Past service costs are recognised immediately in the Statement of Comprehensive Income if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. 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 Profits Section' contributions are recognised in the 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 liability has been recognised as at 30 April 2020 as it is not deemed to be material and is as a result of a temporary timing difference.

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 current year

In the year, the Group adopted one new IFRS, issued by the International Accounting Standards Board (IASB) that is effective for an annual period that begins on or after 1 January 2019 (and has been endorsed for use within the EU). IFRS 16 replaces IAS 17 'leases'.

- IFRS 16 Leases

The Group leases offices, equipment and vehicles. Rental contracts are for periods of between 3 and 25 years. Lease terms are negotiated on a lease by lease basis and contain a variety of terms and conditions.

The main change on application of IFRS 16 is the accounting for 'operating leases' where rentals payable (as adjusted for lease incentives) were previously expensed under IAS 17 on a straight-line basis over the lease term.

Under IFRS 16 a right-of-use asset and a lease liability are recognised for all leases except 'low-value' and 'short-term' leases where lease payments are recognised on a straight-line basis over the lease term.

The Group has applied IFRS 16 retrospectively to all leases but has elected to recognise the cumulative effect against opening reserves at 1 May 2019. Therefore the comparative figures are as previously reported under IAS 17. The Group has applied this approach subject to the transition provisions as set out below:

- the use of a single discount rate for a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous at 1 May 2019 and reducing the right-of-use asset value by that amount;
- initial direct costs have been excluded from the measurement of the right-of-use asset; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

On the Statement of Financial Position, a new category of fixed asset (right-of-use) has been created to recognise the value of right-of-use assets, whilst the full liability of leases has been recognised within both current and non-current liabilities. Over the life of the leases, the right-of-use asset will be depreciated and interest will be charged on the liability; these charges will replace the cost of operating leases which has previously been charged as part of administrative expenses. On the Statement of Cash Flows, payments of leases are treated as financing activities; these payments previously formed part of operating cash flow.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

Operating leases under IAS 17, except 'low-value' and 'short-term' leases

The lease liability is measured and the present value of the remaining lease payments at 1 May 2019, discounted at the leasee's incremental borrowing rate at that date.

The right-of-use asset is either

- measured as if IFRS 16 had been applied from commencement of the lease, but using the lessee's incremental borrowing rate at 1 May 2019 to discount future payments; or
- measured at the amount of the lease liability recognised in accordance with the measurement set out above, adjusted for accrued or prepaid operating lease payments at 1 May 2019.

This measurement has been made on a 'lease by lease' basis.

'Low-value' leases

When the value of an underlying asset (if new) at 1 May 2019 is £4,000 or less, the Group has continued to recognise the lease payments associated with those leases on a straight-line basis over the lease term.

'Short-term' leases

Where the lease ends before 30 April 2020, the Group has continued to recognise the lease payments associated with those leases on a straight line basis over the lease term.

The impact of IFRS 16 is detailed further in note 37.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2020

3. Accounting developments continued

New and revised IFRS in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases have not yet been adopted by the EU:

Revised IFRS		Effective date
IFRS 3	Business Combinations	1 January 2020
IFRS 17	Insurance Contracts	1 January 2021

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 work in progress at 30 April 2020 was £4,114,000 (2019: £2,201,000).

IFRS 16

The Group has applied judgement in applying the following transition provisions of IFRS 16:

- determining whether leases have similar characteristics to apply a single discount rate; and
- lease portfolios have been grouped between leases of properties and office equipment. These classes of assets have similar lease terms.

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 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. An increase in the rate adopted of 2% would have the following impact on the reported results for 30 April 2020:

Statement of Financial Position: Right-of-Use Assets – reduction of £2,190,000; Lease liabilities – reduction of £2,096,000.

Statement of Comprehensive Income: Interest costs – increase of £260,000; Depreciation – reduction of £166,000.

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 £21,507,000 (2019: £11,112,000), a 3% change in the estimated recovery of all matters would impact the profit for the period by approximately £990,000 (2019: £455,000).

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') or 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 acquired intangibles arising from business combinations in the year is £24,365,000 (2019: £27,247,000).

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 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	0%	2%	4	30
WACC and IRR rate	16% - 33%(1)	5%	126	(340)
Length of customer relationships	5-15 years	5 years	(165)	(356)

(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 adjusting the adopted rates as noted above.

Growth rate 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 the 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 two years and extrapolates cash 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 revenue from legal and professional services and the gross profit margin. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risk specific to the CGU.

Revenue growth over the two years of the forecast period reflects, for 2021, 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 2020, with an element of growth in 2022. The long term growth rate of 2% (2019: 3%) is based on UK economic growth forecasts for the legal services market.

The Group has conducted sensitivity analysis on the impairment test of the CGU value in use. A reduction in projected revenues for 2021 and 2022 of 10% per annum would result in the carrying value equalling the value in use.

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 2020 is not required to be disclosed because it comprises contracts that are expected to have a duration of one year or less.

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.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2020

7. Other operating income

	Year ended 30 April 2020 £'000	Year ended 30 April 2019 £'000
Other income	495	253
Bank interest	399	162
	894	415

8. Staff costs

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

	Year ended 30 April 2020 Number	Year ended 30 April 2019 Number
Fee earners	664	430
Other employees	168	123
	832	553

Their aggregate remuneration comprised:

	Year ended 30 April 2020 £'000	Year ended 30 April 2019 £'000
Wages and salaries	40,290	26,284
Social security costs	4,244	2,792
Other pension costs	2,938	614
Other employment costs	1,058	628
Aggregate remuneration of employees	48,530	30,318
One off redundancy costs analysed as non-underlying costs (note 13)	(2,952)	(712)
Movement in contract assets relating to staff costs	–	(73)
Members' costs	–	604
Underlying staff costs in the Statement of Comprehensive Income	45,578	30,137

Members' costs relate to the remuneration of members of the Group's LLPs.

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 2020 £'000	Year ended 30 April 2019 £'000
Salaries, fees, bonuses and benefits in kind	698	444
Money purchase pension contributions	10	5
	708	449

The number of Directors to whom benefits are accruing under money purchase pension schemes is 2 (2019: 3).

The remuneration of the highest paid Director was:

	Year ended 30 April 2020 £'000	Year ended 30 April 2019 £'000
Salaries, fees, bonuses and benefits in kind	231	142
Money purchase pension contributions	–	1
	231	143

9. Share-based payments

The Group issues equity-settled share-based payments to its employees. The Group recognised total expenses of £789,000 (2019: £356,000) 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 2018	–	–	–	–
Granted during the period	451,845	0.2	63,352	0.2
Outstanding at 30 April 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	–	–

The options outstanding at 30 April 2020 had a weighted average exercise price of 0.2p and a weighted average remaining contractual life of 2.1 years.

In the period, the following restricted stock awards were granted : 21,353 options were granted on 9 July 2019, 31,250 options were granted on 1 November 2019, 18,669 options were granted on 9 March 2020 and 57,840 options were granted on 24 April 2020. In addition 142,862 performance share awards were granted on 10 March 2020.

The aggregate of the estimated fair values of the options granted on these dates is £1,051,000. The inputs into the valuation model are as follows:

Weighted average share price	387p
Weighted average exercise price	0.2p
Weighted average expected life	2.1 years

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2020

9. Share-based payments continued

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.

	Partnership Shares Number	Matching Shares Number
Outstanding at 30 April 2018	–	–
Granted during the period	219,244	438,488
Withdrawn during the period	(15,071)	–
Forfeited during the period	–	(30,141)
Outstanding at 30 April 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	**–**	**–**

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 3 years. Subject to remaining in employment by the Group, at the end of the 3-year period they are entitled to use these savings to buy shares in the Company at 80% of the market value at launch date.

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

	SAYE options	
	Number	Weighted average exercise price Pence
Outstanding at 30 April 2018	–	–
Granted during the period	900,785	162
Forfeited during the period	(4,350)	–
Outstanding at 30 April 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	**–**	**–**

The options outstanding at 30 April 2020 had a weighted average exercise price of 251p and a weighted average remaining contractual life of 2.3 years.

November 2018 scheme

The aggregate of the estimated fair values of the options granted 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

In the period, 664,796 options were granted on 21 February 2020. The aggregate of the estimated fair values of the options granted 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%

Expected volatility was determined by using historical share price data of the Company since it listed on 29 June 2018. The expected life used in the model has been based on management's best estimate after considering exercise restrictions and behavioural considerations.

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	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	**–**	**–**

The warrants were exercised in the 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 £2,931,000 (2019: £614,000) represents contributions payable to the scheme by the Group. As at 30 April 2020, contributions of £281,000 (2019: £207,000) 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 2020.

11. Depreciation and amortisation charges

	Year ended 30 April 2020 £'000	Year ended 30 April 2019 £'000
Depreciation	**858**	702
Depreciation on right-of-use assets	**1,909**	–
Amortisation	**1,501**	757
Loss on disposal of property, plant and equipment	**8**	14
	4,276	1,473

12. Other operating charges

	Year ended 30 April 2020 £'000	Year ended 30 April 2019 £'000
Establishment costs	**2,335**	3,184
Short-term and low-value lease costs	**161**	–
Other overhead expenses	**9,008**	7,980
	11,504	11,164

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2020

13. Non-underlying operating costs

	Year ended 30 April 2020 £'000	Year ended 30 April 2019 £'000
Redundancy and reorganisation costs	2,952	712
Transaction costs	1,532	602
Loss of disposal	97	–
Share based payment charges	513	300
Contingent consideration	2,996	233
	8,090	1,847

Non-underlying costs relate to redundancy costs to streamline the support function following acquisitions of the Group and in FY20 as a result of reorganisation actions taken in relation to the impact of COVID-19, transaction costs in respect of acquisitions, the placing of new shares during the period and share-based payment charges relating to one-off share schemes offered to employees as part of the IPO. 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 1 to 3 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 2020 £'000	Year ended 30 April 2019 £'000
Interest on borrowings	628	695
Interest on leases	790	–
Bank arrangement fees	71	39
Exit and release of arrangement fees arising on the repayment of debt at the IPO	–	1,924
Interest on deferred consideration	41	114
Other interest payable	–	4
	1,530	2,776

15. Auditor's remuneration

	Year ended 30 April 2020 £'000	Year ended 30 April 2019 £'000
Fees payable to the parent company's auditor and their associates for the audit of the parent company's annual accounts	29	21
Fees payable to the auditor and their associates for other services to the Group:		
– The audit of the Company's subsidiaries	95	38
Total audit fees	124	59
– Audit–related assurance services	21	21
– Taxation advisory services	–	7
– Corporate finance services	–	80
– Other advisory services	3	63
Total non-audit fees	24	171

In addition to the above in the year ended 30 April 2020, £5,000 of non-audit costs relating to tax services have been charged to the share premium account in the year. For the year ended 30 April 2019 £95,000 was charged to the share premium account in relation to corporate finance services.

Fees payable to the auditor and its associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements disclose such fees on a consolidated basis.

16. Taxation

	Year ended 30 April 2020 £'000	Year ended 30 April 2019 £'000
Corporation tax:		
Current year	1,915	1,327
Adjustments in respect of prior years	(20)	–
	1,895	1,327
Deferred tax:		
Origination and reversal of temporary differences	343	(87)
Tax expense for the year	2,238	1,240

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

	Year ended 30 April 2020 £'000	Year ended 30 April 2019 £'000
Profit before tax	4,058	5,241
Tax at the UK corporation tax rate of 19% (2019: 19%)	771	995
Expenses that are not deductible in determining taxable profit	1,487	245
Adjustment in respect of prior years	(20)	–
Tax expense for the year	2,238	1,240

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

	Year ended 30 April 2020			Year ended 30 April 2019		
	Total £'000	Underlying £'000	Non-underlying £'000	Total £'000	Underlying £'000	Non-underlying £'000
Profit before tax	4,058	13,616	(9,558)	5,241	9,819	(4,578)
Tax expense	(2,238)	(2,910)	672	(1,240)	(1,678)	438
Effective rate of tax	55%	21%	(7%)	24%	17%	(10%)

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2020

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 2020 Number	Year ended 30 April 2019 Number
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	74,675,462	68,533,094
Effect of dilutive potential Ordinary Shares:		
Share options	724,543	194,389
Warrants	–	117,350
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	75,400,004	68,844,833

	£'000	£'000
Profit after tax	1,820	4,001

Earnings per share	Pence	Pence
Basic earnings per share	2.44	5.84
Diluted earnings per share	2.41	5.81

The denominators for the purposes of calculating both basic and diluted earnings per share have been adjusted to reflect the Group reorganisation with Knights 1759 Limited and the subdivision of Ordinary Shares in the period ended 30 April 2019.

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

18. Dividends

	Year ended 30 April 2020 £'000	Year ended 30 April 2019 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 30 April 2019, paid September 2019	931	–
Interim dividend for the year ended 30 April 2020 of 1.10p per share, pad in March 2020 (2019: 0.60p per share)	824	433
	1,755	433
Proposed final dividend for the year ended 30 April 2020 of 0p per share (2019: 1.27p per share)	–	931

Due to the COVID-19 pandemic and the resultant uncertainty of the effects on the UK economy the Board has decided not to propose a final dividend for the year ended 30 April 2020.

19. Intangible assets and goodwill

	Goodwill £'000	Brand £'000	Customer relationships £'000	Purchased computer software £'000	Total £'000
Cost					
As at 1 May 2018	12,244	5,401	2,496	256	20,397
Acquisitions of subsidiaries	14,363	–	12,884	–	27,247
Additions	–	–	–	90	90
As at 30 April 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
Amortisation and impairment					
As at 1 May 2018	–	162	268	103	533
Amortisation charge	–	54	639	64	757
As at 30 April 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
Carrying amount					
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
At 1 May 2018	12,244	5,239	2,228	153	19,864

The carrying amount of goodwill of £39.7 million (2019: £26.6 million) 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 2 years and extrapolates cash using a terminal value calculation based on an estimated growth rate of 2% (2019: 3%). 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 gross profit 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 19.4% (2019: 16.6%).

Revenue growth over the two years of the forecast period reflects, for 2021, 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 2020, with an element of growth in 2022. 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. A reduction in the projected revenues for 2021 and 2022 of 10% per annum would result in the carrying value equalling the value in use.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2020

20. Acquisitions

Acquisitions summary

During the year the Group has completed six acquisitions. 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	22,628
Goodwill	13,270
Total consideration	35,898
Satisfied by:	
Cash	21,424
Equity instruments (3,240,644 Ordinary Shares of Knights Group Holdings plc)	13,167
Deferred consideration arrangement	1,307
Total consideration transferred	35,898
Net cash outflows arising on acquisition:	
Cash consideration (net of cash acquired)	11,907
Net investing cash outflow arising on acquisition	11,907
Repayment of debt acquired	7,049
Net financing cash outflow arising on acquisition	7,049

Details for the individual acquisitions are included below

Dakeyne Emms Gilmore Liberson Limited (EGL)

On 1 November 2019, the Group exchanged contracts to acquire EGL, through the agreement to purchase the shares of the entity. This acquisition completed on 29 November 2019. EGL is a law firm based in Birmingham and it was acquired to assist the Group in entering the Birmingham legal and professional services market.

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	–	1,448	1,448
Property, plant and equipment	45	(45)	–
Contract assets	874	–	874
Trade and other receivables	992	–	992
Cash and cash equivalents	2,524	–	2,524
Liabilities			
Trade and other payables	(1,155)	–	(1,155)
Provisions	(71)	–	(71)
Deferred tax	(11)	(246)	(257)
Total identifiable assets and liabilities	**3,198**	**1,157**	**4,355**
Goodwill			661
Total consideration			5,016
Satisfied by:			
Cash			3,349
Equity instruments (515,057 Ordinary Shares of Knights Group Holdings plc)			1,667
Total consideration transferred			5,016
Net cash outflow arising on acquisition:			
Cash consideration (net of cash acquired)			1,125
Repayment of debt			82
Net cash outflow arising on acquisition			1,207

The goodwill of £661,000 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 completion.

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 £1,667,000 and is payable from 31 May 2020 to 31 October 2021 in regular instalments.

EGL contributed £1,890,000 of revenue to the Group's Statement of Comprehensive Income for the period from 1 November 2019 to 30 April 2020. 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 29 November 2019.

ERT Law Limited (ERT)

On 3 January 2020, the Group exchanged contracts to acquire ERT, through the agreement to purchase the shares of the entity. This acquisition completed on 17 January 2020. ERT is a law firm based in Birmingham and it was acquired to enhance the Groups presence in the Birmingham legal and professional services market.

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	–	906	906
Property, plant and equipment	29	(11)	18
Right-of-use assets	–	101	101
Contract assets	267	–	267
Trade and other receivables	419	–	419
Cash and cash equivalents	462	–	462
Liabilities			
Trade and other payables	(464)	–	(464)
Lease liabilities	–	(101)	(101)
Provisions	(100)	–	(100)
Deferred tax	(1)	(154)	(155)
Total identifiable assets and liabilities	612	741	1,353
Goodwill			644
Total consideration			1,997
Satisfied by:			
Cash			1,097
Equity instruments (262,899 Ordinary Shares of Knights Group Holdings plc)			900
Total consideration transferred			1,997
Net cash outflow arising on acquisition:			
Cash consideration (net of cash acquired)			635
Repayment of debt			143
Net cash outflow arising on acquisition			778

The goodwill of £644,000 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 completion.

ERT contributed £778,000 of revenue to the Group's Statement of Comprehensive Income for the period from 3 January 2020 to 30 April 2020. 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 17 January 2020.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2020

20. Acquisitions continued

Croftons Solicitors LLP ('Croftons')

On 31 January 2020, the Group acquired Croftons, by purchasing the controlling membership interests of the entity. Croftons is a law firm based in Manchester and it was acquired to further expand the Group's legal and professional services offering in the Manchester market.

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	300	483	783
Property, plant and equipment	174	(119)	55
Contract assets	296	–	296
Trade and other receivables	682	–	682
Cash and cash equivalents	980	–	980
Liabilities			
Trade and other payables	(431)	–	(431)
Provisions	(8)	(81)	(89)
Deferred tax	–	(133)	(133)
Total identifiable assets and liabilities	1,993	150	2,143
Goodwill			471
Total consideration			2,614

Satisfied by:	
Cash	1,910
Equity instruments (163,086 Ordinary Shares of Knights Group Holdings plc)	704
Total consideration transferred	2,614

Net cash outflow arising on acquisition:	
Cash consideration (net of cash acquired)	519
Repayment of debt	410
Net cash outflow arising on acquisition	929

The goodwill of £471,000 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 completion.

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. The maximum undiscounted amount of all potential future payments under the contingent consideration arrangement is £704,000 and is payable in equal installments over the 2 years post completion.

Croftons contributed £921,000 of revenue to the Group's Statement of Comprehensive Income for the period from 31 January 2020 to 30 April 2020. 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 31 January 2020.

Fraser Brown Solicitors (Fraser Brown)

On 14 February 2020, the Group exchanged contracts to acquire Fraser Brown, through the agreement to purchase the controlling membership interests of the partnership. This acquisition completed on 27 March 2020. Fraser Brown is a law firm based in Nottingham and it was acquired to assist the Group in entering the Nottingham legal and professional services market.

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	–	1,492	1,492
Property, plant and equipment	762	(591)	171
Right-of-use assets	–	84	84
Contract assets	807	–	807
Trade and other receivables	1,293	(208)	1,085
Cash and cash equivalents	1,404	–	1,404
Liabilities			
Trade and other payables	(1,513)	–	(1,513)
Lease liabilities	–	(84)	(84)
Borrowings	(651)	–	(651)
Directors loan accounts	1,253	–	1,253
Provisions	–	(159)	(159)
Deferred tax	–	(254)	(254)
Total identifiable assets and liabilities	3,355	280	3,635
Goodwill			4,006
Total consideration			7,641

Satisfied by:	
Cash	4,258
Equity instruments (680,911 Ordinary Shares of Knights Group Holdings plc)	3,033
Deferred consideration arrangement	350
Total consideration transferred	7,641

Net cash outflow arising on acquisition:	
Cash consideration (net of cash acquired)	2,055
Repayment of debt	197
Net cash outflow arising on acquisition	2,252

The goodwill of £4,006,000 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 completion.

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. The maximum undiscounted amount of all potential future payments under the contingent consideration arrangement is £2,066,000. This is payable in installments from May 2020 to February 2022.

There are also deferred consideration payments totalling £350,000 outstanding. This is payable in installments on the first and second anniversary of completion.

Fraser Brown contributed £1,674,000 of revenue to the Group's Statement of Comprehensive Income for the period from 14 February 2020 to 30 April 2020. 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 27 March 2020.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2020

20. Acquisitions continued

ASB Law ('ASB') and Aspire LLP ('Aspire')

On 5 March 2020, the Group exchanged contracts to acquire ASB and Aspire, through the agreement to purchase the controlling membership interests of the entities. This acquisition completed on 17 April 2020. ASB and Aspire are law firms based in Maidstone and Crawley, they were acquired to assist the Group in entering the legal and professional services market in the South East 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	616	1,168	1,784
Property, plant and equipment	186	(11)	175
Right-of-use assets	–	1,204	1,204
Contract assets	3,274	–	3,274
Trade and other receivables	6,189	–	6,189
Cash and cash equivalents	40	–	40
Liabilities			
Trade and other payables	(4,572)	109	(4,463)
Lease liabilities	–	(1,204)	(1,204)
Borrowings	(2,477)	–	(2,477)
Provisions	(155)	–	(155)
Deferred tax	–	(303)	(303)
Total identifiable assets and liabilities	3,101	963	4,064
Goodwill			1,438
Total consideration			5,502

Satisfied by:	
Cash	4,282
Equity instruments (181,675 Ordinary Shares of Knights Group Holdings plc)	770
Deferred consideration arrangement	450
Total consideration transferred	5,502

Net cash outflow arising on acquisition:	
Cash consideration (net of cash acquired)	1,508
Repayment of debt	5,212
Net cash outflow arising on acquisition	6,720

The goodwill of £1,438,000 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 completion.

Future payments under the deferred consideration arrangement total £450,000. This is payable in two equal instalments on the first and second anniversary of completion.

ASB and Aspire contributed £2,445,000 of revenue to the Group's Statement of Comprehensive Income for the period from 5 March 2020 to 30 April 2020. 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 17 April 2020.

Shulmans LLP ('Shulmans')

On 5 March 2020, the Group exchanged contracts to acquire Shulmans, through the agreement to purchase the controlling membership interests of the entity. This acquisition completed on 24 April 2020. Shulmans is a law firm based in Leeds and it was acquired to assist the Group in entering the Leeds legal and professional services market.

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	1,068	3,608	4,676
Property, plant and equipment	745	(60)	685
Right-of-use assets	–	3,126	3,126
Contract assets	2,774	–	2,774
Trade and other receivables	3,185	(200)	2,985
Cash and cash equivalents	111	–	111
Liabilities			
Trade and other payables	(2,569)	468	(2,101)
Lease liabilities	–	(3,126)	(3,126)
Borrowings	(1,005)	–	(1,005)
Provisions	(10)	(242)	(252)
Deferred tax	–	(795)	(795)
Total identifiable assets and liabilities	4,299	2,779	7,078
Goodwill			6,050
Total consideration			13,128

Satisfied by:	
Cash	6,528
Equity instruments (1,437,016 Ordinary Shares of Knights Group Holdings plc)	6,093
Deferred consideration arrangement	507
Total consideration transferred	13,128

Net cash outflow arising on acquisition:	
Cash consideration (net of cash acquired)	6,065
Repayment of debt	1,005
Net cash outflow arising on acquisition	7,070

The goodwill of £6,050,000 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 completion.

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. The maximum undiscounted amount of all potential future payments under the contingent consideration arrangement is £5,708,000. This is payable in 2 instalments on the first and second anniversary of completion.

Future payments under the deferred consideration arrangement are £507,000, of which £125,000 is payable in May 2020, £225,000 is payable on the first anniversary of the completion date and £127,000 is payable on the second anniversary.

Shulmans contributed £2,910,000 of revenue to the Group's Statement of Comprehensive Income for the period from 5 March 2020 to 30 April 2020. 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 24 April 2020.

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For the year ended 30 April 2020

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 2018	1,401	1,192	825	5	–	3,423
Acquisitions of subsidiaries	9	155	210	–	–	374
Additions	603	585	26	–	–	1,214
Disposals	(7)	–	(12)	–	–	(19)
As at 30 April 2019	**2,006**	**1,932**	**1,049**	**5**	**–**	**4,992**
IFRS 16 - right-of-use assets	**–**	**–**	**–**	**–**	**19,407**	**19,407**
As at 1 May 2019 - after IFRS 16 transition	**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**
Depreciation and impairment						
As at 1 May 2018	169	643	158	5	–	975
Depreciation charge	238	307	157	–	–	702
Eliminated on disposal	(1)	–	(3)	–	–	(4)
As at 30 April 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**
Carrying amount						
At 30 April 2020	**2,845**	**1,990**	**727**	**–**	**23,749**	**29,311**
At 30 April 2019	1,600	982	737	–	–	3,319
At 1 May 2018	1,232	549	667	–	–	2,448

Depreciation of £86,000 (2019: £nil) is included in non-underlying operating costs.

See note 37 for further details of the right-of-use assets.

22. Contract assets and liabilities

	Contract assets £'000	Trade receivables £'000	Contract liabilities £'000
As at 30 April 2020	**21,507**	**22,450**	**(177)**
As at 30 April 2019	11,112	10,720	(120)

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 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 2020 was £4,114,000 (2019: £2,201,000).

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 £8,292,000 (2019: £1,877,000) were acquired in business combinations.

An impairment loss of £27,000 has been recognised in relation to contract assets in the year (2019: £57,000). 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% (2019: 0.5%) 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 30 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 2020 £'000	30 April 2019 £'000
Trade receivables	**23,003**	10,960
Impairment provision – Trade receivables	**(553)**	(240)
Prepayments and other receivables	**4,596**	3,008
Impairment provision – Prepayments and other receivables	**–**	(57)
	27,046	13,671

Trade receivables

The average credit period taken on sales is 42 days as at 30 April 2020 (2019: 38 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 2020	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	**0.03%**	**0.02%**	**1.39%**	**7.47%**	**16.77%**	**2.52%**
Estimated total gross carrying amount £'000	**9,868**	**4,233**	**1,454**	**370**	**2,449**	**18,374**
Lifetime ECL £'000	**3**	**1**	**20**	**28**	**411**	**463**

In addition to the above on trade receivables a further £90,000 (2019: £39,000) 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 historical credit loss experience of this type of asset.

An impairment loss of £27,000 has been recognised on contract assets in the year (2019: £57,000). 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% (2019: 0.5%).

Other receivables

As at 30 April 2020 other receivables includes £187,000 (2019: £513,000) 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 is being released to the Statement of Comprehensive Income over the 2 year period.

24. Share capital

	Ordinary Shares Number	Ordinary Shares £'000
As at 1 May 2018	100,000	100
Changes during the period		
Ordinary Shares of £1 each issued in respect of the share-for-share acquisition of Knights 1759 Limited	–	–
Subdivision of 100,000 Ordinary Shares of £1 each into 50,000,000 Ordinary Shares of 0.2p each	49,900,000	–
Ordinary Shares of 0.2p each issued at Initial Public Offering	20,689,656	41
Ordinary Shares of 0.2p each issued in respect of the Share Incentive Plan (see note 9)	657,732	2
Ordinary Shares of 0.2p each issued as consideration in the purchase of subsidiaries	1,978,031	4
As at 30 April 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
At 30 April 2020	**82,076,332**	**164**

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2020

25. Share premium

	£'000
As at 1 May 2018	–
Premium arising on issue of equity shares	34,327
Expenses of issue of equity shares	(1,841)
As at 30 April 2019	32,486
Premium arising on issue of equity shares	34,475
Expenses of issue of equity shares	(709)
At 30 April 2020	**66,252**

26. Reserves

	Merger reserve £'000	Retained earnings £'000
At 1 May 2018	(3,536)	6,234
Profit for the period and total comprehensive income	–	4,001
Credit to equity for equity-settled share-based payments	–	356
Dividends **(note 18)**	–	(433)
Balance at 30 April 2019	**(3,536)**	**10,158**
IFRS 16 impact **(note 37)**	**–**	**2,058**
As at 1 May 2019 - restated	**(3,536)**	**12,216**
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**

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 2020 £'000	30 April 2019 £'000
Secured borrowings at amortised cost:		
Bank loans	**28,650**	19,000
Total borrowings	**28,650**	19,000
Amount due for settlement within 12 months	–	–
Amount due for settlement after 12 months	28,650	19,000

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

The Group has a credit facility of £40,000,000 in total (2019: £27,000,000) compromising term debt and revolving credit facilities. The previous facility that was due to expire on 25 June 2023 was increased in the year to £40,000,000. The facility remains available until 25 June 2023.

The new facility is a revolving credit facility and is renewed monthly 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.

28. Deferred consideration

	30 April 2020 £'000	30 April 2019 £'000
Non-current liabilities		
Deferred consideration	**127**	1,611
	127	1,611
Current liabilities		
Deferred consideration	**2,723**	1,628
	2,723	1,628

Deferred consideration as at 30 April 2020 relates to the acquisitions of Turner Parkinson LLP, Fraser Brown, ASB Law LLP and Shulmans LLP and is not contingent.

In addition the Group has contingent consideration accrued and included within trade and other payables relating to acquisitions. 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 agreement. It is expected that employment will continue for the terms of the agreement 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 2018	109	1,275	–	–	1,384
Acquisitions of subsidiaries	–	2,190	–	–	2,190
Charge/(credit) for the year	92	(118)	(60)	–	(86)
As at 30 April 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**

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 2020 £'000	30 April 2019 £'000
Deferred tax assets	**(514)**	(60)
Deferred tax liabilities	**5,943**	3,548
	5,429	3,488

30. Trade and other payables

	30 April 2020 £'000	30 April 2019 £'000
Trade payables	**3,033**	1,442
Other taxation and social security	**6,180**	3,511
Other payables	**2,817**	1,868
Accruals	**7,989**	5,284
	20,019	12,105

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 25 days (2019: 26 days). No interest is charged on the trade payables.

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

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2020

31. Provisions

	Dilapidation provision £'000	Onerous contract provision £'000	Professional indemnity provision £'000	Total £'000
As at 30 April 2018	161	–	–	161
1 May 2019 – Transferred in from accruals	–	–	284	284
Acquisitions of subsidiaries	231	272	–	503
Additional provision in the year	81	202	284	567
Utilisation of provision	–	(39)	(29)	(68)
As at 30 April 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**

The dilapidations provision relates to the potential rectification of leasehold sites upon expiration of the leases. This has been based on a surveyor's valuation of the schedule of works included in the lease, or in absence of a surveyor's estimate, is based on the Directors' estimate of potential liabilities.

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 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 under the terms of the lease. Future lease payments are offset against the provision. This provision has been transferred to right-of-use assets in accordance with IFRS 16 during the year.

The professional indemnity provision (transferred from accrued expenses on 1 May 2018), 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 2020 £'000	30 April 2019 £'000
Financial assets		
Amortised cost		
Contract assets	**21,507**	11,112
Trade and other receivables (excluding prepayments)	**23,425**	11,706
Cash and cash equivalents	**12,741**	4,904
Financial liabilities		
Amortised cost		
Borrowings	**28,650**	19,000
Deferred consideration	**2,850**	3,239
Trade and other payables	**12,872**	8,448
Fair value		
Trade and other payables	**967**	146

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 2020 would decrease/increase by £143,000 (2019: decrease/increase by £95,000). 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 meeting 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.

Contractual maturities of financial liabilities

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**

30 April 2019	< 1 year £'000	1 - 2 years £'000	2 - 5 years £'000	Total £'000
Borrowings	–	–	19,000	19,000
Deferred consideration	1,628	1,611	–	3,239
Trade and other payables	8,594	–	–	8,594

The Group has met its covenant tests during the year.

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 2020 £'000	30 April 2019 £'000
Borrowings (note 27)	**28,650**	19,000
Cash and cash equivalents	**(12,741)**	(4,904)
Net debt	**15,909**	14,096
Equity	**75,950**	39,255
	%	%
Net debt to equity ratio	**21**	36

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 2020 there is a capital commitment of £82,000 (2019: £425,000) in relation to an ongoing office refurbishment.

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For the year ended 30 April 2020

34. Reconciliation of profit to net cash generated from operations

	Year ended 30 April 2020 £'000	Year ended 30 April 2019 £'000
Profit before taxation	4,058	5,241
Adjustments for:		
Amortisation	1,501	757
Depreciation - property, plant and equipment	858	702
Depreciation - Right of use assets (net of £89,000 included in non underlying costs)	1,909	–
Loss on disposal of equipment (net of £97,000 included in non underlying costs)	8	14
Contingent consideration not payable	–	(30)
Contingent consideration expense	2,996	233
Non-underlying operating costs	4,581	1,314
Share based payments	861	356
Interest income	(399)	(162)
Interest expense	1,530	2,776
Operating cash flows before movements in working capital	17,903	11,201
Increase in contract assets	(2,103)	(1,788)
Increase in trade and other receivables	(1,186)	(1,171)
(Decrease)/Increase in provisions	(183)	782
Increase in contract liabilities	57	18
(Decrease)/Increase in trade and other payables	(697)	2,664
Cash generated from operations	13,791	11,706

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
As at 1 May 2019	19,000
Repayment of borrowings	(35,150)
Proceeds of new borrowings	44,800
As at 30 April 2020	**28,650**

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 International Financial Reporting Standards ('IFRS') as adopted by the European Union and should not be considered as a substitute for measures determined in accordance with IFRS. As the Group's alternative performance measures are not defined terms under IFRS 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 IFRS are shown on the adjacent page.

a) Adjusted EBITDA

Adjusted 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 2020 £'000	Year ended 30 April 2019 £'000
Operating profit	5,588	8,017
Depreciation and amortisation charges	4,276	1,473
Non-underlying costs (note 13)	8,090	1,847
Adjusted EBITDA	17,954	11,337

b) Adjusted profit before tax (PBT)

Adjusted 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 2020 £'000	Year ended 30 April 2019 £'000
Profit before tax	4,058	5,241
Amortisation (adjusted for amortisation on computer software)	1,427	693
Non-underlying costs (note 13)	8,090	1,847
Non-recurring finance costs	41	2,038
Adjusted profit before tax	13,616	9,819

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) Adjusted profit after tax (PAT) and adjusted earnings per share (EPS)

Adjusted 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 2020 £'000	Year ended 30 April 2019 £'000
Profit after tax	1,820	4,001
Amortisation (adjusted for amortisation on computer software)	1,427	693
Non-underlying operating costs	8,090	1,847
Non-recurring finance costs	41	2,038
Tax in respect of the above	(672)	(438)
Adjusted profit after tax	10,706	8,141

Adjusted earnings per share	Pence	Pence
Basic adjusted earnings per share	14.33	11.88
Diluted adjusted earnings per share	14.20	11.83

Tax has been calculated at the corporation tax and deferred tax rate of 19% (2019: 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 adjusted 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 (to be comparable with the treatment of leases costs in the prior year). Cash conversion % is calculated by dividing free cash flow by adjusted profit after tax, which is reconciled to profit after tax above.

Previously free cash flow was calculated as the total of net cash from operating activities, interest paid and net cash flows on capital expenditure after excluding cash flows in respect of non-underlying costs. However the Group considers that the revised method is a more accurate reflection of the operating cash flow of the business.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2020

36. Alternative performance measures continued

	Year ended 30 April 2020 £'000	Year ended 30 April 2019 £'000
Cash generated from operations (note 34)	13,791	11,706
Tax paid	(2,907)	(1,076)
Total cash outflow for IFRS 16 leases	(2,366)	–
Free cashflow	8,518	10,630
Adjusted profit after tax	10,706	8,141
Cash conversion (%)	80%	131%
Previously reported cash conversion	–	115%

37. Lease liabilities – IFRS 16 Leases

The weighted average incremental borrowing rate applied to lease liabilities recognised at 1 May 2019 is 3.60%. Incremental borrowing rates applied to individual leases ranged between 2.40% and 6.49%.

During transition prepayments of £185,000 were released against the right-of-use asset. Rent free accruals of £1,759,000 and deferred tax of £299,000 were adjusted against opening reserves.

The table below sets out the impact on the Consolidated Statement of Financial Position as at 30 April 2020 and 1 May 2019:

	30 April 2020 £'000	1 May 2019 £'000
Right-of-use assets		
Property	22,649	19,267
Equipment	1,100	140
	23,749	19,407
Lease liability		
> 1 year	21,078	17,894
< 1 year	2,766	1,272
	23,844	19,166

The table below shows the impact on the Consolidated Statement of Comprehensive Income for 12 months to 30 April 2020 compared with reporting under IAS 17:

	12 months ended 30 April 2020 £'000
Profit before tax under IFRS 16	4,058
Depreciation on right-of-use assets	1,995
Finance costs	812
	6,865
Rental costs under IAS 17	(2,265)
Profit before tax under IAS 17	4,600

Whilst the cash flows of the Group have not been affected by the adoption of IFRS 16, during the period ended 30 April 2020 cash outflows from financing activities presented in the Consolidated Statement of Cash Flows increased by £1,576,000 for cash payments of the principal portion and £790,000 for cash payments of the interest portion of leases recognised within lease liabilities under IFRS 16. Cash generated from operations reflects the corresponding reduction of £2,366,000 of payments for leases previously classified as operating leases under IAS 17.

Differences between the operating lease commitments disclosed at 30 April 2019 under IAS 17 discounted at the incremental borrowing rate at 1 May 2019 and lease liabilities recognised at 1 May 2019 shown on the adjacent page.

	Property £'000	Equipment £'000	Total £'000
Operating lease commitments at 30 April 2019	24,893	1,347	26,240
Impact of discounting	(6,573)	(8)	(6,581)
Leases not yet commenced at 1 May 2019	–	(1,108)	(1,108)
Short-term leases recognised as an expense	(4)	(68)	(72)
Long-term leases expiring before 30 April 2020	(116)	(37)	(153)
Impact of rent increase	834	–	834
Other reconciling items (net)	–	6	6
Lease liability opening balance 1 May 2019	19,034	132	19,166

The table below shows lease liabilities maturity analysis – contractual undiscounted cash flows at 30 April 2020:

	Property £'000	Equipment £'000	Total £'000
Less than one year	3,424	565	3,989
One to five years	11,015	850	11,865
More than five years	15,099	–	15,099
	29,538	1,415	30,953

The table below shows amounts recognised in the Statement of Comprehensive Income for leases exempt from IFRS 16 as at 30 April 2020:

	Property £'000	Equipment £'000	Year ended 30 April 2020 £'000
Expenses relating to short-term leases	143	18	161
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	–	–	–
	143		161

The total minimum lease payments at 30 April 2019 under non-cancellable operating lease rentals were:

	30 April 2019 £'000
Less than one year	2,302
In the second to fifth year inclusive	9,408
After five years	14,530
	26,240

Operating lease payments represent rentals payable by the Group for office properties, motor vehicles and office equipment.

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2020

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 2020. 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 3 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 2020 allowing for cash flows in and out of the Scheme and changes to assumptions over the period.

From January 2020 the employers started to make annual contributions of £35,000 per annum towards administration expenses. 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 3 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 2020 %
Discount rate	1.58
Retail Prices Index ('RPI') Inflation	2.85
Consumer Price Index ('CPI') Inflation	1.95
Pension increase (LPI 5%)	2.80
Pension increase (LPI 2.5%)	2.03
Post retirement mortality	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
Life expectancy at age 65 of male aged 45	23.6
Life expectancy at age 65 of male aged 65	22.6
Life expectancy at age 65 of female aged 45	25.2
Life expectancy at age 65 of female aged 65	24.1

The average duration of the Schemes obligations is 16 years.

The current asset split is as follows:

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

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

	30 April 2020 £'000
The fair value of the assets at 30 April 2020 can be analysed as follows:	
Low-risk investment funds	692
Credit Investment funds	1,434
Matching funds	998
Cash	260
Fair value of assets	3,384

	30 April 2020 £'000
Current service costs	–
Past service costs	–
Administration costs	2
Interest on liabilities	1
Interest on assets	(3)
Total charge to the Statement of Comprehensive Income	–

Remeasurements over the period since acquisition

	30 April 2020 £'000
Loss on assets in excess of interest	(145)
Total remeasurements	(145)

The change in value of assets

	30 April 2020 £'000
Fair value of assets as at acquisition	3,534
Interest on assets	8
Group contributions	–
Benefits paid	(11)
Administration costs	(2)
Loss on assets in excess of interest	(145)
Fair value of assets	3,384
Actual return on assets	(137)

Notes to the Consolidated Financial Statements continued

For the year ended 30 April 2020

38. Defined benefit pension schemes continued

Change in value of liabilities

	30 April 2020 £'000
Value of liabilities as at acquisition	2,737
Interest cost	6
Benefits paid	(11)
Value of liabilities	2,732

Sensitivity of the value placed on the liabilities

	Approximate effect on liability £'000
Discount rate	
Minus 0.50%	208
Inflation	
Plus 0.50%	161
Life expectancy	
Plus 1.0 years	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.

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 reclassified 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 2020:

As at 30 April 2020	Scheme funding basis £'000
Total assets	94,400
Total liabilities excluding expenses	(97,200)
Deficit	(2,800)
Funding level	97%

Allocation to the Group

The estimated share of the Scheme liabilities is 0.790%.

Over the year to 30 April 2020, the Section's funding position worsened from a small surplus to a small deficit.

	30 April 2020 £'000
Estimated cost of providing benefits	(768)
Value of assets	746
Resulting shortfall	(22)
Funding level	97%

The 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 £367,000 (2019: £343,000) were charged by KPV Propco Ltd to the Group.

During the year Knights Professional Services Limited charged KPV Propco Ltd for professional services totalling £98,000 (2019: £nil).

At 30 April 2020, there was an amount of £246,000 (2019: £229,000) owed to KPV Propco Ltd by the Group.

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 2020 £'000	Year ended 30 April 2019 £'000
Short-term employee benefits and social security costs	1,174	829
Pension costs	23	14
Share-based payments	181	106
	1,378	949

Key management personnel includes Board members and Directors.

Transactions with Directors

Dividends totalling £787,000 (2019: £202,000) 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 2020

	Note	30 April 2020 £'000	30 April 2019 £'000
Assets			
Non-current assets			
Investments in subsidiaries	43	**1,145**	356
Amounts receivable from subsidiaries	44	**69,118**	34,010
		70,263	34,366
Current assets			
Trade and other receivables		**48**	14
Total assets		**70,311**	34,380
Equity and liabilities			
Equity			
Share capital	45	**164**	147
Share premium	45	**66,252**	32,486
Share-based payment reserve	46	**1,145**	356
Other reserve	46	**(100)**	(100)
Retained earnings	46	**2,565**	1,363
Equity attributable to owners of the Company		**70,026**	34,252
Current liabilities			
Trade and other payables		**58**	1
Corporation tax liability		**227**	127
Total liabilities		**285**	128
Total equity and liabilities		**70,311**	34,380

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 2020 of £2,958,000 (2019: £1,796,000).

The financial statements were approved by the Board and authorised for issue on 21 July 2020 and are signed on its behalf by:

K Lewis

Kate Lewis

Director

Registered No. 11290101

Company Statement of Changes in Equity

For the period ended 30 April 2020

	Share capital £'000	Share premium £'000	Share-based payments £'000	Other reserve £'000	Retained earnings £'000	Total £'000
As at 4 April 2018	–	–	–	–	–	–
Profit for the period and total comprehensive income	–	–	–	–	1,796	1,796
Transactions with owners in their capacity as owners:						
Credit to equity for equity-settled share-based payments	–	–	356	–	–	356
Issue of shares	147	32,486	–	–	–	32,633
Other Reserve (IAS 27:13)	–	–	–	(100)	–	(100)
Dividends paid	–	–	–	–	(433)	(433)
At 30 April 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)**
Balance at 30 April 2020	**164**	**66,252**	**1,145**	**(100)**	**2,565**	**70,026**

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 (2019: 6). Their aggregate remuneration borne by the Company was £nil (2019: £nil).

43. Investments in subsidiaries

	£'000
Cost and net book value	
At 4 April 2019	–
Capital contribution in respect of equity-settled share-based payments	356
At 30 April 2019	356
Capital contribution in respect of equity-settled share-based payments	789
At 30 April 2020	**1,145**

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 2020 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%
T.P.D.D 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	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 Gilmore Liberson Limited	The Brampton, Newcastle-under-Lyme, Staffordshire, ST5 0QW	Dormant	D Ordinary E Ordinary G Ordinary L Ordinary	100%	100%
Helix EGL Limited	Lancaster House, 67 Newhall Street, Birmingham, B3 1NQ	Dormant	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%

* Held directly by Knights Professional Services Limited
** The acquired entities were active during the financial year, but are dormant as at 30 April 2020
*** Legal title held on behalf of nominees

44. Amounts receivables from subsidiaries

	30 April 2020 £'000	20 April 2019 £'000
Amounts receivable from subsidiaries	69,118	34,010

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 (2019: £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 2020 £'000	Year ended 30 April 2019 £'000
Operating profit	5,588	8,017
Depreciation and amortisation charges	4,276	1,473
Non-underlying costs (note 13)	8,090	1,847
Underlying EBITDA	**17,954**	**11,337**

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 2020 £'000	Year ended 30 April 2019 £'000
Profit before tax	4,058	5,241
Amortisation	1,427	693
Non-underlying costs	8,090	1,847
Non-underlying finance costs	–	1,924
Effective interest on deferred consideration	41	114
Underlying profit before tax	**13,616**	**9,819**

Non-recurring finance costs

Non recurring finance costs relate to the exit fees and release of arrangement fees arising on the repayment of debt at the IPO and interest on deferred consideration payable as part of the consideration on acquisitions.

	Year ended 30 April 2020 £'000	Year ended 30 April 2019 £'000
Exit fees and release of arrangement fees	–	1,924
Interest on deferred consideration	41	114
Non-recurring finance costs	**41**	**2,038**

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

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

	Year ended 30 April 2020 £'000	Year ended 30 April 2019 £'000
Profit after tax	1,820	4,001
Amortisation on acquisition related intangibles	1,427	693
Non-underlying operating costs	8,090	1,847
Non-underlying finance costs	–	1,924
Effective interest on deferred consideration	41	114
Tax in respect of the above	(672)	(438)
Underlying profit after tax	10,706	8,141
Adjusted earnings per share	**Pence**	**Pence**
Basic adjusted earnings per share	14.33	11.88
Diluted adjusted earnings per share	14.20	11.83

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 adjusted 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 (to ensure comparability with 2019). Cash conversion % is calculated by dividing free cash flow by adjusted profit after tax, which is reconciled to profit after tax above.

	Year ended 30 April 2020 £'000	Year ended 30 April 2019 £'000
Cash generated from operations (note 34)	13,791	11,706
Tax paid	(2,907)	(1,076)
Total cash outflow for IFRS 16 leases	(2,366)	–
Free cash flow	8,518	10,630
Underlying profit after tax	10,706	8,141
Cash conversion (%)	**80%**	**131%**

Working Capital

Working capital is calculated as:

Current assets	30 April 2020 £'000	30 April 2019 £'000
Contract assets	**21,507**	11,112
Trade and other receivables	**27,046**	13,671
	48,553	24,783
Current liabilities		
Trade and other payables	**20,019**	12,105
Contract liabilities	**177**	120
Corporation tax liability	**675**	796
	20,871	13,021
Net working capital	**27,682**	11,762

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.

Glossary of Terms continued

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 6 months.

Total Shareholder Return (TSR)

Total shareholder return is calculated as:

Share price at 30 April 2020	£3.575
Share price at listing	(£1.450)
Dividend paid in period	£0.024
Gain on shares in period	£0.769
As a percentage of opening price	27.2%

Financial Performance Measure Comparable Under IFRS 16

Underlying Profit Before Tax (PBT)

Underlying PBT is calculated before amortisation of acquired intangible assets; non-underlying costs relating to the placing, acquisitions and restructuring, contingent consideration payments, non-recurring finance costs, share based payments related to the IPO and acquisitions and is provided on an IFRS 16 basis in the prior period.

Underlying PBT	Note	Reported IFRS 16 April 20 £'000	Comparable under IFRS 16 April 19 £'000
Profit before tax - as reported		4,058	5,241
IFRS 16 adjustments (see finance review)		–	(392)
IFRS 16 adjusted profit before tax		4,058	4,849
Amortisation on acquired intangibles		1,427	693
Non underlying operating costs	13	8,090	1,847
Non underlying finance costs	14	41	2,038
Underlying profit before tax		13,616	9,427

Underlying PAT is calculated as above after taking account of the tax charge and is provided on an IFRS 16 basis in the prior period.

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

Underlying EPS is calculated from profit after tax by adding back amortisation of acquired intangible assets, non-underlying costs relating to the placing, acquisitions and restructuring, contingent consideration payments, non-recurring finance costs and share-based payment charges related to the IPO and acquisitions and the tax in respect of these costs and it is provided on an IFRS 16 basis in the prior period.

Underlying PAT		Reported IFRS 16 April 20 £'000	Comparable under IFRS 16 April 19 £'000
Profit after tax - as reported		1,820	4,001
IFRS 16 adjustments (see finance review)		–	(392)
IFRS 16 adjusted profit before tax		1,820	3,609
Amortisation on acquired intangibles		1,427	693
Non underlying operating costs	13	8,090	1,847
Non underlying finance costs	14	41	2,038
Tax in respect of above	16	(672)	(438)
Underlying profit after tax		10,706	7,749
Basic EPS		2.44	5.27
Underlying EPS		14.33	11.31
Diluted EPS		14.20	11.26

Underlying EBITDA

Underlying EBITDA is calculated as reported operating profit after adjusting for the impact of the reclassification of leases costs under IFRS 16 and is provided on an IFRS 16 basis in the prior period.

Underlying EBITDA	Note	Reported IFRS 16 April 20 £'000	Comparable under IFRS 16 April 19 £'000
Operating profit - as reported		5,588	8,017
IFRS 16 adjustments (see finance review)		–	1,603
IFRS 16 adjusted operating profit		5,588	9,620
Depreciation and amortisation charges	11	4,276	1,473
Non-underlying costs	13	8,090	1,847
Underlying EBITDA		17,954	12,940

Cash conversion is calculated as the total of net cash from operations, tax paid and payments of lease interest and lease finance liabilities under IFRS 16 for periods from 1 May 2019, divided by the underlying profit after tax, which is calculated from profit after tax by adding back amortisation on acquired intangible assets, non-underlying costs and finance costs, contingent consideration payments, share-based payment charges related to the IPO and acquisitions and the tax in respect of these costs.

Underlying EBITDA	Note	Reported IFRS 16 April 20 £'000	Comparable under IFRS 16 April 19 £'000
Free cash flow - as reported	36	8,518	10,630
Underlying profit after tax		10,706	7,749
		80%	137%

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)
S Dolton (appointed 1 June 2018)
J Pateman (appointed 14 January 2019)

Secretary

L Bridgwood (appointed 1 June 2018)

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